

THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION

AND
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2010 AND 2009

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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., a Tennessee not-for-profit corporation, and subsidiary (collectively, the "Agency") as of September 30, 2010 and 2009, 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, 2010 and 2009, 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 May 18, 2011 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 22 through 24, 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.

Nashville, Tennessee
May 18, 2011

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 5,038,852	\$ 3,064,539
Accounts receivable	28,610	65,654
Government grants receivable	794,509	260,290
Accrued interest on loans receivable	147,796	537,341
Down payment assistance loans receivable, less allowance for uncollectible loans of: 2010 - \$386,267; 2009 - \$431,818	8,208,627	8,153,708
Flood assistance loans receivable, less allowance for uncollectible loans of: 2010 - \$50,000	148,788	-
Development loans receivable, less allowance for uncollectible loans of: 2010 - \$332,389; 2009 - \$594,355	5,338,765	6,537,237
Real estate development costs	428,826	724,845
Prepaid expenses	-	3,400
Property, furniture and equipment, net	272,620	290,650
Investment in limited partnership	<u>200,000</u>	<u>200,000</u>
 TOTAL ASSETS	 <u>\$ 20,607,393</u>	 <u>\$ 19,837,664</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 84,703	\$ 69,730
Accrued expenses	146,379	139,158
Funds held on behalf of others	51,874	51,874
Deferred revenue	771,162	222,055
Notes payable	<u>11,691,543</u>	<u>11,971,652</u>
 TOTAL LIABILITIES	 12,745,661	 12,454,469
 NET ASSETS		
Unrestricted	6,873,607	7,383,195
Temporarily restricted	<u>988,125</u>	<u>-</u>
 TOTAL NET ASSETS	 <u>7,861,732</u>	 <u>7,383,195</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 20,607,393</u>	 <u>\$ 19,837,664</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>			<u>2009</u>
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>	<u>TOTAL - UNRESTRICTED</u>
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	\$ 1,078,108	\$ -	\$ 1,078,108	\$ 1,737,797
Grant from financial institution	23,000	-	23,000	21,000
Contributions	148,124	1,207,700	1,355,824	7,552
Revenues:				
Service and administrative fees	107,833	-	107,833	130,419
Interest income:				
Loans	357,212	-	357,212	462,703
Other	19,478	-	19,478	18,350
Other	14,856	-	14,856	60,577
Impairment loss on real estate development costs	(67,320)	-	(67,320)	(50,000)
Net assets released from restrictions	<u>219,575</u>	<u>(219,575)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>1,900,866</u>	<u>988,125</u>	<u>2,888,991</u>	<u>2,388,398</u>
EXPENSES				
Program services:				
Low-income housing assistance programs	1,308,980	-	1,308,980	1,967,145
Flood assistance programs	853,522	-	853,522	-
Supporting services:				
Management and general	<u>247,952</u>	<u>-</u>	<u>247,952</u>	<u>305,650</u>
TOTAL EXPENSES	<u>2,410,454</u>	<u>-</u>	<u>2,410,454</u>	<u>2,272,795</u>
CHANGE IN NET ASSETS	(509,588)	988,125	478,537	115,603
NET ASSETS - BEGINNING OF YEAR	<u>7,383,195</u>	<u>-</u>	<u>7,383,195</u>	<u>7,267,592</u>
NET ASSETS - END OF YEAR	<u>\$ 6,873,607</u>	<u>\$ 988,125</u>	<u>\$ 7,861,732</u>	<u>\$ 7,383,195</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010			
	Program Services		Supporting Services	
	Low-Income		Management	
	Housing	Flood	and	
	Assistance	Assistance	General	Totals
Payroll and related costs	\$ 489,988	\$ 184,356	\$ 184,040	\$ 858,384
Forgiveness of down payment assistance loans	2,384	-	-	2,384
Flood assistance grants	-	447,190	-	447,190
Rental assistance grants	-	116,725	-	116,725
Provision for uncollectible loans	173,000	50,000	-	223,000
Advertising	1,905	-	515	2,420
Counseling	56,570	9,560	-	66,130
Depreciation	23,270	-	6,255	29,525
Interest	278,259	-	-	278,259
Occupancy	72,213	5,952	20,947	99,112
Office expense and miscellaneous	47,033	17,082	28,547	92,662
Printing	1,634	289	278	2,201
Professional fees	50,518	1,151	6,988	58,657
Servicing fees	112,206	21,217	382	133,805
	<u>\$ 1,308,980</u>	<u>\$ 853,522</u>	<u>\$ 247,952</u>	<u>\$ 2,410,454</u>

See accompanying notes to consolidated financial statements.

