

HOUSING DEVELOPMENT ALLIANCE, INC.

FINANCIAL STATEMENTS
AND REPORT OF AUDIT

For the Year Ended June 30, 2010

HOUSING DEVELOPMENT ALLIANCE, INC.

FINANCIAL STATEMENTS
AND REPORT OF AUDIT

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Chris Gooch

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Housing Development Alliance, Inc.

We have audited the accompanying statement of financial position of Housing Development Alliance, Inc. (a nonprofit organization) as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Housing Development Alliance, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2010, on our consideration of Housing Development Alliance, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Housing Development Alliance, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 17, 2010

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FINANCIAL POSITIONJune 30, 2010ASSETS

Current Assets:

Cash - Unrestricted		418,858
Receivables (Net of Allowance for Losses):		
Contracts	75,512	
Grants	20,000	
Loans	35,814	
Mortgages	954,388	
Other	70,110	
<u>Total Receivables</u>		1,155,824
Inventories - Materials and Supplies		3,340
Inventories - Homes for Sale		540,244
Prepaid Items and Other Assets		13,903
<u>Total Current Assets</u>		<u>2,132,169</u>

Fixed Assets:

Property and Equipment (Net of Accumulated Depreciation)		<u>2,029,736</u>
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Other Assets:

Deferred Mortgages Receivable	663,860	
Restricted Cash	371,753	
Replacement Reserves	10,724	
<u>Total Other Assets</u>		<u>1,046,337</u>

<u>Total Assets</u>		<u><u>5,208,242</u></u>
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See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FINANCIAL POSITIONJune 30, 2010LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	212,737
Accrued Payroll and Withholding	15,077
Accrued Fringe Benefits	46,358
Other Current Liabilities	68,341
Current Portion of Long-term Debt	<u>37,234</u>
<u>Total Current Liabilities</u>	<u>379,747</u>

Long-term Debt	<u>1,402,535</u>
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Rental Security Deposits	<u>2,337</u>
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<u>Total Liabilities</u>	<u>1,784,619</u>
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Net Assets:

Temporarily Restricted	2,642,951
Unrestricted	<u>780,672</u>
<u>Total Net Assets</u>	<u>3,423,623</u>

<u>Total Liabilities and Net Assets</u>	<u><u>5,208,242</u></u>
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See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

<u>REVENUES AND SUPPORT</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Construction Revenue/Grants	-	1,407,365	1,407,365
HOME Grant Revenue	-	228,745	228,745
CHDO Operating Revenue	40,000	-	40,000
HAC/SHOP Revenue	-	63,816	63,816
RHED Revenue	-	160,000	160,000
NHPL/NHRL Grant Revenue	-	17,980	17,980
Community Support/Contributions	32,469	-	32,469
ARC Grant Revenue	-	106,482	106,482
AHTF Grant Revenue	-	241,315	241,315
Fundraising Revenue	37,370	-	37,370
Developer's Fee	115,280	-	115,280
Other Grant Revenue	-	38,520	38,520
Interest Revenue	15,604	-	15,604
Rental Revenue	53,790	-	53,790
Miscellaneous Revenue	13,168	-	13,168
Volunteer Services & Fees	148,560	-	148,560
Youthbuild	30,000	-	30,000
Donated Assets	2,095	-	2,095
Net Assets Released from Restrictions	<u>1,670,716</u>	<u>(1,670,716)</u>	<u>-</u>
 <u>Total Revenue and Support</u>	 <u>2,159,052</u>	 <u>593,507</u>	 <u>2,752,559</u>
 Functional Expenses:			
Management and General	201,493	-	201,493
Program Services	2,151,456	-	2,151,456
Rental	89,604	-	89,604
Fundraising	<u>15,356</u>	<u>-</u>	<u>15,356</u>
 <u>Total Expenses</u>	 <u>2,457,909</u>	 <u>-</u>	 <u>2,457,909</u>
 Increase (Decrease) in Net Assets	 (298,857)	 593,507	 294,650
 <u>Net Assets, Beginning of Year, Restated</u>	 <u>1,079,529</u>	 <u>2,049,444</u>	 <u>3,128,973</u>
 <u>Net Assets, End of Year</u>	 <u>780,672</u>	 <u>2,642,951</u>	 <u>3,423,623</u>

