

THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS,

ADDITIONAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

SEPTEMBER 30, 2013 AND 2012

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AND
INDEPENDENT AUDITOR'S REPORTS

SEPTEMBER 30, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of The Housing Fund, Inc., a Tennessee not-for-profit corporation, and subsidiary (collectively, the "Agency") which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Agency as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of the Agency taken as a whole. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and the consolidating statements of financial position and activities are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014, 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* in considering the Agency's internal control over financial reporting and compliance.

Kraft CPAs PLLC

Nashville, Tennessee
January 21, 2014

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 6,426,362	\$ 6,622,572
Accounts receivable	61,186	25,805
Government grants receivable	124,622	680,398
Accrued interest on loans receivable	132,161	132,419
Loans receivable:		
Down payment assistance loans, net	6,800,963	7,262,862
Flood assistance loans, net	1,281,509	1,303,018
Development loans, net	5,017,183	4,887,371
Shared equity loans, net	723,160	312,687
Real estate owned	202,244	202,244
Prepaid expenses	7,680	10,129
Property, furniture and equipment, net	232,014	253,949
Investment in limited partnership	<u>200,000</u>	<u>200,000</u>
TOTAL ASSETS	<u>\$ 21,209,084</u>	<u>\$ 21,893,454</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 168,923	\$ 138,539
Accrued expenses	140,191	174,759
Deferred revenue	200,000	485,833
Notes payable	<u>10,393,763</u>	<u>11,027,191</u>
TOTAL LIABILITIES	10,902,877	11,826,322
NET ASSETS		
Unrestricted	<u>10,306,207</u>	<u>10,067,132</u>
TOTAL NET ASSETS	<u>10,306,207</u>	<u>10,067,132</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,209,084</u>	<u>\$ 21,893,454</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>
SUPPORT AND REVENUES			
Public support:			
Federal, state and local government grants	\$ 2,426,747	\$ -	\$ 2,426,747
Grants from private institutions	109,000	-	109,000
Contributions	15,000	-	15,000
Revenues:			
Service and administrative fees	89,709	-	89,709
Interest income:			
Loans	340,650	-	340,650
Other	5,665	-	5,665
Other	37,736	-	37,736
Impairment loss on real estate owned	-	-	-
Net assets released from restrictions	-	-	-
TOTAL SUPPORT AND REVENUES	<u>3,024,507</u>	<u>-</u>	<u>3,024,507</u>
EXPENSES			
Program services:			
Low-income housing assistance programs	1,562,521	-	1,562,521
Flood assistance programs	975,423	-	975,423
Supporting services:			
Management and general	<u>247,488</u>	<u>-</u>	<u>247,488</u>
TOTAL EXPENSES	<u>2,785,432</u>	<u>-</u>	<u>2,785,432</u>
CHANGE IN NET ASSETS	239,075	-	239,075
NET ASSETS - BEGINNING OF YEAR	<u>10,067,132</u>	<u>-</u>	<u>10,067,132</u>
NET ASSETS - END OF YEAR	<u>\$ 10,306,207</u>	<u>\$ -</u>	<u>\$ 10,306,207</u>

See accompanying notes to consolidated financial statements.

2012

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>
\$ 3,082,760	\$ -	\$ 3,082,760
153,170	-	153,170
530,115	150,000	680,115
66,242	-	66,242
372,456	-	372,456
13,673	-	13,673
33,666	-	33,666
(9,004)	-	(9,004)
<u>183,233</u>	<u>(183,233)</u>	<u>-</u>
<u>4,426,311</u>	<u>(33,233)</u>	<u>4,393,078</u>
1,634,202	-	1,634,202
1,123,620	-	1,123,620
<u>253,010</u>	<u>-</u>	<u>253,010</u>
<u>3,010,832</u>	<u>-</u>	<u>3,010,832</u>
1,415,479	(33,233)	1,382,246
<u>8,651,653</u>	<u>33,233</u>	<u>8,684,886</u>
<u>\$ 10,067,132</u>	<u>\$ -</u>	<u>\$ 10,067,132</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013			
	<u>Program Services</u>		<u>Supporting Services</u>	
	<u>Low-Income Housing Assistance</u>	<u>Flood Assistance</u>	<u>Management and General</u>	<u>Totals</u>
Payroll and related costs	\$ 694,073	\$ 262,814	\$ 159,887	\$ 1,116,774
Flood assistance grants	-	635,090	-	635,090
Rental assistance grants	-	-	-	-
Provision for uncollectible loans	322,327	18,000	-	340,327
Advertising	1,675	-	13,403	15,078
Counseling	-	-	-	-
Depreciation	18,665	6,804	6,315	31,784
Interest	249,300	-	-	249,300
Occupancy	45,524	16,315	17,946	79,785
Office expense and miscellaneous	147,454	23,353	18,224	189,031
Professional fees	27,152	12,925	31,695	71,772
Servicing fees	56,351	122	18	56,491
	<u>\$ 1,562,521</u>	<u>\$ 975,423</u>	<u>\$ 247,488</u>	<u>\$ 2,785,432</u>

