

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

**FORM 10-Q**

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

For the quarterly period ended March 31, 2003

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**

Delaware

(State or other jurisdiction of  
incorporation or organization)

61-1146077

(IRS Employer Identification No.)

10172 Linn Station Road, Louisville, Kentucky 40223

(Address of Principal Executive Offices)

(502) 426-4800

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 [ ]

As of May 2, 2003, there were approximately 3,187,000 shares of common stock outstanding.

Indicate by check mark whether Registrant is an accelerated filer (as defined by Rule 12b-2 of the Securities Exchange Act of 1934). Yes [ ] No [X]

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Some of the statements included in this Form 10-Q, particularly those included in Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), may be considered "forward-looking statements" because the 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. If these events do not occur, the result which we expected also may not occur, or may 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, reflect our general partner's best judgment based on known factors, but 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 described in our filings with the Securities and Exchange Commission, particularly our Form 10-K for the year ended December 31, 2002. Any forward-looking information provided by us pursuant to the safe harbor established by securities legislation should be evaluated in the context of these factors.

## PART I - FINANCIAL INFORMATION

### Item 1 - Financial Statements

#### NTS MORTGAGE INCOME FUND CONSOLIDATED BALANCE SHEETS

	As of March 31, 2003 (UNAUDITED)	As of December 31, 2002
<b><u>ASSETS</u></b>		
Cash and equivalents	\$ 753,980	\$ 813,009
Membership initiation fees and other accounts receivable, net of allowance of approximately \$83,000 and \$86,000, respectively	848,031	1,224,241
Notes receivable	666,987	795,168
Inventory	38,790,139	38,397,019
Property and equipment, net of accumulated depreciation of approximately \$1,602,000 and \$1,515,000, respectively	3,623,065	3,670,591
Investment in unconsolidated affiliate	1,640,060	1,581,209
Other assets	528,854	445,780
<b>TOTAL ASSETS</b>	<b>\$ 46,851,116</b>	<b>\$ 46,927,017</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Accounts payable and accrued expenses	\$ 3,597,294	\$ 3,524,079
Accounts payable - affiliates	8,371,612	8,034,270
Mortgages and notes payable	14,514,719	14,386,442
Other liabilities	483,313	391,955
<b>TOTAL LIABILITIES</b>	<b>26,966,938</b>	<b>26,336,746</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 16)</b>		
<b><u>STOCKHOLDERS' EQUITY</u></b>		
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	(34,282,406)	(33,576,313)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>19,884,178</b>	<b>20,590,271</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 46,851,116</b>	<b>\$ 46,927,017</b>

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

**NTS MORTGAGE INCOME FUND**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three Months Ended March 31,	
	2003	2002
<u>REVENUES</u>		
Lot sales, net of discounts	\$ 1,898,282	\$ 3,578,097
Cost of sales	<u>(1,496,545)</u>	<u>(2,737,083)</u>
Gross profit	<u>401,737</u>	<u>841,014</u>
Country Club income	256,488	202,814
Interest and miscellaneous income	<u>59,428</u>	<u>17,419</u>
 TOTAL REVENUES	 <u>717,653</u>	 <u>1,061,247</u>
<u>EXPENSES</u>		
Selling, general and administrative - affiliated	552,056	703,976
Selling, general and administrative	326,920	408,809
Country Club expenses	531,491	442,476
Interest expense	7,323	30,535
Other taxes and licenses	25,726	46,141
Depreciation and amortization	39,081	38,570
(Income) loss from investment in unconsolidated affiliate	<u>(58,851)</u>	<u>65,294</u>
 TOTAL EXPENSES	 <u>1,423,746</u>	 <u>1,735,801</u>
Net loss before federal income tax	(706,093)	(674,554)
Federal income tax expense	<u>--</u>	<u>--</u>
Net loss	<u>\$ (706,093)</u>	<u>\$ (674,554)</u>
Net loss per share of common stock	<u>\$ (0.22)</u>	<u>\$ (0.21)</u>
Weighted average number of shares	<u>3,187,333</u>	<u>3,187,333</u>

