THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2007 AND 2006

THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2007 AND 2006

CONTENTS

KraftCPAs PLLC

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. ("THF"), a Tennessee not-for-profit corporation, and subsidiary (collectively, the "Agency") as of September 30, 2007 and 2006, 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, 2007 and 2006, 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 February 12, 2008, 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 20 through 22, 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.

KraftCPAs PLLC

Nashville, Tennessee
February 12, 2008

KraftCPAs PLLC - Certified Public Accountants and Consultants
555 Great Circle Road • Suite 200 • Nashville, TN 37228 • Phone 615-242-7351 • Fax 615-782-4271 • www.kraftcpas.com
Also in Columbia and Lebanon, Tennessee • An independently owned member of the RSM McGladrey Network

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2007 AND 2006

	2007	2006
ASSETS		
Cash and cash equivalents	$ 2,671,999	$ 592,159
Investments - certificates of deposit	114,766	107,894
Accounts receivable	38,999	43,665
Government grants receivable	117,326	107,460
Accrued interest on certificates of deposit	1,361	2,369
Accrued interest on loans receivable	437,434	372,209
Down payment assistance loans receivable, less allowance for uncollectible loans of: 2007 - $301,063; 2006 - $351,924 - Note 2	6,349,199	6,383,968
Development loans receivable, less allowance for uncollectible loans of: 2007 - $339,720; 2006 - $358,990 - Note 2	8,899,960	11,597,083
Real estate development costs - Note 3	556,195	435,396
Prepaid expenses	2,200	1,912
Property, furniture and equipment, net - Note 4	284,957	220,673
Investment in limited partnership	200,000	200,000
TOTAL ASSETS	$ 19,674,396	$ 20,064,788
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 37,262	$ 34,426
Accrued expenses	91,028	74,324
Notes payable - Note 5	10,233,395	10,567,885
TOTAL LIABILITIES	10,361,685	10,676,635
COMMITMENTS AND CONTINGENCIES - Notes 3 and 8		
NET ASSETS		
Unrestricted	9,312,711	9,388,153
TOTAL NET ASSETS	9,312,711	9,388,153
TOTAL LIABILITIES AND NET ASSETS	$ 19,674,396	$ 20,064,788

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007			2006		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS
SUPPORT AND REVENUES						
Public support:						
Federal, state and local government grants	$ 754,523	$ -	$ 754,523	$ 884,870	$ -	$ 884,870
Grant from financial institution	46,000	-	46,000	18,265	-	18,265
Contributions - Note 5	6,927	-	6,927	230,310	-	230,310
Revenues:						
Service and administrative fees	122,987	-	122,987	165,339	-	165,339
Interest income:						
Loans	684,907	-	684,907	591,571	-	591,571
Other investments	85,096	-	85,096	54,590	-	54,590
Other	13,636	-	13,636	12,243	-	12,243
Net assets released from restrictions	-	-	-	100,000	(100,000)	-
TOTAL SUPPORT AND REVENUES	1,714,076	-	1,714,076	2,057,188	(100,000)	1,957,188
EXPENSES						
Program services:						
Low-income housing assistance programs	1,504,632	-	1,504,632	1,471,884	-	1,471,884
Supporting services:						
Management and general	284,886	-	284,886	362,451	-	362,451
TOTAL EXPENSES	1,789,518	-	1,789,518	1,834,335	-	1,834,335
CHANGE IN NET ASSETS	(75,442)	-	(75,442)	222,853	(100,000)	122,853
NET ASSETS - BEGINNING OF YEAR	9,388,153	-	9,388,153	9,165,300	100,000	9,265,300
NET ASSETS - END OF YEAR	$ 9,312,711	$ -	$ 9,312,711	$ 9,388,153	$ -	$ 9,388,153

