Louisville Metro Affordable Housing Trust Fund, Inc.

Louisville, Kentucky

Independent Auditors' Report

And Financial Statements

For the Years Ended

June 30, 2020 and 2019

Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Louisville Metro Affordable Housing Trust Fund, Inc.

We have audited the accompanying financial statements of Louisville Metro Affordable Housing Trust Fund, Inc., (a not-for-profit organization) which comprise the statements of financial position as of June 30, 2020 and 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 Louisville Metro Affordable Housing Trust Fund, Inc. as of June 30, 2020 and 2019, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2020 on our consideration of Louisville Metro Affordable Housing Trust Fund, 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 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 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 Louisville Metro Affordable Housing Trust Fund, Inc.'s internal control over financial reporting and compliance.

Baldwin CPAs, PLLC

Louisville, Kentucky
October 20, 2020

Louisville Metro Affordable Housing Trust Fund, Inc.
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash	$ 1,503,107	$ 1,686,748
Cash held in escrow	278,034	373,906
Accrued interest receivable	125,672	34,407
Mortgage loans receivable, net	8,831,092	4,662,499
Furniture and equipment, net	820	1,188
Total Assets	$ 10,738,725	$ 6,758,748
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 30,108	$ 32,599
Accrued expenses	16,230	10,819
Total Liabilities	46,338	43,418
Net Assets		
Without donor restrictions	10,489,836	6,170,514
With donor restrictions	202,551	544,816
Total Net Assets	10,692,387	6,715,330
Total Liabilities and Net Assets	$ 10,738,725	$ 6,758,748

Louisville Metro Affordable Housing Trust Fund, Inc.
Statements of Activities
For the Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Contributions and grants	$ 6,666,967	$ -	$ 6,666,967	$ 6,264,907	$ -	$ 6,264,907
Program revenue	2,675	-	2,675	2,625	-	2,625
Mortgage loan discount amortization	185,188	-	185,188	55,514	-	55,514
Interest income	111,435	-	111,435	69,123	-	69,123
Total Revenue and Support	6,966,265	-	6,966,265	6,392,169	-	6,392,169
Net Assets Released from Restrictions	342,265	(342,265)	-	1,268,512	(1,268,512)	-
Total Revenue, Support and Releases	7,308,530	(342,265)	6,966,265	7,660,681	(1,268,512)	6,392,169
Expenses:						
Program services	2,837,116	-	2,837,116	3,452,998	-	3,452,998
Management and general	98,248	-	98,248	93,979	-	93,979
Fundraising	53,844	-	53,844	48,074	-	48,074
Total Expenses	2,989,208	-	2,989,208	3,595,051	-	3,595,051
Change in Net Assets	4,319,322	(342,265)	3,977,057	4,065,630	(1,268,512)	2,797,118
Net Assets at Beginning of Year	6,170,514	544,816	6,715,330	2,104,884	1,813,328	3,918,212
Net Assets at End of Year	$ 10,489,836	$ 202,551	$ 10,692,387	$ 6,170,514	$ 544,816	$ 6,715,330

The accompanying notes are an integral part of these financial statements.

Louisville Metro Affordable Housing Trust Fund, Inc.
Statements of Functional Expenses
For the Years Ended June 30, 2020 and 2019

