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, 2004

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 registrant as specified in its charter)

Delaware	61-1146077
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
10172 Linn Station Road Louisville, Kentucky	40223
(Address of principal executive offices)	*(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:

None	None
(Title of each class)	*(Name of each exchange on which registered)*

Securities pursuant to Section 12(g) of the Act:

Common Stock
(Title of Class)

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]

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]

As of March 25, 2005, there were approximately 3,187,000 shares of common stock outstanding. No aggregate market value can be determined because no established market exists for the shares. There is no current market for these shares although it is possible that one will develop.

TABLE OF CONTENTS

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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 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, or may not, occur in a different manner, which may be more or less favorable to us. We do not undertake any obligation to update these forward-looking statements.

Any forward-looking statements included in MD&A, or elsewhere in this report, reflect our 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 discussed in our filings with the Securities and Exchange Commission. Any forward-looking information provided by us pursuant to the safe harbor established by the Private Securities Litigation Reform Act of 1995 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, a Delaware corporation (the "Fund" or the "Company"), was formed on September 26, 1988. We operated as a real estate investment trust under the Internal Revenue Code of 1986 (the "Code") from our 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 us to change our 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 ("NTS Management") is the manager of the operations of the Fund's wholly-owned subsidiaries. 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, refer to the Fund.

In 1997 we acquired all of the issued and outstanding common capital stock of NTS/Lake Forest II Residential Corporation, a Kentucky corporation which was an affiliate of the Sponsor ("NTS/LFII") and NTS/Virginia Development Company, a Virginia corporation which was an affiliate of the Sponsor ("NTS/VA"), for a nominal purchase price. As a result of the transaction, we acquired control of the Lake Forest North project in Louisville, Kentucky, and the Fawn Lake project near Fredericksburg, Virginia. Concurrent with this transaction, the existing indebtedness of each of NTS/LFII and NTS/VA to the Fund was converted to equity, and we released the first mortgages in favor of the Fund on the Lake Forest North and Fawn Lake projects.

Our business consists of a single segment, the development and sale of residential subdivision lots. Our current investment objectives are consistent with our original objectives, which are to preserve capital, make quarterly distributions, and increase the value of our shares through the development and sale of residential and commercial properties and, to a lesser extent, the acquisition, operation and sale of properties. However, we have been unable to make distributions recently due to insufficient cash flows being generated on an operating basis. For information on distributions, see Part II, Item 5 of this Form 10-K.

Description of Real Property

Lake Forest North

Our subsidiary, 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 of December 31, 2004, approximately 951 of 1,109 total lots have been developed and approximately 85% of the total projected lots to be developed have been sold.

Fawn Lake

Our subsidiary, 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 of December 31, 2004, approximately 818 of 1,398 total lots have been developed and approximately 56% 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"). 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 Sponsor.

The Joint Venture owns the Orlando Lake Forest project, a single-family residential community located in Seminole County, Florida (near Orlando). As of December 31, 2004, approximately 721 of 732 total lots have been developed and approximately 87% 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 our interest in the principal and interest of the first mortgage loan on the Orlando Lake Forest project to the Joint Venture as a capital contribution, 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 Joint Venture partner's percentage interest, as defined in the joint venture agreement. As of December 31, 2004, 2003 and 2002, our percentage interest was 50%. Our share of the Joint Venture's net income (loss) for the years ended December 31, 2004, 2003 and 2002 was $346,764, $337,206 and ($20,220), 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 compete primarily on the basis of 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's development 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 knowledge of market conditions and of the employees of the Fund who manage and supervise sales for each property.

Management of Properties

As the sole stockholder of NTS/LFII and NTS/VA, we control 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 been extended through December 31, 2008. 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 may accrue an incentive payment payable as provided therein and described below.

Reimbursements of approximately $1,528,000, $1,919,000 and $2,312,000 were accrued to NTS Management or an affiliate during the years ended December 31, 2004, 2003 and 2002, 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 at the residential projects, some of whom are full-time and onsite, and others who are not on site or have multiple residential project responsibilities. For services provided by individuals not on site or with multiple residential project responsibilities, costs are pro-rated by NTS Management and allocated to the appropriate residential project in accordance with the Management Agreements. These reimbursements are included within selling, general and administrative - affiliates expenses 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 recoveries for the years ended December 31, 2004, 2003 and 2002, were approximately $754,000, $628,000 and $843,000, respectively. These amounts were accrued but not paid and are classified as selling, general and administrative - affiliates expenses in the accompanying consolidated statements of operations.

Reference is made to Item 8 - Note 9 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 $1,215,000, $3,242,000 and $3,274,000 accrued to NTS Management or an affiliate during the years ended December 31, 2004, 2003, and 2002, respectively, for Fawn Lake Country Club and Lake Forest Country Club prior to 2004. 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 $61,000, $177,000 and $176,000 accrued to NTS Management for overhead recovery fees at Fawn Lake Country Club for the years ended December 31, 2004, 2003 and 2002 and Lake Forest Country Club for the years ended December 31, 2003 and 2002. The Lake Forest Country Club expense reimbursements and overhead recovery fees were capitalized in inventory for the years ended December 31, 2003 and 2002. The Lake Forest Country Club ("LFCC") ownership and operations were turned over to its members on December 28, 2003, pursuant to an agreement with NTS/Lake Forest II Residential Corporation. Subsequent to LFCC's turnover to its members, we are no longer responsible for its operations. However, we will continue to capitalize to our inventory any operating costs related to our continued efforts in selling LFCC's initial memberships. The Fawn Lake Country Club expense reimbursements and overhead recovery fees were capitalized in inventory from its inception to March 31, 2001. Beginning 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. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of Country Club Operations.

As presented in the accompanying consolidated balance sheet as of December 31, 2004, accounts payable - affiliates of approximately $13,087,000 is owed to NTS Development Company and NTS Residential Management Company for expense 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, 2004 and those amounts that will accrue during fiscal 2005 through the period ending March 31, 2006, other than as permitted by our cash flows. There can be no assurances that this level of support will continue past March 31, 2006.

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 stockholders of the Fund an amount which, after adding thereto all other payments actually remitted or distributed to such stockholders, is at least equal to the stockholders' original capital contribution. As of December 31, 2004, we had raised approximately $63,690,000 and had paid distributions of approximately $23,141,000. As of December 31, 2004, 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.

Conflicts of Interest

Because the Fund's officers, directors and affiliates own or are responsible for 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.

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.

Website Information

Information about us is available via the internet at 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 intended to be incorporated into this Annual Report on Form 10-K.

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 our security holders during the last quarter of the year ending December 31, 2004.

PART II

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

The per share issue price of the shares was $20. Our shares are freely transferable and trade on the secondary market, but are not listed or included for quotation on a national securities exchange. As of March 1, 2005, there were 2,954 record holders of our shares. No distributions were made during 2004, 2003 or 2002. The Board of Directors decided to terminate quarterly distributions for the foreseeable future effective as of the first quarter of 1997. We have been unable to pay distributions in recent years due to insufficient cash flows being generated on an operating basis. Our ability to resume quarterly distributions depends on current cash balances, cash flow being generated by operations and cash reserves needed in connection with the sale of properties.

Item 6 - Selected Financial Data

Years ended December 31:

	2004	2003	2002 (3)	2001	2000
Net revenues	$ 5,133,090	$ 4,593,097	$ 6,633,836	$ 3,803,761	$ 3,629,887
Total expenses (1)	$ 6,617,163	$ 6,745,310	$ 7,475,349	$ 6,711,365	$ 9,740,972
Net loss	$ (1,137,309)	$ (1,815,007)	$ (861,733)	$ (2,779,802)	$ (9,243,103)
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:					
Net loss per share	$ (0.36)	$ (0.57)	$ (0.27)	$ (0.87)	$ (2.90)
At year end:					
Inventory	$ 26,637,219	$ 34,704,677	$ 38,397,019	$ 47,327,572	$ 52,206,560
Total assets	$ 34,700,360	$ 42,431,017	$ 46,927,017	$ 56,052,400	$ 57,780,576
Total notes payable (2)	$ 1,831,975	$ 10,301,524	$ 14,386,442	$ 25,584,021	$ 26,329,279

(1) 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. 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.
(2) The balances presented as notes payable include notes payable to third parties and a note payable to affiliates.
(3) Net revenues for 2002 includes the effect of our land sale at Fawn Lake to the National Park Service.

