

URBAN HOUSING SOLUTIONS, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS**

DECEMBER 31, 2004 AND 2003

URBAN HOUSING SOLUTIONS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Urban Housing Solutions, Inc.
Nashville, Tennessee

We have audited the accompanying statement of financial position of Urban Housing Solutions, Inc. ("UHS"), as of December 31, 2004, and the related statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of UHS's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Urban Housing Solutions, Inc. as of December 31, 2003, were audited by other auditors whose report dated June 17, 2004 expressed an unqualified opinion on these statements

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urban Housing Solutions, Inc., as of December 31, 2004, and the changes in its net assets and its cash flows for the year 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 October 7, 2005 on our consideration of Urban Housing Solutions, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was preformed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of program services revenues and expenses are presented for purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bellenfant & Miles, P.C.

October 7, 2005

URBAN HOUSING SOLUTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2004 AND 2003

<u>ASSETS</u>		
	<u>2004</u>	<u>2003</u>
Cash	\$ 409,595	\$ 413,558
Restricted cash:		
Tenant security deposits	51,156	72,576
Cash	1,266,970	48,999
Replacement reserves	257,741	171,917
Accounts receivable:		
Grants	160,239	134,154
Tenants	23,102	30,079
Predevelopment costs - Village Place	14,750	-
Receivable from insurance company for damages relate to fire	28,283	946,434
Due from Mercury Court Apartments, LP	-	11,618
Due from Eastwood Courts, LLC	11,541	4,445
Prepaid expenses, deposits and other	45,280	37,799
Investment in Eastwood Courts, LLC	210,256	214,364
Investment in Mercury Court Apartments, LP	70,000	70,000
Accrued developer fees	52,803	52,803
Property and equipment - net of accumulated depreciation	7,643,034	6,878,682
Loan closing costs, net of accumulated amortization of \$ 16,198 and \$ 14,135 for 2004 and 2003.	17,724	19,074
Cash held by Nashville Housing Fund	-	346,847
TOTAL ASSETS	<u>\$ 10,262,474</u>	<u>\$ 9,453,349</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 39,650	\$ 153,136
Accrued payments in lieu of tax (PILOT)	67,493	64,959
Tenant security deposits payable	50,990	71,592
Due to Mercury Courts, LP	873	-
Notes payable	5,222,072	4,786,494
TOTAL LIABILITIES	<u>5,381,078</u>	<u>5,076,181</u>
NET ASSETS		
Unrestricted:		
Undesignated	2,446,274	2,246,488
Property and equipment	2,420,962	2,092,188
Total unrestricted	4,867,236	4,338,676
Temporarily restricted	14,160	38,492
TOTAL NET ASSETS	<u>4,881,396</u>	<u>4,377,168</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,262,474</u>	<u>\$ 9,453,349</u>

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

URBAN HOUSING SOLUTIONS, INC.
STATEMENTS OF ACTIVITIES
DECEMBER 31, 2004 AND 2003

	2004			2003		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
SUPPORT AND REVENUES						
Public Support:						
Individual and corporate gifts	\$ 19,413	\$ -	19,413	\$ 20,825	\$ -	20,825
Grants:						
Government	567,595	-	567,595	435,265	-	435,265
Foundation	-	16,400	16,400	-	69,260	69,260
Total public support	587,008	16,400	603,408	456,090	69,260	525,350
Revenues:						
Rental income	1,617,476	-	1,617,476	1,389,070	-	1,389,070
Miscellaneous tenant charges	11,123	-	11,123	7,714	-	7,714
Developer fees	9,400	-	9,400	59,603	-	59,603
Investment income	6,550	-	6,550	5,647	-	5,647
Resident vending machine	10,361	-	10,361	2,430	-	2,430
Security deposits forfeited	40,805	-	40,805	-	-	-
Management fees	11,585	-	11,585	-	-	-
Miscellaneous	20,011	-	20,011	18,774	-	18,774
Equity in net income of						
Eastwood Courts, LLC	(4,109)	-	(4,109)	9,670	-	9,670
Book value of assets destroyed by fire						
in excess of insurance proceeds	-	-	-	(14,306)	-	(14,306)
Net assets released from restrictions:						
Satisfaction of time and purpose						
restrictions	40,732	(40,732)	-	40,768	(40,768)	-
TOTAL SUPPORT AND REVENUES	2,350,942	(24,332)	2,326,610	1,975,460	28,492	2,003,952
EXPENSES						
Program services:						
Rental projects	1,528,595	-	1,528,595	1,467,380	-	1,467,380
Resident support programs	327,700	-	327,700	308,760	-	308,760
Total program services	1,856,295	-	1,856,295	1,776,140	-	1,776,140
Supporting services:						
Management and general	62,883	-	62,883	54,809	-	54,809
TOTAL EXPENSES	1,919,178	-	1,919,178	1,830,949	-	1,830,949
CHANGE IN NET ASSETS BEFORE						
GRANTS RECEIVED FOR THE						
ACQUISITION OF PROPERTY	431,764	(24,332)	407,432	144,511	28,492	173,003
Grant received for the acquisition of property	-	-	-	470,000	-	470,000
CHANGE IN NET ASSETS	431,764	(24,332)	407,432	614,511	28,492	643,003
NET ASSETS - BEGINNING OF YEAR	4,338,676	38,492	4,377,168	3,724,165	10,000	3,734,165
Prior year adjustment	96,796	-	96,796	-	-	-
NET ASSETS - END OF YEAR	<u>\$ 4,867,236</u>	<u>\$ 14,160</u>	<u>\$ 4,881,396</u>	<u>\$ 4,338,676</u>	<u>\$ 38,492</u>	<u>\$ 4,377,168</u>