	2020				2019			
	Total	Program Services	Management and General	Fund-Raising	Total	Program Services	Management and General	Fund-Raising
Salaries	$ 170,280	$ 85,140	$ 51,084	$ 34,056	$ 160,216	$ 80,108	$ 48,065	$ 32,043
Payroll taxes	13,692	6,846	4,108	2,738	12,986	6,493	3,896	2,597
Employee benefits	26,310	13,155	7,893	5,262	22,289	11,145	6,687	4,457
Program expense	901,247	901,247	-	-	1,945,615	1,945,615	-	-
Mortgage discounts	1,797,330	1,797,330	-	-	1,375,357	1,375,357	-	-
Professional fees	31,643	10,668	20,975	-	27,641	8,858	18,783	-
Office expense	25,058	12,529	7,517	5,012	28,839	14,420	8,652	5,767
Telephone	3,060	1,530	918	612	2,953	1,477	886	590
Occupancy	3,010	1,505	903	602	3,260	1,630	978	652
Travel	1,384	692	415	277	2,573	1,287	772	514
Conferences and training	1,810	905	543	362	1,898	949	569	380
Insurance expense	7,316	3,658	2,195	1,463	3,871	1,936	1,161	774
Miscellaneous	6,700	1,727	1,587	3,386	7,131	3,512	3,403	216
Depreciation	368	184	110	74	422	211	127	84
Total expenses	$ 2,989,208	$ 2,837,116	$ 98,248	$ 53,844	$ 3,595,051	$ 3,452,998	$ 93,979	$ 48,074

Louisville Metro Affordable Housing Trust Fund, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Change in net assets	$ 3,977,057	$ 2,797,118
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	368	422
Discount on mortgage loans receivable	1,797,330	1,375,357
Mortgage loan discount amortization	(185,188)	(55,514)
(Increase) decrease in operating assets		
Prepaid expenses	-	250
Accrued interest receivable	(91,265)	(34,407)
Mortgage loans receivable	(5,780,735)	(4,846,174)
Increase (decrease) in operating liabilities		
Accounts payable	(2,491)	15,388
Accrued expenses	5,411	1,466
Net Cash Used by Operating Activities	(279,513)	(746,094)
Cash Flows From Investing Activities		
Purchases of property and equipment	-	(1,261)
Net Cash Used by Investing Activities	-	(1,261)
Net Decrease in Cash	(279,513)	(747,355)
Cash at beginning of year	2,060,654	2,808,009
Cash at End of Year	$ 1,781,141	$ 2,060,654
Supplemental Disclosures		
Unrestricted cash	$ 1,503,107	$ 1,686,748
Restricted cash	278,034	373,906
Total cash	$ 1,781,141	$ 2,060,654

Note 1. Summary of Significant Accounting Policies

The Louisville Metro Affordable Housing Trust Fund, Inc. (LAHTF) is a not-for-profit organization, created by the Louisville/Jefferson County Metro Council (Metro Council) in 2008 as the way for Louisville to invest additional local public funds to address the affordable housing shortage for working families whose wages are not enough to live in metro Louisville; for people on fixed incomes like seniors and people with serious disabilities; for young families starting out; and for veterans. A place to call home opens the door to opportunity, and the whole community does better when everyone has a decent place to call home.

The LAHTF facilitates the development and rehabilitation of decent, affordable housing by making grants and loans, providing technical support and enabling builders and developers to construct housing with less financial risk.

Funding is provided by Louisville/Jefferson County Metro Government (Metro Government) and corporate and individual donations.

Basis of Accounting

The financial statements of LAHTF have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) with regards to financial statements of Not-for-Profit Organizations. Under this guidance, LAHTF is required to report information regarding its financial position and activities according to two classes of net assets. A description of the net asset categories follows:

> Net assets without donor restrictions: include the portion of expendable funds that are not subject to donor-imposed stipulations.
>
> Net assets with donor restrictions: stipulated by donors for specific operating purposes or are restricted by time. These include donor restrictions requiring that the corpus to be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash

LAHTF considers all checking accounts and money market accounts to be cash equivalents.

Note 1. Summary of Significant Accounting Policies (Continued)

Cash Held in Escrow

Cash held in escrow represents funds made available to LAHTF through a previous budgetary allocation made by Metro Council. That amount (originally $1 million) is available in annual disbursements of $100,000 per year, and earns interest. The interest earned is allowed to accumulate and is available at any time to LAHTF by request.

