

Urban Housing Solutions, Inc. and Subsidiaries

**Consolidated Financial Statements with Report of Independent Auditors
December 31, 2022 and 2021**

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Report of Independent Auditors

To the Board of Directors of
Urban Housing Solutions, Inc. and Subsidiaries:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Urban Housing Solutions, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Urban Housing Solutions, Inc. and Subsidiaries as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Urban Housing Solutions, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, Urban Housing Solutions, Inc. and Subsidiaries adopted accounting standards changes related to accounting and disclosing leasing arrangements. Our opinion is not modified with respect to those matters.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Urban Housing Solutions, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Urban Housing Solutions, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Urban Housing Solutions, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the consolidating statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the consolidating statements of financial position, activities and functional expenses are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 31, 2023, on our consideration of Urban Housing Solutions, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Urban Housing Solutions, Inc. and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Urban Housing Solutions, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Novogradac & Company LLP

Dover, Ohio
July 31, 2023

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Cash and cash equivalents	\$ 20,907,595	\$ 21,608,564
Restricted cash		
Tenant security deposits	2,575	2,019
Replacement reserves	826,293	615,140
Construction reserves	15,185,208	15,168,162
Accounts receivable		
Grants	666,206	261,862
Tenants, net of doubtful accounts	511,567	255,448
Other	1,662,519	966,988
Prepaid expenses	252,672	153,273
Deferred charges - net of accumulated amortization of \$55,854 and \$37,236, respectively	211,707	230,325
Fixed Assets - net of accumulated depreciation of \$29,939,765 and \$26,228,290, respectively	87,610,031	88,617,125
Construction in progress	25,819,599	14,780,693
SWAP asset	1,425,065	-
Total assets	<u>\$ 155,081,037</u>	<u>\$ 142,659,599</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 1,321,254	\$ 1,359,268
Cash and cash equivalents - bank overdraft	82,216	727,901
Line of credit	6,500,000	6,500,000
Tenant security deposits	337,287	321,114
SWAP liability	-	90,394
Bonds payable	15,000,000	15,000,000
Prepaid rent	55,597	33,077
Notes payable	64,798,937	56,692,735
Total liabilities	<u>88,095,291</u>	<u>80,724,489</u>

NET ASSETS

Net assets without donor restrictions, controlling	46,747,712	44,104,802
Net assets without donor restrictions, non-controlling interest in subsidiaries	20,238,034	17,830,308
Total net assets	<u>66,985,746</u>	<u>61,935,110</u>
 Total liabilities and net assets	 <u>\$ 155,081,037</u>	 <u>\$ 142,659,599</u>

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES						
Public Support:						
Individual and corporate gifts	\$ 1,736,843	\$ -	\$ 1,736,843	\$ 843,838	\$ -	\$ 843,838
Government grants	1,568,104	-	1,568,104	1,107,038	-	1,107,038
Total Public Support	3,304,947	-	3,304,947	1,950,876	-	1,950,876
Revenues:						
Rental Income	11,901,027	-	11,901,027	11,665,318	-	11,665,318
Laundry and vending machine income	23,628	-	23,628	32,256	-	32,256
Investment income	-	-	-	-	-	-
Interest income	400,341	-	400,341	21,885	-	21,885
Developer fees	-	-	-	-	-	-
Insurance proceeds	510,223	-	510,223	696,991	-	696,991
Miscellaneous	39,386	-	39,386	27,608	-	27,608
Application fees	47,075	-	47,075	31,257	-	31,257
Unrealized gain (loss) on interest rate swap	1,515,459	-	1,515,459	(90,394)	-	(90,394)
TOTAL SUPPORT AND REVENUES	17,742,086	-	17,742,086	14,335,797	-	14,335,797
EXPENSES						
Program services:						
Rental projects	13,353,734	-	13,353,734	11,600,938	-	11,600,938
Resident support programs	933,824	-	933,824	789,377	-	789,377
Total program services	14,287,558	-	14,287,558	12,390,315	-	12,390,315
Supporting services:						
Management and general	531,261	-	531,261	387,804	-	387,804
TOTAL EXPENSES	14,818,819	-	14,818,819	12,778,119	-	12,778,119
CHANGE IN NET ASSETS	2,923,267	-	2,923,267	1,557,678	-	1,557,678
NET ASSETS - BEGINNING OF YEAR	61,935,110	-	61,935,110	54,795,429	-	54,795,429
CAPITAL CONTRIBUTIONS	2,127,369	-	2,127,369	5,582,003	-	5,582,003
CHANGE IN NET ASSETS	2,923,267	-	2,923,267	1,557,678	-	1,557,678
NET ASSETS - END OF YEAR	<u>\$ 66,985,746</u>	<u>\$ -</u>	<u>\$ 66,985,746</u>	<u>\$ 61,935,110</u>	<u>\$ -</u>	<u>\$ 61,935,110</u>

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	TOTAL PROGRAM SERVICES	TOTAL MANAGEMENT & GENERAL	TOTAL EXPENSES
Payroll and related expenses	\$ 3,251,276	\$ 177,519	\$ 3,428,795
Advertising	28,694	12,727	41,421
Bad debt expense	27,774	-	27,774
Contract services	1,295,771	13,262	1,309,033
Dues and subscriptions	5,719	-	5,719
Insurance	707,253	8,276	715,529
Interest	971,852	-	971,852
Legal and professional	165,494	178,022	343,516
Miscellaneous	2,624	37,230	39,854
Printing and postage	20,203	9,350	29,553
Repairs and maintenance	1,116,471	16,512	1,132,983
Security services	30,620	-	30,620
Social program funds	80,879	15	80,894
Supplies	232,334	66,422	298,756
Taxes and licenses	931,064	4,743	935,807
Telephone	50,255	6,852	57,107
Travel	61,221	331	61,552
Utilities	1,577,961	-	1,577,961
Total Functional Expenses before Depreciation and Amortization	10,557,465	531,261	11,088,726
Depreciation and Amortization	3,730,093	-	3,730,093
Total Functional Expenses	<u>\$ 14,287,558</u>	<u>\$ 531,261</u>	<u>\$ 14,818,819</u>

See the accompanying notes to the consolidated financial statements

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	TOTAL PROGRAM SERVICES	TOTAL MANAGEMENT & GENERAL	TOTAL EXPENSES
Payroll and related expenses	\$ 2,807,613	\$ 118,729	\$ 2,926,342
Advertising	18,126	10,089	28,215
Bad debt expense	66,935	-	66,935
Contract services	904,033	13,160	917,193
Dues and subscriptions	-	5,734	5,734
Insurance	529,593	1,087	530,680
Interest	471,863	-	471,863
Legal and professional	224,166	144,304	368,470
Miscellaneous	31,421	(22,728)	8,693
Printing and postage	15,766	10,044	25,810
Repairs and maintenance	830,430	174	830,604
Security services	29,445	-	29,445
Social program funds	97,037	26,056	123,093
Supplies	126,209	62,032	188,241
Taxes and licenses	1,111,073	2,636	1,113,709
Telephone	29,972	8,348	38,320
Travel	36,846	1,509	38,355
Utilities	1,390,170	-	1,390,170
Total Functional Expenses before Depreciation and Amortization	8,720,698	381,174	9,101,872
Depreciation and Amortization	3,669,617	6,630	3,676,247
Total Functional Expenses	<u>\$ 12,390,315</u>	<u>\$ 387,804</u>	<u>\$ 12,778,119</u>

