

URBAN HOUSING SOLUTIONS, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION

AND

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2003 AND 2002

- URBAN HOUSING SOLUTIONS, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2003 AND 2002

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Kraft Bros., Esstman, Patton & Harrell, PLLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying statements of financial position of Urban Housing Solutions, Inc. ("UHS"), a Tennessee not-for-profit corporation, as of December 31, 2003 and 2002, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of UHS's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urban Housing Solutions, Inc. as of December 31, 2003 and 2002, and the changes in its net assets and its 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 a report dated June 17, 2004, on our consideration of Urban Housing Solutions, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic 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 basic financial statements. The additional information on pages 19-20, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kraft Bros., Esstman, Patton & Harrell, PLLC

Nashville, Tennessee
June 17, 2004

URBAN HOUSING SOLUTIONS, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
Cash	\$ 413,558 C	\$ 401,278
Accounts receivable:		
Grants - Note 2	134,154 C	23,830
Tenants	30,079 C	23,889
Receivable from insurance company for damages related to fire - Note 8	946,434 C	-
Due from Mercury Court Apartments, LP - Note 10	11,618 C	18,806
Due from Eastwood Courts, LLC - Note 4	4,445 C	-
Prepaid expenses, deposits and other	37,799 C	27,132
Restricted cash:		
Tenant security deposits	72,576 C	54,084
Replacement reserves	171,917 C	92,305
Cash - escrow for property taxes	48,999 C	48,619
Investment in Eastwood Courts, LLC - Note 4	214,364 C	204,694
Investment in Mercury Court Apartments, LP - Note 10	70,000 C	70,000
Accrued developer fees - Note 10	52,803 C	-
Property and equipment - net - Notes 3 and 5	6,878,682 LT	6,103,309
Loan closing costs, net of accumulated amortization of \$14,135 (2002 - \$8,318)	19,074	19,992
Cash held by Nashville Housing Fund - Note 5	346,847	-
 TOTAL ASSETS	 <u>\$ 9,453,349</u>	 <u>\$ 7,087,938</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable and accrued expenses	\$ 153,136 C	\$ 33,681
Accrued payments in lieu of tax (PILOT) - Note 9	64,959 C	-
Tenant security deposits payable	71,592 C	53,537
Due to Eastwood Courts, LLC - Note 4	-	3,115
Notes payable - Note 5	4,786,494 C	3,263,440
 TOTAL LIABILITIES	 <u>5,076,181</u>	 <u>3,353,773</u>
 COMMITMENTS AND CONTINGENCIES - Notes 6 and 8		
 NET ASSETS		
Unrestricted:		
Undesignated	2,246,488	884,296
Property and equipment	2,092,188	2,839,869
Total unrestricted	4,338,676	3,724,165
Temporarily restricted - Note 7	38,492	10,000
 TOTAL NET ASSETS	 <u>4,377,168</u> ✓	 <u>3,734,165</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 9,453,349</u>	 <u>\$ 7,087,938</u>

