

THE HOUSING FUND, INC. AND SUBSIDIARY

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS,

ADDITIONAL INFORMATION

AND

INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2005 AND 2004

THE HOUSING FUND, INC. AND SUBSIDIARY

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AND

INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2005 AND 2004

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of The Housing Fund, Inc. ("THF"), formerly known as The Nashville Housing Fund, Inc., a Tennessee not-for-profit corporation, and subsidiary (collectively, the "Agency") as of September 30, 2005 and 2004, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Housing Fund, Inc. and subsidiary as of September 30, 2005 and 2004, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005, 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the above-mentioned consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. The consolidating information, pages 18 and 19, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

*KraftCPAs PLLC*

Nashville, Tennessee

December 2, 2005, except for Note 9, which is dated February 23, 2006

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,151,126	\$ 1,459,727
Investments - certificates of deposit	105,196	621,276
Accounts receivable	94,568	46,854
Governmental grants receivable	90,744	251,864
Contributions receivable	100,000	-
Accrued interest on certificates of deposit	110	695
Accrued interest on loans receivable	268,879	329,893
Down payment assistance loans receivable, less allowance for uncollectible loans of: 2005 - \$288,251; 2004 - \$302,601 - Note 2	7,014,244	7,145,066
Development loans receivable, less allowance for uncollectible loans of: 2005 - \$210,811; 2004 - \$190,661 - Note 2	7,927,203	4,755,195
Real estate development costs - Note 3	397,553	-
Property, furniture and equipment, net - Note 4	229,421	236,536
Investment in limited partnership	200,000	200,000
<b>TOTAL ASSETS</b>	<b>\$ 17,579,044</b>	<b>\$ 15,047,106</b>