See the accompanying notes to the consolidated financial statements

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,923,267	\$ 1,557,678
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,730,093	3,676,247
Interest expense - debt issuance costs	60,808	41,606
Unrealized (gain) loss on interest rate swap	(1,515,459)	90,394
Changes in:		
Accounts receivable		
Grants	(404,344)	(51,730)
Tenants	(256,119)	(112,033)
Other	(695,531)	(885,258)
Prepaid expenses	(99,399)	(147,199)
Accounts payable and accrued expenses	(38,014)	342,122
Tenant security deposits payable	16,173	3,988
Prepaid rent	22,520	16,970
Net cash provided by operating activities	<u>3,743,995</u>	<u>4,532,785</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(2,704,381)	(12,229,643)
Payments for construction in progress	(11,038,906)	(10,911,394)
Payments for deferred charges	-	(33,000)
Net cash used in investing activities	<u>(13,743,287)</u>	<u>(23,174,037)</u>
Cash Flows from Financing Activities:		
Bank overdraft	(645,685)	727,901
Proceeds from notes payable	12,951,708	10,000,000
Principal payments on notes payable	(4,625,879)	(4,637,019)
Payments for debt issuance costs	(280,435)	(57,185)
Capital contributions	2,127,369	5,582,002
Net cash provided by financing activities	<u>9,527,078</u>	<u>11,615,699</u>
Change in cash, cash equivalents, and restricted cash	(472,214)	(7,025,553)
Cash, cash equivalents, and restricted cash - beginning of year	<u>37,393,885</u>	<u>44,419,438</u>
Cash, cash equivalents, and restricted cash - end of year	<u>\$ 36,921,671</u>	<u>\$ 37,393,885</u>
Cash and cash equivalents	20,907,595	21,608,564
Tenant security deposits	2,575	2,019
Replacement reserves	826,293	615,140
Construction reserves	15,185,208	15,168,162
Cash, cash equivalents, and restricted cash - end of year	<u>\$ 36,921,671</u>	<u>\$ 37,393,885</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	<u>\$ 617,447</u>	<u>\$ 364,717</u>

See the accompanying notes to the consolidated financial statements

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

1. Organization

Urban Housing Solutions, Inc. ("UHS") was founded in 1991 as a Tennessee not-for-profit corporation. UHS provides affordable rental housing and social services for low-income residents of Nashville, including those with special needs.

As of December 31, 2022, three separate entities within the State of Tennessee operate as subsidiaries under UHS which are 300 E Webster Street Holdings, LP., 2125 26th Avenue N Holdings, LP., and Skyliner, LP (collectively, the "Corporation").

Program and Supporting Services:

The following program and supporting services are included in the accompanying consolidated financial statements:

Rental Projects:

Dickerson - land purchased for future development and is currently not being leased.

Woodland - this building is used as our main administrative and leasing office.

Mercury Courts and The Park - provides 155 units of housing for formerly homeless and low-income adults, as well as access to the agency's shuttle service, on-site classes, service coordination, and health advocacy.

Hope Terrace (formerly known as Centennial Commons), Crown Courts, and Vultee Gardens - three properties that provide a total of 65 housing units for low-income individuals and families who are in recovery from drug and alcohol addiction, some of whom are homeless. UHS's Journeys of Hope program provides supportive services for these residents.

Fisk Court - provides 19 units of affordable housing for low-income homeless adults and youth sponsored by the Oasis Center.

Russell Street - provides 12 units of affordable rental housing for low-income individuals and families.

Mercury North - provides 32 units of housing for low-income adults and families, many of whom are homeless.

Greentree Terrace - provides 57 units of housing for low-income individuals and families, some of whom are homeless.

River Terrace - provides 20 units of housing for low-income adults and families.

Porter East - provides 20 apartments for low-income adults and families with a focus on deaf individuals, as well as space for a variety of small commercial enterprises.

Neely Meadows - provides 148 units of housing for low-to-moderate income individuals and families.

Eastwood Courts - provides 61 units of housing for low-income adults and families.

Village Place - provides 69 units of housing for low-income adults and families.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

1. Organization (continued)

Rental Projects (continued):

Clarksville Highway - provides 86 units of housing for low-income adults and families.

Millennium - provides 25 units of housing for low-to-moderate income individuals and family.

Lewis (1233-1235) - provides 20 units of housing for developmentally-challenged adults and their friends from the Vanderbilt Divinity School.

Old Hickory - land purchase

Rex Courtyard - provides 96 units of housing for low-income individuals and families, many of whom are homeless.

Parliament - provides 80 units of housing for low-income adults and families.

Southwood - provides 85 units of housing for low-income adults and families.

Resident Support Programs:

Neighborhood Stabilization Program II - Thirteen properties, which were purchased to rehabilitate the neighborhoods in the Nashville area, including a total of 131 residential units for lower income adults and families. All properties are complete.

Service Coordinator Program - provides the supportive service staff that is essential to assess and assist the formerly homeless residents of Mercury Courts and those in need at other properties. Service coordinators provide referrals to community services and assist residents in obtaining employment.

Journeys of Hope Program - provides addiction recovery services to residents living in 65 units of housing in three different properties - Vultee Gardens, Crown Courts, and Hope Terrace. In addition to weekly group meetings and regular drug testing, residents also have access to a full-time addictions specialist.

Client Fund Program - provides direct financial assistance to residents in order to meet their transportation, healthcare, or other emergency needs. The fund covers the cost of the resident shuttle, bus passes, medical and dental co-pays, food, rent concessions and basic starter household supplies for many of the agency's formerly homeless residents.

Health Matters - offers a full-time health advocacy, health-related workshops, and health fairs for UHS residents - primarily to those living at Mercury Courts and The Park. The program helps to connect residents to primary care physicians, insurance and prescription assistance programs, and wellness programs in order to reduce dependency on emergency services and improve health outcomes.

HOPWA (Housing Opportunities for Persons with AIDS) - provides subsidized rent and case management for UHS residents living with HIV/AIDS.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

1. Organization (continued)

Resident Support Programs (continued):

Homeless Recovery Program (PSH) - At the end of 2015, the Permanent PSH, SOAR PSH, and Mainstream PSH programs were consolidated into the Homeless Recovery Program. This program provides subsidized rent and case management services for people who are homeless and disabled. The SOAR PSH provided subsidized rent and supportive services for people who have applied for SSI/SSDI through the SOAR process. The Mainstream PSH provided subsidized rent and case management for people who are homeless.

Low Income Housing Tax Credit Programs:

Gibson Creek:

In December 2017, UHS paid earnest fees and expenses amounting to \$244,515 for the purchase of Hampton Terrace, which occurred in April 2018. This property was transferred to 300 E Webster Street Holdings, LP, a limited partnership, for a .01% ownership interest through its wholly-owned subsidiary, 300 E. Webster Street Holdings GP, LLC. These expenses were reimbursed once the closing was complete. UHS is the developer of the property.

The property is managed by S&S Property Management.

300 E Webster Street Holdings, LP qualifies 100% of the units for low-income housing credits in accordance with Section 42 of the Internal Revenue Code as enacted by the Tax Reform Act of 1986. The applicable low-income housing tax credits will be available to the limited partner over a ten-year period. The units must meet the provisions of Section 42 of the Internal Revenue Code during fifteen years in order to remain qualified to receive the credits. After meeting the fifteen-year requirement, all tax credits will have been earned. The project was completed by December 31, 2019.

26th Avenue North (Clarksville Phase 3):

In December 2018, UHS conveyed Unit 3 and an appurtenant interest in the common elements of 26th and Clarksville Commons to 2125 26th Ave N Holding, LP. Project was completed in the fall of 2020.

Skyliner:

In December 2019, UHS paid pre-development costs, fees, and expenses amounting to \$716,619 for the closing of Skyliner. This property was transferred to Skyliner, LP, a limited partnership, for a .01% ownership interest through its wholly-owned subsidiary, Skyliner Development, LLC. These expenses were reimbursed when the first substantial funding of equity occurred in 2020. The project is under construction as of December 31, 2022 and 2021.