2009

<u>Program Services</u>	<u>Supporting Services</u>	
<u>Low-Income</u>	<u>Management</u>	
<u>Housing</u>	<u>and</u>	
<u>Assistance</u>	<u>General</u>	<u>Totals</u>
\$ 587,103	\$ 240,057	\$ 827,160
74,262	-	74,262
-	-	-
-	-	-
546,000	-	546,000
2,836	38	2,874
65,629	-	65,629
25,701	6,718	32,419
281,064	-	281,064
67,611	19,485	87,096
65,077	28,728	93,805
3,940	176	4,116
126,560	10,399	136,959
121,362	49	121,411
<u>\$ 1,967,145</u>	<u>\$ 305,650</u>	<u>\$ 2,272,795</u>

THE HOUSING FUND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 478,537	\$ 115,603
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	29,525	32,419
Non-cash contribution - elimination of accrued interest on notes payable	(148,124)	-
Accrued interest added to notes payable	68,015	66,405
Provision for uncollectible loans	223,000	546,000
Impairment loss on real estate development costs	67,320	50,000
Forgiveness of down payment assistance loans	2,384	74,262
(Increase) decrease in:		
Accounts receivable	37,044	(6,530)
Government grants receivable	(534,219)	14,668
Accrued interest receivable	389,545	11,796
Prepaid expenses	3,400	50,862
(Decrease) increase in:		
Accounts payable	14,973	(48,622)
Accrued expenses	7,221	12,845
Deferred revenue	549,107	222,055
Net adjustments	709,191	1,026,160
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,187,728</u>	<u>1,141,763</u>
INVESTING ACTIVITIES		
Acquisition of property, furniture and equipment	(11,495)	(715)
Payments made for real estate development costs	(241,057)	(47,690)
Housing down payment assistance loans made	(1,148,015)	(1,978,721)
Flood assistance loans made	(198,788)	-
Purchase of down payment assistance loans from third party	-	(320,778)
Payments made from funds held on behalf of others	-	(101,097)
Principal repayment on down payment assistance loans	909,706	469,091
Development loans made	(1,237,992)	(883,646)
Principal repayments on development loans	2,324,128	1,713,295
Proceeds from sale of development projects	590,098	30,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>986,585</u>	<u>(1,120,261)</u>
FINANCING ACTIVITIES		
Proceeds from Federal loan award	-	572,044
Principal payments on long-term obligations	(200,000)	(350,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(200,000)</u>	<u>222,044</u>
INCREASE IN CASH	1,974,313	243,546
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,064,539	2,820,993
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,038,852</u>	<u>\$ 3,064,539</u>
NONCASH INVESTING ACTIVITIES:		
Carrying value of foreclosed development and down payment assistance loans transferred to real estate development costs	\$ 120,342	\$ 185,000
Discount on down payment assistance loans purchased	\$ -	\$ 56,534
Funds held on behalf of others withheld from down payment assistance loans purchased	\$ -	\$ 152,971
ADDITIONAL CASH FLOW INFORMATION:		
Interest expense paid	<u>\$ 209,806</u>	<u>\$ 213,521</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

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:

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

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, 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, 2010 and 2009.

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 defined revenue and recognized in the period a liability is incurred for eligible expenditures under the term of the grant.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

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.

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.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2007 are closed.

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

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 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.

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.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and supporting services (continued)

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.

Fair value measurements

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Agency has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

THE HOUSING FUND, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurements (Continued)

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.

Following is a description of the valuation methodology used for financial assets measured at fair value on a non-recurring basis:

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.

