

**Arizona Housing, Inc. and Affiliates**

**Consolidated Financial Statements and  
Report on Schedule of Expenditures of Federal Awards and  
Reports Required by Government Auditing Standards and the Uniform Guidance**

**For the Year Ended December 31, 2021**

**Arizona Housing, Inc. and Affiliates  
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December 31, 2021**

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**Independent Auditors' Report**

The Board of Directors  
Arizona Housing, Inc.  
Phoenix, Arizona

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying consolidated financial statements of Arizona Housing Inc. and Affiliates (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of Arizona Housing, Inc. and Affiliates as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audit 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 General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Arizona Housing, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 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 Arizona Housing, Inc.'s 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Housing, Inc. and Affiliate's 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.

We did not audit the financial statement of Horace Steele Commons/Phoenix LP or Northern Gardens II/Phoenix LP, which are consolidated entities within the accompanying financial statements. The capital contributions totaled \$3,604,096 and the change in net assets totaled \$(1,070,756) of the consolidated Horace Steele Commons/Phoenix LP and Northern Gardens II/Phoenix LP and the consolidated net assets of these entities was \$21,063,749. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Horace Steele Commons/Phoenix LP and Northern Gardens II/Phoenix LP, is based solely on the other auditors' reports. The other auditors did not audit Horace Steele Commons/Phoenix LP or Northern Gardens II/Phoenix LP's financial statements in accordance with *Government Auditing Standards*.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Arizona Housing, Inc. and Affiliates**  
**Consolidated Statement of Financial Position**  
**December 31, 2021**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Consolidating Schedules of Financial Position, Activities and Revenues and Expenses are presented for purposes of additional analysis and are not 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2022, on our consideration of Arizona Housing, Inc.'s 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 Arizona Housing, Inc.'s 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 Arizona Housing, Inc.'s internal control over financial reporting and compliance.

*Snyder & Brown CPAs, PLLC*

Tempe, Arizona  
June 9, 2022

**Arizona Housing, Inc. and Affiliates**  
**Consolidated Statement of Financial Position**  
**December 31, 2021**

**Assets**

<b>Current Assets</b>	
Cash and cash equivalents	\$ 2,260,900
Accounts receivable, net of allowance	29,808
Grants and contributions receivable	14,914
Prepaid expenses	66,212
Total current assets	<u>2,371,834</u>
 <b>Noncurrent Assets</b>	
Restricted cash	1,913,825
Deferred charges	248,106
Property and equipment, net	38,324,068
Total assets	<u><u>\$ 42,857,833</u></u>

**Liabilities and Net Assets**

<b>Current Liabilities</b>	
Accounts payable	\$ 135,932
Accrued liabilities	191,505
Unearned revenue	4,944
Due to related parties	1,380,667
Tenant deposits and prepaid rent	311,533
Current portion of notes and capital lease payable	45,429
Total current liabilities	<u>2,070,010</u>
 <b>Noncurrent Liabilities</b>	
Accrued vacation	46,713
Notes and capital lease payable, net of unamortized loan cost	5,357,754
Total noncurrent liabilities	<u>5,404,467</u>
Total liabilities	<u>7,474,477</u>
 <b>Net Assets</b>	
Without donor restrictions	
Controlling interest	(7,556,760)
Noncontrolling interest	21,851,577
Total unrestricted	<u>14,294,817</u>
With donor restrictions-Controlling interest	21,088,539
Total net assets	<u>35,383,356</u>
Total liabilities and net assets	<u><u>\$ 42,857,833</u></u>

See Accompanying Notes to Consolidated Financial Statements.

**Arizona Housing, Inc. and Affiliates**  
**Consolidated Statement of Activities**  
**For the Year Ended December 31, 2021**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Support, Revenues and Gains			
Rental and rent subsidies	\$ 4,440,876	\$ -	\$ 4,440,876
Grants and contributions	1,380,657	-	1,380,657
Developer fee	282,723	-	282,723
Interest Income	4,048	-	4,048
Other revenues	261,606	-	261,606
Net assets released from restrictions	167,082	(167,082)	-
Total support, revenues and gains	<u>6,536,992</u>	<u>(167,082)</u>	<u>6,369,910</u>
Expenses			
Program services	6,886,142	-	6,886,142
Management and general	533,619	-	533,619
Fundraising	137,561	-	137,561
Total expenses	<u>7,557,322</u>	<u>-</u>	<u>7,557,322</u>
Change in Net Assets	(1,020,330)	(167,082)	(1,187,412)
Net assets, beginning of period	11,711,051	21,255,621	32,966,672
Noncontrolling interest-contributions	3,604,096	-	3,604,096
Net assets, end of period	<u>\$ 14,294,817</u>	<u>\$ 21,088,539</u>	<u>\$ 35,383,356</u>

See Accompanying Notes to Consolidated Financial Statements.

**Arizona Housing, Inc. and Affiliates**  
**Consolidated Statement of Functional Expenses**  
**For the Year Ended December 31, 2021**