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

**NTS MORTGAGE INCOME FUND**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Three Months Ended March 31,	
	2003	2002
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Net loss	\$ (706,093)	\$ (674,554)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	39,081	38,570
(Income) loss from investment in unconsolidated affiliate	(58,851)	65,294
Changes in assets and liabilities:		
Membership initiation fees and other accounts receivable	376,210	15,899
Notes receivable	128,181	(43,449)
Inventory	(329,201)	1,202,490
Accounts payable and accrued expenses	73,215	313,867
Lot deposits	68,801	(6,773)
Deferred revenues	22,557	13,211
Other assets	(80,825)	(41,114)
Net cash (used in) provided by operating activities	(466,925)	883,441
<b><u>CASH FLOW FROM INVESTING ACTIVITIES</u></b>		
Purchase of property and equipment	(39,482)	(99,357)
Net cash used in investing activities	(39,482)	(99,357)
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Advances to/from affiliates	1,759	28,052
Accounts payable - affiliates	337,342	401,173
Proceeds from mortgage and notes payable	2,444,921	2,161,723
Proceeds from notes payable - affiliated	--	18,971
Payments on mortgages and notes payable	(2,316,644)	(3,486,830)
Other assets	(20,000)	(20,000)
Net cash provided by (used in) financing activities	447,378	(896,911)
Net decrease in cash and equivalents	(59,029)	(112,827)
CASH AND EQUIVALENTS, beginning of period	813,009	566,146
CASH AND EQUIVALENTS, end of period	\$ <u>753,980</u>	\$ <u>453,319</u>
Cash paid for interest, net of amounts capitalized	\$ <u>353</u>	\$ <u>23,499</u>

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

## **NTS MORTGAGE INCOME FUND**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The unaudited consolidated financial statements included herein should be read in conjunction with the Fund's 2002 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 31, 2003. In the opinion of the Fund's management, all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation have been made to the accompanying consolidated financial statements for the three months ended March 31, 2003 and 2002. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. As used in this Quarterly Report on Form 10-Q the terms "we," "us" or "our," as the context requires, may refer to the Fund or its interests in its properties and joint venture.

#### **Note 1 - 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.

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

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 wholly-owned subsidiary of the Fund. NTS Residential Realty, Inc., a Kentucky corporation and an Affiliate of the Sponsor of the Fund, was formed on April 6, 1999, to act as a broker and agent for NTS/LFII for the sale of lots within the Lake Forest North project, and as a broker and agent for the sale of new homes within the Lake Forest North project.

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 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 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 a broker and agent for approved builders in the Fawn Lake project for the sale of new homes.

We own a 50% interest in the Orlando Lake Forest Joint Venture (the "Joint Venture"). See Note 10 for further information pertaining to the investment.

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 - Basis of Accounting**

Our records are maintained on the accrual basis of accounting in accordance with Accounting Principles Generally Accepted in the United States (“GAAP”).

**Note 3 - 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 1). Investments of 50% or less in affiliated companies are accounted for under the equity method. All significant intercompany transactions and balances have been eliminated.

**Note 4 - Use of Estimates in 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.

**Note 5 - Cash and Equivalents**

Cash and equivalents include cash on hand and short-term, highly liquid investments with initial maturities of three months or less.

**Note 6 - Financial Instruments**

The book values of cash and cash 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 7 - 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 their 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

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

absorption periods over the life of the project. Given the long-term nature of the projects and inherent economic volatility of residential real estate and the use of estimates to determine sales values, development costs and absorption periods, 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.

Inventory consists of approximately the following as of March 31, 2003:

	<u>NTS/LFH</u>	<u>NTS/VA</u>	<u>Consolidated</u>
Land held for future development, under development, and completed lots	\$ 1,915,000	\$ 18,336,000	\$ 20,251,000
Country club (net of membership initiation fees)	4,432,000	--	4,432,000
Amenities	<u>1,113,000</u>	<u>12,994,000</u>	<u>14,107,000</u>
	<u>\$ 7,460,000</u>	<u>\$ 31,330,000</u>	<u>\$ 38,790,000</u>

Inventory consists of approximately the following as of December 31, 2002:

	<u>NTS/LFH</u>	<u>NTS/VA</u>	<u>Consolidated</u>
Land held for future development, under development, and completed lots	\$ 1,903,000	\$ 17,874,000	\$ 19,777,000
Country club (net of membership initiation fees)	4,199,000	--	4,199,000
Amenities	<u>1,180,000</u>	<u>13,241,000</u>	<u>14,421,000</u>
	<u>\$ 7,282,000</u>	<u>\$ 31,115,000</u>	<u>\$ 38,397,000</u>

We capitalized in inventory approximately \$230,000 of interest and real estate taxes for the three months ended March 31, 2003. Interest and real estate taxes incurred were approximately \$245,000.

