THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2006 AND 2005

THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

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AND
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2006 AND 2005

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of The Housing Fund, Inc. ("THF"), a Tennessee not-for-profit corporation, and subsidiary (collectively, the "Agency") as of September 30, 2006 and 2005, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Housing Fund, Inc. and subsidiary as of September 30, 2006 and 2005, 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 December 8, 2006, 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the above-mentioned consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. The consolidating and combining information, pages 18 through 21, 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
December 8, 2006

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THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2006 AND 2005

	2006	2005
ASSETS		
Cash and cash equivalents	$ 592,159	$ 1,151,126
Investments - certificates of deposit	107,894	105,196
Accounts receivable	43,665	94,568
Governmental grants receivable	107,460	90,744
Contributions receivable	-	100,000
Accrued interest on certificates of deposit	2,369	110
Accrued interest on loans receivable	372,209	268,879
Down payment assistance loans receivable, less allowance for uncollectible loans of: 2006 - $351,294; 2005 - $288,251 - Note 2	6,383,968	7,014,244
Development loans receivable, less allowance for uncollectible loans of: 2006 - $358,990; 2005 - $210,811 - Note 2	11,597,083	7,927,203
Real estate development costs - Note 3	435,396	397,553
Prepaid expenses	1,912	-
Property, furniture and equipment, net - Note 4	220,673	229,421
Investment in limited partnership	200,000	200,000
TOTAL ASSETS	$ 20,064,788	$ 17,579,044
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 34,426	$ 64,856
Accrued expenses	74,324	47,373
Refundable advances from governmental agencies	-	192,849
Notes payable - Note 5	10,567,885	8,008,666
TOTAL LIABILITIES	10,676,635	8,313,744
COMMITMENTS AND CONTINGENCIES - Notes 3 and 8		
NET ASSETS		
Unrestricted	9,388,153	9,165,300
Temporarily restricted	-	100,000
TOTAL NET ASSETS	9,388,153	9,265,300
TOTAL LIABILITIES AND NET ASSETS	$ 20,064,788	$ 17,579,044

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006			2005		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS
SUPPORT AND REVENUES						
Public support:						
Federal, state and local government grants	$ 884,870	$ -	$ 884,870	$ 1,936,485	$ -	$ 1,936,485
Grant from financial institution	18,265	-	18,265	100,000	100,000	200,000
Contributions - Note 5	230,310	-	230,310	22,491	-	22,491
Revenues:						
Service and administrative fees	165,339	-	165,339	138,910	-	138,910
Interest income:						
Loans	591,571	-	591,571	428,911	-	428,911
Other investments	54,590	-	54,590	17,667	-	17,667
Other	12,243	-	12,243	7,915	-	7,915
Net assets released from restrictions	100,000	(100,000)	-	-	-	-
TOTAL SUPPORT AND REVENUES	2,057,188	(100,000)	1,957,188	2,652,379	100,000	2,752,379
EXPENSES						
Program services:						
Low-income housing assistance programs	1,471,884	-	1,471,884	1,568,981	-	1,568,981
Supporting services:						
Management and general	362,451	-	362,451	221,858	-	221,858
TOTAL EXPENSES	1,834,335	-	1,834,335	1,790,839	-	1,790,839
CHANGE IN NET ASSETS	222,853	(100,000)	122,853	861,540	100,000	961,540
NET ASSETS - BEGINNING OF YEAR	9,165,300	100,000	9,265,300	8,303,760	-	8,303,760
NET ASSETS - END OF YEAR	$ 9,388,153	$ -	$ 9,388,153	$ 9,165,300	$ 100,000	$ 9,265,300

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006			2005		
	Program Services	Supporting Services		Program Services	Supporting Services	
	Low-Income Housing Assistance	Management and General	Totals	Low-Income Housing Assistance	Management and General	Totals
Payroll and related costs - Note 7	$ 441,257	$ 138,781	$ 580,038	$ 416,854	$ 104,214	$ 521,068
Forgiveness of down payment assistance loans - Note 2	325,272	-	325,272	406,127	-	406,127
Provision for uncollectible loans	267,814	-	267,814	170,000	-	170,000
Advertising	12,099	30,263	42,362	21,680	-	21,680
Counseling	74,740	-	74,740	96,220	-	96,220
Depreciation	15,019	4,360	19,379	16,916	-	16,916
Interest	194,955	-	194,955	166,234	-	166,234
Occupancy	37,695	16,469	54,164	31,974	25,122	57,096
Office expense and miscellaneous - Note 9	22,015	137,591	159,606	70,970	85,065	156,035
Other	-	-	-	86,224	-	86,224
Printing	-	2,267	2,267	240	-	240
Professional fees	13,471	32,248	45,719	29,829	7,457	37,286
Servicing fees	67,547	472	68,019	55,713	-	55,713
	$ 1,471,884	$ 362,451	$ 1,834,335	$ 1,568,981	$ 221,858	$ 1,790,839