	Program Services										Total
	Steele Commons	Encore on Northern	Vista Collina	Collins Court	North 17	209 W. Jackson	Program Services	AHI Management	Fundraising	Total	
Salaries and wages	\$ 92,162	\$ 69,578	\$ -	\$ 64,344	\$ 50,398	\$ 160,963	\$ 437,445	\$ 250,413	\$ 44,975	\$ 732,833	
Payroll related expenses	35,783	22,211	-	23,545	18,969	43,214	143,722	49,052	9,190	201,984	
Contract services	83,907	99,530	-	110,816	107,237	653,438	1,054,928	-	-	1,054,928	
Professional and outside services	24,173	46,693	495	17,488	26,562	87,875	203,286	149,559	75,558	428,403	
Utilities, internet and phone	89,569	111,916	-	129,832	159,982	344,975	836,274	2,379	110	838,763	
Repairs and maintenance	96,980	21,532	-	136,779	116,354	201,964	573,609	814	-	574,423	
Supplies	4,776	1,801	-	11,900	11,667	115,866	146,010	16,327	-	162,337	
Insurance	29,296	4,168	9,670	17,386	22,079	52,086	134,685	3,464	-	138,149	
Computer support and related	4,520	679	-	4,319	3,954	20,873	34,345	6,057	-	40,402	
Staff development and training	523	-	-	697	426	1,844	3,490	14,356	-	17,846	
Licenses, fees, and permits	7,281	9,553	2,080	790	711	3,525	23,940	-	-	23,940	
Dues and subscriptions	975	303	-	404	746	3,410	5,838	12,039	149	18,026	
Credit verification	645	153	-	533	725	2,963	5,019	-	-	5,019	
Donations	-	-	-	-	-	-	-	3,590	5,485	9,075	
Advertising	-	628	-	1,144	1,197	3,684	6,653	-	950	7,603	
Client assistance	4,454	911	-	192	-	26	5,583	-	-	5,583	
Bank fees	464	88	-	448	483	1,109	2,592	245	479	3,316	
Depreciation and amortization	507,371	750,853	7,992	238,408	329,933	331,380	2,165,937	-	-	2,165,937	
Interest	62,436	291,620	3,102	-	-	-	357,158	2,312	-	359,470	
Partnership fees	19,086	525,186	-	-	-	-	544,272	-	-	544,272	
Other expenses	805	1,201	-	108	329	2,474	4,917	23,012	665	28,594	
Subtotal expenses	1,065,206	1,958,604	23,339	759,133	851,752	2,031,669	6,689,703	533,619	137,561	7,360,893	
Allocated expenses from affiliated organization											
Management and accounting fees	30,000	30,000	-	30,000	30,000	76,439	196,439	-	-	196,439	
Total expenses	\$ 1,095,206	\$ 1,988,604	\$ 23,339	\$ 789,133	\$ 881,752	\$ 2,108,108	\$ 6,886,142	\$ 533,619	\$ 137,561	\$ 7,557,322	

See Accompanying Notes to Consolidated Financial Statements.



**Arizona Housing, Inc. and Affiliates**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 2021**

**Cash Flows From Operating Activities**

Change in net assets	\$ (1,187,412)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	2,165,937
Amortization of debt issuance costs	125,639
Changes in operating assets and liabilities	
(Increase) decrease in	
Grants, contributions and accounts receivable	125,851
Prepaid expenses	(10,324)
Increase (decrease) in	
Accounts payable	(12,562)
Deferred revenue	144
Other accrued liabilities	61,373
Tenant deposits and prepaid rent	99,602
Net cash provided by operating activities	<u>1,368,248</u>

**Cash Flows From Investing Activities**

Purchase of property and equipment	(1,189,094)
Payment of construction costs payable	(678,745)
Payment of development fee payable	(1,130,890)
Payment of predevelopment advances	(18,805)
Advances from partner	75,161
Net cash used for investing activities	<u>(2,942,373)</u>

**Cash Flows From Financing Activities**

Net borrowings (repayments) under line of credit	(20,088)
Proceeds from related party transactions	481,778
Proceeds from long-term debt	100,000
Payment of debt issuance costs	(14,620)
Proceeds from capital contributions	3,604,096
Principal payments on notes and leases	(2,386,974)
Net cash provided by financing activities	<u>1,764,192</u>

Net change in cash	190,067
Cash, beginning of period	<u>3,984,658</u>
Cash, end of period	<u>\$ 4,174,725</u>

**Supplemental Disclosure of Cash Flow Information**

Cash paid for interest expensed	\$ 95,827
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See Accompanying Notes to Consolidated Financial Statements.

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Note 1 - Organization and Significant Accounting Policies**

**Organization**

Arizona Housing, Inc. (AHI) is incorporated in the state of Arizona as a non-profit corporation. AHI provides permanent, affordable, supportive housing to families and single adults and emergency shelter facilities for homeless families. AHI currently operates five facilities: Horace Steele Commons; Encore on Northern; Vista Colina; North 17; 209 West Jackson; and Collins Court, all of which are located in Phoenix, Arizona.

Effective July 1, 2020, AHI changed its year end from June 30 to December 31 to better align with the significant operations of its consolidated entities.

Horace Steele Commons, a 90-unit facility, qualifies for project-based Housing Choice Vouchers (formerly known as Section 8) low-income housing subsidies provided by the U.S. Department of Housing and Urban Development. The Vista Colina facility is rented to Central Arizona Shelter Services, Inc., as an emergency shelter for homeless families. Encore on Northern, a 77-unit facility; North 17 Apartments, a 72-unit facility; Collins Court, an 80-unit facility; and 209 West Jackson, a 297-unit facility; all provide permanent affordable, supportive rental housing to formerly homeless adults and families whose income does not exceed 50 percent of the area's median income.

**Consolidated Organizations**

During 2018 AHI created and became the sole member of Horace Steele Commons LLC, which is the general partner in a separate Arizona limited partnership, Horace Steele Commons/Phoenix LP. This entity was created to attract investors to fund the rehabilitation of the Horace Steele Commons property through the federal Low Income Housing Tax Credit program. AHI has a .01% ownership interest and the limited partners have a 99.99% ownership interest. See Note 5 for further discussion of the consolidated organization.

AHI created and became the sole member of AHI Encore on Northern LLC and became the general partner in Northern Gardens II/Phoenix LP. The Partnership was formed for the purpose of developing and operating a 77-unit project located in Phoenix, Arizona known as Encore on Northern (the "Project"). The Project was placed in service on September 22, 2020. The Project is rented to low-income tenants and is operated in a manner necessary to qualify for federal low-income housing tax credits, as provided under Internal Revenue Code Section 42. AHI has a .01% ownership interest and the limited partners have a 99.99% ownership interest. See Note 5 for further discussion of the consolidated organization.

During 2021 AHI created and became the sole member of AHI Collins Court II LLC. The entity was created to obtain funding for the construction of 36 new units at the Collins Court Apartments.

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Principles of Consolidation**

As discussed above, AHI, through its consolidated subsidiaries (Horace Steele Commons, LLC and AHI Encore on Northern LLC), is the general partner in Horace Steel Commons/Phoenix LP and Northern Gardens II/Phoenix LP. Accounting principles require consolidation of these entities unless the presumption of control by the general partner is overcome, either through the limited partners' ability to exercise substantive ability to remove the general partner (kick-out) or the limited partners having substantive participating rights. Based on these accounting principles, Horace Steele Commons/Phoenix, LP and Northern Gardens II/Phoenix LP, are consolidated in the accompanying financial statements. Since AHI is the sole member, AHI Collins Court II LLC is also consolidated in the accompanying financial statements.