2. Summary of significant accounting policies

Basis of accounting

UHS prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Principles of consolidation

The consolidated financial statements of UHS include the accounts of UHS and controlled Subsidiaries: 300 East Webster Street Holdings, LP, 2125 26th Avenue North Holdings, LP, and Skyliner, LP. All material intra-entity transactions have been eliminated.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. Summary of significant accounting policies (continued)

Basis of presentation

Revenues are recognized when earned, and expenses are recognized when incurred.

Net assets classification and financial statement presentation follow the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification topic related to Presentation of Financial Statements of Not-for-Profit Organizations. Under the FASB Accounting Standards Codification, UHS is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: These are net assets that are not subject to donor-imposed stipulations. The Corporation had \$66,985,746 and \$61,935,110 of net assets without donor restrictions as of December 31, 2022 and 2021, respectively.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, which will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. The Corporation has no net assets with donor imposed restrictions as of December 31, 2022 and 2021.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or fewer at the date of acquisition. Restricted cash is not considered cash and cash equivalents and includes cash held with financial institutions for funding of operating deficits, repairs or improvements to the buildings that extend their useful lives, annual payments of tax and insurance, debt service payments, payments of tenant service fees, payments of asset management fees, and refunds of tenant security deposits. Restricted cash does not fall under the criteria for net assets with donor restrictions as these funds are held for operational purposes rather than donor-imposed restrictions.

Concentration of credit risk

Financial instruments that potentially subject UHS to concentrations of credit risk consist principally of grants and tenant accounts receivable. Tenant accounts receivable are widely dispersed to mitigate credit risk. Grants receivable represent concentrations of credit risk to the extent that they are receivable from concentrated sources.

UHS maintains deposit accounts with eleven financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 each. UHS also uses sweep accounts to protect the other bank accounts against the \$250,000 threshold. In management's opinion, the risk is mitigated by the use of high-quality financial institutions.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. Summary of significant accounting policies (continued)

Contributions and pledges receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

As of December 31, 2022 and 2021, the Corporation's contributions receivable consisted of unconditional promises to give in the amount of \$666,206 and \$261,862, respectively, all of which are expected to be collected within one year.

Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2022 and 2021, the balance of the allowance for doubtful accounts was \$65,398 and \$32,873, respectively.

Fair value measurements

The Corporation applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

- Level 1:* Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2:* Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3:* Unobservable inputs that reflect the Corporation's own assumptions.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

The following tables present the Corporation's assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2022 and 2021:

	December 31, 2022			Fair Value Measurements
	Level 1	Level 2	Level 3	
SWAP Asset	\$ -	\$ 1,425,065	\$ -	\$ 1,425,065

	December 31, 2021			Fair Value Measurements
	Level 1	Level 2	Level 3	
SWAP Liability	\$ -	\$ 90,394	\$ -	\$ 90,394

Derivative instruments

The Corporation uses derivatives to manage risks related to interest rate movements. In accordance with the accounting guidance for derivative instruments and hedging activities, interest rate swap contracts are reported at fair value.

The Corporation entered into one swap agreement with First Horizon Bank, and two with Pinnacle Bank that were used to mitigate the economic impact of changes in interest rates. The swaps are being used to offset the risk of changes in cash flows associated with benchmark interest payments on its variable rate loans. The term of each swap is in line with the maturity of the underlying note payable and the swaps have a fixed rate of 2.185%, 1.62% and 1.95%, respectively. As of December 31, 2022, the notional amount of the swaps was \$453,708, \$1,583,651, and \$9,337,969, respectively.

At December 31, 2022 and 2021, the Corporation recorded the fair value of the interest swap of \$1,425,065 and (\$90,394), respectively, as an asset (liability). The derivative change in the fair value during the years ended December 31, 2022 and 2021 of \$1,515,459 and (\$90,394) was recorded as an unrealized gain (loss) on interest rate swap.

Fixed assets and depreciation

Purchases of property, equipment or improvements costing more than \$500 are recorded at cost. Major improvements are charged to the fixed asset account, while maintenance and repairs, which do not extend the life of the respective assets, are expensed. When fixed assets are retired or otherwise disposed, the cost of the fixed asset and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Depreciation expense during 2022 and 2021 was \$3,711,475 and \$3,655,429, respectively. The useful lives of the assets are estimated as follows:

Furniture and equipment	3 - 10 years
Buildings and improvements	15 – 40 years

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. Summary of significant accounting policies (continued)

Deferred charges and amortization

Tax credit fees are amortized on a straight-line basis over the 15-year tax credit compliance period. For the years ended December 31, 2022 and 2021, the amortization expense was \$18,618 and \$20,818, respectively.

Impairment of long-lived assets

The Corporation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized during 2022 and 2021.

Income taxes

UHS has been determined by the Internal Revenue Service to be exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. Accordingly, the consolidated financial statements do not reflect a provision for income taxes.

Income taxes on 300 E Webster Street Holdings LP, 2125 26th Ave N Holdings, LP, and Skyliner, LP income are levied on the partners at the partner level. Accordingly, all profits and losses of the partnerships are recognized by each partner on their respective tax return.

The preparation of consolidated financial statements, in accordance with accounting principles generally accepted in the United State of America, requires UHS to report information regarding its exposure to various tax positions taken by UHS. UHS has determined whether any tax positions have met the recognition threshold and has measured UHS's exposure to those tax positions. Management believes that UHS has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to UHS are recorded in operating expenses. For the years ended December 31, 2022 and 2021, no interest or penalties from federal or state tax authorities were recorded.

Contributions

Contributions are recorded as with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as net assets with donor restrictions support that increases that net asset class. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

UHS also receives grant revenue from various federal, state, and local agencies, principally from the U.S. Department of Housing and Urban Development and the Metropolitan Development and Housing Agency. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to recognition are recorded initially as deferred revenue.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. Summary of significant accounting policies (continued)

Contributions (continued)

UHS reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service. For the years ended December 31, 2022 and 2021, UHS received immaterial donated equipment.

Revenue recognition

UHS is the lessor of various rental income properties and accounts for tenant leases as operating leases. UHS determines if a contract is a lease or contains a lease at inception. At the commencement of an operating lease, no income is recognized; subsequently, lease payments received are recognized on a straight-line basis. Rental revenue attributable to tenant leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue includes fees for late payments, cleaning, damages, laundry facilities and other tenant charges and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

Economic concentrations

The Subsidiaries operate properties located in Tennessee. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

Grant expense

Grants are recognized when all significant conditions are met, all due diligence has been completed and they are approved by staff or board committee. Grant refunds are recorded as a reduction of grant expense at the time the Corporation receives or is notified of the refund.

Functional expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity benefited based on number of apartment units within each program.

Change in accounting principle

In February 2016, the FASB issued Accounting Standards Codification (“ASC”) 842, *Leases* (“FASB ASC 842”) to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements.

FASB ASC 842 was adopted January 1, 2022 and no adjustment to the financial statements was deemed necessary. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

With respect to tenant leases, FASB ASC 842 did not have a material impact on the financial statements.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. Summary of significant accounting policies (continued)

Subsequent events

Subsequent events have been evaluated through July 31, 2023, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Grants receivable

Grants receivable consists of receivables from programs funded by the U.S. Department of Housing and Urban Development, the Metropolitan Development and Housing Agency ("MDHA"), and the Tennessee Department of Health. Financial activities of those programs are summarized in the schedule of expenditures of federal awards. As of December 31, 2022 and 2021, grants receivable was \$666,206 and \$261,862, respectively.