Mortgage Loans Receivable

LAHTF makes below-market rate loans to developers of projects containing affordable residential housing units (less than 80% Area Median Income) to be constructed in Louisville through its revolving loan program. These loans have varying terms and security, and interest income is accrued on the unpaid principal balance. Some of the mortgages have been discounted at various rates ranging from 3% to 4% based on the prevailing market rate for construction loans. Management has determined that the 1 year LIBOR rate plus 2% is a reasonable estimate of the rate available to the developers for a similar type loan. Interest income (mortgage loan discount amortization) is recorded using the inherent contribution approach method over the lives of the mortgages. The calculated discount is recorded as a reduction in the principal of the mortgage loan receivable in the statements of financial position and as program expense on the statements of activities.

Mortgage loans receivable are reviewed by management and are written off when they are deemed to be uncollectible. Accounts are considered past due after 90 days of delinquency. Management determined that no allowance for loan losses is deemed necessary because LAHTF is a secured creditor.

Furniture and Equipment

Furniture and equipment is recorded at cost, or if donated, at the approximate fair value at the date of donation. The cost of furniture and equipment purchased in excess of $500 is capitalized. Depreciation is computed using primarily the straight-line method over the estimated lives of the assets of 5 to 40 years.

Revenue Recognition

Public Support - Contributions received are recorded as increases to net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the same period in which the contributions are recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires because the contributed resources are spent in accordance with the donor's instructions or because of passage of time, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restriction. In the absence of donor restrictions to the contrary, restrictions on contributions of property or equipment or on assets restricted to acquiring property or equipment expire when the property or equipment is placed in service.

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Mortgage Loan Discount Amortization - Mortgages are discounted using an imputed interest rate that approximates the rate that an independent borrower and lender would have negotiated in a similar transaction. The calculated discount is amortized over the life the loan.

Interest Income - Interest on loans is accrued as earned. The amortization of the mortgage loan discounts is recorded as income in the statements of activities.

Expense Allocation

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, costs have been allocated among the program and supporting services benefited. Direct and identifiable expenses are charged to program and supporting services. All other expenses are allocated are on the basis of estimates of time and effort.

Income Tax Status

LAHTF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, LAHTF qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of FASB ASC 740-10 would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the statements of activities or accrued in the statements of financial position.

Reclassifications

Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Recently Issued Accounting Standards

For the year ended June 30, 2020, the Organization adopted the following Financial Accounting Standards Board's Accounting Standards Updates:

In May 2014, FASB issued Accounting Standards Update (ASU 2014-09), *Revenue from Contracts with Customers (Topic 606)*, which, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Organization implemented Topic 606 and adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effect on net assets.

Note 1. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards (Continued)

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08)*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. LAHTF implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash (Topic 230)*, to require that the statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. LAHTF implemented the provisions of ASU 2016-18 on the statements of cash flows under a retrospective basis. There is no effect on net assets in connection with our implementation of ASU 2016-18.

Note 2. Considerations of Credit Risk

Cash - LAHTF maintains its cash balances in one financial institution in Louisville, Kentucky. The cash balances are insured by the Federal Deposit Insurance Corporation up to $250,000. Uninsured cash as of June 30, 2020 and 2019 was $1,844,070 and $1,437,498, respectively. The risk is managed by maintaining all deposits in high quality financial institutions.

Mortgage Loans Receivable – Significant concentrations exist in the mortgage loans receivable account, which are all due from not-for-profit organizations or businesses located in Louisville, Kentucky and invested in the area's low-income housing market. Realization of these receivables is dependent on various economic conditions. LAHTF requires real estate collateral on all loans.

Contributions and Grants – For the years ended June 30, 2020 and 2019, LAHTF received 91% and 81%, respectively, of its contributions and grants from Metro Government. This concentration of funding from Metro Government puts LAHTF at risk for long-term public support because of political intricacies, such as political elections, appointments and shared community commitments.

