



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, 2006 and 2005, and the related statement of activities, functional expenses, and cash flows for the year 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 audit 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, 2006 and 2005, 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 June 8, 2007 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 audit.

Our audit was 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.*

June 8, 2007

**URBAN HOUSING SOLUTIONS, INC.**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORTS**

**DECEMBER 31, 2006 AND 2005**

**URBAN HOUSING SOLUTIONS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2006 AND 2005**

<u>ASSETS</u>		
	<u>2006</u>	<u>2005</u>
Cash	\$ 327,683	\$ 600,748
Restricted cash:		
Tenant security deposits	106,948	82,136
Cash	239,887	350,748
Replacement reserves	280,000	280,000
Accounts receivable:		
Grants	344,006	180,180
Tenants	7,181	53,493
Accrued interest	737	-
Receivable from insurance company for damages relate to fire	25,000	118,363
Due from Mercury Court Apartments, LP	12,692	12,629
Prepaid expenses, deposits and other	30,000	121,083
Investment in Mercury Court Apartments, LP	70,000	70,000
Accrued developer fees	16,200	37,600
Property and equipment - net of accumulated depreciation	11,343,890	10,888,737
Loan closing costs, net of accumulated amortization of \$ 26,234 and \$ 16,198 for 2006 and 2005.	38,391	21,674
<b>TOTAL ASSETS</b>	<b><u>\$ 12,842,615</u></b>	<b><u>\$ 12,817,391</u></b>
 <u>LIABILITIES AND NET ASSETS</u>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 55,405	\$ 155,511
Accrued payments in lieu of tax (PILOT)	922	20,452
Tenant security deposits payable	106,830	82,217
Unearned revenue	128,000	-
Notes payable	7,078,489	7,319,075
<b>TOTAL LIABILITIES</b>	<b><u>7,369,646</u></b>	<b><u>7,577,255</u></b>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	1,804,497	1,649,393
Property and equipment	3,569,662	3,569,662
<b>Total unrestricted</b>	<b>5,374,159</b>	<b>5,219,055</b>
Temporarily restricted	98,810	21,081
<b>TOTAL NET ASSETS</b>	<b><u>5,472,969</u></b>	<b><u>5,240,136</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 12,842,615</u></b>	<b><u>\$ 12,817,391</u></b>

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

**URBAN HOUSING SOLUTIONS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**DECEMBER 31, 2006 AND 2005**

	2006			2005		
	TEMPORARILY			TEMPORARILY		
	UNRESTRICTED	RESTRICTED	TOTAL	UNRESTRICTED	RESTRICTED	TOTAL
<b>SUPPORT AND REVENUES</b>						
Public Support:						
Individual and corporate gifts	\$ 36,831	\$ -	36,831	\$ 28,412	\$ -	28,412
Grants:						
Government	710,526	-	710,526	641,498	-	641,498
Foundation	13,300	100,000	113,300	-	68,400	68,400
Total public support	760,657	100,000	860,657	669,910	68,400	738,310
Revenues:						
Rental income	2,162,934	-	2,162,934	2,051,081	-	2,051,081
Laundry income	19,260	-	19,260	17,226	-	17,226
Investment income	27,380	-	27,380	18,483	-	18,483
Resident vending machine	20,696	-	20,696	13,670	-	13,670
Security deposits forfeited	5,000	-	5,000	26,086	-	26,086
Management fees	11,501	-	11,501	11,096	-	11,096
Miscellaneous	2,046	-	2,046	1,990	-	1,990
Insurance proceeds	25,000	-	25,000	90,830	-	90,830
Net assets released from restrictions:						
Satisfaction of time and purpose restrictions	22,271	(22,271)	-	61,479	(61,479)	-
<b>TOTAL SUPPORT AND REVENUES</b>	<b>3,056,745</b>	<b>77,729</b>	<b>3,134,474</b>	<b>2,961,851</b>	<b>6,921</b>	<b>2,968,772</b>
<b>EXPENSES</b>						
Program services:						
Rental projects	2,441,984	-	2,441,984	2,191,349	-	2,191,349
Resident support programs	429,701	-	429,701	364,291	-	364,291
Total program services	2,871,685	-	2,871,685	2,555,640	-	2,555,640
Supporting services:						
Management and general	29,956	-	29,956	54,392	-	54,392
<b>TOTAL EXPENSES</b>	<b>2,901,641</b>	<b>-</b>	<b>2,901,641</b>	<b>2,610,032</b>	<b>-</b>	<b>2,610,032</b>
<b>CHANGE IN NET ASSETS</b>	<b>155,104</b>	<b>77,729</b>	<b>232,833</b>	<b>351,819</b>	<b>6,921</b>	<b>358,740</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>5,219,055</b>	<b>21,081</b>	<b>5,240,136</b>	<b>4,867,236</b>	<b>14,160</b>	<b>4,881,396</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 5,374,159</b>	<b>\$ 98,810</b>	<b>\$ 5,472,969</b>	<b>\$ 5,219,055</b>	<b>\$ 21,081</b>	<b>\$ 5,240,136</b>

