

THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS,

ADDITIONAL INFORMATION

AND

INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2009 AND 2008

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AND  
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2009 AND 2008

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Housing Fund, Inc.  
Nashville, Tennessee

We have audited the accompanying consolidated statements of financial position of The Housing Fund, Inc., a Tennessee not-for-profit corporation, and subsidiary (collectively, the "Agency") as of September 30, 2009 and 2008, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Housing Fund, Inc. and subsidiary as of September 30, 2009 and 2008, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2010 on our consideration of the Agency'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the above-mentioned consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. The consolidating and combining information, pages 22 through 24, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.



Nashville, Tennessee  
January 27, 2010

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,064,539	\$ 2,820,993
Accounts receivable	65,654	59,124
Government grants receivable	260,290	274,958
Accrued interest on loans receivable	537,341	549,137
Down payment assistance loans receivable, less allowance for uncollectible loans of: 2009 - \$431,818; 2008 - \$335,051 - Note 2	8,153,708	6,439,591
Development loans receivable, less allowance for uncollectible loans of: 2009 - \$594,355; 2008 - \$2,128,355 - Note 2	6,537,237	7,902,886
Real estate development costs - Note 3	724,845	572,155
Prepaid expenses	3,400	54,262
Property, furniture and equipment, net - Note 4	290,650	322,354
Investment in limited partnership	200,000	200,000
 TOTAL ASSETS	 <u>\$ 19,837,664</u>	 <u>\$ 19,195,460</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 69,730	\$ 118,352
Accrued expenses	139,158	126,313
Funds held on behalf of others - Note 2	51,874	-
Deferred revenue	222,055	-
Notes payable - Note 5	11,971,652	11,683,203
 TOTAL LIABILITIES	 12,454,469	 11,927,868
 COMMITMENTS AND CONTINGENCIES - Notes 6 and 8		
 NET ASSETS		
Unrestricted	7,383,195	7,267,592
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 19,837,664</u>	 <u>\$ 19,195,460</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>SUPPORT AND REVENUES</b>		
Public support:		
Federal, state and local government grants	\$ 1,737,797	\$ 917,200
Grant from financial institution	21,000	48,000
Contributions	7,552	3,025
Revenues:		
Service and administrative fees	130,419	130,116
Interest income:		
Loans	462,703	643,257
Other	18,350	86,236
Other	60,577	14,485
Impairment loss on real estate development costs - Note 3	<u>(50,000)</u>	<u>(213,703)</u>
<b>TOTAL SUPPORT AND REVENUES</b>	<u>2,388,398</u>	<u>1,628,616</u>
<b>EXPENSES</b>		
Program services:		
Low-income housing assistance programs	1,967,145	3,399,065
Supporting services:		
Management and general	<u>305,650</u>	<u>274,670</u>
<b>TOTAL EXPENSES</b>	<u>2,272,795</u>	<u>3,673,735</u>
<b>CHANGE IN NET ASSETS</b>	115,603	(2,045,119)
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>7,267,592</u>	<u>9,312,711</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 7,383,195</u>	<u>\$ 7,267,592</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009			2008		
	Program Services	Supporting Services	Totals	Program Services	Supporting Services	Totals
	Low-Income Housing Assistance	Management and General		Low-Income Housing Assistance	Management and General	
Payroll and related costs - Note 7	\$ 589,173	\$ 240,752	\$ 829,925	\$ 640,111	\$ 208,021	\$ 848,132
Forgiveness of down payment assistance loans - Note 2	74,262	-	74,262	162,765	-	162,765
Provision for uncollectible loans	546,000	-	546,000	1,977,500	-	1,977,500
Advertising	2,836	38	2,874	9,645	44	9,689
Counseling	115,529	-	115,529	99,043	-	99,043
Depreciation	25,701	6,718	32,419	24,058	6,580	30,638
Interest	281,064	-	281,064	254,343	-	254,343
Occupancy	60,946	17,550	78,496	57,384	19,694	77,078
Office expense and miscellaneous	67,090	26,528	93,618	40,322	25,226	65,548
Printing	3,940	176	4,116	950	-	950
Professional fees	126,560	13,839	140,399	55,861	15,056	70,917
Servicing fees	74,044	49	74,093	77,083	49	77,132
	<u>\$ 1,967,145</u>	<u>\$ 305,650</u>	<u>\$ 2,272,795</u>	<u>\$ 3,399,065</u>	<u>\$ 274,670</u>	<u>\$ 3,673,735</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 115,603	\$ (2,045,119)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	32,419	30,638
Accrued interest added to notes payable	66,405	49,808
Provision for uncollectible loans	546,000	1,977,500
Impairment loss on real estate development costs - Note 3	50,000	213,703
Forgiveness of down payment assistance loans - Note 2	74,262	162,765
(Increase) decrease in:		
Accounts receivable	(6,530)	(20,125)
Government grants receivable	14,668	(157,632)
Accrued interest receivable	11,796	(110,342)
Real estate development costs	(47,690)	(373,114)
Prepaid expenses	50,862	(52,062)
(Decrease) increase in:		
Accounts payable	(48,622)	81,090
Accrued expenses	12,845	35,285
Deferred revenue	222,055	-
Net adjustments	978,470	1,837,514
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,094,073</u>	<u>(207,605)</u>
INVESTING ACTIVITIES		
Acquisition of property, furniture and equipment	(715)	(68,035)
Housing down payment assistance loans made	(1,978,721)	(816,692)
Purchase of down payment assistance loans from third party - Note 2	(320,778)	-
Payments made from funds held on behalf of others - Note 2	(101,097)	-
Principal repayment on down payment assistance loans	469,091	446,503
Development loans made	(883,646)	(3,028,722)
Principal repayments on development loans	1,713,295	2,082,625
Proceeds from sale of development projects	30,000	226,154
Purchase of investments - certificates of deposit	-	(1,365)
Sale of investments - certificates of deposit	-	116,131
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,072,571)</u>	<u>(1,043,401)</u>
FINANCING ACTIVITIES		
Proceeds from long-term obligations	-	1,400,000
Proceeds from Federal loan award	572,044	-
Principal payments on long-term obligations	(350,000)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>222,044</u>	<u>1,400,000</u>
INCREASE IN CASH	243,546	148,994
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,820,993</u>	<u>2,671,999</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,064,539</u>	<u>\$ 2,820,993</u>
NONCASH INVESTING ACTIVITIES:		
Carrying value of foreclosed development loan transferred to real estate development costs - Note 3	<u>\$ 185,000</u>	<u>\$ 82,703</u>
Discount on down payment assistance loans purchased - Note 2	<u>\$ 56,534</u>	<u>\$ -</u>
Funds held on behalf of others withheld from down payment assistance loans purchased - Note 2	<u>\$ 152,971</u>	<u>\$ -</u>
ADDITIONAL CASH FLOW INFORMATION:		
Interest expense paid	<u>\$ 213,521</u>	<u>\$ 200,211</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Housing Fund, Inc. ("THF"), was organized in 1996 as a Tennessee not-for-profit corporation. Its stated mission is to "build a local pool of funds that is flexible and self-sustaining in order to provide the financial resources necessary to help low and moderate income families and individuals become homeowners and to assist nonprofit and for-profit developers in increasing the supply of decent and affordable housing."