We capitalized in inventory approximately \$331,000 of interest and real estate taxes for the three months ended March 31, 2002. Interest and real estate taxes incurred were approximately \$370,000.

Inventory as of March 31, 2003, as reflected above, includes approximately \$12,596,000, net of \$8,164,000 of country club membership initiation fees, of costs incurred to date for the development of the Lake Forest Country Club.

Inventory as of December 31, 2002, as reflected above, includes approximately \$12,474,000, net of \$8,275,000 of country club membership initiation fees, of costs incurred to date for the development of the Lake Forest Country Club.

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 membership sales for a period not to exceed 12 years from the date of the agreement (ending 2003). The remaining cost to be incurred for the current projected Country Club operating deficit for the period covered by the agreement is approximately \$619,000, which is expected to be offset by member initiation fees. During the three months ended March 31, 2003, approximately \$168,000 of the Lake Forest Country Club deficit was capitalized as a cost of inventory. During the three months ended March 31, 2002, approximately \$256,000 of the Lake Forest Country Club deficit was capitalized as a cost of inventory.

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 be reported separately from inventory on the Fund's balance sheet as an asset available for sale. The asset's estimated fair market value was determined to be approximately \$3,000,000 and was included in property and equipment on the accompanying balance sheets. This asset is being depreciated according to our normal depreciation policy.

**Note 8 - Property and Equipment**

The following schedule provides an analysis of our approximate investment in property and equipment as of March 31, 2003 and December 31, 2002:

	As of March 31, 2003	As of December 31, 2002
Land and buildings	\$ 3,436,000	\$ 3,429,000
Equipment	1,789,000	1,757,000
	5,225,000	5,186,000
Less accumulated depreciation	(1,602,000)	(1,515,000)
	<u>\$ 3,623,000</u>	<u>\$ 3,671,000</u>

**Note 9 - Provisions for Write-Down to Net Realizable Value**

Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" specifies circumstances in which certain long-lived assets must be reviewed for impairment. If the carrying amount of an asset exceeds the sum of its expected future cash flows, the asset's carrying value must be written down to fair value. Application of this standard during the periods ended March 31, 2003 and 2002 did not result in an impairment loss.

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 10 - 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). 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 March 31, 2003 and December 31, 2002, the Fund's percentage interest was 50%, and our investment balance in the Joint Venture was approximately \$1,640,000 and \$1,581,000, respectively. Our share of the Joint Venture's net (income)/loss for the three months ended March 31, 2003 and 2002, was approximately \$(59,000) and \$65,000, respectively.

Presented below are condensed balance sheets for the Joint Venture as of March 31, 2003 and December 31, 2002, and statements of operations for the three months ended March 31, 2003 and 2002:

	March 31, 2003	December 31, 2002
<u>Balance Sheets</u>		
Inventory	\$ 5,310,000	\$ 6,557,000
Other, net	723,000	209,000
	<u>\$ 6,033,000</u>	<u>\$ 6,766,000</u>
 Total assets		
	<u>\$ 6,033,000</u>	<u>\$ 6,766,000</u>
 Mortgages and notes payable	24,000	206,000
Other liabilities	2,729,000	3,398,000
Equity	3,280,000	3,162,000
	<u>\$ 6,033,000</u>	<u>\$ 6,766,000</u>
 Total liabilities and equity		
	<u>\$ 6,033,000</u>	<u>\$ 6,766,000</u>

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Three Months Ended March 31,	
	2003	2002
<u>Statements of Operations</u>		
Lot sales, net of discounts	\$ 1,920,000	\$ 950,000
Cost of sales	(1,396,000)	(668,000)
Other expenses, net	(406,000)	(413,000)
Net income (loss)	\$ <u>118,000</u>	\$ <u>(131,000)</u>

**Note 11 - Mortgages and Notes Payable**

Mortgages and notes payable consist of the following:

	March 31, 2003	December 31, 2002
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.	\$ 5,290,155	\$ 4,961,203
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 + 0.5%, payable monthly, due October 5, 2003, secured by the Lake Forest Country Club and golf course, and a \$200,000 letter of credit from a third party lender with the beneficiary being the bank, guaranteed by NTS Corporation, the Fund's Sponsor.	1,730,000	1,730,000
Warehouse Line of Credit Agreement with a bank bearing interest at the Prime Rate + 0.75%, due September 30, 2003, secured by notes receivable, principal payments consist of payments received from notes receivable securing the obligation.	626,813	795,168
Other	170,792	203,112
	<u>\$ 14,514,719</u>	<u>\$ 14,386,442</u>

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

We anticipate seeking renewals or refinancing the debts coming due within the next twelve months with existing creditors, however, there can be no assurances that we will be successful in doing so. The Prime Rate was 4.25% on March 31, 2003 and December 31, 2002.