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

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.

Critical Accounting Policies

The accompanying consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles. 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

We recognize revenue and related costs from lot sales using the accrual method in accordance with U.S. generally accepted accounting principles, 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 club recognizes operating revenue as services are performed. 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

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 including marketing costs of initial membership sales of the Lake Forest Country Club, 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 (net of country club initiation fees) and 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.

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. We compare the carrying amount of inventory to the expected future cash flows of our properties at least annually. Application of this standard during the year ended December 31, 2004 did not result in an impairment loss.

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.

Lake Forest Country Club operating deficits have historically been capitalized to inventory. Subsequent to the turnover of the ownership and operations to the members on December 28, 2003, only costs incurred to sell initial memberships have been capitalized. Pursuant to the Membership Marketing Agreement, dated June 7, 2004, between NTS/LFII and the Lake Forest Country Club regarding the cost to develop the Country Club, NTS/LFII is to receive 50% of the initiation fees from the initial issuance of the remaining initial memberships to the Country Club. As long as the agreement is in effect, we expect that we will not incur any marketing or selling expenses related to issuance of initial memberships. We are not responsible for any refunds related to any issued memberships. During 2004 and 2003 the Lake Forest Country Club operating deficit was approximately $207,000 and $1,396,000, respectively, 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, 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 within property and equipment. 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, 2004, balance sheet as an asset held for use pursuant to SFAS No. 144 and is being depreciated according to our normal depreciation policy.

Joint Venture Investment

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

Cost of Sales

We calculate our costs of sales using a percentage based on estimates of total sales and project costs, principally acquisition and development costs. We estimate cost of sales percentages at the end of each fiscal year, and the resulting cost of sales percentages are applied prospectively. Total estimates are based on an analysis of actual costs incurred to date and the estimated costs of completion. Adjustments to estimated total project sales and development costs for the project affect the cost of goods sold percentage. 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. Costs of sales for a specific period also include direct selling costs, such as those relating to sales concessions, incurred during the period. These costs are not included in the estimated cost of sales percentage.

Income Taxes

No benefit for income taxes was provided during 2004, 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 11 to our Consolidated Financial Statements for a discussion of the components of the deferred tax asset.

Impact of Recent Accounting Pronouncements

Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46 (“FIN 46"), “Consolidation of Variable Interest Entities, an interpretation of ARB 51.” In December 2003, the FASB issued FIN No. 46 (Revised December 2003), *“Consolidation of Variable Interest Entities*” (“FIN 46-R”) to address certain FIN 46 implementation issues. The primary objectives of this interpretation are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (“variable interest entities”) and how to determine when and which business enterprise (the “primary beneficiary”) should consolidate the variable interest entity. In addition, FIN 46 requires that the primary interest entity make additional disclosures. The adoption of these provisions did not have any impact on our financial statements.

Results of Operations for 2004, 2003 and 2002

The following tables include our selected summarized operating data for the years ended December 31, 2004, 2003 and 2002. This data is presented to provide assistance in identifying trends in our operating results and other factors affecting our business. This data should be read in conjunction with our financial statements, including the notes thereto, in Part II, Item 8 of this report.

	Year Ended December 31, 2004			
	MIF	NTS/LFII	NTS/VA	Total
Lot sales, net of discounts	$ -	$ 7,376,000	$ 12,220,000	$ 19,596,000
Cost of sales	-	(6,470,000)	(9,705,000)	(16,175,000)
Country Club income	-	-	1,641,000	1,641,000
Interest and miscellaneous income	4,000	5,000	62,000	71,000
Operating expenses	(444,000)	(926,000)	(2,606,000)	(3,976,000)
Country Club expenses	-	-	(2,528,000)	(2,528,000)
Interest expense	-	-	-	-
Depreciation and amortization	-	(1,000)	(112,000)	(113,000)
Income from investment in unconsolidated affiliate	347,000	-	-	347,000
Net loss	(93,000)	(16,000)	(1,028,000)	(1,137,000)

	Year Ended December 31, 2003			
	MIF	NTS/LFII	NTS/VA	Total
Lot sales, net of discounts	$ -	$ 5,501,000	$ 10,638,000	$ 16,139,000
Cost of sales	-	(4,707,000)	(8,284,000)	(12,991,000)
Country Club income	-	-	1,377,000	1,377,000
Interest and miscellaneous income	3,000	12,000	54,000	69,000
Operating expenses	(430,000)	(1,121,000)	(2,551,000)	(4,102,000)
Country Club expenses	-	-	(2,459,000)	(2,459,000)
Interest expense	-	-	(32,000)	(32,000)
Depreciation and amortization	-	(3,000)	(150,000)	(153,000)
Income from investment in unconsolidated affiliate	337,000	-	-	337,000
Net loss	(90,000)	(318,000)	(1,407,000)	(1,815,000)

	Year Ended December 31, 2002			
	MIF	NTS/LFII	NTS/VA	Total
Lot sales, net of discounts	$ -	$ 4,089,000	$ 11,458,000	$ 15,547,000
Land sales	-	-	6,100,000	6,100,000
Cost of sales	-	(3,206,000)	(13,237,000)	(16,443,000)
Country Club income	-	-	1,363,000	1,363,000
Interest and miscellaneous income	3,000	3,000	61,000	67,000
Operating expenses	(410,000)	(1,186,000)	(3,328,000)	(4,924,000)
Country Club expenses	-	-	(2,311,000)	(2,311,000)
Interest expense	(24,000)	-	(52,000)	(76,000)
Depreciation and amortization	-	(3,000)	(162,000)	(165,000)
Loss from investment in unconsolidated affiliate	(20,000)	-	-	(20,000)
Net loss	(451,000)	(303,000)	(108,000)	(862,000)

The following discussion relating to changes in our results of operations includes only material line items within our Statements of Operations or line items for which there was a material change between the years ending December 31, 2004, 2003 and 2002.

Revenues

Revenues increased approximately $3,400,000, or 21%, in 2004. The increase is primarily due to the selling of more lots at NTS/VA and NTS/LFII in 2004 compared to 2003.

Revenues decreased approximately $5,500,000, or 25%, in 2003. The decrease is primarily due to the $6,100,000 sale of land to the National Park Service in 2002, partially offset by an increase in average sales price per lot.

Revenue for the year ended December 31, 2004, includes approximately $19,600,000 in lot sales consisting of approximately $7,400,000 and $12,200,000 from NTS/LFII and NTS/VA, respectively. During this period 144 lots were sold for an average selling price of approximately $136,000.

Revenue for the year ended December 31, 2003, includes approximately $16,100,000 in lot sales consisting of approximately $5,500,000 and $10,600,000 from NTS/LFII and NTS/VA, respectively. During this period 120 lots were sold for an average selling price of approximately $134,000.

Revenue for the year ended December 31, 2002, includes approximately $15,400,000 in lot sales consisting of approximately $4,100,000 and $11,300,000 from NTS/LFII and NTS/VA, respectively. During this period 128 lots were sold for an average selling price of approximately $120,000. Additionally, revenue for the year ended December 31, 2002, includes approximately $192,000 recognized as revenue from an installment sale at NTS/VA.

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.

On March 6, 2001, 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 of $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, 2004, the receivable balance related to this sale was approximately $123,000 with payments received to date for 22 home units sold. The transactional values were derived from an independent appraisal performed by Integra Chapman & Bell dated January 4, 2000.

Cost of Sales

Cost of sales increased approximately $3,100,000, or 25%, in 2004, due to increased lot sales at NTS/VA and NTS/LFII.

Cost of sales decreased approximately $3,500,000, or 21%, in 2003, due to decreased lot sales at NTS/VA and the land sale to the National Park Service in 2002.

Presented below are the gross profit margins for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
NTS/LFII	12%	14%	22%
NTS/VA	21%	22%	25%
Combined gross profit margins	17%	20%	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 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, 2004, 2003, and 2002, 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.

