THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2008 AND 2007

THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2008 AND 2007

CONTENTS

KraftCPAs PLLC

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of The Housing Fund, Inc. ("THF"), a Tennessee not-for-profit corporation, and subsidiary (collectively, the "Agency") as of September 30, 2008 and 2007, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Housing Fund, Inc. and subsidiary as of September 30, 2008 and 2007, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2009 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 performed for the purpose of forming an opinion on the above-mentioned consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. The consolidating and combining information, pages 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.

KraftCPAs PLLC

Nashville, Tennessee
January 26, 2009

KraftCPAs PLLC - Certified Public Accountants and Consultants
555 Great Circle Road • Suite 200 • Nashville, TN 37228 • Phone 615-242-7351 • Fax 615-782-4271 • www.kraftcpas.com
Also in Columbia and Lebanon, Tennessee • An independently owned member of the RSM McGladrey Network

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2008 AND 2007

	2008	2007
ASSETS		
Cash and cash equivalents	$ 2,820,993	$ 2,671,999
Investments - certificates of deposit	-	114,766
Accounts receivable	59,124	38,999
Government grants receivable	274,958	117,326
Accrued interest on certificates of deposit	-	1,361
Accrued interest on loans receivable	549,137	437,434
Down payment assistance loans receivable, less allowance for uncollectible loans of: 2008 - $335,051; 2007 - $301,063 - Note 2	6,439,591	6,349,199
Development loans receivable, less allowance for uncollectible loans of: 2008 - $2,128,355; 2007 - $339,720 - Note 2	7,902,886	8,899,960
Real estate development costs - Note 3	572,155	556,195
Prepaid expenses	54,262	2,200
Property, furniture and equipment, net - Note 4	322,354	284,957
Investment in limited partnership	200,000	200,000
TOTAL ASSETS	$ 19,195,460	$ 19,674,396
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 118,352	$ 37,262
Accrued expenses	126,313	91,028
Notes payable - Note 5	11,683,203	10,233,395
TOTAL LIABILITIES	11,927,868	10,361,685
COMMITMENTS AND CONTINGENCIES - Notes 3 and 8		
NET ASSETS		
Unrestricted	7,267,592	9,312,711
TOTAL LIABILITIES AND NET ASSETS	$ 19,195,460	$ 19,674,396

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
SUPPORT AND REVENUES		
Public support:		
Federal, state and local government grants	$ 917,200	$ 754,523
Grant from financial institution	48,000	46,000
Contributions	3,025	6,927
Revenues:		
Service and administrative fees	130,116	122,987
Interest income:		
Loans	643,257	684,907
Other investments	86,236	85,096
Other	14,485	13,636
Impairment loss on real estate development costs - Note 3	(213,703)	(106,000)
TOTAL SUPPORT AND REVENUES	1,628,616	1,608,076
EXPENSES		
Program services:		
Low-income housing assistance programs	3,399,065	1,398,631
Supporting services:		
Management and general	274,670	284,887
TOTAL EXPENSES	3,673,735	1,683,518
CHANGE IN NET ASSETS	(2,045,119)	(75,442)
NET ASSETS - BEGINNING OF YEAR	9,312,711	9,388,153
NET ASSETS - END OF YEAR	$ 7,267,592	$ 9,312,711

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008			2007		
	Program Services	Supporting Services		Program Services	Supporting Services	
	Low-Income Housing Assistance	Management and General	Totals	Low-Income Housing Assistance	Management and General	Totals
Payroll and related costs - Note 7	$ 640,111	$ 208,021	$ 848,132	$ 532,351	$ 220,297	$ 752,648
Forgiveness of down payment assistance loans - Note 2	162,765	-	162,765	265,243	-	265,243
Provision for uncollectible loans	1,977,500	-	1,977,500	50,000	-	50,000
Advertising	9,645	44	9,689	13,723	922	14,645
Counseling	99,043	-	99,043	101,000	-	101,000
Depreciation	24,058	6,580	30,638	14,799	5,671	20,470
Interest	254,343	-	254,343	247,218	-	247,218
Occupancy	57,384	19,694	77,078	43,615	17,500	61,115
Office expense and miscellaneous	40,322	25,226	65,548	45,096	35,047	80,143
Printing	950	-	950	4,655	344	4,999
Professional fees	55,861	15,056	70,917	26,207	5,066	31,273
Servicing fees	77,083	49	77,132	54,724	40	54,764
	$ 3,399,065	$ 274,670	$ 3,673,735	$ 1,398,631	$ 284,887	$ 1,683,518