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
OPERATING ACTIVITIES		
Change in net assets	$ 122,853	$ 961,540
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	19,379	16,916
Non-cash contribution - elimination of accrued interest on notes payable - Note 5	(208,152)	-
Accrued interest added to notes payable	40,076	35,953
Provision for uncollectible loans	267,815	170,000
Forgiveness of down payment assistance loans - Note 2	325,272	406,127
(Increase) decrease in:		
Accounts receivable	50,903	(47,714)
Governmental grants receivable	(16,716)	161,120
Contributions receivable	100,000	(100,000)
Accrued interest receivable	(105,589)	61,599
Real estate development costs	(37,843)	(128,485)
Prepaid expenses	(1,912)	-
(Decrease) increase in:		
Accounts payable	(30,430)	37,152
Accrued expenses	26,951	14,341
Refundable advances from governmental agencies	(192,849)	195,553
Net adjustments	236,905	822,562
NET CASH PROVIDED BY OPERATING ACTIVITIES	359,758	1,784,102
INVESTING ACTIVITIES		
Acquisition of property and equipment	(10,631)	(9,801)
Housing down payment assistance loans made	(584,963)	(1,109,437)
Principal repayment on down payment assistance loans	770,331	719,132
Development loans made	(8,692,077)	(7,567,261)
Development loans sold to participating institutions	1,523,607	-
Principal repayments on development loans	3,350,411	4,071,185
Purchase of investments - certificates of deposit	(107,894)	(105,196)
Sale of investments - certificates of deposit	105,196	621,276
NET CASH USED IN INVESTING ACTIVITIES	(3,646,020)	(3,380,102)
FINANCING ACTIVITIES		
Proceeds from long-term obligations	2,800,000	1,412,399
Principal payments on long-term obligations	(72,705)	(125,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,727,295	1,287,399
DECREASE IN CASH	(558,967)	(308,601)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,151,126	1,459,727
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 592,159	$ 1,151,126
NONCASH INVESTING ACTIVITIES:		
Carrying value of foreclosed development loan transferred to real estate development costs - Note 3	$ -	$ 269,068
ADDITIONAL CASH FLOW INFORMATION:		
Interest expense paid	$ 154,879	$ 130,281

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Housing Fund, Inc. ("THF"), was organized in 1996 as a Tennessee not-for-profit corporation. Its stated mission is to "build a local pool of funds that is flexible and self-sustaining in order to provide the financial resources necessary to help low and moderate income families and individuals become homeowners and to assist nonprofit and for-profit developers in increasing the supply of decent and affordable housing."

During 2002, Laurel House Apartments GP, Inc. was organized as a for-profit corporation and is a wholly-owned subsidiary of THF. Laurel House Apartments GP, Inc. owns 1/10 of 1% as general partner of Laurel House 2001, L.P., a limited partnership that was also organized in 2002. Laurel House 2001, L.P. acquired certain real estate for the construction and operation of Laurel House Apartments (the "Laurel House project"), a 48-apartment unit development, with parking availability, 10,000 square feet of retail space, and offices for THF, beginning February 1, 2004 (see Note 8). The Laurel House project was funded in part through a Tax Increment Financing loan ("TIF"), provided by THF, in the amount of $700,000. Additional funding for the Laurel House project came from proceeds of the sale of federal low-income housing tax credits. The general partnership interest of Laurel House Apartments GP, Inc. in the limited partnership is reported at its $200,000 historical cost. In accordance with the Amended and Restated Limited Partnership Agreement of Laurel House 2001, L.P., the general partner has the right of first refusal to acquire the property at the end of the statutory compliance period pursuant to applicable provisions of Internal Revenue Code §42(i)(7).