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

URBAN HOUSING SOLUTIONS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003			2002		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
SUPPORT AND REVENUES						
Public Support:						
Individual and corporate gifts	\$ 20,825	\$ -	20,825	\$ 30,043	\$ -	\$ 30,043
Grants:						
Government	435,265	-	435,265	496,077	-	496,077
Foundation	-	69,260	69,260	15,000	10,000	25,000
Total public support	456,090	69,260	525,350	541,120	10,000	551,120
Revenues:						
Rental income	1,389,070	-	1,389,070	1,170,923	-	1,170,923
Miscellaneous tenant charges	10,144	-	10,144	6,664	-	6,664
Developer fees - Note 10	59,603	-	59,603	-	-	-
Investment income	5,647	-	5,647	10,147	-	10,147
Miscellaneous	18,774	-	18,774	20,378	-	20,378
Equity in net income of Eastwood Courts, LLC - Note 4	9,670	-	9,670	22,572	-	22,572
Book value of of assets destroyed by fire in excess of insurance proceeds	(14,306)	-	(14,306)	-	-	-
Net assets released from restrictions: Satisfaction of time and purpose restrictions	40,768	(40,768)	-	-	-	-
TOTAL SUPPORT AND REVENUES	1,975,460	28,492	2,003,952*	1,771,804	10,000	1,781,804
EXPENSES						
Program Services:						
Rental projects	1,467,380	-	1,467,380	1,224,378	-	1,224,378
Resident support programs	308,760	-	308,760	209,444	-	209,444
Total program services	1,776,140	-	1,776,140	1,433,822	-	1,433,822
Supporting Services:						
Management and general	54,809	-	54,809	84,886	-	84,886
TOTAL EXPENSES	1,830,949	-	1,830,949 ✓	1,518,708	-	1,518,708
CHANGE IN NET ASSETS BEFORE GRANTS RECEIVED FOR THE ACQUISITION OF PROPERTY	144,511	28,492	173,003	253,096	10,000	263,096
Grants received for the acquisition of property	470,000	-	470,000*	470,000	-	470,000
CHANGE IN NET ASSETS	614,511	28,492	643,003	723,096	10,000	733,096
NET ASSETS - BEGINNING OF YEAR	3,724,165	10,000	3,734,165	3,001,069	-	3,001,069
NET ASSETS - END OF YEAR	\$ 4,338,676	\$ 38,492	\$ 4,377,168	\$ 3,724,165	\$ 10,000	\$ 3,734,165

* = 2473,952,00990

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

URBAN HOUSING SOLUTIONS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 643,003	\$ 733,096
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	208,260	183,883
Equity in net income of Eastwood Courts, LLC - Note 4	(9,670)	(22,572)
Grants related to acquisition of property	(470,000)	(470,000)
Book value of assets destroyed by fire in excess of insurance proceeds	14,306	-
(Increase) decrease in:		
Accounts receivable:		
Grants	(110,324)	22,484
Tenants	(6,190)	7,941
Prepaid expenses, deposits and other	(10,667)	7,374
Cash - escrow for property taxes	(380)	(729)
Accrued developer fees	(52,803)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	24,494	13,745
Accrued payments in lieu of tax (PILOT)	64,959	-
Deferred revenue	-	(64,258)
TOTAL ADJUSTMENTS	<u>(348,015)</u>	<u>(322,132)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>294,988</u>	<u>410,964</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,843,595)	(1,029,044)
(Increase) decrease in restricted deposits	(98,104)	126
Increase in tenant security deposits payable	18,055	19,266
Cash held by Nashville Housing Fund - Note 5	(346,847)	-
Advances from (to) Eastwood Courts, LLC - net	(7,560)	(7,149)
Advances from (to) Mercury Court Apartments, LP	<u>7,188</u>	<u>(14,321)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,270,863)</u>	<u>(1,031,122)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan closing costs	(4,899)	(7,281)
Proceeds from notes payable	1,601,566	382,428
Principal payments on notes payable	(78,512)	(202,628)
Grants related to acquisition of property	<u>470,000</u>	<u>470,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,988,155</u>	<u>642,519</u>
NET INCREASE IN CASH	12,280	22,361
CASH - BEGINNING OF YEAR	<u>401,278</u>	<u>378,917</u>
CASH - END OF YEAR	<u>\$ 413,558</u>	<u>\$ 401,278</u>
NONCASH INVESTING ACTIVITIES:		
Receivable for insurance proceeds relating to property damaged by fire - Note 8	<u>\$ 946,434</u>	<u>\$ -</u>
Accounts payable for construction projects	<u>\$ 94,961</u>	<u>\$ -</u>

