UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-18550

NTS MORTGAGE INCOME FUND
(Exact name of the registrant as specified in its charter)

61-1146077	10172 Linn Station Road Louisville, Kentucky 40223
(I.R.S. Employer Identification No.)	*(Address of principal executive offices)*

Registrant's telephone number including area code:(502) 426-4800

Securities registered pursuant to Section 12(b) of the Act: None

Title of each Class: None

Name of each exchange on which registered: None

Securities registered pursuant to Section 12 (g) of the Act: None

Common Stock	None
(Title of Class)	(Name of each exchange on which registered)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 15, 2002 there were approximately 3,187,000 shares of common stock outstanding. The aggregate sales price for shares sold was approximately $63,690,000. There is no current market for these shares although it is possible that one will develop.

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Some of the statements included in this Form 10-K, particularly those included in Part I, Items 1 and 2 - Business and Properties, and Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), may be considered "forward-looking statements" because such statements relate to matters which have not yet occurred. For example, phrases such as "we anticipate", "believe" or "expect" indicate that it is possible that the event anticipated, believed or expected may not occur. Should such event not occur, then the result which we expected also may not occur or occur in a different manner, which may be more or less favorable to us. We do not undertake any obligations to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

*Any forward-looking statements included in MD&A, or elsewhere in this report, which reflect management's best judgment based on factors known, involve risks and uncertainties. Actual results could differ materially from those anticipated in any forward-looking statements as a result of a number of factors, including but not limited to those discussed below. Any forward-looking information provided by us pursuant to the safe harbor established by recent securities legislation should be evaluated in the context of these factors. See Part II - Item 7 for **Cautionary Statements**.*

PART I

Items 1 and 2 - Business and Properties

NTS Mortgage Income Fund (the "Fund"), a Delaware corporation, was formed on September 26, 1988. The Fund originally operated as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 (the "Code"), as amended from inception through December 31, 1996. The acquisition of the capital stock of NTS/Lake Forest II Residential Corporation and NTS/Virginia Development Company, which is discussed below, caused the Fund to change its tax status to a "C" Corporation under the Code as of January 1, 1997. NTS Corporation is the sponsor of the Fund (the "Sponsor"). NTS Advisory Corporation is the advisor to the Fund (the "Advisor") and NTS Residential Management Company is the manager of the operations of the Fund's wholly-owned subsidiaries ("NTS Management"). NTS Advisory and NTS Management are affiliates of and are under common control with NTS Corporation. As used in this Form 10-K the terms "we," "us" or "our," as the context requires, may refer to the Fund or its interests in properties and its joint venture.

As previously reported, on February 12, 1997, we entered into a letter of intent ("Letter of Intent") with NTS Corporation, the Sponsor of the Fund, NTS/Lake Forest II Residential Corporation, a Kentucky corporation which then was an affiliate of and under common control with NTS Corporation ("NTS/LFII"), NTS/Virginia Development Company, a Virginia corporation which then was an affiliate of and under control with NTS Corporation ("NTS/VA") and NTS Development Company, a Kentucky corporation and a wholly-owned subsidiary of NTS Corporation. The Letter of Intent contemplated the restructuring of our loans to NTS/LFII and NTS/VA, and the acquisition of control by the Fund of the Lake Forest North project in Louisville, Kentucky, and the Fawn Lake project near Fredericksburg, Virginia.

We consummated the restructuring contemplated by the Letter of Intent by acquiring all of the issued and outstanding common capital stock of NTS/LFII and NTS/VA effective as of October 1, 1997, for a nominal purchase price. The acquisition was closed pursuant to (i) an agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/LFII and its shareholders, NTS/VA and certain of its shareholders, NTS Corporation, the Advisor, and NTS Management, and (ii) an agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/VA and certain shareholders of NTS/VA and NTS Corporation.

We purchased all of the issued and outstanding common capital stock of NTS/LFII and NTS/VA for a nominal purchase price. Concurrent with this transaction, the existing indebtedness of each of NTS/LFII and NTS/VA to the Fund was converted to equity as of October 1, 1997, and we released the first mortgages in favor of the Fund on the Lake Forest North and Fawn Lake projects.

Description of Real Property

Lake Forest North

NTS/LFII is the owner and developer of the Lake Forest North single-family residential community located in Louisville, Kentucky, and will continue to own and develop the Lake Forest North project to completion and orderly sale as a wholly-owned subsidiary of the Fund. As of December 31, 2001, approximately 839 of 1,161 total lots have been developed and approximately 68% of the total projected lots to be developed have been sold.

Fawn Lake

NTS/VA is the owner and developer of the Fawn Lake single-family residential community located near Fredericksburg, Virginia, and will continue to own and develop the Fawn Lake project to completion and orderly sale as a wholly-owned subsidiary of the Fund. NTS/Residential Properties, Inc. - Virginia, a Virginia corporation and an affiliate of the Sponsor of the Fund, will continue to act as a broker and agent for NTS/VA for the sale of lots within the Fawn Lake project, and as broker and agent for approved builders in the Fawn Lake project for the sale of new homes. As of December 31, 2001, approximately 612 of 1,398 total lots have been developed and approximately 39% of the total projected lots to be developed have been sold.

Orlando Lake Forest Joint Venture

In August 1997, we entered into an Amended and Restated Joint Venture Agreement evidencing our admission as a partner in the Orlando Lake Forest Joint Venture (the "Joint Venture") effective as of August 16, 1997. The other partners in the Joint Venture are Orlando Lake Forest, Inc., Orlando Capital Corporation and OLF II Corporation, all of whom are affiliates of and are under common control with NTS Corporation, the Fund's Sponsor. The Joint Venture will continue to operate under its current legal name as the Orlando Lake Forest Joint Venture.

The Joint Venture owns the Orlando Lake Forest project, a single-family residential community located in Seminole County, Florida (near Orlando) consisting of approximately 360 acres of residential land and improvements and approximately 20 acres of commercial land. As of December 31, 2001, approximately 441 of 680 total lots have been developed and approximately 59% of the total projected lots to be developed have been sold. The Joint Venture will continue to own and develop the Orlando Lake Forest project.

We contributed to the Joint Venture as a capital contribution its interest in the principal and interest of the first mortgage loan on the Orlando Lake Forest project, and obtained a 50% interest in the Joint Venture. The NTS entities named above hold cumulatively the remaining 50% interest in the Joint Venture.

The net income or net loss of the Joint Venture is allocated based on the respective partner's percentage interest, as defined in the joint venture agreement. As of December 31, 2001, 2000 and 1999, our percentage interest was 50% and our share of the Joint Venture's net income (loss) for the years ended December 31, 2001, 2000 and 1999 was $127,802, ($3,017,862) and ($405,183), respectively.

Competition

Our properties are subject to competition from similar types of properties in the respective vicinities in which they are located. Such competition is generally for new lot sales in the vicinity or sales to current area residents who want more amenities and services. We maintain the suitability and competitiveness of our properties primarily on the basis of effective home sales, location, amenities and services provided to residents. Competition is expected to increase in the future at NTS/VA as the vicinity becomes encroached by new developments. We believe that NTS/LFII offers more amenities and services in its marketplace than its competitors. There are two developments within close proximity to NTS/LFII with similar lot prices, but neither competitor has a country club. We have not commissioned a formal market analysis of competitive conditions in any market in which we own properties, but rely upon the market condition knowledge of the employees of the Fund who manage and supervise sales for each property.

Management of Properties

The Fund, as the sole shareholder of NTS/LFII and NTS/VA, controls the ongoing operations of the Lake Forest North and Fawn Lake projects. The ongoing operation and management of the Lake Forest North and Fawn Lake projects is now conducted by NTS Management under the terms of (i) a property management agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/LFII and NTS Management for the Lake Forest North project, and (ii) a property management agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/VA and NTS Management for the Fawn Lake project (collectively, the "Management Agreements"). The Management Agreements have an initial term through December 31, 2003, subject to extension under certain conditions, and are renewable for successive six (6) year terms thereafter. Under the Management Agreements, NTS Management will be reimbursed for costs incurred in the operation and management of the Lake Forest North and Fawn Lake projects, and will accrue an incentive payment payable as provided therein.

The terms of the restructuring and of the Management Agreements were negotiated on behalf of the Fund by a committee of the Fund's Board of Directors (the "Special Committee") consisting only of the Independent Directors. The Special Committee believes that the terms of the restructuring and of the Management Agreements are as favorable to us as could have been obtained from unrelated third parties under the circumstances.

Reimbursements of approximately $2,330,000, $2,043,000 and $1,713,000 were accrued to NTS Management or an affiliate during the years ended December 31, 2001, 2000, and 1999, respectively. These expense reimbursements include direct and pro-rated costs incurred in the management and operation of NTS/LFII and NTS/VA. Such costs include compensation costs of management, accounting, professional, engineering and development, marketing and office personnel employed by NTS Management and/or certain affiliates as well as various non-payroll related operating expenses. Compensation costs are for those individuals rendering services full time and on site at the residential projects, with respect to the residential projects but who are not on site and with respect to the residential projects but who have multiple residential project responsibilities some of which may be affiliated entities of NTS Management. For services provided by individuals not on site or those with multiple residential project responsibilities, costs are pro-rated by NTS Management and allocated to the appropriate residential project in accordance with the Management Agreement. These reimbursements are included within selling, general and administrative - affiliates in the accompanying consolidated statements of operations.

In addition to the expense reimbursement noted above, NTS Management is also entitled to an overhead recovery, which is a reimbursement for overhead expenses attributable to the employees and the efforts of NTS Management under the Management Agreements, in an amount equal to 3.75% of the projects' gross cash receipts, as defined in the Management Agreements. Overhead recovery for the years ended December 31, 2001, 2000 and 1999, were approximately $494,000, $561,000 and $567,000, respectively. These amounts are classified as selling, general and administrative - affiliates in the accompanying consolidated statements of operations.

Reference is made to Item 8 - Note 8 of the Notes to Consolidated Financial Statements for a breakdown of these related party charges of NTS/LFII and NTS/VA.

There were also expense reimbursements of approximately $3,249,000, $2,644,000, $2,541,000 accrued to NTS Management or an affiliate during the years ended December 31, 2001, 2000, and 1999, respectively, for Fawn Lake Country Club and Lake Forest Country Club. Such costs include compensation costs of management, golf course maintenance, golf professional, kitchen personnel, and accounting as well as various non-payroll related operating expenses. In addition, there were overhead recovery fees of approximately $180,000, $170,000, and $0 accrued to NTS Management for overhead recovery fees at Fawn Lake Country Club and Lake Forest Country Club for the years ended December 31, 2001, 2000, and 1999. The Lake Forest Country Club expense reimbursements and overhead recovery fees were capitalized in inventory for the years ended December 31, 2001, 2000, and 1999. The Fawn Lake Country Club expense reimbursements and overhead recovery fees were capitalized in inventory for the period January 1, 2001 to March 31, 2001 and for the years ended December 31, 2000 and 1999. Beginning with April 1, 2001, the expense reimbursements and overhead recovery fees of the Fawn Lake Country Club were included with country club operations in our statement of operations.

As presented in the accompanying consolidated balance sheet as of December 31, 2001, accounts payable - affiliates of approximately $5,885,000 is owed to NTS Development Company and NTS Residential Management Company for salary and overhead reimbursements. NTS Development Company and NTS Residential Management Company have agreed to defer amounts owed to them by us as of December 31, 2001 and those amounts that will accrue during fiscal 2002 through the period ending March 31, 2003, other than as permitted by cash flows of the Fund. There can be no assurances that this level of support will continue past March 31, 2003.

The Management Agreements also call for NTS Management to potentially receive an incentive payment, as defined in the Management Agreements, equal to 10% of the net cash flows of the projects. The incentive payment will not begin accruing until after the cumulative cash flows of NTS/LFII, NTS VA and the Fund's share of the cash flow of the Joint Venture would have been sufficient to enable us to have returned to the then existing shareholders of the Fund an amount which, after adding thereto all other payments actually remitted or distributed to such shareholders of the Fund, is at least equal to the shareholders' original capital contribution. As of December 31, 2001, we had raised approximately $63,690,000 and had paid distributions of approximately $23,141,000. As of December 31, 2001, no amount had been accrued as an incentive payment in our consolidated financial statements.

Seasonal Operations

We do not consider our operations to be seasonal to any material degree.

Conflict of Interest

Because the Fund's affiliates own real estate properties other than those owned by the Fund that are or could be in competition with the Fund, potential conflicts of interest exist.

Directors

We currently have five directors, two of whom are affiliated with the Advisor and three of whom are Independent Directors. The Directors are responsible for our management and control of our affairs. However, in accordance with our Certificate of Incorporation and By-Laws, the Directors have, in the Advisory Agreement and in certain management agreements with NTS Management, delegated broad powers to the Advisor and NTS Management to administer our day-to-day operations and of our subsidiaries. The Advisor has delegated substantially all its duties to the Sponsor.

Employees

All personnel rendering services to the Fund are employees of companies affiliated with the Sponsor. We do not directly employ any persons other than the Independent Directors, the Advisor and NTS Management.

Item 3 - Legal Proceedings

None.

Item 4 - Submission of Matters to a Vote of Security Holders

We did not submit any matters to a vote of its security holders during the last quarter of the year ending December 31, 2001.

PART II

Item 5 - Market for the Registrant's Shares and Related Stockholder Matters

The issue price of the Shares was $20 each. Our Shares are freely transferable but are not listed or included for quotation on a national securities exchange. As of March 1, 2002, there were 3,206 record holders of our Shares. No dividends were declared during 2001, 2000 or 1999. The Board of Directors decided to terminate quarterly distributions for the foreseeable future effective as of the first quarter of 1997.

Item 6 - Selected Financial Data

Years ended December 31, 2001, 2000, 1999, 1998 and 1997.

	2001	2000	1999	1998	1997
Inventory	$ 47,327,572	$ 52,206,560	$ 55,438,644	$ 53,264,438	$ 51,917,990
Total assets	$ 56,052,400	$ 57,780,576	$ 65,094,003	$ 65,552,757	$ 64,184,368
Total notes payable (1)	$ 25,584,021	$ 26,329,279	$ 28,342,811	$ 28,850,539	$ 24,505,233
Net revenues	$ 3,803,761	$ 3,629,887	$ 4,520,531	$ 2,628,950	$ 4,678,937
Total expenses (2)	6,583,563	12,758,834	5,369,847	4,098,561	18,385,887
Net loss before extraordinary expense	(2,779,802)	(9,128,947)	(849,316)	(1,469,611)	(13,706,950)
Extraordinary expense (3)	--	114,156	--	--	--
Net loss	$ (2,779,802)	$ (9,243,103)	$ (849,316)	$ (1,469,611)	$ (13,706,950)
Weighted average number of shares	3,187,333	3,187,333	3,187,333	3,187,333	3,187,333
Per share of common stock:					
Loss before extraordinary expense	$ (0.87)	$ (2.86)	$ (0.27)	$ (0.46)	$ (4.30)
Extraordinary expense	--	(0.04)	--	--	--
Net loss per share	$ (0.87)	$ (2.90)	$ (0.27)	$ (0.46)	$ (4.30)
Tax loss (4)	$ (3,732,342)	$ (3,311,279)	$ (1,791,304)	$ (1,488,574)	$ (387,081)
Tax loss per share	$ (1.17)	$ (1.04)	$ (0.56)	$ (0.47)	$ (0.12)

(1) The balances presented as notes payable include notes payable to third parties and note payable to affiliates.