During 2002, Laurel House Apartments GP, Inc. was organized as a for-profit corporation and is a wholly-owned subsidiary of THF. Laurel House Apartments GP, Inc. owns 1/10 of 1% as general partner of Laurel House 2001, L.P., a limited partnership that was also organized in 2002. Laurel House 2001, L.P. acquired certain real estate for the construction and operation of Laurel House Apartments (the "Laurel House project"), a 48-apartment unit development, with parking availability, 10,000 square feet of retail space, and offices for THF (see Note 8). The Laurel House project was funded in part through a Tax Increment Financing loan ("TIF"), provided by THF, in the amount of \$700,000. Additional funding for the Laurel House project came from proceeds of the sale of federal low-income housing tax credits. The general partnership interest of Laurel House Apartments GP, Inc. in the limited partnership is reported at its \$200,000 historical cost. In accordance with the Amended and Restated Limited Partnership Agreement of Laurel House 2001, L.P., the general partner has the right of first refusal to acquire the property at the end of the statutory compliance period pursuant to applicable provisions of Internal Revenue Code §42(i)(7).

Principles of consolidation

The consolidated financial statements include the accounts of THF and its subsidiary (collectively the "Agency"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation

The accompanying consolidated financial statements present the financial position and change in net assets of the Agency on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Resources are classified as unrestricted, temporarily restricted and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.



THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued)

- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations.

The Agency had no temporarily or permanently restricted net assets as of September 30, 2009 and 2008.

Accounting standards codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162*. This statement modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (the "ASC" or "Codification") is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission. Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids, and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. This statement applies for the Agency's September 30, 2009 financial statements.

Contributions and support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions.

The Agency also receives grant revenue from federal, state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support (continued)

The Agency reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Deferred revenue

Grant funds received prior to expenditure are recorded initially as deferred revenue and recognized in the period a liability is incurred for eligible expenditures under the term of the grant.