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES		
Change in net assets	$ (2,045,119)	$ (75,442)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	30,638	20,470
Accrued interest added to notes payable	49,808	40,510
Provision for uncollectible loans	1,977,500	50,000
Impairment loss on real estate development costs - Note 3	213,703	106,000
Forgiveness of down payment assistance loans - Note 2	162,765	265,243
(Increase) decrease in:		
Accounts receivable	(20,125)	4,666
Government grants receivable	(157,632)	(9,866)
Accrued interest receivable	(110,342)	(64,217)
Real estate development costs	(373,114)	(149,946)
Prepaid expenses	(52,062)	(288)
(Decrease) increase in:		
Accounts payable	81,090	2,836
Accrued expenses	35,285	16,704
Net adjustments	1,837,514	282,112
NET CASH PROVIDED BY OPERATING ACTIVITIES	(207,605)	206,670
INVESTING ACTIVITIES		
Acquisition of property, furniture and equipment	(68,035)	(84,754)
Housing down payment assistance loans made	(816,692)	(983,599)
Principal repayment on down payment assistance loans	446,503	683,855
Development loans made	(3,028,722)	(4,023,898)
Development loans sold to participating institutions	-	526,393
Principal repayments on development loans	2,082,625	6,137,045
Purchase of investments - certificates of deposit	(1,365)	(114,766)
Sale of investments - certificates of deposit	116,131	107,894
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,269,555)	2,248,170
FINANCING ACTIVITIES		
Proceeds from sale of development projects	226,154	-
Proceeds from long-term obligations	1,400,000	625,000
Principal payments on long-term obligations	-	(1,000,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,626,154	(375,000)
INCREASE IN CASH	148,994	2,079,840
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,671,999	592,159
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,820,993	$ 2,671,999
NONCASH INVESTING ACTIVITIES:		
Carrying value of foreclosed development loan transferred to real estate development costs - Note 3	$ 82,703	$ 76,853
ADDITIONAL CASH FLOW INFORMATION:		
Interest expense paid	$ 200,211	$ 201,758

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

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

Principles of consolidation

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

Basis of presentation

The accompanying consolidated financial statements present the financial position and operations of the Agency on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

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

- *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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued)

- *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 temporarily or permanently restricted net assets as of September 30, 2008 and 2007.

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.

Cash and cash equivalents

Cash and cash equivalents include demand deposits and money market funds with banks.

Accounts receivable

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

Investments

Investments consisted of certificates of deposit with original maturities when purchased of more than three months and are stated at cost, which approximates fair value. These investments were with a financial institution in the name of the Metropolitan Development and Housing Agency ("MDHA"), which managed and invested these funds for THF under a memorandum of understanding through February 2008.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real estate development costs

Foreclosed development 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 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.

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and supporting services

The following program 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.

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.

Use of estimates in the preparation of financial statements

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

Reclassifications

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

NOTE 2 - LOANS RECEIVABLE

Down payment assistance loans

Down payment assistance loans, secured by a second deed of trust on the applicable properties, are made from unrestricted funds to homebuyers. These loans range from $1,000 to $30,000 (average loan approximates $6,800) and consist of the following as of September 30:

	2008	2007
Interest-bearing loans with interest at rates from 2% to 8%, for terms of 5 to 30 years	$ 2,689,325	$ 2,971,739
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	76,646	255,164
Non-interest bearing loans that are payable upon the sale of the property	4,008,671	3,423,359
	6,774,642	6,650,262
Less: allowance for uncollectible loans	(335,051)	(301,063)
Total	$ 6,439,591	$ 6,349,199

Forgiveness of loans that are in-substance grants amounted to $162,765 in 2008 ($265,243 in 2007).