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

URBAN HOUSING SOLUTIONS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets:	\$ 407,432	\$ 643,003
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	252,507	208,260
Equity in net income of Eastwood Courts, LLC	4,109	(9,670)
Grants related to acquisition of property	-	(470,000)
Book value of assets destroyed by fire in excess of insurance proceeds	-	14,306
(Increase) decrease in:		
Accounts receivable:		
Grants	(26,085)	(110,324)
Tenants	6,977	(6,190)
Predevelopment costs - Village Place	(14,750)	-
Insurance Receivable	918,151	-
Prepaid expenses, deposits and other	(7,481)	(10,667)
Cash - escrow for property taxes	-	(380)
Accrued developer fees	-	(52,803)
Increase (decrease) in:		
Accounts payable and accrued expenses	(16,690)	24,494
Accrued payments in lieu of tax (PILOT)	2,534	64,959
Net cash (used) provided by operating activities	<u>1,526,704</u>	<u>294,988</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,010,675)	(1,843,595)
(Increase) decrease in restricted deposits	(1,282,375)	(98,104)
Increase in tenant security deposits payable	(20,602)	18,055
Cash held by Nashville Housing Fund	346,847	(346,847)
Advances from (to) Eastwood Courts, LLC	(7,096)	(7,560)
Advances from (to) Mercury Court Apartments, LP	12,491	7,188
Net cash (used) provided by investing activities	<u>(1,961,410)</u>	<u>(2,270,863)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan closing costs	(4,540)	(4,899)
Proceeds from notes payable	2,243,308	1,601,566
Principal payments on notes payable	(1,808,025)	(78,512)
Grants related to acquisition of property	-	470,000
Net cash (used) provided by financing activities	<u>430,743</u>	<u>1,988,155</u>
NET INCREASE IN CASH	(3,963)	12,280
CASH - BEGINNING OF YEAR	<u>413,558</u>	<u>401,278</u>
CASH - END OF YEAR	<u><u>\$ 409,595</u></u>	<u><u>\$ 413,558</u></u>
NONCASH INVESTING ACTIVITIES		
Receivable for insurance proceeds relating to property damaged by fire	<u>\$ 28,283</u>	<u>\$ 946,434</u>
Accounts payable for construction projects	<u>\$ -</u>	<u>\$ 94,961</u>

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

URBAN HOUSING SOLUTIONS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2004

	PROGRAM SERVICES			SUPPORTING SERVICES	
	RENTAL PROJECTS	RESIDENT SUPPORT PROGRAMS	TOTAL	MANAGEMENT AND GENERAL	TOTAL
Payroll and related expenses	\$ 300,722	\$ 192,700	\$ 493,422	\$ 33,370	\$ 526,792
Advertising	3,252	1,272	4,524	55	4,579
Contract services	83,928	52	83,980	93	84,073
Equipment	1,745	1,494	3,239	396	3,635
Fixed assets costs	328	-	328	-	328
Insurance	116,721	4,777	121,498	85	121,583
Interest	259,867	-	259,867	295	260,162
Lawn care	10,774	-	10,774	-	10,774
Legal and professional	41,475	54,366	95,841	9,534	105,375
Loan closing costs	10,306	-	10,306	-	10,306
Management fees	1,175	13,655	14,830	-	14,830
Miscellaneous	1,896	2,149	4,045	3,367	7,412
Pest control	7,658	-	7,658	-	7,658
Payments in lieu of tax (PILOT)	2,533	-	2,533	-	2,533
Printing and postage	1,090	476	1,566	1,039	2,605
Rent	-	1,396	1,396	-	1,396
Repairs and maintenance	13,295	4,329	17,624	873	18,497
Social program funds	2,522	21,112	23,634	148	23,782
Supplies	67,556	2,958	70,514	2,395	72,909
Taxes and licenses	1,198	-	1,198	375	1,573
Telephone	7,809	5,484	13,293	1,003	14,296
Trash removal	7,644	-	7,644	-	7,644
Travel	10,838	12,733	23,571	354	23,925
Utilities	330,885	1,662	332,547	510	333,057
Vending machine expenses	-	6,947	6,947	-	6,947
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	1,285,217	327,562	1,612,779	53,892	1,666,671
Depreciation and amortization	243,378	138	243,516	8,991	252,507
TOTAL FUNCTIONAL EXPENSES	\$ 1,528,595	\$ 327,700	\$ 1,856,295	\$ 62,883	\$ 1,919,178

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

URBAN HOUSING SOLUTIONS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2003

	PROGRAM SERVICES			SUPPORTING SERVICES	
	RENTAL PROJECTS	RESIDENT SUPPORT PROGRAMS	TOTAL	MANAGEMENT AND GENERAL	TOTAL
Payroll and related expenses	\$ 348,714	\$ 194,126	\$ 542,840	\$ 18,526	\$ 561,366
Advertising	3,833	-	3,833	79	3,912
Contract services	36,991	761	37,752	324	38,076
Equipment	20,931	3,705	24,636	427	25,063
Fixed assets costs	21,718	-	21,718	-	21,718
Grants to subrecipients	-	5,623	5,623	-	5,623
Insurance	61,381	2,066	63,447	1,688	65,135
Interest	253,825	-	253,825	-	253,825
Lawn care	13,361	1,377	14,738	18	14,756
Legal and professional	40,397	40,763	81,160	8,412	89,572
Management fees	1,275	2,811	4,086	-	4,086
Match grant to participants	-	7,200	7,200	-	7,200
Miscellaneous	3,282	5,657	8,939	4,211	13,150
Pest control	6,095	-	6,095	-	6,095
Payments in lieu of tax (PILOT)	52,726	-	52,726	-	52,726
Printing and postage	392	122	514	1,214	1,728
Repairs and maintenance	9,977	6,438	16,415	460	16,875
Social program funds	630	19,831	20,461	500	20,961
Supplies	67,011	4,485	71,496	5,583	77,079
Taxes and licenses	-	18	18	370	388
Telephone	11,569	3,469	15,038	2,843	17,881
Trash removal	5,876	-	5,876	-	5,876
Travel	7,911	9,293	17,204	176	17,380
Utilities	300,897	1,015	301,912	306	302,218
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	1,268,792	308,760	1,577,552	45,137	1,622,689
Depreciation and amortization	198,588		198,588	9,672	208,260
TOTAL FUNCTIONAL EXPENSES	\$ 1,467,380	\$ 308,760	\$ 1,776,140	\$ 54,809	\$ 1,830,949

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

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Organization and Purpose:

Urban Housing Solutions, Inc. ("UHS") was founded in 1991 as Tennessee not-for-profit corporation. UHS provides affordable housing for homeless and other people with special needs in Middle Tennessee.