Note 3. Mortgages Loans Receivable

The following schedule summarizes the mortgage loans receivable as of June 30:

Maturity	Annual interest rate	Collateral	2020	2019
06/01/2021	0.0%	Mortgage on building	$ 30,000	$ 30,000
07/01/2021	0.0%	Mortgage on building	105,000	-
07/08/2021	0.0%	Mortgage on building	100,000	-
12/02/2021	0.0%	Mortgage on building	30,000	-
03/01/2022	0.0%	Mortgage on building	150,000	150,000
06/01/2022	0.0%	Mortgage on building	30,000	70,002
07/08/2022	0.0%	Mortgage on building	30,000	-
02/01/2023	0.0%	Mortgage on building	150,000	-
04/01/2023	0.0%	Mortgage on building	120,000	-
05/01/2023	0.0%	Mortgage on building	17,500	-
05/01/2023	0.0%	Mortgage on building	200,000	-
07/01/2023	0.0%	Mortgage on building	150,000	-
12/15/2028	0.0%	Mortgage on building	88,000	88,000
04/01/2031	0.0%	Mortgage on building	60,000	80,000
01/01/2032	0.0%	Second mortgage on building	113,000	100,000
01/01/2032	1.0%	Second mortgage on building	52,000	-
06/30/2034	1.0%	Second mortgage on building	611,424	641,114
04/01/2035	0.0%	Mortgage on building	60,000	-
07/01/2035	0.0%	Mortgage on building	309,231	-
09/01/2035	1.0%	Second mortgage on building	500,000	500,000
12/10/2035	0.0%	Mortgage on building	500,000	-
02/30/2036	2.0%	Third mortgage on building	200,000	200,000
02/15/2039	1.0%	Mortgage on building	1,000,000	354,534
05/01/2041	1.0%	Third mortgage on building	425,000	425,000
02/15/2042	1.5%	Mortgage on building	2,500,000	-
03/31/2049	1.0%	Third mortgage on building	250,000	250,000
02/15/2050	1.0%	Mortgage on building	500,000	-
02/15/2050	0.5%	Second mortgage on building	266,000	266,000
12/01/2059	2.0%	Second mortgage on building	500,000	500,000
11/01/2060	1.0%	Second mortgage on building	2,310,000	2,310,000
06/01/2062	1.0%	Mortgage on building	500,000	-
Various	0.0%	Mortgage on building	10,000	40,000
Various	1.0%	Unsecured	55,052	54,319
Various	0.0%	Unsecured	70,000	152,503
	Mortgage loans receivable		$ 11,992,207	$ 6,211,472

Note 3. Mortgages Loans Receivable (Continued)

Homebuyer Assistance Second Mortgage

Some developers are using the proceeds of loans or grants provided by LAHTF to build single family homes. These homes are often sold below market value to the buyers. Previously, if the homes were sold below market value, a promissory note representing the estimate of the difference between the first mortgage and market value of the home sold, was created (soft second). Various covenants and agreements are agreed to by the buyer in order for this second mortgage to be forgiven. Subject to certain limitations, this soft second will be fully forgiven at various maturity dates, depending on the second mortgage terms. These second mortgages are only recorded as receivables in the event LAHTF intends to collect. As of June 30, 2020, LAHTF has 3 outstanding second mortgages, none of which are expected to be collected.

During 2019, LAHTF began placing restrictions on the deeds of these properties in lieu of issuing a second mortgage. The deed restriction prohibits the borrower from selling the home to individuals whose income exceeds the limitations of the original loan program. If the restriction is violated, the borrower is required to pay back a prorated portion of the loan from LAHTF.

Mortgage Loans Receivable Discount

Mortgages are discounted using an imputed interest rate that approximates the rate that an independent borrower and lender would have negotiated in a similar transaction.