LIABILITIES AND NET ASSETS

<u>LIABILITIES</u>		
Accounts payable	\$ 60,652	\$ 23,500
Accrued expenses	47,373	33,032
Deferred income	197,053	1,500
Notes payable - Note 5	8,008,666	6,685,314
<b>TOTAL LIABILITIES</b>	<b>8,313,744</b>	<b>6,743,346</b>
 <u>COMMITMENTS AND CONTINGENCIES - Notes 3 and 8</u>		
 <u>NET ASSETS</u>		
Unrestricted	9,165,300	8,303,760
Temporarily restricted	100,000	-
<b>TOTAL NET ASSETS</b>	<b>9,265,300</b>	<b>8,303,760</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 17,579,044</b>	<b>\$ 15,047,106</b>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005			2004		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS
SUPPORT AND REVENUES						
Public support:						
Federal, state and local government grants	\$ 1,936,485	\$ -	\$ 1,936,485	\$ 2,283,753	\$ -	\$ 2,283,753
Grant from financial institution	100,000	100,000	200,000	-	-	-
Contributions	22,491	-	22,491	-	-	-
Revenues:						
Service and administrative fees	138,910	-	138,910	135,317	-	135,317
Interest income:						
Loans	428,911	-	428,911	388,649	-	388,649
Other investments	17,667	-	17,667	23,578	-	23,578
Other	<u>7,915</u>	<u>-</u>	<u>7,915</u>	<u>8,945</u>	<u>-</u>	<u>8,945</u>
TOTAL SUPPORT AND REVENUES	<u>2,652,379</u>	<u>100,000</u>	<u>2,752,379</u>	<u>2,840,242</u>	<u>-</u>	<u>2,840,242</u>
EXPENSES						
Program services:						
Low-income housing assistance programs	1,568,981	-	1,568,981	1,295,933	-	1,295,933
Supporting services:						
Management and general	<u>221,858</u>	<u>-</u>	<u>221,858</u>	<u>148,578</u>	<u>-</u>	<u>148,578</u>
TOTAL EXPENSES	<u>1,790,839</u>	<u>-</u>	<u>1,790,839</u>	<u>1,444,511</u>	<u>-</u>	<u>1,444,511</u>
CHANGE IN NET ASSETS	861,540	100,000	961,540	1,395,731	-	1,395,731
NET ASSETS - BEGINNING OF YEAR	<u>8,303,760</u>	<u>-</u>	<u>8,303,760</u>	<u>6,908,029</u>	<u>-</u>	<u>6,908,029</u>
NET ASSETS - END OF YEAR	<u>\$ 9,165,300</u>	<u>\$ 100,000</u>	<u>\$ 9,265,300</u>	<u>\$ 8,303,760</u>	<u>\$ -</u>	<u>\$ 8,303,760</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005			2004		
	Program Services	Supporting Services		Program Services	Supporting Services	
	Low-Income Housing Assistance	Management and General	Totals	Low-Income Housing Assistance	Management and General	Totals
Payroll and related costs - Note 6	\$ 416,854	\$ 104,214	\$ 521,068	\$ 384,567	\$ 96,142	\$ 480,709
Provision for uncollectible loans	170,000	-	170,000	130,000	-	130,000
Amortization of down payment assistance loans - Note 2	406,127	-	406,127	299,753	-	299,753
Direct program services - related to housing programs:						
Interest	166,234	-	166,234	164,314	-	164,314
Depreciation	16,916	-	16,916	12,514	-	12,514
Advertising	21,680	-	21,680	33,022	-	33,022
Printing	240	-	240	3,759	-	3,759
Servicing fees	55,713	-	55,713	50,200	-	50,200
Counseling	96,220	-	96,220	108,140	-	108,140
Other	86,224	-	86,224	-	-	-
Office expense and miscellaneous - Note 9	70,970	85,065	156,035	65,058	31,115	96,173
Professional fees	29,829	7,457	37,286	25,623	6,406	32,029
Occupancy	31,974	25,122	57,096	18,983	14,915	33,898
	<u>\$ 1,568,981</u>	<u>\$ 221,858</u>	<u>\$ 1,790,839</u>	<u>\$ 1,295,933</u>	<u>\$ 148,578</u>	<u>\$ 1,444,511</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 961,540	\$ 1,395,731
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,916	12,514
Accrued interest added to notes payable	35,953	73,192
Provision for uncollectible loans	170,000	130,000
Amortization of down payment assistance loans - Note 2	406,127	299,753
(Increase) decrease in:		
Accounts receivable	(47,714)	(17,600)
Governmental grants receivable	161,120	(123,601)
Contributions receivable	(100,000)	-
Accrued interest receivable	61,599	(39,977)
Real estate development costs	(128,485)	-
(Decrease) increase in:		
Accounts payable	37,152	(16,340)
Accrued expenses	14,341	(4,088)
Deferred income	195,553	(57,235)
Net adjustments	<u>822,562</u>	<u>256,618</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,784,102</u>	<u>1,652,349</u>
INVESTING ACTIVITIES		
Acquisition of property and equipment	(9,801)	(242,215)
Housing down payment assistance loans made	(1,109,437)	(2,936,215)
Principal repayment on down payment assistance loans	719,132	618,544
Development loans made	(7,567,261)	(4,062,390)
Principal repayments on development loans	4,071,185	4,112,657
Purchase of investments - certificates of deposit	(105,196)	(621,276)
Sale of investments - certificates of deposit	<u>621,276</u>	<u>2,331,748</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(3,380,102)</u>	<u>(799,147)</u>
FINANCING ACTIVITIES		
Proceeds from long-term obligations	1,412,399	683,334
Advances repaid under loan participation agreements with financial institutions	-	(368,245)
Principal payments on long-term obligations	<u>(125,000)</u>	<u>(125,000)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,287,399</u>	<u>190,089</u>
INCREASE (DECREASE) IN CASH	(308,601)	1,043,291
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,459,727</u>	<u>416,436</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,151,126</u>	<u>\$ 1,459,727</u>
NONCASH INVESTING ACTIVITIES:		
Carrying value of foreclosed development loan transferred to real estate development costs - Note 3	<u>\$ 269,068</u>	<u>\$ -</u>
ADDITIONAL CASH FLOW INFORMATION:		
Interest expense paid	<u>\$ 130,281</u>	<u>\$ 91,122</u>

See accompanying notes to consolidated financial statements.

