

URBAN HOUSING SOLUTIONS, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS
DECEMBER 31, 2005 AND 2004



BELLENFANT + MILES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Urban Housing Solutions, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Urban Housing Solutions, Inc. ("UHS"), as of December 31, 2005 and 2004, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of UHS's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial position of Urban Housing Solutions, Inc., as of December 31, 2005 and 2004, and the changes in its net assets and its 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 September 13, 2006 on our consideration of Urban Housing Solutions, 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 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 read in conjunction with this report in considering the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of program services revenues and expenses are presented for purpose of additional analysis and are not a required part of the basic financial statements. 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 also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bellenfant & Miles, P.C.

September 13, 2006

URBAN HOUSING SOLUTIONS, INC.

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URBAN HOUSING SOLUTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004

<u>ASSETS</u>		
	<u>2005</u>	<u>2004</u>
Cash	\$ 600,748	\$ 409,595
Restricted cash:		
Tenant security deposits	82,136	51,156
Cash	350,748	1,266,970
Replacement reserves	280,000	257,741
Accounts receivable:		
Grants	180,180	160,239
Tenants	53,493	23,102
Predevelopment costs - Village Place	-	14,750
Receivable from insurance company for damages relate to fire	118,363	28,283
Due from Mercury Court Apartments, LP	12,629	-
Due from Eastwood Courts, LLC	-	11,541
Prepaid expenses, deposits and other	121,083	45,280
Investment in Eastwood Courts, LLC	-	210,256
Investment in Mercury Court Apartments, LP	70,000	70,000
Accrued developer fees	37,600	52,803
Property and equipment - net of accumulated depreciation	10,888,737	7,643,034
Loan closing costs, net of accumulated amortization of \$ 36,790 and \$ 16,198 for 2005 and 2004.	21,674	17,724
TOTAL ASSETS	<u>\$ 12,817,391</u>	<u>\$ 10,262,474</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 155,511	\$ 39,650
Accrued payments in lieu of tax (PILOT)	20,452	67,493
Tenant security deposits payable	82,217	50,990
Due to Mercury Courts, LP	-	873
Notes payable	7,319,075	5,222,072
TOTAL LIABILITIES	<u>7,577,255</u>	<u>5,381,078</u>
NET ASSETS		
Unrestricted:		
Undesignated	1,649,393	2,446,274
Property and equipment	3,569,662	2,420,962
Total unrestricted	5,219,055	4,867,236
Temporarily restricted	21,081	14,160
TOTAL NET ASSETS	<u>5,240,136</u>	<u>4,881,396</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,817,391</u>	<u>\$ 10,262,474</u>

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

URBAN HOUSING SOLUTIONS, INC.
STATEMENTS OF ACTIVITIES
DECEMBER 31, 2005 AND 2004

	2005			2004		
	TEMPORARILY			TEMPORARILY		
	UNRESTRICTED	RESTRICTED	TOTAL	UNRESTRICTED	RESTRICTED	TOTAL
SUPPORT AND REVENUES						
Public Support:						
Individual and corporate gifts	\$ 28,412	\$ -	28,412	\$ 19,413	\$ -	19,413
Grants:						
Government	641,498	-	641,498	567,595	-	567,595
Foundation	-	68,400	68,400	-	16,400	16,400
Total public support	669,910	68,400	738,310	587,008	16,400	603,408
Revenues:						
Rental income	2,051,081	-	2,051,081	1,617,476	-	1,617,476
Laundry income	17,226	-	17,226	-	-	-
Miscellaneous tenant charges	-	-	-	11,123	-	11,123
Developer fees	-	-	-	9,400	-	9,400
Investment income	18,483	-	18,483	6,550	-	6,550
Resident vending machine	13,670	-	13,670	10,361	-	10,361
Security deposits forfeited	26,086	-	26,086	40,805	-	40,805
Management fees	11,096	-	11,096	11,585	-	11,585
Miscellaneous	1,990	-	1,990	20,011	-	20,011
Equity in net income of						
Eastwood Courts, LLC	-	-	-	(4,109)	-	(4,109)
Insurance proceeds	90,830	-	90,830	-	-	-
Net assets released from restrictions:						
Satisfaction of time and purpose	-	-	-	-	-	-
restrictions	61,479	(61,479)	-	40,732	(40,732)	-
TOTAL SUPPORT AND REVENUES	2,961,851	6,921	2,968,772	2,350,942	(24,332)	2,326,610
EXPENSES						
Program services:						
Rental projects	2,191,349	-	2,191,349	1,528,595	-	1,528,595
Resident support programs	364,291	-	364,291	327,700	-	327,700
Total program services	2,555,640	-	2,555,640	1,856,295	-	1,856,295
Supporting services:						
Management and general	54,392	-	54,392	62,883	-	62,883
TOTAL EXPENSES	2,610,032	-	2,610,032	1,919,178	-	1,919,178
CHANGE IN NET ASSETS	351,819	6,921	358,740	431,764	(24,332)	407,432
NET ASSETS - BEGINNING OF YEAR	4,867,236	14,160	4,881,396	4,338,676	38,492	4,377,168
Prior year adjustment	-	-	-	96,796	-	96,796
NET ASSETS - END OF YEAR	<u>\$ 5,219,055</u>	<u>\$ 21,081</u>	<u>\$ 5,240,136</u>	<u>\$ 4,867,236</u>	<u>\$ 14,160</u>	<u>\$ 4,881,396</u>