Significant intercompany balances and transactions are eliminated in the consolidated financial statements.

**Basis of Accounting**

The consolidated financial statements have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

**Basis of Presentation**

The financial statements of AHI have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require AHI to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of AHI. AHI's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of AHI or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Net assets without donor restrictions are further classified by controlling (AHI) and non-controlling interest. The non-controlling interest reflected in the consolidated statement of financial position represents the aggregate balance of the investor limited partners equity interest in the non-wholly owned affiliated affordable housing limited partnerships that are included in the accompanying consolidated financial statements.

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.

**Cash and Cash Equivalents**

AHI considers all cash and highly liquid financial instruments with original maturities of three months or less to be cash and cash equivalents.

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Concentration of credit risk**

Financial instruments that potentially subject AHI to concentrations of credit risk consist principally of cash and cash equivalents and investments. AHI maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Organization's cash and cash equivalent accounts have been placed with high credit quality financial institutions.

**Accounts Receivable**

Accounts receivable consist primarily of noninterest-bearing amounts due for supportive housing programs. Accounts receivable are stated at the amount management expects to collect under the terms of various agreements. Management provides for probable uncollectable accounts receivable through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At December 31, 2021 management has determined that an allowance for uncollectible accounts is not necessary.

**Grants and Contributions Receivable**

Grants and Contributions are recognized as revenue when assets are received or when written promises have been received and any revenue recognition barriers have been overcome. At December 31, 2021 management determined amounts were fully collectible and did not record an allowance for uncollectible accounts relating to grants and contributions receivable.

**Property and Equipment**

Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to 20 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

AHI reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2021.

**Revenue Recognition/New Accounting Pronouncements**

During 2020, AHI adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to funding sources and clients in an amount equal to the consideration the entity receives or expects to receive.

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

During 2020, AHI also adopted ASU No. 2018-08, *Not for Profit Entities – Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. The ASU clarifies and improves guidance for contributions received and contributions made by clarifying whether to account for transactions as contributions or exchange transactions. In addition, it clarifies whether a contribution is conditional or unconditional.

The adoption of ASC 606 and ASU 2018-08 in 2020 did not have a significant impact on the financial statements.

Rental Income

Rental revenue attributable to residential 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 charges and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

Government Grants

The Organization receives various cost reimbursement grant agreements. The Organization recognizes grant revenue as expenses are incurred. A receivable is recognized to the extent that services are provided but yet to be collected. The grantor may at their discretion request reimbursement for expenses or return of funds, or both by the Organization as a result of noncompliance with the terms of the grant.

Contributions

Unconditional contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization.

**Estimates**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates and those differences could be material.

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by location. Most costs are directly identifiable with specific properties. Certain other costs, primarily management and office salaries and related expenses have been allocated among the programs and supporting services benefited based on estimated time and effort expended for each function and location.

**Income Tax Status**

AHI is incorporated as an Arizona non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and has been determined not to be a private foundation under Section 509(a)(1). Accordingly, contributions to it qualify for the charitable contribution deduction under Section 170. AHI is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. AHI has determined that it has no taxable unrelated business income and has not filed an Exempt Organization Business Income Tax Return (IRS Form 990-T), or its Arizona equivalent.

Management believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. AHI would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**Date of Management's Review**

In preparing these consolidated financial statements, AHI's management has evaluated events and transactions for potential recognition or disclosure through June 9, 2022, the date the consolidated financial statements were available for issuance.

**Fair Value of Financial Instruments**

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

**Note 2 - Availability and Liquidity**

The following represents AHI's financial assets at December 31, 2021 that are available for operational needs:

Financial assets at period end:

Cash and cash equivalents	\$ 2,260,900
Grants and accounts receivable	<u>44,722</u>
Financial assets available to meet cash needs for general expenditure within one year	<u><u>\$ 2,305,622</u></u>

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

AHI has a goal to maintain financial assets on hand, which consists of cash and cash equivalents maintained at highly accredited financial institutions, as well as short-term receivables, to meet approximately 90 days of budgeted operating expenses. As a part of AHI's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, or other obligations come due. AHI expects to receive additional assets in the form of contributions, government grants and contracts, and program service revenues throughout the year to meet operational needs.

**Note 3 - Cash**

Cash consisted of the following at December 31, 2021:

Unrestricted:	
Operating accounts	\$ 2,185,900
Board-designated for replacement reserves	75,000
	<hr/>
Total unrestricted cash	<u>\$ 2,260,900</u>
Restricted:	
Tenant security deposits	\$ 257,966
Property operating agreement reserves	507,822
Restricted based on partnership agreement	1,148,037
	<hr/>
Total restricted cash	<u>\$ 1,913,825</u>

**Note 4 - Property and Equipment**

At December 31, 2021 property and equipment consisted of the following:

Cost or donated value	
Property and equipment not being depreciated:	
Land	\$ 3,304,903
Construction in progress	1,184,238
	<hr/>
Total property and equipment not being depreciated	<u>4,489,141</u>
Property and equipment being depreciated:	
Buildings	20,060,547
Building improvements	22,902,565
Furniture and equipment	1,133,116
Less accumulated depreciation	(10,261,301)
	<hr/>
Total property and equipment being depreciated	<u>33,834,927</u>
	<hr/>
Property and equipment, net	<u>\$ 38,324,068</u>

Depreciation expense charged to operations was \$2,165,937 for the year ending December 31, 2021.

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Note 5 - Tax Credit Program**

Horace Steele Commons/Phoenix Limited Partnership

As discussed in Note 1, AHI is the general partner in Horace Steele Commons/Phoenix LP to attract investors under a federal tax credit program in order to accomplish the complete renovation of the Horace Steele Commons property. AHI is the general partner with a .01% ownership interest at year-end and the limited partners have a 99.99% ownership interest.