See accompanying notes to consolidated financial statements.

2012

Program Services		Supporting Services	
Low-Income Housing Assistance	Flood Assistance	Management and General	Totals
\$ 403,698	\$ 608,263	\$ 182,393	\$ 1,194,354
-	349,937	-	349,937
-	575	-	575
751,867	89,906	-	841,773
2,555	941	9,039	12,535
9,910	-	-	9,910
19,508	-	6,616	26,124
263,463	-	-	263,463
34,651	26,284	17,948	78,883
55,690	30,422	19,132	105,244
22,275	14,843	17,548	54,666
70,585	2,449	334	73,368
<u>\$ 1,634,202</u>	<u>\$ 1,123,620</u>	<u>\$ 253,010</u>	<u>\$ 3,010,832</u>

THE HOUSING FUND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 239,075	\$ 1,382,246
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	31,784	26,124
Non-cash contribution - forgiveness of principal and accrued interest on notes payable	-	(530,115)
Accrued interest added to notes payable	37,862	49,962
Provision for uncollectible loans	340,327	841,773
Impairment loss on real estate owned	-	9,004
(Increase) decrease in:		
Accounts receivable	(35,381)	6,817
Government grants receivable	555,776	(79,270)
Accrued interest receivable	258	14,336
Prepaid expenses	2,449	(5,351)
(Decrease) increase in:		
Accounts payable	30,384	23,070
Accrued expenses	(34,568)	15,244
Deferred revenue	(285,833)	(120,045)
Net adjustments	643,058	251,549
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>882,133</u>	<u>1,633,795</u>
INVESTING ACTIVITIES		
Acquisition of property, furniture and equipment	(9,849)	(24,138)
Housing down payment assistance loans made	(387,672)	(372,633)
Principal repayments on down payment assistance loans	594,271	582,016
Flood assistance loans made	(93,973)	(365,737)
Principal repayments on flood assistance loans	180,256	142,838
Flood assistance loans repaid to grantor	(82,774)	-
Development loans made	(2,863,767)	(1,909,043)
Principal repayments on development loans	2,688,028	2,845,059
Proceeds from sale of development projects	-	65,146
Shared equity loans made	(480,705)	(332,680)
Principal repayments on shared equity loans	49,132	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(407,053)</u>	<u>630,828</u>
FINANCING ACTIVITIES		
Borrowings on long-term obligations	-	100,000
Principal payments on long-term obligations	(671,290)	(150,000)
NET CASH USED IN FINANCING ACTIVITIES	<u>(671,290)</u>	<u>(50,000)</u>
INCREASE (DECREASE) IN CASH	(196,210)	2,214,623
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>6,622,572</u>	<u>4,407,949</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,426,362</u>	<u>\$ 6,622,572</u>
ADDITIONAL CASH FLOW INFORMATION:		
Interest expense paid	<u>\$ 225,363</u>	<u>\$ 277,426</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 1 - GENERAL

The Housing Fund, Inc. ("THF") was organized in 1996 as a Tennessee not-for-profit corporation. Its stated mission is to "provide resources and creative leadership to help individuals and communities create and maintain affordable and healthy places to live." THF is designated as a Community Development Financial Institution ("CDFI") by the U.S. Department of Treasury. In addition, 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. ("Laurel House") was organized as a for-profit corporation and is a wholly-owned subsidiary of THF. Laurel House 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 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").

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued)

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.
- *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, 2013 and 2012.