THE HOUSING FUND, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

During 2002, Laurel House Apartments GP, Inc. was organized as a for-profit corporation and is a wholly-owned subsidiary of THF. Laurel House Apartments GP, Inc. owns 1/10 of 1% as general partner of Laurel House 2001, L.P., a limited partnership, that was also organized in 2002. Laurel House 2001, L.P. was organized to acquire 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, beginning February 1, 2004 (see Note 8). The Laurel House project was funded in part through a Tax Increment Financing loan ("TIF"), provided by the THF, in the amount of \$700,000. Additional funding for the Laurel House project came from the proceeds of the sale of federal low-income housing tax credits. The general partnership interest of Laurel House Apartments GP, Inc. in the limited partnership is reported at its \$200,000 historical cost. In accordance with the Amended and Restated Limited Partnership Agreement of Laurel House 2001, L.P., the general partner has the right of first refusal to acquire the property at the end of the statutory compliance period pursuant to applicable provisions of Internal Revenue Code §42(i)(7).

Principles of consolidation

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

Contributions and support

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

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

Temporary restricted net assets at September 30, 2005, result from a contribution to be received in 2006 (time restriction).

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support (continued)

The Agency also receives grant revenue from federal, state and local agencies. Grant revenues are deferred initially and recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

Any gifts of equipment or materials are reported 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.

Investments

Investments consist of certificates of deposit with original maturities when purchased of three months or more and are stated at cost, which approximates fair value. These investments are with a financial institution in the name of the Metropolitan Development and Housing Agency ("MDHA"), which manages and invests these funds for THF under a memorandum of understanding.

Property, furniture and equipment

Property, furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the life of the lease if shorter (leasehold improvements - 20 years; computer equipment - 3 years; furniture and fixtures - 7 years).

Donated goods and services

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

Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Agency if not donated. Such services are recognized at fair value as support and expense in the period the services are performed.

Provision for uncollectible loans

A loan receivable is considered impaired when, based on current information, it is probable that all amounts of principal and interest due will not be collected according to the terms of the loan agreement. The allowance for uncollectible loans is established by charges to program services expense and is maintained at an amount which management believes adequate to absorb losses on existing loans. Uncollectible loans are charged to the allowance account in the period such determination is made.

THE HOUSING FUND, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

THF qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

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

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.

Program and supporting services

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

Housing assistance - includes a down payment assistance lending program and a community development loan program designed to assist not-for-profit and for-profit developers in increasing the supply of decent and affordable housing in middle Tennessee.

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

Allocation of functional expenses

Costs of providing the Agency's programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited. Costs that are not allocated to program services are classified as management and general.

Reclassifications

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

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005 AND 2004

NOTE 2 - LOANS RECEIVABLE

Down payment assistance loans

Down payment assistance loans to homebuyers are made from unrestricted funds and generally range from \$1,000 to \$30,000, for terms of 5 to 30 years, with interest at rates from 2% to 7%. There are also noninterest-bearing notes receivable, with balances totaling \$958,062 as of September 30, 2005 (\$1,403,616 as of September 30, 2004), that are in substance grants that are forgivable at the rate of 20% annually over a 5-year period on the anniversary of the grant, as long as the homeowner continues to own the property. Amortization of these notes amounted to \$406,127 in 2005 (\$299,753 in 2004). In addition, non-interest bearing loans made from various federal grants, in the amount of \$3,699,784 as of September 30, 2005 (1,659,530 as of September 30, 2004), are payable upon the sale of the property.

