

RESIDENTIAL RESOURCES, INC

FINANCIAL STATEMENTS

JUNE 30, 2006

RESIDENTIAL RESOURCES, INC.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Residential Resources, Inc.

I have audited the accompanying statement of financial position of Residential Resources, Inc., as of June 30, 2006 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Residential Resources, Inc.'s management. My responsibility is to express an opinion on these financial statements based on the audit.

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

As described in Note 1, these financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of Residential Resources, Inc., as of June 30, 2006 and the changes in net assets and cash flows for the year then ended based on the modified cash basis of accounting as described in Note 1 of the financial statements.

RESIDENTIAL RESOURCES, INC.
INDEPENDENT AUDITOR'S REPORT (Continued)

In accordance with Government Auditing Standards, I have also issued a report dated October 12, 2006 on my consideration of Residential Resources, Inc.'s internal control structure and a report dated October 12, 2006, on Residential Resources, Inc.'s compliance with laws and regulations.

My audit was made for the purpose of forming an opinion on the basic financial statements of Residential Resources, Inc, taken as a whole. The accompanying supplemental information for the year ended June 30, 2006, is presented for purposes of additional analysis and not a required part of the basic financial statements of Residential Resources, Inc. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



Nashville, Tennessee

October 12, 2006

RESIDENTIAL RESOURCES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2006

RESIDENTIAL RESOURCES, INC
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

ASSETS

Current Assets:

Cash and Cash Equivalents	
Checking Account	\$ 2,590
Total Current Assets	<u>2,590</u>
Residential Houses (Notes 3 and 5)	176,264
Furniture, Fixtures and Equipment (Note 2)	<u>9,591</u>
TOTAL ASSETS	<u><u>\$ 188,445</u></u>

LIABILITIES

Project Funds due CHDO (Note 5)	\$ 176,264
Loans Payable	<u>866</u>
TOTAL LIABILITIES	<u>177,130</u>

NET ASSETS (Note 1)

Total Net Assets	<u>11,315</u>
TOTAL LIABILITIES AND	
NET ASSETS	<u><u>\$ 188,445</u></u>

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

RESIDENTIAL RESOURCES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

UNRESTRICTED NET ASSETS

SUPPORT

United Way		\$ 22,174
Nashville Housing Fund		
Front Door	\$ 14,100	
Down Payment Assistance	7,660	
PPC	<u>150</u>	21, 910
Donations		
AmSouth Bank	1,000	
Fannie Mae	5,000	
HBE	3,164	
Bank of America	300	
Miscellaneous	<u>320</u>	9,784
Home Free, USA (HUD)		19,307
Tennessee Housing Development Agency		11,400
Rental Income		<u>9,362</u>
TOTAL UNRESTRICTED SUPPORT		93,937

EXPENSES

Program Services (Note 4)		
Housing Services		41,557
Community Housing		9,595
Support Services (Note 4)		
Management		<u>40,580</u>
TOTAL EXPENSES		91,732
INCREASE IN UNRESTRICTED NET ASSETS		2,205
NET ASSETS AT BEGINNING OF YEAR		9,110
NET ASSETS AT END OF YEAR		<u>\$ 11,315</u>

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

RESIDENTIAL RESOURCES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>PROGRAM</u> <u>SERVICES</u>		<u>SUPPORTING</u> <u>SERVICES</u>	
<u>EXPENSES</u>	<u>HOUSING</u>	<u>CHDO</u>	<u>MANAGEMENT</u>	<u>TOTAL</u>
Salaries	\$ 24,055	\$ 802	\$ 15,235	\$ 40,092
Payroll Taxes	2,752	92	1,744	4,588
Liability Insurance	424		283	707
Postage	242		162	404
Printing	295		197	492
Professional Fees			1,900	1,900
Rent	5,940		3,960	9,900
Subscriptions, Fees			665	665
Supplies	1,500	50	951	2,501
Communications	3,498	116	2,217	5,831
Utilities	2,851		1,901	4,752
State, Metro Fees			360	360
Misc. Development		72		72
Development		8,463		8,463
Depreciation			3,416	3,416
Interest			7,589	7,589
TOTAL	<u>\$ 41,557</u>	<u>\$ 9,595</u>	<u>\$ 40,580</u>	<u>\$ 91,732</u>

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

RESIDENTIAL RESOURCERS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATIONS

Increase in Net Assets \$ 2,205

Adjustments to Reconcile Change
in Net Assets to Cash:

Depreciation 3,416

Decrease in Loans Payable -15,768

TOTAL CASH PROVIDED BY OPERATIONS -10,147

BEGINNING CASH 12,737

ENDING CASH \$ 2,590

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

RESIDENTIAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Residential Resources, Inc. was incorporated by the State of Tennessee on October 31, 1997, received the Internal Revenue Service's tax exemption on February 13, 1998 and the United Way Partner of Middle Tennessee designation in June of 1999.

In addition to affordable housing construction, the organization offers guidance for acquiring sustainable residential resources by providing consultation, education, information and referrals; and serves as an advocate and liaison for its clients between government agencies, private and not for profit corporations, and other entities that are dedicated to developing and/or providing access to affordable, safe and desired housing opportunities.

NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES

Residential Resources, Inc. was established to address the critical need for affordable housing for citizens residing in the urban and surrounding rural areas of Metropolitan Nashville, Tennessee, disadvantaged by low incomes.