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 consolidated 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.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred revenue

Grant funds received prior to expenditure are recorded initially as deferred revenue and recognized in the period a liability is incurred for eligible expenditures under the term of the grant.

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 owned

Foreclosed development and down payment assistance loans are transferred to real estate owned at the carrying value of the foreclosed loan. All additional development 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.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-kind contributions

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

Donated services are recognized if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills, and would have been otherwise purchased by the Agency. Such services are recognized at estimated fair value as support and expense in the period the services are performed.

Allowance for uncollectible loans

The allowance for uncollectible loans is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using historical loan loss experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, and current economic conditions. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component is based on historical loss experience adjusted for current factors. The entire allowance is available for any loan that, in management's judgment, should be charged off.

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 2010 are no longer open to examination.

Laurel House is a for-profit corporation and files a federal Form 1120 and a Tennessee Franchise and Excise tax return. Tax returns for years prior to 2010 are no longer open to examination.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing THF's and Laurel House's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

Program and supporting services

The following programs and supporting services are included in the accompanying consolidated financial statements:

Low-income housing assistance - includes a down payment assistance-lending program, a community development loan program and a shared equity homeownership program designed to assist income eligible households in acquiring or maintaining their primary residence and 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 flood, and to finance the acquisition, repair, and sale of flood-impacted properties by Habitat for Humanity. Nashville's "We Are Home" program is a joint effort of Nashville's private and public sectors, including the Community Foundation of Middle Tennessee, local financial institutions, nonprofit organizations, and the Metropolitan Government of Nashville and Davidson County. The "We Are Home" program is designed to fill gaps that exist for homeowners after taking into account individual assistance provided by the Federal Emergency Management Agency ("FEMA") and the Small Business Administration ("SBA") by providing financial assistance in the form of low-interest loans, grants and due-on-sale loans.

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

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of functional expenses

Costs of providing the Agency's programs and other activities have been summarized on a functional basis in the consolidated 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 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. Accordingly, actual results could differ from those estimates.

Events occurring after reporting date

The Agency has evaluated events and transactions that occurred between September 30, 2013 and January 21, 2014, 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, 2013 AND 2012

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS

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 \$31,000 and consist of the following as of September 30:

	<u>2013</u>	<u>2012</u>
Interest-bearing loans with interest at rates from 2% to 8%, for terms of 5 to 30 years	\$ 2,834,454	\$ 3,153,774
Non-interest bearing loans that are payable upon the sale of the property	<u>4,325,547</u>	<u>4,492,088</u>
	7,160,001	7,645,862
Less: allowance for uncollectible loans	<u>(359,038)</u>	<u>(383,000)</u>
Total	<u><u>\$ 6,800,963</u></u>	<u><u>\$ 7,262,862</u></u>

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

Year ending September 30:

2014	\$ 262,458
2015	263,892
2016	254,238
2017	246,917
2018	205,591
Thereafter	<u>1,601,358</u>
	<u><u>\$ 2,834,454</u></u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Flood assistance loans

Flood assistance loans, secured by the repaired property through a second or third deed of trust are made to homeowners through federal grants or temporarily restricted funds. These loans range from approximately \$1,000 to \$55,000 and consist of the following as of September 30:

	<u>2013</u>	<u>2012</u>
Interest-bearing loans with interest rate at 4%, requiring monthly payments for terms of 5 to 25 years	\$ 550,501	\$ 553,892
Non-interest bearing loans that are payable upon the sale of the property	<u>3,037,295</u>	<u>3,145,126</u>
	3,587,796	3,699,018
Less: allowance for uncollectible loans	<u>(2,306,287)</u>	<u>(2,396,000)</u>
Total	<u>\$ 1,281,509</u>	<u>\$ 1,303,018</u>

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

Year ending September 30:

2014	\$ 23,831
2015	26,659
2016	27,739
2017	28,876
2018	30,051
Thereafter	<u>413,345</u>
	<u>\$ 550,501</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Development loans

Development loans consist of the following as of September 30:

