AFFORDABLE HOUSING RESOURCES, INC.

Financial Statements
and Supplemental Schedules

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

AFFORDABLE HOUSING RESOURCES, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Affordable Housing Resources, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Affordable Housing Resources, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Affordable Housing Resources, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

LBMC, PC

Brentwood, Tennessee
June 24, 2019

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Financial Position

December 31, 2018 and 2017

Assets

	2018	2017
Cash and cash equivalents	$ 117,284	$ 231,941
Restricted cash and cash equivalents	3,950,912	3,575,945
Restricted certificates of deposit	690,000	-
Accounts receivable	168,251	88,175
Prepaid expenses and other assets	19,177	12,894
Notes receivable, net of allowance for uncollectible notes of $412,483 and $286,946 as of December 31, 2018 and 2017, respectively	8,952,136	5,372,913
Property, buildings and equipment, net	48,696	238,173
Property held for sale	2,635,577	2,195,434
Total assets	$ 16,582,033	$ 11,715,475

Liabilities and Net Assets

	2018	2017
Accounts payable	$ 48,456	$ 211,885
Accrued liabilities	58,617	52,562
Agency payable	2,625,800	2,002,250
Notes payable	2,203,256	2,051,388
Liabilities before equity equivalent investments	4,936,129	4,318,085
Other liabilities - equity equivalent investments	11,200,835	7,160,835
Total liabilities	16,136,964	11,478,920
Net assets:		
Without donor restrictions	(2,181,027)	(2,503,828)
With donor restrictions	2,626,096	2,740,383
Total net assets	445,069	236,555
	$ 16,582,033	$ 11,715,475

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Activities

Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Public support:			
Grants - NeighborWorks America	$ 435,200	$ -	$ 435,200
Other contributions and grants	118,073	-	118,073
Total public support	553,273	-	553,273
Program revenue:			
Counseling and mortgage fees	277,642	-	277,642
Loan interest income	257,804	-	257,804
Other interest income	12,813	-	12,813
Total program revenue	548,259	-	548,259
Total public support and revenues	1,101,532	-	1,101,532
Expenses:			
Program services -			
Low-income housing assistance	915,876	-	915,876
Supporting services -			
Management and general	185,630	-	185,630
Total expenses	1,101,506	-	1,101,506
Change in net assets from operations	26	-	26
Other changes in net assets:			
Release from restriction	114,287	(114,287)	-
Gain on sale of property, buildings, and equipment	208,488	-	208,488
Total other changes in net assets	322,775	(114,287)	208,488
Change in net assets	322,801	(114,287)	208,514
Net assets (deficit) at beginning of year	(2,503,828)	2,740,383	236,555
Net assets (deficit) at end of year	$ (2,181,027)	$ 2,626,096	$ 445,069

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Activities

Year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Public support:			
Grants - NeighborWorks America	$ 327,223	$ -	$ 327,223
In-kind donations of property	924,000	-	924,000
Other contributions and grants	194,252	-	194,252
Total public support	1,445,475	-	1,445,475
Program revenue:			
Rental income	32,247	-	32,247
Counseling and mortgage fees	89,193	-	89,193
Loan interest income	210,728	-	210,728
Total program revenue	332,168	-	332,168
Total public support and revenues	1,777,643	-	1,777,643
Expenses:			
Program services -			
Low-income housing assistance	773,944	-	773,944
Supporting services -			
Management and general	187,211	-	187,211
Total expenses	961,155	-	961,155
Change in net assets from operations	816,488	-	816,488
Other changes in net assets:			
Release from restriction	142,800	(142,800)	-
Gain on sale of property, buildings, and equipment	296,688	-	296,688
Total other changes in net assets	439,488	(142,800)	296,688
Change in net assets	1,255,976	(142,800)	1,113,176
Net assets (deficit) at beginning of year	(3,759,804)	2,883,183	(876,621)
Net assets (deficit) at end of year	$ (2,503,828)	$ 2,740,383	$ 236,555