As part of this agreement, during fiscal year 2018 AHI transferred the Horace Steele Commons property, with a net book value of \$655,648 to the partnership in exchange for a note receivable from the partnership of \$1,320,000 and \$150,000 in cash provided for by the limited partners. The note receivable is not reflected in the consolidated financial statements since accounting principles require this type of transaction to be eliminated during consolidation.

The renovation of the property and other project costs is primarily funded by equity contributions by the limited partners. The limited partners contributed \$581,809 during the year ended December 31, 2021 and \$6,082,893 in prior periods. The remaining project costs were funded by construction loans.

Northern Gardens II/Phoenix LP

Also discussed in Note 1, AHI is the general partner in Northern Gardens II/Phoenix LP. The Partnership was formed for the purpose of developing and operating a 77-unit project located in Phoenix, Arizona known as Encore on Northern (the "Project"). AHI has a .01% ownership interest and the limited partners have a 99.99% ownership interest.

The project is expected to be funded primarily by contributions from the limited partners and loans. The limited partner is required to make capital contributions totaling \$17,255,252 subject to potential adjustments based on the amount of low-income housing tax credits ultimately allocated to the Project and other potential occurrences outlined in the Partnership Agreement. The limited partners contributed \$3,022,287 during the year ended December 31, 2021 and \$13,804,202 in prior periods.



**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Note 6 - Notes payable**

The notes payable consisted of the following at December 31, 2021:

On August 30, 2019, Northern Gardens II/Phoenix LP entered into an agreement with BBVA USA (the "Lender"), for a construction note in the maximum amount of \$7,000,000 (the "Construction Note"). On August 30, 2021, the Construction Note converted to permanent financing of \$1,460,000 (the "Permanent Note") secured by the permanent deed of trust. The Construction Note bore interest at a variable rate, which was 2.64% as of December 31, 2020. The Permanent Note matures on August 30, 2039. Beginning September 1, 2021, the Permanent Note bears interest of 4.53% per annum. Principal and interest payments of \$7,424 are due monthly.

\$ 1,454,366

On September 26, 2018, Horace Steele Commons/Phoenix LP entered into an agreement with the City of Phoenix in the amount of \$2,000,000 (the "HOME Loan"). The HOME Loan is secured by a deed of trust, assignment of rents, and security agreement and fixture filing. The HOME Loan bears interest at a rate of 4% per annum, beginning October 1, 2020. Annual installments of principal and interest are due beginning on October 1, 2021. The HOME Loan matures on January 1, 2060.

2,000,000

City of Phoenix loan, in the original amount of \$500,000, to assist in the acquisition of an apartment complex, collateralized by the Vista Colina property, payable in monthly installments of \$1,848 including interest at 2%, maturing in December 2028.

143,075

On August 30, 2019 Northern Gardens II/Phoenix Partnership entered into an agreement with the City of Phoenix in the amount of \$1,000,000 (the "City of Phoenix Loan"). The City of Phoenix Loan is secured by a deed of trust, assignment of rents, and security agreement and fixture filing on the Project. The City of Phoenix Loan will bear interest at a rate of 4% per annum, non-compounding, beginning September 1, 2021, and matures on December 31, 2060.

1,000,000

Continued

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Note 6 - Notes payable (Continued)**

On August 15, 2018, Horace Steel Commons/Phoenix LP received a commitment for a promissory note with AHI, as part of the Federal Home Loan Bank Affordable Housing Program in the amount of \$890,000 (the "AHP Loan"). The AHP Loan is secured by a deed of trust, assignment of rents, and security agreement and fixture filing on the Project. The AHP Loan bears interest at a rate of 1% per annum and matures on September 1, 2058.

	<u>890,000</u>
Total notes payable	\$ 5,487,441
Capital lease payable	<u>6,200</u>
Less unamortized debt issuance costs	<u>(90,458)</u>
Notes and capital lease payable, net of unamortized debt issuance costs	<u>\$ 5,403,183</u>

Annual principal payments on the note payable are scheduled as follows:

Years Ending December 31,	
2022	\$ 43,155
2023	44,644
2024	46,190
2025	47,799
2026	49,471
Thereafter	<u>5,256,182</u>
Total notes payable	<u>\$ 5,487,441</u>

**Note 7 - Revolving Line of Credit**

AHI entered into an unsecured revolving line of credit for up to \$225,000 with a financial institution, maturing November 18, 2022. The line of credit is unsecured and outstanding balances on the line of credit bear interest at prime plus 1.5%. At December 31, 2021 there was no balance outstanding on this line of credit.

**Note 8 - Net Assets**

The following is a summary of consolidated net asset balances of AHI as of December 31, 2021:

	<u>Without Donor Restrictions</u>		<u>With Donor</u>	<u>Total</u>
	<u>Controlling</u>	<u>Noncontrolling</u>	<u>Restrictions</u>	
Net assets (deficit), December 31, 2020	\$ (7,634,755)	\$ 19,345,406	\$ 21,255,621	\$ 32,966,272
Change in net assets	77,995	(1,097,925)	(167,082)	(1,187,012)
Capital contributions from noncontrolling interest	-	3,604,096	-	3,604,096
Net assets (deficit), December 31, 2021	<u>\$ (7,556,760)</u>	<u>\$ 21,851,577</u>	<u>\$ 21,088,539</u>	<u>\$ 35,383,356</u>

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Note 9 - Net Assets with Donor Restrictions**

Time restricted net assets above consists of various funds granted to finance the purchase, construction, or improvement of affordable housing properties. Under the terms of the agreements, AHI may be required to repay any amount not released from restriction upon converting the property from its intended purpose. AHI believes that the likelihood of failing to meet the purpose restrictions relating to the eligible use of the property is remote and maintains that the conditional barrier was met upon incurring eligible expenditures. As a result, the following agreements were previously recorded as revenue and are part of net assets with donor restricts, released from restriction as follows:

<u>Property</u>	<u>Date of Agreement</u>	<u>Release Period from Restriction</u>	<u>Balance</u>
Horace Steele Commons	2005	35 years	\$ 780,000
Horace Steele Commons	2005	20 years	397,324
North 17 Apartments	8/2010	20 years	6,345,062
North 17 Apartments	6/2011	15 years	900,000
Collins Court	8/2010	30 years	3,848,168
Collins Court	5/2011	15 years	1,000,000
209 West Jackson	6/2011	30 years	2,549,957
209 West Jackson	10/2011	20 years	3,139,600
209 West Jackson	10/2012	10 years	1,128,428
209 West Jackson	3/2017	15 years	1,000,000
Total net assets with donor restrictions			<u>\$ 21,088,539</u>

The Horace Steele Commons property above has been transferred to the limited partnership described in Note 5. This limited partnership was established to obtain federal tax credits for the renovation of this property. Under the IRS tax credit program, the partnership is required to provide low-income housing for thirty years under various requirements which closely mirror the original requirements established in 2005. In 2018, the City of Phoenix, which provided the forgivable restricted proceeds related to this property, assigned the requirements to this limited partnership. Since this limited partnership is consolidated herein, the amount remains as a net asset with donor restrictions under the original agreement.