Cash and cash equivalents

Cash and cash equivalents include demand deposits and money market funds with banks. Cash equivalents also include bank certificates of deposit that can be liquidated without significant penalty or restriction (including accrued interest). Such certificates of deposit amounted to approximately \$506,000 as of September 30, 2009.

Accounts receivable

Accounts receivable are deemed to be fully collectible by management, and no allowance for bad debts is considered necessary.

Real estate development costs

Foreclosed development loans are transferred to real estate development costs at the carrying value of the foreclosed loan. All additional costs related to the development of such projects are capitalized. Carrying values of development projects are reviewed annually for impairment. A project is considered impaired when the estimated present value of the expected future cash flows relating to the project is less than the carrying value. Any impairment loss is recognized in the period such determination is made.

Property, furniture and equipment

Property, furniture and equipment are reported at cost at the date of purchase, or at estimated fair value at the date of gift to the Agency. The Agency's policy is to capitalize purchases with a cost of \$200 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows: twenty years or the life of the lease, if shorter, for leasehold improvements, three years for computer equipment, and seven years for furniture and fixtures.

Federal loan awards

Federal awards received by the Agency that include an obligation to repay loaned amounts back to the awarding agency are included in notes payable until such amounts are repaid by the Agency. Federal loan awards are considered expended when the loan disbursements are made to eligible recipients.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-kind contributions

Donated facilities and materials are recorded as gifts in the period received at estimated fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills, and would have been otherwise purchased by the Agency. Such services are recognized at estimated fair value as support and expense in the period the services are performed.

Provision for uncollectible loans

A loan receivable is considered impaired when, based on current information, it is probable that all amounts of principal and interest due will not be collected according to the terms of the loan agreement. The allowance for uncollectible loans is established by charges to program services expense and is maintained at an amount which management believes adequate to absorb losses on existing loans. Uncollectible loans are charged to the allowance account in the period such determination is made.

Income taxes

THF qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Laurel House Apartments GP, Inc. is a for-profit corporation and is subject to federal and state income taxes on its taxable income.

Program and supporting services

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

Low-income housing assistance - includes a down payment assistance-lending program and a community development loan program designed to assist not-for-profit and for-profit developers in increasing the supply of decent and affordable housing for low and moderate income families in middle Tennessee.

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

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of functional expenses

Costs of providing the Agency's programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited. Costs that are not allocated to program services are classified as management and general.

Use of estimates in the preparation of financial statements

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

Reclassifications

Certain prior year amounts have been reclassified to be comparative with the current year's presentation.

Events occurring after reporting date

The Agency has evaluated events and transactions that occurred between September 30, 2009 and January 27, 2010, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

Recent accounting pronouncement

In July 2006, the FASB issued guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including positions that the agency is exempt from income taxes or not subject to income taxes on unrelated business income. The cumulative effect of changes arising from the initial application of this guidance is required to be reported as an adjustment to the opening balance of net assets in the period of adoption. In December 2008, the FASB provided a deferral of the effective date of this guidance for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Agency has elected this deferral and, accordingly, will be required to adopt this guidance in its September 30, 2010 annual financial statements. Prior to adoption, the Agency will continue to evaluate uncertain tax positions and related income tax contingencies under existing guidance for contingencies which requires annual accrual for losses that are considered probable and can be reasonably estimated, or disclosure for losses that are considered reasonably possible and/or cannot be reasonably estimated. The Agency is currently evaluating the impact, if any, of the adoption of this standard on the financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 2 - LOANS RECEIVABLE

Down payment assistance loans

Down payment assistance loans, secured by a second deed of trust on the applicable properties, are made to homebuyers from unrestricted funds. These loans range from \$1,000 to \$30,000 (average loan approximates \$6,800) and consist of the following as of September 30:

	<u>2009</u>	<u>2008</u>
Interest-bearing loans with interest at rates from 2% to 8%, for terms of 5 to 30 years	\$ 3,536,580	\$ 2,689,325
Non-interest bearing loans, that are in-substance grants, forgiveable at the rate of 20% annually on the anniversary of the grant, as long as the homeowner continues to own the property	2,384	76,646
Non-interest bearing loans that are payable upon the sale of the property	<u>5,046,562</u>	<u>4,008,671</u>
	8,585,526	6,774,642
Less: allowance for uncollectible loans	<u>(431,818)</u>	<u>(335,051)</u>
Total	<u>\$ 8,153,708</u>	<u>\$ 6,439,591</u>

Forgiveness of loans that are in-substance grants amounted to \$74,262 in 2009 (\$162,765 in 2008).