Selling, General and Administrative - Affiliates

The expenses for selling, general and administrative - affiliates decreased approximately $266,000, or 10%, in 2004, primarily due to a decrease in commissions as a result of a decrease in sales to individuals at NTS/VA and NTS/LFII. There was also a decrease in rent/allocated costs, general administrative and advertising reimbursements at NTS/LFII.

The expenses for selling, general and administrative - affiliates decreased approximately $608,000, or 19%, in 2003, primarily due to a decrease in commissions and overhead cost reimbursement, which decreased from 2002 due to the 3.75% overhead charge on the sale of the land to the National Park Service.

Selling, General and Administrative Expenses

The selling, general and administrative expenses increased approximately $96,000, or 6%, in 2004, primarily due to an increase in insurance expense and an increase in landscaping expenses due to hurricane clean up at NTS/VA.

The selling, general and administrative expenses decreased approximately $132,000, or 8%, in 2003, primarily due to a decrease in advertising and marketing expenses and maintenance expenses at NTS/VA.

Interest Expense

Increases and decreases in interest expense generally correspond directly to increases and decreases in the outstanding balances of our borrowings and our subsidiaries' borrowings as well as in the capitalization percentage. For the years ended December 31, 2004, 2003 and 2002, approximately $377,000, $733,000 and $1,005,000, respectively, was capitalized in inventory and approximately $400, $32,000 and $76,000, respectively, was expensed. The decrease in total interest is primarily a result of continued reductions in the loan balance.

Country Club Operations

The income and expenses of the Fawn Lake Country Club have been included in our statements of operations. It is our intention to sell the Club as a single asset.

Presented below are the approximate condensed statements of operations for the Fawn Lake Country Club for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Revenues			
Operating revenue	$ 1,641,000	$ 1,377,000	$ 1,361,000
Other revenue	-	-	2,000
Total revenues	1,641,000	1,377,000	1,363,000
Expenses			
Cost of goods sold	339,000	306,000	248,000
Selling, general and administrative - affiliates	1,276,000	1,324,000	1,380,000
Selling, general and administrative	786,000	752,000	643,000
Depreciation	127,000	77,000	41,000
Total expenses	2,528,000	2,459,000	2,312,000
Net loss	$ (887,000)	$ (1,082,000)	$ (949,000)

Selling, general and administrative - affiliates expenses 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.

Income from Unconsolidated Affiliate

Income from our share of the Orlando Lake Forest Joint Venture increased approximately $10,000 in 2004. The increase is primarily due to a decrease in administrative salaries and advertising.

Liquidity and Capital Resources

The primary sources of our liquidity are the ability of us and our subsidiaries, NTS/LFII and NTS/VA, to continue to defer payment of amounts owed to NTS Development Company and NTS Residential Management Company, to draw upon our development loan and the net proceeds retained from sales of residential lots and homes owned by our subsidiaries and the Joint Venture. Under the development loan we are required to make principal payments equal to 91% of gross receipts from lot sales in the Fawn Lake development owned by NTS/VA and the Lake Forest development owned by NTS/LFII. The development loan also requires that 90% of proceeds from the sale of the country club memberships be applied to the outstanding development loan balance.

NTS Development Company and NTS Residential Management Company have agreed to defer amounts owed to them by us as of December 31, 2004 and those amounts that will accrue during fiscal 2005 through the period ending March 31, 2006, other than as permitted by our cash flows. There can be no assurances that this level of support will continue past March 31, 2006. If these amounts are not deferred, such action could have a material adverse effect on our liquidity and financial condition. Payment of such deferred amounts would be dependent upon available operating cash flow or funding from potential third-party resources in the form of loans or advances.

Under the terms of our development loan, we may draw up to $9,500,000 for certain development costs in accordance with the provisions of the loan agreement. The available balance is not immediately drawable except for the items included in the loan agreement. As of December 31, 2004, the loan balance was $0. If the balance on the loan exceeded $9,500,000 as of December 31, 2004, the lender would be entitled, pursuant to provisions of the development loan, to take possession of the unsold lots and all other security pledged for this loan. Failure to generate sufficient proceeds from lot sales or the lack of further availability under the development loan may have a material adverse effect on our liquidity and capital resources.

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.

The following table summarizes our sources/uses of cash flow for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Operating activities	$ 6,526,308	$ 2,695,277	$ 9,438,966
Investing activities	(200,247)	(378,734)	(268,132)
Financing activities	(5,906,199)	(2,239,877)	(8,923,971)
Net increase in cash and equivalents	$ 419,862	$ 76,666	$ 246,863

Cash provided by operating activities was approximately $6,526,000 in 2004. The primary components of the cash provided by operating activities were the decrease in inventory of approximately $8,264,000 from lot sales, which was partially offset by the net loss of approximately $1,137,000.

Cash provided by operating activities was approximately $2,695,000 in 2003. The primary components of the cash provided by operating activities was the decrease in inventory of $4,175,000 from lot sales, which was partially offset by the net loss of approximately $1,815,000 which was due to, among other things, our lower gross margin on lot sales as described under “Results of Operations/Revenues” above.

Cash provided by operating activities was approximately $9,439,000 in 2002. The primary components of the cash provided by operating activities was the decrease in inventory of $9,027,000 from lot sales and the land sale to the U.S. National Park Service, which was partially offset by the net loss of approximately $862,000.

Cash used in investing activities was approximately $200,000 in 2004, consisting of capital expenditures associated with golf operations at NTS/VA.

Cash used in investing activities was approximately $379,000 in 2003, consisting primarily of capital expenditures associated with golf operations at NTS/LFII and NTS/VA of approximately $152,000 and $225,000, respectively.

Cash used in investing activities was approximately $268,000 in 2002. The components of the cash used in investing activities were additional capital contributions to our unconsolidated affiliate of approximately $43,000 and capital additions, primarily at the NTS/LFII and NTS/VA golf operations, of approximately $52,000 and $173,000, respectively.

Cash used in financing activities was approximately $5,906,000 in 2004, consisting primarily of net payments on notes payable relating to the development loan for NTS/LFII and NTS/VA projects of approximately $8,469,000, which were partially offset by amounts deferred by NTS Development and NTS Management and other affiliates of approximately $2,563,000.

Cash used in financing activities was approximately $2,240,000 in 2003, consisting primarily of net payments on notes payable relating to the development loan for NTS/LFII and NTS/VA projects of approximately $3,888,000, which were partially offset by amounts deferred by NTS Development and NTS Management and other affiliates of approximately $1,648,000.

Cash used in financing activities was approximately $8,924,000 in 2002, consisting primarily of net payments on notes payable relating to the development loan for NTS/LFII and NTS/VA projects of approximately $10,985,000 which were partially offset by amounts deferred by NTS Development and NTS Management and other affiliates of approximately $2,274,000.

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 which was used to pay the entire principal balance of the NTS/LFII and NTS/VA loans. The loan is secured by the NTS/LFII and NTS/VA projects, 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. 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 will be as follows:

December 31, 2004	$	9,500,000
December 31, 2005	$	9,000,000
December 31, 2006	$	5,500,000
December 31, 2007	$	1,000,000

On December 31, 2004, our loan balance was $0. Based on our 2005 budget, we expect to meet the maximum loan balance obligation on December 31, 2005.

For the years ended December 31, 2004, 2003 and 2002, we capitalized into inventory approximately $207,000, $1,396,000 and $930,000, respectively, of the membership sales costs and LFCC operating deficits, respectively. Subsequent to the turnover of LFCC ownership and operations to the members the only costs capitalized to inventory are costs associated with initial membership sales. The proceeds from these initial membership sales will continue to offset inventory on our balance sheet, see Item 8 - Note 6.

Pursuant to the Membership Marketing Agreement, dated June 7, 2004, between NTS/LFII and the Lake Forest Country Club, NTS/LFII is to receive 50% of initiation fees from the initial issuance of the remaining initial memberships to the Country Club. As long as the agreement is in effect, we expect that we will not incur any marketing or selling expenses related to issuance of initial memberships. We are not responsible for any refund related to any issued memberships.