(2) Expenses for 2000 included an asset impairment charge in the amount of $4.5 million related to a write down of inventory at NTS/LFII (see Note 6). Also included in 2000 expenses is an asset impairment charge for inventory of $2.6 million related to the Fund's investment in an unconsolidated affiliate (see Note 3). Expenses for 1997 include an asset impairment charge in the amount of $11.6 million. This related to the Fund's acquisition of the stock of NTS/LFII and NTS/VA. Also included in the 1997 expenses is an asset impairment charge of approximately $3.7 million related to the Fund's investment in an unconsolidated affiliate.

(3) Represents a write-off of unamortized loan costs of approximately $114,000.

(4) See Note 10 of Notes to Consolidated Financial Statements for an explanation of differences between net loss and tax loss.

The above selected financial data should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Form 10-K report.

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Consolidated Financial Statements in Item 8 and the Cautionary Statements below.

Cautionary Statements

Our subsidiaries, NTS/LFII and NTS/VA, and the Joint Venture, in which we have a 50% interest, are engaged in the development and sale of residential subdivision lots, the pricing and sale of which are subject to risks generally associated with real estate development and applicable market forces beyond the control of the Fund and/or its subsidiaries, including general and local economic conditions, competition, interest rates, real estate tax rates, other operating expenses, the supply of and demand for properties, zoning laws, other governmental rules and fiscal policies, and acts of God. All of the properties owned by NTS/LFII, NTS/VA and the Joint Venture are encumbered by development loans from third party lenders which, given the nature of the risks incumbent in real estate investment and development activities as stated above, are inherently subject to default should the ability of NTS/LFII, NTS/VA, the Joint Venture and/or the Fund to make principal and interest payments under such development loans become impaired.

There is the potential for occurrences which could affect our ability to control our professional and administrative expenses. Furthermore, the debt service regarding our borrowings is variable based on current interest rates, any fluctuations in which are beyond our control. These variances could, for example, impact our projected cash and cash requirements as well as projected returns.

Liquidity and Capital Resources

Prior to October 1, 1997, our primary source of liquidity had been from the interest earned on the mortgage loans and on the temporary investments. Our current source of liquidity is primarily the ability of our subsidiaries (to which we formerly had outstanding mortgage loans) to draw upon their respective development loans. Additional liquidity is provided by net proceeds retained from residential lot closings on the sale of the properties owned by our subsidiaries and OLFJV in which we have a 50% interest. The various development loans call for principal payments ranging from 72% to 91% of gross receipts from lot sales.

Our continued cash needs have significantly reduced our cash flows. Therefore, our Board of Directors decided to terminate quarterly distributions for the foreseeable future effective as of the first quarter of 1997.

As previously reported, on February 12, 1997, we entered into a letter of intent ("Letter of Intent") with NTS Corporation, the Sponsor of the Fund, NTS/LFII, NTS/VA and NTS Development Company, a Kentucky corporation and a wholly-owned subsidiary of NTS Corporation. The Letter of Intent contemplated the restructuring of our loans to NTS/LFII and NTS/VA, and the acquisition of control by us of the Lake Forest North project in Louisville, Kentucky, and the Fawn Lake project near Fredericksburg, Virginia.

We consummated the restructuring as described in the Letter of Intent by acquiring all of the issued and outstanding common capital stock of NTS/LFII and NTS/VA effective as of October 1, 1997, for a nominal purchase price. Concurrent with this transaction, the existing indebtedness of NTS/LFII and NTS/VA to the Fund was converted to equity. The acquisition was closed pursuant to (i) an agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/LFII and its shareholders, NTS/VA and certain of its shareholders, NTS Corporation, NTS Advisory Corporation, a Kentucky corporation and Advisor to the Fund (the "Advisor") and NTS Residential Management Company, a Kentucky corporation ("NTS Management"), and (ii) an agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/VA and certain shareholders of NTS/VA and NTS Corporation. The Advisor and NTS Management are affiliates of and are under common control with NTS Corporation.

NTS/LFII is the owner and developer of the Lake Forest North single-family residential community located in Louisville, Kentucky, and will continue to own and develop the Lake Forest North project to completion and orderly sale as a wholly-owned subsidiary of the Fund.

NTS/VA is the owner and developer of the Fawn Lake single-family residential community located near Fredericksburg, Virginia, and will continue to own and develop the Fawn Lake project to completion and orderly sale as a wholly-owned subsidiary of the Fund. Fawn Lake Realty, Inc. a division of NTS/Residential Properties, Inc.- Virginia, a Virginia corporation and an affiliate of NTS Corporation, the Sponsor of the Fund, will continue to act as a broker and agent for NTS/VA for the resale of lots within the Fawn Lake project, and as broker and agent for approved builders in the Fawn Lake project for the sale of new homes.

The Fund, as the sole shareholder of NTS/LFII and NTS/VA controls the ongoing operations of the Lake Forest North and Fawn Lake projects. The ongoing operation and management of the Lake Forest North and Fawn Lake projects is conducted by NTS Management under the terms of (i) a property management agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/LFII and NTS Management for the Lake Forest North project, and (ii) a property management agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/VA and NTS Management for the Fawn Lake project (collectively, the "Management Agreements"). The Management Agreements have an initial term through December 31, 2003, subject to extension under certain conditions, and are renewable for successive six (6) year terms thereafter. Under the Management Agreements, NTS Management will be reimbursed for costs incurred in the operation and management of the Lake Forest North and Fawn Lake projects, will be entitled to an overhead recovery, and will accrue an incentive payment payable all as provided therein.

In August 1997, we entered into an Amended and Restated Joint Venture Agreement evidencing our admission as a partner in the Orlando Lake Forest Joint Venture (the "Joint Venture") effective as of August 16, 1997. The other partners in the Joint Venture are Orlando Lake Forest, Inc., Orlando Capital Corporation and OLF II Corporation, all of who are affiliates of and are under common control with the Fund's Sponsor. The Joint Venture will continue to operate under its current legal name as the Orlando Lake Forest Joint Venture.

The Joint Venture owns the Orlando Lake Forest project, a single family residential community located in Seminole County, Florida (near Orlando) consisting of approximately 360 acres of residential land and improvements and approximately 20 acres of commercial land. The Joint Venture will continue to own and develop the Orlando Lake Forest project.

We contributed to the Joint Venture as a capital contribution its interest in the principal and interest of the first mortgage loan on the Orlando Lake Forest Project, and obtained a 50% interest in the Joint Venture. The NTS entities named above hold cumulatively the remaining 50% interest in the Joint Venture.

The net income or net loss of the Joint Venture is allocated based on the respective partner's percentage interest, as defined in the joint venture agreement. As of December 31, 2001 and 2000, our percentage interest was 50%, and our investment balance in the Joint Venture was $1,557,929 and $1,329,427, respectively. Our share of the Joint Venture's net income (loss) for the years ended December 31, 2001, 2000 and 1999, was $127,802, ($3,017,862) and ($405,183), respectively.

Key elements of the Consolidated Statements of Cash Flows:

	2001	2000	1999
Net cash used in operating activities	$ (950,133)	$ (150,839)	$ (935,040)
Net cash used in investing activities	(370,521)	(522,977)	(318,148)
Net cash flows used in operating and investing activities	(1,320,654)	(673,816)	(1,253,188)
Net cash provided by financing activities	1,316,335	625,259	810,601
Net decrease in cash and cash equivalents	$ (4,319)	$ (48,557)	$ (442,587)

Operating Activity

Cash used in operating activities was approximately $950,000 for the year ended December 31, 2001. The primary components of the cash provided by operating activities were a net loss of approximately $2,780,000, and a decrease in inventory of approximately $2,034,000.

Cash used in operating activities was approximately $151,000 for the year ended December 31, 2000. The primary components of the cash used for operating activities were an increase in accounts payable of $1,338,000, which was primarily for the development of NTS/LFII and NTS/VA projects and collections on notes receivable of approximately $927,000, offset by additions to inventory of approximately $949,000.

Cash used in operating activities was approximately $935,000 for the year ended December 31, 1999. The primary components of the cash provided for operating activities were a net loss of approximately $849,000, and decrease in notes receivable of approximately $1,164,000, offset by additions to inventory of approximately $1,877,000.

Investing Activity

Cash used in investing activities was approximately $371,000 for the year ended December 31, 2001. The components of the use of cash for investing activities were additional capital contributions to an unconsolidated affiliate of $101,000 and capital additions, primarily at the NTS/LFII and NTS/VA golf operations of approximately $270,000.

Cash used in investing activities was approximately $523,000 for the year ended December 31, 2000. The components of the use of cash for investing activities were additional capital contributions to an unconsolidated affiliate of $196,000 and capital additions, primarily at the NTS/LFII and NTS/VA golf operations of approximately $327,000.

Cash used in investing activities was approximately $318,000 for the year ended December 31, 1999. The components of the use of cash were additional capital contributions to an unconsolidated affiliate of approximately $94,000 and capital additions, primarily at the NTS/LFII and NTS/VA golf operations of approximately $225,000.

Financing Activity

Cash provided by financing activities was approximately $1,316,000 for the year ended December 31, 2001. The primary components of cash provided by financing activities were the continued deferral of accounts payable to affiliates of approximately $2,075,000 which is owed to NTS Development Company and NTS Residential Management company for salary and overhead reimbursements, offset by net payments on notes payable relating to the development loans for NTS/LFII and NTS/VA projects of approximately $539,000 and net payments on notes payable to affiliate of approximately $206,000 which were used primarily to fund activities of the NTS/VA project.

Cash provided by financing activities was approximately $625,000 for the year ended December 31, 2000. The primary components of cash provided by financing activities were the continued deferral of accounts payable to affiliates of approximately $2,615,000 which is owed to NTS Development Company and NTS Residential Management Company for salary and overhead reimbursements, offset by net payments on notes payable relating to the development loans for NTS/LFII and NTS/VA projects of approximately $2,432,000 which were used primarily to fund activities of the NTS/VA project.

Cash provided by financing activities was approximately $810,000 for the year ended December 31, 1999. The primary components of the cash used by financing activities were the continued deferral of accounts payable to affiliates of approximately $1,194,000 which is owed to NTS Development Company and NTS Residential Management Company for salary and overhead reimbursements, offset by net borrowings on notes payable of approximately $5,583,000 which included approximately $6,697,000 of borrowings to repay a note payable to an affiliate and net payments of $1,114,000 relating to the development loans for NTS/LFII and NTS/VA projects.

On October 31, 2000, NTS/VA and NTS/LFII entered into a loan agreement with a financial institution for a combined principal sum of up to $18,000,000 and used approximately $5,930,000 and $10,494,000 to pay the entire principal balance of the NTS/LFII and NTS/VA loans, respectively. The loan is secured by the NTS/LFII and NTS/VA projects, a $2 million letter of credit issued by a third party lender with the NTS/VA and NTS/LFII lender stated as the beneficiary, a guarantee by us for the full $18,000,000, and a personal guarantee by J.D. Nichols for 50% of the outstanding loan balance. Once the outstanding balance on the Joint Venture's project loan is paid in full, it will be required to apply 50% of the net sales proceeds from lot sales against the outstanding loan balance on this $18,000,000 loan. The lender requires contracts on lots with gross proceeds exceeding 80% of a section's development costs before advancing funds for a newly developed section at NTS/VA. The loan is a reducing revolver and the maximum amount outstanding at the end of each year shall be as follows:

December 31, 2001	$	16,500,000
December 31, 2002	$	11,000,000
December 31, 2003	$	7,000,000
December 31, 2004	$	4,000,000

At December 31, 2001, our loan balance was approximately $15,612,000. Based on our 2002 budget, we expect to meet the maximum loan balance obligation at December 31, 2002.

NTS/LFII is also encumbered by a mortgage loan in the amount of $4,000,000 (with an outstanding balance of $1,960,000 as of December 31, 2001) from an unaffiliated lender which is secured by a first mortgage on the Lake Forest Country Club and golf course (approximately 176 acres of residential land and improvements thereon). The note bears interest at the Prime Rate + .5%, payable monthly, guaranteed by the Fund's sponsor. Principal payments totaling $300,000 are due twice a year, February through July and August through January. The primary source of principal payments will be initiation fees received.

On February 22, 2002, the Fund signed an agreement with the U.S. Department of the Interior, National Park Services, to sell approximately 456 acres of property located in Spotsylvania County, Virginia next to the Fredericksburg and Spotsylvania County Battlefields Memorial National Military Park. The property is owned by NTS/VA, a subsidiary of the Fund. The purchase price of the property is $6,100,000 and the closing for the sale of the property has been set to occur within 60 days. We estimate using approximately $5,500,000 of the sale proceeds as a payment on the development loans for the NTS/LFII and NTS/VA projects. After this payment and closing costs, we anticipate receiving approximately $444,000 which will be used for working capital purposes.

NTS Guaranty Corporation (the "Guarantor"), an affiliate of the Sponsor, has guaranteed that investors of the Fund will receive, over the life of the Fund, aggregate distributions from the Fund (from all sources) in an amount at least equal to their original capital contributions, as defined in the Fund's prospectus. As of December 31, 2001, we had raised approximately $63,690,000 and had paid distributions of $23,141,000.

The liability of the Guarantor under the above guaranty is expressly limited to its assets and its ability to draw upon a $10 million demand note receivable from Mr. J. D. Nichols, Chairman of the Board of Directors of the Sponsor. There can be no assurance that Mr. Nichols will, if called upon, be able to honor his obligation to the Guarantor. The total amounts guaranteed by the Guarantor are in excess of its net worth, and there is no assurance that the Guarantor will be able to satisfy its obligation under these guaranties. The Guarantor may in the future provide guaranties for other affiliates of the Fund.

Results of Operations for 1999, 2000 and 2001

If there has not been a material change in an item from one year to the next, we have omitted any discussion concerning that item.

Revenues

Revenue for the year ended December 31, 2001, includes approximately $11,200,000 in lot sales consisting of approximately $3,947,000 and $7,253,000 from NTS/LFII and NTS/VA, respectively. During this period 102 lots were sold for an average selling price of approximately $110,000. Additionally, revenue for the year ended December 31, 2001, includes approximately $121,000 recognized as revenue from an installment sale at NTS/VA.