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, 2008:

2009	$ 184,903
2010	189,125
2011	179,676
2012	169,955
2013	154,384
Thereafter	1,811,282
	$ 2,689,325

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

Development loans

Development loans consist of the following as of September 30:

		2008	2007
Loans to not-for-profit, government and for-profit developers for the development of affordable housing, ranging from $28,000 to $2,400,000, 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.		$ 6,532,096	$ 5,550,335
Predevelopment loans, in the amount of $35,000, to not-for-profit developers that are interest free for a term of 24 months.		46,400	108,229
Development loans to Conexion Americas, a not-for-profit agency, to fund *Puertas Abiertas*, a down payment assistance program for Hispanic families		401,903	438,531
THF's share of outstanding balance on participation loans:			
Loan agreement with 5th and Main Residential Owner, Inc.	(1)	1,750,000	1,750,000
Loan agreement with MDHA for Row 8.9 project	(2)	361,406	401,974
Loan agreement with Art Avenue Lofts, LLC	(3)	350,000	350,000
Related party loans:			
Loan agreement with MDHA for Laurel House project	(4)	589,436	640,611
		10,031,241	9,239,680
Less: allowance for uncollectible loans		(2,128,355)	(339,720)
Total		$ 7,902,886	$ 8,899,960

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

Development loans (Continued)

(1) On June 28, 2006, THF entered into an agreement to loan 5th and Main Residential Owner, Inc. a maximum of $3,500,000 for development and construction of a condominium complex. Interest on the loan is due monthly on the outstanding principal balance at the rate of 8.0% per annum beginning July 1, 2006 through September 30, 2008, at which time the entire outstanding principal balance plus any accrued interest are due. THF entered into separate agreements with four financial institutions to purchase from THF, without recourse, undivided interests in this loan totaling $1,750,000. Over 100 of the 129 units were under contract with non-refundable deposits and mortgage commitments at the time this construction loan closed. Due to economic circumstances and changes in mortgage lending arising in 2008, the under contract condominiums have not closed as projected. Delayed absorption of the units increases the cost of the project due to interest payments and operations over a prolonged period. These costs erode the proceeds to be realized from the project. Because of this, THF has reserved its entire portion of the loan, $1,750,000, in anticipation of insufficient sales proceeds to cover the second mortgage loan on the project.

(2) 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 $591,618 at September 30, 2008.

(3) On December 22, 2006, THF entered into an agreement to loan Art Avenue Lofts, LLC a maximum of $650,000 for development and construction of a condominium complex. Interest on the loan is due monthly on the outstanding principal balance at the rate of 8.0% per annum beginning January 15, 2007 through June 30, 2009, at which time the entire outstanding principal balance plus any accrued interest are due. THF entered into separate agreements with a lender to purchase from THF, without recourse, undivided interests in this loan totaling $53,382 at September 30, 2008.

(4) On December 19, 2001 and October 20, 2004, THF loaned MDHA $500,000 and $200,000, respectively, for Tax Increment Financing ("TIF") for the Laurel House project that was developed by Laurel House 2001, L.P. (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 $14,932 as of September 30, 2008 ($16,229 as of September 30, 2007).

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

Development loans (Continued)

Annual principal maturities of development loans receivable as of September 30, 2008, are as follows:

	Participating Loans				
	Total	Allocated to Participating Financial Institutions	Allocated to THF	Other Development Loans	Total
2009	$ 3,985,982	$ 1,853,882	$ 2,132,100	$ 3,031,529	$ 5,163,629
2010	87,600	53,600	34,000	708,698	742,698
2011	92,900	56,800	36,100	2,919,848	2,955,948
2012	98,500	60,200	38,300	305,095	343,395
2013	104,500	63,900	40,600	139,800	180,400
Thereafter	486,924	306,618	180,306	464,865	645,171
	$ 4,856,406	$ 2,395,000	$ 2,461,406	$ 7,569,835	$ 10,031,241

NOTE 3 - REAL ESTATE DEVELOPMENTS COSTS

As of September 30, 2008, the estimated future cash flows on development projects are less than the carrying values. An impairment loss of $213,703 has been recognized on these projects in the current year ($106,000 in 2007).

Two houses in one real estate development project were sold in 2008 (none in 2007) for $226,154. The development costs for these houses were written down to the estimated cash flows; therefore, no gain or loss was recognized on these sales.