Basis of Presentation:

Urban Housing Solutions, Inc. prepares its financial statements and maintains its financial accounting records on the accrual basis of accounting.

Contributions and support

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

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

UHS also receives grant revenue from various federal, state and local agencies, principally from the U.S. Department of Housing and Urban Development and the Metropolitan Development and Housing Agency. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to recognition are recorded initially as deferred revenue.

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

Income taxes

UHS has been determined by the Internal Revenue Service to be exempt from federal income tax under section 501 (c)(3) of the Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes.

Jointly-owned properties

Interests in jointly owned properties are accounted for on the equity method of accounting.

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Property and equipment

Property and equipment are stated at acquisition costs, or estimated fair market value if donated, less accumulated depreciation. Depreciation is computed on the straight-line method over estimated useful life of three to ten years for furniture and equipment and thirty years for buildings and

Donated property and materials

Donated items are recorded at their fair market value at the date of the gift.

Donated services

UHS's policy is to record support and expenses for contributed services that require specialized skills and would be purchased if not provided by the donor at the fair value of services received.

Program and supporting services

The following program and supporting services are included in the accompanying financial

Rental projects:

Mercury Court Apartments - promotes individual self-improvement and provides opportunities for both independent living and integration back into the mainstream of community life by providing housing for homeless and low-income individuals.

Rex's Courtyards - provides 96 units of housing for low-income individuals and families, of which 25 units are designed for persons with mental illness. This project is located in a largely Hispanic area and is projected to serve this population.

Clay Street - provides affordable housing for persons with mental illness.

Greentree Terrace - provides 54 units of housing for low-income individuals and families, of which 20 units are designed for persons with mental illness.

Hope Terrace (formerly known as Centennial Commons), Crown Courts Apartments, Fisk Court Apartments and Vultee Apartments - provides a recovery community, including housing and counseling for homeless persons and families recovering from drug and alcohol addictions, through the Journeys of Hope program.

Russell Street Apartments and Woodland Street Apartments - provides supportive and affordable independent living for persons with mental illness.

Shelby Courtyards - supports multi-unit housing specifically designated to accommodate the changing needs of persons living with AIDS and other low-income individuals and families.

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Program and supporting services

Resident support programs:

Service Coordinator Program - provides the social work staff that is essential to assess and manage the resident population at the Fisk and Mercury Court properties. Service coordinators provide referrals to needed services, transportation, and employment assistance.

Journeys of Hope Program - provides supportive service to 80 units of housing in four different properties. These services include weekly meetings and counseling sessions, random drug screens, and community service.

IDA Program - assists residents in the creation of an Individual Development Account, a matched savings account that can be used for specific assets. UHS requires attendance at "financial literacy" classes and matches the resident's contribution (two-for-one) so that at the end of the savings period, substantial savings have accumulated.

SEED Program - provides socio-economic development activities. The SEED program sponsors the resident association and its social activities, and the educational and self-improvement classes and activities.

Client Fund Program - provides direct financial assistance to residents in order to meet their transportation, healthcare, or other emergency needs. The fund purchases bus passes, maintains the UHS transportation service, pays for eye examination and eyeglasses, and assists with

Income Generation Program - assists residents in obtaining and improving employment, and allows them to work on-site through various "micro-enterprises." The objective of this program is to increase resident's income.

Management and general - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program or fund-raising activity. Includes costs associated with providing coordination and articulation of UHS's program strategy, business

Allocation of functional expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity benefited based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Use of estimates in the preparation of financial statements

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

Allowance for uncollectible accounts/bad debts

At the end of each year, management review accounts receivable in detail and writes off any account that is deemed uncollectible. Bases on assessment of specific accounts and historical collection experience of rental income, no allowance for uncollectible accounts was considered necessary as of December 31, 2004 or 2003.

Reclassifications

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

2. GRANTS RECEIVABLE

Grants receivable consists of receivables from programs funded by the U.S. Department of Housing and Urban Development and the Metropolitan Development and Housing Agency ("MDHA"). Financial activities of those programs are summarized in the schedule of expenditures of federal awards.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	<u>2004</u>	<u>2003</u>
Land	\$ 1,640,350	\$ 1,600,350
Building and improvements	7,196,421	6,253,259
Furniture and equipment	<u>365,543</u>	<u>338,030</u>
	9,202,314	8,191,639
Less accumulated depreciation	<u>(1,559,280)</u>	<u>(1,312,957)</u>
	<u><u>\$ 7,643,034</u></u>	<u><u>\$ 6,878,682</u></u>

UHS received federal and state grants totaling \$100,000 in 2004 and \$470,000 in 2003 that were utilized to acquire certain real estate and fund rehabilitation expenditures. These properties are part of the Greentree Terrace program.

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

4. INVESTMENT IN EASTWOOD COURTS, LLC

UHS and Mental Health Cooperative ("MHC"), a non-profit agency, are 50% owners of Eastwood Courts, LLC ("Eastwood"), a limited liability company. Eastwood was formed in 1999 to acquire, renovate, own and operate a 61-unit apartment complex in East Nashville for low-income persons and those with chronic mental health problems. Eastwood may engage only in activities that accomplish the exempt purpose of UHS and MHC. UHS and MHC each appoint four governors to Eastwood's governing board.

Eastwood has a note payable that is secured by the real estate and guaranteed by MHC up to \$250,000. Eastwood's operating agreement provides that MHC shall receive a preferred return equal to an annual cumulative noncompounded return of 6% on its adjusted capital contribution, with remaining profits and losses divided equally between the two owners.