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.

Reclassifications

Certain reclassifications have been made to prior year amounts in order to be comparative with the current year presentation.

Events occurring after reporting date

The Agency has evaluated events and transactions that occurred between September 30, 2010 and May 18, 2011, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

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:

	<u>2010</u>	<u>2009</u>
Interest-bearing loans with interest at rates from 2% to 8%, for terms of 5 to 30 years	\$ 3,687,218	\$ 3,536,580
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	-	2,384
Non-interest bearing loans that are payable upon the sale of the property	<u>4,907,676</u>	<u>5,046,562</u>
	8,594,894	8,585,526
Less: allowance for uncollectible loans	<u>(386,267)</u>	<u>(431,818)</u>
Total	<u>\$ 8,208,627</u>	<u>\$ 8,153,708</u>

Forgiveness of loans that are in-substance grants amounted to \$2,384 in 2010 (\$74,262 in 2009).

In November 2008, the Agency purchased down payment assistance loans with a face amount of \$530,283 from another agency for \$473,749. These loans are included in interest bearing loans at September 30, 2010. Pursuant to an agreement with the seller, \$152,971 of the purchase cost was required to be held in escrow by the Agency until such time as the Agency receives instructions to disburse these funds to the specified parties. At September 30, 2010, \$51,874 is held by the Agency under this agreement.

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, 2010:

2011	\$ 337,454
2012	300,560
2013	268,234
2014	238,328
2015	209,754
Thereafter	<u>2,332,888</u>
	<u>\$ 3,687,218</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

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 \$1,000 to \$17,000 and consist of the following as of September 30:

	<u>2010</u>
Interest-bearing loans with interest rate at 4%, requiring monthly payments for terms of 5 to 20 years	\$ 104,742
Non-interest bearing loans that are payable upon the sale of the property	<u>94,046</u>
	198,788
Less: allowance for uncollectible loans	<u>(50,000)</u>
Total	<u>\$ 148,788</u>

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, 2010:

2011	\$ 595
2012	3,855
2013	4,012
2014	4,176
2015	4,346
Thereafter	<u>87,758</u>
	<u>\$ 104,742</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

NOTE 3 - LOANS RECEIVABLE (CONTINUED)

Development loans

Development loans consist of the following as of September 30:

	<u>2010</u>	<u>2009</u>
Loans to not-for-profit, government and for-profit developers for the development of affordable housing, ranging from approx. \$28,000 to \$2,059,000, for terms of 9 to 60 months, with interest at rates from 4% 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.	\$ 4,625,421	\$ 5,914,171
Predevelopment loans, each with an original amount of \$35,000, to not-for-profit developers that are interest free for a term of 24 months.	-	11,400
Development loan to Conexion Americas, a not-for-profit agency, to fund <i>Puertas Abiertas</i> , 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.	311,823	361,036
THF's share of outstanding balance on participation loans:		
Loan agreement with MDHA for Row 8.9 project	(1) 247,941	309,935
Related party loans:		
Loan agreement with MDHA for Laurel House project	(2) 485,969	535,050
	5,671,154	7,131,592
Less: allowance for uncollectible loans	(332,389)	(594,355)
Total	<u>\$ 5,338,765</u>	<u>\$ 6,537,237</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

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 \$421,578 at September 30, 2010 and \$517,609 at September 30, 2009.
- (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 \$12,230 as of September 30, 2010 (\$13,465 as of September 30, 2009).

Annual principal maturities of development loans receivable as of September 30, 2010 are as follows:

	<u>Participating Loans</u>				
		Less Amounts Allocated to Participating Financial Institutions	Allocated to THF	Other Development Loans	Total
	<u>Total</u>				
2011	\$ 97,661	\$ (58,830)	\$ 38,831	\$ 1,457,820	\$ 1,496,651
2012	103,513	(62,353)	41,160	1,198,140	1,239,300
2013	109,784	(66,154)	43,630	484,341	527,971
2014	116,387	(70,139)	46,248	1,935,038	1,981,286
2015	120,736	(71,713)	49,023	135,065	184,088
Thereafter	<u>121,438</u>	<u>(92,389)</u>	<u>29,049</u>	<u>212,809</u>	<u>241,858</u>
	<u>\$ 669,519</u>	<u>\$ (421,578)</u>	<u>\$ 247,941</u>	<u>\$ 5,423,213</u>	<u>\$ 5,671,154</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

