THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2011 AND 2010

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NASHVILLE, TENNESSEE

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KraftCPAs PLLC

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of The Housing Fund, Inc., a Tennessee not-for-profit corporation, and subsidiary (collectively, the "Agency") as of September 30, 2011 and 2010, 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, 2011 and 2010, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012 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 and information by location, pages 23 through 25, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

KraftCPAs PLLC

Nashville, Tennessee
January 17, 2012

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THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 4,407,949	$ 5,038,852
Accounts receivable	32,622	28,610
Government grants receivable	601,128	794,509
Accrued interest on loans receivable	146,755	147,796
Down payment assistance loans receivable, net	7,780,188	8,208,627
Flood assistance loans receivable, net	1,170,025	148,788
Development loans receivable, net	6,247,318	5,338,765
Real estate development costs	276,394	428,826
Prepaid expenses	4,778	-
Property, furniture and equipment, net	255,935	272,620
Investment in limited partnership	200,000	200,000
TOTAL ASSETS	$ 21,123,092	$ 20,607,393
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 115,469	$ 84,703
Accrued expenses	159,515	146,379
Funds held on behalf of others	-	51,874
Deferred revenue	605,878	771,162
Notes payable	11,557,344	11,691,543
TOTAL LIABILITIES	12,438,206	12,745,661
NET ASSETS		
Unrestricted	8,651,653	6,873,607
Temporarily restricted	33,233	988,125
TOTAL NET ASSETS	8,684,886	7,861,732
TOTAL LIABILITIES AND NET ASSETS	$ 21,123,092	$ 20,607,393

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS
SUPPORT AND REVENUES			
Public support:			
Federal, state and local government grants	$ 9,300,493	$ -	$ 9,300,493
Grant from financial institution	-	-	-
Contributions	18,903	-	18,903
Revenues:			
Service and administrative fees	79,742	-	79,742
Interest income:			
Loans	411,457	-	411,457
Other	8,182	-	8,182
Other	38,845	-	38,845
Impairment loss on real estate development costs	(46,822)	-	(46,822)
Net assets released from restrictions	954,892	(954,892)	-
TOTAL SUPPORT AND REVENUES	10,765,692	(954,892)	9,810,800
EXPENSES			
Program services:			
Low-income housing assistance programs	1,260,653	-	1,260,653
Flood assistance programs	7,515,223	-	7,515,223
Supporting services:			
Management and general	211,770	-	211,770
TOTAL EXPENSES	8,987,646	-	8,987,646
CHANGE IN NET ASSETS	1,778,046	(954,892)	823,154
NET ASSETS - BEGINNING OF YEAR	6,873,607	988,125	7,861,732
NET ASSETS - END OF YEAR	$ 8,651,653	$ 33,233	$ 8,684,886

See accompanying notes to consolidated financial statements.

2010		
UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS
$ 1,078,108	$ -	$ 1,078,108
23,000	-	23,000
148,124	1,207,700	1,355,824
107,833	-	107,833
357,212	-	357,212
19,478	-	19,478
14,856	-	14,856
(67,320)	-	(67,320)
219,575	(219,575)	-
1,900,866	988,125	2,888,991
1,308,980	-	1,308,980
853,522	-	853,522
247,952	-	247,952
2,410,454	-	2,410,454
(509,588)	988,125	478,537
7,383,195	-	7,383,195
$ 6,873,607	$ 988,125	$ 7,861,732

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011			
	Program Services		Supporting Services	
	Low-Income Housing Assistance	Flood Assistance	Management and General	Totals
Payroll and related costs	$ 249,367	$ 978,584	$ 136,338	$ 1,364,289
Forgiveness of down payment assistance loans	-	-	-	-
Flood assistance grants	-	4,019,220	-	4,019,220
Rental assistance grants	-	175,625	-	175,625
Provision for uncollectible loans	427,000	2,274,000	-	2,701,000
Advertising	4,650	280	100	5,030
Counseling	46,090	-	-	46,090
Depreciation	20,821	-	6,195	27,016
Interest	281,292	-	-	281,292
Occupancy	52,512	27,205	16,087	95,804
Office expense and miscellaneous	58,462	34,629	32,838	125,929
Printing	-	-	984	984
Professional fees	38,793	5,680	19,217	63,690
Servicing fees	81,666	-	11	81,677
	$ 1,260,653	$ 7,515,223	$ 211,770	$ 8,987,646

See accompanying notes to consolidated financial statements.