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007			2006		
	Program Services	Supporting Services		Program Services	Supporting Services	
	Low-Income Housing Assistance	Management and General	Totals	Low-Income Housing Assistance	Management and General	Totals
Payroll and related costs - Note 7	$ 532,351	$ 220,297	$ 752,648	$ 441,257	$ 138,781	$ 580,038
Forgiveness of down payment assistance loans - Note 2	265,243	-	265,243	325,272	-	325,272
Provision for uncollectible loans	50,000	-	50,000	267,814	-	267,814
Impairment loss on real estate development costs - Note 3	106,000	-	106,000	-	-	-
Advertising	13,723	922	14,645	12,099	30,263	42,362
Counseling	101,000	-	101,000	74,740	-	74,740
Depreciation	14,799	5,671	20,470	15,019	4,360	19,379
Interest	247,218	-	247,218	194,955	-	194,955
Occupancy	43,615	17,500	61,115	37,695	16,469	54,164
Office expense and miscellaneous - Note 9	45,096	35,047	80,143	22,015	137,591	159,606
Printing	4,655	344	4,999	-	2,267	2,267
Professional fees	26,207	5,066	31,273	13,471	32,248	45,719
Servicing fees	54,724	40	54,764	67,547	472	68,019
	$ 1,504,632	$ 284,886	$ 1,789,518	$ 1,471,884	$ 362,451	$ 1,834,335

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
OPERATING ACTIVITIES		
Change in net assets	$ (75,442)	$ 122,853
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	20,470	19,379
Non-cash contribution - elimination of accrued interest on notes payable - Note 5	-	(208,152)
Accrued interest added to notes payable	40,510	40,076
Provision for uncollectible loans	50,000	267,815
Impairment loss on real estate development costs - Note 3	106,000	-
Forgiveness of down payment assistance loans - Note 2	265,243	325,272
(Increase) decrease in:		
Accounts receivable	4,666	50,903
Government grants receivable	(9,866)	(16,716)
Contributions receivable	-	100,000
Accrued interest receivable	(64,217)	(105,589)
Real estate development costs	(149,946)	(37,843)
Prepaid expenses	(288)	(1,912)
(Decrease) increase in:		
Accounts payable	2,836	(30,430)
Accrued expenses	16,704	26,951
Refundable advances from governmental agencies	-	(192,849)
Net adjustments	282,112	236,905
NET CASH PROVIDED BY OPERATING ACTIVITIES	206,670	359,758
INVESTING ACTIVITIES		
Acquisition of property and equipment	(84,754)	(10,631)
Housing down payment assistance loans made	(983,599)	(584,963)
Principal repayment on down payment assistance loans	683,855	770,331
Development loans made	(4,023,898)	(8,692,077)
Development loans sold to participating institutions	526,393	1,523,607
Principal repayments on development loans	6,137,045	3,350,411
Purchase of investments - certificates of deposit	(114,766)	(107,894)
Sale of investments - certificates of deposit	107,894	105,196
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	2,248,170	(3,646,020)
FINANCING ACTIVITIES		
Proceeds from long-term obligations	625,000	2,800,000
Principal payments on long-term obligations	(1,000,000)	(72,705)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(375,000)	2,727,295
INCREASE (DECREASE) IN CASH	2,079,840	(558,967)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	592,159	1,151,126
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,671,999	$ 592,159
NONCASH INVESTING ACTIVITIES:		
Carrying value of foreclosed development loan transferred to real estate development costs - Note 3	$ 76,853	$ -
ADDITIONAL CASH FLOW INFORMATION:		
Interest expense paid	$ 201,758	$ 152,646

See accompanying notes to consolidated financial statements.

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, beginning February 1, 2004 (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 financial statements of the Agency have been prepared on the accrual basis in accordance 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.

- *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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued)

- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring in perpetuity that the principal be invested and the income or specific portions thereof be used for operations. The Agency had no permanently restricted net assets as of September 30, 2007 and 2006.

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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted

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

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.

Cash and cash equivalents

Cash and cash equivalents include demand deposits and money market funds with banks.