NOTE 4 - REAL ESTATE DEVELOPMENTS COSTS

As of September 30, 2010, the estimated future cash flows on development projects are less than the carrying values. An impairment loss of \$67,320 has been recognized on these projects in the current year (\$50,000 impairment loss recognized in 2009).

NOTE 5 - PROPERTY, FURNITURE AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 346,966	\$ 346,966
Computer equipment	48,656	48,883
Furniture and fixtures	<u>35,220</u>	<u>33,093</u>
	430,842	428,942
Less: accumulated depreciation	<u>(158,222)</u>	<u>(138,292)</u>
Total	<u>\$ 272,620</u>	<u>\$ 290,650</u>

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 \$68,015 in 2010, and \$66,405 in 2009.

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.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

NOTE 6 - NOTES PAYABLE (CONTINUED)

A summary of notes payable to financial institutions and other lenders as of September 30, 2010 and 2009, follows:

<u>Institutional Lenders</u>	<u>Original Issues</u>	<u>2010</u>			<u>2009</u>		
		<u>Principal Balance Drawn</u>	<u>Accrued Interest</u>	<u>Total Balance</u>	<u>Amount Available To Be Drawn</u>	<u>Principal Balance Drawn</u>	<u>Accrued Interest</u>
Bank of America	3	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -
U. S. Bank	5	2,000,000	-	2,000,000	-	2,000,000	-
Regions Bank of Tennessee	4	1,700,000	-	1,700,000	-	1,700,000	-
SunTrust Bank		1,500,000	-	1,500,000	-	1,500,000	-
First Tennessee Bank, N.A.		750,000	11,087	761,087	-	750,000	137,036
Wells Fargo	1	700,000	-	400,000	-	600,000	-
Pinnacle National Bank		600,000	82,235	682,235	-	600,000	65,595
Community Development Financial Institutions Fund (CDFI)					-		
The Bank of Nashville		572,044	-	572,044	-	572,044	-
Fifth Third Bank		350,000	-	350,000	-	350,000	-
GMAC Mortgage Company		300,000	-	300,000	-	300,000	-
F & M Bank	2	300,000	21,097	312,924	200,000	100,000	18,144
Monticello Banking Company	6	250,000	12,924	262,764	-	300,000	6,788
InsBank of Tennessee		150,000	12,764	162,764	-	250,000	6,355
Vanderbilt University		100,000	10,549	160,549	-	150,000	6,633
Renasant Bank		100,000	21,048	121,048	-	100,000	18,095
Cumberland Bank and Trust	2	100,000	10,602	110,602	-	100,000	8,433
Planter's Bank		100,000	-	100,000	-	100,000	-
Legends Bank	2	100,000	-	-	100,000	-	-
Heritage Bank	2	100,000	6,879	106,879	-	100,000	4,783
Fort Campbell Federal Credit Union	2	25,000	5,314	105,314	-	100,000	2,746
Total Notes Payable		\$ 11,497,044	\$ 194,499	\$ 11,691,543	\$ 300,000	\$ 11,697,044	\$ 274,608
							\$ 11,971,652

1 - Includes \$200,000 formerly with Wachovia Bank.

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

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

4 - Includes \$1,200,000 formerly with AmSouth Bank.

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

6 - Funding available for Bowling Green, Kentucky operations.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

NOTE 6 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable as of September 30, 2010, are as follows:

2011	\$ 200,000
2012	821,097
2013	500,000
2014	2,203,415
2015	1,644,416
Thereafter	<u>6,322,615</u>
	<u>\$11,691,543</u>

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, 2010, all depositor accounts were fully insured.

The Agency also maintains an investment balance 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 63% of the total of such loans at September 30, 2010 (loans to one developer comprised 31% of the total in 2009).

