THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

SEPTEMBER 30, 2012 AND 2011

THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

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INDEPENDENT AUDITOR'S REPORTS

SEPTEMBER 30, 2012 AND 2011

CONTENTS

INDEPENDENT AUDITOR'S REPORT

KraftCPAs PLLC

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

We have audited the accompanying consolidated statements of financial position of The Housing Fund, Inc., a Tennessee not-for-profit corporation, and subsidiary (collectively, the "Agency") as of September 30, 2012 and 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2012 and 2011, and the consolidated 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 February 14, 2013 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 conducted 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 information, pages 26 and 27, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KraftCPAs PLLC

Nashville, Tennessee
February 14, 2013

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THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 6,622,572	$ 4,407,949
Accounts receivable	25,805	32,622
Government grants receivable	680,398	601,128
Accrued interest on loans receivable	132,419	146,755
Loans receivable:		
Down payment assistance loans, net	7,262,862	7,780,188
Flood assistance loans, net	1,303,018	1,170,025
Development loans, net	4,887,371	6,247,318
Shared equity loans, net	312,687	-
Real estate owned	202,244	276,394
Prepaid expenses	10,129	4,778
Property, furniture and equipment, net	253,949	255,935
Investment in limited partnership	200,000	200,000
TOTAL ASSETS	$ 21,893,454	$ 21,123,092
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 138,539	$ 115,469
Accrued expenses	174,759	159,515
Deferred revenue	485,833	605,878
Notes payable	11,027,191	11,557,344
TOTAL LIABILITIES	11,826,322	12,438,206
NET ASSETS		
Unrestricted	10,067,132	8,651,653
Temporarily restricted	-	33,233
TOTAL NET ASSETS	10,067,132	8,684,886
TOTAL LIABILITIES AND NET ASSETS	$ 21,893,454	$ 21,123,092

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS
SUPPORT AND REVENUES			
Public support:			
Federal, state and local government grants	$ 3,082,760	$ -	$ 3,082,760
Grants from private institutions	153,170	-	153,170
Contributions	530,115	150,000	680,115
Revenues:			
Service and administrative fees	66,242	-	66,242
Interest income:			
Loans	372,456	-	372,456
Other	13,673	-	13,673
Other	33,666	-	33,666
Impairment loss on real estate development costs	(9,004)	-	(9,004)
Net assets released from restrictions	183,233	(183,233)	-
TOTAL SUPPORT AND REVENUES	4,426,311	(33,233)	4,393,078
EXPENSES			
Program services:			
Low-income housing assistance programs	1,634,202	-	1,634,202
Flood assistance programs	1,123,620	-	1,123,620
Supporting services:			
Management and general	253,010	-	253,010
TOTAL EXPENSES	3,010,832	-	3,010,832
CHANGE IN NET ASSETS	1,415,479	(33,233)	1,382,246
NET ASSETS - BEGINNING OF YEAR	8,651,653	33,233	8,684,886
NET ASSETS - END OF YEAR	$ 10,067,132	$ -	$ 10,067,132

See accompanying notes to consolidated financial statements.

	2011		
UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS
$ 9,300,493	$ -	$ 9,300,493
-	-	-
18,903	-	18,903
79,742	-	79,742
411,457	-	411,457
8,182	-	8,182
38,845	-	38,845
(46,822)	-	(46,822)
954,892	(954,892)	-
10,765,692	(954,892)	9,810,800
1,260,653	-	1,260,653
7,515,223	-	7,515,223
211,770	-	211,770
8,987,646	-	8,987,646
1,778,046	(954,892)	823,154
6,873,607	988,125	7,861,732
$ 8,651,653	$ 33,233	$ 8,684,886

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012			
	Program Services		Supporting Services	
	Low-Income Housing Assistance	Flood Assistance	Management and General	Totals
Payroll and related costs	$ 403,698	$ 608,263	$ 182,393	$ 1,194,354
Flood assistance grants	-	349,937	-	349,937
Rental assistance grants	-	575	-	575
Provision for uncollectible loans	751,867	89,906	-	841,773
Advertising	2,555	941	9,039	12,535
Counseling	9,910	-	-	9,910
Depreciation	19,508	-	6,616	26,124
Interest	263,463	-	-	263,463
Occupancy	34,651	26,284	17,948	78,883
Office expense and miscellaneous	55,690	30,422	19,132	105,244
Professional fees	22,275	14,843	17,548	54,666
Servicing fees	70,585	2,449	334	73,368
	$ 1,634,202	$ 1,123,620	$ 253,010	$ 3,010,832

See accompanying notes to consolidated financial statements.