Condensed schedules of Eastwood's financial position at December 31, 2004 and 2003, and operations for the years then ended, are the following:

	<u>2004</u>	<u>2003</u>
Cash	\$ 5,660	\$ 28,416
Restricted cash:		
Security deposits	22,428	20,178
Replacement reserves	50,947	26,650
Accounts receivable - tenants	2,167	3,638
Property and equipment	1,579,209	1,569,453
Accumulated depreciation	(261,479)	(207,906)
Loan costs, net of accumulated amortization	4,073	6,065
Prepaid expense and utility deposits	<u>10,012</u>	<u>7,071</u>
Total assets	<u>\$ 1,413,017</u>	<u>\$ 1,453,565</u>
Accounts payable and accrued expenses	\$ 1,504	\$ 3,764
Accrued payments in lieu of tax (PILOT)	43,253	37,158
Settlement with contractor	-	14,933
Tenant security deposits payable	22,428	20,178
Notes payable	902,461	945,221
Due to Urban Housing Solutions, Inc.	11,541	4,445
Due to Mental Health Cooperative	<u>24,619</u>	<u>12,437</u>
Total liabilities	1,005,806	1,038,136
Member equity - Urban Housing Solutions, Inc.	210,255	214,364
Member equity - Mental Health Cooperative	<u>196,956</u>	<u>201,065</u>
Total liabilities and members' equity	<u>\$ 1,413,017</u>	<u>\$ 1,453,565</u>

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

4. INVESTMENT IN EASTWOOD COURTS, LLC

	<u>2004</u>	<u>2003</u>
Rental income	\$ 267,025	\$ 301,449
Insurance proceeds related to vacancy after fire	-	4,600
Miscellaneous tenant charges	6,725	3,166
Miscellaneous income	485	15,992
Insurance proceeds from fire	-	26,482
Interest income	297	101
Total Revenues	<u>274,532</u>	<u>351,790</u>
Payroll and related expenses	40,968	60,160
Contract services	21,283	12,214
Repairs related to fire damage	-	18,758
Insurance	22,912	12,212
Interest	43,224	47,933
Lawn care	2,874	5,368
Legal and professional	8,833	7,699
Pest control	846	1,467
PILOT expense	6,096	31,485
Repairs and maintenance	13,119	862
Supplies	4,787	17,669
Taxes, registrations and licenses	300	308
Telephone	536	631
Trash removal	645	1,190
Travel	2,313	2,258
Utilities	44,919	36,978
Miscellaneous	1,347	5,701
Depreciation	55,565	57,121
Total Expenses	<u>270,567</u>	<u>320,014</u>
Operating Income	3,965	31,776
Preferred return to MHC	(12,183)	(12,437)
Net income	<u>\$ (8,218)</u>	<u>\$ 19,339</u>
Equity in net income to UHS - 50%	<u>\$ (4,109)</u>	<u>\$ 9,670</u>

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

5. NOTES PAYABLE

Notes payable consist of the following as of December 31:

	<u>2004</u>
Mortgage payable - Capital Bank & Trust (6.00%); payable in monthly installments of \$3,770 beginning September 2004, with final balloon payment for the balance due September 2009; secured by real estate	\$ 390,292
Mortgage payable - Regions Bank (5.60%); payable in monthly installments of \$9,573 beginning October 2004, with final payment due September 2024; secured by real estate	1,391,268
Mortgage payable - Nashville Housing Fund (6.15%); payable in monthly installments of \$9,634 through August 2006; final balloon payment for the balance due September 2006; secured by real estate	2,177,155
Note payable - Capital Bank & Trust (prime rate + .25%); monthly principal and interest payment of \$996 beginning August 2003; final balloon payment for the balance due July 2007; secured by real estate	152,689
Note payable - Regions Bank (4.00%); payable in monthly principal and interest payment of \$1,213 beginning of October 2003, final balloon payment for the balance due September 2008; secured by real estate	192,987
Note payable - Regions Bank (initially prime rate); interest due monthly beginning October 2003 through October 2004, then due in monthly principal payments of \$2,310 (at an initial rate of LIBOR + 2%) through September 25, 2008; secured by real estate.	917,681
	<u><u>\$ 5,222,072</u></u>

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

5. NOTES PAYABLE

Annual principal maturities of notes payable as of December 31, 2004 are as follows:

2005	\$ 142,693
2006	151,063
2007	301,045
2008	1,134,747
2009	3,492,524
	<hr/>
	\$ 5,222,072
	<hr/>

Interest expense of \$260,162 was paid in 2004 and \$253,825 in 2003.

6. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject UHS to concentrations of credit risk consist principally of grants and tenant accounts receivable. Tenant accounts receivable are widely dispersed to mitigate credit risk. Grants receivable represent concentrations of credit risk to the extent they are receivable from concentrated sources.

UHS maintains deposit accounts with three financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000 each. Excess uninsured balances of UHS approximated \$1,600,000 in 2004 and \$531,000 in 2003. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Foundation grants for tenant assistance	<u>\$ 14,160</u>	<u>\$ 38,492</u>

8. COMMITMENTS AND CONTINGENCIES

Federal and State Grants

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

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

8. COMMITMENTS AND CONTINGENCIES - continued

UHS received \$19,714 in 2004 and \$202,285 in 2003 in federal and state awards in the form of promissory notes that are forgivable five years and ten years for those received in 2001 after the property is placed in service. The properties are to be maintained as a residence or low or very low-income persons in compliance with the HOME Investment Partnership Program regulations. In the event UHS does not meet these conditions, the grantor can make demand for re-payment of these funds; however, the awards are, in substance, grants and, accordingly, have been recognized in full under public support in 2004 and 2003.

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

In September 2003, one of the buildings at Rex's Courtyards that was under renovation was destroyed by fire. UHS and the insurance company are still negotiating the terms of the applicable insurance coverage on this property and under the builders risk policies relating to the renovation in progress at the time of the fire. As of December 31, 2004 UHS has received \$918,151 of the \$946,434 receivable accrued in 2003. Management is pursuing additional damage to the other two buildings on site. The amount of such additional proceeds, if any, will be recognized in the period a settlement is reached.