2010			
Program Services		Supporting Services	
Low-Income Housing Assistance	Flood Assistance	Management and General	Totals
$ 489,988	$ 184,356	$ 184,040	$ 858,384
2,384	-	-	2,384
-	447,190	-	447,190
-	116,725	-	116,725
173,000	50,000	-	223,000
1,905	-	515	2,420
56,570	9,560	-	66,130
23,270	-	6,255	29,525
278,259	-	-	278,259
72,213	5,952	20,947	99,112
47,033	17,082	28,547	92,662
1,634	289	278	2,201
50,518	1,151	6,988	58,657
112,206	21,217	382	133,805
$ 1,308,980	$ 853,522	$ 247,952	$ 2,410,454

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES		
Change in net assets	$ 823,154	$ 478,537
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	27,016	29,525
Non-cash contribution - elimination of accrued interest on notes payable	-	(148,124)
Accrued interest added to notes payable	65,801	68,015
Provision for uncollectible loans	2,701,000	223,000
Impairment loss on real estate development costs	46,822	67,320
Forgiveness of down payment assistance loans	-	2,384
(Increase) decrease in:		
Accounts receivable	(4,012)	37,044
Government grants receivable	193,381	(534,219)
Accrued interest receivable	1,041	389,545
Prepaid expenses	(4,778)	3,400
(Decrease) increase in:		
Accounts payable	30,766	14,973
Accrued expenses	13,136	7,221
Funds held on behalf of others	(51,874)	-
Deferred revenue	(165,284)	549,107
Net adjustments	2,853,015	709,191
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,676,169	1,187,728
INVESTING ACTIVITIES		
Acquisition of property, furniture and equipment	(10,331)	(11,495)
Payments made for real estate development costs	(4,340)	(241,057)
Housing down payment assistance loans made	(290,896)	(1,148,015)
Principal repayment on down payment assistance loans	482,335	909,706
Flood assistance loans made	(3,341,246)	(198,788)
Principal repayments on flood assistance loans	46,009	-
Development loans made	(3,410,680)	(1,237,992)
Principal repayments on development loans	2,312,127	2,324,128
Proceeds from sale of development projects	109,950	590,098
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(4,107,072)	986,585
FINANCING ACTIVITIES		
Principal payments on long-term obligations	(200,000)	(200,000)
NET CASH USED IN FINANCING ACTIVITIES	(200,000)	(200,000)
INCREASE (DECREASE) IN CASH	(630,903)	1,974,313
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	5,038,852	3,064,539
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,407,949	$ 5,038,852
NONCASH INVESTING ACTIVITIES:		
Carrying value of foreclosed development and down payment assistance loans transferred to real estate development costs	$ -	$ 120,342
ADDITIONAL CASH FLOW INFORMATION:		
Interest expense paid	$ 201,491	$ 209,806

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 "build a local pool of funds that is flexible and self-sustaining in order to provide the financial resources necessary to help low and moderate income families and individuals become homeowners and to assist nonprofit and for-profit developers in increasing the supply of decent and affordable housing." 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. was organized as a for-profit corporation and is a wholly-owned subsidiary of THF. Laurel House Apartments GP, Inc. owns 1/10 of 1% as general partner of Laurel House 2001, L.P., a limited partnership that was also organized in 2002. Laurel House 2001, L.P. acquired certain real estate for the construction and operation of Laurel House Apartments (the "Laurel House project"), a 48-apartment unit development, with parking availability, 10,000 square feet of retail space, and offices for THF (see Note 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 Apartments GP, Inc. in the limited partnership is reported at its $200,000 historical cost. In accordance with the Amended and Restated Limited Partnership Agreement of Laurel House 2001, L.P., the general partner has the right of first refusal to acquire the property at the end of the statutory compliance period pursuant to applicable provisions of Internal Revenue Code §42(i)(7).

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 and 2010 are for flood assistance programs.

- *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, 2011 and 2010.

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 development costs

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

Property, furniture and equipment

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

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.

Provision for uncollectible loans

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

Income taxes

THF qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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 2008 are closed.