	<u>2013</u>	<u>2012</u>
Loans to not-for-profit, government and for-profit developers for the development of affordable housing, ranging from approximately \$36,000 to \$1,665,000, for terms of 24 to 324 months, with interest at rates from 1% to 7%; used to finance construction of single-family homes for sale and rental units in low to moderate income neighborhoods. Principal and interest are payable at the earlier of maturity or the date the constructed home is sold.	\$ 5,093,785	\$ 3,713,221
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.	210,667	246,612
Related party loans:		
Loan agreement with MDHA for Laurel House project	(1) <u>313,011</u>	<u>381,581</u>
	5,617,463	4,341,414
Development loans for the "Our House" program - Non interest bearing loans payable upon the sale of the underlying properties	(2) <u>309,547</u>	<u>1,482,957</u>
	5,927,010	5,824,371
Less: allowance for uncollectible loans	<u>(909,827)</u>	<u>(937,000)</u>
Total	<u>\$ 5,017,183</u>	<u>\$ 4,887,371</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Development loans (continued)

- (1) 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 \$7,889 as of September 30, 2013 (\$1,911 as of September 30, 2012).
- (2) The Agency is one of several nonprofit agencies involved in a joint effort of private and public sectors established to provide the "Our House" program, which is designed to establish financing mechanisms, including shared equity loans for the purchase and redevelopment of foreclosed residential properties, the purchase and rehabilitation of residential properties that have been abandoned or foreclosed upon and the redevelopment of demolished or vacant properties as housing. Federal grant funds under the Neighborhood Stabilization Program - 2 program disbursed to the developers of such projects are recorded at cost. The Agency has three grant-funded development loans to real estate developers for the construction of single family homes for qualified buyers under the program. The development loans are repayable upon the sale of the homes by the developer and do not bear interest. Qualified homebuyers agree to certain restrictions on their use and resale of the property.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Development loans (continued)

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

Year ending September 30:

2014	\$ 3,627,771
2015	698,321
2016	98,744
2017	740,011
2018	150,859
Thereafter	<u>301,757</u>
	<u>\$ 5,617,463</u>

Shared equity loans

Shared equity loans are offered through a homeownership program, "Our House", to provide qualified homebuyers with funds up to 25% of the home's purchase price. Shared equity loan principal plus a portion of the home's appreciation are repayable upon the sale of home by borrower; however, these loans are assumable by future buyers eligible under the shared equity program. Funds disbursed to borrowers are recorded at cost. Borrowers agree to certain restrictions on their use and resale of the property. Shared equity loans consist of the following as of September 30:

	<u>2013</u>	<u>2012</u>
Non-interest bearing loans that are payable upon the sale of the property	\$ 761,260	\$ 329,687
Less: allowance for uncollectible loans	<u>(38,100)</u>	<u>(17,000)</u>
Total	<u>\$ 723,160</u>	<u>\$ 312,687</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Allowance for uncollectible loans

Activity in the allowance for uncollectible loans was as follows as of and for the year ended September 30, 2013:

	Down payment assistance	Flood	Development	Shared equity
Allowance for uncollectible loans:				
Beginning balance	\$ 383,000	\$ 2,396,000	\$ 937,000	\$ 17,000
Charge-offs	(294,664)	(107,713)	(73,100)	-
Recoveries	15,402	-	-	-
Provisions	255,300	18,000	45,927	21,100
Ending balance	<u>\$ 359,038</u>	<u>\$ 2,306,287</u>	<u>\$ 909,827</u>	<u>\$ 38,100</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 909,827</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 359,038</u>	<u>\$ 2,306,287</u>	<u>\$ -</u>	<u>\$ 38,100</u>
Loans:				
Ending balance	<u>\$ 7,160,001</u>	<u>\$ 3,587,796</u>	<u>\$ 5,927,010</u>	<u>\$ 761,260</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,927,010</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 7,160,001</u>	<u>\$ 3,587,796</u>	<u>\$ -</u>	<u>\$ 761,260</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Allowance for uncollectible loans (continued)

Activity in the allowance for uncollectible loans was as follows as of and for the year ended September 30, 2012:

	Down payment assistance	Flood	Development	Shared equity
Allowance for uncollectible loans:				
Beginning balance	\$ 409,572	\$ 2,324,000	\$ 522,489	\$ -
Charge-offs	(346,795)	(20,000)	(9,420)	-
Recoveries	12,280	2,500	-	-
Provisions	307,943	89,500	423,931	17,000
Ending balance	<u>\$ 383,000</u>	<u>\$ 2,396,000</u>	<u>\$ 937,000</u>	<u>\$ 17,000</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 937,000</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 383,000</u>	<u>\$ 2,396,000</u>	<u>\$ -</u>	<u>\$ 17,000</u>
Loans:				
Ending balance	<u>\$ 7,645,862</u>	<u>\$ 3,699,018</u>	<u>\$ 5,824,371</u>	<u>\$ 329,687</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,824,371</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 7,645,862</u>	<u>\$ 3,699,018</u>	<u>\$ -</u>	<u>\$ 329,687</u>