2011			
Program Services		Supporting Services	
Low-Income Housing Assistance	Flood Assistance	Management and General	Totals
$ 249,367	$ 978,584	$ 136,338	$ 1,364,289
-	4,019,220	-	4,019,220
-	175,625	-	175,625
427,000	2,274,000	-	2,701,000
4,650	280	100	5,030
46,090	-	-	46,090
20,821	-	6,195	27,016
281,292	-	-	281,292
52,512	27,205	16,087	95,804
58,462	34,629	33,822	126,913
38,793	5,680	19,217	63,690
81,666	-	11	81,677
$ 1,260,653	$ 7,515,223	$ 211,770	$ 8,987,646

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES		
Change in net assets	$ 1,382,246	$ 823,154
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	26,124	27,016
Non-cash contribution - forgiveness of principal and accrued interest on notes payable	(530,115)	-
Accrued interest added to notes payable	49,962	65,801
Provision for uncollectible loans	841,773	2,701,000
Impairment loss on real estate development costs	9,004	46,822
(Increase) decrease in:		
Accounts receivable	6,817	(4,012)
Government grants receivable	(79,270)	193,381
Accrued interest receivable	14,336	1,041
Prepaid expenses	(5,351)	(4,778)
(Decrease) increase in:		
Accounts payable	23,070	30,766
Accrued expenses	15,244	13,136
Funds held on behalf of others	-	(51,874)
Deferred revenue	(120,045)	(165,284)
Net adjustments	251,549	2,853,015
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,633,795	3,676,169
INVESTING ACTIVITIES		
Acquisition of property, furniture and equipment	(24,138)	(10,331)
Payments made for real estate development costs	-	(4,340)
Housing down payment assistance loans made	(372,633)	(290,896)
Principal repayments on down payment assistance loans	582,016	482,335
Flood assistance loans made	(365,737)	(3,341,246)
Principal repayments on flood assistance loans	142,838	46,009
Development loans made	(1,909,043)	(3,410,680)
Principal repayments on development loans	2,845,059	2,312,127
Proceeds from sale of development projects	65,146	109,950
Shared equity loans made	(332,680)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	630,828	(4,107,072)
FINANCING ACTIVITIES		
Borrowings on long-term obligations	100,000	-
Principal payments on long-term obligations	(150,000)	(200,000)
NET CASH USED IN FINANCING ACTIVITIES	(50,000)	(200,000)
INCREASE (DECREASE) IN CASH	2,214,623	(630,903)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,407,949	5,038,852
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 6,622,572	$ 4,407,949
ADDITIONAL CASH FLOW INFORMATION:		
Interest expense paid	$ 227,426	$ 201,491

See accompanying notes to consolidated financial statements.

NOTE 1 - GENERAL

The Housing Fund, Inc. ("THF") was organized in 1996 as a Tennessee not-for-profit corporation. Its stated mission is to "provide resources and creative leadership to help individuals and communities create and maintain affordable and healthy places to live." THF is designated as a Community Development Financial Institution ("CDFI") by the U.S. Department of Treasury. In addition, THF is one of the nonprofit agencies involved in a joint effort of private and public sectors established to provide the "We Are Home" program, which is designed to fill gaps that exist for homeowners by providing financing for the repairs of homes damaged by the May 2010 flood in Nashville and surrounding counties.

During 2002, Laurel House Apartments GP, Inc. ("Laurel House") was organized as a for-profit corporation and is a wholly-owned subsidiary of THF. Laurel House owns 1/10 of 1% as general partner of Laurel House 2001, L.P., a limited partnership that was also organized in 2002. Laurel House 2001, L.P. acquired certain real estate for the construction and operation of Laurel House Apartments (the "Laurel House project"), a 48-apartment unit development, with parking availability, 10,000 square feet of retail space, and offices for THF (see Note 9). 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 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).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Basis of presentation

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued)

- *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. All temporarily restricted net assets as of September 30, 2011 are for flood assistance programs (none as of September 30, 2012).

- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Agency had no permanently restricted net assets as of September 30, 2012 and 2011.