	2020	2019
Discount rate	0.82% - 4.87%	0.82% - 4.77%
Mortgage discount expense	$ 1,797,330	$ 1,375,357
Mortgage discount income	$ 185,188	$ 55,514
Mortgage loans receivable	$ 11,992,207	$ 6,211,472
Less: unamortized discount	(3,161,115)	(1,548,973)
Net mortgage loans receivable	$ 8,831,092	$ 4,662,499

Note 4. Furniture and Equipment

Furniture and equipment consist of the following at June 30:

	2020	2019
Furniture and equipment	$ 3,804	$ 3,804
Less accumulated depreciation	(2,984)	(2,616)
Land, building and equipment, net	$ 820	$ 1,188
Depreciation expense	$ 368	$ 422

Note 5. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30:

	2020	2019
Programs - Metro Government funds	$ -	$ 233,117
Programs - 5/3 Bank home owner loans	2,551	11,699
Operations - Metro Government funds	200,000	300,000
Total	$ 202,551	$ 544,816

Note 6. Lease

LAHTF leases office space for $250 per month under a month to month operating lease. Rent expense was $3,000 for the years ended June 30, 2020 and 2019.

Note 7. Retirement Plan

LAHTF has a relationship with Metropolitan Housing Corporation (MHC), a local not-for-profit which engages in similar programs. It has agreed to serve as the payroll and benefits administrator for LAHTF until such time as LAHTF has sufficient employees on its own to offer comprehensive benefits and payroll. As part of this arrangement, eligible employees of LAHTF are allowed to participate in the SIMPLE IRA plan offered by MHC, a defined contribution plan which includes an employer match. Total expense for the years ended June 30, 2020 and 2019 was $9,921 and $10,417, respectively.

Note 8. Related Party

LAHTF was created by Metro Council and is governed by a board representative of the community and appointed by the mayor of Metro Government and approved by Metro Council. For the year ended June 30, 2020, Metro Government allocated $5 million to LAHTF. See Note 9 for future funding commitments.

Funding provided by Metro Government was $6,640,934 and $6,311,813 for the years ended June 30, 2020 and 2019, respectively.

Note 9. Funding Commitments

LAHTF has over $5 million available from Metro Government to expand its existing affordable housing finance tools and create new affordable housing finance tools that support the development and rehabilitation of affordable housing. These public funds must serve those who earn no more than 80% of median income. In addition, at least half of the funds must serve households at or below 50% of the area median income. LAHTF has unspent funding commitments of $6,178,628 for 12 projects as of June 30, 2020.

Note 10. Liquidity

The following table reflects LAHTF's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

	2020	2019
Financial Assets		
Cash and cash equivalents	$ 1,503,107	$ 1,686,748
Cash held in escrow	278,034	373,906
Accrued interest receivable	125,672	34,407
Mortgage loans receivable, net	8,831,092	4,662,499
Financial assets, at year-end	10,737,905	6,757,560
Less those unavailable for general expenditure within one year		
Donor imposed restrictions	(202,551)	(544,816)
Estimated mortgage principal payments to be received after one year	(8,831,092)	(4,662,499)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,704,262	$ 1,550,245

In addition to financial assets available to meet general expenditures over the year, LAHTF operates with a balanced budget and anticipates covering its general expenditures by collecting sufficient program and other revenues and by utilizing resources from current and prior year's gifts.

Note 11. Recently Issued Accounting Standards

Accounting Standards Update 2016-02, Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842) (ASU 2016-02)*, requiring all leases to be recognized on LAHTF's balance sheet as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, LAHTF will recognize: 1) a lease liability for LAHTF's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents LAHTF's right to use, or control the use of, the specified asset for the lease term. Upon adopting ASU 2016-02, LAHTF will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for LAHTF for the year ending June 30, 2023, with early adoption permitted. LAHTF is currently evaluating the effect that the new standard will have on its financial statements.