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Functional Expenses

Year ended December 31, 2018

	Program Services	Supporting Services	Totals
	Low-Income Housing Assistance	Management and General	
Advertising and communication	$ 35,725	$ 5,338	$ 41,063
Amortization of notes receivable	18,650	-	18,650
Automobile	8,542	1,276	9,818
Contract labor	67,001	10,012	77,013
Depreciation	11,502	1,719	13,221
Repairs and maintenance	28,696	4,288	32,984
Direct expenses of developed properties	38,897	-	38,897
Insurance	15,378	2,298	17,676
Interest	26,813	4,006	30,819
Occupancy and rental	62,218	9,297	71,515
Office expenses	33,158	4,955	38,113
Payroll and related costs	378,126	132,903	511,029
Professional fees	48,970	7,317	56,287
Provision for uncollectible notes	120,000	-	120,000
Taxes, licenses and fees	6,877	1,028	7,905
Training	7,339	-	7,339
Travel and entertainment	7,984	1,193	9,177
	$ 915,876	$ 185,630	$ 1,101,506

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Functional Expenses

Year ended December 31, 2017

	Program Services	Supporting Services	Totals
	Low-Income Housing Assistance	Management and General	
Advertising and communication	$ 22,342	$ 3,943	$ 26,285
Amortization of notes receivable	11,280	-	11,280
Automobile	6,496	1,146	7,642
Contract labor	40,268	7,106	47,374
Depreciation	20,446	3,608	24,054
Repairs and maintenance	74,420	13,133	87,553
Direct expenses of developed properties	22,963	-	22,963
Insurance	15,117	2,668	17,785
Interest	4,765	841	5,606
Occupancy and rental	57,392	10,128	67,520
Office expenses	27,839	4,913	32,752
Payroll and related costs	342,579	128,953	471,532
Professional fees	26,299	4,641	30,940
Provision for uncollectible notes	60,000	-	60,000
Taxes, licenses and fees	20,575	3,631	24,206
Training	6,996	-	6,996
Travel and entertainment	8,214	1,449	9,663
Utilities	5,953	1,051	7,004
	$ 773,944	$ 187,211	$ 961,155

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 208,514	$ 1,113,176
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,221	24,054
Amortization of notes receivable	18,650	11,280
Provision for uncollectible notes receivable, net of recoveries	125,537	(54,974)
In-kind contributions	-	(924,000)
Gain on sale of property, buildings and equipment	(62,653)	-
Gain on sale of property held for sale	(145,835)	(296,688)
(Increase) decrease in operating assets:		
Accounts receivable	(80,076)	10,281
Prepaid expenses and other assets	(6,283)	563
Increase (decrease) in operating liabilities:		
Accounts payable	(163,429)	180,971
Accrued liabilities	6,055	(54,795)
Agency payable	1,189,300	928,788
Total adjustments	894,487	(174,520)
Net cash provided by operating activities	1,103,001	938,656
Cash flows from investing activities:		
Proceeds from sale of property held for sale	272,606	-
Proceeds from sale of property, buildings, and equipment	594,012	936,141
Purchases of property, buildings and equipment	(30,000)	(15,504)
Purchases of property held for sale	(892,017)	(292,512)
Purchases of certificates of deposit	(690,000)	-
Advances of notes receivable	(4,472,518)	496,438
Collections from notes receivable	183,358	(372,108)
Net cash provided (used) by investing activities	(5,034,559)	752,455
Cash flows from financing activities:		
Proceeds from note payable	343,994	86,156
Payments of notes payable	(192,126)	(993,411)
Proceeds from equity equivalent investments	4,040,000	2,000,000
Net cash provided by financing activities	4,191,868	1,092,745
Increase in cash	260,310	2,783,856
Cash, cash equivalents and restricted cash and cash equivalents at beginning of year	3,807,886	1,024,030
Cash, cash equivalents and restricted cash and cash equivalents at end of year	$ 4,068,196	$ 3,807,886

Reconciliation of cash, cash equivalents and restricted cash to the accompanying statement of financial position:

	2018	2017
Cash and cash equivalents	$ 117,284	$ 231,941
Restricted cash and cash equivalents	3,950,912	3,575,945
Total cash, cash equivalents and restricted cash and cash equivalents	$ 4,068,196	$ 3,807,886

See accompanying notes to the financial statements.