This discussion of liquidity and capital resources along with the table of contractual obligations and commercial commitments that follows, details our material commitments.

Dissolution and Liquidation

We are a finite life entity. Our organizational documents require us to commence an orderly liquidation by December 31, 2008. Delaware law, our state of incorporation, provides us with a three-year period after the initiation of our liquidation to wind up our affairs and issue final distributions to stockholders. We anticipate initiating our liquidation on or before December 31, 2008.

NTS Guaranty Corporation (the "Guarantor"), an affiliate of the Sponsor, has guaranteed that, at the time that we complete our liquidation and dissolve, the total distributions we have made to stockholders from all sources during our existence will be at least equal to the original capital contributions attributable to our then outstanding shares. As of December 31, 2004, the original capital contributions attributable to our outstanding shares were $63,690,000, and we had paid distributions of approximately $23,141,000.

In connection with our ongoing review of the status of our properties and progress to liquidation, our most recent analysis as of December 31, 2004 as to the approximate total distributions which we anticipate making to our stockholders through dissolution. As final liquidating distributions are not likely for 5-7 years, these estimates may change significantly prior to dissolution.

The final liquidating distributions will be made after payment of all of our debts and obligations, including $13,087,453 currently deferred and owed to Affiliates of the Sponsor by us, our portion of the $1,584 (as of December 31, 2004 our portion is approximately $792) currently deferred and owed to Affiliates of the Sponsor by the Orlando Lake Forest Joint Venture, and the release of collateral provided by Affiliates of the Sponsor securing our loan from Provident Bank in the amount of $1,405,810. See Item 13 – Certain Relationships and Related Transactions for further discussions of amounts currently deferred and owed to Affiliates of the Sponsor. Based upon the analysis referred to above, we currently do not anticipate that the ultimate proceeds from future asset sales and final liquidation will be sufficient to return to stockholders an amount equal to original capital contributions attributable to then outstanding shares. Thus, we anticipate the guaranty to be called upon in order to return original capital contributions attributable to the then outstanding shares.

Any liability of the Guarantor under the guaranty is expressly limited to its assets. The Guarantor holds 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 or that the Guarantor will be able to satisfy its obligation under the guaranty. The Guarantor may in the future guarantee obligations of other third parties, including guaranties of obligations owed by our affiliates to other entities. Based on the analysis referred to above and the $10,000,000 to be provided for by the Guarantor, the remaining amount projected to be distributed to stockholders appears to be sufficient to meet the return of capital guaranty to stockholders. The amount available for distribution to our stockholders, however, cannot be estimated with any certainty given that final distributions are not likely for 5-7 years. This estimate may change significantly prior to dissolution.

Contractual Obligations and Commercial Commitments

The following disclosure represents 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	$ 1,405,810	$ -	$ 1,405,810	$ -	$ -
Capital lease obligations	$ 128,186	$ 36,276	$ 78,126	$ 13,784	$ -
Operating leases (1)	$ -	$ -	$ -	$ -	$ -
Other long-term obligations	$ -	$ -	$ -	$ -	$ -
Total contractual cash obligations	$ 1,533,996	$ 36,276	$ 1,483,936	$ 13,784	$ -

(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	$ 297,979	$ 297,979	$ -	$ -	$ -
Standby letters of credit and guarantees	$ -	$ -	$ -	$ -	$ -
Other commercial commitments (2)	$ -	$ -	$ -	$ -	$ -
Total commercial commitments	$ 297,979	$ 297,979	$ -	$ -	$ -

(2) 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.

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 and NTS/VA 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 subject to default should the ability of NTS/LFII, NTS/VA and/or the Fund to make principal and interest payments under such development loans become impaired.

Our ability to control our professional and administrative expenses could be affected by events such as litigation, the continued deferral of amounts owed to NTS, or environmental matters. 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, affect our projected cash and cash requirements as well as projected returns.

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 8 of our Consolidated Financial Statements under Item 8 of this Form 10-K. On December 31, 2004, a hypothetical 100 basis point increase in interest rates would result in an approximately $59,000 increase in interest due to our creditors. During the year ended December 31, 2004, the majority of interest expense incurred was capitalized in inventory.

Item 8 - Consolidated Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of NTS Mortgage Income Fund:

We have audited the accompanying consolidated balance sheets of NTS Mortgage Income Fund (the "Fund") as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NTS Mortgage Income Fund at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Louisville, Kentucky
March 11, 2005

NTS MORTGAGE INCOME FUND
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
Cash and equivalents	$ 1,309,537	$ 889,675
Membership initiation fees and other accounts receivable, net of allowance of approximately $134,000 and $53,000, respectively	519,016	698,663
Notes receivable	545,055	761,061
Inventory	26,637,219	34,704,677
Property and equipment, net of accumulated depreciation of approximately $1,371,000 and $1,140,000, respectively	3,187,785	3,219,359
Investment in unconsolidated affiliate	2,265,179	1,918,415
Other assets	236,569	239,167
TOTAL ASSETS	$ 34,700,360	$ 42,431,017
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ 1,801,897	$ 2,488,824
Accounts payable and accrued expenses - affiliates	13,087,453	10,524,103
Mortgages and notes payable	1,831,975	10,301,524
Other liabilities	341,080	341,302
TOTAL LIABILITIES	17,062,405	23,655,753
COMMITMENTS AND CONTINGENCIES (Note 13)		
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	(36,528,629)	(35,391,320)
TOTAL STOCKHOLDERS' EQUITY	17,637,955	18,775,264
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 34,700,360	$ 42,431,017

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, 2004, 2003, AND 2002

	2004	2003	2002
REVENUES			
Lot sales, net of discounts	$ 19,595,792	$ 16,139,226	$ 15,547,490
Land sales (Note 6)	-	-	6,100,000
Total sales	19,595,792	16,139,226	21,647,490
Cost of sales	(16,174,664)	(12,991,495)	(16,442,857)
Gross profit	3,421,128	3,147,731	5,204,633
Country Club revenue	1,641,018	1,376,761	1,362,686
Interest income on cash equivalents and miscellaneous income	70,944	68,605	66,517
	5,133,090	4,593,097	6,633,836
EXPENSES			
Selling, general and administrative - affiliates	2,281,508	2,546,697	3,154,617
Selling, general and administrative	1,579,804	1,484,136	1,616,162
Interest expense	368	31,676	75,782
Other taxes and licenses	114,384	71,348	152,719
Depreciation and amortization expense	113,111	152,754	164,574
Country Club operations	2,527,988	2,458,699	2,311,495
TOTAL OPERATING EXPENSES	6,617,163	6,745,310	7,475,349
Loss before other income (expense) and income taxes	(1,484,073)	(2,152,213)	(841,513)
Income (loss) from investment in unconsolidated affiliate	346,764	337,206	(20,220)
Loss before income taxes	(1,137,309)	(1,815,007)	(861,733)
Income taxes	-	-	-
Net loss	$ (1,137,309)	$ (1,815,007)	$ (861,733)
Per share of common stock:			
Net loss per share	$ (0.36)	$ (0.57)	$ (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
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Deficit	Total
Stockholders' equity January 1, 2002	3,187,333	$ 3,187	$ 54,163,397	$ (32,714,580)	$ 21,452,004
Net loss	-	-	-	(861,733)	(861,733)
Stockholders' equity December 31, 2002	3,187,333	3,187	54,163,397	(33,576,313)	20,590,271
Net loss	-	-	-	(1,815,007)	(1,815,007)
Stockholders' equity December 31, 2003	3,187,333	3,187	54,163,397	(35,391,320)	18,775,264
Net loss	-	-	-	(1,137,309)	(1,137,309)
Stockholders' equity December 31, 2004	3,187,333	$ 3,187	$ 54,163,397	$ (36,528,629)	$ 17,637,955