4. Fixed assets

As of December 31, 2022 and 2021, the Corporation's fixed assets consist of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 10,825,299	\$ 10,825,299
Buildings	102,441,622	100,089,629
Furniture and equipment	<u>4,282,875</u>	<u>3,930,487</u>
Total fixed assets	117,549,796	114,845,415
Less: accumulated depreciation	<u>(29,939,765)</u>	<u>(26,228,290)</u>
Net fixed assets	<u>\$ 87,610,031</u>	<u>\$ 88,617,125</u>

5. Notes payable

Notes payable consist of the following at December 31,

	<u>2022</u>	<u>2021</u>
Note payable - Renasant Bank; Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0%; payable in monthly installments of \$6,400 beginning January 2017 final balloon payment for balance due January 2022; secured by real estate. Debt issuance costs are amortized to interest expense over the term of the loan. For the years ended December 31, 2022 and 2021, the effective interest rate was 0% and 0.36%, respectively.	\$-	251,546
Note payable - Pinnacle Bank; Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0%; payable in monthly principal and interest payment of \$5,479 beginning October 2008, final balloon payment for the balance due August 2027; secured by real estate at Mercury Courts. Debt issuance costs are amortized to interest expense over the term of the loan. For the years ended December 31, 2022 and 2021, the effective interest rate was 1.05% and 0.09%, respectively.	320,490	378,117

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

5. Notes payable (continued)

	<u>2022</u>	<u>2021</u>
Note payable - Bank of TN; Interest rate equal to a variable rate per annum equal to the prime rate minus 2.0%; payable in monthly principal payment of \$7,640 plus interest beginning February 2011, final balloon payment for balance due January 2026; secured by real estate.	282,480	374,160
Note payable - Bank of TN; Interest rate equal to a variable rate per annum equal to the prime rate minus 2.0%; payable in monthly principal payment of \$6,390 plus interest beginning February 2011, final balloon payment for balance due January 2026; secured by real estate.	-	312,910
Note payable - Truxton Trust; Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0%; payable in monthly principal payments of \$11,031 plus interest, beginning February 2018, final balloon payment January 2028; secured by real estate. Debt issuance costs are amortized to interest expense over the term of the loan. For the years ended December 31, 2022 and 2021, the effective interest rate was 1.17% and 0.10%, respectively.	683,901	816,273
Note payable - Renasant; Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0%; interest only until January 2020, then payable in monthly principal payment of \$4,167 plus interest, beginning February 2020, final balloon payment for balance due July 2023; secured by real estate. Debt issuance costs are amortized to interest expense over the term of the loan. For the years ended December 31, 2022 and 2021, the effective interest rate was 1.30% and 0.23%, respectively.	2,390,716	2,573,102
Note Payable - Truxton Trust; Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0%; payable in monthly principal of \$4,149 plus interest; beginning June 2016, final balloon payment for balance due December 2024; secured by real estate. Debt issuance costs are amortized to interest expense over the term of the loan. For the years ended December 31, 2022 and 2021, the effective interest rate was 1.06% and 0.01%, respectively.	713,605	763,397

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

5. Notes payable (continued)

	<u>2022</u>	<u>2021</u>
Note Payable - Truxton Trust; Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0%; payable in monthly principal and interest payments of \$4,518; beginning January 2020, final balloon payment for balance due June 2024; secured by real estate. Debt issuance costs are amortized to interest expense over the term of the loan. For the years ended December 31, 2022 and 2021, the effective interest rate was 2.88% and 1.07%, respectively.	547,330	596,775
Note Payable - Pinnacle; Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0%; payable in monthly principal and interest payments of \$5,416; beginning January 2020, final balloon payment for balance due May 2024; secured by real estate.	901,095	961,924
Note Payable - 300 E Webster St Holdings, LP; First Horizon; Interest rate equal to a variable rate per annum equal to the prime rate minus a margin equal to 4% per annum (0% per annum for the years ended December 31, 2022 and 2021) interest only will be payable monthly for the first 24 months, final balloon payment for balance due April 2035; secured by real estate. Debt issuance costs are amortized to interest expense over the term of the loan. On December 31, 2022, an interest rate swap was entered into converting the variable rate to a fixed rate of 2.185%. For each of the years ended December 31, 2022 and 2021, effective interest rate was 0.12%.	11,465,461	11,858,461
Note Payable - 2125 26th Ave. N. Holdings, LP; Pinnacle Bank Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0% per annum (3.5% and 0% per annum as of December 31, 2022 and 2021), respectively; interest only payments began January 15, 2019; monthly payments of principal and interest began January 15, 2021, maturity date December 15, 2033; secured by real estate. Subject to a SWAP agreement stating a fixed rate of 1.62%	1,583,651	1,631,651
Note payable - Regions Bank; Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0%; payable in monthly interest payments beginning January 2022, and final balloon payment for balance due December 2022; secured by real estate. Debt issuance costs are amortized to interest expense over the term of the loan. For the years ended December 31, 2022 and 2021, the effective interest rate was 1.07% and 0.02%, respectively.	9,200,000	9,200,000

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

5. Notes payable (continued)

	<u>2022</u>	<u>2021</u>
Note payable - Fifth Third Bank; Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0%; payable in annual principal payments beginning January 2023, and final balloon payment for balance due January 2038; secured by real estate.	17,200,000	17,200,000
Note payable - Regions Bank; Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0%; payable in annual principal payments beginning January 2024, and final balloon payment for balance due January 2039; secured by real estate. Debt issuance costs are amortized to interest expense over the term of the loan. For the year ended December 31, 2022, the effective interest rate was 1.07% and 0.11%, respectively.	10,000,000	10,000,000
Note payable – Rex2; Pinnacle Bank Interest rate equal to a variable rate per annum equal to the prime rate minus 4.0% per annum (3.5% and 0% per annum as of December 31, 2022 and 2021, respectively); interest only payments began April 1, 2022; monthly payments of principal and interest will begin March 1, 2024, maturity date February 1, 2037; secured by real estate. Subject to a SWAP agreement stating a fixed rate of 1.95%	9,833,800	-
Principal balance	\$ 65,122,529	\$ 56,918,316
Less: unamortized debt issuance costs	(323,592)	(225,581)
Note payable, net of unamortized debt issuance costs	<u>\$ 64,798,937</u>	<u>\$ 56,692,735</u>

For the years ended December 31, 2022 and 2021, interest expense on notes payable totaled \$911,044 and \$704,738, respectively. Amortization of debt issuance costs totaled \$60,808 and \$41,606, respectively, for the years ended December 31, 2022 and 2021.

UHS has a revolving line of credit with Truxton Bank. The line of credit is due on demand and may be terminated without notice by the bank. The interest only payments are due monthly at the Wall Street Journal prime rate minus 4.00% with a floor of zero. The line of credit is secured by the Corporation's assets. The balance outstanding at December 31, 2022 and 2021, is \$6,500,000.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

5. Notes payable (continued)

Annual principal payments are as follows:

Year ending December 31,	
2023	\$ 27,430,624
2024	3,249,362
2025	1,203,583
2026	1,123,443
2027	1,120,112
Thereafter	<u>30,995,405</u>
Total	<u>\$ 65,122,529</u>

6. Liquidity and availability of financial assets

The following represents UHS's financial assets at December 31, 2022 and 2021:

Financial assets at year-end:	2022	2021
Cash and cash equivalents	\$ 18,218,296	\$ 14,414,791
Tenant security deposits	1,075	769
Replacement reserves	-	105,493
Investment securities	34,809	18,175
Accounts receivable – grants	666,206	261,862
Accounts receivable – tenants	463,149	229,502
Accounts receivable – other	1,662,519	966,988
Accounts receivable – development fee	6,635,576	6,794,209
Due from related party	<u>3,750,000</u>	<u>2,750,000</u>
Total financial assets	\$ 31,431,630	\$ 25,541,789
Less amounts not available to be used within one year:		
Tenant security deposits	1,075	769
Replacement reserves	-	105,493
Investment securities	34,809	18,175
Accounts receivable – other	1,662,519	960,560
Accounts receivable – development fee	<u>6,635,576</u>	<u>6,794,209</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 23,097,651</u>	<u>\$ 17,662,583</u>

UHS's goal is generally to maintain financial assets to meet 90 days of operating expenses (\$2,400,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

7. Bonds payable

In January 2020, Skyliner, LP obtained financing from Health and Educational Facilities Board bonds issued by the Metro Government of Nashville and Davidson County. The bonds bear interest at 2.01% per annum and are secured by the mortgage. All of the outstanding principal and interest was due and paid January 2023. As of both December 31, 2022 and 2021, the outstanding principal balance was \$15,000,000.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

8. Commitments and contingencies

UHS received federal, state, and local grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in disallowances of expenditures, management believes that any required reimbursements would not be significant. Accordingly, no provision has been made for any potential reimbursements to the grantor.