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FUNCTIONAL EXPENSESFor the Year Ended June 30, 2010

	Program Services						Total
	Management and General	Rehab	New Homes	Other	Rental	Fundraising	
Materials	-	134,753	487,650	18,714	-	-	641,117
Subcontractors	-	14,193	449,357	4,461	7,069	-	475,080
Materials Fuel Charge	-	-	111	-	-	-	111
Services	-	3,048	22,430	655	-	-	26,133
Equipment Rental	-	422	1,570	75	-	-	2,067
Carpenter Wages	-	106,547	151,441	6,186	-	-	264,174
FICA/MC Expense	-	8,233	11,622	475	-	-	20,330
Salary Expense	81,624	56,117	109,281	46,938	4,678	9,411	308,049
FICA/MC Expense	6,264	5,973	10,767	3,603	359	722	27,688
Fringe Benefits	1,329	2,215	3,595	205	-	306	7,650
Workers Compensation Insurance	3,610	8,268	14,764	2,295	262	477	29,676
Crew Benefits/Work Expense	-	21,704	31,006	-	-	-	52,710
Warranty Work Expense	-	203	1,712	-	-	-	1,915
Health Insurance	10,416	19,443	33,330	4,166	694	1,389	69,438
Life Insurance	235	438	751	94	16	31	1,565
L/T & S/T Disability	718	1,341	2,299	287	48	96	4,789
Health Reimbursement Account	7,626	-	-	-	-	-	7,626
Benefit Admin	2,400	-	-	-	-	-	2,400
Retirement	6,422	-	-	-	-	-	6,422
Employee Incentives	11,238	-	-	-	-	-	11,238
Accounting/Audit	8,150	-	-	-	-	-	8,150
Advertising	1,759	133	639	7,661	25	-	10,217
Volunteer Expense	-	-	-	91,200	-	-	91,200
Networking Expense	5,509	-	-	-	-	-	5,509
Computer Software	3,313	70	195	450	17	2,531	6,576
Copier Supplies	1,014	51	50	-	-	-	1,115
Insurance	6,060	1,957	14,389	1,126	8,848	-	32,380
Storage Rental	-	130	670	850	-	-	1,650
Cleaning Services	367	312	862	220	3,442	-	5,203
Maintenance	2,385	170	470	120	8,924	-	12,069
Cleaning Supplies	125	-	93	-	123	-	341
Office Supplies	3,966	-	-	95	-	-	4,061
Postage	1,282	5	-	218	-	-	1,505
Publications	631	-	-	-	-	-	631
Seminars/Training	504	4,282	-	-	-	250	5,036
Travel/Meals	2,039	-	-	210	-	143	2,392
Telephone	1,499	691	1,923	490	161	-	4,764
Mobile Phone	1,211	617	1,683	421	140	-	4,072
Utilities	518	468	1,470	613	14,338	-	17,407