Annual principal maturities of down payment assistance loans receivable (excluding the loans that are actually grants and the loans that are due upon the sale of the property) as of September 30, 2005, are as follows:

2006	\$ 489,749	C
2007	314,219	
2008	267,495	
2009	294,745	
2010	321,617	
Thereafter	<u>956,824</u>	
	<u>\$ 2,644,649</u>	

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005 AND 2004

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

Development loans receivable

THF provides low interest rate loans to not-for-profit, government and for-profit developers for the development of affordable housing. Current loans have terms of 9 to 24 months and range from \$35,000 to \$1,950,000, with interest at rates from 3.5% to 8%, for use in constructing 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. These loans, net of allowance for uncollectible loans, totaled \$6,162,657 at September 30, 2005 (\$2,728,550 at September 30, 2004).

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. The project was completed in November 2003. (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 and including May 1, 2029. All payments will be applied first to interest, with any remaining balance applied to principal. Such payments received by THF amounted to \$70,078 in 2005 (\$0 in 2004). As of September 30, 2005, the total loan amount was \$700,000 (\$500,000 in 2004). Accrued interest on this loan was \$55,773 at September 30, 2005 (\$83,587 in 2004). In addition, THF entered into a construction bridge loan with Laurel House 2001, L.P. for \$500,000. Interest accrues monthly at the rate of 5% and was payable upon the receipt of the federal low-income tax credit proceeds or available cash flow. As of September 30, 2005, the loan amount was \$60,000 (\$500,000 in 2004). Accrued interest on the loan at September 30, 2005, amounted to \$1,500 (\$66,405 at September 30, 2004).

On September 28, 2001, THF entered into an agreement to loan Urban Housing Solutions, Inc. ("UHS"), a not-for-profit agency, a maximum of \$2,150,000 for affordable rental housing development. Interest was due monthly on the outstanding principal balance at the rate of 6.15% per annum. THF also entered into a binding agreement for each of seven financial institutions to purchase from THF, without recourse, an undivided interest in this loan in the amount of \$1,600,000. Beginning May 2003, monthly principal and interest installments are payable based on a 20-year amortization through September 2006, the date of maturity of the loan. UHS is making payments to the participating financial institutions; however, THF extended the terms of the agreement for the amount of the loan due to THF to require monthly payments of interest only through September 2006. The net loan balance on the Agency's books at September 30, 2005 and 2004, was \$550,000.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005 AND 2004

NOTE 2 - LOANS RECEIVABLE (CONTINUED)

On May 9, 2002, THF entered into an agreement to loan MDHA a maximum of \$1,300,000 for Tax Increment Financing for the Row 8.9 project developed by AHR Development, Inc. Row 8.9 consists of 29 single-family town homes. Annual payments in an amount equal to the amount of Tax Increment Proceeds from certain properties within the Phillips Jackson Redevelopment Areas are due and payable beginning May 1, 2003, and each consecutive May 1 thereafter, through and including May 1, 2024. All payments will be applied first to interest with any remaining balance applied to principal. During May 2005, THF received \$138,477 on these loans (\$130,908 in May 2004). THF had also entered into a binding agreement for each of three financial institutions to purchase from THF, without recourse, an undivided interest in this loan, of which \$800,000 was sold to the participating financial institutions. The net loan balance for this loan on the Agency's books at September 30, 2005 was \$454,546 (\$476,645 at September 30, 2004).

Annual principal maturities of development loans receivable as of September 30, 2005, are as follows:

	<u>Participating Loans to UHS and MDHA</u>			<u>Other UHS Loans and Loans to Other Developers</u>	
	<u>Total</u>	<u>Allocated to Participating Financial Institutions</u>	<u>Allocated to THF</u>	<u>Total</u>	<u>Total</u>
2006	\$ 1,408,546	\$ 836,446	\$ 572,100	\$ 2,614,774	\$ 3,186,874 C
2007	57,460	35,360	22,100	395,817	417,917 C
2008	57,460	35,360	22,100	275,298	297,398
2009	57,460	35,360	22,100	121,820	143,920
2010	57,460	35,360	22,100	1,204,896	1,226,996
Thereafter	<u>894,518</u>	<u>550,472</u>	<u>344,046</u>	<u>2,520,863</u>	<u>2,864,909</u>
	<u>\$ 2,532,904</u>	<u>\$ 1,528,358</u>	<u>\$ 1,004,546</u>	<u>\$ 7,133,468</u>	<u>\$ 8,138,014</u>