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

**URBAN HOUSING SOLUTIONS**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets:	\$ 232,833	\$ 358,740
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	447,700	347,642
(Increase) decrease in:		
Accounts receivable:		
Grants	(163,826)	(19,941)
Tenants	46,312	(30,391)
Predevelopment costs - Village Place	-	14,750
Insurance Receivable	93,363	(90,080)
Accrued Interest	(737)	-
Prepaid expenses, deposits and other	91,083	(75,803)
Accrued developer fees	21,400	15,203
Increase (decrease) in:		
Accounts payable and accrued expenses	(100,106)	115,861
Unearned revenue	128,000	-
Accrued payments in lieu of tax (PILOT)	(19,530)	(47,041)
Net cash (used) provided by operating activities	<u>776,492</u>	<u>588,940</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(919,570)	(3,593,345)
(Increase) decrease in restricted deposits	86,049	862,983
Increase in tenant security deposits payable	24,613	31,227
Decrease in investment in Eastwood Court, LLC	-	210,256
Advances from (to) Eastwood Courts, LLC	-	11,541
Advances from (to) Mercury Court Apartments, LP	(63)	(13,502)
Net cash (used) provided by investing activities	<u>(808,971)</u>	<u>(2,490,840)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Loan closing costs	8,527	(3,950)
Proceeds from notes payable	3,120,783	2,665,476
Principal payments on notes payable	(3,369,896)	(568,473)
Net cash (used) provided by financing activities	<u>(240,586)</u>	<u>2,093,053</u>
NET INCREASE (DECREASE) IN CASH	(273,065)	191,153
CASH - BEGINNING OF YEAR	600,748	409,595
CASH - END OF YEAR	<u>\$ 327,683</u>	<u>\$ 600,748</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Receivable for insurance proceeds relating to property damaged by fire	<u>\$ 25,000</u>	<u>\$ 118,363</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, 2006**

	PROGRAM SERVICES			SUPPORTING SERVICES	
	RENTAL PROJECTS	RESIDENT SUPPORT PROGRAMS	TOTAL	MANAGEMENT AND GENERAL	TOTAL
Payroll and related expenses	\$ 514,930	\$ 303,403	\$ 818,333	\$ 10,239	\$ 828,572
Advertising	1,403	-	1,403	19	1,422
Contract services	6,171	23,521	29,692	-	29,692
Equipment	654	3,815	4,469	520	4,989
Insurance	102,918	5,268	108,186	251	108,437
Interest	420,366	-	420,366	-	420,366
Lawn care	16,282	-	16,282	-	16,282
Legal and professional	58,980	6,518	65,498	289	65,787
Management fees	19,664	6,209	25,873	-	25,873
Miscellaneous	16,686	11,269	27,955	5,828	33,783
Pest control	869	-	869	-	869
Printing and postage	1,182	94	1,276	994	2,270
Rent	112	-	112	-	112
Repairs and maintenance	354,380	3,367	357,747	667	358,414
Social program funds	5,017	19,195	24,212	48	24,260
Supplies	9,064	3,283	12,347	815	13,162
Taxes and licenses	2,556	79	2,635	287	2,922
Telephone	4,700	2,436	7,136	675	7,811
Trash removal	13,960	-	13,960	855	14,815
Travel	16,175	14,076	30,251	119	30,370
Utilities	437,061	1,337	438,398	505	438,903
Vending machine expenses	-	24,830	24,830	-	24,830
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>2,003,130</b>	<b>428,700</b>	<b>2,431,830</b>	<b>22,111</b>	<b>2,453,941</b>
Depreciation and amortization	438,854	1,001	439,855	7,845	447,700
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 2,441,984</b>	<b>\$ 429,701</b>	<b>\$ 2,871,685</b>	<b>\$ 29,956</b>	<b>\$ 2,901,641</b>