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

For the Year Ended June 30, 2010

	Management and General	Program Services					Total
		Rehab	New Homes	Other	Rental	Fundraising	
Membership	1,194	-	-	-	-	-	1,194
Board Training	294	-	-	-	-	-	294
Shop Supplies	-	265	316	5	-	-	586
Tools and Tool Repairs	-	5,547	6,358	458	217	-	12,580
Mileage	-	97	1,166	76	-	-	1,339
Fuel	1,429	9,305	18,810	2,405	-	-	31,949
Vehicle Maintenance	620	2,303	3,458	493	-	-	6,874
Vehicle Insurance	1,267	1,118	4,641	719	3,611	-	11,356
Appraisal and Architect Fees	-	-	750	490	-	-	1,240
Inspection Fees	-	-	8,931	-	-	-	8,931
Closing, Settlement and Recording Fees	25	668	7,236	93	-	-	8,022
Legal & Title Fees	-	-	1,337	5,992	-	-	7,329
Loan Origination Fee	-	-	126	-	-	-	126
Survey Fees	-	-	100	-	-	-	100
Catering	469	-	-	90	-	-	559
Licensing and Other Fees	1,270	942	1,439	695	12	-	4,358
Interest Expense	3,600	-	117	5,455	1,563	-	10,735
Late Fees	677	-	-	-	-	-	677
Miscellaneous Expense	10,359	20	2,685	-	-	-	13,064
Depreciation	8,075	6,044	12,089	3,240	35,057	-	64,505
Loss Expense	-	-	83,038	14,597	-	-	97,635
<u>Total</u>	<u>201,493</u>	<u>418,093</u>	<u>1,506,727</u>	<u>226,636</u>	<u>89,604</u>	<u>15,356</u>	<u>2,457,909</u>

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF CASH FLOWSFor the Year Ended June 30, 2010

<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Increase in net assets	294,650
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	64,505
Prior Period Adjustment	(7,400)
(Increase) Decrease in Operating Assets:	
Receivables	88,329
Inventories	(96,142)
Prepaid and Accrued Expense	6,369
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	172,672
Accrued Payroll and Withholding	4,051
Accrued Fringe Benefit	7,650
Other Current Liabilities	<u>(83,667)</u>
 <u>Net Cash Provided by Operating Activities</u>	 <u>451,017</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Acquisition of Property and Equipment	(392,954)
Sale and Disposal of Property	267,840
Net Increase in Reserve Account	<u>(2,232)</u>
 <u>Net Cash Used by Investing Activities</u>	 <u>(127,346)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>	
Loan Proceeds/Advances	111,170
Reduction of Principal	(113,610)
Net Increase in Rental Security Deposits	<u>337</u>
 <u>Net Cash Used by Financing Activities</u>	 <u>(2,103)</u>
 <u>NET INCREASE IN CASH</u>	 <u>321,568</u>
 <u>CASH, BEGINNING OF YEAR</u>	 <u>469,043</u>
 <u>CASH, END OF YEAR</u>	 <u><u>790,611</u></u>
Supplemental Cash Flow Information:	
Cash Paid During Year for Interest	<u><u>10,735</u></u>

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTSJune 30, 2010

Note 1 – Nature of Activities and Significant Accounting Policies

Nature of Activities

Housing Development Alliance, Inc. believes safe, decent, affordable housing is a basic human right. Housing Development Alliance, Inc. strives to develop a variety of housing options including shelter for the homeless, transitional housing, affordable rental housing, repair and rehabilitation of existing homes, and affordable new homes for persons with low and very low incomes. As a community based nonprofit, it seeks to bring together all sectors of the community to help eliminate substandard housing. Hazard-Perry County Housing Development Alliance, Inc., incorporated September 7, 1993, held its first board meeting February 15, 1994, and received its first funding August 4, 1994. In January 2008, due to the expansion of services into surrounding counties, Hazard-Perry County Housing Development Alliance, Inc. amended its articles of incorporation to change its name to Housing Development Alliance, Inc.

Basis of Accounting

The financial statements of Housing Development Alliance, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Promises to Give

Contributions are recognized when the donor makes a promise to give to Housing Development Alliance, Inc. that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Housing Development Alliance, Inc. uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management stated that no material promises to give by individuals existed at June 30, 2010.

Contributed Services/Property

During the year ended June 30, 2010, various groups volunteered time in rehab and new home projects. These contributions are reflected in the financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2010Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Housing Development Alliance, Inc. reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Housing Development Alliance, Inc. reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed on a straight-line basis over their estimated useful lives: buildings (30 to 50 years), vehicles (3 to 5 years), furniture and fixtures (5 to 7 years), and tools and equipment (3 to 5 years).