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, 2004, 2003, AND 2002

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (1,137,309)	$ (1,815,007)	$ (861,733)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization expense	113,111	152,754	164,574
(Income) loss from investment in unconsolidated affiliate	(346,764)	(337,206)	20,220
Changes in assets and liabilities:			
Membership initiation fees and other accounts receivable	179,647	525,578	229,555
Notes receivable	216,006	34,107	170,534
Inventory	8,263,817	4,174,891	9,026,595
Accounts payable and accrued expenses	(686,927)	(193,580)	599,180
Other liabilities	(222)	(24,022)	61,141
Other assets	(75,051)	177,762	28,900
Net cash provided by operating activities	6,526,308	2,695,277	9,438,966
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital contribution to unconsolidated affiliate	-	-	(43,500)
Purchase of property and equipment	(200,247)	(378,734)	(224,632)
Net cash used in investing activities	(200,247)	(378,734)	(268,132)
CASH FLOWS FROM FINANCING ACTIVITIES			
Accounts payable - affiliates	2,563,350	1,648,158	2,273,608
Proceeds from mortgages and notes payable	11,306,744	13,371,461	9,355,044
Proceeds from notes payable - affiliates	-	-	18,971
Payments on mortgages and notes payable	(19,776,293)	(17,259,496)	(20,339,737)
Payments on notes payable - affiliates	-	-	(231,857)
Net cash used in financing activities	(5,906,199)	(2,239,877)	(8,923,971)
Net increase in cash and equivalents	419,862	76,666	246,863
CASH AND EQUIVALENTS, beginning of year	889,675	813,009	566,146
CASH AND EQUIVALENTS, end of year	$ 1,309,537	$ 889,675	$ 813,009

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

NTS MORTGAGE INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Note 1 - Organization and 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 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").

We are a finite life entity. Our organizational documents require us to commence an orderly liquidation by December 31, 2008. Delaware law, our state of incorporation, provides us with a three-year period after the initiation of our liquidation to wind up our affairs and issue final distributions to stockholders.

NTS/LFII is in the process of developing approximately 1,109 residential lots of land located in Louisville, Kentucky into a single-family residential community (Lake Forest). As of December 31, 2004, approximately 951 of the 1,109 residential lots have been developed and approximately 85% 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, several lakes and a country club with a championship golf course.

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, 2004, approximately 818 of the 1,398 total lots have been developed and approximately 56% 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.

C) Principles of Consolidation and Basis of Presentation

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

Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an interpretation of ARB 51." In December 2003, the FASB issued FIN No. 46 (Revised December 2003), *"Consolidation of Variable Interest Entities*" ("FIN 46-R") to address certain FIN 46 implementation issues. The primary objectives of this interpretation are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities") and how to determine when and which business enterprise (the "primary beneficiary") should consolidate the variable interest entity. In addition, FIN 46 requires that the primary interest entity make additional disclosures. The adoption of these provisions did not have any impact on our financial statements.

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

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles, 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.

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 including marketing costs of initial membership sales of the Lake Forest Country Club, 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 (net of country club initiation fees) and 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.

G) Accounting for Impairment

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 years ended December 31, 2004, 2003 and 2002 did not result in an impairment loss.

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 $688,000, $766,000 and $921,000 during the years ended December 31, 2004, 2003 and 2002, 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.

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 payment for interest, net of amounts capitalized is as follows:

	2004	2003	2002
Interest, net of amounts capitalized	$ 368	$ 24,814	$ 32,978

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 Fawn Lake Country Club, (c) the operations of 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 been renewed through and including December 31, 2008. See Note 9 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 stockholder of NTS Corporation and is a majority stockholder of the managing general partner in the 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, 2004, approximately 721 of 732 total lots have been developed and approximately 87% 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, 2004 and 2003, our percentage interest was 50%, and our investment balance in the Joint Venture was $2,265,179 and $1,918,415, respectively. Our share of the Joint Venture's net income (loss) for the years ended December 31, 2004, 2003 and 2002 was $346,764, $337,206 and $(20,220), respectively.

Presented below are approximate condensed balance sheets for the Joint Venture as of December 31, 2004 and 2003, and approximate statements of operations for the three years ended December 31, 2004, 2003 and 2002:

	December 31, 2004	December 31, 2003
Balance Sheets		
Inventory	$ 3,262,000	$ 2,804,000
Other, net	2,323,000	2,612,000
Total assets	$ 5,585,000	$ 5,416,000
Mortgages and notes payable	$ -	$ 11,000
Other liabilities	1,055,000	1,568,000
Equity	4,530,000	3,837,000
Total liabilities and equity	$ 5,585,000	$ 5,416,000

	Year Ended December 31,		
	2004	2003	2002
Statements of Operations			
Lot sales, net of discounts	$ 6,213,000	$ 8,103,000	$ 5,239,000
Cost of sales	(4,331,000)	(5,927,000)	(3,728,000)
Other expenses, net	(1,188,000)	(1,502,000)	(1,551,000)
Net income (loss)	$ 694,000	$ 674,000	$ (40,000)

Note 4 - Member Initiation Fees and Other Accounts Receivable

Fawn Lake Country Club and Lake Forest Country Club membership initiation fees receivable totaled approximately $240,000 and $135,000 as of December 31, 2004 and 2003, respectively. The receivable is net of a discount of $130,000 and $43,000, 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 $151,000 and $258,000 as of December 31, 2004 and 2003, respectively. This receivable is net of an allowance for doubtful accounts of $4,000 and $10,000, respectively. See Note 9 regarding our receivable for the sale of undeveloped land.

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, with monthly payments based on a 30-year amortization and the balance due at the maturity date. Notes totaling approximately $298,000 and $434,000 are pledged as security for notes payable to banks under certain Warehouse Line of Credit Agreements and other debt agreements as of December 31, 2004 and 2003, respectively.

The minimum scheduled notes receivable payments on December 31, 2004 are approximately as follows:

	Amount
2005	$ 244,000
2006	219,000
2007	82,000
	$ 545,000

Note 6 - Inventory

Inventory consisted of approximately the following as of December 31, 2004:

	NTS/LFII	NTS/VA	Consolidated
Land held for future development, under development and completed lots	$ 283,000	$ 16,678,000	$ 16,961,000
Country club (net of $9,134,000 membership initiation fees)	219,000	-	219,000
Amenities	54,000	9,403,000	9,457,000
	$ 556,000	$ 26,081,000	$ 26,637,000
Items capitalized to inventory in 2004			
Capitalized interest	$ 3,000	$ 374,000	$ 377,000
Capitalized property taxes	$ 10,000	$ 188,000	$ 198,000

Inventory consisted of approximately the following as of December 31, 2003:

	NTS/LFII	NTS/VA	Consolidated
Land held for future development, under development and completed lots	$ 1,841,000	$ 17,053,000	$ 18,894,000
Country club (net of $8,230,000 membership initiation fees)	3,455,000	-	3,455,000
Amenities	674,000	11,682,000	12,356,000
	$ 5,970,000	$ 28,735,000	$ 34,705,000
Items capitalized to inventory in 2003			
Capitalized interest	$ 70,000	$ 663,000	$ 733,000
Capitalized property taxes	$ 12,000	$ 222,000	$ 234,000

Pursuant to the Membership Marketing Agreement, dated June 7, 2004, between NTS/LFII and the Lake Forest Country Club, NTS/LFII is to receive 50% of initiation fees from the initial issuance of the remaining initial memberships to the Country Club. As long as the agreement is in effect, we expect that we will not incur any marketing or selling expenses related to issuance of initial memberships. We are not responsible for any refund related to any issued memberships. During 2004 and 2003 the Lake Forest Country Club operating deficit was approximately $207,000 and $1,396,000, respectively, and was capitalized as a cost of inventory. On December 28, 2003, the Lake Forest Country Club ownership and operations were turned over to its members.

We capitalized in inventory approximately $575,000 and $967,000 of interest and real estate taxes during 2004 and 2003, respectively. Interest and real estate taxes incurred was approximately $616,000 and $1,039,000 for the years ended December 31, 2004 and 2003, respectively.

Inventory for 2004 includes approximately $9,353,000, net of approximately $9,134,000 of net country club membership initiation fees, of costs incurred to date for the development of the Lake Forest Country Club.

Inventory for 2003 includes approximately $11,685,000, net of approximately $8,230,000 of net country club membership initiation fees, of costs incurred to date for the development of the Lake Forest Country Club.