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

URBAN HOUSING SOLUTIONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

URBAN HOUSING SOLUTIONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2002

	PROGRAM SERVICES			SUPPORTING SERVICES	
	RENTAL PROJECTS	RESIDENT SUPPORT PROGRAMS	TOTAL	MANAGEMENT AND GENERAL	TOTAL
Payroll and related expenses	299,777	\$ 148,240	\$ 448,017	\$ 31,638	\$ 479,655
Advertising	6,721	127	6,848	43	6,891
Contract services	32,727	2,351	35,078	-	35,078
Equipment	10,525	1,185	11,710	449	12,159
Insurance	43,625	-	43,625	2,963	46,588
Interest	227,288	-	227,288	-	227,288
Lawn care	11,876	2,885	14,761	-	14,761
Legal and professional	32,610	10,446	43,056	18,391	61,447
Management fees	1,144	627	1,771	-	1,771
Miscellaneous	1,154	757	1,911	2,938	4,849
Pest control	4,872	-	4,872	-	4,872
Printing and postage	277	2,235	2,512	1,734	4,246
Repairs and maintenance	7,044	2,476	9,520	-	9,520
Social program funds	1,332	23,890	25,222	4,133	29,355
Supplies	66,683	5,884	72,567	4,732	77,299
Taxes and licenses	-	-	-	118	118
Telephone	11,345	1,848	13,193	7,478	20,671
Trash removal	4,528	-	4,528	100	4,628
Travel	5,922	6,493	12,415	875	13,290
Utilities	280,339	-	280,339	-	280,339
 TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	 1,049,789	 209,444	 1,259,233	 75,592	 1,334,825
 Depreciation and amortization	 174,589	 -	 174,589	 9,294	 183,883
 TOTAL FUNCTIONAL EXPENSES	 \$ 1,224,378	 \$ 209,444	 \$ 1,433,822	 \$ 84,886	 \$ 1,518,708

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

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Contributions and support

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

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

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

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

Income taxes

UHS 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.

Jointly-owned properties

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

Property and equipment

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

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated property and materials

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

Donated services

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

Program and supporting services

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

Rental projects:

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

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

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

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

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

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

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

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and supporting services (continued)

Resident support programs:

Anti-Drug Program - provides drug prevention, intervention and treatment resources for residents of Mercury Court, through services and incentives to eliminate the use of drugs, and treatment services for those residents in drug recovery.

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

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

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

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

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

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

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

Allocation of functional expenses

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

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Allowance for uncollectible accounts/bad debts

At the end of each year, management reviews accounts receivable in detail and writes off any account that is deemed uncollectible. Based on assessment of specific accounts and historical collection experience of rental income, no allowance for uncollectible accounts was considered necessary as of December 31, 2003 or 2002.

Reclassifications

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

NOTE 2 - GRANTS RECEIVABLE

Grants receivable are due from the U.S. Department of Housing and Urban Development and the Metropolitan Development and Housing Agency ("MDHA").

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2003</u>	<u>2002</u>
Land	\$ 1,600,350	\$ 1,505,350
Buildings and improvements	6,253,259	5,463,505
Furniture and equipment	<u>338,030</u>	<u>263,534</u>
	8,191,639	7,232,389
Less accumulated depreciation	<u>(1,312,957)</u>	<u>(1,129,080)</u>
	<u>\$ 6,878,682</u>	<u>\$ 6,103,309</u>

UHS received federal and state grants totaling \$470,000 in 2003 and 2002 that were utilized to acquire certain real estate and fund rehabilitation expenditures. These properties are part of the GreenTree Terrace program for 2003 (Vultee apartments program for 2002).

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2003 AND 2002

NOTE 4 - INVESTMENT IN EASTWOOD COURTS, LLC

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

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

Condensed schedules of Eastwood's financial position at December 31, 2003 and 2002, and operations for the years then ended, follow:

	2003	2002
Cash	\$ 28,416	\$ 22,376
Accounts receivable - tenants	3,638	6,597
Due from Urban Housing Solutions, Inc.	-	3,115
Property and equipment	1,569,453	1,535,677
Accumulated depreciation	(207,906)	(152,779)
Loan costs, net of accumulated amortization	6,065	8,059
Prepaid expense and utility deposits	7,071	5,836
Restricted cash:		
Security deposits	20,178	18,153
Replacement reserves	26,650	17,566
Total assets	<u>\$ 1,453,565</u>	<u>\$ 1,464,600</u>
Accounts payable and accrued expenses	\$ 3,764	\$ 6,404
Accrued payments in lieu of tax (PILOT) - Note 9	37,158	-
Settlement with contractor	14,933	42,399
Tenant security deposits payable	20,178	18,153
Notes payable	945,221	989,715
Due to Urban Housing Solutions, Inc.	4,445	-
Due to Mental Health Cooperative	12,437	11,839
Total liabilities	1,038,136	1,068,510
Member equity - Urban Housing Solutions, Inc.	214,364	204,694
Member equity - Mental Health Cooperative	201,065	191,396
Total liabilities and members' equity	<u>\$ 1,453,565</u>	<u>\$ 1,464,600</u>