The Corporation is the defendant in a legal proceeding. Management has reviewed the matter with legal counsel and the aggregate liability or loss, if any, is not yet determinable and is not expected to have a material adverse effect on the Corporation's financial position.

9. Payments in lieu of taxes (PILOT)

UHS is not required to pay property taxes on several of its properties that have been granted property tax exempt status. Under this exempt status, UHS is required to make a payment in lieu of taxes (PILOT) to the city and county.

The Davidson County Metropolitan Council approved the formula for calculating PILOT payments to be 25% of the normal property taxes. PILOT expenses were \$260,313 and \$256,121, respectively, for the years ended December 31, 2022 and 2021, and are included in taxes and licenses on the consolidated statement of functional expenses.

10. Consortium agreement

UHS is a consortium member with MDHA to implement the Neighborhood Stabilization Program 2 (NSP2) by conducting certain activities including:

- a. Redevelopment of Demolished or Vacant Property as Housing (New Construction).
- b. Acquisition and Rehab of Abandoned or Foreclosed Homes of Residential Properties.

11. Employee retirement plan

UHS maintains a 401(k) plan. Matching contributions are made on each employee's behalf up to 5.0% of compensation. Employees are eligible to participate in the plan after ninety days of service. Total contributions were \$111,275 and \$52,469, respectively, for the years ended December 31, 2022 and 2021, which are included in payroll and related expenses on the accompanying consolidated statements of functional expenses.

12. Compensated absences

Employees of UHS are entitled to paid vacation and sick days. Employees are allowed to carryover 5 unused vacation days at December 31; sick days are not paid if the employee leaves. Accordingly, the accrued leave has been calculated as the total of vacation days available. As of December 31, 2022 and 2021, the amount of accrued leave was \$0 and \$23,847, respectively, which is included in accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

13. Net assets

The following schedule summarizes the changes in consolidated net assets attributable to the controlling and non-controlling interests for the years ended December 31, 2022 and 2021:

Net assets without donor restrictions

	Controlling interest	Non-controlling interests	Total
Balance, January 1, 2021	\$ 41,800,456	\$ 12,994,973	\$ 54,795,429
Change in net assets	2,253,672	(695,994)	1,557,678
Capital contributions	50,674	5,531,329	5,582,003
Balance, December 31, 2021	44,104,802	17,830,308	61,935,110
Change in net assets	2,642,910	280,357	2,923,267
Capital contributions	-	2,127,369	2,127,369
Balance, December 31, 2022	<u>\$ 46,747,712</u>	<u>\$ 20,238,034</u>	<u>\$ 66,985,746</u>

The following schedule summarizes non-controlling interests' amounts of outside ownership interest in the Subsidiaries. As of and for the year ended December 31, 2022, non-controlling interests and related share of current year net losses, respectively, consisted of the following:

Subsidiary	Non-controlling interests	Share of current year net income (loss)
300 E Webster Street Holdings, L.P.	\$ 8,392,536	\$ 383,026
2125 26 th Avenue N Holdings, L.P.	9,161,475	57,611
Skyliner, L.P.	2,684,023	(160,280)
Total	<u>\$ 20,238,034</u>	<u>\$ 280,357</u>

As of and for the year ended December 31, 2021, non-controlling interests and related share of current year net losses, respectively, consisted of the following:

Subsidiary	Non-controlling interests	Share of current year net loss
300 E Webster Street Holdings, L.P.	\$ 8,009,510	\$ (303,844)
2125 26 th Avenue N Holdings, L.P.	8,298,136	(366,634)
Skyliner, L.P.	1,522,661	(25,516)
Total	<u>\$ 17,830,307</u>	<u>\$ (695,994)</u>

14. Closed local government OPEB plan

Plan description - Employees of UHS are provided with pre-65 retiree health insurance benefits through the Local Government OPEB Plan (LGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). All eligible pre-65 retired employees and disability participants of local governments, who choose coverage, participate in the LGOP.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

14. Closed local government OPEB plan (continued)

Benefits provided - UHS offers the LGOP to provide health insurance coverage to eligible pre-65 retirees and disabled participants of local governments. Insurance coverage is the only postemployment benefit provided to retirees. An insurance committee created in accordance with TCA 8-27-701 establishes and amends the benefit terms of the LGOP. All members have the option of choosing between the premier preferred provider organization (PPO), standard PPO, limited PPO or the wellness health savings consumer driven health plan (CDHP) for healthcare benefits. Retired plan members, of the LGOP, receive the same plan benefits as active employees, at a blended premium rate that considers the cost of all participants. This creates an implicit subsidy for retirees. Participating employers determine their own policy related to direct subsidies provided for the retiree premiums. UHS does not directly subsidize and is only subject to the implicit subsidy. The OPEB liability and change in the liability are immaterial to the consolidated financial statements and are therefore not separately reported or disclosed.

15. Vulnerability – Impact of COVID-19

The severity of the impact of COVID-19 on the UHS and Subsidiaries' operations will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the UHS and Subsidiaries' tenants, donors, and grantors, all of which are uncertain and cannot be predicted. The UHS and Subsidiaries' future results could be adversely impacted by delays in rent collections. Management is unable to predict with absolute certainty the impact of COVID-19 on its financial condition, results of operations or cash flows.

16. Contingency

Skyliner LP is party to a lawsuit for delay-damages brought by a general contractor seeking damages of \$1,731,286. Skyliner LP is actively defending the lawsuit and an estimate of the loss cannot be made and has, therefore, not been reflected in the accompanying consolidated financial statements.

SUPPLEMENTARY INFORMATION

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022

ASSETS

	Urban Housing Solutions	300 E . Webster St. Holdings, LP	2125 26th Ave. N. Holdings, LP	Skyliner, LP	Eliminations	Consolidated
Cash and cash equivalents	18,218,296	\$ 946,861	\$ 201,740	\$ 1,540,698	\$ -	\$ 20,907,595
Restricted cash:					-	
Tenant security deposits	1,075	-	1,500	-	-	2,575
Replacement reserves	-	579,760	246,533	-	-	826,293
Construction reserves	34,809	-	-	15,150,399	-	15,185,208
Accounts receivable:						
Grants	666,206	-	-	-	-	666,206
Tenants, net of doubtful accounts	463,149	46,052	2,301	65	-	511,567
Development fee	6,635,576	-	-	-	(6,635,576)	-
Due from related parties	3,750,000	-	-	-	(3,750,000)	-
Other	1,662,519	-	26,593	-	(26,593)	1,662,519
Investment - Skyliner	1,682,649	-	-	-	(1,682,649)	-
Prepaid expenses	158,202	75,566	18,904	-	-	252,672
Deferred charges, net of accumulated amortization of \$55,854	-	128,738	82,969	-	-	211,707
Property and equipment - net of accumulated depreciation of \$29,939,765	57,576,800	23,941,972	10,655,453	1,500,000	(6,064,194)	87,610,031
Construction in progress	4,329,039	-	-	23,711,518	(2,220,958)	25,819,599
SWAP Asset	862,494	453,708	108,863	-	-	1,425,065
Total assets	\$ 96,040,814	\$ 26,172,657	\$ 11,344,856	\$ 41,902,680	\$ (20,379,970)	\$ 155,081,037