Accounts receivable

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

Investments

Investments consist of certificates of deposit with original maturities when purchased of more than three months and are stated at cost, which approximates fair value. These investments are with a financial institution in the name of the Metropolitan Development and Housing Agency ("MDHA"), which manages and invests these funds for THF under a memorandum of understanding.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 more and an expected useful life greater than one year. Depreciable assets are depreciated by the straight-line method over their estimated useful lives. Estimated useful lives are the lesser of 20 years or the life of the lease, if shorter, for leasehold improvements, three years for computer equipment, and seven years for furniture and fixtures.

Donated goods and services

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

Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Agency if not donated. Such services are recognized at 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Program and supporting services

The following functional expense categories are included in the accompanying consolidated financial statements:

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.

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.

Reclassifications

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

NOTE 2 - LOANS RECEIVABLE

Down payment assistance loans

Down payment assistance loans to homebuyers made from unrestricted funds consist of the following as of September 30:

	2007	2006
Down payment assistance loans, ranging from $1,000 to $30,000, for terms of 5 to 30 years, with interest at rates from 2% to 8%	$ 2,971,739	$ 3,125,837
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	255,164	574,437
Non-interest bearing loans that are payable upon the sale of the property	3,423,359	3,034,988
	6,650,262	6,735,262
Less: allowance for uncollectible loans	(301,063)	(351,294)
Total	$ 6,349,199	$ 6,383,968

Forgiveness of loans that are in-substance grants amounted to $265,243 in 2007 ($325,272 in 2006).

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, 2007:

2008	$ 192,832
2009	197,586
2010	194,554
2011	183,025
2012	174,536
Thereafter	2,029,206
	$ 2,971,739

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

Development loans

Development loans consist of the following as of September 30:

		2007	2006
Loans to not-for-profit, government and for-profit developers for the development of affordable housing, ranging from $52,000 to $2,200,000, for terms of 9 to 60 months, with interest at rates from 3% 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.		$ 5,550,335	$ 8,176,706
Predevelopment loans, in the amount of $35,000, to not-for-profit developers that are interest free for a term of 24 months.		108,229	105,000
Development loans to Conexion Americas, a not-for-profit agency, to fund *Puertas Abiertas*, a down payment assistance program for Hispanic families		438,531	494,719
THF's share of outstanding balance on participation loans:			
Loan agreement with 5th and Main Residential Owner, Inc.	(1)	1,750,000	1,523,631
Loan agreement with Urban Housing Solutions, Inc. (repaid in current year).		-	538,187
Loan agreement with MDHA for Row 8.9 project	(2)	401,974	428,870
Loan agreement with Art Avenue Lofts, LLC	(3)	350,000	-
Related party loans:			
Loan agreement with MDHA for Laurel House project	(4)	640,611	688,960
		9,239,680	11,956,073
Less: allowance for uncollectible loans		(339,720)	(358,990)
Total		$ 8,899,960	$ 11,597,083

NOTE 2 - LOANS RECEIVABLE (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 is due monthly on the outstanding principal balance at the rate of 8.0% per annum beginning July 1, 2006 through June 28, 2008, at which time the entire outstanding principal balance plus any accrued interest are 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.

(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 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 $800,000.

(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 May 29, 2008, at which time the entire outstanding principal balance plus any accrued interest are due. THF entered into separate agreements with a lender to purchase from THF, without recourse, undivided interests in this loan totaling $300,000.

(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. The project was completed in November 2003. (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 2029. All payments are applied first to interest, with any remaining balance applied to principal. Accrued interest on these loans was $16,229 as of September 30, 2007 ($17,454 as of September 30, 2006).