On March 6, 2001, the NTS/LFII sold 26.5 acres of land to Lake Forest Fairways, LLC ("Fairways"), a limited liability company which was formed between NTS Development Company and Fairway Development, LLC (an unaffiliated third party). The initial payment was made on March 6, 2001 for $30,000 per acre for a total of $795,000. Fairways will also pay NTS/LFII at each closing of the sale of the first 100 home units, as an additional component of the purchase price for the property, the sum of $14,500 per home unit sold. The sale has been recorded using the cost recovery method and the transaction has been recorded for a total sales value of $1,715,000, consisting of the initial payment at closing for $795,000 and the gross future proceeds of $1,450,000 which are discounted to a net present value $920,000. Under the cost recovery method, no profit is recognized until cash payments by the buyer (Fairways) exceed the seller's (NTS/LFII) cost of the property sold. This unrecognized profit is offset against the receivable on the balance sheet. At December 31, 2001, the receivable balance related to this sale was approximately $413,000. The transactional values were derived from an independent appraisal performed by Integra Chapman & Bell dated January 4, 2000.

Revenue for the year ended December 31, 2000, includes approximately $13,793,000 in lot sales consisting of approximately $7,292,000 and $6,501,000 from NTS/LFII and NTS/VA, respectively. During this period 137 lots were sold for an average selling price of approximately $101,000. Additionally, revenue for the year ended December 31, 2000, includes approximately $149,000 recognized as revenue from an installment sale at NTS/VA.

Revenue for the year ended December 31, 1999, includes approximately $14,256,000 in lot sales consisting of approximately $9,250,000 and $5,006,000 from NTS/LFII and NTS/VA, respectively. During this period 165 lots were sold for an average selling price of approximately $86,400.

Management feels that the higher average selling price of lots closed for the year ended December 31, 2001 compared to 2000, is a result of developing and selling more premium lake front property at NTS/VA.

Management feels that the higher average selling price of lots closed for the year ended December 31, 2000 compared to 1999, is a result of a dominant market position at NTS/LFII in the Louisville, Kentucky market along with the developing and selling more premium golf course property at NTS/LFII.

Cost of sales for the year ended December 31, 2001, 2000 and 1999 were approximately $10,357,000, $10,600,000 and $10,027,000, respectively.

Presented below are the gross profit margins for the years ended December 31, 2001, 2000 and 1999:

	2001	2000	1999
NTS/LFII	18%	18%	24%
NTS/VA	22%	30%	40%
Combined gross profit margins	21%	24%	30%

The difference in the cost of sales percentage of NTS/LFII compared to NTS/VA and the difference in the lot sales mix will create a proportionate change in the combined gross profit margin throughout a given year. The decrease in gross profit margin is a function of a change in the estimates of sales values, development costs and absorption periods over the life of the project. The estimates are performed at the end of each fiscal year and the resulting cost of sales percentages are applied prospectively. Management assesses the basis for these annual projections at the end of each quarter and if changes in facts and circumstances warrant interim adjustments are made to the cost of sales percentages prospectively. In comparing the gross margin percentages for the year ended

December 31, 2001, 2000, and 1999, respectively, Management's estimates have changed relative to the ultimate sales values, development costs and absorption periods, and inherent economic volatility of residential real estate they now believe will be realized during the duration of the projects. Management feels that the decrease in the gross profit margin for 2001 compared to 2000 will more likely than not be a permanent decrease.

Interest income on cash equivalents and miscellaneous income includes interest income earned from short-term investments made by us with cash reserves for each of the three years in the period ended December 31, 2001, as well as interest earnings on notes receivable for the fiscal years ended December 31, 2001, 2000 and 1999.

Expenses

The expenses presented as selling, general and administrative - affiliates on the accompanying consolidated statements of operations are classified in two ways, expense recovery and overhead recovery. The expense recovery includes direct and pro-rated costs incurred in the management and operation of NTS/LFII and NTS/VA. Such costs include compensation costs of management, accounting, professional, engineering and development, marketing and office personnel employed by NTS management and/or certain of its affiliates as well as various non-payroll related operating expenses. Compensation costs are for those individuals who rendered services full time and on site at the residential projects, with respect to the residential projects but who are not on site and with respect to the residential projects but who have multiple residential projects responsibilities some of which may be affiliated entities of NTS Management. For services provided by individuals not on site or those with multiple residential project responsibilities, costs are pro-rated by NTS Management and allocated to the appropriate residential project.

Reimbursements for expense recovery of approximately $2,330,000, $2,043,000 and $1,713,000 were made to NTS Management or an affiliate during the years ended December 31, 2001, 2000 and 1999, respectively, for actual personnel, marketing and administrative costs as they relate to NTS/LFII, NTS/VA and the Fund.

Reimbursements for expense recovery increased approximately $287,000 in 2001 compared to 2000. This increase is due to an increase in sales salaries paid to sales agents employed by NTS/LFII and NTS/VA of approximately $107,000. In addition, there was an increase in sales and marketing efforts at NTS/LFII and NTS/VA of approximately $87,000.

Reimbursements for expense recovery increased approximately $330,000 in 2000 compared to 1999. This increase is due to the cost of additional finance and accounting staff of approximately $131,000 at NTS/LFII and NTS/VA, since in 1999 NTS/LFII and NTS/VA were not fully staffed. The increase is also a result of an increase of approximately $65,000 in data processing efforts associated with replacing the current management software system for NTS/LFII and NTS/VA. These efforts will continue through June 30, 2002. In addition, there was an increase in sales and marketing efforts at NTS/LFII of approximately $56,000, and an increase in sales salaries and commissions paid to sales agents employed by NTS/LFII and NTS/VA of approximately $95,000.

Selling, general and administrative expenses include directors' fees, legal, outside accounting, other investor related cost, repairs and maintenance cost.

For the years ended December 31, 2001, 2000 and 1999, the amounts incurred for selling, general and administrative expenses were approximately $1,825,000, $2,333,000 and $2,353,000, respectively. The selling, general and administrative expenses decreased approximately $508,000 in 2001 compared to 2000, primarily due to a decrease in advertisement at NTS/VA.

We have budgeted an average increase of 25% in our insurance expense upon renewal of our policies in September 2002, as compared to 2001.

Additionally, NTS Management is entitled to an overhead recovery, which is a reimbursement for overhead expenses attributable to the employees and the efforts of NTS Management under the Management Agreements, in an amount equal to 3.75% of the projects' gross cash receipts, as defined in the Management Agreements. For the years ended December 31, 2001, 2000 and 1999 overhead recovery incurred was approximately $494,000, $561,000 and $567,000, respectively.

Increases and decreases in interest expense generally correspond directly to increases and decreases in the outstanding balances of our borrowings and its subsidiaries borrowings as well as in the capitalization percentage. For the years ended December 31, 2001, 2000 and 1999, approximately $1,816,000, $2,749,000 and $2,652,000, respectively, was capitalized in inventory and approximately $68,000, $149,000 and $261,000, respectively, was expensed. The decrease in interest capitalized is primarily a result of the decrease in loan balance.

Depreciation expense relates to equipment used for development activity which is being depreciated over five to thirty-nine years. Amortization expense relates primarily to loan costs which are being amortized over the life of the related loan.

Beginning with April 1, 2001, the income and expenses of the Fawn Lake Country Club have been included in our statement of operations. This is a result of the substantial completion of the Club and the intention to sell the Club as a single asset. The Club's operations for the year ended December 31, 2000, were capitalized to inventory costs. The net impact on the results of operations was a net operating deficit of approximately $821,000 for the period April 1, 2001 to December 31, 2001.

Presented below is the condensed statement of operations for the Fawn Lake Country Club for the period April 1, 2001 to December 31, 2001:

		For the Period April 1, 2001 to December 31, 2001
Revenues		
Operating revenue	$	1,019,000
Other revenue		6,000
Total revenues		1,025,000
Expenses		
Cost of goods sold		167,000
Selling, general and administrative - affiliates		1,009,000
Selling, general and administrative		635,000
Depreciation		35,000
Total expenses		1,846,000
Net loss	$	(821,000)

Selling, general and administrative - affiliates include compensation costs of management, golf course maintenance, golf professional, kitchen personnel, and accounting as well as various non-payroll related operating expenses. Additionally, this includes an overhead recovery, which is a reimbursement to NTS Management for overhead expenses attributable to the employees and efforts of NTS Management, in an amount equal to 3.75% of the Club's gross cash receipts.

Selling, general and administrative includes landscaping, repairs and maintenance, operating lease payments, utilities, advertising and insurance.

Critical Accounting Policies

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," we recorded an impairment charge in the fourth quarter ended December 31, 2000, reducing the carrying value of inventory related to the NTS/LFII project. This determination was based upon management's most recent assessment of NTS/LFII's projection through completion of the development. The NTS/LFII projection indicated the carrying amount of the long-lived assets exceeded the expected undiscounted net cash flows to be received through the completion of the NTS/LFII project. The circumstances involved in this determination related to the increase in expected development costs to complete the NTS/LFII project. SFAS No. 121 has been superseded by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001.

The impairment charge was determined by management of the Fund utilizing a discounted cash flow model. The impairment resulted in a charge of $4,500,000 presented in the accompanying financial statements within the statements of operations line item described as "Asset Impairment Charge." We did not record any impairment charges during the year ended December 31, 2001.

Inventory is stated at the lower of cost or net realizable value. Inventory includes all direct costs of land, land development, and amenities, including interest, real estate taxes, and certain other costs incurred during the development period, less amounts charged to cost of sales. Inventory costs are allocated to individual lots sold using the relative sales values. The use of the relative sales value method to record cost of sales requires the use of estimates of sales values, development costs and absorption periods over the life of the project. Given the long-term nature of the projects, the use of estimates to determine sales values, development costs, absorption periods and inherent economic volatility of residential real estate, it is reasonably possible that such estimates could change in the near term. Any changes in estimates are accounted for prospectively over the life of the project.

U.S. Generally Accepted Accounting Principles ("GAAP") requires that investments in unconsolidated affiliates be recorded at the lower of carrying value or fair market value. The application of these principles resulted in an asset impairment charge for the year ended December 31, 2000, of $5.2 million for OLFJV, our portion being $2.6 million. This charge is included in the loss from investment in unconsolidated affiliate on the accompanying consolidated statements of operations. All estimates used in this evaluation represent management's best estimates based on the facts present at the date of such evaluations.

During April 2001, the Fawn Lake Country Club was substantially completed. As a result of our intention to sell the Club as a single asset, SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects," requires that the Club be reported separately from inventory on our balance sheets as an asset available for sale. The assets' estimated fair market value was determined to be approximately $3,000,000 and is included in property and equipment on the December 31, 2001, balance sheet.

The loan agreement permits the lender to reconsider funding of draws under certain conditions, including among others, that neither NTS/VA, NTS/LFII, nor the Fund experience a material adverse change in financial condition or creditworthiness as defined in the agreement. As a result of the asset impairment charges recognized in relation to the NTS/LFII and the Joint Venture inventories during the fourth quarter ended December 31, 2000, we were technically in violation of this provision as of December 31, 2000. We received a letter dated April 2, 2001, from the lender waiving this provision of the agreement with respect to this violation, but reserving the right to exercise this provision for future years.

No benefit for income taxes was provided during 2001, 2000 or 1999 as we have recorded a valuation allowance equal to the amount of the recorded benefit. We have determined that it is more likely than not that the net deferred tax asset will not be realized. See Note 10 to our Consolidated Financial Statements for a discussion of the components of the deferred tax asset.

During the year ended December 31, 2000 there was a write off of unamortized loan costs remaining on the previous NTS/LFII loan for approximately $114,000 which is shown as an extraordinary expense on the accompanying consolidated statements of operations. This loan was paid off in full on October 31, 2000 from borrowings on a new loan with a different lending institution. The remaining unamortized loan costs on the previous NTS/VA loan was deferred and amortized over the term of the new loan arrangement since the new loan was with the same lending institution.

Contractual Obligations and Commercial Commitments

Accounting standards require disclosure concerning our obligations and commitments to make future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees.

	Payments Due by Period				
Contractual Obligations	Total	Within One Year	Two - Three Years	Four - Five Years	After 5 Years
Long-term debt	$ 24,706,666	$ 5,596,788	$ 5,389,926	$ 9,719,540	$ 4,000,412
Capital lease obligations	$ 60,755	$ 21,832	$ 19,275	$ 13,600	$ 6,048
Operating leases (1)	$ --	$ --	$ --	$ --	$ --
Other long-term obligations	$ --	$ --	$ --	$ --	$ --
Total contractual cash obligations	$ 24,767,421	$ 5,618,620	$ 5,409,201	$ 9,733,140	$ 4,006,460

(1) We are party to numerous small operating leases for office equipment such as copiers, postage machines and fax machines, which represent an insignificant obligation.

		Amount of Commitment Expiration Per Period			
Other Commercial Commitments	Total Amounts Committed	Within One Year	Two - Three Years	Four - Five Years	Over 5 Years
Line of credit	$ 603,714	$ 603,714	$ --	$ --	$ --
Standby letters of credit and guarantees	$ 3,262,723	$ 3,262,723	$ --	$ --	$ --
Other commercial commitments (1)	$ none	$ --	$ --	$ --	$ --
Total commercial commitments	$ 3,866,437	$ 3,866,437	$ --	$ --	$ --

(1) We do not, as a practice, enter into long term purchase commitments for commodities or services. We may from time to time agree to "fee for service arrangements" which are for a term of greater than one year.

Item 7A - Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure with regard to financial instruments is changes in interest rates. Our debt instruments bear interest at both variable and fixed rates as further discussed in Note 7 of our consolidated financial statements under Item 8 of this Form 10-K. At December 31, 2001, a hypothetical 100 basis point increase in interest rates would result in an approximately $254,000 increase in interest expense. During the year ended December 31, 2001, the majority of interest expense incurred was capitalized in inventory.