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005 AND 2004

NOTE 3 - REAL ESTATE DEVELOPMENTS COSTS

In May 2005, the Agency foreclosed on one of its development loans and repossessed the real estate. The fair value of the real estate at the foreclosure date approximated the carrying value of the foreclosed loan, and no gain or loss was recognized. The Agency is currently completing the development of the property, that will include ten single-family homes. The estimated present value of the expected cash flows from this project approximates \$10,000. As of September 30, 2005, the \$269,068 carrying value of the foreclosed loan has been transferred to real estate development costs. The project is expected to be completed in late 2006 or early 2007 at an estimated total cost of \$1.2 million.

NOTE 4 - PROPERTY, FURNITURE AND EQUIPMENT

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

	<u>2005</u>	<u>2004</u>
Leasehold improvements	\$ 231,837	\$ 228,253
Computer equipment	21,100	18,295
Furniture and fixtures	<u>18,578</u>	<u>15,166</u>
	271,515	261,714
Less: accumulated depreciation	<u>(42,094)</u>	<u>(25,178)</u>
Total	<u>\$ 229,421</u>	<u>\$ 236,536</u>

NOTE 5 - NOTES PAYABLE

Loans from various financial institutions mature in one to ten years and accrue interest at the rate of from 2.0% to 2.5% annually. Most of these loans require the accrued interest to be added to the principal balance quarterly. Certain loans require the interest to be paid quarterly. Accrued interest added to principal balances amounted to \$35,953 in 2005, and \$73,192 in 2004.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005 AND 2004

NOTE 5 - NOTES PAYABLE (CONTINUED)

A summary of notes payable to financial institutions and other lenders as of September 30, 2005 and 2004, follows:

		2005				2004		
	Original	Principal	Accrued	Total	Amount	Principal	Accrued	Total
<u>Institutional Lenders</u>	<u>Issues</u>	<u>Balance</u>	<u>Interest</u>	<u>Balance</u>	<u>To Be Drawn</u>	<u>Balance</u>	<u>Interest</u>	<u>Balance</u>
		Drawn				Drawn		
U. S. Bank	\$ 1,500,000	\$ 1,500,000	\$ 427	\$ 1,500,427	\$ -	\$ 1,000,000	\$ 417	\$ 1,000,417
SunTrust Bank	1,500,000	1,500,000	139,748	1,639,748	-	1,500,000	137,441	1,637,441
AmSouth Bank	1,200,000	1,200,000	72,557	1,272,557	-	1,200,000	72,557	1,272,557
Wachovia Bank	<sup>1</sup> 700,000	687,399	13,881	701,280	12,601	600,000	13,026	613,026
Bank of America	500,000	500,000	-	500,000	-	625,000	597	625,597
First Tennessee Bank, N.A.	500,000	500,000	67,424	567,424	-	500,000	53,584	553,584
Regions Bank of Tennessee	<sup>2</sup> 500,000	500,000	42,866	542,866	-	500,000	34,523	534,523
Pinnacle National Bank	350,000	350,000	6,240	356,240	-	100,000	3,141	103,141
The Bank of Nashville	350,000	350,000	343	350,343	-	125,000	343	125,343
GMAC Mortgage Company	300,000	100,000	18,144	118,144	200,000	100,000	15,263	115,263
James Stephen Turner Foundation	250,000	250,000	1,563	251,563	-	-	-	-
Vanderbilt University	100,000	100,000	7,032	107,032	-	100,000	4,422	104,422
Capital Bank and Trust	100,000	100,000	1,042	101,042	-	-	-	-
Total Notes Payable		\$ 7,637,399	\$ 371,267	\$ 8,008,666	\$ 212,601	\$ 6,350,000	\$ 335,314	\$ 6,685,314

1 - Includes \$200,000 formerly with SouthTrust Bank, N.A.