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2003 AND 2002

NOTE 4 - INVESTMENT IN EASTWOOD COURTS, LLC (CONTINUED)

	<u>2003</u>	<u>2002</u>
Rental income	\$ 301,449	\$ 288,443
Insurance proceeds related to vacancy after fire	4,600	\$ -
Miscellaneous tenant charges	3,166	3,465
Miscellaneous income	15,992	2,500
Insurance proceeds from fire	26,482	-
Interest income	101	73
Total Revenues	<u>351,790</u>	<u>294,481</u>
Payroll and related expenses	60,160	39,327
Contract services	12,214	7,507
Repairs related to fire damage	18,758	-
Insurance	12,212	9,183
Interest	47,933	49,781
Lawn care	5,368	5,295
Legal and professional	7,699	8,039
Pest control	1,467	1,433
PILOT expense - Note 9	31,485	-
Repairs and maintenance	862	975
Supplies	17,669	19,310
Taxes, registrations and licenses	308	300
Telephone	631	619
Trash removal	1,190	425
Travel	2,258	1,688
Utilities	36,978	33,916
Miscellaneous	5,701	2,353
Depreciation	57,121	57,347
Total Expenses	<u>320,014</u>	<u>237,498</u>
Operating Income	31,776	56,983
Preferred return to MHC	<u>(12,437)</u>	<u>(11,839)</u>
Net income	<u>\$ 19,339</u>	<u>\$ 45,144</u>
Equity in net income to UHS - 50%	<u>\$ 9,670</u>	<u>\$ 22,572</u>

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2003 AND 2002

NOTE 5 - NOTES PAYABLE

Notes payable consist of the following as of December 31:

	<u>2003</u>	<u>2002</u>
Mortgage payable - financial institution (7.75%); payable in monthly installments of \$3,770 beginning December 2002, with final balloon payment for the balance due October 2004; secured by real estate.	\$ 406,178	\$ 419,960
Mortgage payable - financial institution (7.30%); payable in monthly installments of \$11,527 beginning January 2002, with final balloon payment for the balance due December 2006; secured by real estate.	1,380,500	1,416,605
Mortgage payable - Nashville Housing Fund (6.15%); interest due monthly through April 2003, then due in monthly principal and interest payments of \$12,053 through August 2006; final balloon payment for the balance due September 2006; secured by real estate.	(1) 2,125,844	1,293,657
Note payable - financial institution (prime rate + .25%); monthly principal and interest payment of \$996 beginning August 2003; final balloon payment for balance due July 2007; secured by real estate.	158,039	76,132
Note payable - financial institution (4.25%); interest due monthly beginning January 2003 through May 2003, then due in monthly principal and interest payments of \$1,523 (prime rate + 3%) through April 2008; final balloon payment for the balance due May 2008; secured by real estate.	198,896	57,086
Note payable - financial institution (initially prime rate); interest due monthly beginning October 2003 through October 2004, then due in monthly principal payments of \$2,310 (at an initial rate of LIBOR + 2 %) through September 25, 2008; secured by real estate.	517,037	-
	<u>\$ 4,786,494</u>	<u>\$ 3,263,440</u>

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2003 AND 2002

NOTE 5 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable as of December 31, 2003, before giving effect to the \$346,847 early repayment on the NHF loan, as discussed below, are as follows:

2004	\$ 498,069
2005	121,290
2006	3,382,797
2007	173,935
2008	<u>610,403</u>
	<u>\$ 4,786,494</u>

Total interest expense paid in 2003 amounted to \$253,825 (\$227,288 in 2002).