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 1,072,208	\$ 196,443	\$ 51,525	\$ 1,673,090	(1,672,012)	\$ 1,321,254
Cash and cash equivalents - bank overdraft	82,216	-	-	-	-	82,216
Due to related parties	-	2,000,000	-	1,750,000	(3,750,000)	-
Line of credit	6,500,000	-	-	-	-	6,500,000
Tenant security deposits	224,537	99,632	2,750	10,368	-	337,287
Development fee payable	-	4,080,523	487,212	2,067,841	(6,635,576)	-
Bonds payable	-	-	-	15,000,000	-	15,000,000
Prepaid rent	36,812	18,785	-	-	-	55,597
Notes payable - net of unamortized debt issuance costs	34,681,967	11,333,319	1,583,651	17,200,000	-	64,798,937
Total liabilities	42,597,740	17,728,702	2,125,138	37,701,299	(12,057,588)	88,095,291

NET ASSETS

Net assets without donor restrictions, controlling	53,443,074	51,419	58,243	1,517,358	(8,322,382)	46,747,712
Net assets without donor restrictions, non-controlling interest in subsidiaries	-	8,392,536	9,161,475	2,684,023	-	20,238,034
Total net assets	53,443,074	8,443,955	9,219,718	4,201,381	(8,322,382)	66,985,746
 Total liabilities and net assets	 \$ 96,040,814	 \$ 26,172,657	 \$ 11,344,856	 \$ 41,902,680	 \$ (20,379,970)	 \$ 155,081,037

See report of independent auditors

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

ASSETS

	Urban Housing Solutions	300 E . Webster St. Holdings, LP	2125 26th Ave. N. Holdings, LP	Skyliner, LP	Eliminations	Consolidated
Cash and cash equivalents	\$ 14,414,791	\$ 861,081	\$ 75,469	\$ 6,257,223	\$ -	\$ 21,608,564
Restricted cash:					-	
Tenant security deposits	769	-	1,250	-	-	2,019
Replacement reserves	105,493	495,905	13,742	-	-	615,140
Investments securities	18,175	-	-	15,149,987	-	15,168,162
Accounts receivable:						
Grants	261,862	-	-	-	-	261,862
Tenants, net of doubtful accounts	229,502	25,025	921	-	-	255,448
Development fee	6,794,209	-	-	-	(6,794,209)	-
Due from related parties	2,750,000	-	-	-	(2,750,000)	-
Other	966,988	-	45,405	-	(45,405)	966,988
Investment - Skyliner	1,868,339	-	-	-	(1,868,339)	-
Prepaid expenses	77,296	64,935	11,042	-	-	153,273
Deferred charges, net of accumulated amortization of \$37,236	-	140,442	89,883	-	-	230,325
Property and equipment - net of accumulated depreciation of \$26,228,290	57,623,363	24,771,892	10,951,002	1,500,000	(6,229,132)	88,617,125
Construction in progress	-	-	-	16,419,996	(1,639,303)	14,780,693
Total assets	<u>\$ 85,110,787</u>	<u>\$ 26,359,280</u>	<u>\$ 11,188,714</u>	<u>\$ 39,327,206</u>	<u>\$ (19,326,388)</u>	<u>\$ 142,659,599</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 1,123,839	\$ 190,737	\$ 81,547	\$ 1,868,339	\$ (1,905,194)	\$ 1,359,268
Cash and cash equivalents - bank overdraft	727,901	-	-	-	-	727,901
Due to related parties	-	2,000,000	-	750,000	(2,750,000)	-
Line of credit	6,500,000	-	-	-	-	6,500,000
Tenant security deposits	228,960	90,904	1,250	-	-	321,114
SWAP liability	-	-	90,394	-	-	90,394
Development fee payable	-	4,280,523	1,027,500	1,486,186	(6,794,209)	-
Bonds payable	-	-	-	15,000,000	-	15,000,000
Prepaid rent	10,517	22,560	-	-	-	33,077
Notes payable - net of unamortized debt issuance costs	26,147,419	11,713,665	1,631,651	17,200,000	-	56,692,735
Total liabilities	<u>34,738,636</u>	<u>18,298,389</u>	<u>2,832,342</u>	<u>36,304,525</u>	<u>(11,449,403)</u>	<u>80,724,489</u>

NET ASSETS

Net assets without donor restrictions, controlling	50,372,151	51,381	58,236	1,500,020	(7,876,985)	44,104,803
Net assets without donor restrictions, non-controlling interest in subsidiaries	-	8,009,510	8,298,136	1,522,661	-	17,830,307
Total net assets	<u>50,372,151</u>	<u>8,060,891</u>	<u>8,356,372</u>	<u>3,022,681</u>	<u>(7,876,985)</u>	<u>61,935,110</u>
Total liabilities and net assets	<u>\$ 85,110,787</u>	<u>\$ 26,359,280</u>	<u>\$ 11,188,714</u>	<u>\$ 39,327,206</u>	<u>\$ (19,326,388)</u>	<u>\$ 142,659,599</u>

See report of independent auditors

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Urban Housing Solutions</u>	<u>300 E . Webster St. Holdings, LP</u>	<u>2125 26th Ave. N. Holdings, LP</u>	<u>Skyliner, LP</u>	<u>Eliminations</u>	<u>Consolidated</u>
SUPPORT AND REVENUES						
Public Support:						
Individual and corporate gifts & Barnes Fund	\$ 1,736,843	\$ -	\$ -	\$ -	\$ -	\$ 1,736,843
Grants:						
Government	1,568,104	-	-	-	-	1,568,104
Total public support	3,304,947	-	-	-	-	3,304,947
Revenues:						
Rental income	8,739,363	2,549,256	612,408	-	-	11,901,027
Laundry and vending machine income	23,062	171	395	-	-	23,628
Investment income	-	-	-	-	-	-
Interest income	97,707	1,656	576	300,402	-	400,341
Developer fees	581,655	-	-	-	(581,655)	-
Insurance proceeds	510,223	-	-	-	-	510,223
Miscellaneous	52,603	-	10,620	1,144	(24,981)	39,386
Application fees	42,290	-	-	4,785	-	47,075
Unrealized gain on interest rate swap	862,494	453,708	199,257	-	-	1,515,459
TOTAL SUPPORT AND REVENUES	14,214,344	3,004,791	823,256	306,331	(606,636)	17,742,086
EXPENSES						
Program services:						
Rental projects	\$ 9,825,677	\$ 2,504,136	\$ 765,639	\$ 431,770	\$ (173,488)	\$ 13,353,734
Resident support programs	933,824	-	-	-	-	933,824
Total program services	10,759,501	2,504,136	765,639	431,770	(173,488)	14,287,558
Supporting services:						
Management and general	383,920	117,591	-	17,501	12,249	531,261
TOTAL EXPENSES	11,143,421	2,621,727	765,639	449,271	(161,239)	14,818,819
CHANGE IN NET ASSETS	3,070,923	383,064	57,617	(142,940)	(445,397)	2,923,267
NET ASSETS - BEGINNING OF YEAR	50,372,151	8,060,891	8,356,372	3,022,681	(7,876,985)	61,935,110
CAPITAL CONTRIBUTIONS	-	-	805,729	1,321,640	-	2,127,369
CHANGE IN NET ASSETS	3,070,923	383,064	57,617	(142,940)	(445,397)	2,923,267
NET ASSETS - END OF YEAR	\$ 53,443,074	\$ 8,443,955	\$ 9,219,718	\$ 4,201,381	\$ (8,322,382)	\$ 66,985,746