NOTE 4 - PROPERTY, FURNITURE AND EQUIPMENT

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

	2008	2007
Leasehold improvements	$ 346,966	$ 241,092
Computer equipment	48,883	34,525
Furniture and fixtures	32,378	23,655
Construction in process	-	60,920
	428,227	360,192
Less: accumulated depreciation	(105,873)	(75,235)
Total	$ 322,354	$ 284,957

NOTE 5 - NOTES PAYABLE

Loans from various financial institutions generally mature in one to ten years, accrue interest at rates from 2.0% to 2.5% annually, and are unsecured and subordinated. Certain loans contain automatic extension provisions that can renew indefinitely. Some loans permit the accrued interest to be added to the principal balance quarterly; the other loans require the interest to be paid quarterly. Accrued interest added to principal balances amounted to $49,808 in 2008, and $40,510 in 2007.

NOTE 5 - NOTES PAYABLE (CONTINUED)

A summary of notes payable to financial institutions and other lenders as of September 30, 2008 and 2007, follows:

			2008				2007		
Institutional Lenders		Original Issues	Principal Balance Drawn	Accrued Interest	Total Balance	Amount Available To Be Drawn	Principal Balance Drawn	Accrued Interest	Total Balance
Bank of America	3	$ 2,000,000	$ 2,000,000	$ -	$ 2,000,000	$ -	$ 2,000,000	$ -	$ 2,000,000
U. S. Bank	5	2,000,000	2,000,000	-	2,000,000	-	1,500,000	-	1,500,000
Regions Bank of Tennessee	4	1,700,000	1,700,000	-	1,700,000	-	1,700,000	-	1,700,000
SunTrust Bank		1,500,000	1,500,000	-	1,500,000	-	1,500,000	-	1,500,000
First Tennessee Bank, N.A.		750,000	750,000	115,401	865,401	-	750,000	94,294	844,294
Wachovia Bank	1	700,000	700,000	-	700,000	-	700,000	-	700,000
Pinnacle National Bank	7	600,000	600,000	49,361	649,361	-	600,000	33,523	633,523
The Bank of Nashville		350,000	350,000	-	350,000	-	350,000	-	350,000
Fifth Third Bank		300,000	300,000	-	300,000	-	300,000	-	300,000
GMAC Mortgage Company		300,000	100,000	15,262	115,262	200,000	100,000	12,451	112,451
Farmers & Merchants Bank	2	300,000	300,000	773	300,773	-	-	-	-
James Stephen Turner Foundation		250,000	250,000	-	250,000	-	250,000	-	250,000
Vanderbilt University		100,000	100,000	15,215	115,215	-	100,000	12,405	112,405
Renasant Bank		100,000	100,000	6,307	106,307	-	100,000	4,222	104,222
Cumberland Bank and Trust	2	100,000	100,000	-	100,000	-	50,000	-	50,000
Legends Bank	2	100,000	100,000	2,728	102,728	-	50,000	1,000	51,000
Planters Bank	2	100,000	-	-	-	100,000	-	-	-
Independence Bank	6	250,000	-	-	-	250,000	-	-	-
Monticello Banking Company	6	250,000	250,000	103	250,103	-	-	-	-
Republic Bank	6	100,000	-	-	-	100,000	-	-	-
Farmers National Bank	6	250,000	-	-	-	250,000	-	-	-
InsBank of Tennessee		150,000	150,000	2,813	152,813	-	-	-	-
Heritage Bank	2	100,000	100,000	240	100,240	-	-	-	-
Fort Campbell Federal Credit Union	2	25,000	25,000	-	25,000	-	25,000	500	25,500
Total Notes Payable			$ 11,475,000	$ 208,203	$ 11,683,203	$ 900,000	$10,075,000	$ 158,395	$10,233,395

NOTE 5 - NOTES PAYABLE (CONTINUED)

1 - Includes $200,000 formerly with SouthTrust Bank, N.A.
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.
7 - Includes $250,000 formerly with PrimeTrust Bank.