(1) Nature of activities

Affordable Housing Resources, Inc. (the "Agency") was chartered in 1989 as a Tennessee not-for-profit corporation. The purpose of the Agency is to "create affordable housing and strong neighborhoods" by increasing home ownership opportunities for families and individuals who are unable to obtain assistance through traditional public and private funding sources in the greater Nashville area. The Agency is supported principally by service fees, sale of single-family homes, private and public contributions and grants from the U.S. Department of Housing and Urban Development (through the Metropolitan Development and Housing Agency - "MDHA"), the Tennessee Housing Development Agency ("THDA"), and the Neighborhood Reinvestment Corporation, dba NeighborWorks® America ("NWA").

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

Low-Income Housing Assistance - includes various lending and development programs. The loan products include down payment and closing cost assistance loans and construction financing for single-family properties. Home-ownership programs include promoting home-ownership opportunities in Nashville, Tennessee, development of quality new affordable housing, acquisition and rehabilitation of single family properties, land acquisition and development, consumer home buyer education to prepare new homeowners, and developing community leadership programs.

Management and General - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program or fund-raising activity, including costs associated with providing coordination and articulation of the Agency's program strategy, business management, general record keeping, budgeting and related purposes.

(2) Summary of significant accounting policies

The financial statements of the Agency are presented on the accrual basis. The significant accounting policies followed are described below.

(a) Recently adopted accounting pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* which simplifies the current net asset classification requirements and improves the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The standard was adopted on January 1, 2018. Total net assets did not change as a result of adoption of this ASU. The effect of early adoption on net asset classifications in the 2017 comparative information is as follows:

As originally stated:	
Net assets, end of year:	
Unrestricted net assets	$ (2,503,828)
Temporarily restricted net assets	2,168,948
Permanently restricted net assets	571,435
Total net assets, end of year	$ 236,555
As restated:	
Net assets, end of year:	
Without donor restrictions	$ (2,503,828)
With donor restrictions	2,740,383
Total net assets, end of year	$ 236,555

(b) Cash and cash equivalents and restricted cash, cash equivalents and certificates of deposit

The Agency considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

Additionally, at December 31, 2018 and 2017, the Agency had cash, cash equivalents and certificates of deposit restricted for future investments in income producing properties and mortgage loans.

(c) Accounts receivable and provision for uncollectible items

The Agency reports accounts receivable, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the amount that ultimately will be realized. The Agency reviews the adequacy of its allowance for uncollectible accounts on an ongoing basis, using historical payment trends, as well as review of specific accounts, and makes adjustments in the allowance as necessary. As of December 31, 2018 and 2017, no allowance for doubtful accounts was considered necessary.

(d) Notes receivable and provision for uncollectible items

The Agency holds various notes receivable under programs in conjunction with its defined mission. These notes are secured by the properties for which the loans were originally provided to purchase or assist with the down payment. Additionally, certain of these notes are, in substance, grants that are forgiven over defined periods of time as long as the program participant continues to own the property. These notes receivable are amortized over the term of the note in accordance with these agreements. Notes receivable are considered impaired when, based on current information, it is probable that all amounts or a portion of principal and interest due will not be collected according to the terms of the note agreement. Generally, a note receivable is considered impaired when the individual debtor cannot be located or has declared bankruptcy. The allowance for uncollectible notes is established by charges to program services expense and is maintained at an amount which management believes will be adequate to absorb losses on existing loans. Uncollectible loans are charged to the allowance account in the period in which such a determination is made.

(e) Property, buildings and equipment

Property, buildings and equipment additions, major renewals and betterments are recorded at cost at the date of purchase, at fair value on the date of gift if the value is readily determinable, or other reasonable basis, as determined by the Board of Trustees, if cost is unknown. Depreciation is computed by using the straight-line method over the estimated useful lives of the assets. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in net assets without donor restrictions.

(f) Property held for sale

Property held for sale is recorded at the lower of cost or fair market value. The Agency's management has approved a plan to sell its existing housing and commercial development properties. As a result, the assets have been classified as property held for sale at December 31, 2018 and 2017.

(g) Net assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Agency and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed restrictions.

<u>Net Assets With Donor Restrictions</u> - Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions received from the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund, which grants home ownership and improvement loans, and HOME Investment Partnerships Program ("HOME") funds received from MDHA are considered to be net assets with donor restrictions. The investment and other earnings on these funds are net assets without donor restrictions.