Contributions and support

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

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

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

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

Deferred revenue

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal loan awards

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

Cash and cash equivalents

Cash and cash equivalents include demand deposits and money market funds with banks. Cash equivalents also include bank certificates of deposit that can be liquidated without significant penalty or restriction (including accrued interest).

Accounts receivable

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

Real estate owned

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

Property, furniture and equipment

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-kind contributions

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

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

Allowance for uncollectible loans

The allowance for uncollectible loans is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using historical loan loss experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, and current economic conditions. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component is based on historical loss experience adjusted for current factors. The entire allowance is available for any loan that, in management's judgment, should be charged off.

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. Accordingly, income taxes are not provided.

THF files a U.S. federal Form 990 for organizations exempt from income tax. Tax returns for years prior to fiscal year 2009 are no longer open to examination.

Laurel House is a for-profit corporation and files a federal Form 1120 and a Tennessee Franchise and Excise tax return. Tax returns for years prior to 2009 are no longer open to examination.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing THF's and Laurel House's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Program and supporting services

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

Low-income housing assistance - includes a down payment assistance-lending program, a community development loan program and a shared equity homeownership program designed to assist income eligible households in acquiring or maintaining their primary residence and 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.

Flood assistance - includes a flood assistance-lending program designed to assist homeowners in the repair of homes damaged by the May 2010 floods. Nashville's "We Are Home" program is a joint effort of Nashville's private and public sectors, including the Community Foundation of Middle Tennessee, local financial institutions, nonprofit organizations, and the Metropolitan Government of Nashville and Davidson County. The "We Are Home" program is designed to fill gaps that exist for homeowners after taking into account individual assistance provided by the Federal Emergency Management Agency ("FEMA") and the Small Business Administration ("SBA") by providing financial assistance in the form of low-interest loans, grants and due-on-sale loans.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurements

The Agency classifies assets measured at fair value based on a hierarchy of valuation techniques consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (valued using quoted prices for similar assets in active markets or quoted prices for identical or similar assets in markets that are not active or are directly or indirectly observable), and Level 3 (valued based on significant unobservable inputs that reflect estimates and assumptions). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial assets measured at fair value on a non-recurring basis include the following:

Real Estate Owned - The Agency measures fair value of real estate owned through an analysis of recent sales, property tax assessments, and listing prices of comparable real estate available in the market place. Consideration is given to property condition, location and other factors to determine the estimated future cash flow on the development projects. Real estate development costs are classified within Level 2 of the valuation hierarchy.

No changes to the valuation methodology have been made since the prior year.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Agency believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date, and the difference could be significant.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with GAAP 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. Accordingly, actual results could differ from those estimates.

Events occurring after reporting date

The Agency has evaluated events and transactions that occurred between September 30, 2012 and February 14, 2013, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS

Down payment assistance loans

Down payment assistance loans, secured by a second deed of trust on the applicable properties, are made to homebuyers from unrestricted funds. These loans range from $1,000 to $31,000 and consist of the following as of September 30:

	2012	2011
Interest-bearing loans with interest at rates from 2% to 8%, for terms of 5 to 30 years	$ 3,153,774	$ 3,437,387
Non-interest bearing loans that are payable upon the sale of the property	4,492,088	4,752,373
	7,645,862	8,189,760
Less: allowance for uncollectible loans	(383,000)	(409,572)
Total	$ 7,262,862	$ 7,780,188

Annual principal maturities of down payment assistance loans (excluding the loans that are due upon the sale of the property) are as follows:

Year ending September 30:	
2013	$ 270,877
2014	295,821
2015	268,687
2016	256,347
2017	248,558
Thereafter	1,813,484
	$ 3,153,774

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Flood assistance loans

Flood assistance loans, secured by the repaired property through a second or third deed of trust are made to homeowners through federal grants or temporarily restricted funds. These loans range from approximately $1,000 to $55,000 and consist of the following as of September 30:

	2012	2011
Interest-bearing loans with interest rate at 4%, requiring monthly payments for terms of 5 to 25 years	$ 553,892	$ 582,593
Non-interest bearing loans that are payable upon the sale of the property	3,145,126	2,911,432
	3,699,018	3,494,025
Less: allowance for uncollectible loans	(2,396,000)	(2,324,000)
Total	$ 1,303,018	$ 1,170,025