In November 2008, the Agency purchased down payment assistance loans with a face amount of \$530,283 from another agency for \$473,749. These loans are included in interest bearing loans at September 30, 2009. Pursuant to an agreement with the seller, \$152,971 of the purchase cost was required to be held in escrow by the Agency until such time as the Agency receives instructions to disburse these funds to the specified parties. At September 30, 2009, \$51,874 is held by the Agency under this agreement.

Annual principal maturities of down payment assistance loans (excluding the loans that are in-substance grants and the loans that are due upon the sale of the property) are as follows as of September 30, 2009:

2010	\$ 309,398
2011	319,254
2012	306,665
2013	286,810
2014	280,275
Thereafter	<u>2,034,178</u>
	<u>\$ 3,536,580</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

Development loans

Development loans consist of the following as of September 30:

	<u>2009</u>	<u>2008</u>
Loans to not-for-profit, government and for-profit developers for the development of affordable housing, ranging from \$35,000 to \$2,200,000, for terms of 9 to 60 months, with interest at rates from 4% to 8%; used to finance construction of single-family homes for sale and rental units in low to moderate income neighborhoods. Principal and interest are payable at the earlier of maturity or the date the constructed home is sold.	\$ 5,914,171	\$ 6,532,096
Predevelopment loans, each with an original amount of \$35,000, to not-for-profit developers that are interest free for a term of 24 months.	11,400	46,400
Development loans to Conexion Americas, a not-for-profit agency, to fund <i>Puertas Abiertas</i> , a down payment assistance program for Hispanic families	361,036	401,903
THF's share of outstanding balance on participation loans:		
Loan agreement with 5th and Main Residential Owner, Inc. (1)	-	1,750,000
Loan agreement with MDHA for Row 8.9 project (2)	309,935	361,406
Loan agreement with Art Avenue Lofts, LLC (3)	-	350,000
Related party loans:		
Loan agreement with MDHA for Laurel House project (4)	<u>535,050</u>	<u>589,436</u>
	7,131,592	10,031,241
Less: allowance for uncollectible loans	<u>(594,355)</u>	<u>(2,128,355)</u>
Total	<u>\$ 6,537,237</u>	<u>\$ 7,902,886</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

Development loans (continued)

- (1) On June 28, 2006, THF entered into an agreement to loan 5th and Main Residential Owner, Inc. a maximum of \$3,500,000 for development and construction of a condominium complex. Interest on the loan was due monthly on the outstanding principal balance at the rate of 8.0% per annum beginning July 1, 2006 through September 30, 2008, at which time the entire outstanding principal balance plus any accrued interest were due. THF entered into separate agreements with four financial institutions to purchase from THF, without recourse, undivided interests in this loan totaling \$1,750,000. Over 100 of the 129 units were under contract with non-refundable deposits and mortgage commitments at the time this construction loan closed. Due to economic circumstances and changes in mortgage lending arising in 2008, the under contract condominiums did not close as projected. Delayed absorption of the units increased the cost of the project due to interest payments and operations over a prolonged period. These costs eroded the proceeds to be realized from the project. Because of this, THF reserved its entire \$1,750,000 share of the loan in 2008 in anticipation of insufficient sales proceeds to cover the second mortgage loan on the project. In 2009, THF wrote off its share of the loan against the allowance account.
- (2) On May 9, 2002, THF entered into an agreement to loan MDHA a maximum of \$1,300,000 for Tax Increment Financing for the Row 8.9 project developed by AHR Development, Inc. This project consists of 29 single-family town homes. Annual payments in an amount equal to the amount of Tax Increment Proceeds from certain properties within the Phillips Jackson Redevelopment Areas are due and payable on May 1 each year through 2024. All payments are applied first to interest at the rate of 6.5% per annum, with any remaining balance applied to principal. THF entered into separate agreements with three financial institutions to purchase from THF, without recourse, undivided interests in this loan totaling \$517,609 at September 30, 2009.
- (3) On December 22, 2006, THF entered into an agreement to loan Art Avenue Lofts, LLC a maximum of \$650,000 for development and construction of a condominium complex. Interest on the loan is due monthly on the outstanding principal balance at the rate of 8.0% per annum beginning January 15, 2007 through June 30, 2009, at which time the entire outstanding principal balance plus any accrued interest were due. THF entered into separate agreements with a lender to purchase from THF, without recourse, undivided interests in this loan totaling \$53,382 at September 30, 2008. This loan was repaid in 2009.
- (4) On December 19, 2001 and October 20, 2004, THF loaned MDHA \$500,000 and \$200,000, respectively, for Tax Increment Financing ("TIF") for the Laurel House project that was developed by Laurel House 2001, L.P. (See Note 1.) Annual payments in an amount equal to the amount of Tax Increment Proceeds are due and payable on May 1 each year through 2028. All payments are applied first to interest at the rate of 6% per annum, with any remaining balance applied to principal. Accrued interest on these loans was \$13,465 as of September 30, 2009 (\$14,932 as of September 30, 2008).