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 property and equipment 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 in the accompanying balance sheets. Initiation fees are recorded as a reduction of inventory cost.

On April 15, 2002, NTS/VA 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 were used as working capital.

Note 7 - Property and Equipment

Property and equipment is stated at historical cost, net of accumulated depreciation. Land and buildings are depreciated over the estimated useful lives of the assets which are 10-30 years, while equipment is depreciated over 5-12 years. The following schedule provides an analysis of our approximate investment in property and equipment on December 31:

	2004	2003
Land and buildings	$ 3,313,000	$ 3,287,000
Equipment	1,246,000	1,072,000
	4,559,000	4,359,000
Less accumulated depreciation	1,371,000	1,140,000
	$ 3,188,000	$ 3,219,000

Note 8 - Mortgages and Notes Payable

Mortgages and notes payable consist of the following:

	2004	2003
Mortgage loan payable to a bank in the amount of $18,000,000, bearing interest at the Prime Rate + 1.0%, payable monthly, due December 31, 2007, 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.	$ -	$ 3,003,060
Note payable to a bank in the amount of $9,000,000, bearing interest at 8.25%, payable monthly, due May 1, 2006, secured by a Certificate of Deposit owned by NTS Financial Partnership, an affiliate of the Fund.	1,405,810	6,696,959
Warehouse line of credit agreement with a bank, bearing interest at the Prime Rate + .75% , due June 15, 2005, secured by notes receivable (see Note 5), principal payments consist of payments received from notes receivable securing the obligation	297,979	433,581
Other	128,186	167,924
	$ 1,831,975	$ 10,301,524

We anticipate seeking renewals or refinancing the debt coming due within the next twelve months with our existing creditors, however, there can be no assurances that we will be successful in doing so. The Prime Rate was 5.25% and 4.0% on December 31, 2004 and 2003, respectively.

The minimum scheduled principal payments on debt outstanding on December 31, 2004 are approximately as follows:

2005	$ 334,000
2006	1,444,000
2007	40,000
2008	14,000
Thereafter	-
	$ 1,832,000

The Fund's mortgage loan is secured by the NTS/LFII and NTS/VA projects, a guarantee by the Fund for the full $18,000,000 face amount, and a personal guarantee by J.D. Nichols for 50% of the outstanding loan balance. 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.

On May 16, 2003, the loan was amended to remove the requirement that 50% of the Joint Venture's net sales proceeds be applied against the outstanding balance and to include the payment to the lender of 90% of the gross initiation fees from Country Club memberships sold. The loan is a reducing revolver. The maximum amount outstanding at the end of each year is limited as follows:

December 31, 2004	$ 9,500,000
December 31, 2005	$ 9,000,000
December 31, 2006	$ 5,500,000
December 31, 2007	$ 1,000,000

The available balance is not immediately drawable except for the items provided for in the loan agreement.

Note 9 - Related Party Transactions

During 2004 an affiliate of the Fund, Cedar Creek Virginia LLC, entered into an agreement to purchase 13 lots from the Fund for the purpose of building homes on speculation for sale to individuals. Cedar Creek Virginia LLC is partially owned by J.D. Nichols and Brian F. Lavin. The Fund agreed to defer actual sale of these lots until final closing where each home would be sold to an individual purchaser. The lot price in the agreement was determined by comparing the sales price of competitive lots within the NTS/VA Fawn Lake Development. We sold 4 lots in 2004 under this agreement.

As of December 31, 2004, the Sponsor or an affiliate owned 382,842 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 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"). NTS Development Company is a wholly-owned subsidiary of the Fund's Sponsor. The Management Agreements have been renewed through December 31, 2008. 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, 2004, 2003 and 2002. These amounts are reflected in selling, general and administrative - affiliates on the accompanying consolidated statements of operations in accordance with the Management Agreements.

	2004	2003	2002
Personnel related costs:			
Finance and accounting	$ 268,000	$ 273,000	$ 245,000
Data processing	29,000	52,000	73,000
Human resources	54,000	49,000	38,000
Sales and administrative	1,100,000	1,245,000	1,531,000
Legal	56,000	90,000	66,000
Marketing	-	55,000	113,000
Rent	21,000	48,000	49,000
Other general and administrative	-	107,000	197,000
Total expense reimbursements	$ 1,528,000	$ 1,919,000	$ 2,312,000

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, 2004, 2003 and 2002, was approximately $754,000, $628,000 and $843,000, 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 $1,215,000, $3,242,000 and $3,274,000 accrued to NTS Management or an affiliate during the years ended December 31, 2004, 2003 and 2002, respectively, for Fawn Lake Country Club and Lake Forest Country Club prior to 2004. 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 $61,000, $177,000 and $176,000 accrued to NTS Management for overhead recovery fees at Fawn Lake Country Club and Lake Forest Country Club for the years ended December 31, 2004, 2003, and 2002. The Lake Forest Country Club expense reimbursements and overhead recovery fees were capitalized in inventory for the years ended December 31, 2003, and 2002. The Fawn Lake Country Club expense reimbursements and overhead recovery fees were included with country club operations in our statement of operations for the years ended December 31, 2004, 2003 and 2002.

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 stockholders of the Fund an amount which, after adding thereto all other payments actually remitted or distributed to such stockholders of the Fund, is at least equal to the stockholders' original capital contribution. As of December 31, 2004, we had raised approximately $63,690,000 and had paid distributions of approximately $23,141,000. As of December 31, 2004, no amount had been accrued as an incentive payment in our consolidated financial statements.

Accounts Payable and Accrued Expenses - Affiliates

As of December 31, 2004, we owed approximately $13,087,000 to affiliates for fees and reimbursements, including $11,886,000 owed to NTS Development and NTS Management for salary and overhead reimbursements included in accounts payable and accrued expenses - affiliates.

NTS Development and NTS Management have agreed to defer, until March 31, 2006, amounts owed to them by us as of December 31, 2004 and those amounts accruing from January 1, 2005 through March 31, 2006, other than as permitted by our cash flows. There can be no assurances that NTS Development and NTS Management will continue to defer amounts due them past March 31, 2006.

Sale of Undeveloped Land

On March 6, 2001, 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. The receivable balance related to this sale was approximately $123,000 and $210,000, on December 31, 2004 and 2003, respectively. The transactional values were derived from an independent appraisal performed by Integra Chapman & Bell dated January 4, 2000.

Note 10 - Country Club Accounting

Presented below are the approximate condensed statements of operations for the Fawn Lake Country Club for the years ended December 31, 2004, 2003 and 2002:

	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003	For the Year Ended December 31, 2002
Revenues			
Operating revenue	$ 1,641,000	$ 1,377,000	$ 1,361,000
Other revenue	-	-	2,000
Total revenues	1,641,000	1,377,000	1,363,000
Expenses			
Cost of goods sold	339,000	306,000	248,000
Selling, general and administrative - affiliates	1,276,000	1,324,000	1,380,000
Selling, general and administrative	786,000	752,000	643,000
Depreciation	127,000	77,000	41,000
Total expenses	2,528,000	2,459,000	2,312,000
Net loss	$ (887,000)	$ (1,082,000)	$ (949,000)

Selling, general and administrative - affiliates include expense reimbursements of approximately $1,215,000 and overhead recovery fees of approximately $61,000, 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 11 - 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:

	2004	2003
Deferred tax assets/liabilities		
Net operating loss carry forwards	$ 9,929,000	$ 9,057,000
Inventory	1,021,000	1,682,000
Deferred revenue	181,000	164,000
Deferred tax assets	11,131,000	10,903,000
Deferred tax liability	(833,000)	(1,040,000)
Valuation allowance	(10,298,000)	(9,863,000)
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 on December 31, 2004 and 2003, will not be realized. As of December 31, 2004, we have a federal net operating loss carryforward of approximately $26,128,000 expiring during various years beginning in 2012 and ending in 2023.

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

	2004	2003
Tax benefit using statutory rate	$ 387,000	$ 617,000
Valuation allowance	(436,000)	(650,000)
Other	49,000	33,000
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 12 - 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 13 - Commitments and Contingencies

We, as an owner of real estate, are subject to various environmental laws of federal, state 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 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 and none of which is expected to have a material adverse effect on our consolidated financial statements. We believe we have adequate insurance.