(1) On September 28, 2001, UHS entered into a loan agreement with Nashville Housing Fund, Inc. ("NHF") for a maximum of \$2,150,000, for the purchase and renovation of Rex's Courtyards apartment complex. NHF entered into a binding agreement with seven financial institutions to purchase from NHF, without recourse, an undivided interest in this loan in the amount of \$1,600,000. All draws from participating financial institutions were required to be made before May 10, 2003. Because of various construction delays, the project was not completed in May 2003, but was expected to be completed within the next few months. Therefore, in May 2003, on UHS's behalf, NHF withdrew the remaining loan amount available under the agreement from the participating financial institutions. As of December 31, 2003, such advances amounted to \$346,847, and are reported as an asset on UHS's Statement of Financial Position. During September 2003, one of the project's three buildings was destroyed by fire. In May 2004, UHS decided not to proceed with the rebuilding of this third building. The advance draw payments were, therefore, repaid and applied to the balance of the loans made by the participating financial institutions. Beginning May 2003, monthly principal and interest installments are payable based on a 20-year amortization for \$1,600,000 of the outstanding balance through September 2006, the date of maturity of the loan. UHS is making payments to the participating financial institutions; however, NHF has verbally extended the terms of the agreement, on the \$550,000 portion of the loan due to NHF, to require monthly payments of interest only until December 2004, with principal balance repayment due in September 2006. Upon the settlement with the insurance company, NHF will amend the principal repayment terms.

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2003 AND 2002

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

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

UHS maintains deposit accounts with three financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000 each. Excess uninsured balances of UHS approximated \$531,000 at December 31, 2003 (\$314,000 at December 31, 2002). In management's opinion, the risk is mitigated by the use of high quality financial institutions.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2003</u>	<u>2002</u>
Foundation grants for tenant assistance	<u>\$ 38,492</u>	<u>\$ 10,000</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

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

During 2003, UHS received \$202,285 (\$170,000 in 2002) in federal and state awards in the form of promissory notes that are forgivable five years (ten years for those received in 2001) after the property is placed in service. The properties are to be maintained as a residence for low or very low-income persons in compliance with the HOME Investment Partnership Program regulations. In the event UHS does not meet these conditions, the grantor can make demand for re-payment of these funds; however, the awards are, in substance, grants and, accordingly, have been recognized in full under public support in 2003 and 2002.

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2003 AND 2002

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

In September 2003, one of the buildings at Rex's Courtyards that was under renovation was destroyed by a fire. UHS and the insurance company are still negotiating the terms of the applicable insurance coverage on this property and under the builders risk policies relating to the renovation in progress at the time of the fire. As of December 31, 2003, UHS has accrued a receivable of \$946,434, the minimum amount of insurance proceeds that it expects to receive relating to the claim for recovery of the specific loss to the one building. Management is pursuing additional insurance claims of approximately \$540,000 under its builders risk policy and \$400,000 for additional damage to the other two buildings on site. The amount of such additional proceeds, if any, will be recognized in the period a settlement is reached.

Rehabilitation commitments

At December 31, 2003, UHS had outstanding rehabilitation commitments in the amount of \$277,000.

NOTE 9 - ACCRUED PAYMENTS IN LIEU OF TAXES (PILOT)

UHS is not required to pay property taxes on five of its properties that have been granted property tax exempt status. Prior to December 31, 2002, UHS had applied to the Tennessee Board of Equalization for exempt status on six other properties acquired from 1996 through 2003, under Tennessee Code Annotated §67-5-207, for exemption for properties used for low-income elderly and handicapped persons that are funded through certain loans and grants from the federal government. Under this exempt status, UHS would be required to make a payment in lieu of taxes (PILOT) to the city and county. PILOT is generally calculated as a percentage of rents or a percentage of the normal taxes.

In May 2004, UHS was notified that each of these six projects had been granted exemption from local property taxes. The Metropolitan Council approved the formula for calculating PILOT payments to be 25% of the normal property taxes. As of December 31, 2003, accrued PILOT has been recorded as a liability in the amount of \$64,949, representing 25% of the outstanding property tax for the period between the time of purchase and the beginning of exempt use through December 31, 2003. The difference between the accrued PILOT liability and the PILOT expense in the statement of functional expenses relates to pro-rata property tax amounts received at closing from prior property owners.

PILOT expense applicable to 2003 was \$16,984 (\$15,397 for 2002). The additional PILOT expense recognized in 2003 is for the period from acquisition (1996 and subsequent) through 2001.