2 - Includes \$300,000 formerly with Union Planters Bank, N.A.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005 AND 2004

NOTE 5 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable as of September 30, 2005, are as follows:

2006	\$ 2,027,653	C
2007		-
2008		251,562
2009		-
2010		201,280
Thereafter		<u>5,528,171</u>
		<u>\$ 8,008,666</u>

NOTE 6 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Agency to concentrations of credit risk consist principally of loans receivable. Loans receivable are widely dispersed to mitigate credit risk.

Outstanding development loans to two developers comprised 45% of the balance at September 30, 2005 (four developers comprised 43% in 2004).

NOTE 7 - CONTRACTED SERVICES AND EMPLOYEE BENEFIT PLANS

Contracted Services

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

Employee Benefit Plans

The Agency participates in the MDHA retirement plan, which is a Section 401A plan administered by the Vanguard Group.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005 AND 2004

NOTE 7 - CONTRACTED SERVICES AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Employee Benefit Plans (Continued)

The plan, which is principally a defined contribution plan, also provides certain minimum defined benefits for employees who were participants in the MDHA Retirement Plan as of September 30, 2000. Employees are eligible to participate beginning the first day of the month following the date of hire. There are no required contributions by the participants; however, participants may make voluntary contributions from 0.5% to 10% of their basic compensation, and the Agency contributes 13% of participants' basic compensation. Contributions are invested in any of eleven funds offered by the Vanguard Group, as selected by the participant. Investment options and voluntary contributions may be changed daily, within limitations.

Participants are immediately vested in their voluntary contributions plus actual earnings. Participants are also immediately vested in 5.5% of the Agency's contributions. 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 qualifying 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 the plan for the year ended September 30, 2005, amounted to \$47,157 (\$45,856 for 2004), which equaled the amount of required employer contributions. Total payroll for the Agency during the fiscal year ended September 30, 2005, amounted to \$410,600 (\$379,816 for 2004).

The 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 Agency also participates in MDHA's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits all employees to defer a portion of their salary until future years. Such amounts are not available to them until termination, retirement, death or unforeseeable emergency. No contributions are made to this plan by the employer.

THE HOUSING FUND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005 AND 2004

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 is recognized on the straight-line basis and amounted to \$44,436 in 2005 (\$20,250 in 2004). The excess of the rent expense recognized over the amount paid is included in accrued expenses.

Future minimum rent payments required under the lease are as follows:

Year ending September 30:

2006	\$ 29,310
2007	29,310
2008	29,310
2009	31,342
2010	32,358
Thereafter	<u>483,459</u>
Total	<u>\$ 635,089</u>

NOTE 9 - OTHER MATTERS

In January 2006, management discovered a misappropriation of funds by an employee in the approximate amounts of \$15,000 in 2004, \$67,500 in 2005, and \$70,000 subsequent to September 30, 2005. These findings are currently under investigation by the District Attorney's office of Metropolitan Nashville and Davidson County. Management is uncertain as to whether any of these funds can be recovered. Accordingly, the 2004 and 2005 losses have been included in office expense and miscellaneous under management and general expenses for each respective year.

ADDITIONAL INFORMATION

THE HOUSING FUND, INC. AND SUBSIDIARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Grant Description	Notes	Federal CFDA#	Grant Number	Grant Period	(Accrued)	10/01/04 - 9/30/05		(Accrued)
					Deferred 10/01/2004	Receipts	Expenditures	Deferred 9/30/2005
<u>COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS</u>								
Program Assistance Agreement for Grants to Non-regulated Institutions		21.020			\$ -	\$ 450,000	\$ 257,187	\$ 192,813
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>								
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:								
HOME Investment Partnerships Program		14.239	M-20XX-MC-47-02-03	(1)	(65,000)	-	-	(65,000)
HOME Investment Partnerships Program	*	14.239	M-20XX-MC-47-02-04	(1)	-	800,000	800,000	-
HOME Investment Partnerships Program - American Dream Downpayment Initiative (ADDI) program	*	14.239	M-20XX-MC-47-02-04	(1)	-	581,054	606,798	(25,744)
Total CFDA 14.239					(65,000)	1,381,054	1,406,798	(90,744)
Hope VI		14.866	TN43URD0051199	(1)	(100,640)	110,640	10,000	-
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ (165,640)	\$ 1,941,694	\$ 1,673,985	\$ 102,069