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

Development loans (continued)

Annual principal maturities of development loans receivable as of September 30, 2009, are as follows:

	<u>Participating Loans</u>				
		Less Amounts Allocated to Participating Financial Institutions	Allocated to THF	Other Development Loans	Total
	<u>Total</u>				<u>Total</u>
2010	\$ 90,347	\$ (55,647)	\$ 34,700	\$ 2,284,807	\$ 2,319,507
2011	95,768	(58,968)	36,800	918,963	955,763
2012	101,514	(62,514)	39,000	942,854	981,854
2013	107,606	(66,206)	41,400	173,493	214,893
2014	114,062	(70,162)	43,900	2,182,406	2,226,306
Thereafter	<u>318,247</u>	<u>(204,112)</u>	<u>114,135</u>	<u>319,134</u>	<u>433,269</u>
	<u>\$ 827,544</u>	<u>\$ (517,609)</u>	<u>\$ 309,935</u>	<u>\$ 6,821,657</u>	<u>\$ 7,131,592</u>

NOTE 3 - REAL ESTATE DEVELOPMENTS COSTS

As of September 30, 2009, the estimated future cash flows on development projects are less than the carrying values. An impairment loss of \$50,000 has been recognized on these projects in the current year (\$213,703 impairment loss recognized in 2008).



THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 4 - PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment consist of the following as of September 30:

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$ 346,966	\$ 346,966
Computer equipment	48,883	48,883
Furniture and fixtures	<u>33,093</u>	<u>32,378</u>
	428,942	428,227
Less: accumulated depreciation	<u>(138,292)</u>	<u>(105,873)</u>
Total	<u>\$ 290,650</u>	<u>\$ 322,354</u>

NOTE 5 - NOTES PAYABLE

Loans from various financial institutions generally mature in one to ten years, accrue interest at rates from 2.0% to 2.5% annually, and are unsecured and subordinated. Certain loans contain automatic extension provisions that can renew indefinitely. Some loans permit the accrued interest to be added to the principal balance quarterly; the other loans require the interest to be paid quarterly. Accrued interest added to principal balances amounted to \$66,405 in 2009, and \$49,808 in 2008.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

**NOTE 5 - NOTES PAYABLE (CONTINUED)**

A summary of notes payable to financial institutions and other lenders as of September 30, 2009 and 2008, follows:

<u>Institutional Lenders</u>	<u>Original Issues</u>	<u>2009</u>			<u>2008</u>		
		<u>Principal</u>		<u>Amount Available To Be Drawn</u>	<u>Principal</u>		<u>Total Balance</u>
		<u>Balance Drawn</u>	<u>Accrued Interest</u>		<u>Balance Drawn</u>	<u>Accrued Interest</u>	
Bank of America	3	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000
U. S. Bank	5	2,000,000	-	-	2,000,000	-	2,000,000
Regions Bank of Tennessee	4	1,700,000	-	-	1,700,000	-	1,700,000
SunTrust Bank		1,500,000	-	-	1,500,000	-	1,500,000
First Tennessee Bank, N.A.		750,000	137,036	-	750,000	115,401	865,401
Wachovia Bank	1	600,000	-	-	700,000	-	700,000
Pinnacle National Bank	7	600,000	65,595	-	600,000	49,361	649,361
Community Development Financial Institutions Fund (CDFI)		572,044	-	-	-	-	-
The Bank of Nashville		350,000	-	-	350,000	-	350,000
Fifth Third Bank		300,000	-	-	300,000	-	300,000
GMAC Mortgage Company		300,000	18,144	200,000	100,000	15,262	115,262
Farmers & Merchants Bank	2	300,000	6,788	-	300,000	773	300,773
James Stephen Turner Foundation		250,000	-	-	250,000	-	250,000
Monticello Banking Company	6	250,000	6,355	-	250,000	103	250,103
Farmers National Bank	6	-	-	250,000	-	-	-
Independence Bank	6	-	-	250,000	-	-	-
InsBank of Tennessee		150,000	6,633	-	150,000	2,813	152,813
Vanderbilt University		100,000	18,095	-	100,000	15,215	115,215
Renasant Bank		100,000	8,433	-	100,000	6,307	106,307
Cumberland Bank and Trust	2	100,000	-	-	100,000	-	100,000
Legends Bank	2	100,000	4,783	-	100,000	2,728	102,728
Planters Bank	2	-	-	100,000	-	-	-
Republic Bank	6	-	-	100,000	-	-	-
Heritage Bank	2	100,000	2,746	-	100,000	240	100,240
Fort Campbell Federal Credit Union	2	25,000	-	-	25,000	-	25,000
Total Notes Payable		\$ 11,697,044	\$ 274,608	\$ 900,000	\$ 11,475,000	\$ 208,203	\$ 11,683,203