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

URBAN HOUSING SOLUTIONS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets:	\$ 358,740	\$ 407,432
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	347,642	252,507
Equity in net income of Eastwood Courts, LLC	-	4,109
Grants related to acquisition of property	-	-
(Increase) decrease in:		
Accounts receivable:		
Grants	(19,941)	(26,085)
Tenants	(30,391)	6,977
Predevelopment costs - Village Place	14,750	(14,750)
Insurance Receivable	(90,080)	918,151
Prepaid expenses, deposits and other	(75,803)	(7,481)
Accrued developer fees	15,203	-
Increase (decrease) in:		
Accounts payable and accrued expenses	115,861	(16,690)
Accrued payments in lieu of tax (PILOT)	(47,041)	2,534
Net cash (used) provided by operating activities	<u>588,940</u>	<u>1,526,704</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,593,345)	(1,010,675)
(Increase) decrease in restricted deposits	862,983	(1,282,375)
Increase in tenant security deposits payable	31,227	(20,602)
Decrease in investment in Eastwood Court, LLC	210,256	-
Cash held by Nashville Housing Fund	-	346,847
Advances from (to) Eastwood Courts, LLC	11,541	(7,096)
Advances from (to) Mercury Court Apartments, LP	(13,502)	12,491
Net cash (used) provided by investing activities	<u>(2,490,840)</u>	<u>(1,961,410)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan closing costs	(3,950)	(4,540)
Proceeds from notes payable	2,665,476	2,243,308
Principal payments on notes payable	(568,473)	(1,808,025)
Net cash (used) provided by financing activities	<u>2,093,053</u>	<u>430,743</u>
NET INCREASE (DECREASE) IN CASH	191,153	(3,963)
CASH - BEGINNING OF YEAR	<u>409,595</u>	<u>413,558</u>
CASH - END OF YEAR	<u>\$ 600,748</u>	<u>\$ 409,595</u>
NONCASH INVESTING ACTIVITIES		
Receivable for insurance proceeds relating to property damaged by fire	<u>\$ 118,363</u>	<u>\$ 28,283</u>

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

URBAN HOUSING SOLUTIONS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

	PROGRAM SERVICES			SUPPORTING SERVICES	
	RENTAL PROJECTS	RESIDENT SUPPORT PROGRAMS	TOTAL	MANAGEMENT AND GENERAL	TOTAL
Payroll and related expenses	\$ 459,169	\$ 250,414	\$ 709,583	\$ 30,540	\$ 740,123
Advertising	4,044	698	4,742	14	4,756
Contract services	27,109	29,352	56,461	330	56,791
Equipment	667	1,644	2,311	622	2,933
Insurance	167,945	6,600	174,545	175	174,720
Interest	367,532	-	367,532	105	367,637
Lawn care	12,818	28	12,846	-	12,846
Legal and professional	44,579	8,145	52,724	1,845	54,569
Management fees	21,818	5,765	27,583	-	27,583
Miscellaneous	14,760	3,553	18,313	5,103	23,416
Pest control	4,720	-	4,720	-	4,720
Printing and postage	1,400	1,778	3,178	1,373	4,551
Rent	24	-	24	-	24
Repairs and maintenance	282,229	3,458	285,687	321	286,008
Social program funds	5,802	11,139	16,941	-	16,941
Supplies	11,606	6,089	17,695	488	18,183
Taxes and licenses	32,442	400	32,842	140	32,982
Telephone	7,456	4,718	12,174	950	13,124
Trash removal	11,874	-	11,874	-	11,874
Travel	14,840	15,871	30,711	562	31,273
Utilities	362,722	752	363,474	448	363,922
Vending machine expenses	-	13,414	13,414	-	13,414
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	1,855,556	363,818	2,219,374	43,016	2,262,390
Depreciation and amortization	335,793	473	336,266	11,376	347,642
TOTAL FUNCTIONAL EXPENSES	\$ 2,191,349	\$ 364,291	\$ 2,555,640	\$ 54,392	\$ 2,610,032

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

URBAN HOUSING SOLUTIONS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2004

	PROGRAM SERVICES			SUPPORTING SERVICES	
	RENTAL PROJECTS	RESIDENT SUPPORT PROGRAMS	TOTAL	MANAGEMENT AND GENERAL	TOTAL
Payroll and related expenses	\$ 300,722	\$ 192,700	\$ 493,422	\$ 33,370	\$ 526,792
Advertising	3,252	1,272	4,524	55	4,579
Contract services	83,928	52	83,980	93	84,073
Equipment	1,745	1,494	3,239	396	3,635
Fixed assets costs	328	-	328	-	328
Insurance	116,721	4,777	121,498	85	121,583
Interest	259,867	-	259,867	295	260,162
Lawn care	10,774	-	10,774	-	10,774
Legal and professional	41,475	54,366	95,841	9,534	105,375
Loan closing costs	10,306	-	10,306	-	10,306
Management fees	1,175	13,655	14,830	-	14,830
Miscellaneous	1,896	2,149	4,045	3,367	7,412
Pest control	7,658	-	7,658	-	7,658
Payments in lieu of tax (PILOT)	2,533	-	2,533	-	2,533
Printing and postage	1,090	476	1,566	1,039	2,605
Rent	-	1,396	1,396	-	1,396
Repairs and maintenance	13,295	4,329	17,624	873	18,497
Social program funds	2,522	21,112	23,634	148	23,782
Supplies	67,556	2,958	70,514	2,395	72,909
Taxes and licenses	1,198	-	1,198	375	1,573
Telephone	7,809	5,484	13,293	1,003	14,296
Trash removal	7,644	-	7,644	-	7,644
Travel	10,838	12,733	23,571	354	23,925
Utilities	330,885	1,662	332,547	510	333,057
Vending machine expenses	-	6,947	6,947	-	6,947
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	1,285,217	327,562	1,612,779	53,892	1,666,671
Depreciation and amortization	243,378	138	243,516	8,991	252,507
TOTAL FUNCTIONAL EXPENSES	\$ 1,528,595	\$ 327,700	\$ 1,856,295	\$ 62,883	\$ 1,919,178

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

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Organization and Purpose:

Urban Housing Solutions, Inc. ("UHS") was founded in 1991 as Tennessee not-for-profit corporation. UHS provides affordable housing for homeless and other people with special needs in Middle Tennessee.