In addition, Eastwood Courts (see Note 4) was also granted exemption from local property taxes. As of December 31, 2003, Eastwood has accrued PILOT in the amount of \$37,158, of which \$6,095 per year is applicable to 2003 and 2002. The additional expense recognized in 2003 represents PILOT applicable to the period from the date of acquisition (1999) through 2001.

URBAN HOUSING SOLUTIONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2003 AND 2002

NOTE 10 - RELATED PARTY TRANSACTIONS

In December 2001, UHS transferred property valued at \$70,000 to Mercury Court Apartments, LP, a Tennessee limited partnership (the "Partnership"), for a .10% ownership interest through its wholly-owned subsidiary, The Park Development, Inc. (the "Park"). The Park is the general partner in the Partnership. As developer of the 20-unit multifamily residential project (the "project"), UHS earned a developer fee of \$59,603 during 2003. This fee will be paid from future Partnership capital contributions, cash flow or upon disposition of the project. In addition, the Partnership has entered into an agreement with UHS, in connection with the management of the rental operations of the project. In accordance with this agreement, UHS earns 10% of the gross operating revenues received from the preceding month. For the period May 1, 2003 (date of initial occupancy) through December 31, 2003, UHS earned \$6,612 in management fees. No operating income or loss passed through to UHS from the Partnership in 2003 or 2002.

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

ADDITIONAL INFORMATION

URBAN HOUSING SOLUTIONS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2003

Federal CFDA #	Grant Number	Grant Period	Amount	1/1/03	1/1/03 - 12/31/03		(Accrued) Deferred Revenue 12/31/03
					Receipts	Expenditures	
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:							
14.191	TN43HS00004	03/01/01 - 02/28/04	\$ 250,480	\$ (6,999)	\$ 77,647	\$ 89,036	\$ (18,388)
14.191	TN43HS00005	03/01/01 - 02/28/04	124,512	(3,312)	36,137	42,708	(9,883)
14.235	• TN37B904001	07/21/00 - 07/21/03	273,750	-	28,149	30,667	(2,518)
14.235	• TN37B104001	(1)	500,000	-	21,836	35,721	(13,885)
14.235	• TN37B004001	08/01/02 - 07/31/05	250,000	-	22,524	29,640	(7,116)
14.235	• TN37B004001	03/01/03 - 02/28/06	500,000	-	300,000	305,136	(5,136)
14.854	TN43HDE00201-00	01/01/02 - 06/30/03	125,000	(8,559)	80,010	71,451	-
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:							
14.235	• N/A	09/14/99 - 09/14/02	29,717	(2,825)	2,825	-	-
14.235	• N/A	04/01/03 - 03/31/06	29,717	-	5,365	8,242	(2,877)
14.239	N/A	10/02/01 - 10/02/06	33,390	-	5,264	5,264	-
14.239	N/A	04/22/03 - 12/31/03	50,153	-	50,153	50,153	-
14.239	N/A	09/04/03 - 09/03/08	212,500	-	170,000	202,285	(32,285)
12.241	N/A	04/01/03 - 12/31/04	183,765	-	22,241	57,542	(35,301)
12.241	N/A	04/01/01 - 03/31/02	36,000	(2,135)	2,135	-	-
14.239	N/A	06/11/02 - 06/11/17	212,500	-	-	12,388	(12,388)
				\$ (23,830)	\$ 824,286	\$ 940,233	\$ (139,777)
TOTAL EXPENDITURES OF FEDERAL AWARDS							
Federal Award Expenditures by CFDA program:							
14.191	\$	131,744					
14.235		409,406					
14.854		71,451					
14.239		270,090					
14.241		57,542					
		\$	940,233				

* Considered a major program in accordance with OMB A-133.