NTS/LFII and NTS/VA have various certificates of deposit, bonds and letters of credit outstanding to governmental agencies and utility companies totaling approximately $1,400,000 and $6,694,000 as of December 31, 2004. The primary purpose of these instruments 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 the homeowners' association amenities at the Fawn Lake project will be substantially completed by December 2009. Based on engineering studies and projections, NTS/VA will incur additional costs, excluding interest, of approximately $3,810,000 to complete the homeowners' association amenities for the project. These costs are estimated to be incurred as follows: $2,101,000 for 2005, $1,346,000 for 2006, $211,000 for 2007, $81,000 for 2008, and $71,000 for 2009.

Note 14 - Guaranties to the Fund

NTS Guaranty Corporation (the "Guarantor"), an affiliate of the Sponsor, has guaranteed that, at the time that we are liquidated and dissolved, the total distributions we have made to stockholders from all sources during our existence is at least equal to the original capital contributions attributable to our then outstanding shares. As of December 31, 2004, the original capital contributions attributable to our outstanding shares were $63,690,000, and we had paid distributions of approximately $23,141,000.

Any liability of the Guarantor under the guaranty is expressly limited to its assets. The Guarantor holds 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 or that the Guarantor will be able to satisfy its obligation under the guaranty. The Guarantor may in the future guarantee obligations of other third parties including guaranties of obligations owed by our affiliates to other entities.

Note 15 - Unaudited Quarterly Financial Data

2004	March 31	June 30	September 30	December 31	Total
Total sales	$ 3,035,955	$ 5,765,779	$ 2,945,336	$ 7,848,722	$ 19,595,792
Cost of sales	(2,498,122)	(4,698,972)	(2,399,498)	(6,578,072)	(16,174,664)
Gross profit	537,833	1,066,807	545,838	1,270,650	3,421,128
Total expenses	1,412,841	1,776,691	1,688,105	1,739,526	6,617,163
Loss before other income (expense) and federal income tax	(526,301)	(258,596)	(621,437)	(77,739)	(1,484,073)
Income (loss) from investment in unconsolidated affiliate	80,009	190,354	(12,477)	88,878	346,764
(Loss) income before federal income tax	(446,292)	(68,242)	(633,914)	11,139	(1,137,309)
Federal income tax	-	-	-	-	-
Net (loss) income	$ (446,292)	$ (68,242)	$ (633,914)	$ 11,139	$ (1,137,309)
Net loss per share	$ (0.14)	$ (0.02)	$ (0.20)	$ 0.00	$ (0.36)

2003	March 31	June 30	September 30	December 31	Total
Total sales	$ 1,898,282	$ 1,861,564	$ 3,886,247	$ 8,493,133	$ 16,139,226
Cost of sales	(1,496,545)	(1,594,450)	(3,178,699)	(6,721,801)	(12,991,495)
Gross profit	401,737	267,114	707,548	1,771,332	3,147,731
Total expenses	1,482,597	1,614,783	1,633,445	2,014,485	6,745,310
(Loss) income before other income (expense) and federal income tax	(764,944)	(911,351)	(494,124)	18,206	(2,152,213)
Income from investment in unconsolidated affiliate	58,851	28,669	100,143	149,543	337,206
(Loss) income before federal income tax	(706,093)	(882,682)	(393,981)	167,749	(1,815,007)
Federal income tax	-	-	-	-	-
Net (loss) income	$ (706,093)	$ (882,682)	$ (393,981)	$ 167,749	$ (1,815,007)
Net (loss) income per share	$ (0.22)	$ (0.28)	$ (0.12)	$ 0.05	$ (0.57)

REPORT OF INDEPENDENT AUDITORS

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, 2004 and 2003, and the related statements of operations, partners' equity and cash flows for the years then ended. 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. We were not engaged to perform an audit of the Orlando Lake Forest Joint Venture's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Orlando Lake Forest Joint Venture's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and 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 at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young, LLP

Louisville, Kentucky
March 11, 2005

ORLANDO LAKE FOREST JOINT VENTURE
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
Cash and equivalents	$ 2,241,873	$ 2,475,442
Inventory	3,262,205	2,804,041
Property and equipment, net of accumulated depreciation of approximately $102,000 and $71,000	62,839	93,219
Other assets	18,186	43,274
TOTAL ASSETS	$ 5,585,103	$ 5,415,976
LIABILITIES AND PARTNERS' EQUITY		
Accounts payable and accrued expenses	$ 1,012,662	$ 426,509
Accounts payable - affiliates	1,584	1,070,920
Notes and mortgage loans payable	-	11,017
Lot deposits	40,500	70,700
TOTAL LIABILITIES	1,054,746	1,579,146
COMMITMENTS AND CONTINGENCIES (Note 4)		
TOTAL PARTNERS' EQUITY	4,530,357	3,836,830
TOTAL LIABILITIES AND PARTNERS' EQUITY	$ 5,585,103	$ 5,415,976

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, 2004, 2003 AND 2002

	2004	2003	2002
REVENUES			
Lot sales, net of discounts	$ 6,212,522	$ 8,103,247	$ 5,238,735
Cost of sales	(4,331,373)	(5,926,843)	(3,727,551)
Gross profit	1,881,149	2,176,404	1,511,184
EXPENSES			
Selling, general and administrative - affiliates	646,662	897,096	877,285
Selling, general and administrative	535,930	609,945	708,792
Interest expense	880	2,950	-
Depreciation and amortization expense	30,380	28,936	25,210
TOTAL OPERATING EXPENSES	1,213,852	1,538,927	1,611,287
Income (loss) before interest and other income	667,297	637,477	(100,103)
Interest and other income	26,230	36,934	59,665
Net income (loss)	$ 693,527	$ 674,411	$ (40,438)

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, 2004, 2004 AND 2002

	Partners' Equity
Partners' equity January 1, 2002	$ 3,115,857
Net loss	(40,438)
Capital contributions	87,000
Partners' equity December 31, 2002	3,162,419
Net income	674,411
Partners' equity December 31, 2003	3,836,830
Net income	693,527
Partners' equity December 31, 2004	$ 4,530,357

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, 2004, 2003, AND 2002

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 693,527	$ 674,411	$ (40,438)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	30,380	28,936	25,210
Changes in assets and liabilities:			
Notes receivable	-	-	44,829
Inventory	(436,341)	3,790,056	(54,777)
Other assets	3,265	(5,023)	(16,429)
Accounts payable and accrued expenses	586,153	(444,802)	395,905
Lot deposits	(30,200)	4,400	3,300
Net cash provided by operating activities	846,784	4,047,978	357,600
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	-	(78,075)	(3,681)
Net cash used in investing activities	-	(78,075)	(3,681)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable	-	1,976,385	3,056,395
Payments on notes payable	(11,017)	(2,171,362)	(3,856,647)
Accounts payable - affiliates	(1,069,336)	(1,389,302)	326,237
Capital contribution	-	-	87,000
Loan costs	-	(19,835)	(19,535)
Net cash used in financing activities	(1,080,353)	(1,604,114)	(406,550)
Net (decrease) increase in cash and equivalents	(233,569)	2,365,789	(52,631)
CASH AND EQUIVALENTS, beginning of year	2,475,442	109,653	162,284
CASH AND EQUIVALENTS, end of year	$ 2,241,873	$ 2,475,442	$ 109,653

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

ORLANDO LAKE FOREST JOINT VENTURE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Note 1 - Organization and 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.

C) Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles, 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) Accounting for Impairment

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 years ended December 31, 2004, 2003 and 2002 did not result in an impairment loss.

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 $211,000, $353,000 and $504,000 during the years ended December 31, 2004, 2003 and 2002, 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, 2004 and 2003.

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:

	2004	2003	2002
Interest, net of amounts capitalized	$ 874	$ 202,025	$ 4,969

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 Interests 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 residential subdivision lots.