See report of independent auditors

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Urban Housing Solutions</u>	<u>300 E . Webster St. Holdings, LP</u>	<u>2125 26th Ave. N. Holdings, LP</u>	<u>Skyliner, LP</u>	<u>Eliminations</u>	<u>Consolidated</u>
SUPPORT AND REVENUES						
Public Support:						
Individual and corporate gifts & Barnes Fund	\$ 843,838	\$ -	\$ -	\$ -	\$ -	\$ 843,838
Grants:						
Government	1,101,450	-	5,588	-	-	1,107,038
Total public support	1,945,288	-	5,588	-	-	1,950,876
Revenues:						
Rental income	8,689,894	2,347,563	627,861	-	-	11,665,318
Laundry and vending machine income	28,191	3,958	107	-	-	32,256
Interest income	21,677	208	-	-	-	21,885
Developer fees	1,486,186	-	-	-	(1,486,186)	-
Insurance proceeds	696,991	-	-	-	-	696,991
Miscellaneous	51,992	-	-	-	(24,384)	27,608
Application fees	31,257	-	-	-	-	31,257
Unrealized gain on interest rate swap	-		(90,394)			(90,394)
TOTAL SUPPORT AND REVENUES	<u>12,951,476</u>	<u>2,351,729</u>	<u>543,162</u>	<u>-</u>	<u>(1,510,570)</u>	<u>14,335,797</u>
EXPENSES						
Program services:						
Rental projects	\$ 8,303,620	\$ 2,542,738	\$ 885,449	\$ 25,519	\$ (156,388)	\$ 11,600,938
Resident support programs	789,377	-	-	-	-	789,377
Total program services	9,092,997	2,542,738	885,449	25,519	(156,388)	12,390,315
Supporting services:						
Management and general	274,939	112,865	24,384	-	(24,384)	387,804
TOTAL EXPENSES	<u>9,367,936</u>	<u>2,655,603</u>	<u>909,833</u>	<u>25,519</u>	<u>(180,772)</u>	<u>12,778,119</u>
CHANGE IN NET ASSETS	<u>3,583,540</u>	<u>(303,874)</u>	<u>(366,671)</u>	<u>(25,519)</u>	<u>(1,329,798)</u>	<u>1,557,678</u>
NET ASSETS - BEGINNING OF YEAR (AS PREVIOUSLY STATED)	46,788,611	3,917,518	8,709,927	1,926,560	(1,180,617)	60,161,999
PRIOR PERIOD ADJUSTMENT	-	-	-	-	(5,366,570)	(5,366,570)
NET ASSETS - BEGINNING OF YEAR (RESTATEd)	46,788,611	3,917,518	8,709,927	1,926,560	(6,547,187)	54,795,429
CAPITAL CONTRIBUTIONS	-	4,447,247	13,116	1,121,640	-	5,582,003
CHANGE IN NET ASSETS	3,583,540	(303,874)	(366,671)	(25,519)	(1,329,798)	1,557,678
NET ASSETS - END OF YEAR	<u>\$ 50,372,151</u>	<u>\$ 8,060,891</u>	<u>\$ 8,356,372</u>	<u>\$ 3,022,681</u>	<u>\$ (7,876,985)</u>	<u>\$ 61,935,110</u>

See report of independent auditors

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

PROGRAM SERVICES

	URBAN HOUSING SOLUTIONS			300 E. WEBSTER ST. HOLDINGS, LP	2125 26TH AVE. N. HOLDINGS, LP	Skyliner, LP	Eliminations	TOTAL PROGRAM SERVICES
	<u>RENTAL PROJECTS</u>	<u>RESIDENT SUPPORT PROGRAMS</u>	<u>Total</u>					
Payroll and related expenses	\$ 2,365,329	\$ 463,726	\$ 2,829,055	\$ 226,357	\$ 148,111	\$ 47,753		\$ 3,251,276
Advertising	17,216	-	17,216	11,478	-	-	-	28,694
Bad debt expense	-	-	-	27,774	-	-	-	27,774
Contract services	1,177,490	86,042	1,263,532	7,258	24,981	-	-	1,295,771
Dues and subscriptions	-	-	-	5,719	-	-	-	5,719
Insurance	476,487	68,510	544,997	134,228	28,028	-	-	707,253
Interest	323,135	1,905	325,040	320,607	26,205	300,000	-	971,852
Legal and professional	104,490	9,565	114,055	31,304	20,135	-	-	165,494
Miscellaneous	(10,456)	-	(10,456)	15,855	5,775	-	(8,550)	2,624
Printing and postage	10,571	1,494	12,065	-	889	7,249	-	20,203
Repairs and maintenance	448,654	24,248	472,902	574,650	51,736	17,183	-	1,116,471
Security services	-	-	-	30,620	-	-	-	30,620
Social program funds	70,965	5,574	76,539	-	4,340	-	-	80,879
Supplies	184,678	36,172	220,850	-	11,484	-	-	232,334
Taxes and licenses	609,590	137,749	747,339	145,615	38,110	-	-	931,064
Telephone	44,192	4,488	48,680	-	1,575	-	-	50,255
Travel	49,365	9,716	59,081	-	2,140	-	-	61,221
Utilities	1,205,787	84,635	1,290,422	131,047	96,907	59,585	-	1,577,961
Total Functional Expenses before Depreciation and Amortization	7,077,493	933,824	8,011,317	1,662,512	460,416	431,770	(8,550)	10,557,465
Depreciation and amortization	2,748,184	-	2,748,184	841,624	305,223	-	(164,938)	3,730,093
Total Functional Expenses	\$ 9,825,677	\$ 933,824	\$ 10,759,501	\$ 2,504,136	\$ 765,639	\$ 431,770	\$ (173,488)	\$ 14,287,558

See report of independent auditors

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

Supporting Services

Management and General

	<u>URBAN HOUSING SOLUTIONS</u>	<u>300 E. WEBSTER ST. HOLDINGS, LP</u>	<u>2125 26TH AVE. N. HOLDINGS, LP</u>	<u>Skyliner, LP</u>	<u>TOTAL MANAGEMENT & GENERAL</u>	<u>Eliminations</u>	<u>TOTAL EXPENSES</u>
Payroll and related expenses	\$ 177,519	\$ -	\$ -	\$ -	\$ 177,519	\$ -	\$ 3,428,795
Advertising	12,727	-	-	-	12,727	-	41,421
Bad debt expense	-	-	-	-	-	-	27,774
Contract services	1,950	11,312	-	-	13,262	-	1,309,033
Dues and subscriptions	-	-	-	-	-	-	5,719
Insurance	8,276	-	-	-	8,276	-	715,529
Interest	-	-	-	-	-	-	971,852
Legal and professional	111,569	88,112	-	3,322	203,003	(24,981)	343,516
Miscellaneous	-	-	-	-	-	37,230	39,854
Printing and postage	4,812	4,512	-	26	9,350	-	29,553
Repairs and maintenance	16,512	-	-	-	16,512	-	1,132,983
Security services	-	-	-	-	-	-	30,620
Social program funds	15	-	-	-	15	-	80,894
Supplies	43,254	9,015	-	14,153	66,422	-	298,756
Taxes and licenses	4,743	-	-	-	4,743	-	935,807
Telephone	2,212	4,640	-	-	6,852	-	57,107
Travel	331	-	-	-	331	-	61,552
Utilities	-	-	-	-	-	-	1,577,961
Total Functional Expenses before Depreciation and Amortization	383,920	117,591	-	17,501	519,012	12,249	11,088,726
Depreciation and amortization	-	-	-	-	-	-	3,730,093
Total Functional Expenses	\$ 383,920	\$ 117,591	\$ -	\$ 17,501	\$ 519,012	\$ 12,249	\$ 14,818,819