**Note 10 - Related Party Transactions**

The consolidated partnerships, Horace Steele Commons/Phoenix LP and Northern Gardens II/Phoenix LP each have significant related party transactions with the various partners to the organizations. Activity with AHI Inc., the general partner has been eliminated in the consolidated financial statements. A summary of the related party transactions relating to each consolidated entity follows:

**Investor Services Fee**

Horace Steele Commons/Phoenix LP

Pursuant to the Partnership Agreement, the Partnership is required to pay an investor services fee to the Limited Partner of \$4,000 beginning January 1, 2019 and increasing by 3% per annum, for each year after the first full year of operations, for its services in connection with the Partnership's accounting matters relating to its tax credits and its limited partners, as

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Note 10 - Related Party Transactions (Continued)**

well as assisting with the preparation of the Partnership's tax returns and other required reports. To the extent that cash flow is insufficient to pay the full amount of the investor services fee, the unpaid portion thereof accrues and is payable on a cumulative basis. As of December 31, 2021, investor services fees of \$4,244 remained payable. For the year ended December 31, 2021, the partnership incurred an investor service fee of \$4,244.

Northern Gardens II/Phoenix LP

Pursuant to the Partnership Agreement, the Partnership pays the Limited Partner an investor services fee of \$4,000 per year, increased annually by 3%, for the review of the content and format of the reports provided by the Partnership. The investor services fee is payable from cash flow available for distribution or capital contributions. If the Partnership lacks sufficient cash flow to pay the investor services fee, then such fee will accrue without interest. As of December 31, 2021, \$5,333 remained payable.

**Predevelopment Advances**

Horace Steele Commons/Phoenix LP

Pursuant to the Partnership Agreement, WESCAP Investments, Inc., an affiliate of the Special Limited Partner, advanced various funds to cover development costs. Advances bore interest at a rate of 8%. During the year ending December 31, 2021, \$18,805 was paid to WESCAP Investments, Inc.

Northern Gardens II/Phoenix LP

Pursuant to the Partnership Agreement, WESCAP Investments, Inc., an affiliate of the Special Limited Partner, advanced various funds to cover development costs. Advances bore interest at a rate of 8%. At December 31, 2021 no predevelopment advances were payable to WESCAP Investments, Inc.

**Development Fee**

Horace Steele Commons/Phoenix LP

Pursuant to the Partnership Agreement, WESCAP Development, LLC (75%), an affiliate of the Special Limited Partner, and AHI (25%), earned and had been paid by December 31, 2021 a cumulative total development fee of \$876,626.

Northern Gardens II/Phoenix LP

Pursuant to the Partnership Agreement, WESCAP Development, LLC (75%), an affiliate of the Special Limited Partner, and AHI (25%), is to be paid a development fee of \$1,972,409. The development fee is payable from capital contributions. Any amount not paid from capital contributions will be payable from net operating income, as defined in the Partnership Agreement and shall be paid no later than December 31, 2035. As of December 31, 2021, \$586,521 in development fees remained payable.

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Note 10 - Related Party Transactions (Continued)**

**Partnership Administrative Fee**

Horace Steele Commons/Phoenix LP

Pursuant to the Partnership Agreement, the Partnership pays the Special Limited Partner a partnership administration fee of \$13,990 beginning January 1, 2019 and increasing 3% per annum each year thereafter for managing the business of the Partnership. The partnership administration fee is payable from cash flow available for distribution. If the Partnership lacks sufficient cash flow to pay the partnership administration fee, the unpaid portion thereof accrues and is payable on a cumulative basis. As of December 31, 2021 partnership administration fees of \$14,842 remained payable. For the year December 31, 2021 the partnership incurred partnership administration fees of \$14,842.

Northern Gardens II/Phoenix LP

Pursuant to the Partnership Agreement, the Partnership pays the Special Limited Partner a partnership administration fee of \$25,000 beginning January 1, 2019 and increasing 3% per annum each year thereafter for managing the business of the Partnership. The partnership administration fee is payable from cash flow available for distribution. If the Partnership lacks sufficient cash flow to pay the partnership administration fee, the unpaid portion thereof accrues and is payable on a cumulative basis. For the year ending December 31, 2021 the partnership management fee was \$26,523. As of December 31, 2021, the partnership management fee payable was \$52,273.

**Incentive Lease-up Fee**

Horace Steele Commons/Phoenix LP

Pursuant to the partnership administration fee agreement, the Partnership incurs an incentive lease-up fee payable to the Special Limited Partner in an amount equal to the designated proceeds in excess of the total development costs and all cash flow of the Partnership in respect of the completion date through loan conversion. As of December 31, 2021 the incentive lease-up fee payable was \$149,296.

**Note 11 - Commitments**

Management Agreements

AHI has entered into management agreements with a property management company for the operations of the Horace Steele Commons; North 17 Apartments; Collins Court; and 209 West Jackson properties. All four agreements carry a one-year term and expire June 30, 2022. Management fees paid under these agreements for the year ending December 31, 2021 was \$196,439.

Guarantees

AHI has guaranteed various cash flow requirements and is a guarantor on various loans in connection with the Horace Steele Commons /Phoenix LP and Northern Gardens II/Phoenix LP partnerships described in Note 5. Certain credit adjustments may occur causing the limited partners' required capital contributions to be reduced, in which case AHI's contribution may be increased to offset the shortfalls. In addition to these credit adjustments, AHI may be required to contribute additional amounts to the partnership to fund operating deficits or reserve account requirements. Management does not anticipate additional capital requirements at this time.