Principles of consolidation

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

Contributions and support

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

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

Temporarily restricted net assets at September 30, 2005, result from a 2005 contribution that was receivable in 2006 (time restriction).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support (continued)

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

Any gifts of equipment or materials are reported 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.

Investments

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

Property, furniture and equipment

Property, furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or, in the case of leasehold improvements, over the life of the lease if shorter (leasehold improvements - 20 years; computer equipment - 3 years; furniture and fixtures - 7 years).

Donated goods and services

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

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

Provision for uncollectible loans

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

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

Laurel House Apartments GP, Inc. is a for-profit corporation and is subject to federal and state income taxes on its taxable income.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Program and supporting services

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

> Housing assistance - includes a down payment assistance-lending program and a community development loan program designed to assist not-for-profit and for-profit developers in increasing the supply of decent and affordable housing for low and moderate income families in middle Tennessee.
>
> Management and general - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program or fund-raising activity, including costs associated with providing coordination and articulation of the Agency's program strategy, business management, general recordkeeping, budgeting and related purposes.

Allocation of functional expenses

Costs of providing the Agency's programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited. Costs that are not allocated to program services are classified as management and general.

Reclassifications

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

NOTE 2 - LOANS RECEIVABLE

Down payment assistance loans

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

	2006	2005
Down payment assistance loans, ranging from $1,000 to $30,000, for terms of 5 to 30 years, with interest at rates from 2% to 7%	$ 3,125,837	$ 2,644,649
Non-interest bearing loans, that are in-substance grants, forgiveable at the rate of 20% annually on the anniversary of the grant, as long as the homeowner continues to own the property	574,437	958,062
Non-interest bearing loans that are payable upon the sale of the property	3,034,988	3,699,784
	6,735,262	7,302,495
Less: allowance for uncollectible loans	(351,294)	(288,251)
Total	$ 6,383,968	$ 7,014,244

Forgiveness of loans that are in-substance grants amounted to $325,272 in 2006 ($406,127 in 2005).

Annual principal maturities of down payment assistance loans (excluding the loans that are in-substance grants and the loans that are due upon the sale of the property) are as follows as of September 30, 2006:

2007	$ 186,020
2008	221,343
2009	201,649
2010	198,620
2011	171,746
Thereafter	2,146,459
	$ 3,125,837

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

Development loans

Development loans consist of the following as of September 30:

		2006	2005
Loans to not-for-profit, government and for-profit developers for the development of affordable housing, ranging from $52,000 to $2,200,000, for terms of 9 to 60 months, with interest at rates from 3% to 8%; used to finance construction of single-family homes for sale and rental units in low to moderate income neighborhoods. Principal and interest are payable at the earlier of maturity or the date the constructed home is sold.		$ 8,671,425	$ 6,233,945
Predevelopment loans to not-for-profit developers that are interest free for a term of 24 months in the amount of $35,000.		105,000	139,480
THF's share of outstanding balance on participation loans:			
Loan agreement with 5th and Main Residential Owner, Inc.	(1)	1,523,631	-
Loan agreement with Urban Housing Solutions, Inc.	(2)	538,187	550,000
Loan agreement with MDHA for Row 8.9 project	(3)	428,870	454,546
Related party loans:			
Loan agreement with MDHA for Laurel House project	(4)	688,960	700,000
Construction bridge loan to Laurel House, L.P.		-	60,000
		11,956,073	8,137,971
Less: allowance for uncollectible loans		(358,990)	(210,811)
Total		$ 11,597,083	$ 7,927,160

(1) On June 28, 2006, THF entered into an agreement to loan 5th and Main Residential Owner, Inc., a not-for-profit agency, a maximum of $3,500,000 for development and construction of a condominium complex. Interest on the loan is due monthly on the outstanding principal balance at the rate of 8.0% per annum beginning July 1, 2006 through June 28, 2008, at which time the entire outstanding principal balance plus any accrued interest are due. THF also entered into separate agreements with four financial institutions to purchase from THF, without recourse, undivided interests in this loan totaling $1,750,000.