(1) Not specified by grantor

Ratio of Presentation

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

											SUPPORTING SERVICES	
TOTAL RENTAL PROJECTS	ANTI-DRUG PROGRAM	SERVICE COORDINATOR PROGRAM	JOURNEYS OF HOPE PROGRAM	IDA PROGRAM	SEED PROGRAM	CLIENT FUND PROGRAM	INCOME GENERATION PROGRAM	GRANTS TO SUBRECIPIENTS	TOTAL RESIDENT SUPPORT PROGRAMS	TOTAL	MANAGEMENT AND GENERAL	TOTAL
\$ 1,383,447	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,623	\$ 5,623	\$ 1,389,070	\$ -	\$ 1,389,070
177,134	71,451	131,744	31,534	17,580	38,080	10,000	18,452	-	318,841	495,975	8,550	504,525
1,560,581	71,451	131,744	31,534	17,580	38,080	10,000	18,452	5,623	324,464	1,885,045	8,550	1,893,595
348,714	13,600	116,018	49,449	5,592	-	-	9,467	-	194,126	542,840	18,526	561,366
3,833	-	-	-	-	-	-	-	-	-	3,833	79	3,912
36,991	750	-	-	-	11	-	-	-	761	37,752	324	38,076
20,931	411	2,627	500	-	92	-	75	-	3,705	24,636	427	25,063
21,718	-	-	-	-	-	-	-	-	-	21,718	-	21,718
-	-	-	-	-	-	-	-	5,623	5,623	-	-	5,623
61,381	757	757	-	-	-	552	-	-	2,066	63,447	1,588	65,135
253,825	-	-	-	-	-	-	-	-	-	253,825	-	253,825
13,361	1,377	-	-	-	-	-	-	-	1,377	14,738	18	14,756
40,397	24,099	1,965	7,871	140	3,120	3,358	210	-	40,763	81,160	8,412	89,572
1,275	-	-	2,811	-	-	-	-	-	2,811	4,086	-	4,086
-	-	-	-	7,200	-	-	-	-	7,200	7,200	-	7,200
3,282	2,830	1,491	365	50	18	303	600	-	5,657	8,939	4,211	13,150
6,095	-	-	-	-	-	-	-	-	-	6,095	-	6,095
52,726	-	-	-	-	-	-	-	-	-	52,726	-	52,726
392	39	30	43	6	4	-	-	-	122	514	1,214	1,728
9,977	339	1,159	746	-	-	4,194	-	-	6,438	16,415	460	16,875
630	8,152	89	2,092	77	3,308	6,113	-	-	19,831	20,461	500	20,961
67,011	1,569	840	1,275	175	78	241	307	-	4,485	71,496	5,583	77,079
-	-	-	-	-	-	18	-	-	18	18	370	388
11,569	-	941	2,183	120	-	225	-	-	3,469	15,038	2,843	17,881
5,876	-	-	-	-	-	-	-	-	-	5,876	-	5,876
7,911	829	5,266	990	12	67	1,640	489	-	9,293	17,204	176	17,380
300,897	466	95	-	-	95	359	-	-	1,015	301,912	306	302,218
1,268,792	55,218	131,278	68,325	13,372	6,793	17,003	11,148	5,623	308,760	1,577,552	45,137	1,622,689
198,588	-	-	-	-	-	-	-	-	-	198,588	9,672	208,260
1,467,380	55,218	131,278	68,325	13,372	6,793	17,003	11,148	5,623	308,760	1,776,140	54,809	1,830,949
\$ 93,201	\$ 16,233	\$ 466	\$ (36,791)	\$ 4,208	\$ 31,287	\$ (7,003)	\$ 7,304	\$ -	\$ 15,704	\$ 108,905	\$ (46,259)	\$ 62,646