9. ACCRUED PAYMENTS IN LIEU OF TAXES (PILOT)

UHS is not required to pay property taxes on five of its properties that have been granted property tax exempt status. Prior to December 31, 2003 six other properties acquired by UHS had applied for exempt status under Tennessee Code Annotated §67-5-207, for exemption for properties used for low-income elderly and handicapped persons that are funded through certain loans and grants from the federal government. Under this exempt status, UHS would be required to make a payment in lieu of taxes (PILOT) to the city and county.

In May 2004, UHS was notified that each of these five projects had been granted exemption from local property taxes. The Metropolitan Council approved the formula for calculating PILOT payments to be 25% of the normal property taxes. As of December 31, 2004, accrued PILOT has been recorded as a liability in the amount of \$67,493.

PILOT expense was \$2,533 in 2004 and \$16,984 in 2003.

In addition, Eastwood Courts from Note 4 was also granted exemption from local property taxes. As of December 31, 2004, Eastwood has accrued PILOT in the amount of \$43,253, of which \$6,096 per year is applicable to 2004 and 2003.

URBAN HOUSING SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

10. RELATED PARTY TRANSACTIONS

In December 2001, UHS transferred property valued at \$70,000 to Mercury Court Apartments, LP a Tennessee limited partnership, for a .10% ownership interest through its wholly-owned subsidiary, The Park Development, Inc. The Park is the general partner in the partnership. UHS is developer of the 20-unit multifamily residential project. UHS is owed a developer fee of \$52,803. This fee will be paid from future capital contributions, cash flow or upon disposition of Mercury Court Apartments.

Mercury Courts Apartments, LP has entered into an agreement with UHS, in connection the management of the rental operations of the project. In accordance with this agreement, UHS earns 10% of the gross operating revenues received from the preceding month. Management fees that UHS earned were \$11,585 in 2004 and \$6,612 in 2003. No operating income or loss passed through to UHS from the Partnership in 2004 or 2003.

Mercury Court Apartments, LP intends to qualify 100% of the units for low income housing credits in accordance with Section 42 of the Internal Revenue Code as enacted by the Tax Reform Act of 1986. The applicable low-income housing tax credit will be available to the limited partner over a ten-year period. The units must meet the provisions of Section 42 of the Internal Revenue Code during the next fifteen years in order to remain qualified to receive the credits.

11. PRIOR PERIOD ADJUSTMENT

Accounts payable were overstated in a prior year. An adjustment of \$96,796 was made to net assets to correct overstatement of the liability.

SUPPLEMENTAL INFORMATION

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004

Federal Grantor/ Pass-Through Grantor Agency & Program Name	Federal CFDA #	Grant Number	Grant Period	Grant Amount	(Accrued) Deferred Revenue	1/1/04 - 12/31/04		(Accrued) Deferred Revenue
					1/1/04	Receipts	Expenditures	12/31/04
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:								
Multifamily Housing Service Coordinator Program	14.191	TN43HS00004	3/1/01 - 2/28/04	\$ 250,480	\$ (18,388)	\$ 18,388		\$ -
Multifamily Housing Service Coordinator Program	14.191	TN43HS00004	3/1/04 - 2/28/05	\$ 346,469	\$ -	\$ 53,991	\$ 78,731	\$ (24,740)
Multifamily Housing Service Coordinator Program	14.191	TN43HS00005	3/1/01 - 2/28/04	124,512	(9,883)	9,883		-
Multifamily Housing Service Coordinator Program	14.191	TN43HS00005	3/1/04 - 2/28/05	169,090	-	13,419	17,859	(4,440)
Supportive Housing Program	14.235	TN37B904001	1/1/02 - 12/31/04	273,750	(2,518)	18,940	16,422	-
Supportive Housing Program	14.235	TN37B104001	(1)	500,000	(13,885)	74,660	75,370	(14,595)
Supportive Housing Program	14.235	TN37B004001	8/1/02 - 7/31/05	250,000	(7,116)	47,365	45,014	(4,765)
Supportive Housing Program	14.235	TN37B204001	10/1/03 - 9/30/06	500,000	(5,136)	37,197	43,979	(11,918)
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:								
Supportive Housing Program	14.235	N/A	4/1/03 - 3/31/06	29,717	(2,877)	10,055	7,178	-
Community Housing Development Organization -HOME Investment Partnership Program - adminisitrative funds	14.239	N/A	10/2/01 - 10/2/06	33,390	-	-	-	-
Community Housing Development Organization -HOME Investment Partnership Program	14.239	N/A	9/4/03 - 9/3/08	212,500	(32,285)	51,999	19,714	-
Housing Opportunities for Persons with AIDS	12.241	N/A	4/1/03 - 3/31/05	183,765	(35,301)	35,301	18,294	(18,294)
Housing Opportunities for Persons with AIDS	12.241	N/A	4/1/04 - 3/31/05	55,000		52,277	116,432	(64,155)
Community Housing Development Organization -HOME Investment Partnership Program - adminisitrative funds		N/A		141,000	-	132,190	136,841	(4,651)
Community Housing Development Organization -HOME Investment Partnership Program		N/A		35,250	-	22,569	35,250	(12,681)
Community Housing Development Organization -HOME Investment Partnership Program	14.239	N/A	6/11/02 - 6/11/17	212,500	(12,388)	23,276	10,888	-
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ (139,777)	\$ 601,510	\$ 621,972	\$ (160,239)

(1) Not specified by grantor

Basis of presentation

This schedule of expenditures of federal awards includes the federal grant activity of Urban Housing Solutions, Inc. and is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2004