Basis of Presentation:

Urban Housing Solutions, Inc. prepares its financial statements and maintains its financial accounting records on the accrual basis of accounting.

Contributions and support

Contributions 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 restricted by the donor for future periods or 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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

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

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

Income taxes

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

Jointly-owned properties

Interests in jointly owned properties are accounted for on the equity method of accounting.

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Property and equipment

Property and equipment are stated at acquisition costs, or estimated fair market value if donated, less accumulated depreciation. Depreciation is computed on the straight-line method over estimated useful of three to ten years for furniture and equipment and thirty years for buildings and improvements.

Donated property and materials

Donated items are recorded at their fair market value at the date of the gift.

Donated services

UHS's policy is to record support and expenses for contributed services that require specialized skills and would be purchased if not provided by the donor at the fair value of services received.

Program and supporting services

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

Rental projects:

Mercury Courts - promotes individual self-improvement and provides opportunities for both independent living and integration back into the mainstream of community life by providing housing for homeless and low-income individuals.

Rex Courts - provides 96 units of housing for low-income individuals and families, of which 25 units are designed for persons with mental illness. This project is located in a largely Hispanic area and is projected to serve this population.

Clay Street - provides affordable housing for persons with mental illness.

Greentree Terrace - provides 54 units of housing for low-income individuals and families, of which 20 units are designated for persons with mental illness.

Hope Terrace (formerly known as Centennial Commons), Crown Courts Apartments, Fisk Court Apartments and Vultee Apartments - provides a recovery community, including housing and counseling for homeless persons and families recovering from drug and alcohol addictions, through the Journeys of Hope program.

Russell Street Apartments and Woodland Street Apartments - provides supportive and affordable independent living for persons with mental illness.

Shelby Courtyards - supports multi-unit housing specifically designated to accommodate the changing needs of persons living with AIDS and other low-income individuals and families.

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Program and supporting services

Rental projects continued:

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

Village Place - provides 68 units of housing for low income individuals and families.

Mercury Court Apartments - provide 20 units of housing for individuals through the low income housing tax credit program. Equity partner is SunTrust Bank.

Eastwood Courts - provide 61 units of housing for low income individuals and families.

Resident support programs:

Service Coordinator Program - provides the social work staff that is essential to assess and manage the resident population at the Fisk and Mercury Court properties. Service coordinators provide referrals to needed services, transportation, and employment assistance.

Journeys of Hope Program - provides supportive service to 80 units of housing in four different properties. These services include weekly meetings and counseling sessions, random drug screens, and community service.

IDA Program - assists residents in the creation of an Individual Development Account, a matched savings account that can be used for specific assets. UHS requires attendance at "financial literacy" classes and matches the resident's contribution (two-for-one) so that at the end of the savings period, substantial savings have accumulated.

SEED Program - provides socio-economic development activities. The SEED program sponsors the resident association and its social activities, and the educational and self-improvement classes and activities.

Client Fund Program - provides direct financial assistance to residents in order to meet their transportation, healthcare, or other emergency needs. The fund purchases bus passes, maintains the UHS transportation service, pays for eye examination and eyeglasses, and assists with dentures.

Income Generation Program - assists residents in obtaining and improving employment, and allows them to work on-site through various "micro-enterprises." The objective of this program is to increase resident's income and job skills.

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Resident support programs continued:

Vending Program - a resident run enterprise that operates all vending machines on UHS properties.

HOPWA - provides subsidized rental assistance and some supportive services to residents with HIV/AIDS.

Rex and Greentree Mental Health Program - provides subsidized rental assistance and case management supportive services for homeless residents who are diagnosed with a mental illness.

Delancy Street - promotes the development of a "Delancy Street" replication project in Nashville under the auspices of Urban Housing Solutions. Initial activities include research and training with subsequent activities including property acquisition, rehabilitation, and new construction.

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. Includes costs associated with providing coordination and articulation of UHS's program strategy, business management, general record keeping, budgeting and related purposes.

Allocation of functional expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity benefited based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

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.

Allowance for uncollectible accounts/bad debts

At the end of each year, management reviews accounts receivable in detail and writes off any account that is deemed uncollectible. Based on assessment of specific accounts and historical collection experience of rental income, no allowance for uncollectible accounts was considered necessary as of December 31, 2005 or 2004.

Reclassifications

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

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

2. GRANTS RECEIVABLE

Grants receivable consists of receivables from programs funded by the U.S. Department of Housing and Urban Development ("HUD") and the Metropolitan Development and Housing Agency ("MDHA"). Financial activities of those programs are summarized in the schedule of expenditures of federal awards.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	<u>2005</u>	<u>2004</u>
Land	\$ 1,892,850	\$ 1,640,350
Building and improvements	10,684,938	7,196,421
Furniture and equipment	470,427	365,543
	<u>13,048,215</u>	<u>9,202,314</u>
Less accumulated depreciation	(2,159,478)	(1,559,280)
	<u><u>\$ 10,888,737</u></u>	<u><u>\$ 7,643,034</u></u>

UHS received grants totaling \$70,000 in 2005 and \$100,000 in 2004 that were utilized to fund rehabilitation expenditures. These properties are part of the Mental Health units at Mercury Court and Greentree Terrace programs, respectively.

4. EASTWOOD COURT

In 2005, Urban Housing Solutions, Inc. purchased all equity in Eastwood Courts, LLC, a 61-unit apartment complex in East Nashville. Prior to 2005, Urban Housing Solutions had been a 50% owner. The other 50% owner was Mental Health Cooperative.