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

Annual principal maturities of development loans receivable as of September 30, 2007, are as follows:

	Participating Loans				
	Total	Allocated to Participating Financial Institutions	Allocated to THF	Other Development Loans	Total
2008	$ 709,640	$ 339,640	$ 370,000	$ 2,456,234	$ 2,826,234
2009	3,559,640	1,789,640	1,770,000	906,019	2,676,019
2010	59,640	39,640	20,000	319,074	339,074
2011	59,640	39,640	20,000	140,700	160,700
2012	59,640	39,640	20,000	315,200	335,200
Thereafter	746,924	444,950	301,974	2,600,479	2,902,453
	$ 5,195,124	$ 2,693,150	$ 2,501,974	$ 6,737,706	$ 9,239,680

NOTE 3 - REAL ESTATE DEVELOPMENTS COSTS

In August 2007, the Agency foreclosed on one of its development loans and repossessed the real estate. The carrying value of the foreclosed loan was transferred to real estate development costs in the amount of $76,853. The Agency is currently completing the development of the property, which will consist of a single-family home. This project is expected to be completed during the latter part of 2008 at an estimated total cost of approximately $110,000.

As of September 30, 2007, the estimated future cash flows on a certain development project that consists of ten single-family homes is less than the carrying value. An impairment loss of $106,000 has been recognized on this project in the current year (none in 2006).

NOTE 4 - PROPERTY, FURNITURE AND EQUIPMENT

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

	2007	2006
Leasehold improvements	$ 241,092	$ 232,779
Computer equipment	34,525	23,330
Furniture and fixtures	23,655	20,898
Construction in process	60,920	-
	360,192	277,007
Less: accumulated depreciation	(75,235)	(56,334)
Total	$ 284,957	$ 220,673

NOTE 5 - NOTES PAYABLE

Loans from various financial institutions mature in one to ten years and accrue interest at rates from 2.0% to 2.5% annually. Most of these loans require the accrued interest to be added to the principal balance quarterly. Certain loans require the interest to be paid quarterly. Accrued interest added to principal balances amounted to $40,510 in 2007, and $40,076 in 2006.

During September 2006, two of the financial institutions notified the Agency that $208,152 of accrued interest on the related notes payable would be eliminated as a donation to the Agency. Such amount was recognized as contribution income in 2006.

NOTE 5 - NOTES PAYABLE (CONTINUED)

A summary of notes payable to financial institutions and other lenders as of September 30, 2007 and 2006, follows:

			2007				2006		
Institutional Lenders		Original Issues	Principal Balance Drawn	Accrued Interest	Total Balance	Amount Available To Be Drawn	Principal Balance Drawn	Accrued Interest	Total Balance
Bank of America	3	$ 2,000,000	$ 2,000,000	$ -	$ 2,000,000	$ -	$ 2,500,000	$ -	$ 2,500,000
U. S. Bank		1,500,000	1,500,000	-	1,500,000	-	1,500,000	-	1,500,000
Regions Bank of Tennessee	4	1,700,000	1,700,000	-	1,700,000	-	1,700,000	-	1,700,000
SunTrust Bank		1,500,000	1,500,000	-	1,500,000	-	1,500,000	-	1,500,000
First Tennessee Bank, N.A.		750,000	750,000	94,294	844,294	-	750,000	73,701	823,701
Wachovia Bank	1	700,000	700,000	-	700,000	-	700,000	-	700,000
Pinnacle National Bank		350,000	350,000	24,675	374,675	-	350,000	15,537	365,537
The Bank of Nashville		350,000	350,000	-	350,000	-	350,000	-	350,000
Fifth Third Bank		300,000	300,000	-	300,000	-	300,000	4,563	304,563
GMAC Mortgage Company		300,000	100,000	12,451	112,451	200,000	100,000	9,708	109,708
Farmers & Merchants Bank	2	300,000	-	-	-	300,000	-	-	-
James Stephen Turner Foundation		250,000	250,000	-	250,000	-	250,000	-	250,000
Prime Trust Bank		250,000	250,000	8,848	258,848	-	250,000	2,535	252,535
Vanderbilt University		100,000	100,000	12,405	112,405	-	100,000	9,663	109,663
Capital Bank and Trust		100,000	100,000	4,222	104,222	-	100,000	2,178	102,178
Cumberland Bank and Trust	2	100,000	50,000	-	50,000	50,000	-	-	-
Legends Bank	2	100,000	50,000	1,000	51,000	50,000	-	-	-
Planters Bank	2	100,000	-	-	-	100,000	-	-	-
Fort Campbell Federal Credit Union	2	25,000	25,000	500	25,500	-	-	-	-
Total Notes Payable			$ 10,075,000	$ 158,395	$ 10,233,395	$ 700,000	$ 10,450,000	$ 117,885	$ 10,567,885

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.

