HOUSING DEVELOPMENT ALLIANCE, INC.

FINANCIAL STATEMENTS
AND REPORT OF AUDIT

For the Year Ended June 30, 2012

HOUSING DEVELOPMENT ALLIANCE, INC.

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For the Year Ended June 30, 2012

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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, 2012, 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, 2012, 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 February 2, 2013, 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 financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

February 2, 2013

HOUSING DEVELOPMENT ALLIANCE, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS		
Current Assets:		
Cash - Unrestricted		269,727
Investments		1,201
Receivables (Net of Allowance for Losses):		
Contracts	185,911	
Grants	12,500	
Draws	63,000	
Loans	33,552	
Mortgages	1,045,279	
Other	93,050	
Total Receivables		1,433,292
Inventories - Materials and Supplies		3,372
Inventories - Homes for Sale		506,223
Prepaid Items and Other Assets		51,695
Total Current Assets		2,265,510
Fixed Assets:		
Property and Equipment (Net of Accumulated Depreciation)		3,176,905
Other Assets:		
Deferred Mortgages Receivable	615,947	
Restricted Cash	296,894	
Replacement Reserves	18,104	
Total Other Assets		930,945
Total Assets		6,373,360

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.

STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2012

LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	262,546
Accrued Payroll and Withholding	12,761
Accrued Fringe Benefits	66,559
Other Current Liabilities	111,650
Current Portion of Long-term Debt	58,571
Total Current Liabilities	512,087
Long-term Debt	1,850,035
Rental Security Deposits	1,535
Total Liabilities	2,363,657
Net Assets:	
Temporarily Restricted	3,275,577
Unrestricted	734,126
Total Net Assets	4,009,703
Total Liabilities and Net Assets	6,373,360

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT			
Construction Revenue/Grants	-	2,473,407	2,473,407
HOME Grant Revenue	-	593,738	593,738
CHDO Operating Revenue	55,000	-	55,000
HAC/SHOP Revenue	-	184,805	184,805
RHED Revenue	-	20,753	20,753
NHPL/NHRL Grant Revenue	-	2,922	2,922
Community Support/Contributions	35,796	-	35,796
ARC Grant Revenue	-	98,566	98,566
AHTF Grant Revenue	-	157,000	157,000
Fundraising Revenue	37,122	-	37,122
Other Grant Revenue	-	116,787	116,787
Interest Revenue	16,442	-	16,442
Rental Revenue	61,124	-	61,124
Miscellaneous Revenue	11,150	-	11,150
Volunteer Services & Fees	122,624	-	122,624
Youthbuild	30,000	-	30,000
Donated Assets	431,172	-	431,172
Net Assets Released from Restrictions	3,853,109	(3,853,109)	-
Total Revenue and Support	4,653,539	(205,131)	4,448,408
Functional Expenses:			
Management and General	366,975	-	366,975
Program Services	3,765,822	-	3,765,822
Rental	102,745	-	102,745
Fundraising	19,604	-	19,604
Total Expenses	4,255,146	-	4,255,146
Increase (Decrease) in Net Assets	398,393	(205,131)	193,262
Change in Value of Investments	220	-	220
Net Assets, Beginning of Year	335,513	3,480,708	3,816,221
Net Assets, End of Year	734,126	3,275,577	4,009,703