	PROGRAM SERVICES													TOTAL RENTAL PROJECTS
	SHELBY COURTYARDS	WOODLAND	MERCURY COURTS	HOPE	CROWN COURTS	FISK	RUSSELL	CLAY STREET	REX'S COURTYARD	VULTEE GARDENS	GREENTREE TERRACE	RIVER TERRACE	MERCURY CONVERSIONS	
REVENUES														
Rental Income	\$ 49,353	\$ 13,800	\$ 646,360	\$ 101,512	\$ 55,335	\$ 71,280	\$ 54,870	\$ 8,400	\$ 426,898	\$ 53,518	\$ 123,275	\$ 12,456	\$ -	\$ 1,617,057
Grants	-	-	-	21,401	7,178	-	-	-	7,756	46,785	140,596	-	172,091	395,807
Total Revenues	49,353	13,800	646,360	122,913	62,513	71,280	54,870	8,400	434,654	100,303	263,871	12,456	172,091	2,012,864
EXPENSES														
Payroll and related expenses	9,987	2,920	137,598	16,736	14,489	12,210	10,073	1,374	56,048	11,890	25,137	2,260	-	300,722
Advertising	62	21	1,773	123	83	82	50	12	743	66	223	14	-	3,252
Contract services	2,155	844	39,230	3,715	5,860	2,958	3,344	213	18,222	2,085	3,517	1,785	-	83,928
Equipment	43	18	808	106	72	70	43	11	531	57	(345)	31	300	1,745
Fixed assets costs	-	328	-	-	-	-	-	-	-	-	-	-	-	328
Insurance	3,540	3,000	37,805	9,074	6,857	3,854	3,731	1,348	21,947	6,299	16,419	2,847	-	116,721
Interest	-	-	94,056	9,444	12,778	12,778	-	-	95,759	8,731	26,321	-	-	259,867
Lawn care	520	3	796	620	781	610	1,377	1	1,078	1,368	3,570	50	-	10,774
Legal and professional	870	271	17,081	3,328	2,760	1,448	744	249	9,113	1,411	4,018	182	-	41,475
Loan closing costs	-	-	10,306	-	-	-	-	-	-	-	-	-	-	10,306
Management fees	75	-	-	-	-	-	-	-	-	-	1,100	-	-	1,175
Miscellaneous	21	7	384	44	30	29	18	5	1,197	74	80	7	-	1,896
Pest control	219	4	3,085	522	549	303	452	2	1,448	242	829	3	-	7,658
Payments in lieu of tax (PILOT)	-	-	-	-	-	-	-	-	-	-	2,533	-	-	2,533
Printing and postage	23	10	322	57	39	38	23	6	408	31	106	27	-	1,090
Rent	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repairs and maintenance	279	43	4,288	802	384	333	309	23	4,493	308	1,578	455	-	13,295
Social program funds	38	16	1,095	209	130	144	39	9	486	104	233	19	-	2,522
Supplies	2,049	702	25,324	5,063	3,882	1,730	3,115	218	17,112	2,796	4,132	1,240	193	67,556
Taxes and licenses	-	-	-	-	-	-	-	-	-	-	-	1,198	-	1,198
Telephone	176	74	2,521	439	295	292	177	44	1,415	236	2,080	60	-	7,809
Trash removal	1,456	-	1,620	430	350	1,275	118	-	1,010	1,235	100	50	-	7,644
Travel	488	192	346	1,064	821	675	512	97	4,050	774	1,766	53	-	10,838
Utilities	6,460	3	139,642	18,573	10,429	11,833	12,114	2	108,796	7,309	14,701	1,023	-	330,885
Vending machine expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	28,461	8,456	518,080	70,349	60,589	50,662	36,239	3,614	343,856	45,016	108,098	11,304	493	1,285,217
Depreciation and amortization	7,125	5,404	57,246	22,052	15,386	8,812	12,358	2,294	55,603	20,990	32,259	3,037	812	243,378
TOTAL FUNCTIONAL EXPENSES	35,586	13,860	575,326	92,401	75,975	59,474	48,597	5,908	399,459	66,006	140,357	14,341	1,305	1,528,595
REVENUE OVER EXPENSES	\$ 13,767	\$ (60)	\$ 71,034	\$ 30,512	\$ (13,462)	\$ 11,806	\$ 6,273	\$ 2,492	\$ 35,195	\$ 34,297	\$ 123,514	\$ (1,885)	\$ 170,786	\$ 484,269

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

											SUPPORTING SERVICES	
	SERVICE COORDINATOR PROGRAM	JOURNEYS OF HOPE PROGRAM	VENDING MACHINES	MENTAL HEALTH	IDA PROGRAM	SEED PROGRAM	CLIENT FUND PROGRAM	INCOME GENERATION PROGRAM	TOTAL RESIDENT SUPPORT PROGRAMS	TOTAL	MANAGEMENT AND GENERAL	TOTAL
REVENUES												
Rental Income	\$ -	\$ 419	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 419	\$ 1,617,476	\$ -	\$ 1,617,476
Grants	92,150	43,725	-	22,264	-	-	10,000	13,649	181,788	577,595	6,400	583,995
Total Revenues	92,150	44,144	-	22,264	-	-	10,000	13,649	182,207	2,195,071	6,400	2,201,471
EXPENSES												
Payroll and related expenses	96,922	32,975	-	25,638	2,074	-	5,103	29,988	192,700	493,422	33,370	526,792
Advertising	229	-	-	134	-	-	650	259	1,272	4,524	55	4,579
Contract services	-	-	-	-	-	35	17	-	52	83,980	93	84,073
Equipment	-	-	-	1,178	-	95	81	140	1,494	3,239	396	3,635
Fixed assets costs	-	-	-	-	-	-	-	-	-	328	-	328
Insurance	249	498	-	249	125	124	3,158	374	4,777	121,498	85	121,583
Interest	-	-	-	-	-	-	-	-	-	259,867	295	260,162
Lawn care	-	-	-	-	-	-	-	-	-	10,774	-	10,774
Legal and professional	4,271	13,535	1,300	493	46	21,796	11,774	1,151	54,366	95,841	9,534	105,375
Loan closing costs	-	-	-	-	-	-	-	-	-	10,306	-	10,306
Management fees	350	13,305	-	-	-	-	-	-	13,655	14,830	-	14,830
Miscellaneous	1,231	165	56	-	20	-	677	-	2,149	4,045	3,367	7,412
Pest control	-	-	-	-	-	-	-	-	-	7,658	-	7,658
Payments in lieu of tax (PILOT)	-	-	-	-	-	-	-	-	-	2,533	-	2,533
Printing and postage	14	7	-	3	-	5	384	63	476	1,566	1,039	2,605
Rent	698	-	-	698	-	-	-	-	1,396	1,396	-	1,396
Repairs and maintenance	786	438	-	460	-	185	2,235	225	4,329	17,624	873	18,497
Social program funds	45	4,345	-	-	4,522	5,721	5,512	967	21,112	23,634	148	23,782
Supplies	729	1,034	-	368	3	308	175	341	2,958	70,514	2,395	72,909
Taxes and licenses	-	-	-	-	-	-	-	-	-	1,198	375	1,573
Telephone	1,397	2,051	-	566	-	362	396	712	5,484	13,293	1,003	14,296
Trash removal	-	-	-	-	-	-	-	-	-	7,644	-	7,644
Travel	5,425	826	10	348	-	116	5,583	425	12,733	23,571	354	23,925
Utilities	340	284	-	561	-	372	-	105	1,662	332,547	510	333,057
Vending machine expenses	-	-	6,947	-	-	-	-	-	6,947	6,947	-	6,947
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	112,686	69,463	8,313	30,696	6,790	29,119	35,745	34,750	327,562	1,612,779	53,892	1,666,671
Depreciation and amortization	-	-	-	-	-	138	-	-	138	243,516	8,991	252,507
TOTAL FUNCTIONAL EXPENSES	112,686	69,463	8,313	30,696	6,790	29,257	35,745	34,750	327,700	1,856,295	62,883	1,919,178
REVENUE OVER EXPENSES	\$ (20,536)	\$ (25,319)	\$ (8,313)	\$ (8,432)	\$ (6,790)	\$ (29,257)	\$ (25,745)	\$ (21,101)	\$ (145,493)	\$ 338,776	\$ (56,483)	\$ 282,293