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 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, 2003	\$	7,000,000
December 31, 2004	\$	4,000,000

**Note 12 - 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 operating revenue as services are performed. Membership initiation fees are recognized at the time each new member joins the club.

**Note 13 - Related Party Transactions**

As of March 31, 2003, the Sponsor and an affiliate owned 241,022 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.

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Property Management Agreements***

The ongoing operation and management of the Lake Forest North and Fawn Lake projects will be 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"). 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 NTS/LFII and NTS/VA, 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 on and off site of 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 projects responsibilities, costs are pro-rated by NTS Management and allocated to the appropriate residential project. As permitted by the Management Agreements, the Fund was charged the following approximate amounts for the three months ended March 31, 2003 and 2002. These amounts are reflected in selling, general and administrative - affiliated on the accompanying consolidated statements of operations.

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Three Months Ended March 31,	
	2003	2002
<u>Personnel related costs:</u>		
Financing and accounting	\$ 70,000	\$ 62,000
Data processing	15,000	19,000
Human resources	13,000	10,000
Executive and administrative services	39,000	35,000
Construction management	39,000	35,000
Sales and marketing	202,000	326,000
Legal	27,000	21,000
	<hr/>	<hr/>
Total personnel related costs	405,000	508,000
	<hr/>	<hr/>
Marketing	37,000	36,000
Rent	15,000	13,000
Other general and administrative	15,000	7,000
	<hr/>	<hr/>
Total expense reimbursements	\$ <u>472,000</u>	\$ <u>564,000</u>

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 three months ended March 31, 2003 and 2002, was approximately \$80,000 and \$140,000, respectively. These amounts are classified with selling, general and administrative - affiliated in the accompanying consolidated statements of operations.

There were also expense reimbursements of approximately \$687,000 and \$693,000 accrued to NTS Management or an affiliate during the three months ended March 31, 2003 and 2002, 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 \$37,000 and \$44,000 accrued to NTS Management for overhead recovery fees at Fawn Lake Country Club and Lake Forest Country Club for the three months ended March 31, 2003 and 2002. The Lake Forest Country Club expense reimbursements and overhead recovery fees were capitalized in inventory for three months ended March 31, 2003 and 2002.

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 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 March 31, 2003, the Fund had raised approximately \$63,690,000 and had paid distributions of approximately \$23,141,000. As of March 31, 2003, no amount was accrued as an incentive payment in the Fund's consolidated financial statements.

***Advances and Notes Payable Affiliates***

As presented in the accompanying consolidated balance sheet as of March 31, 2003 accounts payable - affiliates of approximately \$8,372,000 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 Fund as of March 31, 2003 and those amounts that will accrue during fiscal 2003 through the period ending March 31, 2004, 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, 2004.

**Note 14 - Country Club Accounting**

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's operations no longer be capitalized to inventory costs upon substantial completion. Instead, the Club's results of operations have been included in our statement of operations beginning with April 1, 2001.

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Presented below are the approximate condensed statements of operations for the Fawn Lake Country Club for the three months ended March 31, 2003 and 2002:

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
<u>Revenues</u>		
Operating revenue	\$ 256,000	201,000
Other revenue	--	2,000
	<hr/>	<hr/>
Total revenues	256,000	203,000
<u>Expenses</u>		
Cost of goods sold	44,000	28,000
Selling, general and administrative - affiliates	312,000	286,000
Selling, general and administrative	164,000	119,000
Depreciation	11,000	10,000
	<hr/>	<hr/>
Total expenses	531,000	443,000
	<hr/>	<hr/>
Net loss	\$ <u>(275,000)</u>	<u>(240,000)</u>

**Note 15 - 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 our 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.