Item 8 - Financial Statements and Supplementary Data

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of NTS Mortgage Income Fund:

We have audited the accompanying consolidated balance sheets of the NTS Mortgage Income Fund and subsidiaries (the Fund) (a Delaware corporation) as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Fund'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. 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 the NTS Mortgage Income Fund and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Louisville, Kentucky
March 21, 2002

NTS MORTGAGE INCOME FUND
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND 2000

		2001		2000
ASSETS				
Cash and equivalents	$	566,146	$	570,465
Membership initiation fees and other accounts receivable, net of allowance of approximately $58,000 and $88,000		1,453,796		1,312,448
Notes receivable		965,702		1,213,191
Inventory		47,327,572		52,206,560
Property and equipment, net of accumulated depreciation of approximately $1,028,000 and $745,000		3,644,161		566,008
Investment in unconsolidated affiliate		1,557,929		1,329,427
Advances to affiliates		28,052		20,252
Other assets		509,042		562,225
TOTAL ASSETS	$	56,052,400	$	57,780,576
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable and accrued expenses	$	2,800,449	$	3,195,691
Accounts payable - affiliates		5,885,112		3,809,658
Notes payable - affiliates		212,886		418,657
Mortgages and notes payable		25,371,135		25,910,622
Lot deposits		212,614		185,257
Deferred revenues		118,200		28,885
TOTAL LIABILITIES		34,600,396		33,548,770
COMMITMENTS AND CONTINGENCIES (Note 12)				
Stockholders' equity:				
Common stock, $0.001 par value, 6,000,000 shares authorized; 3,187,333 shares issued and outstanding		3,187		3,187
Additional paid-in-capital		54,163,397		54,163,397
Accumulated deficit		(32,714,580)		(29,934,778)
TOTAL STOCKHOLDERS' EQUITY		21,452,004		24,231,806
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	56,052,400	$	57,780,576

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

NTS MORTGAGE INCOME FUND
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

	2001	2000	1999
REVENUES			
Lot sales, net of discounts	$ 13,036,264	$ 13,941,968	$ 14,256,114
Cost of sales	(10,357,219)	(10,600,444)	(10,026,656)
Gross profit	2,679,045	3,341,524	4,229,458
Country Club revenue	1,024,947	--	--
Interest income on cash equivalents and miscellaneous income	99,769	288,363	291,073
NET REVENUES	3,803,761	3,629,887	4,520,531
EXPENSES			
Selling, general and administrative - affiliates	2,824,315	2,604,470	2,280,064
Selling, general and administrative	1,824,991	2,332,664	2,352,831
Interest expense	68,159	148,925	260,899
Other taxes and licenses	51,293	93,902	30,443
Depreciation and amortization expense	96,303	61,011	40,427
(Income) loss from investment in unconsolidated affiliate	(127,802)	3,017,862	405,183
Country Club operations	1,846,304	--	--
Asset impairment charge (Note 6)	--	4,500,000	--
TOTAL EXPENSES	6,583,563	12,758,834	5,369,847
Net loss before federal income tax and extraordinary expense	(2,779,802)	(9,128,947)	(849,316)
Federal income tax expense	--	--	--
Net loss before extraordinary expense	(2,779,802)	(9,128,947)	(849,316)
Extraordinary expense (Note 7)	--	114,156	--
Net loss	$ (2,779,802)	$ (9,243,103)	$ (849,316)
Per share of common stock:			
Net loss before extraordinary expense	$ (0.87)	$ (2.86)	$ (0.27)
Extraordinary expense	--	(0.04)	--
Net loss per share	$ (0.87)	$ (2.90)	$ (0.27)
Weighted average number of shares	3,187,333	3,187,333	3,187,333

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

NTS MORTGAGE INCOME FUND
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (1)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Deficit	Total
Stockholders' equity December 31, 1998	3,187,333	$ 3,187	$ 54,163,397	$ (19,842,359)	$ 34,324,225
Net loss	--	--	--	(849,316)	(849,316)
Stockholders' equity December 31, 1999	3,187,333	3,187	54,163,397	(20,691,675)	33,474,909
Net loss	--	--	--	(9,243,103)	(9,243,103)
Stockholders' equity December 31, 2000	3,187,333	3,187	54,163,397	(29,934,778)	24,231,806
Net loss	--	--	--	(2,779,802)	(2,779,802)
Stockholders' equity December 31, 2001	3,187,333	$ 3,187	$ 54,163,397	$ (32,714,580)	$ 21,452,004

(1) For the periods presented, there are no elements of other comprehensive income as defined by the Financial Accounting Standards Board, Statement of Financial Accounting Standards Statement No. 130, "Reporting Comprehensive Income."

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

NTS MORTGAGE INCOME FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (2,779,802)	$ (9,243,103)	$ (849,316)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Depreciation and amortization expense	96,303	61,011	40,427
(Income) loss from investment in unconsolidated affiliate	(127,802)	3,017,862	405,183
Asset impairment charge	--	4,500,000	--
Extraordinary charge	--	114,156	--
Changes in assets and liabilities:			
Membership initiation fees and other accounts receivable	(141,348)	93,928	478,096
Notes receivable	247,489	926,666	1,163,904
Inventory	2,033,597	(949,304)	(1,877,229)
Accounts payable and accrued expenses	(395,242)	1,337,931	(233,870)
Lot deposits	27,357	23,757	30,105
Deferred revenues	89,315	(33,743)	(92,340)
Net cash used in operating activities	(950,133)	(150,839)	(935,040)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital contribution to unconsolidated affiliate	(100,700)	(195,982)	(93,500)
Purchase of property and equipment	(269,821)	(326,995)	(224,648)
Net cash used in investing activities	(370,521)	(522,977)	(318,148)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances to affiliate	(7,800)	(20,252)	30,338
Accounts payable - affiliates	2,075,454	2,615,263	1,194,395
Proceeds from mortgages and notes payable	12,333,559	11,929,435	20,489,549
Proceeds from notes payable - affiliates	140,181	545,657	606,666
Payments on mortgages and notes payable	(12,873,046)	(14,361,624)	(14,906,985)
Payments on notes payable - affiliates	(345,952)	(127,000)	(6,696,959)
Other assets	(6,061)	43,780	93,597
Net cash provided by financing activities	1,316,335	625,259	810,601
Net decrease in cash and equivalents	(4,319)	(48,557)	(442,587)
CASH AND EQUIVALENTS, beginning of period	570,465	619,022	1,061,609
CASH AND EQUIVALENTS, end of period	$ 566,146	$ 570,465	$ 619,022

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

NTS MORTGAGE INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

Note 1 - Significant Accounting Policies

A) Organization

NTS Mortgage Income Fund (the "Fund"), a Delaware corporation, was formed on September 26, 1988. The Fund operated as a real estate investment trust (REIT) under the Internal Revenue Code of 1986 (the "Code"), as amended, from its inception through December 31, 1996. The Fund began operating as a “C” corporation under the Code for tax purposes effective January 1, 1997. NTS Corporation is the sponsor of the Fund (the "Sponsor"). NTS Advisory Corporation is the advisor to the Fund (the "Advisor"), and NTS Residential Management Company is the manager to the Fund (“NTS Management”). The Advisor and NTS Management are affiliates of and are under common control with NTS Corporation. As used in this Form 10-K the terms “we,” “us” or “our,” as the context requires, may refer to the Fund or its interests in properties and its joint venture.

Our wholly-owned subsidiaries include NTS/Lake Forest II Residential Corporation (“NTS/LFII”) and NTS/Virginia Development Company (“NTS/VA”).

NTS/LFII is in the process of developing approximately 1,161 residential lots of land located in Louisville, Kentucky into a single-family residential community (Lake Forest) and operates a country club with a championship golf course for the purpose of selling such residential lots and country club memberships. As of December 31, 2001, approximately 839 of the 1,161 residential lots have been developed and approximately 68% of the total projected lots to be developed have been sold. In addition, Lake Forest has amenities consisting of a clubhouse, pools, tennis courts, recreation fields and several lakes.

NTS/VA is in the process of developing approximately 1,398 residential lots of land located in the Chancellor district of Spotsylvania County, Virginia, approximately 60 miles south of Washington D.C., into a single-family residential community (Fawn Lake) and has completed a country club with a championship golf course for the purpose of selling such residential lots and country club memberships. As of December 31, 2001, approximately 612 of the 1,398 total lots have been developed and approximately 39% of the total projected lots to be developed have been sold. Included on the property is a 285 acre lake. In addition, Fawn Lake has amenities consisting of a clubhouse, pool, tennis courts and boat docks.

We also own a 50% interest in the Orlando Lake Forest Joint Venture (the “Joint Venture”). See Note 3 - Investment in Unconsolidated Affiliate for further information pertaining to the investment.

B) Basis of Accounting

Our records are maintained on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles ("GAAP").

C) Principles of Consolidation and Basis of Presentation

Our consolidated financial statements include the assets, liabilities, revenues and expenses of our wholly-owned subsidiaries (see Note 1A). Investments of 50% or less in affiliated companies are accounted for under the equity method. All significant intercompany transactions and balances have been eliminated.

D) Use of Estimates in the Preparation of Consolidated Financial Statements

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

E) Revenue Recognition

We recognize revenue and related costs from lot sales using the accrual method in accordance with GAAP, which is when payment has been received and title, possession and other attributes of ownership have been transferred to the buyer, and we are not obligated to perform significant activities after the sale. We generally require a minimum down payment of at least 10% of the sales price of the lot. The country clubs recognize revenue as services are performed.

F) Inventory

Inventory is stated at the lower of cost or net realizable value. Inventory includes all direct costs of land, land development, and amenities, including interest, real estate taxes, and certain other costs incurred during the development period, less amounts charged to cost of sales. Inventory costs are allocated to individual lots sold using the relative sales values. The use of the relative sales value method to record cost of sales requires the use of estimates of sales values, development costs and absorption periods over the life of the project. Given the long-term nature of the projects, the use of estimates to determine sales values, development costs, absorption periods and inherent economic volatility of residential real estate, it is reasonably possible that such estimates could change in the near term. Any changes in estimates are accounted for prospectively over the life of the project.

G) Long-Lived Assets

Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," specifies circumstances in which certain long-lived assets must be reviewed for impairment. If such review indicates that the carrying amount of an asset exceeds the sum of its expected future cash flows, the asset's carrying value may be written down to fair market value. Application of this standard during the year ended December 31, 2000, resulted in an impairment loss of $4,500,000 for the NTS/LFII project. See Note 6 - Inventory for further information pertaining to this impairment charge. Application of this standard for the year ended December 31, 2001 did not result in any impairment charges. SFAS No. 121 has been superseded by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. We will subject our financial statements to the standards of SFAS No. 144 when applicable.

H) Advertising

We expense advertising costs as incurred, which are included in selling, general and administrative in the accompanying consolidated statements of operations. Advertising expense was approximately $1,025,000, $1,535,000 and $1,523,000 during the years ended December 31, 2001, 2000 and 1999, respectively.

I) Environmental Remediation and Compliance

Environmental liabilities for remediation costs are accrued based on estimates of known environmental remediation exposures. Liabilities are recognized when they are probable and can be reasonably estimated. Environmental compliance costs are expensed as incurred. No such liabilities existed as of December 31, 2001 and 2000.

J) Statements of Cash Flows

For purposes of reporting cash flows, cash and equivalents include cash on hand and short-term, highly liquid investments with an original maturity of three (3) months or less that are readily convertible to cash.

Cash payments for interest, net of amounts capitalized, cash payments for income taxes, net of refunds and other non-cash items are as follows:

	2001	2000	1999
Interest	$ 69,758	$ 152,679	$ 296,120
Federal income taxes	$ --	$ --	$ --
Non-cash Items:			
Additions to property and equipment	$ 3,000,000	$ --	$ --

K) Segment Reporting

Our reportable operating segments include only one segment which is the development and sale of single-family residential lots.

Note 2 - Affiliations

The Fund operates under the direction of its Board of Directors who have retained NTS Management to be the sole and exclusive agent of the Fund for day-to-day control and management of the business of the Fund's subsidiaries including (a) the continued operation of NTS/LFII and NTS/VA, (b) the operations of the Lake Forest Country Club and the Fawn Lake Country Club, (c) the operations of the Lake Forest Community Association and the Fawn Lake Community Association and (d) the provision and/or sale of ancillary goods and services as selected by NTS Management with respect to any of the foregoing. The Management Agreements have an initial term through and including December 31, 2003, and automatically renew for successive six year terms unless terminated by the Fund, its subsidiaries, or NTS Management upon six months written notice. See Note 8 for further discussion of the Management Agreements. NTS Management is an affiliate of and under common control with NTS Corporation, the Fund's Sponsor. The Chairman of the Board of Directors of the Fund is also the majority shareholder of NTS Corporation and is a majority shareholder of the managing general partner in the Orlando Lake Forest Joint Venture of which the Fund is a 50% joint venture partner. NTS Advisory and NTS Management are affiliates of and are under common control with NTS Corporation.

Note 3 - Investment in Unconsolidated Affiliate

Effective August 16, 1997, we became a partner in the Joint Venture. The other partners in the Joint Venture are Orlando Lake Forest, Inc., Orlando Capital Corporation and OLF II Corporation, all of whom are affiliates of and are under common control with the Fund's Sponsor. The Joint Venture will continue to operate under its current legal name as the Orlando Lake Forest Joint Venture.

The Joint Venture owns the Orlando Lake Forest project, a single-family residential community located in Seminole County, Florida (near Orlando) consisting of approximately 360 acres of residential land and improvements and approximately 20 acres of commercial land. As of December 31, 2001, approximately 441 of 680 total lots have been development and approximately 59% of the total projected lots to be developed have been sold. The Joint Venture will continue to own and develop the Orlando Lake Forest project.

We contributed to the Joint Venture as a capital contribution its interest in the principal and interest of the first mortgage loan on the Orlando Lake Forest project, and obtained a 50% interest in the Joint Venture. The NTS entities named above hold cumulatively the remaining 50% interest in the Joint Venture.

The net income or net loss of the Joint Venture is allocated based on the respective partner's percentage interest, as defined in the joint venture agreement. As of December 31, 2001 and 2000, our percentage interest was 50%, and our investment balance in the Joint Venture was $1,557,929 and $1,329,427, respectively. Our share of the Joint Venture's net income (loss) for the years ended December 31, 2001, 2000 and 1999, was $127,802, ($3,017,862) and ($405,183), respectively.

GAAP requires that such investments be recorded at the lower of carrying value or fair market value. The application of these principles resulted in an asset impairment charge of $5.2 million in the fourth quarter of 2000, our portion being $2.6 million. All estimates used in this evaluation represent management's best estimates based on the facts present at the date of such evaluations. During the year ended 2001, the Fund and the other joint venture partners contributed as a capital contribution $201,400 to the joint venture, our portion being $100,700.

During the year ended 2000, the Fund and the other joint venture partners contributed as a capital contribution $391,964 to the joint venture, our portion being $195,982.