Annual principal maturities of flood assistance loans (excluding the loans that are due upon the sale of the property) are as follows:

Year ending September 30:	
2013	$ 22,210
2014	25,291
2015	26,321
2016	27,390
2017	28,540
Thereafter	424,140
	$ 553,892

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Development loans

Development loans consist of the following as of September 30:

		2012	2011
Loans to not-for-profit, government and for-profit developers for the development of affordable housing, ranging from approximately $36,000 to $1,665,000, for terms of 24 to 324 months, with interest at rates from 1% to 7%; 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.		$ 3,713,221	$ 4,874,856
Development loan to Conexion Americas, a not-for-profit agency, to fund *Puertas Abiertas*, a down payment assistance program for Hispanic families, with interest at 5%; repayment term corresponds with Conexion Americas collection of principal payments from down payment assistance loans of the program, which have terms up to 10 years from the date of the loan.		246,612	277,680
THF's share of outstanding balance on participation loans:			
Loan agreement with MDHA for Row 8.9 project	(1)	-	182,169
Related party loans:			
Loan agreement with MDHA for Laurel House project	(2)	381,581	433,910
		4,341,414	5,768,615
Development loans for the "Our House" program - Non interest bearing loans payable upon the sale of the underlying properties	(3)	1,482,957	1,001,192
		5,824,371	6,769,807
Less: allowance for uncollectible loans		(937,000)	(522,489)
Total		$ 4,887,371	$ 6,247,318

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Development loans (continued)

(1) 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 consisted 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 were due and payable on May 1 each year through 2024. All payments were applied first to interest at the rate of 6.5% per annum, with any remaining balance applied to principal. THF entered into separate agreements with three financial institutions to purchase from THF, without recourse, undivided interests in this loan totaling $320,658 at September 30, 2011. During fiscal year 2012, the entire principal balance and accrued interest was paid in full.

(2) On December 19, 2001 and October 20, 2004, THF loaned MDHA $500,000 and $200,000, respectively, for Tax Increment Financing ("TIF") for the Laurel House project that was developed by Laurel House 2001, L.P. (See Note 1.) Annual payments in an amount equal to the amount of Tax Increment Proceeds are due and payable on May 1 each year through 2028. All payments are applied first to interest at the rate of 6% per annum, with any remaining balance applied to principal. Accrued interest on these loans was $1,911 as of September 30, 2012 ($2,595 as of September 30, 2011).

(3) The Agency is one of several nonprofit agencies involved in a joint effort of private and public sectors established to provide the "Our House" program, which is designed to establish financing mechanisms, including shared equity loans for the purchase and redevelopment of foreclosed residential properties, the purchase and rehabilitation of residential properties that have been abandoned or foreclosed upon and the redevelopment of demolished or vacant properties as housing. Federal grant funds under the Neighborhood Stabilization Program - 2 program disbursed to the developers of such projects are recorded at cost. The Agency has three grant-funded development loans to real estate developers for the construction of single family homes for qualified buyers under the program. The development loans are repayable upon the sale of the homes by the developer and do not bear interest. Qualified homebuyers agree to certain restrictions on their use and resale of the property.

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Development loans (continued)

Annual principal maturities of development loans receivable that contain set repayment terms are as follows:

Year ending September 30:	
2013	$ 1,075,510
2014	2,479,254
2015	156,927
2016	58,873
2017	309,548
Thereafter	261,302
	$ 4,341,414

Shared equity loans

Shared equity loans are offered through a homeownership program, "Our House", to provide qualified homebuyers with funds up to 25% of the home's purchase price. Shared equity loan principal plus a portion of the home's appreciation are repayable upon the sale of home by borrower; however, these loans are assumable by future buyers eligible under the shared equity program. Funds disbursed to borrowers are recorded at cost. Borrowers agree to certain restrictions on their use and resale of the property. Shared equity loans consist of the following as of September 30:

	2012	2011
Non-interest bearing loans that are payable upon the sale of the property	$ 329,687	$ -
Less: allowance for uncollectible loans	(17,000)	-
Total	$ 312,687	$ -

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Allowance for uncollectible loans

Activity in the allowance for uncollectible loans was as follows as of and for the year ended September 30, 2012:

	Down payment assistance	Flood	Development	Shared equity
Allowance for uncollectible loans:				
Beginning balance	$ 409,572	$ 2,324,000	$ 522,489	$ -
Charge-offs	(346,795)	(20,000)	(9,420)	-
Recoveries	12,280	2,500	-	-
Provisions	307,943	89,500	423,931	17,000
Ending balance	$ 383,000	$ 2,396,000	$ 937,000	$ 17,000
Ending balance: individually evaluated for impairment	$ -	$ -	$ 937,000	$ -
Ending balance: collectively evaluated for impairment	$ 383,000	$ 2,396,000	$ -	$ 17,000
Loans:				
Ending balance	$ 7,645,862	$ 3,699,018	$ 5,824,371	$ 329,687
Ending balance: individually evaluated for impairment	$ -	$ -	$ 5,824,371	$ -
Ending balance: collectively evaluated for impairment	$ 7,645,862	$ 3,699,018	$ -	$ 329,687

Activity in the allowance for uncollectible loans was as follows as of and for the year ended September 30, 2011:

	Down payment assistance	Flood	Development	Shared equity
Balance - Beginning of year	$ 386,267	$ 50,000	$ 332,389	$ -
Charge-offs	(217,266)	-	-	-
Recoveries	3,571	-	100	-
Provision for loan losses	237,000	2,274,000	190,000	-
Balance - End of year	$ 409,572	$ 2,324,000	$ 522,489	$ -

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Allowance for uncollectible loans (continued)

The Agency's policies relevant to each loan portfolio's allowance for uncollectible loans are as follows:

Down payment assistance loans - The Agency reserves approximately 5% of the total loan portfolio. The allowance for uncollectible loans is calculated at the end of each month based on outstanding loan balances.

Flood loans - For loans to owner occupied single family homes originated prior to September 30, 2011, reserve amounts were calculated based on 70% of the face amount for loans due on sale of the underlying property. For loans where principal and interest are amortized, the reserve amounts were calculated based on 50% of the face amount for the loans. For all loans originated during the year ending September 30, 2012, the reserve is based on 40% of the face amount for the new loans.

Development loans - The Agency utilizes a risk rating system to monitor the credit quality of the Agency's development loan portfolio. Loans are assigned a risk rating on a scale of 1 to 8. A description of the risk ratings are as follows:

Rating	**Percent Reserved**	**Description**
1	1%	Metropolitan Development Housing Agency ("MDHA") or MDHA Development Agreement in place; experienced developer with several THF loans in past; very strong nonprofit; TIF on completed project now paying taxes
2	2%	Experienced developer or strong nonprofit, as above, but may be subordinate; may be TIF project nearly complete but not yet paying taxes
3	3%	Newer developer or little experience with THF; may be experienced developer with THF loan in subordinate position; early TIF project
4	4%	New developer with little experience with THF; may be newer developer with THF in subordinate position; may be unsecured with experienced developer or nonprofit
5	5%	Unsecured or predevelopment loan fund in early stage
6,7,8	As needed	THF concerned about status of project, set reserve based on anticipated loss

Shared equity loans - The Agency reserves approximately 5% of the total loan portfolio. The allowance for uncollectible loans is calculated at the end of each month based on outstanding loan balances.

NOTE 4 - REAL ESTATE OWNED

The estimated future cash flows on development projects were less than the carrying values. Impairment losses of $9,004 and $46,822 were recognized on those projects.

NOTE 5 - PROPERTY, FURNITURE AND EQUIPMENT

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

	2012	2011
Leasehold improvements	$ 346,966	$ 346,966
Computer equipment	74,671	50,533
Furniture and fixtures	43,674	43,674
	465,311	441,173
Less: accumulated depreciation	(211,362)	(185,238)
Total	$ 253,949	$ 255,935

NOTE 6 - NOTES PAYABLE

Loans from various financial institutions generally mature in one to ten years, accrue interest at rates from 2.0% to 2.5% annually, and are unsecured and subordinated. Certain loans contain automatic extension provisions that can renew indefinitely. Some loans permit the accrued interest to be added to the principal balance quarterly; the other loans require the interest to be paid quarterly. Accrued interest added to principal balances amounted to $49,962 in 2012, and $65,801 in 2011.

During 2012, a financial institution notified THF that $530,115 of principal and accrued interest on the related note payable would be forgiven and considered a contribution to the Agency.