NOTE 5 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable as of September 30, 2008, are as follows:

2009	$ 450,000
2010	200,000
2011	1,200,000
2012	500,000
2013	700,000
Thereafter	8,425,000
	$11,475,000

NOTE 6 - CONCENTRATION OF CREDIT RISK

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

The Agency maintains cash at various financial institutions which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits. At September 30, 2008, cash balances exceeded FDIC coverage by approximately $1,478,000. Subsequent to year end, the Emergency Economic Stabilization Act of 2008 temporarily increased FDIC coverage from $100,000 per depositor to $250,000 per depositor, effective October 3, 2008 through December 31, 2009.

Certain cash held in a broker/dealer account is insured by the Securities Investor Protection Corporation (SIPC), which provides limited protection to investors, up to $500,000, including up to $100,000 in cash held for the purpose of securities transactions, and not for the purpose of earning interest. The investment company also has excess SIPC coverage provided through Customer Asset Protection Company, which covers the net equity of all cash and securities held by its customers. SIPC and excess SIPC insurance do not cover market risk.

Outstanding development loans to two developers comprised 39% of the total of such loans at September 30, 2008 (loans to two developers comprised 44% of the total in 2007). A loan to one of the developers comprising 17% of the total loans has been completely reserved (see Note 2).

NOTE 7 - CONTRACTED SERVICES AND EMPLOYEE BENEFIT PLANS

Contracted Services

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

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 eleven funds offered by the Vanguard Group, as selected by the participant. Investment options and voluntary contributions may be changed daily, within limitation.

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

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

The Agency's contributions to all employee benefit plans for the year ended September 30, 2008, amounted to $79,707 ($69,200 for 2007), which equaled the amount of required employer contributions. The applicable total payroll for the Agency during the fiscal year ended September 30, 2008, amounted to $631,201 ($579,149 for 2007).

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

NOTE 7 - 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 8 - COMMITMENTS AND CONTINGENCIES

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

In February 2004, the Agency relocated to new offices leased under a twenty-year operating lease with Laurel House 2001, L.P. (See Note 1.) The lease provides for scheduled rent increases every five years and includes two 5-year renewal options. Rent expense 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 expiring through July 2009. Total rent expense amounted to $60,668 in 2008 ($46,909 in 2007).

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

Year ending September 30:	
2009	$ 47,376
2010	39,053
2011	39,053
2012	39,053
2013	39,053
Thereafter	466,338
Total	$ 669,926

NOTE 9 - RELATED PARTY TRANSACTIONS

Five of the Agency's 23 Board members are senior officers with financial institutions or other lenders with which the Agency has outstanding loans totaling $7,450,000 at September 30, 2008. 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.

NOTE 10 - NEW PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, which is effective for fiscal years beginning after December 15, 2008. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file in a particular jurisdiction. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (FAS-157), *Fair Value Measurements.* FAS-157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS-157 are effective for fiscal years beginning after November 15, 2007.

In February, 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (FAS-159), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115.* The fair value option established by FAS-159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in operations at each subsequent reporting date. FAS-159 is effective for fiscal years beginning after November 15, 2007.

The Agency is currently evaluating the impact, if any, of the adoption of these pronouncements on the financial statements.

ADDITIONAL INFORMATION

THE HOUSING FUND, INC. AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

Grant Description	Notes	Federal CFDA#	Grant Number	(Accrued) Deferred 10/1/2007	10/1/07 - 9/30/08 Receipts	10/1/07 - 9/30/08 Expenditures	(Accrued) Deferred 9/30/2008
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT							
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:							
HOME Investment Partnerships Program - American Dream Downpayment Initiative (ADDI) program	*	14.239	M-06-MC-47-02-03 & M-07-MC-47-02-03	(51,406)	415,003	363,597	-
HOME Investment Partnerships Program - HOME Down Payment Assistance program	*	14.239	MC-08-MC-47-02-03	-	78,141	335,546	(257,405)
Total CFDA 14.239				(51,406)	493,144	699,143	(257,405)
Hope VI		14.866	TN43URD005I102	(31,000)	72,089	41,089	-
PASSED THROUGH THE CITY OF CLARKSVILLE:							
Community Development Block Grant		14.218	N/A	(9,065)	31,508	29,579	(7,136)
PASSED THROUGH THE CITY OF FRANKLIN:							
Community Development Block Grant		14.218	N/A	(6,250)	25,000	25,000	(6,250)
PASSED THROUGH THE CITY OF BOWLING GREEN:							
Community Development Block Grant		14.218	N/A	(12,500)	108,406	100,073	(4,167)
Total CFDA 14.218				(27,815)	164,914	154,652	(17,553)
NEIGHBORHOOD REINVESTMENT CORPORATION							
PASSED THROUGH TENNESSEE HOUSING DEVELOPMENT AGENCY:							
National Foreclosure Mitigation Counseling Grant Funds - Clarksville		N/A	N/A	-	4,274	4,274	-
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ (110,221)	$ 734,421	$ 899,158	$ (274,958)