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 5 - NOTES PAYABLE (CONTINUED)

- 1 - Includes \$200,000 formerly with SouthTrust Bank, N.A.
- 2 - Funding available for Clarksville/Montgomery County, Tennessee operations.
- 3 - Includes \$200,000 funding available for Clarksville/Montgomery County, Tennessee operations.
- 4 - Includes \$1,200,000 formerly with AmSouth Bank.
- 5 - Includes \$250,000 funding available for Clarksville/Montgomery County, Tennessee operations. Includes \$250,000 funding available for Bowling Green, Kentucky operations.
- 6 - Funding available for Bowling Green, Kentucky operations.
- 7 - Includes \$250,000 formerly with PrimeTrust Bank.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 5 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable as of September 30, 2009, are as follows:

2010	\$ 318,144
2011	1,200,000
2012	200,000
2013	1,113,813
2014	1,700,000
Thereafter	<u>7,439,695</u>
	<u>\$11,971,652</u>

NOTE 6 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Agency to concentrations of credit risk consist of cash and cash equivalents and loans receivable. Loans receivable are widely dispersed throughout Middle Tennessee and South Central Kentucky to mitigate credit risk.

The Agency maintains cash accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to statutory limits. As of September 30, 2009, all noninterest and interest bearing accounts of the Agency were fully insured.

Certain cash held in a broker/dealer account is insured by the Securities Investor Protection Corporation (SIPC), which provides limited protection to investors, up to \$500,000, including up to \$100,000 in cash held for the purpose of securities transactions, and not for the purpose of earning interest. The investment company also has excess SIPC coverage provided through Customer Asset Protection Company, which covers the net equity of all cash and securities held by its customers. SIPC and excess SIPC insurance do not cover market risk.

Outstanding development loans to one developer comprised 31% of the total of such loans at September 30, 2009 (loans to two developers comprised 39% of the total in 2008).

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 7 - CONTRACTED SERVICES AND EMPLOYEE BENEFIT PLANS

Contracted services

The Agency's staff is leased from MDHA and reports solely to the Agency's Board of Directors. The Agency reimburses MDHA for the salaries and related fringe benefits, which include Social Security and Medicare taxes, insurance and pension costs.

In addition, the Agency has one staff member working in the State of Kentucky who is paid directly by the Agency.

Employee benefit plans

The Kentucky staff member participates in a 401(k) plan administered by Paychex Agency. All other Agency staff members participate in the MDHA retirement plan, which is a Section 401A plan administered by the Vanguard Group.

The 401A plan, which is principally a defined contribution plan, also provides certain minimum defined benefits for employees who were participants in the MDHA Retirement Plan as of September 30, 2000. Employees are eligible to participate beginning the first day of the month following the date of hire. There are no required contributions by the participants; however, participants may make voluntary contributions from 0.5% to 10% of their basic compensation, and the Agency contributes 13% of participants' basic compensation. Contributions are invested in any of eleven funds offered by the Vanguard Group, as selected by the participant. Investment options and voluntary contributions may be changed daily, within limitation.

Participants are immediately vested in their voluntary contributions plus actual earnings. Participants are also immediately vested in 5.5% of the Agency's contributions. For each year of participation in the plan, participants vest at the rate of 20% of the remaining balance and become fully vested after five years.

Benefits are paid in the form of a cash distribution or various other annuity options at normal retirement date (age 65), death or disability. Participants may also elect to roll the vested portion of their retirement savings into another qualified plan or an individual retirement account or leave their account in the plan. Early retirement may be elected by employees at age 55 who have at least ten years of service.

The Agency's contributions to all employee benefit plans for the year ended September 30, 2009, amounted to \$81,038 (\$79,707 for 2008), which equaled the amount of required employer contributions. The applicable total payroll for the Agency during the fiscal year ended September 30, 2009, amounted to \$643,414 (\$631,201 for 2008).