All contributions are considered to be available with no donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions that increase those net asset classes. When the restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to those without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions restricted by donors are recorded as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

(h) <u>Agency transactions</u>

The Agency receives funds from NWA under the Neighborhood LIFT ("LIFT") program (Note 13) and from financial institutions under similar programs. The Agency does not have any discretionary powers over these funds and must administer the programs according to the terms of the grant agreements. As a result, no revenue or expense is recorded (except for administrative fees earned), but instead the Agency records an asset (cash or notes receivable) and corresponding liability (agency payable). The agency payable is reduced as the related notes receivable are forgiven.

(i) <u>Long-lived assets</u>

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(j) Revenue recognition

Contributions and other public support are generally recognized at the time of receipt. Fees for services, processing and servicing fees, are earned and reported as revenue when those services are performed by the Agency.

The Agency 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.

(k) Income taxes

The Agency is exempt from federal income taxes under the provisions of Internal Revenue Code ("IRC") Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

As of December 31, 2018 and 2017, the Agency has accrued no interest and no penalties related to uncertain tax positions. It is the Agency's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Agency files a U.S. Federal information tax return.

(l) Functional allocation of expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based upon various allocation methods, including time spent on various functions by employees. General and administrative expenses include those expenses that are not directly identifiable with any other specific functions but provide for the overall support and direction of the Agency.

(m) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Events occurring after reporting date

Management of the Agency has evaluated events and transactions that occurred between December 31, 2018 and June 24, 2019 which is the date the financial statements were available to be issued for possible recognition or disclosure in the financial statements. No such events or transactions were noted requiring recognition or disclosure in the financial statements.

(o) New accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ("ASU 2014-09") which will eliminate the transaction and industry-specific revenue recognition guidance under current GAAP and replace it with a principles-based approach. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The five step model defined by ASU 2014-09 requires the Agency to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the Agency satisfies a performance obligation. The FASB has also issued several ASUs to provide entities further clarity on the application of ASU 2014-09. ASU 2014-09 additionally enhances the required disclosures surrounding the nature, amount, timing and uncertainty of revenues and the associated cash flows. ASU 2014-09 may be applied retrospectively to each period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). ASU 2014-09, as amended, is effective for the Agency beginning January 1, 2019. Management of the Agency is currently evaluating the impact adoption of ASU 2014-09 will have on its financial statements and disclosures, if any.

The FASB's new lease accounting standard, ASU No. 2016-02, *Leases,* which was issued in February 2016, will generally require on-balance sheet recognition for all leases with terms that exceed twelve months. The new lease accounting model will continue to reflect two types of leases. Under the new rules, a lessee would account for most existing capital leases as finance leases (that is, recognizing amortization of the right-of-use ("ROU") asset, as well as separately recognizing interest on the lease liability in the statement of operations). Most existing operating leases will remain as operating leases (that is, recognizing a single total lease expense). Both finance leases and operating leases will result in the lessee recognizing a ROU asset and a lease liability. The guidance is effective for the Agency beginning January 1, 2020.

(3) Credit risk and other concentrations

The Agency periodically maintains cash on deposit at banks in excess of federally insured amounts. The Agency has not experienced any losses in such accounts and management believes the Agency is not exposed to any significant credit risk related to cash.

The Agency received approximately 40% of its total public support and revenues from NeighborWorks® America during 2018. The Agency received approximately 18% of its total public support and revenues from NeighborWorks® America and 52% from in-kind donations during 2017.

(4) Liquidity and Availability

A summary of the Agency's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general use because of donor-imposed restrictions, within one year of the statement of financial position date is as follows:

	2018	2017
Cash and cash equivalents	$ 117,284	$ 231,941
Accounts receivable	168,251	88,175
Financial assets available to meet cash needs for general expenditures within one year	$ 285,535	$ 320,116

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs, and money market funds.

(5) Notes receivable

Loans to homebuyers are made for terms of 4 to 15 years, at annual interest rates ranging from 4.5% to 7.5%. There were no material notes receivable greater than 90 days old as of December 31, 2018 and 2017. The notes receivable are collateralized by real estate.