Financial Statement Presentation

Under SFAS No. 117, Housing Development Alliance, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, Housing Development Alliance, Inc. is required to present a statement of cash flows.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. The Organization has not received any support that would be classified as permanently restricted.

Donor restricted support is reported as an increase in temporarily restricted net assets, depending on the nature and timing of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2010Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Inventories

Inventories are valued at the lower of cost or market.

Loans Receivable

Loans and mortgages receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal adjusted by any charge-offs and the allowance for loan losses.

Interest revenue on loans is recorded when paid. Loan fees are included in the cost of the total loan amount and amortized over the life of the loan. Late fees are assessed based on an internally approved schedule and are recognized when paid. No loans receivable were used as collateral by the organization in financing arrangements.

Allowance for Loan Losses

The allowance for loan losses is maintained at an amount considered adequate to provide for potential losses. The allowance is based on periodic analysis of the loan portfolio. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowances is based on the entity's past experience, known and inherent risks to the portfolio, adverse situations that may affect the borrowers ability to pay and current economic conditions. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual loan terms.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents are cash – checking accounts and savings accounts.

Restrictions on Assets

Net assets released from restrictions consist of those construction related projects and programs that had been completed meeting project or program specifications.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

Functional Expense Reporting

The cost of providing program and supporting services has been summarized by function, based on estimates developed by management.

Note 2 – Cash

The composition of cash at June 30, 2010, is as follows:

	<u>Book</u> <u>Balance</u>	<u>Bank</u> <u>Balance</u>	<u>Interest</u> <u>Rate</u>	<u>Financial Institution</u>
Regular Operating Account	27,067	52,302	N/a	Peoples Bank & Trust
Revolving Loan Fund	5,130	5,130	0.75%	Peoples Bank & Trust
HAC/SHOP Restricted Account	20,684	20,684	0.75%	Peoples Bank & Trust
HOME Restricted Account	5	5	N/a	Peoples Bank & Trust
Operating Reserve	25,283	25,283	0.75%	Peoples Bank & Trust
Money Market Account	228,850	228,850	0.16%	Community Trust Bank
CHDO Proceeds	189,394	193,287	N/a	Community Trust Bank
Loan Fund	132,528	153,028	1.75%	First Trust Bank
FHLB Fund	153,893	153,893	1.00%	First Federal Savings & Loan
RHED Fund	<u>7,777</u>	<u>7,777</u>	N/a	Whitaker Bank
<u>Total</u>	<u>790,611</u>	<u>840,239</u>		

Custodial credit risk is the risk that in the event of bank failure the deposits may not be returned or Housing Development Alliance, Inc. may not recover collateral securities. Housing Development Alliance, Inc. does not require deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. The Organization has deposits totaling \$172,137 that is not covered by FDIC. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The organization has no investment accounts. Concentrations of credit risk are the risk of loss attributed to the magnitude of the Entity's investment in a single issuer. All of the organization's cash and investments are held at local financial institutions.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2010

Note 3 – Receivables

Receivables consist of the following at June 30, 2010:

Grant Receivable		
CHDO		20,000
Contracts Receivable		75,512
Other Receivables:		
Youthbuild Coordination		
HOMES, Inc.	2,127	
First Federal Savings & Loan	17,983	
FHLB	<u>50,000</u>	70,110
Mortgages and Loans Receivable	1,705,219	
Less: Loan Loss Allowance	<u>(51,157)</u>	
		<u>1,654,062</u>
		<u>1,819,684</u>

Mortgage and loans receivable consist of the following at June 30, 2010:

Mortgages Receivables	1,005,545
Loan Receivable	
Various Individual Loans	<u>35,814</u>
<u>Sub-total</u>	1,041,359
Deferred Mortgages Receivable (listed as other assets)	663,860
Indirect Mortgages Receivable	17,761
Less: Payments made directly to Kentucky Housing Corporation	(17,761)
Allowance for doubtful accounts	<u>(51,157)</u>
<u>Total Mortgages/Loans Receivable</u>	<u>1,654,062</u>

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2010

Note 3 – Receivables (continued)

Housing Development Alliance, Inc. uses an aging schedule to classify its loans receivable. The balance of delinquent loans outstanding at June 30, 2010 is \$33,192.