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. We have determined, based on a history of operating losses by its subsidiaries and its expectations for the future, that it is more likely than not that the net deferred tax assets on March 31, 2003 and December 31, 2002, will not be realized. As of December 31, 2002, we had a federal net operating loss carry forward of approximately \$17,539,000 expiring during various years beginning in 2012 and ending in 2022.

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 16 - Commitments and Contingencies**

We, as an owner of real estate, are subject to various environmental laws of federal and local governments. Compliance by us 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 our current properties or on properties that we 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 our consolidated financial statements.

NTS/LFII and NTS/VA have various letters of credit outstanding to governmental agencies and utility companies totaling approximately \$2,200,000 as of March 31, 2003 and December 31, 2002. The primary purpose of these documents is to ensure 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 homeowner's association amenities at NTS/LFII will be substantially complete by August 2003. Based on engineering studies and projections, NTS/LFII will incur additional costs, excluding interest, of approximately \$200,000 to complete the homeowner's association amenities.

It is estimated that the amenities at NTS/VA will be substantially complete by December 2008. Based on engineering studies and projections, NTS/VA will incur additional costs, excluding interest, of approximately \$870,000 to complete the amenities for the project. These costs are estimated to be incurred as follows: \$350,000 for 2003, \$0 for 2004, \$50,000 for 2005, \$420,000 for 2006, \$0 for 2007, and \$50,000 for 2008.

NTS/Lake Forest II Residential Corporation entered into an agreement with Lake Forest Country Club, Inc. in February, 1992 which governed the transfer of control, conveyance of assets and management of the Lake Forest Country Club, Inc. to its members. The transfer was dependent on the occurrence of certain future events and once one of these events occurred, transfer would take place within sixty days. If other events triggering the transfer did not occur by October 29, 2003, then this date became the triggering date. It is expected the Club will transfer to the members no later than December 28, 2003.

**NTS MORTGAGE INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 17 - 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 March 31, 2003, the Fund has raised approximately \$63,690,000 and has 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.

## **Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations**

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 1 and the Cautionary Statements below.

### **Critical Accounting Policies**

The accompanying consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States. Application of these accounting principles requires us to make estimates about the future resolution of existing uncertainties; as a result, actual results could differ from these estimates. In preparing these financial statements, we have made our best estimates and judgements of the amounts and disclosures included in the financial statements, giving due regard to materiality.

#### ***Revenue Recognition***

Revenues are recorded when the sales of lots are completed and ownership has transferred to the customer. Unfunded settlements are deposits in transit on lots for which the sale was completed. We do not engage in arrangements where we have ongoing relationships with our customers that require us to repurchase our lots or provide for a right of return.

#### ***Inventory***

Our finished inventories are stated at the lower of accumulated cost or net realizable value. Included in inventories are all direct development costs. We capitalize interest cost into inventories. Inventories under development or held for development are stated at accumulated cost, unless they are determined to be impaired, in which case these inventories are measured at fair value. If actual market conditions are less favorable than those projected by management, additional inventory adjustments may be required.

Sold lots are expensed using a cost of sales percentage based on estimates of total project sales and costs. Total project land acquisition and development cost estimates are based on an analysis of actual costs incurred to date and estimates to complete. Adjustments to estimated total project land acquisition and development costs for the project affect the cost of goods sold percentage.

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, Statement of Financial Accounting Standards ("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 March 31, 2003 and December 31, 2002, balance sheet as an asset held for use pursuant to SFAS No. 144 and is being depreciated according to our normal depreciation policy.

### ***Income Tax***

No benefit for income taxes was provided during 2003 or 2002, 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 based upon the guidance in SFAS No. 109. See Note 15 to our Consolidated Financial Statements for further discussion.

### **Results of Operations**

The following tables include our selected summarized operating data for the three months ended March 31, 2003 and March 31, 2002. This data should be read in conjunction with our financial statements, including the notes thereto, in Part I, Item 1 of this report.