NOTE 6 - NOTES PAYABLE (CONTINUED)

A summary of notes payable to financial institutions and other lenders as of September 30, 2012 and 2011, follows:

			2012				2011		
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	2	$2,000,000	$ 2,000,000	$ -	$ 2,000,000	$ -	$ 2,000,000	$ -	$ 2,000,000
U. S. Bank	3	2,000,000	2,000,000	-	2,000,000	-	2,000,000	-	2,000,000
Regions Bank of Tennessee		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
Wells Fargo		700,000	50,000	-	50,000	-	200,000	-	200,000
Pinnacle National Bank		600,000	600,000	116,773	716,773	-	600,000	99,293	699,293
Community Development Financial Institutions Fund (CDFI)		572,044	572,044	-	572,044	-	572,044	-	572,044
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	-	300,000
GMAC Mortgage Company		300,000	100,000	27,228	127,228	200,000	100,000	24,125	124,125
F & M Bank	1	300,000	300,000	25,566	325,566	-	300,000	19,182	319,182
Monticello Banking Company	4	250,000	250,000	25,582	275,582	-	250,000	19,173	269,173
First Tennessee Bank, N.A.	5	250,000	250,000	-	250,000	-	750,000	30,115	780,115
InsBank of Tennessee		150,000	150,000	18,676	168,676	-	150,000	14,562	164,562
Vanderbilt University		100,000	100,000	27,176	127,176	-	100,000	24,074	124,074
Renasant Bank		100,000	100,000	15,069	115,069	-	100,000	12,813	112,813
Cumberland Bank and Trust	1	100,000	100,000	-	100,000	-	100,000	-	100,000
Planter's Bank		100,000	-	-	-	100,000	-	-	-
Nashville Bank & Trust		100,000	100,000	2,235	102,235	-	-	-	-
Legends Bank	1	100,000	100,000	11,196	111,196	-	100,000	9,016	109,016
Heritage Bank	1	100,000	100,000	10,646	110,646	-	100,000	7,947	107,947
Fort Campbell Federal Credit Union	1	25,000	25,000	-	25,000	-	25,000	-	25,000
Total Notes Payable			$ 10,747,044	$ 280,147	$ 11,027,191	$ 300,000	$ 11,297,044	$ 260,300	$ 11,557,344

1 - Funding available for Clarksville/Montgomery County, Tennessee operations.

2 - Includes $200,000 funding available for Clarksville/Montgomery County, Tennessee operations.

3 - Includes $250,000 funding available for Clarksville/Montgomery County, Tennessee operations. Includes $250,000 funding available for Bowling Green, Kentucky operations.

4 - Funding available for Bowling Green, Kentucky operations.

5 - In December 2011, the lender forgave $530,115 in principal and accrued interest. Such amounts are reported as contribution income in 2012.

NOTE 6 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable are as follows:

Year ending September 30:

2013	$ 677,228
2014	1,700,000
2015	1,663,252
2016	2,554,059
2017	525,000
Thereafter	3,907,652
	$ 11,027,191

NOTE 7 - CONCENTRATION OF CREDIT RISK

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

The Agency maintains cash accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to statutory limits. As of September 30, 2012, uninsured cash deposits were approximately $22,000 ($-0- in 2011).

The Agency also maintains cash and cash equivalents in an investment account at a brokerage company. This investment consists of a money market fund. Generally, the balance is not insured by the FDIC or any other governmental agency and is subject to investment risk, including the risk of loss of principal. Investors are provided limited protection by the Securities Investor Protection Corporation (“SIPC”), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to $500,000. The SIPC does not insure against market risk.

Outstanding development loans to four developers comprised 74% of the total of such loans at September 30, 2012 (68% in 2011).

NOTE 8 - 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 employee benefit plan costs.

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

Employee benefit plans

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

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

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

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

The Agency's contributions to all employee benefit plans for the year ended September 30, 2012, amounted to $89,958 ($93,160 for 2011), which equaled the amount of required employer contributions.

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

NOTE 8 - CONTRACTED SERVICES AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Employee benefit plans (Continued)

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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

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

The Agency leases space for one satellite office under a non-cancellable lease. The lease term is for the period of one year, expiring in December 2013. Total rent expense amounted to $54,735 in 2012 ($55,410 in 2011).