The 401A plan issues a publicly available report that includes financial statements and required supplementary information. That report may be obtained by writing to the Metropolitan Development and Housing Agency at P. O. Box 846, Nashville, Tennessee, 37202.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2009 AND 2008

NOTE 7 - CONTRACTED SERVICES AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Employee benefit plans (continued)

The Agency also participates in MDHA's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits Tennessee employees to defer a portion of their salary until future years. Such amounts are not available to them until termination, retirement, death or unforeseeable emergency. No contributions are made to this plan by the employer.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

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

In February 2004, the Agency relocated to new offices leased under a twenty-year operating lease with Laurel House 2001, L.P. (See Note 1.) The lease provides for scheduled rent increases every five years and includes two 5-year renewal options. Rent expense on this lease is recognized on the straight-line basis and also includes the Agency's pro-rata share of property taxes and insurance. The excess of the rent expense recognized over the amount paid is included in accrued expenses.

The Agency leases space for two satellite offices under non-cancellable leases. One lease expired July 2009 and is currently on a monthly arrangement. The second lease expires July 2011. Total rent expense on all leases amounted to \$60,822 in 2009 (\$60,668 in 2008).

Future minimum rent payments required under these lease agreements are as follows:

Year ending September 30:

2010	\$ 47,153
2011	45,803
2012	39,053
2013	39,053
2014	41,719
Thereafter	<u>424,619</u>
Total	<u>\$ 637,400</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

Four of the Agency's 23 Board members are senior officers with financial institutions or other lenders with which the Agency has outstanding loans totaling \$7,200,000 at September 30, 2009. Another Board member is director of the organization that is the granting agency of a significant portion of the government grants awarded to the Agency.

#### ADDITIONAL INFORMATION

THE HOUSING FUND, INC. AND SUBSIDIARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Grant Description	Notes	Federal CFDA#	Grant Number	(Accrued) Deferred 10/1/2008	10/1/08 - 9/30/09		(Accrued) Deferred 9/30/2009
					Receipts	Expenditures	
<u>DEPARTMENT OF THE TREASURY</u>							
Community Development Financial Institutions Fund (CDFI) - Loan	*	21.020	081FA007449	\$ -	\$ 572,044	\$ -	\$ 572,044
Community Development Financial Institutions Fund (CDFI) - Financial Assistance	*	21.020	081FA007449	-	427,956	304,079	123,877
Community Development Financial Institutions Fund (CDFI) - Technical Assistance	*	21.020	081FA007449	-	98,178	-	98,178
Total CFDA 21.020				-	1,098,178	304,079	794,099
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>							
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:							
HOME Investment Partnerships Program - HOME Down Payment Assistance program	*	14.239	MC-08-MC-47-02-03	(257,405)	1,208,920	1,195,795	(244,280)
PASSED THROUGH THE CITY OF CLARKSVILLE:							
HOME Investment Partnerships Program - HOME Down Payment Assistance program	*	14.239	MC-08-MC-47-02-06	-	19,750	24,438	(4,688)
Total CFDA 14.239				(257,405)	1,228,670	1,220,233	(248,968)
PASSED THROUGH THE CITY OF CLARKSVILLE:							
Community Development Block Grant		14.218	N/A	(7,136)	28,022	25,958	(5,072)
PASSED THROUGH THE CITY OF FRANKLIN:							
Community Development Block Grant		14.218	N/A	(6,250)	25,000	25,000	(6,250)
PASSED THROUGH THE CITY OF BOWLING GREEN:							
Community Development Block Grant		14.218	N/A	(4,167)	159,825	155,658	-
Total CFDA 14.218				(17,553)	212,847	206,616	(11,322)
<u>NEIGHBORHOOD REINVESTMENT CORPORATION</u>							
PASSED THROUGH TENNESSEE HOUSING DEVELOPMENT AGENCY:							
National Foreclosure Mitigation Counseling Grant Funds - Clarksville		N/A	N/A	-	6,869	6,869	-
TOTAL EXPENDITURES OF FEDERAL AWARDS							
				\$ (274,958)	\$ 2,546,564	\$ 1,737,797	\$ 533,809

\*Denotes a major program under OMB Circular A-133.

Basis of Presentation

This schedule of expenditures of federal awards includes the federal grant activity of The Housing Fund, Inc. and Subsidiary and is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the basic consolidated financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2009