Presented below are approximate condensed balance sheets for the Joint Venture as of December 31, 2001 and 2000, and approximate statements of operations for the three years ended December 31, 2001, 2000 and 1999:

	December 31, 2001	December 31, 2000
Balance Sheets		
Notes receivable	$ 45,000	$ 84,000
Inventory	6,462,000	8,805,000
Other, net	287,000	242,000
Total assets	$ 6,794,000	$ 9,131,000
Mortgages and notes payable	1,006,000	4,401,000
Other liabilities	2,672,000	2,071,000
Equity	3,116,000	2,659,000
Total liabilities and equity	$ 6,794,000	$ 9,131,000

	Year Ended December 31,		
	2001	2000	1999
Statements of Operations			
Lot sales, net of discounts	$ 5,631,000	$ 3,804,000	$ 3,437,000
Cost of sales	(3,712,000)	(2,925,000)	(2,551,000)
Other expenses, net	(1,663,000)	(6,915,000)	(1,696,000)
Net income (loss)	$ 256,000	$ (6,036,000)	$ (810,000)

Note 4 - Member Initiation Fees and Other Accounts Receivable

Fawn Lake Country Club and Lake Forest Country Club membership initiation fees receivable totaled approximately $484,000 and $766,000 as of December 31, 2001 and 2000, respectively. The receivable is net of a discount of $53,000 and $66,000, respectively, recorded to allow for the present value of the membership initiation fee receivables considering the estimated timing of collections. Also included is the accounts receivable from club members for dues, use of the golf course, and use of the dining facility totaling $393,000 and $382,000 as of December 31, 2001 and 2000, respectively. This receivable is net of an allowance for doubtful accounts of $5,000 and $22,000, respectively.

Note 5 - Notes Receivable

Notes receivable are secured by a first mortgage on lots sold to individuals. The notes bear interest at the prevailing market rates at the time the lots were sold. The majority of the notes are due between five and seven years, monthly payments are based on a 30-year amortization and the balance is due at the maturity date. Notes totaling approximately $966,000 and $1,123,000 are pledged as security for notes payable to banks under certain Warehouse Line of Credit Agreements and other debt agreements as of December 31, 2001 and 2000, respectively. There were also $90,000 of notes held by NTS/VA that were not pledged as of 2000. Approximately $107,000, $348,000, $6,000, $8,000 and $492,000 of the notes receivable balance, as of December 31, 2001, are due during the years ended December 31, 2002 through 2006, respectively. Approximately $348,000 of the notes receivable balance relates to the sale of 24 lots to one builder in fiscal 1998 at NTS/VA. The $348,000 note bearing interest at the Prime Rate plus 1% is due in monthly installments commencing June 29, 2001, with any outstanding principal and interest payable in full on December 29, 2003.

Note 6 - Inventory

Inventory consists of approximately the following as of December 31, 2001:

	NTS/LFII	NTS/VA	Consolidated
Land held for future development, under development and completed lots	$ 1,682,000	$ 19,031,000	$ 20,713,000
Country club (net of membership initiation fees)	5,199,000	--	5,199,000
Amenities	1,456,000	19,960,000	21,416,000
	$ 8,337,000	$ 38,991,000	$ 47,328,000

Inventory consists of approximately the following as of December 31, 2000:

	NTS/LFII	NTS/VA	Consolidated
Land held for future development, under development and completed lots	$ 672,000	$ 23,023,000	$ 23,695,000
Country club (net of membership initiation fees)	7,720,000	11,066,000	18,786,000
Amenities	1,663,000	8,063,000	9,726,000
	$ 10,055,000	$ 42,152,000	$ 52,207,000

We capitalized in inventory approximately $1,816,000 and $2,749,000 of interest during 2001 and 2000, respectively. Interest incurred was approximately $1,884,000 and $2,898,000 for the years ended December 31, 2001 and 2000, respectively. We capitalized in inventory approximately $127,000 and $141,000 of real estate taxes during 2001 and 2000, respectively. Real estate taxes incurred was approximately $179,000 and $183,000.

Inventory for 2001, includes approximately $13,324,000, net of approximately $8,125,000 of country club membership initiation fees, of costs incurred to date for the development of the Lake Forest Country Club.

Inventory for 2000, includes approximately $28,413,000, net of approximately $9,627,000 of country club membership initiation fees, of costs incurred to date for the development of the Fawn Lake Country Club and the Lake Forest Country Club.

Pursuant to an agreement between NTS/LFII and the Lake Forest Country Club regarding the cost to develop the Country Club, NTS/LFII is to receive all initiation fees from the initial issuance of memberships to the Country Club. The remaining cost to be incurred for the current projected Country Club operating deficit for the period covered by the agreement is approximately $720,000, which is expected to be offset by member initiation fees. During 2001 and 2000 the Lake Forest Country Club operating deficit was approximately $843,000 and $492,000, respectively, and was capitalized as a cost of inventory. During the first quarter of 2001 approximately $274,000 of the Fawn Lake Country Club deficit was capitalized as a cost of inventory. During the year ended December 31, 2000, the Fawn Lake Country Club deficit was approximately $882,000, and was capitalized as a cost of inventory.

During April 2001, the Fawn Lake Country Club was substantially completed. As a result of our intention to sell the Club as a single asset, SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects," requires that the Club be reported separately from inventory on our balance sheets as an asset available for sale based on its approximate market value. The assets' estimated fair market value was determined to be approximately $3,000,000 and is included in property and equipment on the December 31, 2001 balance sheet.

Pursuant to the guidance set forth in SFAS No. 121, we recorded an impairment charge in the fourth quarter ended December 31, 2000, reducing the carrying value of inventory related to the NTS/LFII project. This determination was based upon management's most recent assessment of NTS/LFII's projection through completion of the development. The NTS/LFII projection indicated the carrying amount of the long-lived assets exceeded the expected undiscounted net cash flows to be received through the completion of the NTS/LFII project. The circumstances involved in this determination related to the increase in expected development costs to complete the NTS/LFII project.

The impairment charge was determined by management utilizing a discounted cash flow model. The impairment resulted in a charge of $4,500,000 presented in the accompanying financial statements within the statements of operations line item described as "Asset Impairment Charge."

Note 7 - Notes and Mortgage Loans Payable

Notes and mortgage loans payable consist of the following:

	2001	2000
Mortgage loan payable to a bank in the amount of $18,000,000, bearing interest at the Prime Rate + 1.0%, payable monthly, due October 31, 2005, secured by inventory of NTS/VA and NTS/LFII, generally principal payments consist of approximately 91% of the Gross Receipts from lot sales, personally guaranteed by Mr. J. D. Nichols, Chairman of the Board of the Fund's Sponsor, for 50% of the outstanding loan balance and a $2 million letter of credit from a third party lender with the beneficiary being the bank.	$ 15,611,926	$ 15,630,107
Note payable to a bank in the amount of $9,000,000, bearing interest at 8.25%, payable monthly, due November 1, 2004, secured by a Certificate of Deposit owned by NTS Financial Partnership, an affiliate of the Fund.	6,696,959	6,696,959
Mortgage loan payable to a bank in the amount of $4,000,000, bearing interest at the Prime Rate + .5%, payable monthly, due July 31, 2002, secured by the Lake Forest Country Club and golf course, principal reductions of $300,000 payable every six months, guaranteed by NTS Corporation, the Fund's Sponsor.	1,960,000	2,490,000
Warehouse Line of Credit Agreements with two banks, bearing interest at the Prime Rate + 1% and the Prime Rate + .75% , due December 15, 2002 ($101,957) and September 18, 2002 ($501,757), secured by notes receivable (see Note 5), principal payments consist of payments received from notes receivable securing the obligation. The $101,957 warehouse line of credit agreement is guaranteed by NTS Corporation.	603,714	223,871

Note payable to a bank in the amount of $1,174,800, bearing interest at the Prime Rate + .5%, secured by note receivable (see Note 5), due in monthly installments of $5,000, with any outstanding principal and accrued interest due and payable in full on December 29, 2002.	290,979	680,925
Other	207,557	188,760
	$ 25,371,135	$ 25,910,622

We anticipate seeking renewals or refinancing the debts coming due within the next twelve months with existing creditors. The Prime Rate was 4.75% and 8.5% at December 31, 2001 and 2000, respectively.

The minimum scheduled principal payments on debt outstanding at December 31, 2001 are approximately as follows:

2002	$ 6,223,000
2003	5,409,000
2004	9,733,000
2005	4,006,000
Thereafter	--
	$ 25,371,000

On October 31, 2000, NTS/VA and NTS/LFII entered into a loan agreement with a financial institution for a combined principal sum of up to $18,000,000 and used approximately $5,930,000 and $10,494,000 to pay the entire principal balance of the previous NTS/LFII and NTS/VA loans, respectively. The loan is secured by the NTS/LFII and NTS/VA projects, a $2 million letter of credit issued by a third party lender with the NTS/VA and NTS/LFII lender stated as the beneficiary, a guarantee by the Fund for the full $18,000,000, and a personal guarantee by J.D. Nichols for 50% of the outstanding loan balance. Once the outstanding balance on the Joint Venture's project loan is paid in full, it will be required to apply 50% of the net sales proceeds from lot sales against the outstanding balance on this $18,000,000 loan. The lender requires contracts on lots with gross proceeds exceeding 80% of a section's development costs before advancing funds for a newly developed section at NTS/VA. The loan is a reducing revolver and the maximum amount outstanding at the end of each year shall be as follows:

December 31, 2001	$ 16,500,000
December 31, 2002	$ 11,000,000
December 31, 2003	$ 7,000,000
December 31, 2004	$ 4,000,000

During the year ended December 31, 2000 there was a write off of unamortized loan costs remaining on the previous NTS/LFII loan for approximately $114,000 which is shown as an extraordinary expense on the accompanying consolidated statements of operations. The tax effect of this amount was not provided given our current net operating loss carryforward position. This loan was paid off in full on October 31, 2000 from borrowings on a new loan with a different lending institution. The remaining unamortized loan costs on the previous NTS/VA loan was deferred and amortized over the term of the new loan arrangement.

Note 8 - Related Party Transactions

As of December 31, 2001, the Sponsor or an affiliate owned 181,740 shares of the Fund. The Fund has entered into the following agreements with various affiliates of the Sponsor regarding the ongoing operation of the Fund.

Property Management Agreements

The ongoing operation and management of the Lake Forest North and Fawn Lake projects will be conducted by NTS Residential Management Company ("NTS Management") under the terms of (i) a property management agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/LFII and NTS Management for the Lake Forest North project, and (ii) a property management agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/VA and NTS Management for the Fawn Lake project (collectively, the "Management Agreements"). NTS Management is a wholly-owned subsidiary of NTS Development Company. NTS Development Company is a wholly-owned subsidiary of the Fund's Sponsor. The Management Agreements have an initial term through December 31, 2003, subject to extension under certain conditions, and are renewable for successive six (6) year terms thereafter. Under the Management Agreements, NTS Management will be reimbursed for costs incurred in the operation and management of the Lake Forest North and Fawn Lake projects, will be entitled to an overhead recovery, and will accrue an incentive payment payable all as provided therein.

These expense reimbursements include direct and pro-rated costs incurred in the management and operation of NTS/LFII and NTS/VA. Such costs include compensation costs of management, accounting, professional, engineering and development, marketing and office personnel employed by NTS management and/or certain of its affiliates as well as various non-payroll related operating expenses. Compensation costs are for those individuals who rendered services full time and on site at the residential projects and with respect to the residential projects, but who have multiple residential projects responsibilities some of which may be affiliated entities of NTS Management. For services provided by individuals not on site, or those with multiple residential project responsibilities, costs are pro-rated by NTS Management and allocated to the appropriate residential project. As permitted by the property management agreements, we were charged the following amounts for the year ended December 31, 2001, 2000 and 1999. These amounts are reflected in selling, general and administrative - affiliates on the accompanying consolidated statements of operations in accordance with the Management Agreements.

	2001	2000	1999
Personnel related costs:			
Finance and accounting	$ 263,000	$ 263,000	$ 131,000
Data processing	70,000	96,000	31,000
Human resources	45,000	37,000	34,000
Executive and administrative	160,000	147,000	196,000
Sales and marketing	1,328,000	1,140,000	1,045,000
Legal	57,000	39,000	37,000
Marketing	193,000	182,000	126,000
Rent	55,000	50,000	39,000
Other general and administrative	159,000	89,000	74,000
Total expense reimbursements	$ 2,330,000	$ 2,043,000	$ 1,713,000

Additionally, NTS Management is entitled to an overhead recovery, which is a reimbursement for overhead expenses attributable to the employees and the efforts of NTS Management under the Management Agreements, in an amount equal to 3.75% of the projects' gross cash receipts, as defined in the Management Agreements. Overhead recovery for the years ended December 31, 2001, 2000 and 1999, was approximately $494,000, $561,000 and $567,000, respectively. These amounts are classified with selling, general and administrative-affiliates in the accompanying consolidated statements of operations.

There were also expense reimbursements of approximately $3,249,000, $2,644,000, $2,541,000 accrued to NTS Management or an affiliate during the years ended December 31, 2001, 2000, and 1999, respectively, for Fawn Lake Country Club and Lake Forest Country Club. Such costs include compensation costs of management, golf course maintenance, golf professional, kitchen personnel, and accounting as well as various non-payroll related operating expenses. In addition, there were overhead recovery fees of approximately $180,000, $170,000, and $0 accrued to NTS Management for overhead recovery fees at Fawn Lake Country Club and Lake Forest Country Club for the years ended December 31, 2001, 2000, and 1999. The Lake Forest Country Club expense reimbursements and overhead recovery fees were capitalized in inventory for the years ended December 31, 2001, 2000, and 1999. The Fawn Lake Country Club expense reimbursements and overhead recovery fees were capitalized in inventory for the period January 1, 2001 to March 31, 2001 and for the years ended December 31, 2000 and 1999. Beginning with April 1, 2001, the expense reimbursements and recovery fees of the Fawn Lake Country Club were included with country club operations in our statement of operations.

The Management Agreements also call for NTS Management to potentially receive an incentive payment, as defined in the Management Agreements, equal to 10% of the net cash flows of the projects. The incentive payment will not begin accruing until after the cumulative cash flows of NTS/LFII, NTS VA and the Fund's share of the cash flow of the Joint Venture would have been sufficient to enable us to have returned to the then existing shareholders of the Fund an amount which, after adding thereto all other payments actually remitted or distributed to such shareholders of the Fund, is at least equal to the shareholders' original capital contribution. As of December 31, 2001, we had raised approximately $63,690,000 and had paid distributions of approximately $23,141,000. As of December 31, 2001, no amount had been accrued as an incentive payment in our consolidated financial statements.

Advances and Notes Payable Affiliates

We have received advances from an affiliate of the Fund's Sponsor, net of repayments, totaling approximately $213,000 and $419,000 as of December 31, 2001 and 2000, respectively. As of December 31, 2001 and 2000, the advances bear interest at the Prime Rate.

As presented in the accompanying consolidated balance sheet as of December 31, 2001, accounts payable - affiliates of approximately $5,885,000 is owed to NTS Development Company and NTS Residential Management Company for salary and overhead reimbursements discussed above. NTS Development Company and NTS Residential Management Company have agreed to defer amounts owed to them by us as of December 31, 2001 and those amounts that will accrue during fiscal 2002 through the period ending March 31, 2003, other than as permitted by our cash flows. Management believes that NTS Development Company and NTS Residential Management have the financial ability to defer amounts owed them by us. There can be no assurances that this level of support will continue past March 31, 2003.