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
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>1,855,556</b>	<b>363,818</b>	<b>2,219,374</b>	<b>43,016</b>	<b>2,262,390</b>
Depreciation and amortization	335,793	473	336,266	11,376	347,642
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 2,191,349</b>	<b>\$ 364,291</b>	<b>\$ 2,555,640</b>	<b>\$ 54,392</b>	<b>\$ 2,610,032</b>

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

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**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, 2006 AND 2005**

**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.

**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 , Fisk Court and Vultee** - 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 and Woodland Street** - 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, 2006 AND 2005**

**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** - 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.

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

**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.

**The Academy** - 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, 2006 or 2005.

**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, 2006 AND 2005**

**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>2006</u>	<u>2005</u>
Land	\$ 1,912,850	\$ 1,892,850
Building and improvements	11,494,933	10,684,938
Furniture and equipment	<u>526,274</u>	<u>470,427</u>
	13,934,057	13,048,215
Less accumulated depreciation	<u>(2,590,167)</u>	<u>(2,159,478)</u>
	<u><u>\$ 11,343,890</u></u>	<u><u>\$ 10,888,737</u></u>

UHS received grants totaling \$120,000 in 2006 and \$70,000 in 2005 that were utilized to fund rehabilitation expenditures.

**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.

**5. NOTES PAYABLE**

Notes payable consist of the following as of December 31 2006:

Note payable - Nashville Housing Fund (3.0%); interest due monthly through January 2007; final balloon payment for balance due January 2007; secured by real estate. \$ 517,285

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

**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.	\$ 533,069
Note payable - SunTrust Bank (6.75); due in monthly principle and interest payments of \$2,661 through January 2007; final balloon payment for balance due January 2007; secured by real estate.	316,836
Mortgage payable - Capital Bank & Trust (4.25%); payable in monthly installments of \$10,280 beginning January 2007, with final balloon payment for the balance due November 2012 ; secured by real estate.	1,590,000
Note payable - Tenn Loan, Inc. (3.00%); payable in monthly installments of \$724 beginning August 2001, through July 2012; secured by real estate	36,512
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	1,313,288
Note payable - Capital Bank & Trust (4.25%); monthly principal and interest payment of \$2,366 beginning January 2007; final balloon payment for the balance due Decmember 2011; secured by real estate	380,000
Note payable - Capital Bank & Trust (4.25%); payable in monthly principal and interest payment of \$6,161 beginning of November 2006, final balloon payment for the balance due October 2011; secured by real estate	\$ 989,832

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

**5. NOTES PAYABLE - CONTINUED**

Note payable - Capital Bank & Trust (4.25%); interest due monthly beginning July 2006 through July 2007, then monthly principle and interest payments of \$5,690, final balloon payment for balance due July 2017 ; secured by real estate. \$ 164,310

Note payable - First Tennessee Bank (6.75%); due in monthly principle and interest payments of \$2,281 through January 2007; final balloon payment for balance due January 2007; secured by real estate. 274,261

Note payable - Regions (6.75%); due in monthly principle and interest payments of \$1,521 through January 2007; final balloon payment for balance due January 2007; secured by real estate. 183,556

Note payable - AmSouth Bank (5.00%); payable in monthly principle and interest payment of \$6,439 beginning March 2001 through January 2007, final balloon payment for balance due Janaury 2007; secured by real estate. 779,541

Total Notes Payable \$ 7,078,490

Annual principal maturities of notes payable as of December 31, 2006 are as follows:

2006	\$ 2,269,209
2007	242,488
2008	1,432,335
2009	604,696
2010 and thereafter	<u>2,529,762</u>
	<u><u>\$ 7,078,490</u></u>

Interest expense of \$420,366 was paid in 2006 and \$367,637 in 2005.