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2003

	PROGRAM SERVICES											
	SHELBY COURTYARDS	WOODLAND	MERCURY COURTS	HOPE	CROWN COURTS	FISK	RUSSELL	CLAY STREET	REX'S COURTYARD	VULTEE GARDENS	GREENTREE TERRACE	TOTAL RENTAL PROJECTS
REVENUES												
Rental Income	\$ 40,602	\$ 13,800	\$ 573,116	\$ 78,369	\$ 71,268	\$ 67,718	\$ 56,732	\$ 8,400	\$ 424,325	\$ 19,702	\$ 29,415	\$ 1,383,447
Grants	-	-	-	19,314	8,242	-	-	-	93,751	18,406	37,421	177,134
Total Revenues	40,602	13,800	573,116	97,683	79,510	67,718	56,732	8,400	518,076	38,108	66,836	1,560,581
EXPENSES												
Payroll and related expenses	10,783	3,240	186,004	16,173	10,909	11,724	8,832	1,471	82,829	3,868	12,881	348,714
Advertising	37	9	3,255	62	41	41	25	5	282	53	23	3,833
Contract services	360	154	16,300	890	1,939	823	1,412	2	11,398	2,779	934	36,991
Equipment	2,095	26	7,851	2,701	1,492	874	822	15	4,123	686	246	20,931
Fixed assets costs	-	-	-	-	-	-	-	-	-	-	21,718	21,718
Grants to subrecipients	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	2,570	1,326	20,303	4,212	5,190	2,183	1,863	358	18,311	1,922	3,143	61,381
Interest	-	-	102,220	10,627	12,460	12,460	-	-	105,739	5,435	4,884	253,825
Lawn care	791	-	3,926	811	1,179	737	1,904	-	2,243	1,570	200	13,361
Legal and professional	1,455	286	19,822	2,664	1,685	2,919	819	142	9,507	485	613	40,397
Management fees	-	-	-	-	-	525	-	-	-	-	750	1,275
Match grant to participants	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	8	3	746	71	66	165	7	1	1,325	890	-	3,282
Pest control	150	-	3,088	441	678	225	435	-	894	116	68	6,095
Payments in lieu of tax (PILOT)	-	-	-	14,686	11,269	2,768	-	-	21,451	1,506	1,046	52,726
Printing and postage	4	-	57	10	7	7	4	-	257	28	18	392
Repairs and maintenance	765	67	2,755	277	374	189	1,171	3	3,373	1,003	-	9,977
Social program funds	-	-	255	60	15	-	-	-	300	-	-	630
Supplies	2,429	506	34,047	3,187	4,035	1,589	1,599	167	17,368	1,564	520	67,011
Taxes and licenses	-	-	-	-	-	-	-	-	-	-	-	-
Telephone	212	72	3,218	312	341	334	207	42	6,155	78	598	11,569
Trash removal	1,335	-	1,750	-	150	1,310	75	-	550	706	-	5,876
Travel	406	166	291	1,031	669	552	414	99	4,004	64	215	7,911
Utilities	7,253	-	147,567	8,450	8,703	10,153	11,407	-	98,474	3,495	5,395	300,897
TOTAL FUNCTIONAL EXPENSES												
BEFORE DEPRECIATION	30,653	5,855	553,455	66,665	61,202	49,578	30,996	2,305	388,583	26,248	53,252	1,268,792
Depreciation and amortization	7,171	5,320	55,012	21,641	15,275	8,779	12,354	2,293	51,965	10,441	8,337	198,588
TOTAL FUNCTIONAL EXPENSES	37,824	11,175	608,467	88,306	76,477	58,357	43,350	4,598	440,548	36,689	61,589	1,467,380
REVENUE OVER EXPENSES	\$ 2,778	\$ 2,625	\$ (35,351)	\$ 9,377	\$ 3,033	\$ 9,361	\$ 13,382	\$ 3,802	\$ 77,528	\$ 1,419	\$ 5,247	\$ 93,201