Three Months Ended March 31, 2003				
	MIF	NTS/LFII	NTS/VA	Total
Lot sales, net of discounts	\$ --	\$ 617,000	\$ 1,281,000	\$ 1,898,000
Cost of sales	--	(534,000)	(962,000)	(1,496,000)
Country Club income	--	--	256,000	256,000
Interest and miscellaneous income	--	8,000	51,000	59,000
Operating expenses	(103,000)	(301,000)	(501,000)	(905,000)
Country Club expenses	--	--	(531,000)	(531,000)
Interest expense	--	--	(7,000)	(7,000)
Depreciation and amortization	--	(1,000)	(38,000)	(39,000)
Income (loss) from investment in unconsolidated affiliate	59,000	--	--	59,000
Net loss	(44,000)	(211,000)	(451,000)	(706,000)

Three Months Ended March 31, 2002				
	MIF	NTS/LFII	NTS/VA	Total
Lot sales, net of discounts	\$ --	\$ 1,590,000	\$ 1,988,000	\$ 3,578,000
Cost of sales	--	(1,242,000)	(1,495,000)	(2,737,000)
Country Club income	--	--	203,000	203,000
Interest and miscellaneous income	--	1,000	16,000	17,000
Operating expenses	(180,000)	(338,000)	(641,000)	(1,159,000)
Country Club expenses	--	--	(442,000)	(442,000)
Interest expense	(19,000)	--	(12,000)	(31,000)
Depreciation and amortization	--	(1,000)	(38,000)	(39,000)
Income (loss) from investment in unconsolidated affiliate	(65,000)	--	--	(65,000)
Net (loss) income	(264,000)	10,000	(421,000)	(675,000)

If there has not been a material change in a particular line item on the Statements of Operations from March 31, 2002 to March 31, 2003, we have omitted any discussion concerning that individual line item.

### ***Revenues***

Revenue for the three months ended March 31, 2003, includes approximately \$1,898,000 in lot sales consisting of approximately \$617,000 and \$1,281,000 from NTS/LFII and NTS/VA, respectively. During this period 15 lots were sold for an average selling price of approximately \$127,000.

Revenue for the three months ended March 31, 2002, includes approximately \$3,559,000 in lot sales consisting of approximately \$1,590,000 and \$1,969,000 from NTS/LFII and NTS/VA, respectively. During this period 26 lots were sold for an average selling price of approximately \$137,000. Additionally, revenue for the three months ended March 31, 2002, included approximately \$19,000 collected on an installment sale from NTS/VA.

Costs of sales for the three months ended March 31, 2003 and 2002, were approximately \$1,497,000 and \$2,737,000, respectively.

Presented below are the gross profit margins for the three months ended March 31, 2003 and 2002:

	Three Months Ended March 31,	
	2003	2002
NTS/LF II	13%	22%
NTS/VA	25%	25%
Combined gross profit margins	21%	24%

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 estimated cost of sales percentages 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 three months ended March 31, 2003 and 2002, respectively, Management's estimates have changed relative to the ultimate sales values, development costs and absorption periods. The inherent economic volatility of residential real estate does not allow us to be certain that the gross profit margins that we now believe will be realized during the duration of the projects will remain unchanged.

The net decrease in gross profit margin at NTS/LFII is a function of a change in the estimates of sales values, development costs and absorption periods over the life of the project.

We periodically review the value of land and inventories and determine whether any impairment charges are needed to reflect declines in value. We did not record any impairment charges during the periods ended March 31, 2003 and 2002. The estimated net realizable value of real estate inventories represents our best estimate based on present plans and intentions, selling prices in the ordinary course of business and anticipated economic and market conditions. Accordingly, the realization of the value of our real estate inventories is dependent on future events and conditions that may cause actual results to differ from amounts presently estimated.

Beginning with April 1, 2001, the income and expenses of the Fawn Lake Country Club have been included in the Fund's 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 net impact on the results of operations was a net operating deficit of approximately \$275,000 and \$240,000 for the three months ended March 31, 2003 and 2002, respectively.

Presented below is the condensed statement of operations for the Fawn Lake Country Club for the three months ended March 31, 2003 and 2002:

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
<u>Revenues</u>		
Operating revenue	\$ 256,000	201,000
Other revenue	--	2,000
Total revenues	256,000	203,000
<u>Expenses</u>		
Cost of goods sold	44,000	28,000
Selling, general and administrative - affiliates	312,000	286,000
Selling, general and administrative	164,000	119,000
Depreciation	11,000	10,000
Total expenses	531,000	443,000
Net loss	\$ <u>(275,000)</u>	<u>(240,000)</u>

### ***Expenses***

Reimbursements for expense recovery of approximately \$472,000 and \$564,000 were accrued to NTS Management or an Affiliate during the three months March 31, 2003 and 2002, respectively, for actual personnel, marketing and administrative costs as they relate to NTS/LFII, NTS/VA and the Fund.