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

**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 \$751,121 in 2006 and \$1,100,000 in 2005. 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>2006</u>	<u>2005</u>
Foundation grants for tenant assistance	<u>\$ 98,810</u>	<u>\$ 21,081</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, 2006 AND 2005**

**8. COMMITMENTS AND CONTINGENCIES - continued**

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

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. As of December 31, 2006, UHS accrued \$25,000 of additional proceeds, which has not been received. 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, 2006, accrued PILOT has been recorded as a liability in the amount of \$922.

PILOT expense was \$2,146 in 2006 and \$1,923 in 2005.



**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

**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 \$16,200. 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 \$11,501 in 2006 and \$11,096 in 2005. No operating income or loss passed through to UHS from the Partnership in 2006 or 2005.

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.

## **SUPPLEMENTAL INFORMATION**

URBAN HOUSING SOLUTIONS, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/ Pass-Through Grantor Agency & Program Name	Federal CFDA #	Grant Number	Grant Period	Grant Amount	Grant Receivable 1/1/06	1/1/06 - 12/31/06		Grant Receivable 12/31/06
						Receipts	Expenditures	
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>								
Multifamily Housing Service Coordinator Program	14.191	TN43HS00004	3/1/07 - 2/28/07	\$ 92,934	\$ -	\$ 53,665	\$ 73,326	\$ 19,661
Multifamily Housing Service Coordinator Program	14.191	TN43HS00004	3/1/05 - 2/28/06	\$ 346,469	26,813	52,648	25,835	-
Multifamily Housing Service Coordinator Program	14.191	TN43HS00005	3/1/04 - 2/28/06	169,090	8,515	16,457	7,942	-
Multifamily Housing Service Coordinator Program	14.191	TN37B004005	3/1/07 - 2/28/07	27,339	-	12,861	13,453	592
Supportive Housing Program	14.235	TN37B104001	(1)	500,000	38,831	38,831	-	-
Supportive Housing Program	14.235	TN37B004001	8/1/05 - 7/31/06	250,000	23,615	29,500	5,885	-
Supportive Housing Program	14.235	TN37B004002	1/1/06 - 12/31/06	50,000	-	42,889	42,889	-
Supportive Housing Program	14.235	TN37B204001	10/1/03 - 9/30/06	500,000	17,966	74,302	56,336	-
Supportive Housing Program	14.235	TN37B204002	4/1/03 - 3/31/06	131,363	7,353	29,657	22,304	-
Supportive Housing Program	14.235	TN37B204002	1/1/05 - 12/31/07	73,750	3,621	26,658	44,724	21,687
Supportive Housing Program	14.235	TN37B204004	9/1/06 - 8/31/07	37,840	-	-	20,036	20,036
Supportive Housing Program	14.235	TN37B204006	8/1/06 - 7/31/06	133,721	-	-	64,627	64,627
<b>PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:</b>								
Housing Opportunities for Persons with AIDS	12.241	N/A	4/1/04 - 3/31/06	55,000	16,510	32,907	16,397	-
Housing Opportunities for Persons with AIDS	12.241	N/A	4/1/06 - 3/31/07	111,552	-	44,953	56,575	11,622
Community Housing Development Organization -HOME Investment Partnership Program - administrative funds		N/A		73,304	-	-	73,304	73,304
Community Housing Development Organization -HOME Investment Partnership Program - administrative funds		N/A		122,000	-	-	52,370	52,370
Community Housing Development Organization -HOME Investment Partnership Program		N/A			-	-	60,107	60,107
Community Housing Development Organization -HOME Investment Partnership Program	12.241	N/A			33,758	26,533	(7,225)	-
Community Housing Development Organization -HOME Investment Partnership Program	12.241	N/A	1/1/03 - 12/31/05	170,000	3,198	3,198	-	-
Community Housing Development Organization -HOME Investment Partnership Program	12.241	N/A			-	100,000	120,000	20,000
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>					<b>\$ 180,180</b>	<b>\$ 585,059</b>	<b>\$ 748,885</b>	<b>\$ 344,006</b>