Sale of Undeveloped Land

On March 6, 2001, the NTS/LFII sold 26.5 acres of land to Lake Forest Fairways, LLC ("Fairways"), a limited liability company which was formed between NTS Development Company and Fairway Development, LLC (an unaffiliated third party). The initial payment was made on March 6, 2001 for $30,000 per acre for a total of $795,000. Fairways will also pay NTS/LFII at each closing of the sale of the first 100 home units, as an additional component of the purchase price for the property, the sum of $14,500 per home unit sold. The sale has been recorded using the cost recovery method and the transaction has been recorded for a total sales value of $1,715,000, consisting of the initial payment at closing for $795,000 and the gross future proceeds of $1,450,000 which are discounted to a net present value $920,000. Under the cost recovery method, no profit is recognized until cash payments by the buyer (Fairways) exceed the seller's (NTS/LFII) cost of the property sold. This unrecognized profit is offset against the receivable on the balance sheet. At December 31, 2001, the receivable balance related to this sale was approximately $413,000. The transactional values were derived from an independent appraisal performed by Integra Chapman & Bell dated January 4, 2000.

Note 9 - Country Club Accounting

During April 2001, the Fawn Lake Country Club was substantially completed. As a result of the Fund's intention to sell the Club as a single asset, SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects" requires that the Club's operations no longer be capitalized to inventory costs upon substantial completion. Instead, the Club's results of operations have been included in the Fund's statement of operations beginning with April 1, 2001.

Presented below is the condensed statement of operations for the Fawn Lake Country Club for the period April 1, 2001 to December 31, 2001:

	For the Period April 1, 2001 to December 31, 2001
Revenues	
Operating revenue	$ 1,019,000
Other revenue	6,000
Total revenues	1,025,000
Expenses	
Cost of goods sold	167,000
Selling, general and administrative - affiliates	1,009,000
Selling, general and administrative	635,000
Depreciation	35,000
Total expenses	1,846,000
Net loss	$ (821,000)

Selling, general and administrative - affiliates include expense reimbursements of approximately $970,000 and overhead recovery fees of approximately $39,000, accrued to NTS Management or an affiliate. The expense reimbursements include compensation costs of management, golf course maintenance, golf professional, kitchen personnel, and accounting as well as various non-payroll related operating expenses. The overhead recovery fees are reimbursements to NTS Management for overhead expenses attributable to the employees and efforts of NTS Management, in an amount equal to 3.75% of the Club's gross cash receipts.

Selling, general and administrative includes landscaping, repairs and maintenance, operating lease payments, utilities, advertising and insurance.

Note 10 - Income Taxes

We recognize deferred tax assets and liabilities for the expected future tax consequence of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the Fund's book and tax bases of assets and liabilities and tax carry forwards using enacted tax rates in effect for the year in which the differences are expected to reverse. The principal tax carry forwards and temporary differences giving rise to our deferred taxes consist of tax net operating loss carry forwards, valuation allowances and differences in inventory basis for book and tax. Our deferred tax assets and liabilities as of December 31, are as follows:

	2001	2000
Deferred tax assets/liabilities		
Net operating loss carry forwards	$ 4,398,000	$ 2,775,000
Inventory	5,758,000	6,366,000
Deferred revenue	73,000	185,000
Deferred tax assets	10,229,000	9,326,000
Deferred tax liability	(1,330,000)	(1,593,000)
Valuation allowance	(8,899,000)	(7,733,000)
Total deferred tax assets/liabilities	$ --	$ --

A valuation allowance is provided when the probability that the deferred tax asset to be realized does not meet the criteria established by the Financial Accounting Standards Board. The Fund has determined, based on its history of operating losses and its expectations for the future, that it is more likely than not that the net deferred tax assets at December 31, 2001 and 2000, will not be realized. As of December 31, 2001, we have a federal net operating loss carryforward of approximately $11,585,000 expiring during 2012, 2013, 2014, 2015 and 2016.

A reconciliation of the statutory to the effective rate of the Fund for the years ended December 31, is as follows:

	2001	2000
Tax benefit using statutory rate	$ 945,000	$ 3,075,000
Valuation allowance	(1,166,000)	(3,118,000)
Other	221,000	43,000
Income tax expense (all deferred)	$ --	$ --

Substantially all of the difference between the tax benefit calculated at the statutory rate and the tax provision provided on the accompanying statements of operations is due to the creation of a valuation allowance on previously recorded deferred tax assets.

Note 11 - Financial Instruments

The book values of cash and equivalents, trade receivables and trade payables are considered to be representative of their respective fair values because of the immediate or short-term maturity of these financial instruments. The fair value of our notes receivable and debt instruments approximated the book value because a substantial portion of the underlying instruments are variable rate notes.

Note 12 - Commitments and Contingencies

The Fund, as an owner of real estate, is subject to various environmental laws of federal, state and local governments. Compliance by the Fund with existing laws has not had a material adverse effect on our financial condition and results of operations. However, we cannot predict the impact of new or changed laws or regulations on its current properties or on properties that it may acquire in the future.

We do not believe there is any litigation threatened against us other than routine litigation arising out of the ordinary course of business, some of which is expected to be covered by insurance, none of which is expected to have a material adverse effect on the our consolidated financial statements. We believe we have adequate insurance. However, due to the recent event on September 11, 2001 affecting the insurance industry, we are unable to determine at what price we will be able to renew our insurance coverage when the policies expire in September 2002, or if the coverage available will be adequate.

NTS/LFII and NTS/VA have various letters of credit outstanding to governmental agencies and utility companies totaling approximately $2,351,000 and $2,235,000 as of December 31, 2001 and 2000, respectively. The primary purpose of these documents is to ensure that the work at the developments is completed in accordance with the construction plans as approved by the appropriate governmental agency or utility company.

It is estimated that development of the remaining homeowners association amenities at the Lake Forest North project will be substantially completed by November 2002. Based on engineering studies and projections, NTS/LFII will incur additional costs, excluding interest, of approximately $925,000 during 2002 to complete the homeowners' association amenities.

It is estimated that the homeowners' association amenities at the Fawn Lake project will be substantially completed by December 2008. Based on engineering studies and projections, NTS/VA will incur additional costs, excluding interest, of approximately $1,070,000 to complete the homeowners' association amenities for the project. These costs are estimated to be incurred as follows: $200,000 for 2002, $350,000 for 2003, $0 for 2004, $50,000 for 2005, $420,000 for 2006, $0 for 2007, and $50,000 for 2008.

Note 13 - Guaranties to the Fund

NTS Guaranty Corporation (the "Guarantor"), an affiliate of the Sponsor, has guaranteed that investors of the Fund will receive, over the life of the Fund, aggregate distributions from the Fund (from all sources) in an amount at least equal to their Original Capital Contributions, as defined in the Fund's Prospectus. As of December 31, 2001, we had raised approximately $63,690,000 and had paid distributions of approximately $23,141,000.

The liability of the Guarantor under the above guaranty is expressly limited to its assets and its ability to draw upon a $10 million demand note receivable from Mr. J.D. Nichols, Chairman of the Board of Directors of the Sponsor. There can be no assurance that Mr. Nichols will, if called upon, be able to honor his obligation to the Guarantor. The total amounts guaranteed by the Guarantor are in excess of its net worth, and there is no assurance that the Guarantor will be able to satisfy its obligation under these guaranties. The Guarantor may in the future provide guaranties for other affiliates of the Fund.

Note 14 - Unaudited Quarterly Financial Data

2001	March 31	June 30	September 30	December 31	Total
Net revenues	$ 605,549	$ 1,126,054	$ 1,010,267	$ 1,061,891	$ 3,803,761
Total expenses	1,300,187	1,649,976	2,022,014	1,611,386	6,583,563
Loss before federal income tax	(694,638)	(523,922)	(1,011,747)	(549,495)	(2,779,802)
Federal income tax	--	--	--	--	--
Net loss	(694,638)	(523,922)	(1,011,747)	(549,495)	(2,779,802)
Net loss per share	$ (0.22)	$ (0.16)	$ (0.32)	$ (0.17)	$ (0.87)

2000	March 31	June 30	September 30	December 31	Total
Net revenues	$ 551,293	$ 1,070,201	$ 913,824	$ 1,094,569	$ 3,629,887
Total expenses	1,159,478	1,557,721	1,522,475	8,519,160 (1)	12,758,834
Loss before federal income tax and extraordinary expense	(608,185)	(487,520)	(608,651)	(7,424,591)	(9,128,947)
Federal income tax	--	--	--	--	--
Net loss before extraordinary expense	(608,185)	(487,520)	(608,651)	(7,424,591)	(9,128,947)
Extraordinary expense	--	--	--	114,156	114,156
Net loss after extraordinary expense	$ (608,185)	$ (487,520)	$ (608,651)	$ (7,538,747)	$ (9,243,103)
Per share of common stock:					
Net loss before extraordinary expense	$ (0.19)	$ (0.15)	$ (0.19)	$ (2.33)	$ (2.86)
Extraordinary expense	--	--	--	(0.04)	(0.04)
Net loss per share	$ (0.19)	$ (0.15)	$ (0.19)	$ (2.37)	$ (2.90)

(1) Includes a write-down of impaired inventory of approximately $4,500,000 at NTS/LFII and a write-down of the Fund's investment in its unconsolidated affiliate of approximately $2,600,000.

Note 15 - Subsequent Event

On February 22, 2002, the Fund signed an agreement with the U.S. Department of the Interior, National Park Services, to sell approximately 456 acres of property located in Spotsylvania County, Virginia next to the Fredericksburg and Spotsylvania County Battlefields Memorial National Military Park. The property is owned by NTS/VA, a subsidiary of the Fund. The purchase price of the property is $6,100,000 and the closing for the sale of the property has been set to occur within 60 days.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Orlando Lake Forest Joint Venture:

We have audited the accompanying balance sheets of Orlando Lake Forest Joint Venture (a Florida general partnership) as of December 31, 2001 and 2000, and the related statements of operations, partners' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of Orlando Lake Forest Joint Venture'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. 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 Orlando Lake Forest Joint Venture as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Louisville, Kentucky
March 21, 2002

ORLANDO LAKE FOREST JOINT VENTURE
BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND 2000

	2001	2000
ASSETS		
Cash and equivalents	$ 162,284	$ 56,283
Notes receivable	44,829	83,901
Inventory	6,461,740	8,804,830
Property and equipment, net of accumulated depreciation of approximately $93,000 and $57,000	65,609	86,902
Other assets	60,032	99,385
TOTAL ASSETS	$ 6,794,494	$ 9,131,301
LIABILITIES AND PARTNERS' EQUITY		
Accounts payable and accrued expenses	$ 475,406	$ 461,702
Accounts payable - affiliates	2,133,985	1,256,551
Notes payable	1,006,246	4,401,065
Lot deposits	63,000	76,500
Deferred revenues	--	31,630
Other liabilities	--	245,000
TOTAL LIABILITIES	3,678,637	6,472,448
COMMITMENTS AND CONTINGENCIES (Note 6)		
TOTAL PARTNERS' EQUITY	3,115,857	2,658,853
TOTAL LIABILITIES AND PARTNERS' EQUITY	$ 6,794,494	$ 9,131,301

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

ORLANDO LAKE FOREST JOINT VENTURE
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	2001	2000	1999
REVENUES			
Lot sales, net of discounts	$ 5,631,130	$ 3,803,805	$ 3,437,035
Cost of sales	(3,712,107)	(2,925,259)	(2,550,607)
Gross profit	1,919,023	878,546	886,428
Interest and other income	73,002	114,923	37,950
NET REVENUES	1,992,025	993,469	924,378
EXPENSES			
Selling, general and administrative - affiliates	754,455	781,873	741,428
Selling, general and administrative	925,363	925,180	903,259
Interest expense	20,992	89,025	72,702
Depreciation and amortization expense	35,611	33,116	17,355
Asset impairment charge (Note 3)	--	5,200,000	--
TOTAL EXPENSES	1,736,421	7,029,194	1,734,744
Net income (loss)	$ 255,604	$ (6,035,725)	$ (810,366)

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

ORLANDO LAKE FOREST JOINT VENTURE
STATEMENTS OF PARTNERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2000, 2000 AND 1999 (1)

	Partners' Equity
Partners' equity December 31, 1998 (unaudited)	$ 8,925,982
Net loss	(810,366)
Capital contributions	187,000
Partners' equity December 31, 1999	8,302,616
Net loss	(6,035,725)
Capital contributions	391,962
Partners' equity December 31, 2000	2,658,853
Net income	255,604
Capital contributions	201,400
Partners' equity December 31, 2001	$ 3,115,857

(1) For the periods presented, there are no elements of other comprehensive income as defined by the Financial Accounting Standards Board, Statement of Financial Accounting Standards Statement No. 130, "Reporting Comprehensive Income."

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

ORLANDO LAKE FOREST JOINT VENTURE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 255,604	$ (6,035,725)	$ (810,366)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization expense	35,611	33,116	17,355
Asset impairment charge	--	5,200,000	--
Changes in assets and liabilities:			
Accounts receivable	--	3,219	17,523
Notes receivable	39,072	212,248	254,123
Inventory	2,387,443	777,756	(260,996)
Other Assets	--	159	8,054
Accounts payable	13,704	(142,685)	112,793
Lot deposits	(13,500)	(17,950)	33,900
Other liabilities	(276,630)	(225,000)	(215,236)
Net cash provided by (used for) operating activities	2,441,304	(194,862)	(842,850)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(14,318)	(65,419)	(22,459)
Net cash used for investing activities	(14,318)	(65,419)	(22,459)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable	761,815	2,156,694	2,542,675
Payments on notes payable	(4,156,634)	(3,054,787)	(2,566,758)
Accounts payable - affiliates	877,434	742,008	508,164
Capital contribution	201,400	391,962	187,000
Loan costs	(5,000)	--	(51,330)
Net cash provided by (used for) financing activities	(2,320,985)	235,877	619,751
Net increase (decrease) in cash and equivalents	106,001	(24,404)	(245,558)
CASH AND EQUIVALENTS, beginning of period	56,283	80,687	326,245
CASH AND EQUIVALENTS, end of period	$ 162,284	$ 56,283	$ 80,687

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

ORLANDO LAKE FOREST JOINT VENTURE
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

Note 1 - Summary of Significant Accounting Policies

A) Organization

Orlando Lake Forest Joint Venture ("OLFJV") was organized on March 16, 1987 as a Florida general partnership. In August 1997, NTS Mortgage Income Fund (the "Fund") entered into an Amended and Restated Joint Venture Agreement evidencing the Fund's admission as a partner in OLFJV effective August 16, 1997. The other partners in OLFJV are Orlando Lake Forest, Inc., Orlando Capital Corporation and OLF II Corporation, all of whom are affiliates of and are under common control with NTS Corporation, the Fund's sponsor. The terms "we," "us" or "our," as the context requires, may refer to the OLFJV or its interests in this property.