NOTE 5 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable as of September 30, 2007, are as follows:

2008	$ 362,451
2009	-
2010	-
2011	2,084,236
2012	200,000
Thereafter	7,586,708
	$10,233,395

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 to mitigate credit risk.

The Agency maintains cash and investment balances in bank deposit accounts at various financial institutions which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insurance limits. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

Outstanding development loans to two developers comprised 44% of the total of such loans at September 30, 2007 (loans to three developers comprised 48% of the total in 2006).

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.

Employee Benefit Plans

The Agency participates in the MDHA retirement plan, which is a Section 401A plan administered by the Vanguard Group.

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

Employee Benefit Plans (Continued)

The 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 the plan for the year ended September 30, 2007, amounted to $69,200 ($52,413 for 2006), which equaled the amount of required employer contributions. Total payroll for the Agency during the fiscal year ended September 30, 2007, amounted to $579,149 ($451,604 for 2006).

The 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 Agency also participates in MDHA's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits all 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.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 is recognized on the straight-line basis and amounted to $46,909 in 2007 ($40,535 in 2006). The excess of the rent expense recognized over the amount paid is included in accrued expenses.

In April 2007, the lease agreement was verbally amended to expand the Agency's office space. The Agency's expected cost of leasehold improvements to the new space approximates $90,000, of which $60,920 had been expended through September 30, 2007, and is reported in property, furniture and equipment as construction in progress. (See Note 4.) These leasehold improvements were completed in December 2007.

Future minimum rent payments required under the lease are as follows:

Year ending September 30:	
2008	$ 35,035
2009	37,826
2010	39,053
2011	39,053
2012	39,053
Thereafter	505,391
Total	$ 695,411

NOTE 9 - OTHER MATTERS

In January 2006, management discovered a misappropriation of funds by a former employee in the approximate amounts of $15,000 in 2004, $67,500 in 2005, and $70,000 in 2006. This individual was prosecuted and convicted of the misappropriation in September 2007, and ordered to repay the loss to the Agency over approximately 11 years, beginning June 2008. The Agency recovered $5,000 of the loss in September 2007. The 2006 losses were included in office expenses and miscellaneous under management and general, and the 2007 recovery is reported under other revenues. Although management anticipates some additional recovery, no accrual has been made as of September 30, 2007, since the amount and timing of any such additional recovery are uncertain.

NOTE 10 - RELATED PARTY TRANSACTIONS

Five of the Agency's Board members are senior officers with financial institutions or other lenders with which the Agency has outstanding loans totaling $6,950,000 at September 30, 2007. Another Board member is director of the organization that is the granting agency of most 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, 2007

Grant Description	Notes	Federal CFDA#	Grant Number	(Accrued) Deferred 10/1/2006	10/1/06 - 9/30/07 Receipts	10/1/06 - 9/30/07 Expenditures	(Accrued) Deferred 9/30/2007
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT							
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:							
HOME Investment Partnerships Program - Perm Loans		14.239	M-05-MC-47-02-03	$ (65,000)	$ 65,000	$ -	$ -
HOME Investment Partnerships Program - American Dream Downpayment Initiative (ADDI) program		14.239	M-05-MC-47-02-03 & M-06-MC-47-02-03	(29,960)	223,656	245,102	(51,406)
Total CFDA 14.239				(94,960)	288,656	245,102	(51,406)
Hope VI	*	14.866	TN43URD0051I02	-	341,869	372,869	(31,000)
PASSED THROUGH THE CITY OF CLARKSVILLE:							
Community Development Block Grant		14.218		-	3,536	12,601	(9,065)
PASSED THROUGH THE CITY OF FRANKLIN:							
Community Development Block Grant		14.218		-	25,000	31,250	(6,250)
PASSED THROUGH THE CITY OF BOWLING GREEN:							
Community Development Block Grant		14.218		-	-	12,500	(12,500)
Total CFDA 14.218				-	28,536	56,351	(27,815)
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ (94,960)	$ 659,061	$ 674,322	$ (110,221)