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

(1) Not specified by grantor

Basis of Presentation

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

THE HOUSING FUND, INC. AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2005

	<u>The Housing Fund, Inc.</u>	<u>Laurel House Apartments GP, Inc.</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
ASSETS				
Cash and cash equivalents	\$ 1,151,126	\$ -	\$ -	\$ 1,151,126
Investments - certificates of deposit	105,196	-	-	105,196
Accounts receivable	94,568	-	-	94,568
Governmental grants receivable	90,744	-	-	90,744
Contributions receivable	100,000	-	-	100,000
Accrued interest on certificates of deposit	110	-	-	110
Accrued interest on loans receivable	268,879	-	-	268,879
Down payment assistance loans receivable, less allowance for uncollectible loans of \$288,251	7,014,244	-	-	7,014,244
Development loans receivable, less allowance for uncollectible loans of \$210,811	7,927,203	-	-	7,927,203
Real estate development costs	397,553	-	-	397,553
Property, furniture and equipment, net	229,421	-	-	229,421
Investment in subsidiary	200,000	-	(200,000)	-
Investment in limited partnership	-	200,000	-	200,000
	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
TOTAL ASSETS	<u>\$ 17,579,044</u>	<u>\$ 200,000</u>	<u>\$ (200,000)</u>	<u>\$ 17,579,044</u>
LIABILITIES				
Accounts payable	\$ 60,652	\$ -	\$ -	\$ 60,652
Accrued expenses	47,373	-	-	47,373
Deferred income	197,053	-	-	197,053
Notes payable	8,008,666	-	-	8,008,666
	<u>8,313,744</u>	<u>-</u>	<u>-</u>	<u>8,313,744</u>
TOTAL LIABILITIES	<u>8,313,744</u>	<u>-</u>	<u>-</u>	<u>8,313,744</u>
NET ASSETS	<u>9,265,300</u>	<u>200,000</u>	<u>(200,000)</u>	<u>9,265,300</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,579,044</u>	<u>\$ 200,000</u>	<u>\$ (200,000)</u>	<u>\$ 17,579,044</u>

THE HOUSING FUND, INC. AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	<u>The Housing Fund, Inc.</u>	<u>Laurel House Apartments GP, Inc.</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
SUPPORT AND REVENUE				
Public support:				
Federal, state and local government grants	\$ 1,936,485	\$ -	\$ -	\$ 1,936,485
Grant from financial institution	200,000	-	-	200,000
Contributions	22,491	-	-	22,491
Revenues:				
Service and administrative fees	138,910	-	-	138,910
Interest income:				
Loans	428,911	-	-	428,911
Other investments	17,667	-	-	17,667
Other	7,915	-	-	7,915
	<u>2,752,379</u>	<u>-</u>	<u>-</u>	<u>2,752,379</u>
TOTAL SUPPORT AND REVENUES				
	<u>2,752,379</u>	<u>-</u>	<u>-</u>	<u>2,752,379</u>
EXPENSES				
Program services:				
Low-income housing assistance programs	1,568,981	-	-	1,568,981
Supporting services:				
Management and general	221,858	-	-	221,858
	<u>1,790,839</u>	<u>-</u>	<u>-</u>	<u>1,790,839</u>
TOTAL EXPENSES				
	<u>1,790,839</u>	<u>-</u>	<u>-</u>	<u>1,790,839</u>
CHANGE IN NET ASSETS	961,540	-	-	961,540
NET ASSETS - BEGINNING OF YEAR	<u>8,303,760</u>	<u>200,000</u>	<u>(200,000)</u>	<u>8,303,760</u>
NET ASSETS - END OF YEAR	<u>\$ 9,265,300</u>	<u>\$ 200,000</u>	<u>\$ (200,000)</u>	<u>\$ 9,265,300</u>