Laurel House Apartments GP, Inc. is a for-profit corporation and files a federal Form 1120 and a Tennessee Franchise and Excise tax return. Laurel House Apartments, GP, Inc.'s income tax returns for years prior to 2007 are closed.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing THF'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 financials statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 Development Costs - The Agency measures fair value of real estate development costs 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. Actual results could differ from those estimates.

Events occurring after reporting date

The Agency has evaluated events and transactions that occurred between September 30, 2011 and January 17, 2012, 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

Down payment assistance loans

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

	2011	2010
Interest-bearing loans with interest at rates from 2% to 8%, for terms of 5 to 30 years	$ 3,437,387	$ 3,687,218
Non-interest bearing loans that are payable upon the sale of the property	4,752,373	4,907,676
	8,189,760	8,594,894
Less: allowance for uncollectible loans	(409,572)	(386,267)
Total	$ 7,780,188	$ 8,208,627

Forgiveness of loans that are in-substance grants amounted to $-0- in 2011 ($2,384 in 2010).

Annual principal maturities of down payment assistance loans (excluding the loans that are due upon the sale of the property) are as follows as of September 30, 2011:

2012	$ 285,274
2013	309,027
2014	309,532
2015	278,231
2016	259,743
Thereafter	1,995,580
	$ 3,437,387

NOTE 3 - LOANS RECEIVABLE (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:

	2011	2010
Interest-bearing loans with interest rate at 4%, requiring monthly payments for terms of 5 to 20 years	$ 582,593	$ 104,742
Non-interest bearing loans that are payable upon the sale of the property	2,911,432	94,046
	3,494,025	198,788
Less: allowance for uncollectible loans	(2,324,000)	(50,000)
Total	$ 1,170,025	$ 148,788

Annual principal maturities of flood assistance loans (excluding the loans that are due upon the sale of the property) are as follows as of September 30, 2011:

2012	$ 19,477
2013	26,224
2014	27,292
2015	28,404
2016	29,559
Thereafter	451,637
	$ 582,593

NOTE 3 - LOANS RECEIVABLE (CONTINUED)

Development loans

Development loans consist of the following as of September 30:

		2011	2010
Loans to not-for-profit, government and for-profit developers for the development of affordable housing, ranging from approximately $31,000 to $1,689,000, for terms of 8 to 186 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.		$ 4,874,856	$ 4,625,421
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.		277,680	311,823
THF's share of outstanding balance on participation loans:			
Loan agreement with MDHA for Row 8.9 project	(1)	182,169	247,941
Related party loans:			
Loan agreement with MDHA for Laurel House project	(2)	433,910	485,969
		5,768,615	5,671,154
Development loans for the "Our House" program - Non interest bearing loans payable upon the sale of the underlying properties	(3)	1,001,192	-
		6,769,807	5,671,154
Less: allowance for uncollectible loans		(522,489)	(332,389)
Total		$ 6,247,318	$ 5,338,765

NOTE 3 - LOANS RECEIVABLE (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 consists of 29 single-family town homes. Annual payments in an amount equal to the amount of Tax Increment Proceeds from certain properties within the Phillips Jackson Redevelopment Areas are due and payable on May 1 each year through 2024. All payments are applied first to interest at the rate of 6.5% per annum, with any remaining balance applied to principal. THF entered into separate agreements with three financial institutions to purchase from THF, without recourse, undivided interests in this loan totaling $320,658 at September 30, 2011 and $421,578 at September 30, 2010.

(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 $2,595 as of September 30, 2011 ($12,230 as of September 30, 2010).

(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. Program funds dispersed to the developer of such projects are recorded at cost. The Agency has three separate 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 (CONTINUED)

Development loans (continued)

Annual principal maturities of development loans receivable that contain set repayment terms as of September 30, 2011 are as follows:

	Participating Loans				
	Total	Less Amounts Allocated to Participating Financial Institutions	Allocated to THF	Other Development Loans	Total
2012	$ 107,425	$ (64,509)	$ 42,916	$ 1,583,672	$ 1,626,588
2013	114,355	(73,405)	40,950	1,224,547	1,265,497
2014	106,767	(68,943)	37,824	2,318,990	2,356,814
2015	88,690	(57,616)	31,074	249,297	280,371
2016	85,590	(56,185)	29,405	127,504	156,909
Thereafter	-	-	-	82,436	82,436
	$ 502,827	$ (320,658)	$ 182,169	$ 5,586,446	$ 5,768,615

NOTE 4 - REAL ESTATE DEVELOPMENTS COSTS

As of September 30, 2011, the estimated future cash flows on development projects were less than the carrying values. An impairment loss of $46,822 has been recognized on these projects in the current year ($67,320 impairment loss recognized in 2010).