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

Year ending September 30:	
2013	$ 43,253
2014	42,769
2015	43,052
2016	43,052
2017	43,052
Thereafter	295,464
Total	$ 510,642

NOTE 10 - RELATED PARTY TRANSACTIONS

Three of the Agency's 21 Board members are senior officers with financial institutions or other lenders with which the Agency has outstanding loans totaling $3,950,000 at September 30, 2012. Another Board member is director of the organization that is the granting and pass-through agency of a significant portion of the government grants awarded to the Agency.

ADDITIONAL INFORMATION

THE HOUSING FUND, INC. AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Grant Description	Notes	Federal CFDA#	Grant Number	(Accrued) Deferred 10/1/2011	10/1/11 - 9/30/12 Receipts	10/1/11 - 9/30/12 Expenditures	(Accrued) Deferred 9/30/2012
DEPARTMENT OF THE TREASURY							
Community Development Financial Institutions Fund (CDFI) - Loan		21.020	081FA007449	$ 572,044	$ -	$ -	$ 572,044
Community Development Financial Institutions Fund (CDFI) - Technical assistance		21.020	081FA007449	73,023	(12,476)	60,547	-
Community Development Financial Institutions Fund (CDFI) - Financial assistance		21.020	101FA008820	520,333	-	234,500	285,833
Total CFDA 21.020				1,165,400	(12,476)	295,047	857,877
PASSED THROUGH TENNESSEE HOUSING DEVELOPMENT AGENCY							
National Forclosure Mitigation Counseling		21.000	N/A	-	5,123	5,123	-
Hardest Hit Fund		21.000	N/A	-	27,000	27,000	-
Total CFDA 21.000				-	32,123	32,123	-
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT							
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:							
HOME Investment Partnerships Program - We Are Home Program							
We Are Home Flood - program		14.239	M-10-MC-47-0203	(52,566)	158,320	135,439	(29,685)
We Are Home Flood - program income utilization		14.239	M-10-MC-47-0203	-	(10,252)	(10,252)	-
We Are Home Flood - administration		14.239	M-10-MC-47-0203	(36,417)	48,504	16,988	(4,901)
Total CFDA 14.239				(88,983)	196,572	142,175	(34,586)
PASSED THROUGH METROPOLITAN DEVELOPMENT & HOUSING AGENCY							
Community Development Block Grant - We Are Home Program							
We Are Home CDBG - program		14.218	B-10-MC-47-0007	(11,154)	-	(15,114)	3,960
We Are Home CDBG - administration		14.218	B-10-MC-47-0007	4,096	-	(1,841)	5,937
We Are Home CDBG - administration		14.218	B-10-MC-47-0007	(91)	-	-	(91)
				(7,149)	-	(16,955)	9,806
Community Development Block Grant - Disaster Services							
Community Development Block Grant - Disaster Services - program		14.218	B-10-MF-47-0002	(272,279)	654,560	405,860	(23,579)
Community Development Block Grant - Disaster Services - administration		14.218	B-10-MF-47-0002	-	37,472	95,585	(58,113)
Community Development Block Grant - Disaster Services - program income utilization		14.218	B-10-MF-47-0002	-	(133,980)	(133,980)	-
Community Development Block Grant - Disaster Services - program delivery		14.218	B-10-MF-47-0002	(201,329)	430,820	541,120	(311,629)
				(473,608)	988,872	908,585	(393,321)
PASSED THROUGH THE CITY OF FRANKLIN:							
Community Development Block Grant		14.218	N/A	(5,000)	20,000	20,000	(5,000)
Total CFDA 14.218				(485,757)	1,008,872	911,630	(388,515)
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:							
ARRA - Neighborhood Stabilization Program - 2 - Our House	*	14.256	B-09-CN-TN-0024	-	1,162,105	1,162,105	-
ARRA - Neighborhood Stabilization Program - 2 - administration	*	14.256	B-09-CN-TN-0024	(17,369)	19,687	122,985	(120,667)
ARRA - Neighborhood Stabilization Program - 2 - program	*	14.256	B-09-CN-TN-0024	(4,922)	130,300	262,007	(136,629)
Total CFDA 14.256				(22,291)	1,312,092	1,547,097	(257,296)