OLFJV owns the Orlando Lake Forest project, a single-family residential community located in Seminole County, Florida (near Orlando) consisting of approximately 360 acres of residential land and improvements and approximately 20 acres of commercial land. OLFJV will continue to own and develop the Orlando Lake Forest project.

The Fund contributed to OLFJV as a capital contribution its interest in the principal and interest of the first mortgage loan on the Orlando Lake Forest project, and obtained a 50% interest in the OLFJV. The NTS entities named above hold cumulatively the remaining 50% interest in OLFJV.

B) Basis of Accounting

OLFJV's records are maintained on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles ("GAAP").

C) Use of Estimates in Preparation of Financial Statements

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

D) Revenue Recognition

OLFJV recognizes revenue and related costs from lot sales using the accrual method in accordance with GAAP, which is when payment has been received and title, possession and other attributes of ownership have been transferred to the buyer, and OLFJV is not obligated to perform significant activities after the sale. OLFJV generally requires a minimum down payment of at least 10% of the sales price of the lot.

E) Inventory

Inventory is stated at the lower of cost or net realizable value. Inventory includes all direct costs of land, land development, and amenities, including interest, real estate taxes, and certain other costs incurred during the development period, less amounts charged to cost of sales. Inventory costs are allocated to individual lots sold using the relative sales values. The use of the relative sales value method to record cost of sales requires the use of estimates of sales values, development costs and absorption periods over the life of the project. Given the long-term nature of the project, the use of estimates to determine sales values, development costs, absorption periods and inherent economic volatility of residential real estate, it is reasonably possible that such estimates could change in the near term. Any changes in estimates are accounted for prospectively over the life of the project.

F) Long-Lived Assets

Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," specifies circumstances in which certain long-lived assets must be reviewed for impairment. If such review indicates that the carrying amount of an asset exceeds the sum of its expected future cash flows, the asset's carrying value may be written down to fair market value. Application of this standard during the year ended December 31, 2000, resulted in an impairment loss of $5.2 million, which was primarily a result of management's extension of the estimated life of the project for one year. See Note 3 - Inventory, for further information pertaining to this impairment charge. SFAS No. 121 has been superseded by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. We will subject our financial statements to the standards of SFAS No. 144 when applicable.

G) Advertising

OLFJV expenses advertising costs as incurred, which are included in selling, general and administrative in the accompanying statements of operations. Advertising expense was approximately $608,000, $529,000 and $444,000 during the years ended December 31, 2001, 2000 and 1999, respectively.

H) Environmental Remediation and Compliance

Environmental liabilities for remediation costs are accrued based on estimates of known environmental remediation exposures. Liabilities are recognized when they are probable and can be reasonably estimated. Environmental compliance costs are expensed as incurred. No such liabilities existed as of December 31, 2001 and 2000.

I) Statements of Cash Flows

For purposes of reporting cash flows, cash and equivalents include cash on hand and short-term, highly liquid investments with an original maturity of three (3) months or less that are readily convertible to cash.

Cash payments for interest, net of amounts capitalized are as follows:

	2001	2000	1999
Interest	$ 26,696	$ 58,853	$ 42,820

J) Tax Status

OLFJV has received a ruling from the Internal Revenue Service stating that the Partnership is classified as a general partnership for federal income tax purposes. As such, OLFJV makes no provision for income taxes. The taxable income or loss is passed through to the holders of the partnership Interest for inclusion on their individual income tax returns.

K) Segment Reporting

OLFJV's reportable operating segments include only one segment that is the development and sale of single-family residential lots.

Note 2 - Notes Receivable

Notes receivable are secured by a first mortgage on lots sold to individuals. The notes bear interest at the prevailing market rates at the time the lots were sold. The majority of the notes are due between five and seven years, monthly payments are based on a 30-year amortization and the balance is due at the maturity date. As of December 31, 2001, notes totaling approximately $45,000, are pledged as security for notes payable to a bank under a Warehouse Line of Credit Agreement are due during the year ended December 31, 2002.

Note 3 - Inventory

Inventory consists approximately of the following as of December 31:

	2001	2000
Land held for future development, under development and completed lots	$ 625,000	$ 3,129,000
Amenities	5,837,000	5,676,000
	$ 6,462,000	$ 8,805,000

OLFJV capitalized in inventory approximately $348,000 and $560,000 of interest and real estate taxes during 2001 and 2000, respectively. Interest and real estate taxes incurred were approximately $438,000 and $770,000 for the years ended December 31, 2001 and 2000, respectively.

Pursuant to the guidance set forth in SFAS No. 121, the OLFJV recorded an impairment charge in the fourth quarter ended December 31, 2000, reducing the carrying value of inventory related to the OLFJV project. This determination was based upon management's most recent assessment of OLFJV's projection through completion of the development. The OLFJV projection indicated the carrying amount of the long-lived assets exceeded the expected undiscounted net cash flows to be received through the completion of the OLFJV project. The circumstances involved in this determination related to the increase in the expected life of the OLFJV project.

The impairment charge was determined by management of the OLFJV utilizing a discounted cash flows model. The impairment resulted in a charge of $5,200,000 presented in the accompanying financial statements within the statements of operations line item described as "Asset Impairment Charge."

Note 4 - Notes and Mortgage Loans Payable

Notes and mortgage loans payable consist of the following:

	2001	2000
Mortgage loan payable to a bank in the amount of $5,500,000, bearing interest at the Prime Rate + .5%, due on demand with 180 days written notice, secured by inventory of OLFJV and a $300,570 letter of credit, generally principal payments consist of approximately 41% of the Gross Receipts of lot sales.	$ 911,049	$ 2,637,644
Mortgage loan payable to a bank in the amount of $3,100,000, bearing interest a the Prime Rate + .5%, due September 30, 2002, secured by inventory of OLFJV and a $300,570 letter of credit, generally principal payments consist of approximately 31% of the Gross Receipts of lot sales.	--	1,157,706

Mortgage loan payable to a bank in the amount of $500,000, bearing interest at the Prime Rate, due June 30, 2001, guaranteed by Mr. J. D. Nichols, NTS Corporation and NTS Mortgage Income Fund.	--	349,677
Note payable to a bank in the amount of $84,500, bearing interest at the Prime Rate + 1%, due July 18, 2001, secured by inventory of OLFJV, guaranteed by Mr. J. D. Nichols and NTS Development Company.	--	84,500
Warehouse Line of Credit Agreements with a bank, bearing interest at the Prime Rate + 1%, secured by notes receivable, principal payments consist of payments received from notes receivable securing the obligation, due December 15, 2002.	44,829	116,880
Other	50,368	54,658
	$ 1,006,246	$ 4,401,065

OLFJV anticipates seeking renewals or refinancing the debts coming due within the next twelve months with existing creditors. The Prime Rate was 4.75% and 9.5% at December 31, 2001 and 2000, respectively.

The minimum scheduled principal payments on debt outstanding at December 31, 2001 are approximately as follows:

2002	$ 977,000
2003	19,000
2004	10,000
	$ 1,006,000

Per the mortgage loan agreement, the $5.5 million facility is due on demand within 180 days of written notice. OLFJV understands that the bank has the legal right to demand this facility at any time. However, OLFJV is in compliance with the repayment hurdle and the bank has indicated to management that no demand of the facility appears imminent.

Note 5 - Financial Instruments

The book values of cash and equivalents, trade receivables and trade payables are considered to be representative of their respective fair values because of the immediate or short-term maturity of these financial instruments. The fair value of our notes receivable and debt instruments approximated the book value because a substantial portion of the underlying instruments are variable rate notes.

Note 6 - Commitments and Contingencies

OLFJV entered in to an agreement with Morrison Homes of Florida, Inc. ("Morrison") effective August 31, 2001 for the sale of approximately 60 residential lots for a total base purchase price of $3,902,000. The first closing phase of 7 lots shall occur within 15 days after OLFJV completes the development of the land. Each subsequent closing phase shall occur quarterly beginning 90 days following the initial closings. OLFJV anticipates the first closing phase to occur in the second quarter of 2002. OLFJV will recognize the revenue related to this agreement as each lot is sold.

OLFJV entered into an agreement with Morrison effective March 1999 for the sale of approximately 43 residential lots with options for additional lot sales up to a total of approximately 94 lots at a market price agreed to by OLFJV and Morrison. The first six lots closed on December 15, 1999, 13 lots closed during the year ended December 31, 2000, and 24 lots closed during the year ended December 31, 2001 for a total of 43 lots. On August 31, 2001, there was an addendum to this agreement to exercise Morrison's option to purchase 31 lots beginning in the second quarter of 2002 and continuing in quarterly phases. OLFJV recognizes revenue related to this agreement as each lot is sold.

OLFJV does not believe there is any litigation threatened against OLFJV other than routine litigation arising out of the ordinary course of business, some of which is expected to be covered by insurance, none of which is expected to have a material adverse effect on the consolidated financial statements of OLFJV.

Note 7 - Related Party Transactions

A) Selling, General and Administrative - Affiliates

The expenses presented as selling, general and administrative - affiliates are classified in two ways, expense recovery and overhead recovery. The expense recovery includes compensation costs of management, accounting, professional, development marketing and office personnel employed by NTS Management as well as various non-payroll related operating expenses.

Expense recovery of approximately $542,000, $639,000 and $619,000 accrued to NTS Management or an affiliate during the years ended December 31, 2001, 2000 and 1999, respectively, for compensation costs and various non-payroll related operating expenses. These amounts are reflected in selling, general and administrative - affiliates on the accompanying statements of operations:

	2001	2000	1999
Personnel related costs:			
Finance and accounting	$ 49,000	$ 87,000	$ 72,000
Executive and administrative	121,000	113,000	85,000
Sales and marketing	341,000	397,000	462,000
Data Processing	18,000	28,000	--
Human Resources	13,000	14,000	--
Total expense reimbursements	$ 542,000	$ 639,000	$ 619,000

Additionally, OLFJV incurs an overhead recovery, which is a reimbursement to NTS Management for overhead expenses attributable to the employees and the efforts of NTS Management, in an amount equal to 3.75% of the project's gross cash receipts. For the years ended December 31, 2001, 2000 and 1999, overhead recovery incurred was approximately $212,000, $143,000 and $122,000, respectively.

B) Accounts Payable - Affiliates

As presented in the accompanying balance sheet as of December 31, 2001, accounts payable - affiliates of approximately $2,134,000 is owed to NTS Development Company and NTS Residential Management Company for salary and overhead reimbursements. NTS Development Company and NTS Residential Management Company have agreed to defer amounts owed to them by the OLFJV as of December 31, 2001 and those amounts that will accrue during fiscal 2001 through the period ending March 31, 2003, other than as permitted by cash flows of the OLFJV. Management of OLFJV believes that NTS Development Company and NTS Residential Management Company have the financial ability to defer amounts owed to them by OLFJV. There can be no assurances that this level of support will continue past March 31, 2003.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholder of NTS Guaranty Corporation:

We have audited the accompanying balance sheets of NTS Guaranty Corporation (a Kentucky corporation) as of December 31, 2001 and 2000. These balance sheets are the responsibility of NTS Guaranty Corporation's management. Our responsibility is to express an opinion on these balance sheets based on our audits.

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

In our opinion, the balance sheets referred to above present fairly, in all material respects, the financial position of NTS Guaranty Corporation as of December 31, 2001 and 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Louisville, Kentucky
March 21, 2002

NTS GUARANTY CORPORATION
BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND 2000

		2001		2000
Cash	$	100	$	100
Total Assets	$	100	$	100

STOCKHOLDER'S EQUITY

		2001		2000
Common stock, no par value, 100 shares issued and outstanding	$	10	$	10
Additional paid-in capital		10,000,090		10,000,090
		10,000,100		10,000,100
Less non-interest bearing demand note receivable from the majority stockholder of NTS Corporation		(10,000,000)		(10,000,000)
Total Stockholder's Equity	$	100	$	100

NOTES TO BALANCE SHEETS

Note 1 - Summary of Significant Accounting Policies

A) Organization

NTS Guaranty Corporation (the "Guarantor"), a Kentucky corporation, was formed in February 1987 and is an affiliate of NTS Corporation. NTS Corporation is the Sponsor of the NTS Mortgage Income Fund (the "Fund"). The balance sheets include all of the assets and liabilities which relate to the Guarantor. The Guarantor is authorized to issue up to 2,000 shares of common stock with no par value. There are 100 shares issued and outstanding which were purchased by Mr. J. D. Nichols, Chairman of the Board of Directors of the Sponsor and of the Fund. In addition, Mr. Nichols has given the Guarantor a non-interest bearing demand note receivable for $10,000,000, the receivable of which is included in additional paid-in capital. Expenses (consisting mostly of state taxes and licenses) of the Guarantor totaling approximately $15 for each of the years ended December 31, 2001 and 2000, were paid by an affiliate of the Sponsor, which are insignificant, and therefore no statements of operations or statements of cash flows are presented. These expenses will not be reimbursed to the affiliate.

B) Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Financial Instruments

The book values of cash are considered to be representative of their respective fair values because of the immediate or short-term maturity of these financial instruments. The fair value of the NTS Guaranty Corporation's notes receivable approximated the book value.

Note 3 - Commitments

The Guarantor has guaranteed that Investors of the Fund will receive, over the life of the Fund, aggregate distributions from the Fund (from all sources) in an amount at least equal to their Original Capital Contributions, as defined in the Fund's prospectus. As of December 31, 2001, the Fund has raised approximately $63,690,000 and has paid distributions of approximately $23,141,000.

The liability of the Guarantor under the above guaranty is expressly limited to its assets and its ability to draw upon a $10 million demand note receivable from Mr. J. D. Nichols. Mr. Nichols has contingent liabilities which have arisen in connection with the acquisition of properties by himself or his affiliates. There can be no assurance that Mr. Nichols will, if called upon, be able to honor his obligation to the Guarantor. The total amounts guaranteed by the Guarantor are in excess of its net worth, and there is no assurance that the Guarantor will be able to satisfy its obligation under these commitments. The Guarantor may in the future provide guaranties to other affiliates of the Fund.

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in accountants or reported disagreements on any matter of accounting principles, practices or financial statement disclosure.