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

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, 2010, amounted to \$80,335 (\$81,038 for 2009), which equaled the amount of required employer contributions. The applicable total payroll for the Agency during the fiscal year ended September 30, 2010, amounted to \$645,913 (\$643,414 for 2009).

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.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

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 \$66,225 in 2010 (\$60,668 in 2009).

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

Year ending September 30:

2011	\$ 43,253
2012	40,103
2013	39,053
2014	41,719
2015	43,052
Thereafter	<u>381,568</u>
Total	<u>\$ 588,748</u>

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, 2010. 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, 2010

Grant Description	Federal CFDA#	Notes	Grant Number	(Accrued) Deferred		(Accrued) Deferred	
				10/1/09 - 9/30/10	9/30/2010	10/1/09 - 9/30/10	9/30/2010
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	123,877	-	112,738	11,139
Community Development Financial Institutions Fund (CDFI) - Technical Assistance	21.020		081FA007449	98,178	-	25,155	73,023
Community Development Financial Institutions Fund (CDFI) - Financial Assistance	21.020		101FA008820	-	750,000	63,000	687,000
Total CFDA 21.020				794,099	750,000	200,893	1,343,206
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	(244,280)	301,067	56,787	-
HOME Down Payment Assistance administration	14.239	*	M-08-MC-47-02-03	-	5,679	5,679	-
We Are Home Program							
We Are Home Flood program	14.239	*	M-10-MC-47-0203	-	-	122,542	(122,542)
We Are Home Flood administration	14.239	*	M-10-MC-47-0203	-	-	14,297	(14,297)
We Are Home CDBG program	14.239	*	B-10-MC-47-0007	-	-	482,393	(482,393)
We Are Home CDBG administration	14.239	*	B-10-MC-47-0007	-	-	56,346	(56,346)
We Are Home CDBG administration	14.239	*	B-10-MC-47-0007	-	-	57,016	(57,016)
ARRA - Neighborhood Stabilization Program - 2	14.239	*	B-09-CN-TN-0024	-	-	47,455	(47,455)
PASSED THROUGH THE CITY OF CLARKSVILLE:							
HOME Investment Partnerships Program -							
HOME Down Payment Assistance program	14.239	*	M-08-MC-47-02-06	(4,688)	4,688	-	-
Total CFDA 14.239				(248,968)	311,434	842,515	(780,049)
PASSED THROUGH THE CITY OF CLARKSVILLE:							
Community Development Block Grant	14.218		N/A	(5,072)	5,072	-	-
Community Development Block Grant	14.218		N/A	-	-	1,960	(1,960)
PASSED THROUGH THE CITY OF FRANKLIN:							
Community Development Block Grant	14.218		N/A	(6,250)	18,750	25,000	(12,500)
Total CFDA 14.218				(11,322)	23,822	26,960	(14,460)
NEIGHBORHOOD REINVESTMENT CORPORATION							
PASSED THROUGH TENNESSEE HOUSING DEVELOPMENT AGENCY:							
National Foreclosure Mitigation Counseling Grant Funds - Clarksville	N/A		N/A	-	7,740	7,740	-
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 533,809	\$ 1,092,996	\$ 1,078,108	\$ 548,697

*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, *Audit of State, Local Government, and Non-Profit Organizations*.