5. NOTES PAYABLE

Notes payable consist of the following as of December 31 2005:

Note payable - Nashville Housing Fund (3.5%); interest due monthly beginning October 2004 through October 2005; then due in monthly principle payments of \$2,510; final balloon payment for the balance due October 2009; secured by real estate.

\$ 528,000

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

5. NOTES PAYABLE - CONTINUED

Note Payable - Nashville Housing Fund (3.5%); interest due monthly beginning January 2004 through January 2005; then due in monthly principle payments of \$3,825; final balloon payment for the balance due February 2010; secured by real estate.	\$ 800,000
Note payable - SunTrust Bank (6.75); due in monthly principle and interest payments of \$2,661 through August 2006; final balloon payment for balance due September 2006; secured by real estate.	324,964
Mortgage payable - Capital Bank & Trust (6.00%); payable in monthly installments of \$2,867 beginning October 2004, with final balloon payment for the balance due September 2009; secured by real estate.	379,611
Note payable - Tenn Loan, Inc. (3.00%); payable in monthly installments of \$724 beginning August 2001, through July 2012; secured by real estate	43,984
Mortgage payable - Regions Bank (5.60%); payable in monthly installments of \$9,573 beginning January 2002, with final balloon payment for the balance due December 2009; secured by real estate	1,353,399
Note payable - Nashville Housing Fund (3.00%); interest payments through August 2006; final balloon payment for balance due September 2006; secured by real estate.	550,000
Note payable - Capital Bank & Trust (prime rate + .25%); monthly principal and interest payment of \$996 beginning August 2003; final balloon payment for the balance due July 2007; secured by real estate	150,772
Note payable - Regions Bank (prime rate of interest); payable in monthly principal and interest payment of \$1,220 beginning of October 2003, final balloon payment for the balance due September 2008; secured by real estate	\$ 190,550

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

5. NOTES PAYABLE - CONTINUED

Note payable - Regions Bank (prime rate of interest); interest due monthly beginning October 2003 through October 2004, then due in monthly principal payments of \$2,310 through September 25, 2008; secured by real estate. \$ 915,371

Note payable - First Tennessee Bank (6.75%); due in monthly principle and interest payments of \$2,281 through August 2006; final balloon payment for balance due September 2006; secured by real estate. 279,846

Note payable - Regions (6.75%); due in monthly principle and interest payments of \$1,521 through August 2006; final balloon payment for balance due September 2006; secured by real estate. 191,770

Note payable - AmSouth Bank (5.00%); payable in monthly principle and interest payment of \$6,439 beginning March 2001. 816,275

Note payable - Capitol Bank & Trust (6.00%); interest due monthly beginning March 2005 through February 2006, then due in monthly principal payments of \$5,196 through February 2010; final balloon payment for the balance due February 2010; secured by real estate. 794,533

Total Notes Payable \$ 7,319,075

Annual principal maturities of notes payable as of December 31, 2005 are as follows:

2006	\$ 2,308,705
2007	294,048
2008	1,152,246
2009	2,104,141
2010 and thereafter	<u>1,459,935</u>
	<u><u>\$ 7,319,075</u></u>

Interest expense of \$367,637 was paid in 2005 and \$260,162 in 2004.

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

6. CONCENTRATIONS OF CREDIT RISK

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

UHS maintains deposit accounts with two financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000 each. Excess uninsured balances of UHS approximated \$1,100,000 in 2005 and \$1,600,000 in 2004. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2005</u>	<u>2004</u>
Foundation grants for tenant assistance	<u>\$ 21,081</u>	<u>\$ 14,160</u>

8. COMMITMENTS AND CONTINGENCIES

Federal and State Grants

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

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

8. COMMITMENTS AND CONTINGENCIES - continued

Insurance settlement for the fire damage at Rex's Courtyards Apartments

In September 2003, one of the buildings at Rex's Courtyards that was under renovation was destroyed by fire. UHS and the insurance company are still negotiating the terms of the applicable insurance coverage on this property and under the builders risk policies relating to the renovation in progress at the time of the fire. At December 31, 2004, UHS had received \$918,251 of the insurance proceeds. As of December 31, 2005 UHS accrued \$118,363 of additional proceeds, which was received in May 2006. Management is pursuing additional damage to the other two buildings on site. The amount of such additional proceeds, if any, will be recognized in the period a settlement is reached.

9. ACCRUED PAYMENTS IN LIEU OF TAXES (PILOT)

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

The Metropolitan Council approved the formula for calculating PILOT payments to be 25% of the normal property taxes. As of December 31, 2005, accrued PILOT has been recorded as a liability in the amount of \$29,475.

PILOT expense was \$1,923 in 2005 and \$2,533 in 2004.

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

10. RELATED PARTY TRANSACTIONS

In December 2001, UHS transferred property valued at \$70,000 to Mercury Court Apartments, LP a Tennessee limited partnership, for a .10% ownership interest through its wholly-owned subsidiary, The Park Development, Inc. The Park is the general partner in the partnership. UHS is developer of the 20-unit multifamily residential project. UHS is owed a developer fee of \$37,600. This fee will be paid from future capital contributions, cash flow or upon disposition of Mercury Court Apartments.

Mercury Courts Apartments, LP has entered into an agreement with UHS, in connection the management of the rental operations of the project. In accordance with this agreement, UHS earns 10% of the gross operating revenues received from the preceding month. Management fees that UHS earned were \$11,096 in 2005 and \$11,585 in 2004. No operating income or loss passed through to UHS from the Partnership in 2005 or 2004.

Mercury Court Apartments, LP qualified 100% of the units for low income housing credits in accordance with Section 42 of the Internal Revenue Code as enacted by the Tax Reform Act of 1986. The applicable low-income housing tax credit will be available to the limited partner over a ten-year period. The units must meet the provisions of Section 42 of the Internal Revenue Code during the next fifteen years in order to remain qualified to receive the credits.