Note 4 – Property and Equipment

Changes in property and equipment are as follows:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
Land Held for Development	8,772	-	(8,772)	-
Lot and Improvements -				
Office/Shelter	159,210	-	-	159,210
Land - New Office	-	215,182	-	215,182
Land - Brashear Rental Lot	-	11,179	-	11,179
Office Equipment	53,686	-	-	53,686
Vehicles	133,006	2,095	-	135,101
Tools and Equipment	38,688	-	-	38,688
Wheel Chair Ramp System	10,120	-	-	10,120
Fall Protection System	17,105	-	-	17,105
Fall Protection System II	-	16,036	-	16,036
High Street Property and Improvements	434,899	-	-	434,899
Land - Guyla's Grace	18,906	-	-	18,906
Rental Bldg - Guyla's Grace	79,880	-	-	79,880
Land - Young Street	6,229	-	-	6,229
Building - Young Street	26,557	-	-	26,557
Moore Street Building	197,372	-	-	197,372
116 Fir Street Building	167,374	-	-	167,374
124 Fir Street Building	169,207	-	-	169,207
Land - Moore Street	37,603	-	-	37,603
Land - 116 Fir Street	18,337	-	-	18,337
Land - 124 Fir Street	18,337	-	-	18,337
Land - Bonnyman 1	9,200	4,500	-	13,700
Land - 2671 Big Creek	10,351	-	-	10,351
Land - Held for Development	-	66,036	-	66,036
Land - College St	24,443	-	(24,443)	-
Land - Typo Deaton	14,846	-	-	14,846
Land - Long Whitaker Fork	18,028	-	-	18,028
Land - Russell Street	10,045	-	-	10,045
Land - Defiance	39,866	-	(12,188)	27,678
Land - Steepfield	41,634	-	-	41,634
Land - Holland	9,321	-	-	9,321
Land - 2170 Big Smith Branch	43,018	-	(21,089)	21,929

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2010

Note 4 – Property and Equipment (continued)

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
Land - Victory Gardens - Parcel #1	32,533	-	-	32,533
Land - Victory Gardens - Parcel #2	35,000	-	-	35,000
Land - Brownsfork Upper	80,393	-	-	80,393
Land - Whitaker Fk Rd	13,567	-	(13,567)	-
Land - Mary Whitaker II	-	12,423	-	12,423
Land - Jake Fork Road	16,575	-	-	16,575
Land - Rowdy (Fugate)	21,415	-	-	21,415
Land - Victory Gardens - Parcel #3	29,250	-	-	29,250
Land - Town Mountain (1.71 acres remaining)	500	-	-	500
Land - Hardburly-Slone	9,499	-	-	9,499
Land - Combs St	19,626	-	(19,626)	-
Land - 1814 Hwy 451	16,597	-	-	16,597
Land - 133 Combs Street	11,847	-	-	11,847
Land - Pigeon Roost	40,603	-	-	40,603
Land - Olinger Dr	14,502	-	(14,502)	-
Land - LL Hall	17,078	-	(17,078)	-
Land - Ma Turner	6,926	-	(6,926)	-
Land - LL Triangle	105,447	-	(105,447)	-
Land - Colonial Club	12,202	-	(12,202)	-
Land - BBL White	-	53,503	-	53,503
Land - Butterfly-Toller-Cmpbl	-	12,000	(12,000)	-
<u>Sub-total</u>	<u>2,299,600</u>	<u>392,954</u>	<u>(267,840)</u>	<u>2,424,714</u>
Less: Accumulated Depreciation	<u>(330,473)</u>	<u>(64,505)</u>	<u>-</u>	<u>(394,978)</u>
<u>Totals</u>	<u>1,969,127</u>	<u>328,449</u>	<u>(267,840)</u>	<u>2,029,736</u>

Total depreciation expense for the year ended June 30, 2010 was \$64,505.