Notes receivable also include non-interest bearing notes in the amounts of $4,192,083 and $1,550,574 at December 31, 2018 and 2017, respectively, that are, in substance, grants that are forgiven over a period up to 15 years, as long as the homeowner continues to own the property or pays the note when the property sells. The notes are secured by liens on the homeowner's property. During 2018 and 2017, amortization of these notes amounted to $18,650 and $11,280, respectively. Such notes receivable include $3,354,020 and $934,750 at December 31, 2018 and 2017, respectively, related to unforgiven grants under the NWA LIFT program (Note 13) and similar programs with financial institutions.

(6) Property, buildings and equipment

A summary of property, buildings and equipment at December 31, 2018 and 2017 is as follows:

	2018	2017
Land	$ -	$ 20,872
Buildings and improvements	16,053	234,164
Furniture and equipment	60,263	30,263
Total cost	76,316	285,299
Accumulated depreciation	(27,620)	(47,126)
Property, buildings and equipment, net	$ 48,696	$ 238,173

(7) Notes payable

A summary of notes payable as of December 31, 2018 and 2017 is as follows:

	2018	2017
Two notes payable to the Community Development Financial Institutions Fund, maturing in April 2023, non-interest bearing.	$ 250,000	$ 250,000
Note payable to MDHA, maturing in November 2022, non-interest bearing.	250,000	250,000
Note payable to THDA, maturing in June 2034, non-interest bearing.	26,532	28,874
Note payable to a bank, automatically renewed annually, with an annual interest rate of 6%.	17,424	17,424

Five construction lines of credit requiring monthly interest payments at variable rates (5.50% as of December 31, 2018). Total borrowings under the lines of credit of approximately $641,000 are to be used for construction of single-family homes. All lines of credit mature in September 2019 and are secured by the constructed property and real estate.	**343,994**	**-**
Two notes payable to a bank, repaid in 2018.	**-**	**86,156**
Total notes payable with defined maturities	**887,950**	**632,454**
Notes payable to banks with interest at an annual rate at the Prime Rate minus 4.00% (0.0% at December 31, 2018). These notes payable have no defined maturities (see below).	**1,315,306**	**1,418,934**
Total notes payable	**$ 2,203,256**	**$ 2,051,388**

Notes payable without defined maturities are collateralized by certain notes receivable held by the Agency (the "Collateral Notes"). The notes payable are due only when principal payment on the Collateral Notes has been received or the homes acting as security interest for the Collateral Notes have been sold.

With the exception of the notes payable without defined maturities discussed above, most of the above notes are secured by deeds of trust on the related real estate. Additionally, management of the Agency determined that the imputation of interest on non-interest bearing notes payable was immaterial.

Following is a schedule of required future principal payments on notes payable with defined maturities as of December 31, 2018:

Year	Amount
2019	$ 361,418
2024 and later years	526,532
	$ 887,950

No amount of principal due was in arrears at December 31, 2018 or 2017.

(8) Equity equivalent investments

The Agency carries certain obligations to banks that are classified as Equity Equivalent ("EQ2") funds. These obligations are shown under Other Liabilities on the statements of financial position in order to represent more clearly the nature of the payable and to adhere to industry practice. The EQ2 is defined by having six attributes as follows:

(1) The EQ2 investment is carried as an investment on the investor's balance sheet in accordance with GAAP;
(2) The EQ2 investment is a general obligation of the Agency that is not secured by any of the Agency's assets;
(3) The EQ2 investment is fully subordinated to the right of repayment of all the Agency's other creditors;
(4) The EQ2 investment does not give the investor the right to accelerate payment unless the Agency ceases its normal operations;
(5) The EQ2 investment carries an interest rate that is not tied to any income received by the Agency; and
(6) The EQ2 investment has a rolling term, and therefore, an indeterminate maturity (also known as an evergreen provision).

Substantially all of these obligations carry an interest rate of Prime minus 4%, effectively 0%, at December 31, 2018 and 2017.