The Agency's policies relevant to each loan portfolio's allowance for uncollectible loans are as follows:

Down payment assistance loans - The Agency reserves approximately 5% of the total loan portfolio. The allowance for uncollectible loans is calculated at the end of each month based on outstanding loan balances.

Flood loans - For loans to owner occupied single family homes originated prior to September 30, 2011, reserve amounts were calculated based on 70% of the face amount for loans due on sale of the underlying property. For loans where principal and interest are amortized, the reserve amounts were calculated based on 50% of the face amount for the loans. For all loans originated during the year ending September 30, 2013 and 2012, the reserve is based on 40% of the face amount for the new loans.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (CONTINUED)

Allowance for uncollectible loans (continued)

Development loans - The Agency utilizes a risk rating system to monitor the credit quality of the Agency's development loan portfolio. Loans are assigned a risk rating on a scale of 1 to 8. A description of the risk ratings are as follows:

Rating	Percent Reserved	Description
1	1%	Metropolitan Development Housing Agency ("MDHA") or MDHA Development Agreement in place; experienced developer with several THF loans in past; very strong nonprofit; TIF on completed project now paying taxes
2	2%	Experienced developer or strong nonprofit, as above, but may be subordinate; may be TIF project nearly complete but not yet paying taxes
3	3%	Newer developer or little experience with THF; may be experienced developer with THF loan in subordinate position; early TIF project
4	4%	New developer with little experience with THF; may be newer developer with THF in subordinate position; may be unsecured with experienced developer or nonprofit
5	5%	Unsecured or predevelopment loan fund in early stage
6,7,8	As needed	THF concerned about status of project, set reserve based on anticipated loss

Shared equity loans - The Agency reserves approximately 5% of the total loan portfolio. The allowance for uncollectible loans is calculated at the end of each month based on outstanding loan balances.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 4 - PROPERTY, FURNITURE AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 354,276	\$ 346,966
Computer equipment	77,211	74,672
Furniture and fixtures	<u>43,673</u>	<u>43,673</u>
	475,160	465,311
Less: accumulated depreciation	<u>(243,146)</u>	<u>(211,362)</u>
Total	<u>\$ 232,014</u>	<u>\$ 253,949</u>

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 \$37,862 in 2013, and \$49,962 in 2012.

During 2012, a financial institution notified THF that \$530,115 of principal and accrued interest on the related note payable would be forgiven and considered a contribution to the Agency.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 5 - NOTES PAYABLE (CONTINUED)

A summary of notes payable to financial institutions and other lenders as of September 30, 2013 and 2012, follows:

Institutional Lenders		2013				2012			
		Original Issues	Principal Balance Drawn	Accrued Interest	Total Balance	Amount Available To Be Drawn	Principal Balance Drawn	Accrued Interest	Total Balance
Bank of America	2	\$2,000,000	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000
U. S. Bank	3	2,000,000	2,000,000	-	2,000,000	-	2,000,000	-	2,000,000
Regions Bank of Tennessee		1,700,000	1,700,000	-	1,700,000	-	1,700,000	-	1,700,000
SunTrust Bank		1,500,000	1,500,000	-	1,500,000	-	1,500,000	-	1,500,000
Wells Fargo		700,000	-	-	-	-	50,000	-	50,000
Pinnacle National Bank		600,000	600,000	-	600,000	-	600,000	116,773	716,773
Community Development Financial Institutions Fund (CDFI)		572,044	572,044	-	572,044	-	572,044	-	572,044
The Bank of Nashville		350,000	350,000	-	350,000	-	350,000	-	350,000
Fifth Third Bank		300,000	300,000	-	300,000	-	300,000	-	300,000
GMAC Mortgage Company		300,000	100,000	30,409	130,409	200,000	100,000	27,228	127,228
F & M Bank	1	300,000	300,000	32,077	332,077	-	300,000	25,566	325,566
Monticello Banking Company	4	250,000	250,000	31,992	281,992	-	250,000	25,582	275,582
First Tennessee Bank, N.A.	5	250,000	250,000	-	250,000	-	250,000	-	250,000
InsBank of Tennessee		150,000	150,000	22,893	172,893	-	150,000	18,676	168,676
Vanderbilt University		100,000	100,000	30,355	130,355	-	100,000	27,176	127,176
Renasant Bank		100,000	100,000	17,371	117,371	-	100,000	15,069	115,069
Cumberland Bank and Trust	1	100,000	100,000	-	100,000	-	100,000	-	100,000
Planter's Bank		100,000	-	-	-	100,000	-	-	-
Nashville Bank & Trust		100,000	100,000	4,789	104,789	-	100,000	2,235	102,235
Legends Bank	1	100,000	100,000	13,420	113,420	-	100,000	11,196	111,196
Heritage Bank	1	100,000	100,000	13,413	113,413	-	100,000	10,646	110,646
Fort Campbell Federal Credit Union	1	25,000	25,000	-	25,000	-	25,000	-	25,000
Total Notes Payable			<u>\$ 10,197,044</u>	<u>\$ 196,719</u>	<u>\$ 10,393,763</u>	<u>\$ 300,000</u>	<u>\$ 10,747,044</u>	<u>\$ 280,147</u>	<u>\$ 11,027,191</u>

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

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

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

4 - Funding available for Bowling Green, Kentucky operations.

5 - In December 2011, the lender forgave \$530,115 in principal and accrued interest. Such amounts are reported as contribution income in 2012.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

NOTE 5 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable are as follows:

Year ending September 30:

2014	\$ 3,430,409
2015	1,617,371
2016	2,413,420
2017	906,992
2018	1,820,782
Thereafter	<u>204,789</u>
	<u>\$ 10,393,763</u>

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 balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Agency's cash balance, from time to time, may exceed statutory limits. The Agency has not experienced any losses in such accounts and considers this to be a normal business risk.

The Agency also maintains cash and cash equivalents in an investment account at a brokerage company. This investment consists of a money market fund. Generally, the balance is not insured by the FDIC or any other governmental agency and is subject to investment risk, including the risk of loss of principal. Investors are provided limited protection by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to \$500,000. The SIPC does not insure against market risk.

Outstanding development loans to two developers comprised 42% of the total of such loans at September 30, 2013 (four developers comprised 74% in 2012).

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

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 employee benefit plan 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, 2013, amounted to \$90,357 (\$89,958 for 2012), which equaled the amount of required employer contributions.

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, 2013 AND 2012

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 Agency.

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 one satellite office under a non-cancellable lease. The lease term is for the period of one year, which expired in December 2013. The Agency is leasing the space on a month-to-month basis but anticipates a lease renewal through December 2014. Total rent expense amounted to \$24,735 in 2013 and 2012.

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

Year ending September 30:

2014	\$ 42,769
2015	43,052
2016	43,052
2017	43,052
2018	43,052
Thereafter	<u>252,412</u>
Total	<u>\$ 467,389</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

Three of the Agency's 21 board members are senior officers with financial institutions or other lenders with which the Agency has outstanding loans totaling \$3,450,000 at September 30, 2013. One board member is employed by an organization which the agency has loans receivable totaling \$1,877,948. Another board member is director of the organization that is the granting and pass-through 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, 2013