Reimbursements for expense recovery decreased approximately \$92,000 for the three months ended March 31, 2003, as compared to the same period in 2002. The decrease is primarily a result of a decrease in commissions paid to sales agents employed by NTS/LFII and NTS/VA for the three months ended March 31, 2003, as compared to the same period in 2002.

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 three months ended March 31, 2003 and 2002, overhead recovery incurred was approximately \$80,000 and \$140,000, respectively. This decrease is a direct result of decreased cash receipts.

Selling, general and administrative expenses include directors' fees, legal, outside accounting, other investor related cost, repairs and maintenance cost. Selling, general and administrative expenses also include those costs incurred directly by NTS/VA for marketing related activities.

For the three months ended March 31, 2003 and 2002, the amounts incurred for selling, general and administrative expenses were approximately \$327,000 and \$409,000. The decrease in the selling, general and administrative expenses is primarily a result of a decrease in legal, insurance and maintenance expenses, for the three months ended March 31, 2003, compared to the same period in 2002.

Increases and decreases in interest expense generally correspond directly to increases and decreases in the outstanding balances of the Fund's borrowings and its subsidiaries borrowings as well as in the capitalization percentage. For the three months ended March 31, 2003 and 2002, approximately \$168,000 and \$310,000, respectively, was capitalized in inventory and approximately \$7,000 and \$31,000, respectively, was expensed. The decrease in total interest is primarily due to the decrease in outstanding balances of loans.

No benefit for income taxes was provided during the three months ended March 31, 2003 and 2002, 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.

### **Liquidity and Capital Resources**

Our current source of liquidity is primarily the ability of our subsidiaries to draw upon their respective development loans. Additional liquidity is provided by net proceeds retained from residential lot closings by the properties owned by our subsidiaries and Joint Venture 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.

We intend to meet the minimum principal payment requirement on our \$18,000,000 mortgage loan payable on December 31, 2003. The intention is based on our belief that the current and expected interest rate environment, regional economies affecting NTS/LFII and NTS/VA, and lot sales trends from years past will be conducive to producing the planned revenues from each development. There can be no assurances or guarantees that any of these or other pertinent factors will be more or less favorable to our achievement of planned revenue and expense goals.

On April 15, 2002, Fawn Lake sold approximately 456 acres of land to the U.S. Department of the Interior's National Park Service. This land is located in Spotsylvania County, Virginia, adjacent to the Fredericksburg and Spotsylvania County Battlefields Memorial National Military Park. The sales price of the land was approximately \$6,100,000. The price was determined by arms-length negotiation between the buyer and seller, aided by an appraisal commissioned by the National Park Service. Approximately \$5,500,000 of the sales proceeds was utilized to reduce outstanding debt. The net proceeds after reducing debt and paying closing costs and fees related to the sale was used as working capital.

Key elements of the consolidated statements of cash flows:

	Three Months Ended March 31,	
	2003	2002
Operating activities	\$ (466,925)	\$ 883,441
Investing activities	(39,482)	(99,357)
Financing activities	447,378	(896,911)
Net decrease in cash and equivalents	\$ <u>(59,029)</u>	\$ <u>(112,827)</u>

Cash used in operating activities was approximately \$467,000 for the three months ended March 31, 2003. The primary components of the cash used in operating activities were a net loss of approximately \$706,000, which was partially offset by decreased initiation fees receivable of approximately \$376,000, and an increase in accounts payable of approximately \$73,000.

Cash provided by operating activities was approximately \$883,000 for the three months ended March 31, 2002. The primary components of the cash provided by operating activities were a net loss of approximately \$675,000, more than offset by a decrease in inventory of approximately \$1,202,000, and an increase in accounts payable of approximately \$314,000.

Cash used for investing activities was approximately \$39,000 for the three months ended March 31, 2003. The component of the use of cash for investing activities was capital additions, primarily at NTS/VA golf operations.

Cash used for investing activities was approximately \$99,000 for the three months ended March 31, 2002. The component of the use of cash for investing activities was capital additions, primarily at the NTS/LFII and NTS/VA golf operations.

Cash provided by financing activities was approximately \$447,000 for the three months ended March 31, 2003. The components of the cash provided by financing activities were the continued deferral of accounts payable to affiliates of approximately \$337,000 which is owed to NTS Development Company and NTS Residential Management Company for salary and overhead reimbursements, along with additional net proceeds on notes payable relating to the development loans for NTS/LFII and NTS/VA projects of approximately \$128,000.