NOTE 5 - PROPERTY, FURNITURE AND EQUIPMENT

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

	2011	2010
Leasehold improvements	$ 346,966	$ 346,966
Computer equipment	50,533	48,656
Furniture and fixtures	43,674	35,220
	441,173	430,842
Less: accumulated depreciation	(185,238)	(158,222)
Total	$ 255,935	$ 272,620

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 $65,801 in 2011, and $68,015 in 2010.

During 2010, a financial institution notified THF that $148,124 of accrued interest on the related note payable would be eliminated and considered as a donation to the Agency. Such amount was recognized as contribution income in 2010 ($-0- in 2011).

NOTE 6 - NOTES PAYABLE (CONTINUED)

A summary of notes payable to financial institutions and other lenders as of September 30, 2011 and 2010, follows:

			2011				2010		
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
First Tennessee Bank, N.A.	5	750,000	750,000	30,117	780,117	-	750,000	11,087	761,087
Wells Fargo		700,000	200,000	-	200,000	-	400,000	-	400,000
Pinnacle National Bank		600,000	600,000	99,291	699,291	-	600,000	82,235	682,235
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	24,125	124,125	200,000	100,000	21,097	121,097
F & M Bank	1	300,000	300,000	19,182	319,182	-	300,000	12,924	312,924
Monticello Banking Company	4	250,000	250,000	19,173	269,173	-	250,000	12,764	262,764
InsBank of Tennessee		150,000	150,000	14,562	164,562	-	150,000	10,549	160,549
Vanderbilt University		100,000	100,000	24,074	124,074	-	100,000	21,048	121,048
Renasant Bank		100,000	100,000	12,813	112,813	-	100,000	10,602	110,602
Cumberland Bank and Trust	1	100,000	100,000	-	100,000	-	100,000	-	100,000
Planter's Bank		100,000	-	-	-	100,000			
Legends Bank	1	100,000	100,000	9,016	109,016	-	100,000	6,879	106,879
Heritage Bank	1	100,000	100,000	7,947	107,947	-	100,000	5,314	105,314
Fort Campbell Federal Credit Union	1	25,000	25,000	-	25,000	-	25,000	-	25,000
Total Notes Payable			$ 11,297,044	$ 260,300	$ 11,557,344	$ 300,000	$ 11,497,044	$ 194,499	$ 11,691,543

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 notified the Agency that it would forgive $511,788 in principal and accrued interest. Such amounts will be reported as contribution income in 2012.

NOTE 6 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable as of September 30, 2011, are as follows:

2012	$ 824,125
2013	500,000
2014	2,220,365
2015	1,653,723
2016	1,954,487
Thereafter	4,404,644
	$11,557,344

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, 2011, all depositor accounts were fully insured.

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 three developers comprised 68% of the total of such loans at September 30, 2011 (loans to four developers comprised 77% of the total in 2010).

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 pension costs.

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

Employee benefit plans

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

The 401A plan, which is principally a defined contribution plan, also provides certain minimum defined benefits for employees who were participants in the MDHA Retirement Plan as of September 30, 2000. Employees are eligible to participate beginning the first day of the month following the date of hire. There are no required contributions by the participants; however, participants may make voluntary contributions from 0.5% to 10% of their basic compensation, and the Agency contributes 13% of participants' basic compensation. Contributions are invested in any of 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, 2011, amounted to $93,160 ($80,335 for 2010), which equaled the amount of required employer contributions. The applicable total payroll for the Agency during the fiscal year ended September 30, 2011, amounted to $849,122 ($645,913 for 2010).

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 employer.

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 two satellite offices under non-cancellable leases. One lease expired July 2009 and was on a monthly arrangement until a one year lease was signed in January 2011. The Agency ended the second lease on November 1, 2010. Total rent expense on all leases amounted to $55,410 in 2011 ($66,225 in 2010).