Grant Description	Notes	Federal CFDA#	Grant Number	(Accrued) Deferred 10/1/2012	10/1/12 - 9/30/13 Receipts	10/1/12 - 9/30/13 Expenditures	Program Income Utilization	(Accrued) Deferred 9/30/2013
DEPARTMENT OF THE TREASURY								
Community Development Financial Institutions Fund (CDFI) - Financial assistance		21.020	101FA008820	\$ 285,833	\$ -	\$ 285,833	\$ -	\$ -
Total CFDA 21.020				285,833	-	285,833	-	-
PASSED THROUGH TENNESSEE HOUSING DEVELOPMENT AGENCY								
National Foreclosure Mitigation Counseling		21.000	N/A	-	4,291	4,291	-	-
Hardest Hit Fund		21.000	N/A	-	53,000	53,000	-	-
Total CFDA 21.000				-	57,291	57,291	-	-
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT								
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:								
HOME Investment Partnerships Program - We Are Home Program								
We Are Home Flood - program		14.239	M-10-MC-47-0203	(29,685)	15,601	15,601	-	(29,685)
We Are Home Flood - program income utilization		14.239	M-10-MC-47-0203	-	(15,601)	-	(15,601)	-
We Are Home Flood - administration		14.239	M-10-MC-47-0203	(4,901)	-	-	-	(4,901)
Total CFDA 14.239				(34,586)	-	15,601	(15,601)	(34,586)
PASSED THROUGH METROPOLITAN DEVELOPMENT & HOUSING AGENCY								
Community Development Block Grant - We Are Home Program								
We Are Home CDBG - program		14.218	B-10-MC-47-0007	3,960	-	-	-	3,960
We Are Home CDBG - administration		14.218	B-10-MC-47-0007	5,937	-	-	-	5,937
We Are Home CDBG - administration		14.218	B-10-MC-47-0007	(91)	-	-	-	(91)
				9,806	-	-	-	9,806
Community Development Block Grant - Disaster Services								
Community Development Block Grant - Disaster Services - program		14.218	B-10-MF-47-0002	(23,579)	203,552	170,632	-	9,341
Community Development Block Grant - Disaster Services - expenditures (Habitat)		14.218	B-10-MF-47-0002	-	654,732	762,484	-	(107,752)
Community Development Block Grant - Disaster Services - administration		14.218	B-10-MF-47-0002	(58,113)	321,262	195,262	-	67,887
Community Development Block Grant - Disaster Services - program income utilization		14.218	B-10-MF-47-0002	-	(104,414)	-	(104,414)	-
Community Development Block Grant - Disaster Services - program delivery		14.218	B-10-MF-47-0002	(311,629)	430,314	170,037	-	(51,352)
				(393,321)	1,505,446	1,298,415	(104,414)	(81,876)
PASSED THROUGH THE CITY OF FRANKLIN:								
Community Development Block Grant		14.218	N/A	(5,000)	20,000	20,000	-	(5,000)
PASSED THROUGH THE CITY OF HENDERSONVILLE:								
Community Development Block Grant		14.218	N/A	-	16,845	20,000	-	(3,155)
Total CFDA 14.218				(388,515)	1,542,291	1,338,415	(104,414)	(80,225)
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:								
ARRA - Neighborhood Stabilization Program - 2 - Our House	*	14.256	B-09-CN-TN-0024	-	441,021	480,236	-	(39,215)
ARRA - Neighborhood Stabilization Program - 2 - administration	*	14.256	B-09-CN-TN-0024	(120,667)	259,561	131,443	-	7,451
ARRA - Neighborhood Stabilization Program - 2 - program income utilization	*	14.256	B-09-CN-TN-0024	-	(851,050)	-	(851,050)	-
ARRA - Neighborhood Stabilization Program - 2 - program	*	14.256	B-09-CN-TN-0024	(136,629)	1,132,953	964,560	-	31,764
Total CFDA 14.256				(257,296)	982,485	1,576,239	(851,050)	-

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

THE HOUSING FUND, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Grant Description	Notes	Federal CFDA#	Grant Number	(Accrued) Deferred 10/1/2012	10/1/12 - 9/30/13			(Accrued) Deferred 9/30/2013
					Receipts	Expenditures	Program Income Utilization	
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE - SOCIAL INNOVATION FUND</u>								
PASSED THROUGH NCM CAPITAL IMPACT								
CHIP Program		94.019	N/A	\$ -	\$ 113,622	\$ 123,433	\$ -	\$ (9,811)
<u>DEPARTMENT OF ENERGY</u>								
PASSED THROUGH SOUTHEAST ENERGY EFFICIENCY ALLIANCE								
Energy Lending - Loan loss reserve		81.128	N/A	200,000	-	-	-	200,000
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ (194,564)	\$ 2,695,689	\$ 3,396,812	\$ (971,065)	\$ 75,378

Basis of Presentation

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

Federal Loan Award

The Schedule of Expenditures of Federal Awards presented in the September 30, 2012 financial statements included a loan repayable to a federal agency of \$572,044. The opening balance at October 1, 2012 presented in the Schedule of Expenditures of Federal Awards does not include this loan payable as there are no significant compliance requirements for this loan aside from repayment of principal and interest.