PART III

Item 10 - Directors and Executive Officers of the Registrant

The directors and principal officers of the Fund are as follows:

Name	Office With the Fund
J. D. Nichols	Chairman of the Board of Directors
Robert M. Day	Director*
Gerald B. Thomas	Director*
Gerald B. Brenzel	Director*
Brian F. Lavin	President and Director

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* Robert M. Day, Gerald B. Thomas and Gerald B. Brenzel are the Independent Directors of the Fund. Neither of them are employees, partners, officers or directors of the Sponsor or any of its affiliates.

J. D. Nichols (age 60) is Chairman of the Board and Chief Executive Officer of NTS Corporation and its various affiliates and is a member and Chairman of the Board of Directors of the NTS Mortgage Income Fund. He is a graduate of the University of Louisville School of Law. His undergraduate studies were at the University of Kentucky, where he concentrated in Accounting, Marketing and Business Administration. Mr. Nichols entered the real estate construction and development business in 1965 and has been involved in the development and construction of over 6,500 acres of land and over 6,500,000 square feet of office, residential, commercial and industrial space in numerous states throughout the eastern half of the United States. He is a member of both the Louisville and National Homebuilders Associations, and has served as Vice President and Director of the Louisville and National Apartment Associations. Mr. Nichols is also lifetime member of the President's Society of Bellarmine College, Louisville, Kentucky and a past member of the Board of Overseers and Board of Trustee of the University of Louisville, the Governors Council for Education Technology and the Board of Directors of the Louisville Chamber of Commerce. Mr. Nichols is currently a member of the Board of Directors of the Regional Airport Authority of Louisville and Jefferson County and is a member of the Board of Directors of the Greater Louisville Economic Development Partnership.

Robert M. Day (age 48) has been Managing Director of Lambert, Smith & Hampton and its predecessor companies, Atlanta, Georgia, a commercial and industrial real estate brokerage firm since 1985. Mr. Day received a Bachelor of Business Administration degree from Georgia State University and holds an MAI designation from the Appraisal Institute. Mr. Day is a member of the Atlanta Board of Realtors, the Urban Land Institute and is on the operating committee of the Atlanta Chapter of Young Life.

Gerald B. Thomas (age 63) has 26 years experience in Commercial Real Estate lending. Formerly a Senior Vice President with Mid-American Bank of Louisville, Mr. Thomas joined Citizens Bank of Kentucky in February 1996 as Vice President, with responsibility of developing real estate portfolios for four Kentucky affiliate banks of CNB Bancshares, Inc., Evansville, Indiana. Mr. Thomas has attended Eastern Kentucky University, National School of Real Estate Finance (Ohio State University) and National Institute of Real Estate Appraisers (University of Louisville). He is a board member of Big Brothers/Big Sisters, Louisville and Co-chairman of the Programs, Planning and Evaluation Committee.

Gerald B. Brenzel (age 70) has over forty years experience in the securities industry, most recently as First Vice President of Morgan, Keegan & Company in Louisville, Kentucky. Prior to that, Mr. Brenzel was founder and CEO of Commonwealth Investment Group, Inc., an investment money managers and regional brokerage firm in Louisville. From 1964 to 1988, Mr. Brenzel was regional Vice President and Branch Manager of Stifel, Nicolaus & Company, and was a member of the Board of that firm, was also an allied member of the New York Stock Exchange (1964 thru 1988). A former Governor of the National Association of Securities Dealers, Mr. Brenzel attended the University of Louisville for three years and also served three years in the U.S. Air Force during the Korean War.

Brian F. Lavin (age 48), President of NTS Corporation and NTS Development Company joined the Sponsor in June 1997. From November 1994 through June 1997, Mr. Lavin served as President of the Residential Division of Paragon Group, Inc., and as a Vice President of Paragon's Midwest Division prior to November 1994. In this capacity, he directed the development, marketing, leasing and management operations for the firms expanding portfolios. Mr. Lavin attended the University of Missouri where he received his Bachelor's Degree in Business Administration. He has served as a Director of the Louisville Apartment Association. He is a licensed Kentucky Real Estate Broker and Certified Property Manager. Mr. Lavin is a member of the Institute of Real Estate Management, and council member of the Urban Land Institute. He currently serves on the University of Louisville Board of Overseers and is on the Board of Directors of the National Multi-Housing Council and the Louisville Science Center.

The Directors are not required to devote all of their time to the Fund, they are only required to devote such of their time to the affairs of the Fund as their duties require, and will meet quarterly or more frequently if necessary. It is not expected that the Directors will be required to devote substantial portions of their time to discharge their duties as Directors. For a description of provisions concerning indemnification, see "Fiduciary Responsibility" on page 14 of the Fund's prospectus, which description is filed herewith and incorporated herein by reference.

The Directors, although not precluded from engaging in activities similar to the Fund's, are required to disclose any interest held directly or indirectly by them, or an affiliate in an investment presented to the Fund. Furthermore, affiliated Directors must offer the Fund the right to engage in an investment opportunity, which is within the Fund's objectives and policies, prior to entering into such transaction themselves. The Fund will not pay a commission to an affiliate of any Director for presenting or disposing of the Fund's investments.

The Fund will initially pay to each Independent Director a fee of $1,000 per month (which amount may be increased or decreased at the discretion of the Directors) and will reimburse such persons and affiliated Directors for travel expenses and other out-of-pocket disbursements incurred in connection with attending any meetings. Affiliated Directors will not receive any compensation from the Fund for their services as Directors or Officers of the Fund.

The Directors have retained NTS Advisory Corporation (the "Advisor") to manage the Fund's day-to-day affairs, and recommend investments suitable for the Fund. The Advisor has delegated substantially all of its duties to NTS Corporation ("NTS"), an affiliate of the Advisor. NTS has substantial experience in all phases of real estate activities, including acquisition, financing, property management and disposition.

The following persons are the executive officers and key employees of NTS and/or an affiliate and will provide services to the Advisor and the Fund:

Name	Office
J. D. Nichols	Chairman and Chief Executive Officer
Brian F. Lavin	President, NTS Development Company
Gary D. Adams	Senior Vice President, NTS Development Company

The Following provides additional information regarding the above-mentioned persons. Information regarding J.D. Nichols and Brian F. Lavin is provided in the section entitled "Directors and Officers of the Fund."

Gary D. Adams (age 56) is Senior Vice President of NTS Development Company with responsibility for single-family residential development and operations and multi-family operations and commercial properties in the state of Florida. Since joining the NTS organization in May 1977, Mr. Adams has been involved in the development, construction and management of numerous apartment, office, industrial and commercial developments in the southeastern portion of the United States. Mr. Adams received his undergraduate degree in Engineering from the University of Cincinnati, and he holds a Master of Business Administration from Xavier University. He is a member of the Building Owners and Managers Association and is a licensed general contractor in the state of Florida.

Item 11 - Executive Compensation

Beginning in the third quarter of 2001, the Fund increased each Independent Director's Fee from $12,000 per year to $16,000 per year. The Fund also reimburses such persons and affiliated Directors for travel expenses and other out-of-pocket disbursements incurred in connection with attending any meetings of the Board of Directors. During the years ended December 31, 2001, 2000 and 1999, the Fund paid directors fees of $42,000, $36,000 and $36,000, respectively each year, representing annual compensation. The affiliated Directors will not receive any compensation from the Fund for their services to the Fund. The present officers of the Fund receive compensation from the Advisor or its affiliates which indirectly relates to services to the Fund (see Item 13).

The Fund is entitled to engage in various transactions involving the Advisor and its affiliates, as described under captions “Compensation Table" at pages 9 and 10 of the prospectus and "Conflicts of Interest" on pages 11 to 14 of the prospectus, which descriptions are filed herewith and incorporated herein by reference. Reference is made to Note 9 of the Notes to the Fund's consolidated financial statements filed with this report for various transactions with affiliates.

(a) There are no compensatory plans or arrangements resulting from resignation or retirement of the Directors and executive officers which require payments to be received from the Fund.

Item 12 - Security Ownership of Certain Beneficial Owners and Management

(a) The following table sets forth the ownership of shares owned directly or indirectly by the Directors and principal officers of the Fund as of the date hereof:

Title of Class	Name of Beneficial Owner	Amount of Beneficial Ownership	Percent of Interest
Shares of Common Stock, $0.001 per Share	J. D. Nichols	181,740 *Shares	5.7%

* These shares are owned of record by NTS Corporation or an affiliate of which Mr. Nichols directly or beneficially holds voting and investment authority.

(b) There are no known arrangements which may at a subsequent date result in change in control of the Fund.

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that certain persons, including persons who own more than ten percent (10%) of our limited partnership interests, file initial statements of beneficial ownership (Form 3), and statements of changes in beneficial ownership (Forms 4 or 5), with the U.S. Securities and Exchange Commission (the “SEC”). The SEC requires that these persons furnish us with copies of all forms filed with the SEC.

To our knowledge, based solely on review of the copies of the forms we received, or written representations from certain reporting persons, that no additional forms were required for those persons.

Item 13 - Certain Relationships and Related Transactions

As of December 31, 2001, the Sponsor or an affiliate owned 181,740 shares of the Fund. The Fund has entered into the following agreements with various affiliates of the Sponsor regarding the ongoing operation of the Fund.

Property Management Agreements

The ongoing operation and management of the Lake Forest North and Fawn Lake projects will be conducted by NTS Residential Management Company ("NTS Management") under the terms of (i) a property management agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/LFII and NTS Management for the Lake Forest North project, and (ii) a property management agreement executed on December 30, 1997, and dated as of October 1, 1997, by and among the Fund, NTS/VA and NTS Management for the Fawn Lake project (collectively, the "Management Agreements"). NTS Management is a wholly-owned subsidiary of NTS Development Company. NTS Development Company is a wholly-owned subsidiary of the Fund's Sponsor. The Management Agreements have an initial term through December 31, 2003, subject to extension under certain conditions, and are renewable for successive six (6) year terms thereafter. Under the Management Agreements, NTS Management will be reimbursed for costs incurred in the operation and management of the Lake Forest North and Fawn Lake projects, will be entitled to an Overhead Recovery, and will accrue an incentive payment payable all as provided therein.

These expense reimbursements included direct and pro-rated costs incurred in the management and operation of NTS/LF II and NTS/VA. Such costs include compensation costs of management, accounting, professional, engineering and development, marketing and office personnel employed by NTS management and/or certain of its affiliates as well as various non-payroll related operating expenses. Compensation costs are for those individuals who rendered services full time and on site at the residential projects, with respect to the residential projects but who are not on site and with respect to the residential projects but who have multiple residential projects responsibilities some of which may be affiliated entities of NTS Management. For services provided by individuals not on site or those with multiple residential project responsibilities, costs are pro-rated by NTS Management and allocated to the appropriate residential project. As permitted by the Property Management Agreements, the Fund was charged the following amounts for the years ended December 31, 2001, 2000 and 1999. These amounts are reflected in selling, general and administrative - affiliates on the accompanying statement of operations:

	2001	2000	1999
Personnel related costs:			
Finance and accounting	$ 263,000	$ 263,000	$ 131,000
Data processing	70,000	96,000	31,000
Human resources	45,000	37,000	34,000
Executive and administrative	160,000	147,000	196,000
Sales and marketing	1,328,000	1,140,000	1,045,000
Legal	57,000	39,000	37,000
Marketing	193,000	182,000	126,000
Rent	55,000	50,000	39,000
Other general and administrative	159,000	89,000	74,000
Total expense reimbursements	$ 2,330,000	$ 2,043,000	$ 1,713,000

Additionally, NTS Management is entitled to an overhead recovery, which is a reimbursement for overhead expenses attributable to the employees and the efforts of NTS Management under the Management Agreements, in an amount equal to 3.75% of the projects' gross cash receipts, as defined in the Management Agreements. Overhead recovery for the years ended December 31, 2001, 2000 and 1999, was approximately $494,000, $561,000 and $567,000, respectively. These amounts are classified with selling, general and administrative - affiliates in the accompanying consolidated statements of operations.

The Management Agreements also provide the opportunity for NTS Management to receive an incentive payment, as defined in the Management Agreements, equal to 10% of the net cash flows of the projects. The incentive payment will not begin accruing until after the cumulative cash flows of NTS/LFII, NTS/VA and the Fund's share of the cash flow of the Joint Venture would have been sufficient to enable the Fund to return to the shareholders of the Fund an amount which, after adding thereto all other payments previously distributed to such shareholders of the Fund, is at least equal to the shareholders' original capital contribution. As of December 31, 2001, the Fund had raised approximately $63,690,000 and had paid distributions of approximately $23,141,000. As of December 31, 2001, no amount had been accrued as an incentive payment in the Fund's consolidated financial statements.

PART IV

Item 14 - Exhibits, Consolidated Financial Statement Schedules and Reports on Form 8-K

1 - Financial Statements

The financial statements for the NTS Mortgage Income Fund, Orlando Lake Forest Joint Venture and Guaranty Corporation together with the reports of Arthur Andersen LLP dated March 21, 2002.

2 - Consolidated Financial Statement Schedules

All schedules have been omitted because they are not applicable, are not required, or because the required information is included in the consolidated financial statements or notes thereto.

3 - Exhibits

a) The following exhibits are incorporated by reference from the Fund's Registration Statement on Form S-11, referencing the exhibit number used in such Registration Statement.

Exhibit No.	Description
3 (a) (2)	Restated Certificate of Incorporation
3 (b)	By-Laws
10 (c)	Form of Advisory Agreement
10 (b)	Form of Guaranty Agreement

b) The following exhibits are incorporated by reference from the Fund's Form 8-K dated January 14, 1998.

Exhibit No.	Description
10	Material contracts - The agreements whereby the Fund acquired all of the issued and outstanding common capital stock of NTS/LFII and NTS/VA, and the Property Management Agreements between the Fund and NTS Management.

c) The following are additional exhibits filed with the Form 10-K Report.

Exhibit No.	Description
99a	Management's letter to the Securities and Exchange Commission regarding representations received from Arthur Andersen LLP.

4 - Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NTS Mortgage Income Fund
(Registrant)

/s/ Brian F. Lavin
Brian F. Lavin
President and Director of the
Mortgage Income Fund

Date: April 1, 2002

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of the registrant in their capacities and on the date indicated above.

/s/ J. D. Nichols J. D. Nichols Chairman of the Board of Directors of the NTS Mortgage Income Fund	Date: April 1, 2002
/s/ Gerald B. Brenzel Gerald B. Brenzel Director of the NTS Mortgage Income Fund	Date: April 1, 2002
/s/ Robert M. Day Robert M. Day Director of the NTS Mortgage Income Fund	Date: April 1, 2002
/s/ Gerald B. Thomas Gerald B. Thomas Director of the NTS Mortgage Income Fund	Date: April 1, 2002
/s/ Gregory A. Wells Senior Vice President and Chief Financial Officer of NTS Capital Corporation	Date: April 1, 2002

The Fund will deliver to its shareholders an annual report containing the Fund's consolidated financial statements and proxy material.