11. PRIOR PERIOD ADJUSTMENT

Accounts payable were overstated as of December 31, 2003. An adjustment of \$96,796 was made to net assets during 2004 to correct overstatement of the liability.

SUPPLEMENTAL INFORMATION

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Federal Grantor/ Pass-Through Grantor Agency & Program Name	Federal CFDA #	Grant Number	Grant Period	Grant Amount	(Accrued) Deferred Revenue 1/1/05	1/1/05 - 12/31/05		(Accrued) Deferred Revenue 12/31/05
					Receipts	Expenditures		
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:								
Multifamily Housing Service Coordinator Program	14.191	TN43HS00004	3/1/04 - 2/28/05	\$ 346,469	\$ (24,740)	\$ 24,740	\$ -	\$ -
Multifamily Housing Service Coordinator Program	14.191	TN43HS00004	3/1/05 - 2/28/06	\$ 346,469	-	89,977	116,790	(26,813)
Multifamily Housing Service Coordinator Program	14.191	TN43HS00005	3/1/04 - 2/28/06	169,090	(4,440)	19,176	23,251	(8,515)
Supportive Housing Program	14.235	TN37B104001	(1)	500,000	(14,595)	67,808	92,044	(38,831)
Supportive Housing Program	14.235	TN37B004001	8/1/02 - 7/31/05	250,000	(4,765)	4,765	-	-
Supportive Housing Program	14.235	TN37B004001	8/1/05 - 7/31/06	250,000	-	19,419	43,034	(23,615)
Supportive Housing Program	14.235	TN37B204001	10/1/03 - 9/30/06	500,000	(11,918)	39,824	45,872	(17,966)
Supportive Housing Program	14.235	TN37B204002	4/1/03 - 3/31/06	131,363	-	14,954	22,307	(7,353)
Supportive Housing Program	14.235	TN37B204002	1/1/05 - 12/31/07	73,750	-	22,509	26,130	(3,621)
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:								
Housing Opportunities for Persons with AIDS	12.241	N/A	4/1/03 - 3/31/05	183,765	(18,294)	18,294	-	-
Housing Opportunities for Persons with AIDS	12.241	N/A	4/1/04 - 3/31/06	55,000	(64,155)	141,766	94,121	(16,510)
Community Housing Development Organization -HOME Investment Partnership Program - administrative funds		N/A		141,000	(4,651)	4,651		-
Community Housing Development Organization -HOME Investment Partnership Program		N/A		35,250	(12,681)	16,840	4,159	-
Community Housing Development Organization -HOME Investment Partnership Program	12.241	N/A			-	48,904	82,662	(33,758)
Community Housing Development Organization -HOME Investment Partnership Program	12.241	N/A	1/1/03 - 12/31/05	170,000	-	6,036	9,234	(3,198)
Community Housing Development Organization -HOME Investment Partnership Program	14.239	N/A	6/11/02 - 6/11/17	212,500	-	-	-	-
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ (160,239)	\$ 539,663	\$ 559,604	\$ (180,180)

(1) Not specified by grantor

Basis of presentation

This schedule of expenditures of federal awards includes the federal grant activity of Urban Housing Solutions, Inc. 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 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*.