Note 11. Recently Issued Accounting Standards (Continued)

Accounting Standards Update 2016-13, Financial Instruments—Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (ASU 2016-13)*. ASU 2016-13, when effective, will change the method for recognizing credit impairments of financial assets. The guidance affects all entities that hold financial assets and net investments in leases that are not accounted for at fair value through net income. Any contractual right to receive cash would generally be affected, including loans, debt securities, trade receivables, loan commitments, and similar items. ASU 2016-13 replaces the incurred loss impairment methodology (that is, the *probable* threshold) in current GAAP. Under the new guidance, impairment would be based on the current expected credit loss (CECL) impairment model, which is the current estimate (based on a broad range of reasonable and supportable information) of contractual cash flows not expected to be collected on financial assets that are held as of the reporting date. ASU 2016-13 is effective for the year ending June 30, 2024. LAHTF is currently evaluating the effect that the new standard will have on its financial statements.

Note 12. Subsequent Events

Due to the global viral outbreak caused by coronavirus disease 2019 (COVID-19) in 2020, there have been resulting effects in the general economy that could negatively impact the LAHTF's overall business as the broader economic impact of COVID-19 develops. The ultimate impact of these matters to LAHTF and its financial condition is presently unknown. The effect of this subsequent event did not result in any changes to the accompanying financial statements as of and for the year ended June 30, 2020.

Management has evaluated subsequent events for recognition or disclosure in the financial statements through October 20, 2020, which was the date at which the financial statements were available to be issued.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements performed in accordance with *Government Auditing Standards*

Board of Directors
Louisville Metro Affordable Housing Trust Fund, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisville Metro Affordable Housing Trust Fund, Inc. which comprise the statements of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Louisville Metro Affordable Housing Trust Fund, Inc.'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Louisville Metro Affordable Housing Trust Fund, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Louisville Metro Affordable Housing Trust Fund, Inc.'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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-1 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisville Metro Affordable Housing Trust Fund, Inc.'s 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 audits, 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baldwin CPAs, PLLC

Louisville, Kentucky
October 20, 2020

Louisville Metro Affordable Housing Trust Fund, Inc.
Schedule of Findings
June 30, 2020

Findings – Financial Statement Audit

Material Weakness:

2020-1 Audit Adjustments (Repeat Finding)

Condition: During the performance of our audit procedures, we noted management had not adjusted certain account balances to reflect appropriate year-end balances, which is a necessary step to ensure the financial statements are fairly stated.

Criteria: The Organization's internal controls did not prevent, or detect and correct material misstatements of the financial statements. Therefore, we recommend that management assess its internal control system and implement additional financial reporting controls appropriate to the size and needs of the Organization.

Cause: At the onset of the audit process, we noted that management had not fully analyzed the accounting ramifications of their mortgage loan programs. There are no procedures in place to ensure that management corresponds with its third party bookkeeper to be sure that loan and program expenditures are correctly recorded.

Effect: Several material audit adjustments were proposed and management subsequently recorded the amounts.

Recommendation: During the audit process, information was obtained that allowed for the full and proper accounting treatment and disclosure of the mortgage loan program expenditures. We suggest that the following transactions be analyzed upon occurrence and that the correct journal entries be made at the time of the expenditure:

Mortgage loans receivable – We noted that loans with a forgivable portion were expensed as made, rather than analyzed for the portion that was to be repaid. The repaid portion should be recorded as a mortgage loan receivable.

Mortgage discounts – The mortgage loans being made by the Organization generally have interest free or below-market interest rates. The Organization should calculate the valuation discount using market rate interest rates. The valuation discount should be reported as grant expense and a reduction in the mortgage loan receivable.

Valuation discount - The valuation discount should be amortized as interest income over the life of the loan and recorded as interest income. These adjustments should be made at least annually.

Views of Responsible Officials and Planned Corrective Actions: The Organization understands and accepts the above recommendations. The contract bookkeeper is instrumental in reconciling various year-end account balances and preparing and providing audit schedules and other requested documentation which greatly improves the audit process and assisted the auditors in completing the audit for the year ended June 30, 2020 in a timely manner. However, the Organization continues to rely on its audit firm and the year-end audit process to review and adjust for items discussed above and to prepare the year-end full-disclosure financial statements. The Organization will consider the opportunity to review the loan activity throughout the year with its contract bookkeeper to make the necessary adjustments rather than just at year-end.