Note 5 – Other Current Liabilities

Other current liabilities consist of the following at June 30, 2010:

Construction Obligations	60,509
Accrued Audit Expense	7,500
Accrued Interest Expense	<u>332</u>
<u>Total</u>	<u>68,341</u>

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2010

Note 6 – Other Assets

Other assets at June 30, 2010, consist of the following:

Replacement Reserves	10,724
Cash Restricted - HAC/SHOP	20,684
Cash Restricted - HOME	5
Cash Restricted - CHDO Proceeds	189,394
Cash - RHED Fund	7,777
Cash - FHLB Fund	153,893
Deferred Mortgages Receivable	<u>663,860</u>
<u>Total</u>	<u>1,046,337</u>

Note 7 – Retirement Plan

Housing Development Alliance, Inc.'s employees were eligible to participate in a defined contribution benefit plan beginning with the fiscal year ended June 30, 2006. The plan is tax deferred. The Board approved a SIMPLE IRA plan whereby employer will match employee's contributions up to limit of 3% of compensation. Total employer contributions by Housing Development Alliance, Inc. for the current fiscal year ended were \$6,422 and for the prior year was \$8,183.

Note 8 – Long-term Debt

Long-term debt at June 30, 2010, for the Housing Development Alliance includes the following:

<u>Description</u>	<u>Term</u>	<u>Collateral</u>	<u>Rate</u>	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2010</u>
Peoples Bank - High Street	Demand	Real Estate	2.60%	7,028	-	(7,028)	-
RLF Obligations - High Street	Demand	Real Estate	1.00%	6,811	-	(6,811)	-
RLF/CLF	Demand	Real Estate	0.00%	238,715	1,147	-	239,862
HOME - High Street	30 years	Real Estate	0.00%	73,350	-	(3,189)	70,161
HOME - High Street	Forgivable	Real Estate	0.00%	150,400	-	-	150,400
HOME - Guyla's Grace	30 years	Real Estate	0.00%	79,880	-	-	79,880
HOME - Duplexes	30 years	Real Estate	0.00%	73,000	-	(608)	72,392
HOME - Duplexes Deferred	30 years	Real Estate	0.00%	368,218	57,732	-	425,950
AHTF Ross Loan #7040	30 years	Real Estate	1.00%	23,553	-	(902)	22,651
AHTF Ross Loan #7096	30 years	Real Estate	1.00%	13,249	-	(449)	12,800
AHTF Bridge III Loan #7124	Demand	Real Estate	0.00%	33,173	-	(1,109)	32,064
AHTF Loan #7013	Demand	Real Estate	7.00%	49,517	-	(2,023)	47,494

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2010

Note 8 – Long-term Debt (continued)