FINANCIAL STATEMENT PRESENTATION

BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Residential Resources, Inc. maintains its financial records on a modified cash basis of accounting. Revenues are recognized when received and expenditures are recognized when paid, with the exception of fixed assets. However, financial statements reflect accrual adjustments.

Net assets are unrestricted, temporarily restricted and permanently restricted as they apply to the Statement of Financial Accounting Standards No. 117, Financial Statements of Not for Profit Organizations and Statement of Financial Accounting Standards No. 116, Accounting for Contributions Received and Contributions Made. The Statements of Financial Accounting Standards No. 117 and No. 116 are utilized in the financial statements presenting assets, liabilities and net assets. Residential Resources, Inc. did not have any restricted net assets for the year ended June 30, 2006.

TAXATION

Residential Resources, Inc. qualifies as a tax exempt organization under Section 501 {c} {3} and has been determined not to be a "private foundation" within the meaning of Section 509 {a} of the Internal Revenue Code and therefore, there is no provision for income taxes.

RESIDENTIAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

DEPRECIATION

Depreciation is provided for the amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives using the straight line method of accounting.

CONTRIBUTED SERVICES

During the year ended June 30, 2006, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

CASH AND CASH EQUIVALENTS

Residential Resources, Inc. considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTE 2- FURNITURE, FIXTURES AND EQUIPMENT

Purchased Equipment	\$ 26,873
Contributed Furniture and Fixtures (*)	<u>4,500</u>
Total	31,373
Accumulated Depreciation	<u>21,782</u>
Balance	<u><u>\$ 9,591</u></u>

(*) Depreciable basis is the value of the property at the date of acquisition by Residential Resources, Inc.

NOTE 3- RESIDENTIAL HOUSES FOR SALE (See Note 5)

Two residences in Nashville, Tennessee remain unsold at June 30, 2006. The organization is continuing to seek potential buyers. Each house will be sold at construction costs. As of October 1, 2006, one of the residences (815 North Fifth Street) is under a lease purchase agreement.

NOTE 4- PROGRAM AND SUPPORT EXPENSES

Program service expenses are the direct and indirect costs related to providing the organization's programs, that is, the cost of the activities for which purpose the organization exists. Support services are expenses for activities not directly related to the purpose for which the organization exists.

RESIDENTIAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5- AFFORDABLE HOMES PROGRAM

On July 22, 2003, Residential Resources, Inc. renewed its agreement with the Metropolitan Development and Housing Agency (MDHA) to increase its community involvement by providing affordable homes through the Community Housing Development Organization, a program that is sponsored by MDHA, which receives federal funds from the Department of Housing and Urban Development. Residential Resources, Inc.'s involvement in this program made it subject to administrative requirements of OMB Compliance Supplement Circulars A-110 and A-122 and the applicable federal audit requirements.

Residential Resources, Inc. was determined to be an eligible Community Housing Community Development Organization and was approved for funds by the MDHA Board of Commissioners for acquisition, construction and sale of single family homes. In addition, the Board of Commissioners (Resolution 166-00) in accordance with Metro Council Number 098-1420 approved administrative costs and other reimbursement expenses.

RESIDENTIAL RESOURCES, INC.
SUMMARY OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

There are no questioned costs in this audit.

SUMMARY OF AUDIT RESULTS

The auditor's report expresses an unqualified opinion on the financial statements of Residential Resources, Inc. No instances of noncompliance to the financial statements were disclosed during the audit and there were no reportable conditions disclosed in the audit.

Residential Resources, Inc. was determined to be a low-risk auditee.

A handwritten signature in black ink, appearing to read 'Deek', with a stylized, cursive script.

Nashville, Tennessee

October 12, 2006

RESIDENTIAL RESOURCES, INC.

SUPPLEMENTARY INFORMATION

JUNE 30, 2006

RESIDENTIAL RESOURCES, INC.
SUMMARY OF CONTRACTS FOR CASH BASIS ACCOUNTING
FOR THE YEAR ENDED JUNE 30, 2006

AGREEMENT
PERIOD

7/1/05 Thru
6/30/06

ASSISTANCE PROVIDED

NASHVILLE HOUSING FUND

Front Door

One hour screening session fund designed to help prospective home buyers ascertain their personal and financial readiness for home ownership and to obtain information about services and programs available in Davidson County, Tennessee, to assist them in becoming homeowners.

SUPPORT

Application Fee	\$ 25
Counseling Fee	\$ 40

Down Payment Assistance

Offers three graduated tiers of assistance to low and moderate home buyers in Davidson County, Tennessee. Assistance is provided in the form of a low interest second mortgage loan. Loan terms vary from 2 to 30 years, depending upon the amount borrowed.

SUPPORT

Loan Closing	\$ 250
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7/1/05
6/30/06

UNITED WAY OF METROPOLITAN NASHVILLE

Comprehensive Affordable Housing Services Program- Participates in the Supporting Work and Independence Community Solutions Council in solving Nashville's critical housing needs.

SUPPORT

Program Implementation	\$ 22,174
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RESIDENTIAL RESOURCES, INC
SUMMARY OF CONTRACTS FOR CASH BASIS ACCOUNTING
FOR THE YEAR ENDED JUNE 30, 2006

HUD-HOME FREE-USA

HUD-HOME FREE-USA approved Residential Resources, Inc. to provide Pre-Purchase Rental and Mortgage Default/Foreclosure counseling in accordance with an acceptable counseling plan.

Contract Period	September 30, 2006 thru June 30, 2006
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Funding:	\$ 19,307
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