See report of independent auditors

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

PROGRAM SERVICES

	URBAN HOUSING SOLUTIONS			300 E. WEBSTER ST. HOLDINGS, LP	2125 26TH AVE. N. HOLDINGS, LP	Skyliner, LP	Eliminations	TOTAL PROGRAM SERVICES
	<u>RENTAL PROJECTS</u>	<u>RESIDENT SUPPORT PROGRAMS</u>	<u>Total</u>					
Payroll and related expenses	\$ 1,955,359	\$ 406,904	\$ 2,362,263	\$ 263,285	\$ 182,065	\$ -	\$ -	\$ 2,807,613
Advertising	8,259	-	8,259	9,867	-	-	-	18,126
Bad debt expense	-	-	-	66,935	-	-	-	66,935
Contract services	891,916	5,071	896,987	7,046	-	-	-	904,033
Dues and subscriptions	-	-	-	-	-	-	-	-
Insurance	461,392	3,258	464,650	45,269	19,674	-	-	529,593
Interest	29,347	-	29,347	389,771	27,226	25,519	-	471,863
Legal and professional	127,082	23,725	150,807	40,686	32,673	-	-	224,166
Miscellaneous	-	-	-	16,979	5,892	-	8,550	31,421
Printing and postage	15,569	121	15,690	-	76	-	-	15,766
Repairs and maintenance	282,580	326	282,906	430,182	117,342	-	-	830,430
Security services	-	-	-	29,445	-	-	-	29,445
Social program funds	56,189	36,444	92,633	-	4,404	-	-	97,037
Supplies	109,778	10,117	119,895	-	6,314	-	-	126,209
Taxes and licenses	759,435	20	759,455	273,963	77,655	-	-	1,111,073
Telephone	24,982	3,605	28,587	-	1,385	-	-	29,972
Travel	31,835	3,320	35,155	-	1,691	-	-	36,846
Utilities	1,160,617	-	1,160,617	127,861	101,692	-	-	1,390,170
Total Functional Expenses before Depreciation and Amortization	5,914,340	492,911	6,407,251	1,701,289	578,089	25,519	8,550	8,720,698
Depreciation and amortization	2,389,280	296,466	2,685,746	841,449	307,360	-	(164,938)	3,669,617
Total Functional Expenses	\$ 8,303,620	\$ 789,377	\$ 9,092,997	\$ 2,542,738	\$ 885,449	\$ 25,519	\$ (156,388)	\$ 12,390,315

See report of independent auditors

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

Supporting Services

Management and General

	<u>URBAN HOUSING SOLUTIONS</u>	<u>300 E. WEBSTER ST. HOLDINGS, LP</u>	<u>2125 26TH AVE. N. HOLDINGS, LP</u>	<u>Skyliner, LP</u>	<u>TOTAL MANAGEMENT & GENERAL</u>	<u>Eliminations</u>	<u>TOTAL EXPENSES</u>
Payroll and related expenses	\$ 118,729	\$ -	\$ -	\$ -	\$ 118,729	\$ -	\$ 2,926,342
Advertising	10,089	-	-	-	10,089	-	28,215
Bad debt expense	-	-	-	-	-	-	66,935
Contract services	950	12,210	24,384	-	37,544	(24,384)	917,193
Dues and subscriptions	-	5,734	-	-	5,734	-	5,734
Insurance	1,087	-	-	-	1,087	-	530,680
Interest	-	-	-	-	-	-	471,863
Legal and professional	65,286	79,018	-	-	144,304	-	368,470
Miscellaneous	(22,728)	-	-	-	(22,728)	-	8,693
Printing and postage	5,346	4,698	-	-	10,044	-	25,810
Repairs and maintenance	174	-	-	-	174	-	830,604
Security services	-	-	-	-	-	-	29,445
Social program funds	26,056	-	-	-	26,056	-	123,093
Supplies	56,521	5,511	-	-	62,032	-	188,241
Taxes and licenses	2,636	-	-	-	2,636	-	1,113,709
Telephone	3,637	4,711	-	-	8,348	-	38,320
Travel	526	983	-	-	1,509	-	38,355
Utilities	-	-	-	-	-	-	1,390,170
Total Functional Expenses before Depreciation and Amortization	268,309	112,865	24,384	-	405,558	(24,384)	9,101,872
Depreciation and amortization	6,630	-	-	-	6,630	-	3,676,247
Total Functional Expenses	\$ 274,939	\$ 112,865	\$ 24,384	\$ -	\$ 412,188	\$ (24,384)	\$ 12,778,119

See report of independent auditors

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Federal Grantor/ Pass-Through Grantor	Program/Cluster Name	AL Number	Contract Number	Expenditures
<u>Federal Awards</u>				
Direct Funding:				
US Department of Housing and Urban Development	Continuum of Care	14.267	TN0061L4J042114	\$ 508,957
US Department of Housing and Urban Development	Continuum of Care	14.267	TN0061L4J042013	132,237
**Total Program 14.267				641,194
US Department of Housing and Urban Development	Housing Assistance Program Section 8 Moderate Rehab	14.856	TN43RM00001	522,040
Total Program 14.856				522,040
Pass-through Funding:				
US Department of Housing and Urban Development through Metropolitan Development and Housing Agency	Housing Opportunities for Persons with AIDS	14.241	TNH20F002	406,459
Total Program 14.241				406,459
US Department of Housing and Urban Development through Enterprise Community Partners	Capacity Building for Community Development and Affordable Housing	14.252	22SG2392	10,800
Total Program 14.252				10,800
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 1,580,493

See notes to the Schedule of Expenditures of Federal Awards

URBAN HOUSING SOLUTIONS, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2022

1. Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the expenditures of Urban Housing Solutions, Inc. and Subsidiaries under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements.

For purposes of the Schedule, federal awards include all sub awards to the Corporation by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

2. Summary of significant accounting policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed. Assistance Listing numbers ("AL No.") are provided when available.

The Corporation elected not to use the 10% de minimis indirect cost rate.



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& COMPANY LLP®

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Urban Housing Solutions, Inc. and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Urban Housing Solutions, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 31, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Urban Housing Solutions, Inc. and Subsidiaries' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Urban Housing Solutions, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Urban Housing Solutions, Inc. and Subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novogradac & Company LLP

Dover, Ohio
July 31, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Urban Housing Solutions, Inc. and Subsidiaries

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Urban Housing Solutions, Inc. and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Urban Housing Solutions, Inc. and Subsidiaries' major federal programs for the year ended December 31, 2022. Urban Housing Solutions, Inc. and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Urban Housing Solutions, Inc. and Subsidiaries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Urban Housing Solutions, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Urban Housing Solutions, Inc. and Subsidiaries' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Urban Housing Solutions, Inc. and Subsidiaries' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Urban Housing Solutions, Inc. and Subsidiaries' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Urban Housing Solutions, Inc. and subsidiaries' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Urban Housing Solutions, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Urban Housing Solutions, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Urban Housing Solutions, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over

compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Norogard & Company LLP

Dover, Ohio

July 31, 2023

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	<u> X </u>	No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	<u> X </u>	None reported
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u>	No

Federal Awards

Internal Control over major programs:			
Material weakness(es) identified?	_____ Yes	<u> X </u>	No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	<u> X </u>	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified		
Audit findings required to be reported in accordance with 2 CFR section 200.516(a)?	_____ Yes	<u> X </u>	No

Identification of major programs:

<u>AL Number</u>	<u>Name of Federal Program or Cluster</u>
14.267	Supportive Housing

Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$750,000 </u>
Auditee qualified as low-risk auditee?	_____ Yes <u> X </u> No

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2022

Section II - Financial Statement Findings

There were no findings noted.

Section III - Federal Award Findings and Questioned Costs

There were no findings noted.

URBAN HOUSING SOLUTIONS, INC. AND SUBSIDIARIES
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2022

Section II - Financial Statement Findings

Finding 2021-01

The fixed assets and net assets were not properly reported as of December 31, 2020, which required a prior period adjustment of \$5,366,570 to the December 31, 2020 net assets balance.

Status

Resolved

Section III - Federal Award Findings and Questioned Costs

Finding 2021-02

The Corporation has not submitted its Single Audit reporting package to the Federal Audit Clearinghouse since 2016.

Status

Resolved