**Arizona Housing, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**Note 12 - Subsequent Events**

During 2021, AHI entered into a funding agreement totaling \$6,793,094 to renovate and expand the Collins Court apartments. During 2021, a total of \$625,133 was expended and recognized as revenue, of which \$625,011 is reported as construction in progress with an estimate to complete of \$6,167,961.

Subsequent to year-end, AHI entered into an agreement with Maricopa County to obtain \$7,730,022 in funding to purchase and convert a 50-room hotel property into permanent affordable supportive housing. These housing units will serve very low-income individuals at or below 50% of area median income, giving preference to formerly homeless individuals 55 years of age and older and formerly homeless veterans.

## **Supplementary Information**

**Arizona Housing, Inc.**  
**Consolidating Schedule of Financial Position by Property**  
**For the Year December 31, 2021**

	Consolidated Entities					Consolidated Total
	Arizona Housing, Inc.	Horace		AHI Collins Court II LLC	Eliminations	
		Steele Commons / Phoenix LP	Northern Gardens II / Phoenix LP			
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 947,842	\$ 428,247	\$ 884,811	\$ -	\$ -	\$ 2,260,900
Accounts receivable, net of allowance	14,374	9,627	5,807	-	-	29,808
Notes receivable from developer	1,478,400	-	-	-	(1,478,400)	-
Related party receivable	-	840,000	-	-	(840,000)	-
Grants and contributions receivable	14,914	-	-	-	-	14,914
Prepaid expenses	48,571	8,609	9,032	-	-	66,212
Total current assets	<u>2,504,101</u>	<u>1,286,483</u>	<u>899,650</u>	<u>-</u>	<u>(2,318,400)</u>	<u>2,371,834</u>
<b>Noncurrent Assets</b>						
Restricted cash	547,176	1,353,903	320,212	-	(307,466)	1,913,825
Deferred charges	-	67,919	180,187	-	-	248,106
Property and equipment, net	11,649,004	8,061,031	17,989,022	625,011	-	38,324,068
Total assets	<u>\$ 14,700,281</u>	<u>\$ 10,769,336</u>	<u>\$ 19,389,071</u>	<u>\$ 625,011</u>	<u>\$ (2,625,866)</u>	<u>\$ 42,857,833</u>
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 118,197	\$ 8,408	\$ 9,327	\$ -	\$ -	\$ 135,932
Accrued liabilities	13,273	279,594	57,038	-	(158,400)	191,505
Unearned revenue	4,944	-	-	-	-	4,944
Due to related parties	-	324,404	1,363,729	-	(307,466)	1,380,667
Tenant deposits and prepaid rent	198,471	46,395	66,667	-	-	311,533
Line of credit	-	-	-	-	-	-
Current portion of notes and capital lease payable	21,734	-	23,695	-	-	45,429
Total current liabilities	<u>356,619</u>	<u>658,801</u>	<u>1,520,456</u>	<u>-</u>	<u>(465,866)</u>	<u>2,070,010</u>
<b>Noncurrent Liabilities</b>						
Accrued vacation	46,713	-	-	-	-	46,713
Notes and capital lease payable, net of unamortized loan cost	127,541	5,050,000	2,340,213	-	(2,160,000)	5,357,754
Total noncurrent liabilities	<u>174,254</u>	<u>5,050,000</u>	<u>2,340,213</u>	<u>-</u>	<u>(2,160,000)</u>	<u>5,404,467</u>
Total liabilities	<u>530,873</u>	<u>5,708,801</u>	<u>3,860,669</u>	<u>-</u>	<u>(2,625,866)</u>	<u>7,474,477</u>
<b>Net Assets</b>						
<b>Without donor restrictions</b>						
Controlling interest	(6,919,131)	(1,018,650)	(243,990)	625,011	-	(7,556,760)
Noncontrolling interest	-	6,079,185	15,772,392	-	-	21,851,577
Total unrestricted	<u>(6,919,131)</u>	<u>5,060,535</u>	<u>15,528,402</u>	<u>625,011</u>	<u>-</u>	<u>14,294,817</u>
<b>With donor restrictions-Controlling interest</b>						
Total net assets	<u>14,169,408</u>	<u>5,060,535</u>	<u>15,528,402</u>	<u>625,011</u>	<u>-</u>	<u>35,383,356</u>
Total liabilities and net assets	<u>\$ 14,700,281</u>	<u>\$ 10,769,336</u>	<u>\$ 19,389,071</u>	<u>\$ 625,011</u>	<u>\$ (2,625,866)</u>	<u>\$ 42,857,833</u>



**Arizona Housing, Inc.  
Consolidating Schedule of Activities  
For the Year December 31, 2021**

	Arizona Housing, Inc.				Consolidated Entities				Consolidated total
	Without Donor Restrictions	With Donor Restrictions	Total	Horace					
				Steele Commons / Phoenix LP	Northern Gardens II / Phoenix LP	AHI Collins Court	Eliminations		
Support, Revenues and Gains									
Rental and rent subsidies	\$ 3,060,039	\$ -	\$ 3,060,039	\$ 657,387	\$ 723,450	\$ -	\$ -	\$ -	\$ 4,440,876
Grants and contributions	755,524	-	755,524	-	-	625,133	-	-	1,380,657
Developer fee	282,723	-	282,723	-	-	-	-	-	282,723
Interest Income	80,409	-	80,409	532	2,371	-	(79,264)	-	4,048
Other revenues	341,770	-	341,770	5,424	68,612	-	(154,200)	-	261,806
Net assets released from restrictions	167,082	(167,082)	-	-	-	-	-	-	-
Total support, revenues and gains	4,667,547	(167,082)	4,520,465	663,343	794,433	625,133	(233,464)	(233,464)	6,369,910
Expenses									
Program services	4,088,464	-	4,088,464	1,108,162	1,922,858	122	(233,464)	(233,464)	6,886,142
Management and general	533,619	-	533,619	-	-	-	-	-	533,619
Fundraising	137,561	-	137,561	-	-	-	-	-	137,561
Total expenses	4,759,644	-	4,759,644	1,108,162	1,922,858	122	(233,464)	(233,464)	7,557,322
Change in Net Assets	(72,097)	(167,082)	(239,179)	(444,819)	(1,128,425)	625,011	-	-	(1,187,412)
Net assets, beginning of period	(6,847,034)	21,255,621	14,408,587	4,923,545	13,634,540	-	-	-	32,966,672
Noncontrolling interest-contributions	-	-	-	581,809	3,022,287	-	-	-	3,604,096
Net assets, end of period	<u>\$ (6,919,131)</u>	<u>\$ 21,088,539</u>	<u>\$ 14,169,408</u>	<u>\$ 5,060,535</u>	<u>\$ 15,528,402</u>	<u>\$ 625,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,383,356</u>