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

Year ending September 30:	
2012	$ 43,253
2013	40,103
2014	41,719
2015	43,052
2016	43,052
Thereafter	338,516
Total	$ 549,695

NOTE 10 - RELATED PARTY TRANSACTIONS

Four of the Agency's 23 Board members are senior officers with financial institutions or other lenders with which the Agency has outstanding loans totaling $7,200,000 at September 30, 2011. Another Board member is director of the organization that is the granting agency of a significant portion of the government grants awarded to the Agency.

ADDITIONAL INFORMATION

THE HOUSING FUND, INC. AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Grant Description	Notes	Federal CFDA#	Grant Number	(Accrued) Deferred 10/1/2010	10/1/10 - 9/30/11 Receipts	10/1/10 - 9/30/11 Expenditures	(Accrued) Deferred 9/30/2011
DEPARTMENT OF THE TREASURY							
Community Development Financial Institutions Fund (CDFI) - Loan		21.020	081FA007449	$ 572,044	$ -	$ -	$ 572,044
Community Development Financial Institutions Fund (CDFI) - Financial Assistance		21.020	081FA007449	11,139	-	11,139	-
Community Development Financial Institutions Fund (CDFI) - Technical Assistance		21.020	081FA007449	73,023	-	-	73,023
Community Development Financial Institutions Fund (CDFI) - Financial Assistance		21.020	101FA008820	687,000	-	166,667	520,333
Total CFDA 21.020				1,343,206	-	177,806	1,165,400
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT							
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:							
HOME Investment Partnerships Program -							
HOME Down Payment Assistance program	*	14.239	M-08-MC-47-02-03	-	4,829	4,829	-
HOME Down Payment Assistance administration	*	14.239	M-08-MC-47-02-03	-	483	483	-
HOME Investment Partnerships Program - We Are Home Program							
We Are Home Flood program	*	14.239	M-10-MC-47-0203	(122,542)	1,682,330	1,612,354	(52,566)
We Are Home Flood administration	*	14.239	M-10-MC-47-0203	(14,297)	174,890	197,010	(36,417)
Community Development Block Grant - We Are Home Program							
We Are Home CDBG program	*	14.239	B-10-MC-47-0007	(482,393)	2,034,782	1,563,543	(11,154)
We Are Home CDBG administration	*	14.239	B-10-MC-47-0007	(56,346)	248,147	187,705	4,096
We Are Home CDBG administration	*	14.239	B-10-MC-47-0007	(57,016)	56,925	-	(91)
Total CFDA 14.239				(732,594)	4,202,386	3,565,924	(96,132)
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:							
ARRA - Neighborhood Stabilization Program - 2 administration	*	14.256	B-09-CN-TN-0024	(47,455)	123,804	93,719	(17,370)
ARRA - Neighborhood Stabilization Program - 2 program	*	14.256	B-09-CN-TN-0024	-	-	4,922	(4,922)
ARRA - Neighborhood Stabilization Program - 2 Our House	*	14.256	B-09-CN-TN-0024	-	1,001,192	1,001,192	-
Total CFDA 14.256				(47,455)	1,124,996	1,099,833	(22,292)
PASSED THROUGH METROPOLITAN DEVELOPMENT & HOUSING AGENCY							
Community Development Block Grant - Disaster Services - program	*	14.228	B-10-MF-47-0002	-	3,679,380	3,951,659	(272,279)
Community Development Block Grant - Disaster Services - administration	*	14.228	B-10-MF-47-0002	-	280,207	481,536	(201,329)
Total CFDA 14.228				-	3,959,587	4,433,195	(473,608)
PASSED THROUGH THE CITY OF CLARKSVILLE:							
Community Development Block Grant		14.218	N/A	(1,960)	4,045	2,085	-
PASSED THROUGH THE CITY OF FRANKLIN:							
Community Development Block Grant		14.218	N/A	(12,500)	26,250	18,750	(5,000)
Total CFDA 14.218				(14,460)	30,295	20,835	(5,000)
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 548,697	$ 9,317,264	$ 9,297,593	$ 568,368