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003

	PROGRAM SERVICES									SUPPORTING SERVICES		
	ANTI-DRUG PROGRAM	SERVICE COORDINATOR PROGRAM	JOURNEYS OF HOPE PROGRAM	IDA PROGRAM	SEED PROGRAM	CLIENT FUND PROGRAM	INCOME GENERATION PROGRAM	GRANTS TO SUBRECIPIENTS	TOTAL RESIDENT SUPPORT PROGRAMS	TOTAL	MANAGEMENT AND GENERAL	TOTAL
REVENUES												
Rental Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,623	\$ 5,623	\$ 1,389,070	\$ -	\$ 1,389,070
Grants	71,451	131,744	31,534	17,580	38,080	10,000	18,452	-	318,841	495,975	8,550	504,525
Total Revenues	71,451	131,744	31,534	17,580	38,080	10,000	18,452	5,623	324,464	1,885,045	8,550	1,893,595
EXPENSES												
Payroll and related expenses	13,600	116,018	49,449	5,592	-	-	9,467	-	194,126	542,840	18,526	561,366
Advertising	-	-	-	-	-	-	-	-	-	3,833	79	3,912
Contract services	750	-	-	-	11	-	-	-	761	37,752	324	38,076
Equipment	411	2,627	500	-	92	-	75	-	3,705	24,636	427	25,063
Fixed assets costs	-	-	-	-	-	-	-	-	-	21,718	-	21,718
Grants to subrecipients	-	-	-	-	-	-	-	5,623	5,623	5,623	-	5,623
Insurance	757	757	-	-	-	552	-	-	2,066	63,447	1,688	65,135
Interest	-	-	-	-	-	-	-	-	-	253,825	-	253,825
Lawn care	1,377	-	-	-	-	-	-	-	1,377	14,738	18	14,756
Legal and professional	24,099	1,965	7,871	140	3,120	3,358	210	-	40,763	81,160	8,412	89,572
Management fees	-	-	2,811	-	-	-	-	-	2,811	4,086	-	4,086
Match grant to participants	-	-	-	7,200	-	-	-	-	7,200	7,200	-	7,200
Miscellaneous	2,830	1,491	365	50	18	303	600	-	5,657	8,939	4,211	13,150
Pest control	-	-	-	-	-	-	-	-	-	6,095	-	6,095
Payments in lieu of tax (PILOT)	-	-	-	-	-	-	-	-	-	52,726	-	52,726
Printing and postage	39	30	43	6	4	-	-	-	122	514	1,214	1,728
Repairs and maintenance	339	1,159	746	-	-	4,194	-	-	6,438	16,415	460	16,875
Social program funds	8,152	89	2,092	77	3,308	6,113	-	-	19,831	20,461	500	20,961
Supplies	1,569	840	1,275	175	78	241	307	-	4,485	71,496	5,583	77,079
Taxes and licenses	-	-	-	-	-	18	-	-	18	18	370	388
Telephone	-	941	2,183	120	-	225	-	-	3,469	15,038	2,843	17,881
Trash removal	-	-	-	-	-	-	-	-	-	5,876	-	5,876
Travel	829	5,266	990	12	67	1,640	489	-	9,293	17,204	176	17,380
Utilities	466	95	-	-	95	359	-	-	1,015	301,912	306	302,218
TOTAL FUNCTIONAL EXPENSES												
BEFORE DEPRECIATION	55,218	131,278	68,325	13,372	6,793	17,003	11,148	5,623	308,760	1,577,552	45,137	1,622,689
Depreciation and amortization	-	-	-	-	-	-	-	-	-	198,588	9,672	208,260
TOTAL FUNCTIONAL EXPENSES	55,218	131,278	68,325	13,372	6,793	17,003	11,148	5,623	308,760	1,776,140	54,809	1,830,949
REVENUE OVER EXPENSES	\$ 16,233	\$ 466	\$ (36,791)	\$ 4,208	\$ 31,287	\$ (7,003)	\$ 7,304	\$ -	\$ 15,704	\$ 108,905	\$ (46,259)	\$ 62,646

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

To the Board of Directors
Urban Housing Solutions, Inc.
Nashville, Tennessee

We have audited the financial statements of Urban Housing Solutions, Inc., as of and for the year ended December 31, 2004, and have issued our report thereon dated October 7, 2005. 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

In planning and performing our audit, we considered Urban Housing Solutions, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Bellenfant & Miles, P.C.

October 7, 2005



**AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Urban Housing Solutions, Inc.
Nashville, Tennessee

Compliance

We have audited the compliance of Urban Housing Solutions, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. Urban Housing Solutions, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned cost. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Urban Housing Solutions, Inc.'s management. Our responsibility is to express an opinion on Urban Housing Solutions, Inc.'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 A133, *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 Urban Housing Solutions, Inc.'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 of Urban Housing Solutions, Inc.'s compliance with those requirements.

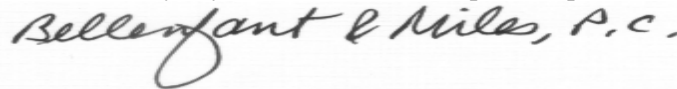
In our opinion, Urban Housing Solutions, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Urban Housing Solutions, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Urban Housing Solutions, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Bellefont & Miles, P.C." The signature is written in a cursive, flowing style.

October 7, 2005

URBAN HOUSING SOLUTIONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2004

PART I - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Urban Housing Solutions, Inc.
2. No reportable conditions relating to the audit of the financial statements are reported in the Auditors' Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Urban Housing Solutions, Inc., which would be required to be reported in accordance with *Governmental Auditing Standards*, were disclosed in the audit.
4. No reportable conditions in internal control over major federal award programs were reported in the Auditors' Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.
5. The auditors' report on compliance for the UHS's major federal program expresses an unqualified opinion.
6. No findings relating to the audit of the major federal award program are reported in the Auditors' Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.
7. The programs tested as major programs included: Supportive Housing Programs, CFDA No. 14.235.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Urban Housing Solutions, Inc. qualified as a low-risk auditee.

URBAN HOUSING SOLUTIONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2004

**PART II – FINDINGS AND QUESTIONED COST REPORTED IN ACCORDANCE WITH
GENERALLY ACCEPTED GOVERNMENT AUDITING PROCEDURES**

1. There were no findings reported in accordance with generally accepted government auditing procedures.

PART III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. There were no findings or questioned costs for federal awards.

URBAN HOUSING SOLUTIONS, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004

There were no audit findings for the year ended December 31, 2003.