Note 2 - Inventory

Inventory consists approximately of the following as of December 31:

	2004	2003
Land held for future development, under development and completed lots	$ 3,101,000	$ 2,420,000
Amenities	161,000	384,000
	$ 3,262,000	$ 2,804,000

OLFJV capitalized in inventory approximately $30,000 and $106,000 of interest and real estate taxes during 2004 and 2003, respectively. Interest and real estate taxes incurred were approximately $106,000 and $154,000 for the years ended December 31, 2004 and 2003, respectively.

Note 3 - 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 4 - Commitments and Contingencies

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 5 - 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 $413,000, $592,000 and $679,000 accrued to NTS Management or an affiliate during the years ended December 31, 2004, 2003 and 2002, 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:

	2004	2003	2002
Personnel related costs:			
Finance and accounting	$ 101,000	$ 79,000	$ 64,000
Sales and administrative	287,000	487,000	584,000
Data processing	14,000	16,000	19,000
Human resources	11,000	10,000	12,000
Total expense reimbursements	$ 413,000	$ 592,000	$ 679,000

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, 2004, 2003 and 2002, overhead recovery incurred was approximately $234,000, $305,000 and $198,000, respectively.

B) Accounts Payable - Affiliates

As presented in the accompanying balance sheet as of December 31, 2004, accounts payable - affiliates of approximately $2,000 is owed to NTS Development Company and NTS Residential Management Company for salary and overhead reimbursements.

REPORT OF INDEPENDENT AUDITORS

To the Stockholder of NTS Guaranty Corporation:

We have audited the accompanying balance sheets of NTS Guaranty Corporation (a Kentucky corporation) as of December 31, 2004 and 2003, and the related statements of operations for the years then ended. These financial statements are the responsibility of NTS Guaranty Corporation'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. We were not engaged to perform and audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NTS Guaranty Corporation's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and 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 NTS Guaranty Corporation at December 31, 2004 and 2003, and the results of its operations for the years then ended, in conformity accounting principles generally accepted in the United States.

Ernst & Young, LLP

Louisville, Kentucky
March 11, 2005

NTS GUARANTY CORPORATION
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
Cash	$ 100	$ 100
TOTAL ASSETS	$ 100	$ 100
LIABILITIES		
Guarantee liability	$ 10,000,000	$ -
STOCKHOLDER'S EQUITY		
Common stock, no par value, 100 shares issued and outstanding	10	10
Additional paid-in capital	10,000,090	10,000,090
Deficit	(10,000,000)	-
	100	10,000,100
Less non-interest bearing demand note receivable from the stockholder	(10,000,000)	(10,000,000)
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 100	$ 100

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
Guarantee liability	$ 10,000,000	$ -	$ -
Loss before income taxes	(10,000,000)	-	-
Income taxes	-	-	-
Net loss	$ (10,000,000)	$ -	$ -

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

NTS GUARANTY CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Note 1 - Organization and 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. No statements of cash flows are presented as there are no cash transactions to report during the three years ended December 31, 2004.

B) Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 - Commitments

NTS Guaranty Corporation, has guaranteed that, at the time that the Fund is liquidated and dissolved, the total distributions the Fund has made to stockholders from all sources during its existence is at least equal to the original capital contributions attributable to the then outstanding shares. As of December 31, 2004, the original capital contributions attributable to the Fund's outstanding shares were $63,690,000 and the Fund had paid distributions of approximately $23,141,000.

Any liability of the Guarantor under the guaranty is expressly limited to its assets. The Guarantor holds a $10 million demand note receivable from Mr. J.D. Nichols, sole stockholder of Guarantor and 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 or that the Guarantor will be able to satisfy its obligation under the guaranty. The Guarantor may in the future guarantee obligations of other third parties including guaranties of obligations owed by our affiliates to other entities.

The Fund is a finite life entity. Its organizational documents require it to commence an orderly liquidation by December 31, 2008. Delaware law, its state of incorporation, provides for a three-year period after the initiation of its liquidation to wind up its affairs and issue final distributions to stockholders.

In connection with an ongoing review of the status of the Fund's properties and progress to liquidation, the Fund has undertaken a preliminary analysis as to the approximate total distributions which it anticipates making to its stockholders through dissolution. As final liquidating distributions are not likely for 5-7 years, these estimates may change significantly prior to dissolution.

Based on the preliminary analysis referred to above and the $10,000,000 to be provided by the Guarantor, the remaining amount projected to be distributed to the Fund's stockholders appears to be sufficient to meet the return of capital guaranty to stockholders.

Note 3 - Guaranty Liability

The Fund's analysis, prepared as of December 31, 2004, as to the approximate total distributions which it anticipates making to its stockholders through dissolution were not estimated to return the original capital contributions attributable to its outstanding shares. As a result, the estimated distributions the Fund can pay, according to its analysis, is approximately $10 million less than the amount of distributions necessary to return the original capital contributions. We recognized a liability and recorded a charge for the guarantee in the amount of $10,000,000. No tax impact of the charge is reflected in our statements of operations because the deferred tax asset related to the charge has been fully reserved.

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

None.

Item 9A - Controls and Procedures

The President 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 evaluated our disclosure controls and procedures as of December 31, 2004. Based on that evaluation, the President of the NTS Mortgage Income Fund and the Chief Financial Officer of NTS Development Company concluded that our disclosure controls and procedures were effective as of December 31, 2004. There were no material changes in our internal controls over financial reporting during the fourth quarter of 2004.

PART III

Item 10 - Directors and Executive Officers of the Registrant

The information required by this Item 10 is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate filing no later than April 30, 2005.

Item 11 - Executive Compensation

The information required by this Item 11 is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate filing no later than April 30, 2005.

Item 12 - Security Ownership of Certain Beneficial Owners and Management

The information required by this Item 12 is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate filing no later than April 30, 2005.

Item 13 - Certain Relationships and Related Transactions

The information required by this Item 13 is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate filing no later than April 30, 2005.

Item 14 - Principal Accountant Fees and Services

The information required by this Item 14 is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate filing no later than April 30, 2005.

PART IV

Item 15 - Exhibits and Consolidated Financial Statement Schedules

1 - Consolidated Financial Statements

The consolidated financial statements for the NTS Mortgage Income Fund, Orlando Lake Forest Joint Venture and the NTS Guaranty Corporation, along with the reports from Ernst & Young LLP dated March 11, 2005, appear in Part II, Item 8.

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 exhibits can be found on our website www.ntsdevelopment.com.

Exhibit No.	Description
14	Code of Ethics

d) The following are additional exhibits filed with this Form 10-K Report.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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 of NTS Mortgage Income Fund

Date: March 29, 2005

Pursuant to the requirements of the Securities 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	Date: March 29, 2005
/s/ Gerald B. Brenzel Gerald B. Brenzel, Director	Date: March 29, 2005
/s/ Robert M. Day Robert M. Day, Director	Date: March 29, 2005
/s/ Robert A. Guimbarda Robert A. Guimbarda, Director	Date: March 29, 2005
/s/ Gerald B. Thomas Gerald B. Thomas, Director	Date: March 29, 2005
/s/ Gregory A. Wells Chief Financial Officer of NTS Development Company	Date: March 29, 2005

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

EXHIBIT 31.1

CERTIFICATION

I, Brian F. Lavin, certify that:

1. I have reviewed this annual report on Form 10-K of NTS Mortgage Income Fund;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the board of directors of the registrant:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: March 29, 2005

/s/ Brian F. Lavin
President of NTS Mortgage Income Fund

EXHIBIT 31.2

CERTIFICATION

I, Gregory A. Wells, certify that:

1. I have reviewed this annual report on Form 10-K of NTS Mortgage Income Fund;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the board of directors of the registrant:

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: March 29, 2005

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

EXHIBIT 32.1

CERTIFICATION

I, Brian F. Lavin, President of NTS Mortgage Income Fund (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Annual Report on Form 10-K of the Company for the annual period ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 29, 2005

/s/ Brian F. Lavin
President of NTS Mortgage Income Fund

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

EXHIBIT 32.2

CERTIFICATION

I, Gregory A. Wells, Chief Financial Officer of NTS Development Company, equivalent of the Chief Financial Officer of NTS Mortgage Income Fund (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Annual Report on Form 10-K of the Company for the annual period ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 29, 2005

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

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