Cash used in financing activities was approximately \$897,000 for the three months ended March 31, 2002. The components of the cash used in financing activities were the continued deferral of accounts payable to affiliates of approximately \$401,000 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 \$1,325,000.

### **Website Information**

Our website address is [www.ntsdevelopment.com](http://www.ntsdevelopment.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available and may be accessed free of charge through the “About NTS” section of our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website and the information contained therein or connected thereto are not incorporated into this Quarterly Report on Form 10-Q.

### **Item 3 - Quantitative and Qualitative Disclosures About Market Risk**

Our primary market risk exposure with regard to financial instruments stems from changes in interest rates. The Fund’s debt instruments bear interest at both variable and fixed rates as discussed in Note 11 of the Fund’s financial statements. For the three months ended March 31, 2003, a hypothetical 100 basis point increase in interest rates would result in an approximate \$36,000 increase in interest expense and an approximate \$64,000 decrease in the fair value of debt for the three months then ended. During the three months ended March 31, 2003, the majority of interest expense incurred was capitalized in inventory.

### **Item 4 - Controls and Procedures**

The President and Director of the NTS Mortgage Income Fund and the Chief Financial Officer of NTS Development Company the equivalent of the Chief Financial Officer of the Company, have concluded, based on their evaluation within 90 days of the filing date of this report, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the above evaluation.

## **PART II - OTHER INFORMATION**

### **Item 1 - Legal Proceedings**

None.

### **Item 2 - Changes in Securities and Use of Procedures**

None.

### **Item 3 - Defaults upon Senior Securities**

None.

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

None.

### **Item 5 - Other Information**

None.

### **Item 6 - Exhibits and Reports on Form 8-K**

#### **(a) Exhibits**

- 3 (a) (2) Restated Certificate of Incorporation \*
- 3 (b) By-Laws \*
- 10 (c) Form of Advisory Agreement \*
- 10 (b) Form of Guaranty Agreement \*
- 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. \*\*
- 99.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*\*
- 99.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*\*

#### **(b) Reports on Form 8-K**

None.

\* 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.

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

\*\*\* The following are additional exhibits filed with this Quarterly Form 10-Q Report.

## **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

/s/ Brian F. Lavin

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

Date: May 15, 2003

## CERTIFICATION

### Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Brian F. Lavin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the NTS Mortgage Income Fund;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Brian F. Lavin

President and Director of the NTS Mortgage Income Fund

See also the certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, which is attached as an exhibit to this report.

## **CERTIFICATION**

### **Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gregory A. Wells, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the NTS Mortgage Income Fund;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Gregory A. Wells

Chief Financial Officer of NTS Development Company \*, equivalent of the Chief Financial Officer of the Company

See also the certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, which is attached as an exhibit to this report.

\* NTS Development Company provides services to the Company under property management agreements as described in Part III - Item 13 Certain Relationships and Related Transactions.

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
3 (a) (2)	Restated Certificate of Incorporation *
3 (b)	By-Laws *
10 (c)	Form of Advisory Agreement *
10 (b)	Form of Guaranty Agreement *
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. **
99.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ***
99.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ***

\* 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.

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

\*\*\* The following are additional exhibits filed with this Quarterly Form 10-Q Report.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Brian F. Lavin, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

To the best of my knowledge and belief, the quarterly report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2003, by the NTS Mortgage Income Fund and to which this certification is appended (the “Periodic Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the NTS Mortgage Income Fund.

A signed original of this written statement required by Section 906 has been provided to the NTS Mortgage Income Fund and will be retained by the NTS Mortgage Income Fund and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Brian F. Lavin

President and Director of the NTS Mortgage Income Fund

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Gregory A. Wells, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

To the best of my knowledge and belief, the quarterly report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2003, by the NTS Mortgage Income Fund and to which this certification is appended (the “Periodic Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the NTS Mortgage Income Fund.

A signed original of this written statement required by Section 906 has been provided to the NTS Mortgage Income Fund and will be retained by the NTS Mortgage Income Fund and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Gregory A. Wells  
Chief Financial Officer of NTS Development Company \*,  
equivalent of the Chief Financial Officer of the Company

\* NTS Development Company provides services to the Company under property management agreements as described in Part III - Item 13 Certain Relationships and Related Transactions.