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

	PROGRAM SERVICES																	TOTAL RENTAL PROJECTS
	SHELBY COURTYARDS	WOODLAND	MERCURY COURTS	HOPE	CROWN COURTS	FISK	RUSSELL	CLAY STREET	REN'S COURTYARD	VULTEE GARDENS	GREENTREE TERRACE	RIVER TERRACE	MERCURY CONVERSIONS	EASTWOOD COURT	VILLAGE PLACE	DELANCEY STREET		
REVENUES																		
Rental Income	\$ 41,375	\$ 13,800	\$ 642,251	\$ 88,593	\$ 64,989	\$ 65,993	\$ 47,880	\$ 8,400	\$ 426,987	\$ 50,125	\$ 166,508	\$ 73,642	\$ -	\$ 212,135	\$ 148,403	\$ -	\$ 2,051,081	
Grants	-	-	70,000	20,542	22,307	23,251	-	-	17,826	65,388	20,096	-	4,159	-	82,662	7,500	333,731	
Other	1,258	-	2,668	2,001	-	415	-	-	4,326	-	1,773	-	-	21,814	10	-	34,265	
Total Revenues	42,633	13,800	714,919	111,136	87,296	89,659	47,880	8,400	449,139	115,513	188,377	73,642	4,159	233,949	231,075	7,500	2,419,677	
EXPENSES																		
Pavroll and related expenses	7,826	3,161	197,839	19,023	12,068	28,779	7,737	1,395	62,376	10,834	32,263	11,081	-	35,868	28,919	-	459,169	
Advertising	44	17	614	151	269	55	42	10	501	-	435	69	-	1,408	429	-	4,044	
Contract services	304	98	5,298	984	507	5,734	307	57	1,552	3,094	1,269	751	-	3,156	1,798	-	27,109	
Equipment	-	-	-	45	32	31	77	4	156	26	89	32	-	89	86	-	667	
Insurance	1,022	2,750	32,445	7,931	6,081	3,081	3,257	1,095	29,467	5,704	19,376	5,648	-	23,620	24,337	131	167,945	
Interest	-	-	77,005	12,175	10,677	10,677	-	-	91,638	10,983	25,410	15,874	-	43,755	69,338	-	367,532	
Lawn care	-	-	-	458	728	566	1,394	-	1,016	955	3,275	1,100	-	2,426	900	-	12,818	
Legal and professional	761	199	14,085	2,010	1,753	2,831	435	121	7,419	605	3,092	989	-	6,282	3,997	-	44,579	
Management fees	1,200	-	-	2,520	-	-	-	-	2,400	1,430	1,918	1,200	-	4,000	7,150	-	21,818	
Miscellaneous	81	34	8,781	204	168	216	82	20	1,031	305	530	1,087	-	1,565	656	-	14,760	
Pest control	80	-	1,579	305	414	133	350	-	640	107	360	141	-	324	287	-	4,720	
Printing and postage	33	7	473	48	29	37	17	4	263	23	156	55	-	74	187	-	1,400	
Rent	-	-	-	-	-	-	-	-	-	-	24	-	-	-	-	-	24	
Repairs and maintenance	8,685	997	78,245	12,075	10,053	4,618	4,666	227	53,641	8,596	19,411	13,759	-	57,276	9,980	-	282,229	
Social program funds	135	23	1,522	269	165	593	111	28	889	148	534	185	-	570	610	-	5,802	
Supplies	179	71	2,566	370	258	2,313	147	39	1,198	202	890	252	-	782	806	1,533	11,606	
Taxes and licenses	-	-	-	2,326	3,890	1,443	-	-	8,380	1,940	4,999	2,051	-	2,107	5,306	-	32,432	
Telephone	116	48	1,641	307	215	506	116	31	1,242	167	1,380	194	-	469	1,022	-	7,450	
Trash removal	1,373	-	2,511	423	211	1,061	230	-	1,385	1,307	869	259	-	908	1,337	-	11,874	
Travel	556	213	1,213	1,308	1,285	1,392	656	48	1,664	334	1,014	828	-	3,370	950	-	14,840	
Utilities	6,833	8	114,221	20,312	9,778	10,682	8,177	5	104,894	8,332	17,924	6,291	-	38,738	16,525	-	162,722	
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	31,228	7,626	540,040	83,244	58,381	71,748	27,801	3,084	373,752	55,094	135,212	61,846	-	226,987	174,649	1,664	1,855,556	
Depreciation and amortization	7,225	5,491	58,511	22,368	15,603	9,042	12,497	2,352	59,998	21,331	45,057	13,027	5,386	9,614	48,291	-	735,793	
TOTAL FUNCTIONAL EXPENSES	38,453	13,117	598,551	105,612	74,184	83,790	40,298	5,436	433,750	76,425	180,269	74,873	5,386	236,601	222,940	1,664	2,191,349	
REVENUE OVER EXPENSES	\$ 4,180	\$ 683	\$ 116,368	\$ 5,524	\$ 13,112	\$ 5,869	\$ 7,582	\$ 2,964	\$ 15,389	\$ 39,088	\$ 8,108	\$ (1,231)	\$ (1,227)	(2,652)	\$ 8,135	\$ 5,836	\$ 227,728	

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

	SERVICE COORDINATOR PROGRAM	JOURNEYS OF HOPE PROGRAM	VENDING PROGRAM	MENTAL HEALTH	IDA PROGRAM	SEED PROGRAM	CLIENT FUND PROGRAM	INCOME GENERATION PROGRAM	RESIDENT SUPPORT PROGRAMS	TOTAL	SUPPORTING SERVICES MANAGEMENT AND GENERAL	TOTAL
REVENUES												
Program Income	\$ -	\$ -	\$ 13,670	\$ -	\$ -	\$ 3,500	\$ 170	\$ -	\$ 17,340	\$ 2,068,421	\$ -	\$ 2,068,421
Grants	116,790	70,275	11,600	34,079	-	28,800	20,500	94,123	376,167	709,898	-	709,898
Other	-	-	-	-	-	-	24,914	-	24,914	59,179	131,274	190,453
Total Revenues	116,790	70,275	25,270	34,079	-	32,300	45,584	94,123	418,421	2,837,498	131,274	2,968,772
EXPENSES												
Payroll and related expenses	98,468	76,036	-	35,063	2,191	-	15,740	22,916	250,414	709,583	30,540	740,123
Advertising	-	698	-	-	-	-	-	-	698	4,742	14	4,756
Contract services	-	3,913	3,067	565	-	17,793	4,014	-	29,352	56,461	330	56,791
Equipment	-	13	-	287	-	756	392	196	1,644	2,311	622	2,933
Insurance	130	522	-	751	131	131	4,805	130	6,600	174,545	175	174,720
Interest	-	-	-	-	-	-	-	-	-	367,532	105	367,637
Lawn care	-	28	-	-	-	-	-	-	28	12,846	-	12,846
Legal and professional	2,637	2,613	-	1,557	41	400	372	525	8,145	52,724	1,845	54,569
Management fees	-	5,765	-	-	-	-	-	-	5,765	27,583	-	27,583
Miscellaneous	599	977	-	10	-	577	1,390	-	3,553	18,313	5,103	23,416
Pest control	-	-	-	-	-	-	-	-	-	4,720	-	4,720
Printing and postage	39	313	-	12	-	25	1,389	-	1,778	3,178	1,373	4,551
Rent	-	-	-	-	-	-	-	-	-	24	-	24
Repairs and maintenance	1,310	118	70	795	-	20	1,145	-	3,458	285,687	321	286,008
Social program funds	9	7,046	-	175	-	1,079	2,830	-	11,139	16,941	-	16,941
Supplies	1,700	2,146	376	905	106	113	559	184	6,089	17,695	488	18,183
Taxes and licenses	-	-	-	-	-	-	400	-	400	32,842	140	32,982
Telephone	609	1,770	-	734	-	463	455	687	4,718	12,174	950	13,124
Trash removal	-	-	-	-	-	-	-	-	-	11,874	-	11,874
Travel	4,035	1,586	-	3,172	-	118	6,029	931	15,871	30,711	562	31,273
Utilities	105	44	-	182	-	315	-	106	752	363,474	448	363,922
Vending machine expenses	-	-	13,414	-	-	-	-	-	13,414	13,414	-	13,414
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	109,641	103,588	16,927	44,208	2,469	21,790	39,520	25,675	363,818	2,219,374	43,016	2,262,390
Depreciation and amortization	-	-	-	-	-	473	-	-	473	336,266	11,376	347,642
TOTAL FUNCTIONAL EXPENSES	109,641	103,588	16,927	44,208	2,469	22,263	39,520	25,675	364,291	2,555,640	54,392	2,610,032
REVENUE OVER EXPENSES	\$ 7,149	\$ (33,313)	\$ 8,343	\$ (10,129)	\$ (2,469)	\$ 10,037	\$ 6,064	\$ 68,448	\$ 54,130	\$ 281,858	\$ 76,882	\$ 358,740