*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. 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.*

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2008

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
ASSETS				
Cash and cash equivalents	$ 2,820,993	$ -	$ -	$ 2,820,993
Accounts receivable	59,124	-	-	59,124
Government grants receivable	274,958	-	-	274,958
Accrued interest on loans receivable	549,137	-	-	549,137
Down payment assistance loans receivable, less allowance for uncollectible loans of $335,051	6,439,591	-	-	6,439,591
Development loans receivable, less allowance for uncollectible loans of $2,128,355	7,902,886	-	-	7,902,886
Real estate development costs	572,155	-	-	572,155
Prepaid expenses	54,262			54,262
Property, furniture and equipment, net	322,354	-	-	322,354
Investment in subsidiary	200,000	-	(200,000)	-
Investment in limited partnership	-	200,000	-	200,000
TOTAL ASSETS	$ 19,195,460	$ 200,000	$ (200,000)	$ 19,195,460
LIABILITIES				
Accounts payable	$ 118,352	$ -	$ -	$ 118,352
Accrued expenses	126,313	-	-	126,313
Notes payable	11,683,203	-	-	11,683,203
TOTAL LIABILITIES	11,927,868	-	-	11,927,868
NET ASSETS	7,267,592	200,000	(200,000)	7,267,592
TOTAL LIABILITIES AND NET ASSETS	$ 19,195,460	$ 200,000	$ (200,000)	$ 19,195,460

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	$ 917,200	$ -	$ -	$ 917,200
Grant from financial institution	48,000	-	-	48,000
Contributions	3,025	-	-	3,025
Revenues:				
Service and administrative fees	130,116	-	-	130,116
Interest income:				
Loans	643,257	-	-	643,257
Other investments	86,236			86,236
Other	14,485	-	-	14,485
Impairment loss on real estate development costs	(213,703)	-	-	(213,703)
TOTAL SUPPORT AND REVENUES	1,628,616	-	-	1,628,616
EXPENSES				
Program services:				
Low-income housing assistance programs	3,399,065	-	-	3,399,065
Supporting services:				
Management and general	274,670	-	-	274,670
TOTAL EXPENSES	3,673,735	-	-	3,673,735
CHANGE IN NET ASSETS	(2,045,119)	-	-	(2,045,119)
NET ASSETS - BEGINNING OF YEAR	9,312,711	200,000	(200,000)	9,312,711
NET ASSETS - END OF YEAR	$ 7,267,592	$ 200,000	$ (200,000)	$ 7,267,592

THE HOUSING FUND, INC. AND SUBSIDIARY

COMBINING SCHEDULE OF ACTIVITIES BY LOCATION

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Nashville	Clarksville, Montgomery County	Bowling Green	Combined
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	$ 765,232	$ 51,896	$ 100,072	$ 917,200
Grant from financial institution	39,000	9,000	-	48,000
Contributions	3,025	-	-	3,025
Revenues:				
Service and administrative fees	111,342	11,927	6,847	130,116
Interest income:				
Loans	619,661	20,286	3,310	643,257
Other investments	86,236	-	-	86,236
Other	13,094	1,391	-	14,485
Impairment loss on real estate development costs	(188,703)	(25,000)	-	(213,703)
TOTAL SUPPORT AND REVENUES	1,448,887	69,500	110,229	1,628,616
EXPENSES				
Program services:				
Low-income housing assistance programs	3,154,829	133,680	110,556	3,399,065
Supporting services:				
Management and general	274,670	-	-	274,670
TOTAL EXPENSES	3,429,499	133,680	110,556	3,673,735
CHANGE IN NET ASSETS	$ (1,980,612)	$ (64,180)	$ (327)	$ (2,045,119)

OTHER REPORTS