THE HOUSING FUND, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2010

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
ASSETS				
Cash and cash equivalents	\$ 5,038,852	\$ -	\$ -	\$ 5,038,852
Accounts receivable	28,610	-	-	28,610
Government grants receivable	794,509	-	-	794,509
Accrued interest on loans receivable	147,796	-	-	147,796
Down payment assistance loans receivable, less allowance for uncollectible loans of \$386,267	8,208,627	-	-	8,208,627
Flood assistance loans receivable, less allowance for uncollectible loans of \$50,000	148,788	-	-	148,788
Development loans receivable, less allowance for uncollectible loans of \$332,389	5,338,765	-	-	5,338,765
Real estate development costs	428,826	-	-	428,826
Property, furniture and equipment, net	272,620	-	-	272,620
Investment in subsidiary	200,000	-	(200,000)	-
Investment in limited partnership	-	200,000	-	200,000
TOTAL ASSETS	<u>\$ 20,607,393</u>	<u>\$ 200,000</u>	<u>\$ (200,000)</u>	<u>\$ 20,607,393</u>
LIABILITIES				
Accounts payable	\$ 84,703	\$ -	\$ -	\$ 84,703
Accrued expenses	146,379	-	-	146,379
Funds held on behalf of others	51,874	-	-	51,874
Deferred revenue	771,162	-	-	771,162
Notes payable	11,691,543	-	-	11,691,543
TOTAL LIABILITIES	<u>12,745,661</u>	<u>-</u>	<u>-</u>	<u>12,745,661</u>
NET ASSETS	<u>7,861,732</u>	<u>200,000</u>	<u>(200,000)</u>	<u>7,861,732</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,607,393</u>	<u>\$ 200,000</u>	<u>\$ (200,000)</u>	<u>\$ 20,607,393</u>

THE HOUSING FUND, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	\$ 1,078,108	\$ -	-	\$ 1,078,108
Grant from financial institution	23,000	-	-	23,000
Contributions	1,355,824	-	-	1,355,824
Revenues:				
Service and administrative fees	107,833	-	-	107,833
Interest income:				
Loans	357,212	-	-	357,212
Other	19,478	-	-	19,478
Other	14,856	-	-	14,856
Impairment loss on real estate development costs	(67,320)	-	-	(67,320)
TOTAL SUPPORT AND REVENUES	2,888,991	-	-	2,888,991
EXPENSES				
Program services:				
Low-income housing assistance programs	1,308,980	-	-	1,308,980
Flood assistance programs	853,522	-	-	853,522
Supporting services:				
Management and general	247,952	-	-	247,952
TOTAL EXPENSES	2,410,454	-	-	2,410,454
CHANGE IN NET ASSETS	478,537	-	-	478,537
NET ASSETS - BEGINNING OF YEAR	7,383,195	200,000	(200,000)	7,383,195
NET ASSETS - END OF YEAR	\$ 7,861,732	\$ 200,000	\$ (200,000)	\$ 7,861,732

THE HOUSING FUND, INC. AND SUBSIDIARY

SCHEDULE OF ACTIVITIES BY LOCATION

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Nashville	Clarksville, Montgomery County	Bowling Green	Total
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	\$ 1,048,408	\$ 29,700	\$ -	\$ 1,078,108
Grant from financial institution	13,000	10,000	-	23,000
Contributions	1,355,824	-	-	1,355,824
Revenues:				
Service and administrative fees	107,483	350	-	107,833
Interest income:				
Loans	336,950	13,908	6,354	357,212
Other	19,478	-	-	19,478
Other	4,002	10,854	-	14,856
Impairment loss on real estate development costs	(67,320)	-	-	(67,320)
TOTAL SUPPORT AND REVENUES	2,817,825	64,812	6,354	2,888,991
EXPENSES				
Program services:				
Low-income housing assistance programs	1,107,637	93,182	108,161	1,308,980
Flood assistance programs	853,522	-	-	853,522
Supporting services:				
Management and general	247,952	-	-	247,952
TOTAL EXPENSES	2,209,111	93,182	108,161	2,410,454
CHANGE IN NET ASSETS	\$ 608,714	\$ (28,370)	\$ (101,807)	\$ 478,537

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, 2010, and have issued our report thereon dated May 18, 2011. 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 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.

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.

A handwritten signature in black ink, appearing to read "Y. H. CPAs PLLC". The signature is stylized with a large, looped initial "Y" and "H".

Nashville, Tennessee
May 18, 2011



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, 2010. 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, 2010.

Internal Control Over Compliance

The 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.

A handwritten signature in black ink, appearing to read "Galt CPAs PLLC", is written above the typed name of the firm.

Nashville, Tennessee
May 18, 2011

THE HOUSING FUND, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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? _____ 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? _____ 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

14.239

HOME Investment Partnerships Program

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X Yes _____ No