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2004

	PROGRAM SERVICES													TOTAL RENTAL PROJECTS
	SHELBY COURTYARDS	WOODLAND	MERCURY COURTS	HOPE	CROWN COURTS	FISSK	RUSSELL	CLAY STREET	REX'S COURTYARD	VULTEE GARDENS	GREENTREE TERRACE	RIVER TERRACE	MERCURY CONVERSIONS	
REVENUES														
Rental Income	\$ 49,353	\$ 13,800	\$ 646,360	\$ 101,512	\$ 55,335	\$ 71,280	\$ 54,870	\$ 8,400	\$ 426,898	\$ 53,518	\$ 123,275	\$ 12,456	\$ -	\$ 1,617,057
Grants	-	-	-	21,401	7,178	-	-	-	7,756	46,785	140,596	-	172,091	395,807
Total Revenues	49,353	13,800	646,360	122,913	62,513	71,280	54,870	8,400	434,654	100,303	263,871	12,456	172,091	2,012,864
EXPENSES														
Payroll and related expenses	9,987	2,920	137,598	16,736	14,489	12,210	10,073	1,374	56,048	11,890	25,137	2,260	-	300,722
Advertising	62	21	1,773	123	83	82	50	12	743	66	223	14	-	3,252
Contract services	2,155	844	39,230	3,715	5,860	2,958	3,344	213	18,222	2,085	3,517	1,785	-	83,928
Equipment	43	18	808	106	72	70	43	11	531	57	(345)	31	300	1,745
Fixed assets costs	-	328	-	-	-	-	-	-	-	-	-	-	-	328
Insurance	3,540	3,000	37,805	9,074	6,857	3,854	3,731	1,348	21,947	6,299	16,419	2,847	-	116,721
Interest	-	-	94,056	9,444	12,778	12,778	-	-	95,759	8,731	26,321	-	-	259,867
Lawn care	520	3	796	620	781	610	1,377	1	1,078	1,368	3,570	50	-	10,774
Legal and professional	870	271	17,081	3,328	2,760	1,448	744	249	9,113	1,411	4,018	182	-	41,475
Loan closing costs	-	-	10,306	-	-	-	-	-	-	-	-	-	-	10,306
Management fees	75	-	-	-	-	-	-	-	-	-	1,100	-	-	1,175
Miscellaneous	21	7	384	44	30	29	18	5	1,197	74	80	7	-	1,896
Pest control	219	4	3,085	522	549	303	452	2	1,448	242	829	3	-	7,658
Payments in lieu of tax (PILOT)	-	-	-	-	-	-	-	-	-	-	2,533	-	-	2,533
Printing and postage	23	10	322	57	39	38	23	6	408	31	106	27	-	1,090
Rem	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repairs and maintenance	279	43	4,288	802	384	333	309	23	4,493	308	1,578	455	-	13,295
Social program funds	38	16	1,095	209	130	144	39	9	486	104	213	19	-	2,522
Supplies	2,049	702	25,324	5,063	3,882	1,730	3,115	218	17,112	2,796	4,132	1,240	193	67,556
Taxes and licenses	-	-	-	-	-	-	-	-	-	-	-	1,198	-	1,198
Telephone	176	74	2,521	439	295	292	177	44	1,415	236	2,080	60	-	7,809
Trash removal	1,456	-	1,620	430	350	1,275	118	-	1,010	1,235	100	50	-	7,644
Travel	488	192	346	1,064	821	675	512	97	4,050	774	1,766	53	-	10,838
Utilities	6,460	3	139,642	18,573	10,429	11,833	12,114	2	108,796	7,309	14,701	1,023	-	330,885
Vending machine expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	28,461	8,456	518,080	70,349	60,589	50,662	36,239	3,614	343,856	45,016	108,098	11,304	493	1,285,217
Depreciation and amortization	7,125	5,404	57,246	22,052	15,386	8,812	12,358	2,294	55,603	20,990	32,259	3,037	812	243,378
TOTAL FUNCTIONAL EXPENSES	35,586	13,860	575,326	92,401	75,975	59,474	48,597	5,908	399,459	66,006	140,357	14,341	1,305	1,528,595
REVENUE OVER EXPENSES	\$ 13,767	\$ (60)	\$ 71,034	\$ 30,512	\$ (13,462)	\$ 11,806	\$ 6,273	\$ 2,492	\$ 35,195	\$ 34,297	\$ 123,514	\$ (1,885)	\$ 170,786	\$ 484,269