<u>Description</u>	<u>Term</u>	<u>Collateral</u>	<u>Rate</u>	<u>Balance</u>			<u>Balance</u>
				<u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>
HAC/SHOP Loan 51030621	Forgivable	Real Estate	0.00%	19,600	-	(19,600)	-
HAC/SHOP 07	Forgivable	Real Estate	0.00%	-	16,627	-	16,627
HAC/SHOP 08	Forgivable	Real Estate	0.00%	-	30,000	-	30,000
FHLB Obligation	Forgivable	Unsecured	0.00%	200,000	-	(50,000)	150,000
FAHE - Line of Credit #3081	Demand	Real Estate	4.00%	37,247	-	(2,354)	34,893
FAHE - Ford Loan #9004	Demand	Real Estate	3.00%	66,650	-	-	66,650
FAHE - NHPL Rd #2 - #1860	Demand	Real Estate	1.00%	15,000	-	(1,500)	13,500
FAHE - NHPL Rd #3 - #1861	Demand	Real Estate	1.00%	22,450	-	(2,245)	20,205
FAHE - NHPL #4 - #1863	Demand	Real Estate	1.00%	36,513	-	(3,320)	33,193
FAHE - NHPR #5 - #1864	Demand	Real Estate	1.00%	28,800	-	(2,400)	26,400
FAHE - NHPR #7 - #1865	Demand	Real Estate	1.00%	38,498	-	(2,901)	35,597
FAHE - NHPR #8 - #1866	Demand	Real Estate	1.00%	43,918	-	(3,137)	40,781
FAHE - NHPR #9 - #1867	Demand	Real Estate	1.00%	35,472	-	(2,365)	33,107
FAHE - NHPR #10 - #2034	Demand	Real Estate	1.00%	26,693	-	(1,669)	25,024
Subtotals				1,727,730	105,506	(113,610)	1,719,990
Less: Contra Accounts				(245,526)	5,664	-	(239,862)
<u>Totals</u>				<u>1,442,209</u>	<u>111,170</u>	<u>(113,610)</u>	<u>1,439,769</u>

Note 9 – Net Assets

Net assets consist of the following at June 30, 2010:

Unrestricted	780,672
Temporarily restricted:	
Shelter/Office	97,870
High Street	109,475
Guyla's Grace Building/Land	89,792
HOME	5
HAC/SHOP	20,684
Other Receivables	50,000
Contracts Receivable	78,041
CHDO Proceeds	189,395
FHLB	153,893
Land - New Office	150,000
Moore Street	189,143
116 Fir Street	139,879
124 Fir Street	141,712
Replacement Reserves	10,724

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

Note 9 – Net Assets (continued)

Mortgage Receivable	592,450	
Deferred Mortgage Receivable	506,110	
Loans Receivable	1,151	
Inventories - Home for Sale	<u>122,627</u>	<u>2,642,951</u>

<u>Total Net Assets</u>		<u>3,423,623</u>
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Note 10 – Insurance and Related Activities

The Organization is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The Organization has purchased certain policies that are retrospectively rated that include worker's compensation insurance.

Note 11 – Litigation

The Organization is not aware of any pending, threatened or ongoing litigation.

Note 12 – Commitments and Contingencies

The Organization receives funding from federal, state and local government agencies and private contributions. These funds are generally used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the Organization for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Organization's grant program is predicated upon the grantor's satisfaction that funds provided are being spent as intended and the grantor's intent to continue the programs.

Funding the Organization receives from Housing Assistance Council's Self-Help Homeownership Opportunity Program is recognized as a short-term liability and not considered expended and recognized as revenue until a new home is sold to the owner. At June 30, 2010, the amount recognized as a short-term liability by the Organization was \$-0-, however, portions of Housing Assistance Council loans 5-1107-0711, 1-1218-0902 and HLP-1218-0902 remain contingent upon formal forgiveness.

Note 13 – Financial Instruments and Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and various receivables.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2010

Note 13 – Financial Instruments and Concentrations of Credit Risk (continued)

The Organization maintains all of its cash accounts in Perry County, Kentucky. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2010, the Organization had uninsured cash balances of \$172,137.

The Organization acting as mortgagor, provides low interest loans to residents located in Perry County, Kentucky and surrounding areas. Allowance accounts have been established and no significant balance sheet losses are expected.

Other concentrations include the following: In fiscal year June 30, 2010, \$827,659 or 47.59% of Housing Development Alliance, Inc.'s receipts were derived via Kentucky Housing Corporation.