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
ASSETS				
Cash and cash equivalents	\$ 3,064,539	\$ -	\$ -	\$ 3,064,539
Accounts receivable	65,654	-	-	65,654
Government grants receivable	260,290	-	-	260,290
Accrued interest on loans receivable	537,341	-	-	537,341
Down payment assistance loans receivable, less allowance for uncollectible loans of \$431,818	8,153,708	-	-	8,153,708
Development loans receivable, less allowance for uncollectible loans of \$594,355	6,537,237	-	-	6,537,237
Real estate development costs	724,845	-	-	724,845
Prepaid expenses	3,400	-	-	3,400
Property, furniture and equipment, net	290,650	-	-	290,650
Investment in subsidiary	200,000	-	(200,000)	-
Investment in limited partnership	-	200,000	-	200,000
<b>TOTAL ASSETS</b>	<b>\$ 19,837,664</b>	<b>\$ 200,000</b>	<b>\$ (200,000)</b>	<b>\$ 19,837,664</b>
LIABILITIES				
Accounts payable	\$ 69,730	\$ -	\$ -	\$ 69,730
Accrued expenses	139,158	-	-	139,158
Funds held on behalf of others	51,874	-	-	51,874
Deferred revenue	222,055	-	-	222,055
Notes payable	11,971,652	-	-	11,971,652
<b>TOTAL LIABILITIES</b>	<b>12,454,469</b>	<b>-</b>	<b>-</b>	<b>12,454,469</b>
<b>NET ASSETS</b>	<b>7,383,195</b>	<b>200,000</b>	<b>(200,000)</b>	<b>7,383,195</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 19,837,664</b>	<b>\$ 200,000</b>	<b>\$ (200,000)</b>	<b>\$ 19,837,664</b>

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	\$ 1,737,797	\$ -	-	\$ 1,737,797
Grant from financial institution	21,000	-	-	21,000
Contributions	7,552	-	-	7,552
Revenues:				
Service and administrative fees	130,419	-	-	130,419
Interest income:				
Loans	462,703	-	-	462,703
Other	18,350	-	-	18,350
Other	60,577	-	-	60,577
Impairment loss on real estate development costs	(50,000)	-	-	(50,000)
TOTAL SUPPORT AND REVENUES	2,388,398	-	-	2,388,398
EXPENSES				
Program services:				
Low-income housing assistance programs	1,967,145	-	-	1,967,145
Supporting services:				
Management and general	305,650	-	-	305,650
TOTAL EXPENSES	2,272,795	-	-	2,272,795
CHANGE IN NET ASSETS	115,603	-	-	115,603
NET ASSETS - BEGINNING OF YEAR	7,267,592	200,000	(200,000)	7,267,592
NET ASSETS - END OF YEAR	\$ 7,383,195	\$ 200,000	\$ (200,000)	\$ 7,383,195

THE HOUSING FUND, INC. AND SUBSIDIARY

COMBINING SCHEDULE OF ACTIVITIES BY LOCATION

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Nashville</u>	<u>Clarksville, Montgomery County</u>	<u>Bowling Green</u>	<u>Combined</u>
<b>SUPPORT AND REVENUES</b>				
Public support:				
Federal, state and local government grants	\$ 1,531,742	\$ 50,396	\$ 155,659	\$ 1,737,797
Grant from financial institution	12,000	9,000	-	21,000
Contributions	7,552	-	-	7,552
Revenues:				
Service and administrative fees	129,632	75	712	130,419
Interest income:				
Loans	362,217	78,192	22,294	462,703
Other	18,350	-	-	18,350
Other	49,508	11,069	-	60,577
Impairment loss on real estate development costs	(50,000)	-	-	(50,000)
<b>TOTAL SUPPORT AND REVENUES</b>	<u>2,061,001</u>	<u>148,732</u>	<u>178,665</u>	<u>2,388,398</u>
<b>EXPENSES</b>				
Program services:				
Low-income housing assistance programs	1,760,929	101,466	104,750	1,967,145
Supporting services:				
Management and general	305,650	-	-	305,650
<b>TOTAL EXPENSES</b>	<u>2,066,579</u>	<u>101,466</u>	<u>104,750</u>	<u>2,272,795</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (5,578)</u>	<u>\$ 47,266</u>	<u>\$ 73,915</u>	<u>\$ 115,603</u>

## OTHER REPORTS

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  
The Housing Fund, Inc.  
Nashville, Tennessee

We have audited the consolidated financial statements of The Housing Fund, Inc., a Tennessee not-for-profit corporation, and subsidiary (collectively, the "Agency") as of and for the year ended September 30, 2009, and have issued our report thereon dated January 27, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Directors, the Comptroller of the Treasury, State of Tennessee, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "K. R. CPAs PLLC". The signature is stylized, with the "K" and "R" being particularly prominent and connected.

Nashville, Tennessee  
January 27, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
The Housing Fund, Inc.  
Nashville, Tennessee

Compliance

We have audited the compliance of The Housing Fund, Inc. and subsidiary (collectively, the "Agency"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The Agency's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

### Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects, the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, the Comptroller of the Treasury, State of Tennessee, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Grant CPAs PLLC", is written in a cursive, stylized script.

Nashville, Tennessee  
January 27, 2010



THE HOUSING FUND, INC. AND SUBSIDIARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
14.239	HOME Investment Partnerships Program
21.020	Community Development Financial Institutions Fund (CDFI)

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No