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

(2) On September 28, 2001, THF entered into an agreement to loan Urban Housing Solutions, Inc. ("UHS"), a not-for-profit agency, a maximum of $2,150,000 for affordable rental housing development. Interest was due monthly on the outstanding principal balance at a blended rate of 6.15% per annum. THF also entered into separate agreements with seven financial institutions to purchase from THF, without recourse, undivided interests in this loan totaling $1,600,000. Beginning May 2003, monthly principal and interest installments are payable based on a 20-year amortization through September 2006, the maturity date. By verbal agreement, the maturity date was subsequently extended to January 2007.

(3) On May 9, 2002, THF entered into an agreement to loan MDHA a maximum of $1,300,000 for Tax Increment Financing for the Row 8.9 project developed by AHR Development, Inc. This project consists of 29 single-family town homes. Annual payments in an amount equal to the amount of Tax Increment Proceeds from certain properties within the Phillips Jackson Redevelopment Areas are due and payable on May 1 each year through 2024. All payments are applied first to interest with any remaining balance applied to principal. THF had also entered into separate agreements with three financial institutions to purchase from THF, without recourse, undivided interests in this loan totaling $800,000.

(4) On December 19, 2001 and October 20, 2004, THF loaned MDHA $500,000 and $200,000, respectively, for Tax Increment Financing ("TIF") for the Laurel House project that was developed by Laurel House 2001, L.P. The project was completed in November 2003. (See Note 1.) Annual payments in an amount equal to the amount of Tax Increment Proceeds are due and payable on May 1 each year through 2029. All payments are applied first to interest, with any remaining balance applied to principal. Accrued interest on these loans was $17,454 as of September 30, 2006 ($55,773 as of September 30, 2005).

Annual principal maturities of development loans receivable as of September 30, 2006, are as follows:

	Participating Loans				
	Total	Allocated to Participating Financial Institutions	Allocated to THF	Other Development Loans	Total
2007	$ 1,381,883	$ 818,096	$ 563,787	$ 4,906,244	$ 5,470,031
2008	3,112,478	1,563,247	1,549,231	738,028	2,287,259
2009	65,240	39,640	25,600	141,124	166,724
2010	65,240	39,640	25,600	622,225	647,825
2011	65,240	39,640	25,600	136,715	162,315
Thereafter	788,857	487,987	300,870	2,921,049	3,221,919
	$ 5,478,938	$ 2,988,250	$ 2,490,688	$ 9,465,385	$ 11,956,073

NOTE 3 - REAL ESTATE DEVELOPMENTS COSTS

In May 2005, the Agency foreclosed on one of its development loans and repossessed the real estate. The fair value of the real estate at the foreclosure date approximated the carrying value of the foreclosed loan, and no gain or loss was recognized. The Agency is currently completing the development of the property, which will include ten single-family homes. The estimated present value of the expected cash flows from this project approximates $4,000. As of September 30, 2005, the $269,068 carrying value of the foreclosed loan was transferred to real estate development costs. The project is expected to be completed during late 2007 or early 2008 at an estimated total cost of $1.2 million.

NOTE 4 - PROPERTY, FURNITURE AND EQUIPMENT

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

	2006	2005
Leasehold improvements	$ 232,779	$ 231,837
Computer equipment	23,330	21,100
Furniture and fixtures	20,898	18,578
	277,007	271,515
Less: accumulated depreciation	(56,334)	(42,094)
Total	$ 220,673	$ 229,421

NOTE 5 - NOTES PAYABLE

Loans from various financial institutions mature in one to ten years and accrue interest at the rate of from 2.0% to 2.5% annually. Most of these loans require the accrued interest to be added to the principal balance quarterly. Certain loans require the interest to be paid quarterly. Accrued interest added to principal balances amounted to $40,076 in 2006, and $35,953 in 2005.

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

NOTE 5 - NOTES PAYABLE (CONTINUED)

A summary of notes payable to financial institutions and other lenders as of September 30, 2006 and 2005, follows:

Institutional Lenders		Original Issues	2006 Principal Balance Drawn	2006 Accrued Interest	2006 Total Balance	Amount Available To Be Drawn	2005 Principal Balance Drawn	2005 Accrued Interest	2005 Total Balance
Bank of America	4	$ 2,500,000	$ 2,500,000	$ -	$ 2,500,000	$ -	$ 500,000	$ -	$ 500,000
U. S. Bank		1,500,000	1,500,000	-	1,500,000	-	1,500,000	427	1,500,427
SunTrust Bank		1,500,000	1,500,000	-	1,500,000	-	1,500,000	139,748	1,639,748
AmSouth Bank		1,200,000	1,200,000	-	1,200,000	-	1,200,000	72,557	1,272,557
First Tennessee Bank, N.A.		750,000	750,000	73,701	823,701	-	500,000	67,424	567,424
Wachovia Bank	1	700,000	700,000	-	700,000	-	687,399	13,881	701,280
Regions Bank of Tennessee	2	500,000	500,000	-	500,000	-	500,000	42,866	542,866
Pinnacle National Bank		350,000	350,000	15,537	365,537	-	350,000	6,240	356,240
The Bank of Nashville		350,000	350,000	-	350,000	-	350,000	343	350,343
Fifth Third Bank		300,000	300,000	4,563	304,563	-	-	-	-
GMAC Mortgage Company		300,000	100,000	9,708	109,708	200,000	100,000	18,144	118,144
Farmers & Merchants Bank	3	300,000	-	-	-	300,000	-	-	-
James Stephen Turner Foundation		250,000	250,000	-	250,000	-	250,000	1,563	251,563
Prime Trust Bank		250,000	250,000	2,535	252,535	-	-	-	-
Vanderbilt University		100,000	100,000	9,663	109,663	-	100,000	7,032	107,032
Capital Bank and Trust		100,000	100,000	2,178	102,178	-	100,000	1,042	101,042
Cumberland Bank and Trust	3	100,000	-	-	-	100,000	-	-	-
Legends Bank	3	100,000	-	-	-	100,000	-	-	-
Planters Bank	3	100,000	-	-	-	100,000	-	-	-
Fort Campbell Federal Credit Union	3	25,000	-	-	-	25,000	-	-	-
Total Notes Payable			$ 10,450,000	$ 117,885	$ 10,567,885	$ 825,000	$ 7,637,399	$ 371,267	$ 8,008,666

1 - Includes $200,000 formerly with SouthTrust Bank, N.A.

2 - Includes $300,000 formerly with Union Planters Bank, N.A.

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

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

NOTE 5 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable as of September 30, 2006, are as follows:

2007	$ 1,679,694
2008	250,000
2009	-
2010	700,000
2011	1,000,000
Thereafter	6,938,191
	$10,567,885

NOTE 6 - CONCENTRATION OF CREDIT RISK

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

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

Outstanding development loans to three developers comprised 48% of the total of such loans at September 30, 2006 (loans to two developers comprised 47% of the total in 2005).

NOTE 7 - CONTRACTED SERVICES AND EMPLOYEE BENEFIT PLANS

Contracted Services

The Agency's staff is leased from MDHA and reports solely to the Agency's Board of Directors. The Agency reimburses MDHA for the salaries and related fringe benefits, which include Social Security and Medicare taxes, insurance and pension costs.

Employee Benefit Plans

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

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

Employee Benefit Plans (Continued)

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

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

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

The Agency's contributions to the plan for the year ended September 30, 2006, amounted to $52,413 ($47,157 for 2005), which equaled the amount of required employer contributions. Total payroll for the Agency during the fiscal year ended September 30, 2006, amounted to $451,604 ($400,369 for 2005).

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

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES

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

In February 2004, the Agency relocated to new offices leased under a twenty-year operating lease with Laurel House 2001, L.P. (See Note 1.) The lease provides for scheduled rent increases every five years and includes two 5-year renewal options. Rent expense is recognized on the straight-line basis and amounted to $40,535 in 2006 ($44,436 in 2005). The excess of the rent expense recognized over the amount paid is included in accrued expenses.

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

Year ending September 30:	
2007	$ 29,310
2008	29,310
2009	31,342
2010	32,358
2011	32,358
Thereafter	451,101
Total	$ 605,779

NOTE 9 - OTHER MATTERS

In January 2006, management discovered a misappropriation of funds by an employee in the approximate amounts of $15,000 in 2004, $67,500 in 2005, and $70,000 in 2006. These findings are currently under investigation by the District Attorney's office of Metropolitan Nashville and Davidson County. Management is uncertain as to whether any of these funds can be recovered. Related to this loss, are additional expenses of approximately $9,000 that were incurred in 2006. Accordingly, the 2005 and 2006 losses have been included in office expense and miscellaneous under management and general expenses for each respective year.