Note 14 – New Administrative Office Facilities Commitment

The Organization received funding to finance the construction of new office and warehouse facilities. Funding sources include \$150,000 from Rural Housing and Economic Development (RHED), \$200,000 Rural Development Loan, \$447,720 Rural Development Grant, \$100,000 State Coal Severance funding and \$187,500 from First Federal Savings and Loan Association. The Organization purchased a site for the new office and warehouse in August of 2009 with the RHED funds. The estimated total development cost of the 3,800 square foot office is between \$1,000,000 and \$1,100,000.

Note 15 – Expansion of Program into Surrounding Counties

In line with the strategic plan, the Organization is to continue to expand its operations into Leslie, Knott, and Breathitt counties. The Organization's goal is to have approximately forty percent of its projects located in the expansion counties by 2012. In addition, the Organization is to attempt to double its production of new and rehab homes in the same period.

Note 16 – Restatement of Net Assets

Beginning fund balance was decreased by \$7,400 to adjust accrued expenses.

Note 17 – Subsequent Events

Housing Development Alliance, Inc. has evaluated subsequent events through November 17, 2010, the date financial statements were available to be issued.

HOUSING DEVELOPMENT ALLIANCE, INC.

SUPPLEMENTAL INFORMATION

June 30, 2010

HOUSING DEVELOPMENT ALLIANCE, INC.SCHEDULE OF EXPENDITURES OF FEDERAL AWARDSYear Ended June 30, 2010

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Program Expenditures</u>
<u>APPALACHIAN REGIONAL COMMISSION:</u>			
Passed through FAHE:			
ARC Construction	23.001	-	<u>106,482</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
Passed through Kentucky Housing Corporation:			
HOME Programs	14.239	-	434,077
Rural Housing and Economic Development	14.250	-	10,000
Section 8 Rental Assistance	14.856	-	22,481
CHDO Operating Grant	14.247	-	40,000
Passed through Housing Assistance Council:			
SHOP Loan	14.247	-	85,438
- Direct -			
Rural Housing and Economic Development	14.250	-	<u>140,000</u>
<u>Total Department of Housing and Urban Development</u>			<u>731,996</u>
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
Rural Housing Service			
- Direct -			
RD - 502 Programs	10.410	-	237,260
RD - 504 Programs	10.417	-	<u>215,795</u>
<u>Total U.S. Department of Agriculture</u>			<u>453,055</u>
<u>Total Federal Awards Expended</u>			<u>1,291,533</u>

Note A

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Housing Development Alliance, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Housing Development Alliance, Inc.

We have audited the financial statements of Housing Development Alliance, Inc. (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Housing Development Alliance, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Housing Development Alliance, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing Development Alliance, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Housing Development Alliance, Inc. in a separate letter dated November 17, 2010.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 17, 2010

Chris Gooch

Certified Public Accountant
P.O. Box 1536
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(606) 436-5700

FAX : (606) 436-5701

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

To the Board of Directors of
Housing Development Alliance, Inc.

Compliance

We have audited the compliance of Housing Development Alliance, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Housing Development Alliance, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Housing Development Alliance, Inc.'s management. Our responsibility is to express an opinion on Housing Development Alliance, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Housing Development Alliance, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Housing Development Alliance, Inc.'s compliance with those requirements.

In our opinion, Housing Development Alliance, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Housing Development Alliance, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Housing Development Alliance, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Housing Development Alliance, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 17, 2010

HOUSING DEVELOPMENT ALLIANCE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2010

NONE

HOUSING DEVELOPMENT ALLIANCE, INC.SCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2010SUMMARY OF AUDIT RESULTS

1. We have issued an unqualified opinion on the financial statements.
2. No control deficiencies in the internal control were disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No control deficiencies were disclosed by our audit in internal control over major programs.
5. We have issued an unqualified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Housing Development Alliance, Inc. had the following major program:
 - U.S. Department of Housing and Urban Development
 - Passed through Kentucky Housing Corporation
 - HOME Programs CFDA #14.239
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None