									SUPPORTING SERVICES	
VULTEE APARTMENTS	WOODLAND STREET APARTMENTS	TOTAL RENTAL PROJECTS	ANTI-DRUG PROGRAM	SERVICE COORDINATOR PROGRAM	JOURNEYS OF HOPE PROGRAM	CLIENT FUND PROGRAM	TOTAL RESIDENT SUPPORT PROGRAMS	TOTAL	MANAGEMENT AND GENERAL	TOTAL
\$ 2,373	\$ 12,600	\$ 1,170,923	\$ -	\$ -	\$ -		\$ -	\$ 1,170,923	\$ -	\$ 1,170,923
-	-	282,649	99,628	122,314	6,486	10,000	238,428	521,077	-	521,077
2,373	12,600	1,453,572	99,628	122,314	6,486	10,000	238,428	1,692,000	-	1,692,000
-	1,544	299,777	37,574	102,600	8,066		148,240	448,017	31,638	479,655
-	9	6,721		127			127	6,848	43	6,891
-	1,055	32,727	2,351	-	-		2,351	35,078	-	35,078
-	157	10,525	795	290	100		1,185	11,710	449	12,159
-	869	43,625	-	-	-		-	43,625	2,963	46,588
-	-	227,288	-	-	-		-	227,288	-	227,288
-	725	11,876	2,885	-	-		2,885	14,761	-	14,761
-	150	32,610	10,446	-	-		10,446	43,056	18,391	61,447
-	-	1,144	-	-	627		627	1,771	-	1,771
-	11	1,154	654	103	-		757	1,911	2,938	4,849
-	-	4,872	-	-	-		-	4,872	-	4,872
31	-	277	2,194	41	-		2,235	2,512	1,734	4,246
45	327	7,044	1,371	1,105	-		2,476	9,520	-	9,520
-	-	1,332	22,664	969	257		23,890	25,222	4,133	29,355
-	582	66,683	4,507	1,334	43		5,884	72,567	4,732	77,299
-	-	-	-	-	-		-	-	118	118
-	9	11,345	-	1,560	288		1,848	13,193	7,478	20,671
-	-	4,528	-	-	-		-	4,528	100	4,628
-	137	5,922	1,024	4,774	695		6,493	12,415	875	13,290
-	-	280,339	-	-	-		-	280,339	-	280,339
76	5,575	1,049,789	86,465	112,903	10,076	-	209,444	1,259,233	75,592	1,334,825
-	5,070	174,589	-	-	-	-	-	174,589	9,294	183,883
76	10,645	1,224,378	86,465	112,903	10,076	-	209,444	1,433,822	84,886	1,518,708
\$ 2,297	\$ 1,955	\$ 229,194	\$ 13,163	\$ 9,411	\$ (3,590)	\$ 10,000	\$ 28,984	\$ 258,178	\$ (84,886)	\$ 173,292

SINGLE AUDIT SECTION



KraftCPAs

Kraft Bros., Esstman, Patton & Harrell, PLLC

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Urban Housing Solutions, Inc., a Tennessee not-for-profit corporation, as of and for the year ended December 31, 2003, and have issued our report thereon dated June 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Urban Housing Solutions, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Urban Housing Solutions, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over financial reporting, which we have reported to management of Urban Housing Solutions, Inc. in a separate letter date June 17, 2004.

This report is intended solely for the information and use of the Board of Directors, management and Federal awarding agencies and the State of Tennessee and is not intended to be and should not be used by anyone other than those specified parties.

Kraft Bros., Esstman, Patton & Harrell, PLLC

Nashville, Tennessee
June 17, 2004



KraftCPAs

Kraft Bros., Esstman, Patton & Harrell, PLLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Urban Housing Solutions, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. Urban Housing Solutions, Inc.'s major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Urban Housing Solutions, Inc.'s management. Our responsibility is to express an opinion on Urban Housing Solutions, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular 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 Urban Housing Solutions, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Urban Housing Solutions, Inc.'s compliance with those requirements.

In our opinion, Urban Housing Solutions, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of the Board of Directors, management and Federal awarding agencies and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Graft Bros., Estman, Patton & Threl, PLLC

Nashville, Tennessee
June 17, 2004

URBAN HOUSING SOLUTIONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2003

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes _____ x _____ no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes _____ x _____ none reported

Noncompliance material to financial statements noted?

_____ yes _____ x _____ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes _____ x _____ no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes _____ x _____ none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

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

_____ yes _____ x _____ no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
-----------------------	---

14.235	Supportive Housing Program
--------	----------------------------

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

\$300,000

Auditee qualified as low-risk auditee?

_____ x _____ yes _____ no

URBAN HOUSING SOLUTIONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2003

Section II - Financial Statement Findings

PRIOR YEAR REPORTABLE CONDITIONS

None were reported in prior year.

URBAN HOUSING SOLUTIONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2003

Section III - Federal Award Findings and Questioned Costs

None