**Arizona Housing, Inc.**  
**Consolidating Schedule of Revenues and Expenses by Property**  
**For the Year December 31, 2021**

Arizona Housing Inc.										
Program Services										
	Steele Commons	Vista Colina	Collins Court	North 17	Encore on Northern	209 W. Jackson	Total Program Services	AH Management	Fundraising	Total
Support, Revenues and Gains										
Rental and rent subsidies	\$ -	\$ 178,260	\$ 584,655	\$ 536,141	\$ -	\$ 1,760,983	\$ 3,060,039	\$ -	\$ -	\$ 3,060,039
Grants and contributions	64,011	-	289,939	22,542	-	144,818	521,310	1,186	233,028	755,524
Developer fee	141,611	-	-	-	141,112	-	282,723	-	-	282,723
Interest Income	6	-	38	38	15	209	306	80,103	-	80,409
Other Revenues	124,296	642	18,983	15,368	30,000	140,301	329,590	12,180	-	341,770
Total support, revenues and gains	329,924	178,902	893,615	574,089	171,127	2,046,311	4,193,968	93,469	233,028	4,520,465
Expenses										
Program services										
Salaries and wages	92,162	-	64,344	50,398	69,578	160,963	437,445	250,413	44,975	732,833
Payroll related expenses	35,783	-	23,545	18,969	22,211	43,214	143,722	49,052	9,190	201,964
Contract services	-	-	110,816	107,237	-	653,438	871,491	-	-	871,491
Professional and outside services	5,860	495	17,488	26,562	1,134	87,875	139,414	149,559	75,558	364,531
Utilities, internet and phone	1,789	-	129,832	159,982	850	344,975	637,428	2,379	110	639,917
Repairs and maintenance	35,752	-	136,779	116,354	-	201,964	490,849	814	-	491,663
Supplies	3,787	-	11,838	11,667	741	115,866	143,899	16,327	-	160,226
Insurance	9,484	9,670	17,386	22,079	-	52,086	110,705	3,464	-	114,169
Computer support and related	-	-	4,319	3,954	-	20,873	29,146	6,057	-	35,203
Staff development and training	-	-	697	426	-	1,844	2,967	14,356	-	17,323
Licenses, fees, and permits	-	2,080	790	711	-	3,525	7,106	-	-	7,106
Dues and subscriptions	632	-	404	746	303	3,410	5,495	12,039	149	17,683
Credit verification	-	-	533	725	-	2,963	4,221	-	-	4,221
Donations	-	-	-	-	-	-	-	3,590	5,485	9,075
Advertising	-	-	1,144	1,197	-	3,684	6,025	-	950	6,975
Client assistance	4,454	-	192	-	911	26	5,583	-	-	5,583
Bank fees	-	-	388	483	-	1,109	1,980	245	479	2,704
Depreciation and amortization	-	7,992	238,408	329,933	-	331,380	907,713	-	-	907,713
Interest	-	3,102	-	-	-	-	3,102	2,312	-	5,414
Partnership fees	-	-	-	-	-	-	-	-	-	-
Other expenses	805	-	108	329	18	2,474	3,734	23,012	665	27,411
Subtotal expenses	190,508	23,339	759,011	851,752	95,746	2,031,669	3,952,025	533,619	137,561	4,623,205
Allocated expenses from affiliated organization										
Management and accounting fees	-	-	30,000	30,000	-	76,439	136,439	-	-	136,439
Total expenses	190,508	23,339	789,011	881,752	95,746	2,108,108	4,088,464	533,619	137,561	4,759,644
Increase(decrease) in net assets	\$ 139,416	\$ 155,563	\$ 104,604	\$ (307,663)	\$ 75,381	\$ (61,797)	\$ 105,504	\$ (440,150)	\$ 95,467	\$ (239,179)

(Continued)

**Arizona Housing, Inc.**  
**Consolidating Schedule of Revenues and Expenses by Property**  
**For the Year December 31, 2021**  
**(Continued)**

	Consolidated Entities				Consolidated Total
	Program Services				
	Horace Steele Commons / Phoenix LP	Northern Gardens II / Phoenix LP	AHI Collins Court II LLC	Eliminations	
<b>(Continued)</b>					
Support, Revenues and Gains					
Rental and rent subsidies	\$ 657,387	\$ 723,450	\$ -	\$ -	\$ 4,440,876
Grants and contributions	-	-	625,133	-	1,380,657
Developer fee	-	-	-	-	282,723
Interest Income	532	2,371	-	(79,264)	4,048
Other Revenues	5,424	68,612	-	(154,200)	261,606
Total support, revenues and gains	<u>663,343</u>	<u>794,433</u>	<u>625,133</u>	<u>(233,464)</u>	<u>6,369,910</u>
Expenses					
Program services					
Salaries and wages	-	-	-	-	732,833
Payroll related expenses	-	-	-	-	201,964
Contract services	83,907	99,530	-	-	1,054,928
Professional and outside services	142,513	75,559	-	(154,200)	428,403
Utilities, internet and phone	87,780	111,066	-	-	838,763
Repairs and maintenance	61,228	21,532	-	-	574,423
Supplies	989	1,060	62	-	162,337
Insurance	19,812	4,168	-	-	138,149
Computer support and related	4,520	679	-	-	40,402
Staff development and training	523	-	-	-	17,846
Licenses, fees, and permits	7,281	9,553	-	-	23,940
Dues and subscriptions	343	-	-	-	18,026
Credit verification	645	153	-	-	5,019
Donations	-	-	-	-	9,075
Advertising	-	628	-	-	7,603
Client assistance	-	-	-	-	5,583
Bank fees	464	88	60	-	3,316
Depreciation and amortization	507,371	750,853	-	-	2,165,937
Interest	141,700	291,620	-	(79,264)	359,470
Partnership fees	19,086	525,186	-	-	544,272
Other expenses	-	1,183	-	-	28,594
Subtotal expenses	<u>1,078,162</u>	<u>1,892,858</u>	<u>122</u>	<u>(233,464)</u>	<u>7,360,883</u>
Allocated expenses from affiliated organization					
Management and accounting fees	30,000	30,000	-	-	196,439
Total expenses	<u>1,108,162</u>	<u>1,922,858</u>	<u>122</u>	<u>(233,464)</u>	<u>7,557,322</u>
Increase(decrease) in net assets	<u>\$ (444,819)</u>	<u>\$ (1,128,425)</u>	<u>\$ 625,011</u>	<u>\$ -</u>	<u>\$ (1,187,412)</u>