(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, 2006

	PROGRAM SERVICES																TOTAL
	SHELBY COURTYARDS	WOODLAND	MERCURY COURTS	HOPE	CROWN COURTS	FISK	RUSSELL	CLAY STREET	REX'S COURTYARD	VULTEE GARDENS	GREENTREE TERRACE	RIVER TERRACE	MERCURY CONVERSIONS	EASTWOOD COURT	VILLAGE PLACE	THE ACADEMY	RENTAL PROJECTS
<b>REVENUES</b>																	
Rental Income	\$ 28,588	\$ 12,650	\$ 620,644	\$ 91,657	\$ 66,965	\$ 33,970	\$ 38,102	\$ 8,400	\$ 456,756	\$ 56,589	\$ 202,678	\$ 87,044	\$ -	\$ 265,739	\$ 209,661	\$ -	\$ 2,179,443
Grants	90,298	-	100,000	22,786	10,530	52,370	-	-	34,606	25,695	60,122	640	-	16,000	48,269	10,000	471,316
Other	19	-	3,633	2,255	-	349	-	-	29,714	-	2,441	-	-	5,849	-	-	44,260
<b>Total Revenues</b>	<b>118,905</b>	<b>12,650</b>	<b>724,277</b>	<b>116,698</b>	<b>77,495</b>	<b>86,689</b>	<b>38,102</b>	<b>8,400</b>	<b>521,076</b>	<b>82,284</b>	<b>265,241</b>	<b>87,684</b>	<b>-</b>	<b>287,588</b>	<b>257,930</b>	<b>10,000</b>	<b>2,695,019</b>
<b>EXPENSES</b>																	
Payroll and related expenses	21,427	2,802	201,958	18,822	18,144	14,750	16,827	1,464	56,135	9,973	36,087	15,938	-	44,898	41,182	14,523	514,930
Advertising	18	8	720	44	30	29	18	5	144	24	83	30	-	92	83	75	1,403
Contract services	7	-	6,019	104	-	-	-	-	-	-	41	-	-	-	-	-	6,171
Equipment	17	7	233	42	29	27	17	4	128	23	-	29	-	88	-	-	654
Insurance	1,887	1,431	26,359	4,544	2,184	1,923	1,949	695	17,242	2,852	11,523	3,536	-	14,882	11,711	-	102,918
Interest	-	-	76,586	11,124	10,361	10,361	-	-	64,256	6,195	102,332	19,731	-	41,750	77,670	-	420,366
Lawn care	724	-	809	476	944	539	2,606	60	1,473	1,994	2,523	903	-	2,465	766	-	16,282
Legal and professional	1,635	147	15,335	3,051	2,473	2,100	573	98	12,794	1,283	4,529	1,336	-	7,304	6,021	301	58,980
Management fees	1,000	-	-	301	-	276	-	-	4,153	-	3,049	1,460	-	2,225	7,200	-	19,664
Miscellaneous	2,133	115	4,372	704	625	734	391	68	2,187	411	1,294	451	-	1,534	1,570	97	16,686
Pest control	18	7	252	43	30	28	18	4	142	24	82	30	-	90	101	-	869
Printing and postage	24	10	256	66	41	36	24	6	250	32	109	40	-	121	135	32	1,182
Rent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	112	-	112
Repairs and maintenance	4,008	2,485	87,325	12,146	16,891	5,937	14,500	1,241	92,903	8,368	25,065	5,979	-	53,551	23,981	-	354,380
Social program funds	80	32	2,031	194	140	127	80	20	641	107	368	134	-	408	654	-	5,017
Supplies	359	75	2,794	389	295	280	176	45	1,417	235	817	295	-	834	1,039	14	9,064
Taxes and licenses	2	1	203	24	4	4	2	1	174	3	35	4	-	2,086	13	-	2,556
Telephone	59	24	921	142	98	93	59	15	1,268	78	1,094	98	-	298	453	-	4,700
Trash removal	1,257	-	2,376	495	898	1,084	345	-	2,471	1,018	804	25	-	1,984	1,203	-	(3,960)
Travel	847	151	1,479	1,065	1,163	1,114	864	61	1,805	407	576	932	-	2,664	1,708	1,339	16,175
Utilities	6,500	47	141,565	24,854	9,559	9,289	6,768	5	126,763	11,134	21,744	6,042	-	47,932	24,859	-	437,061
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>42,002</b>	<b>7,343</b>	<b>571,793</b>	<b>78,630</b>	<b>63,909</b>	<b>48,731</b>	<b>45,217</b>	<b>3,792</b>	<b>386,356</b>	<b>44,161</b>	<b>212,155</b>	<b>56,993</b>	<b>-</b>	<b>225,206</b>	<b>200,461</b>	<b>16,381</b>	<b>2,003,130</b>
Depreciation and amortization	11,241	5,540	76,999	23,317	15,593	12,867	12,759	2,363	61,917	25,227	52,638	13,355	6,084	51,841	67,066	47	438,854
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>53,243</b>	<b>(2,883)</b>	<b>648,792</b>	<b>101,947</b>	<b>79,502</b>	<b>61,598</b>	<b>57,976</b>	<b>6,155</b>	<b>448,273</b>	<b>69,388</b>	<b>264,793</b>	<b>70,348</b>	<b>6,084</b>	<b>277,047</b>	<b>267,527</b>	<b>16,428</b>	<b>2,441,984</b>
<b>REVENUE OVER EXPENSES</b>	<b>\$ 65,662</b>	<b>\$ (233)</b>	<b>\$ 75,485</b>	<b>\$ 14,751</b>	<b>\$ (2,007)</b>	<b>\$ 25,091</b>	<b>\$ (19,874)</b>	<b>\$ 2,245</b>	<b>\$ 72,803</b>	<b>\$ 12,896</b>	<b>\$ 448</b>	<b>\$ 17,336</b>	<b>\$ (6,084)</b>	<b>\$ 10,541</b>	<b>\$ (9,597)</b>	<b>\$ (6,428)</b>	<b>\$ 253,035</b>