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

	SERVICE COORDINATOR PROGRAM	JOURNEYS OF HOPE PROGRAM	VENDING MACHINES	MENTAL HEALTH	IDA PROGRAM	SEED PROGRAM	CLIENT FUND PROGRAM	INCOME GENERATION PROGRAM	TOTAL RESIDENT SUPPORT PROGRAMS	TOTAL	SUPPORTING SERVICES MANAGEMENT AND GENERAL	TOTAL
REVENUES												
Rental Income	\$ -	\$ 419	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 419	\$ 1,617,476	\$ -	\$ 1,617,476
Grants	92,150	43,725	-	22,264	-	-	10,000	13,649	181,788	577,595	6,400	583,995
Total Revenues	92,150	44,144	-	22,264	-	-	10,000	13,649	182,207	2,195,071	6,400	2,201,471
EXPENSES												
Payroll and related expenses	96,922	32,975	-	25,638	2,074	-	5,103	29,988	192,700	493,422	33,370	526,792
Advertising	229	-	-	134	-	-	650	259	1,272	4,524	55	4,579
Contract services	-	-	-	-	-	35	17	-	52	83,980	93	84,073
Equipment	-	-	-	1,178	-	95	81	140	1,494	3,239	396	3,635
Fixed assets costs	-	-	-	-	-	-	-	-	-	328	-	328
Insurance	249	498	-	249	125	124	3,158	374	4,777	121,498	85	121,583
Interest	-	-	-	-	-	-	-	-	-	259,867	295	260,162
Lawn care	-	-	-	-	-	-	-	-	-	10,774	-	10,774
Legal and professional	4,271	13,535	1,300	493	46	21,796	11,774	1,151	54,366	95,841	9,514	105,375
Loan closing costs	-	-	-	-	-	-	-	-	-	10,306	-	10,306
Management fees	350	13,305	-	-	-	-	-	-	13,655	14,830	-	14,830
Miscellaneous	1,231	165	56	-	20	-	677	-	2,149	4,045	3,367	7,412
Pest control	-	-	-	-	-	-	-	-	-	7,658	-	7,658
Payments in lieu of tax (PILOT)	-	-	-	-	-	-	-	-	-	2,533	-	2,533
Printing and postage	14	7	-	3	-	5	384	63	476	1,566	1,039	2,605
Rent	698	-	-	698	-	-	-	-	1,396	1,396	-	1,396
Repairs and maintenance	786	438	-	460	-	185	2,235	225	4,329	17,624	871	18,497
Social program funds	45	4,345	-	-	4,522	5,721	5,512	967	21,112	23,634	148	23,782
Supplies	729	1,034	-	368	3	308	175	341	2,958	70,514	2,395	72,909
Taxes and licenses	-	-	-	-	-	-	-	-	-	1,198	375	1,573
Telephone	1,397	2,051	-	566	-	362	396	712	5,484	13,293	1,003	14,296
Trash removal	-	-	-	-	-	-	-	-	-	7,644	-	7,644
Travel	5,425	826	10	348	-	116	5,583	425	12,733	23,571	354	23,925
Utilities	340	284	-	561	-	372	-	105	1,662	332,547	510	333,057
Vending machine expenses	-	-	6,947	-	-	-	-	-	6,947	6,947	-	6,947
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	112,686	69,463	8,313	30,696	6,790	29,119	35,745	34,750	327,562	1,612,779	53,892	1,666,671
Depreciation and amortization	-	-	-	-	-	138	-	-	138	243,516	8,991	252,507
TOTAL FUNCTIONAL EXPENSES	112,686	69,463	8,313	30,696	6,790	29,257	35,745	34,750	327,700	1,856,295	62,883	1,919,178
REVENUE OVER EXPENSES	\$ (20,536)	\$ (25,319)	\$ (8,313)	\$ (8,432)	\$ (6,790)	\$ (29,257)	\$ (25,745)	\$ (21,101)	\$ (145,493)	\$ 338,776	\$ (56,483)	\$ 282,293



BELLENFANT + MILES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**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**

To the Board of Directors
Urban Housing Solutions, Inc.
Nashville, Tennessee

We have audited the financial statements of Urban Housing Solutions, Inc., as of and for the year ended December 31, 2005, and have issued our report thereon dated September 13, 2006. 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 Urban Housing Solutions, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Urban Housing Solutions, Inc.'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 the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Bellenfant & Miles, P.C.

September 13, 2006



BELLENFANT + MILES, P.C.
FEDERAL TAX & ACCOUNTANTS

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

To the Board of Directors
Urban Housing Solutions, Inc.
Nashville, Tennessee

Compliance

We have audited the compliance of Urban Housing Solutions, Inc. 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 December 31, 2005. Urban Housing Solutions, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned cost. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Urban Housing Solutions, Inc.'s management. Our responsibility is to express an opinion on Urban Housing Solutions, Inc.'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 A133, *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 Urban Housing Solutions, Inc.'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 of Urban Housing Solutions, Inc.'s compliance with those requirements.

In our opinion, Urban Housing Solutions, Inc. 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 December 31, 2005.

Internal Control Over Compliance

The management of Urban Housing Solutions, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Urban Housing Solutions, Inc.'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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Bellenfant & Miles, P.C.

September 13, 2006

URBAN HOUSING SOLUTIONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2005

PART I - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Urban Housing Solutions, Inc.
2. No reportable conditions relating to the audit of the financial statements are reported in the "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."
3. No instances of noncompliance material to the financial statements of Urban Housing Solutions, Inc., which would be required to be reported in accordance with *Governmental Auditing Standards*, were disclosed in the audit.
4. No reportable conditions in internal control over major federal award programs were reported in the "Auditors' Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133."
5. The auditors' report on compliance for the UHS's major federal program expresses an unqualified opinion.
6. No findings relating to the audit of the major federal award program are reported in the Auditors' Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.
7. The programs tested as major programs included: Supportive Housing Programs. CFDA No. 14.235.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Urban Housing Solutions, Inc. qualified as a low-risk auditee.

URBAN HOUSING SOLUTIONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2005

**PART II – FINDINGS AND QUESTIONED COST REPORTED IN ACCORDANCE WITH
GENERALLY ACCEPTED GOVERNMENT AUDITING PROCEDURES**

1. There were no findings reported in accordance with generally accepted government auditing procedures.

PART III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. There were no findings or questioned costs for federal awards.

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2005

There were no audit findings for the year ended December 31, 2004.