## **Single Audit Section**

## **Auditors' Section**

**Independent Auditors' 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***

Board of Directors  
Arizona Housing, Inc.  
Phoenix, Arizona

We have audited the consolidated financial statements of Arizona Housing, Inc. and Affiliates (the Organization) which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, 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 June 9, 2022. Our report includes a reference to other auditors who audited the financial statements of Horace Steele Commons/Phoenix LP and Northern Gardens II/Phoenix LP which are consolidated with Arizona Housing Inc's financial statements. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, the financial statements of the consolidated entities, Horace Steele Commons/Phoenix LP and Northern Gardens II/Phoenix LP, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on the internal control over financial reporting or instances of reportable noncompliance associated with Horace Steele Commons/Phoenix LP or Northern Gardens II/Phoenix LP.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's 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.

*Snyder & Brown CPAs, PLLC*

Tempe, Arizona  
June 9, 2022

**Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Directors  
Arizona Housing, Inc.  
Phoenix, Arizona

***Opinion on Each Major Federal Program***

We have audited Arizona Housing, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Arizona Housing, Inc.'s major federal programs for the year ended December 31, 2021. Arizona Housing, Inc.'s 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, Arizona Housing, Inc. complied, in all material respects, with the types of 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, 2021.

***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 Arizona Housing, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that 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 Arizona Housing, Inc.'s 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 Arizona Housing, Inc.'s 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 Arizona Housing, Inc.'s 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 Arizona Housing, Inc.'s 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 Arizona Housing, 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 Arizona Housing, 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 Arizona Housing, 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.

*Snyder & Brown CPAs, PLLC*

Tempe, Arizona  
June 9, 2022

**Arizona Housing, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2021**

**Section I – Summary of Auditors’ Results**

**Consolidated financial statements**

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	No
Significant deficiencies identified	No (none reported)
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs	
Material weaknesses identified	No
Significant deficiencies identified	No (none reported)
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs

**Name of Federal Program or Cluster**

**Assistance Listing number**

Community Development Block Grants/State’s Programs	14.228
Dollar threshold used to distinguish between type A and type B Programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

**Arizona Housing, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2021**

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**Section II – Financial Statement Findings**

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None reported

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**Section III – Federal Award Findings and Questioned Costs**

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None reported

## **Auditee's Section**

**Arizona Housing, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2021**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Assistance Listing Number</b>	<b>Contract Number</b>	<b>Expenditures</b>
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through the Arizona Department of Housing</i>			
Community Development Block Grants/State's program	14.228	400-11	6,345,062
Community Development Block Grants/State's program	14.228	416-11	<u>1,569,801</u>
Total CFDA 14.228			<u>7,914,863</u>
Housing Trust Fund	14.275	406-20	179,226
Total U.S. Department of Housing and Urban Development			<u>8,094,089</u>
<u>U.S. Department of Energy</u>			
<i>Passed through the City of Phoenix</i>			
Energy Efficiency and Conservation Block Grant Program	81.128	134752	<u>1,128,428</u>
Total U.S. Department of Energy			<u>1,128,428</u>
Total expenditures of federal awards			<u>\$ 9,222,517</u>

See Accompanying Notes to Schedule.

**Arizona Housing, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2021**

**Note 1 - Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Arizona Housing, Inc. (the Organization). The information in this schedule is presented in accordance with the 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).

**Note 2 - Summary of significant accounting policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Note 3 - Federal Assistance Listings number**

The program titles and Federal Assistance Listings numbers were obtained from the federal or pass-through grantor or the 2021 Federal Assistance Listings. When no Federal Assistance Listings number had been assigned to a program, the 2-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the 2-digit federal agency identifier and the word "unknown" were used.

**Note 4 - Capital Advances (Forgivable Loans)**

This schedule includes federal expenditures incurred in a prior year for which there is an outstanding loan balance (Capital Advances). The Community Development Block Grants/State's Program, 14.228, and the Energy Efficiency and Conservation Block Grant Program, 81.128, each have continuing compliance requirements. The full outstanding balance for each capital advance is considered federal awards expended and requires disclosure on this schedule; each outstanding balance is included in determining Type A programs.

**Note 5 - Indirect Costs**

The Organization elected not to use the 10 percent de minimis indirect cost rate.

## **Corrective Action Plan**





**CHAIRMAN**  
Douglas Tymins

**CHIEF EXECUTIVE OFFICER**  
Mark Holleran  
mholleran@azhousinginc.org

June 9, 2022

Mr. Robert N. Snyder  
Snyder & Brown, CPAs, PLLC  
3933 S. McClintock Drive Suite 505  
Tempe, Arizona 85282

Re: **Summary Schedule of Prior Audit Findings**

We have prepared the following summary schedule of prior audit findings as required by 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. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs. This schedule also includes the status of audit findings reported in the prior audit's summary schedule of prior audit findings that were not corrected.

**Prior Year Financial Statement Findings**

Prior Year Finding No.: **2020-001**  
Responsible Individual: Mark Holleran, CEO  
Status: Corrected

**Prior Year Federal Award Findings**

None Reported

If you have any further questions or concerns, please contact me.

Sincerely,

Mark Holleran