*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, 2007

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
ASSETS				
Cash and cash equivalents	$ 2,671,999	$ -	$ -	$ 2,671,999
Investments - certificates of deposit	114,766	-	-	114,766
Accounts receivable	38,999	-	-	38,999
Government grants receivable	117,326	-	-	117,326
Accrued interest on certificates of deposit	1,361	-	-	1,361
Accrued interest on loans receivable	437,434	-	-	437,434
Down payment assistance loans receivable, less allowance for uncollectible loans of $301,063	6,349,199	-	-	6,349,199
Development loans receivable, less allowance for uncollectible loans of $339,720	8,899,960	-	-	8,899,960
Real estate development costs	556,195	-	-	556,195
Prepaid expenses	2,200			2,200
Property, furniture and equipment, net	284,957	-	-	284,957
Investment in subsidiary	200,000	-	(200,000)	-
Investment in limited partnership	-	200,000	-	200,000
TOTAL ASSETS	$ 19,674,396	$ 200,000	$ (200,000)	$ 19,674,396
LIABILITIES				
Accounts payable	$ 37,262	$ -	$ -	$ 37,262
Accrued expenses	91,028	-	-	91,028
Notes payable	10,233,395	-	-	10,233,395
TOTAL LIABILITIES	10,361,685	-	-	10,361,685
NET ASSETS	9,312,711	200,000	(200,000)	9,312,711
TOTAL LIABILITIES AND NET ASSETS	$ 19,674,396	$ 200,000	$ (200,000)	$ 19,674,396

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	$ 754,523	$ -	$ -	$ 754,523
Grant from financial institution	46,000	-	-	46,000
Contributions	6,927	-	-	6,927
Revenues:				
Service and administrative fees	122,987	-	-	122,987
Interest income:				
Loans	684,907	-	-	684,907
Other investments	85,096			85,096
Other	13,636	-	-	13,636
TOTAL SUPPORT AND REVENUES	1,714,076	-	-	1,714,076
EXPENSES				
Program services:				
Low-income housing assistance programs	1,504,632	-	-	1,504,632
Supporting services:				
Management and general	284,886	-	-	284,886
TOTAL EXPENSES	1,789,518	-	-	1,789,518
CHANGE IN NET ASSETS	(75,442)	-	-	(75,442)
NET ASSETS - BEGINNING OF YEAR	9,388,153	200,000	(200,000)	9,388,153
NET ASSETS - END OF YEAR	$ 9,312,711	$ 200,000	$ (200,000)	$ 9,312,711

THE HOUSING FUND, INC. AND SUBSIDIARY

COMBINING SCHEDULE OF ACTIVITIES BY LOCATION

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Nashville	Clarksville, Montgomery County	Bowling Green	Franklin	Combined
SUPPORT AND REVENUES					
Public support:					
Federal, state and local government grants	$ 654,471	$ 56,302	$ 12,500	$ 31,250	$ 754,523
Grant from financial institution	32,000	14,000	-	-	46,000
Contributions	6,927	-	-	-	6,927
Revenues:					
Service and administrative fees	121,175	1,812	-	-	122,987
Interest income:					
Loans	683,220	1,687	-	-	684,907
Other investments	85,096	-	-	-	85,096
Other	13,636	-	-	-	13,636
TOTAL SUPPORT AND REVENUES	1,596,525	73,801	12,500	31,250	1,714,076
EXPENSES					
Program services:					
Low-income housing assistance programs	1,422,031	58,328	24,273	-	1,504,632
Supporting services:					
Management and general	246,825	-	-	38,061	284,886
TOTAL EXPENSES	1,668,856	58,328	24,273	38,061	1,789,518
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ (72,331)	$ 15,473	$ (11,773)	$ (6,811)	$ (75,442)