URBAN HOUSING SOLUTIONS, INC.  
SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2006

	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
<b>REVENUES</b>												
Program Income	\$ -	\$ -	\$ 20,696	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,696	\$ 2,200,139	\$ -	\$ 2,200,139
Grants	120,556	81,378	4,325	47,989	-	14,000	15,778	4,288	288,314	759,630	101,027	860,657
Other	-	-	-	-	-	-	3,975	-	3,975	48,235	25,442	73,677
<b>Total Revenues</b>	<b>120,556</b>	<b>81,378</b>	<b>25,021</b>	<b>47,989</b>	<b>-</b>	<b>14,000</b>	<b>19,753</b>	<b>4,288</b>	<b>312,985</b>	<b>3,008,004</b>	<b>126,469</b>	<b>3,134,473</b>
<b>EXPENSES</b>												
Payroll and related expenses	121,189	105,179	-	53,641	1,119	66	18,148	4,061	303,403	818,333	10,239	828,572
Advertising	-	-	-	-	-	-	-	-	-	1,403	19	1,422
Contract services	-	1,606	5,506	1,936	-	11,833	2,640	-	23,521	29,692	-	29,692
Equipment	-	-	-	3,073	-	106	424	212	3,815	4,469	520	4,989
Insurance	342	342	-	228	-	114	4,242	-	5,268	108,186	251	108,437
Interest	-	-	-	-	-	-	-	-	-	420,366	-	420,366
Lawn care	-	-	-	-	-	-	-	-	-	16,282	-	16,282
Legal and professional	2,364	2,552	-	1,120	22	-	376	84	6,518	65,498	289	65,787
Management fees	-	6,209	-	-	-	-	-	-	6,209	25,873	-	25,873
Miscellaneous	2,857	2,897	-	1,031	-	199	4,285	-	11,269	27,955	5,828	33,783
Pest control	-	-	-	-	-	-	-	-	-	869	-	869
Printing and postage	43	51	-	-	-	-	-	-	94	1,276	994	2,270
Rent	-	-	-	-	-	-	-	-	-	112	-	112
Repairs and maintenance	27	8	2,392	313	-	25	602	-	3,367	357,747	667	358,414
Social program funds	350	7,713	-	1,952	-	3,980	5,200	-	19,195	24,212	48	24,260
Supplies	1,698	429	423	612	17	76	23	5	3,283	12,347	815	13,162
Taxes and licenses	-	79	-	-	-	-	-	-	79	2,635	287	2,922
Telephone	758	99	-	484	-	720	-	375	2,436	7,136	675	7,811
Trash removal	-	-	-	-	-	-	-	-	-	13,960	855	14,815
Travel	4,444	1,668	-	2,704	-	65	5,174	21	14,076	30,251	119	30,370
Utilities	170	221	-	454	-	373	-	119	1,337	438,398	505	438,903
Vending machine expenses	-	-	24,830	-	-	-	-	-	24,830	24,830	-	24,830
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>134,242</b>	<b>129,053</b>	<b>33,151</b>	<b>67,548</b>	<b>1,158</b>	<b>17,557</b>	<b>41,114</b>	<b>4,877</b>	<b>428,700</b>	<b>2,431,830</b>	<b>22,111</b>	<b>2,453,941</b>
Depreciation and amortization	-	-	-	-	-	1,001	-	-	1,001	439,855	7,845	447,700
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>134,242</b>	<b>129,053</b>	<b>33,151</b>	<b>67,548</b>	<b>1,158</b>	<b>18,558</b>	<b>41,114</b>	<b>4,877</b>	<b>429,701</b>	<b>2,871,685</b>	<b>29,956</b>	<b>2,901,641</b>
<b>REVENUE OVER EXPENSES</b>	<b>\$ (13,686)</b>	<b>\$ (47,675)</b>	<b>\$ (8,130)</b>	<b>\$ (19,559)</b>	<b>\$ (1,158)</b>	<b>\$ (4,558)</b>	<b>\$ (21,361)</b>	<b>\$ (589)</b>	<b>\$ (116,716)</b>	<b>\$ 136,319</b>	<b>\$ 96,513</b>	<b>\$ 232,832</b>