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

THE HOUSING FUND, INC. AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Grant Description	Notes	Federal CFDA#	Grant Number	(Accrued) Deferred 10/1/2011	10/1/11 - 9/30/12 Receipts	Expenditures	(Accrued) Deferred 9/30/2012
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE - SOCIAL INNOVATION FUND							
PASSED THROUGH NCM CAPITAL IMPACT							
CHIP Program		94.019	N/A	$ -	$ 25,000	$ 25,000	$ -
DEPARTMENT OF ENERGY							
PASSED THROUGH SOUTHEAST ENERGY EFFICIENCY ALLIANCE							
Energy Lending - Loan loss reserve		81.128	N/A	-	200,000	-	200,000
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 568,369	$ 2,762,183	$ 2,953,072	$ 377,480

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2012

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
ASSETS				
Cash and cash equivalents	$ 6,622,572	$ -	$ -	$ 6,622,572
Accounts receivable	25,805	-	-	25,805
Government grants receivable	680,398	-	-	680,398
Accrued interest on loans receivable	132,419	-	-	132,419
Down payment assistance loans receivable, net	7,262,862	-	-	7,262,862
Flood assistance loans receivable, net	1,303,018	-	-	1,303,018
Development loans receivable, net	4,887,371	-	-	4,887,371
Shared equity loans receivable, net	312,687	-	-	312,687
Real estate development costs	202,244	-	-	202,244
Prepaid expenses	10,129	-	-	10,129
Property, furniture and equipment, net	253,949	-	-	253,949
Investment in subsidiary	200,000	-	(200,000)	-
Investment in limited partnership	-	200,000	-	200,000
TOTAL ASSETS	$ 21,893,454	$ 200,000	$ (200,000)	$ 21,893,454
LIABILITIES				
Accounts payable	$ 138,539	$ -	$ -	$ 138,539
Accrued expenses	174,759	-	-	174,759
Deferred revenue	485,833	-	-	485,833
Notes payable	11,027,191	-	-	11,027,191
TOTAL LIABILITIES	11,826,322	-	-	11,826,322
NET ASSETS	10,067,132	200,000	(200,000)	10,067,132
TOTAL LIABILITIES AND NET ASSETS	$ 21,893,454	$ 200,000	$ (200,000)	$ 21,893,454

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	$ 3,082,760	$ -	$ -	$ 3,082,760
Grants from private institutions	153,170	-	-	153,170
Contributions	680,115	-	-	680,115
Revenues:				
Service and administrative fees	66,242	-	-	66,242
Interest income:				
Loans	372,456	-	-	372,456
Other	13,673	-	-	13,673
Other	33,666	-	-	33,666
Impairment loss on real estate development costs	(9,004)	-	-	(9,004)
TOTAL SUPPORT AND REVENUES	4,393,078	-	-	4,393,078
EXPENSES				
Program services:				
Low-income housing assistance programs	1,634,202	-	-	1,634,202
Flood assistance programs	1,123,620	-	-	1,123,620
Supporting services:				
Management and general	253,010	-	-	253,010
TOTAL EXPENSES	3,010,832	-	-	3,010,832
CHANGE IN NET ASSETS	1,382,246	-	-	1,382,246
NET ASSETS - BEGINNING OF YEAR	8,684,886	200,000	(200,000)	8,684,886
NET ASSETS - END OF YEAR	$ 10,067,132	$ 200,000	$ (200,000)	$ 10,067,132

OTHER REPORTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of The Housing Fund, Inc., a Tennessee not-for-profit corporation and subsidiary (collectively, the "Agency") as of and for the year ended September 30, 2012, and have issued our report thereon dated February 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

KraftCPAs PLLC - Certified Public Accountants and Consultants
555 Great Circle Road • Nashville, TN 37228 • Phone 615-242-7351 • Fax 615-782-4271 • www.kraftcpas.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of The Housing Fund, Inc. in a separate letter dated February 14, 2013.

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

KraftCPAs PLLC

Nashville, Tennessee
February 14, 2013

KraftCPAs PLLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of The Housing Fund, Inc. and subsidiary (collectively, the "Agency"), with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended September 30, 2012. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

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

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

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Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Kraft CPAs PLLC

Nashville, Tennessee
February 26, 2013

THE HOUSING FUND, INC. AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	________ Yes	X No
• Significant deficiency(s) identified that are not considered to be material weakness(es)?	________ Yes	X None reported
Noncompliance material to financial statements noted?	________ Yes	X No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	________ Yes	X No
• Significant deficiency(s) identified that are not considered to be material weakness(es)?	________ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	________ Yes	X No

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
14.256	Neighborhood Stabilization Program

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Auditee qualified as low-risk auditee?	X Yes	________ No