THE HOUSING FUND, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2013

	The Housing Fund, Inc.	Laurel House Apartments GP, Inc.	Consolidating Entries	Consolidated
ASSETS				
Cash and cash equivalents	\$ 6,426,362	\$ -	\$ -	\$ 6,426,362
Accounts receivable	61,186	-	-	61,186
Government grants receivable	124,622	-	-	124,622
Accrued interest on loans receivable	132,161	-	-	132,161
Down payment assistance loans receivable, net	6,800,963	-	-	6,800,963
Flood assistance loans receivable, net	1,281,509	-	-	1,281,509
Development loans receivable, net	5,017,183	-	-	5,017,183
Shared equity loans receivable, net	723,160	-	-	723,160
Real estate owned	202,244	-	-	202,244
Prepaid expenses	7,680	-	-	7,680
Property, furniture and equipment, net	232,014	-	-	232,014
Investment in subsidiary	200,000	-	(200,000)	-
Investment in limited partnership	-	200,000	-	200,000
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 21,209,084	\$ 200,000	\$ (200,000)	\$ 21,209,084
	<hr/>	<hr/>	<hr/>	<hr/>
LIABILITIES				
Accounts payable	\$ 168,923	\$ -	\$ -	\$ 168,923
Accrued expenses	140,191	-	-	140,191
Deferred revenue	200,000	-	-	200,000
Notes payable	10,393,763	-	-	10,393,763
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	10,902,877	-	-	10,902,877
	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS	10,306,207	200,000	(200,000)	10,306,207
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 21,209,084	\$ 200,000	\$ (200,000)	\$ 21,209,084
	<hr/>	<hr/>	<hr/>	<hr/>

THE HOUSING FUND, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>The</u> <u>Housing Fund, Inc.</u>	<u>Laurel House</u> <u>Apartments GP, Inc.</u>	<u>Consolidating</u> <u>Entries</u>	<u>Consolidated</u>
SUPPORT AND REVENUES				
Public support:				
Federal, state and local government grants	\$ 2,426,747	\$ -	\$ -	\$ 2,426,747
Grants from private institutions	109,000	-	-	109,000
Contributions	15,000	-	-	15,000
Revenues:				
Service and administrative fees	89,709	-	-	89,709
Interest income:				
Loans	340,650	-	-	340,650
Other	5,665	-	-	5,665
Other	37,736	-	-	37,736
Impairment loss on real estate development costs	-	-	-	-
	<u>3,024,507</u>	<u>-</u>	<u>-</u>	<u>3,024,507</u>
TOTAL SUPPORT AND REVENUES				
EXPENSES				
Program services:				
Low-income housing assistance programs	1,562,521	-	-	1,562,521
Flood assistance programs	975,423	-	-	975,423
Supporting services:				
Management and general	<u>247,488</u>	<u>-</u>	<u>-</u>	<u>247,488</u>
	<u>2,785,432</u>	<u>-</u>	<u>-</u>	<u>2,785,432</u>
TOTAL EXPENSES				
CHANGE IN NET ASSETS	239,075	-	-	239,075
NET ASSETS - BEGINNING OF YEAR	<u>10,067,132</u>	<u>200,000</u>	<u>(200,000)</u>	<u>10,067,132</u>
NET ASSETS - END OF YEAR	<u>\$ 10,306,207</u>	<u>\$ 200,000</u>	<u>\$ (200,000)</u>	<u>\$ 10,306,207</u>

OTHER REPORTS

INDEPENDENT AUDITOR'S 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, 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, the financial statements of The Housing Fund, Inc., a Tennessee not-for-profit corporation and subsidiary (collectively, the "Agency"), which comprise the consolidated statement of financial position as of September 30, 2013, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 21, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the consolidated financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Agency's consolidated 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*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KraftCPAs PLLC

Nashville, Tennessee
January 21, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of The Housing Fund, Inc. and subsidiaries (collectively, the "Agency") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended September 30, 2013. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Agency complied, in all material respects, with the types of 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, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 over compliance 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 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kraft CPAs PLLC

Nashville, Tennessee
January 21, 2014

THE HOUSING FUND, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
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14.256	Neighborhood Stabilization Program
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Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No