(9) Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	2018	2017
Subject to expenditure for specified purposes:		
Housing and low-income down payment assistance	$ 2,168,948	$ 2,168,948
Held in perpetuity and not subject to a spending policy or appropriation:		
Neighborhood Reinvestment Revolving Loan and Capital Projects Fund	457,148	571,435
Total net assets with donor restrictions	$ 2,626,096	$ 2,740,383

Net assets with donor restrictions include funds utilized for the purchase or construction of low-income housing as restricted by donors. Certain grants do not address if or when restrictions expire or are released upon forgiveness of loan balances or losses incurred from the disposition of such properties. The Agency has maintained the restrictions that existed on the original grants unless otherwise indicated by the donors.

(10) Employee benefit plan

The Agency has a defined contribution employee benefit plan for eligible employees under provisions of section 403(b) of the IRC. Eligible employees may elect to contribute a percentage of their compensation, subject to certain limitations, to the plan on a pre-tax basis. The Agency will match one-half of each employee's contributions, up to a maximum matching contribution of 3% of the employee's eligible compensation. The Agency expensed employer contributions of $5,128 and $4,736 in 2018 and 2017, respectively.

(11) Operating leases

The Agency utilizes office space under an operating lease. Rent expense under this lease totaled $63,828 and $59,568 during 2018 and 2017, respectively. Future minimum payment under this lease is expected to total approximately $68,000 during 2019.

(12) Neighborhood LIFT and similar programs

The Agency participates in the Neighborhood LIFT program. The program is a collaboration between Wells Fargo Foundation, NWA and local non-profit organizations, including the Agency.

In 2017, the Agency entered into a $3,500,000 grant agreement with NWA to assist low-to-moderate income persons with down payment assistance grants through the Neighborhood LIFT program. For each grant provided, the Agency receives a $1,400 administrative fee. During 2018 and 2017, NWA advanced $1,400,000 and $2,100,000, respectively, from which $2,250,000 and $945,000, respectively, in grants were provided to beneficiaries and the Agency earned $210,700 and $87,500 in administrative fees which are included in "Grants - NeighborWorks America" in the accompanying statement of activities. The grant agreement remains in effect for a three-year period ending June 30, 2020. Beneficiary funds repaid prior to being forgiven must be granted to other eligible beneficiaries.

During 2018, the Agency entered into agreements with financial institutions for a program similar to the LIFT program. For each grant provided, the Agency receives a $1,500 administrative fee. During 2018, financial institutions advanced $2,040,000 from which $725,000 in grants were provided to beneficiaries and the Agency earned $127,500 in administrative fees which are included in "Counseling and mortgage fees" in the accompanying statement of activities.

Agency payable in the accompanying statement of financial position represents the total cash available for grant to beneficiaries plus the outstanding unamortized notes receivable from beneficiaries.

(13) Commitments and contingencies

The disbursement of funds received under federal and state governmental grant programs generally requires compliance with the terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Agency. In management's opinion, any such disallowed claims will not have a material effect on the Agency.

(14) Supplemental disclosures of cash flow statement information

	2018	2017
Interest paid	$ 30,649	$ 5,606

Schedules of Financial Position and Changes in Net Assets - Neighborhood Reinvestment Revolving Loan and Capital Projects Fund (Net Assets With Donor Restrictions)

Schedules of Financial Position as of December 31, 2018 and 2017

	2018	2017
Assets		
Cash	$ 85,533	$ 141,440
Notes receivable	111,615	143,895
Development in progress / Property held for sale	260,000	286,100
Total Assets	$ 457,148	$ 571,435
Liabilities and Net Assets		
Net assets with donor restrictions, held in perpetuity	$ 457,148	$ 571,435

Schedules of Changes in Net Assets for the Years Ended December 31, 2018 and 2017

	2018	2017
Change in net assets - released from restrictions	$ (114,287)	$ (142,800)
Net assets, beginning	571,435	714,235
Net assets, ending	$ 457,148	$ 571,435

Notes:

Investment income and interest on outstanding loans was earned on the net assets of the Neighborhood Reinvestment Capital Fund ("NRC") and were available for unrestricted use by the Agency. All of these amounts were transferred to the net assets without donor restrictions during those years. There were no proceeds from capital projects in excess of the amount of funds necessary to maintain the net assets at a level disclosed in the Capital Funds Agreement with NRC. Accordingly, no funds were transferred from NRC for that purpose. Amounts released from restriction represents amounts formally approved for release by NeighborWorks® America.