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

Basis of Presentation

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

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2011

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
ASSETS				
Cash and cash equivalents	$ 4,407,949	$ -	$ -	$ 4,407,949
Accounts receivable	32,622	-	-	32,622
Government grants receivable	601,128	-	-	601,128
Accrued interest on loans receivable	146,755	-	-	146,755
Down payment assistance loans receivable, net	7,780,188	-	-	7,780,188
Flood assistance loans receivable, net	1,170,025	-	-	1,170,025
Development loans receivable, net	6,247,318	-	-	6,247,318
Real estate development costs	276,394	-	-	276,394
Prepaid expenses	4,778	-	-	4,778
Property, furniture and equipment, net	255,935	-	-	255,935
Investment in subsidiary	200,000	-	(200,000)	-
Investment in limited partnership	-	200,000	-	200,000
TOTAL ASSETS	$ 21,123,092	$ 200,000	$ (200,000)	$ 21,123,092
LIABILITIES				
Accounts payable	$ 115,469	$ -	$ -	$ 115,469
Accrued expenses	159,515	-	-	159,515
Deferred revenue	605,878	-	-	605,878
Notes payable	11,557,344	-	-	11,557,344
TOTAL LIABILITIES	12,438,206	-	-	12,438,206
NET ASSETS	8,684,886	200,000	(200,000)	8,684,886
TOTAL LIABILITIES AND NET ASSETS	$ 21,123,092	$ 200,000	$ (200,000)	$ 21,123,092

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	$ 9,300,493	$ -	$ -	$ 9,300,493
Contributions	18,903	-	-	18,903
Revenues:				
Service and administrative fees	79,742	-	-	79,742
Interest income:				
Loans	411,457	-	-	411,457
Other	8,182	-	-	8,182
Other	38,845	-	-	38,845
Impairment loss on real estate development costs	(46,822)	-	-	(46,822)
TOTAL SUPPORT AND REVENUES	9,810,800	-	-	9,810,800
EXPENSES				
Program services:				
Low-income housing assistance programs	1,260,653	-	-	1,260,653
Flood assistance programs	7,515,223	-	-	7,515,223
Supporting services:				
Management and general	211,770	-	-	211,770
TOTAL EXPENSES	8,987,646	-	-	8,987,646
CHANGE IN NET ASSETS	823,154	-	-	823,154
NET ASSETS - BEGINNING OF YEAR	7,861,732	200,000	(200,000)	7,861,732
NET ASSETS - END OF YEAR	$ 8,684,886	$ 200,000	$ (200,000)	$ 8,684,886

THE HOUSING FUND, INC. AND SUBSIDIARY

SCHEDULE OF ACTIVITIES BY LOCATION

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Nashville	Clarksville, Montgomery County	Bowling Green	Total
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	$ 9,295,508	$ 4,985	$ -	$ 9,300,493
Contributions	18,903	-	-	18,903
Revenues:				
Service and administrative fees	79,392	350	-	79,742
Interest income:				
Loans	410,717	707	33	411,457
Other	8,182	-	-	8,182
Other	22,214	16,631	-	38,845
Impairment loss on real estate development costs	(46,822)	-	-	(46,822)
TOTAL SUPPORT AND REVENUES	9,788,094	22,673	33	9,810,800
EXPENSES				
Program services:				
Low-income housing assistance programs	1,173,964	63,774	22,915	1,260,653
Flood assistance programs	7,515,223	-	-	7,515,223
Supporting services:				
Management and general	211,770	-	-	211,770
TOTAL EXPENSES	8,900,957	63,774	22,915	8,987,646
CHANGE IN NET ASSETS	$ 887,137	$ (41,101)	$ (22,882)	$ 823,154

OTHER REPORTS

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

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

We have audited the 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, 2011, and have issued our report thereon dated January 17, 2012. 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 above.

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Compliance and Other Matters

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

This report is intended solely for the information and use of 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
January 17, 2012

KraftCPAs PLLC

INDEPENDENT AUDITORS' 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 U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. The Agency's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

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

In our opinion, the Agency complied, in all material respects, with the 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, 2011.

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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.

KraftCPAs PLLC

Nashville, Tennessee
January 17, 2012

THE HOUSING FUND, INC. AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' 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 auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	______ Yes	__X__ No

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
14.228	Community Development Block Grants - Disaster Services
14.239	HOME Investment Partnerships Program
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