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

	PROGRAM SERVICES																TOTAL
	SHELBY COURTYARDS	WOODLAND	MERCURY COURTS	HOPE	CROWN COURTS	FISK	RUSSELL	CLAY STREET	REX'S COURTYARD	VULTEE GARDENS	GREENTREE TERRACE	RIVER TERRACE	MERCURY CONVERSIONS	EASTWOOD COURT	VILLAGE PLACE	THE ACADEMY	RENTAL PROJECTS
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	2,419,077
EXPENSES																	
Payroll 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	3,552	3,094	1,269	751	-	3,356	1,798	-	27,109
Equipment	-	-	-	45	32	31	77	4	156	26	89	32	-	89	86	-	667
Insurance	3,022	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
Laundry 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	150	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	630	-	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	-	32,442
Telephone	116	48	1,641	307	215	506	116	31	1,242	169	1,380	194	-	469	1,022	-	7,456
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	959	-	14,840
Utilities	6,833	8	114,223	20,312	9,778	10,682	8,177	5	104,894	8,332	17,924	6,291	-	38,738	16,525	-	362,722
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	31,228	7,626	540,040	83,244	58,581	74,748	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	-	335,793
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
<b>REVENUES</b>												
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
<b>Total Revenues</b>	<b>116,790</b>	<b>70,275</b>	<b>25,270</b>	<b>34,079</b>	<b>-</b>	<b>32,300</b>	<b>45,584</b>	<b>94,123</b>	<b>418,421</b>	<b>2,837,498</b>	<b>131,274</b>	<b>2,968,772</b>
<b>EXPENSES</b>												
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
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>109,641</b>	<b>103,588</b>	<b>16,927</b>	<b>44,208</b>	<b>2,469</b>	<b>21,790</b>	<b>39,520</b>	<b>25,675</b>	<b>363,818</b>	<b>2,219,374</b>	<b>43,016</b>	<b>2,262,390</b>
Depreciation and amortization	-	-	-	-	-	473	-	-	473	336,266	11,376	347,642
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>109,641</b>	<b>103,588</b>	<b>16,927</b>	<b>44,208</b>	<b>2,469</b>	<b>22,263</b>	<b>39,520</b>	<b>25,675</b>	<b>364,291</b>	<b>2,555,640</b>	<b>54,392</b>	<b>2,610,032</b>
<b>REVENUE OVER EXPENSES</b>	<b>\$ 7,149</b>	<b>\$ (33,313)</b>	<b>\$ 8,343</b>	<b>\$ (10,129)</b>	<b>\$ (2,469)</b>	<b>\$ 10,037</b>	<b>\$ 6,064</b>	<b>\$ 68,448</b>	<b>\$ 54,130</b>	<b>\$ 281,858</b>	<b>\$ 76,882</b>	<b>\$ 358,740</b>



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, 2006 and 2005, and have issued our report thereon dated June 8, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, 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.*

June 8, 2007