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2012

		Program Services					
	Management and General	Rehab	New Homes	Other	Rental	Fundraising	Total
Materials	-	112,767	587,992	4,182	-	-	704,941
Subcontractors	-	78,297	705,078	-	-	-	783,375
Services	-	1,869	40,411	282	-	-	42,562
Carpenter Wages	-	142,863	224,084	10,191	-	-	377,138
Salary Expense	81,057	76,532	137,846	58,492	4,233	12,987	371,147
FICA/MC Expense	8,551	19,673	28,667	5,406	337	1,017	63,651
Fringe Benefits	1,421	3,061	4,809	902	83	155	10,431
Employee Incentive Expense	28,656	-	-	-	-	-	28,656
Workers Compensation Insurance	4,359	12,319	19,824	3,410	225	631	40,768
Crew Benefits/Work Expense	156	30,996	37,740	418	-	-	69,310
Warranty Work Expense	-	380	1,491	-	-	-	1,871
Health Insurance	11,264	33,775	54,591	9,238	563	1,734	111,165
Life Insurance	216	648	1,047	177	11	33	2,132
L/T & S/T Disability	689	2,092	3,384	571	34	107	6,877
Health Reimbursement Account	6,176	3,363	3,524	-	-	-	13,063
Benefit Admin	203	759	-	210	14	39	1,225
Retirement	1,298	3,942	6,376	1,075	64	202	12,957
Accounting/Audit	8,690	848	1,425	206	2	44	11,215
Professional Services	1,919	43	472	10	7,675	2	10,121
Advertising	4,142	992	1,041	6,247	31	-	12,453
Volunteer Expense	-	-	-	90,376	-	-	90,376
Networking and Software Expense	36,114	-	495	480	-	80	37,169
Copies and Copier Supplies	2,175	-	76	-	-	-	2,251
Insurance	6,638	11,671	28,726	4,172	1,602	550	53,359
Equipment and Storage Rental	-	298	1,211	900	-	-	2,409
Cleaning Supplies and Services	3,181	1,375	3,776	964	3,330	-	12,626
Maintenance	5,272	464	713	98	24,657	-	31,204
Office Supplies	14,897	49	44	274	-	-	15,264
Postage	1,747	-	-	88	-	92	1,927
Publications	937	-	133	-	-	-	1,070
Seminars/Training	2,633	664	934	809	-	-	5,040
Travel/Meals	11,385	1,627	269	438	-	380	14,099
Telephone	2,429	1,981	5,512	1,398	466	-	11,786
Utilities	1,160	1,217	3,032	836	16,797	-	23,042

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

For the Year Ended June 30, 2012

		Program Services					
	Management and General	Rehab	New Homes	Other	Rental	Fundraising	Total
Membership	444	1,599	2,689	389	3	84	5,208
Board Training	456	44	-	-	-	-	500
Shop Supplies	-	-	48	-	-	-	48
Tools and Tool Repairs	751	9,219	10,137	106	-	-	20,213
Fuel	1,214	11,671	32,390	1,570	-	-	46,845
Vehicle Maintenance	190	5,473	9,325	202	-	-	15,190
Vehicle Insurance	1,364	4,282	6,963	1,198	64	216	14,087
Appraisal, Architect and Survey Fees	-	-	5,450	-	-	-	5,450
Inspection Fees	-	-	13,434	-	200	-	13,634
Closing, Settlement and Recording Fees	329	806	7,208	-	-	-	8,343
Legal & Title Fees	904	-	220	-	-	-	1,124
Origination, Servicing and Licensing Fee	1,000	-	754	6,343	-	-	8,097
Interest Expense	17,660	7,238	12,506	5,027	3,336	378	46,145
Late Fees	1,440	-	-	-	-	-	1,440
Miscellaneous Expense	1,571	92	4,422	418	-	-	6,503
Depreciation	7,626	25,409	37,154	5,036	39,018	873	115,116
Contribution Expense	-	35,993	246,028	-	-	-	282,021
Land and Land Development Expense	-	-	263,629	-	-	-	263,629
Uncollectible Receivables	-	-	-	139,641	-	-	139,641
Forgivable Loan Expense	84,661	-	200,571	-	-	-	285,232
Total	366,975	646,391	2,757,651	361,780	102,745	19,604	4,255,146

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase (Decrease) in Net Assets	193,262
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	115,116
Unrealized Gain/(Loss) on Investments	220
(Increase) Decrease in Operating Assets:	
Receivables	308,482
Inventories	(249,549)
Prepaid and Accrued Expense	(15,836)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	131,539
Accrued Payroll and Withholding	4,932
Accrued Fringe Benefit	10,433
Other Current Liabilities	(425,196)
Net Cash Provided (Used) by Operating Activities	73,403
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of Property and Equipment	(408,591)
Sale and Disposal of Property	70
(Increase) Decrease in Investments	(1,201)
(Increase) Decrease in Reserve Account	(3,582)
Net Cash Provided (Used) by Investing Activities	(413,304)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Loan Proceeds/Advances	116,614
Reduction of Principal	(36,261)
Net Increase in Rental Security Deposits	(837)
Net Cash Provided (Used) by Financing Activities	79,516
NET INCREASE (DECREASE) IN CASH	(260,385)
CASH, BEGINNING OF YEAR	827,006
CASH, END OF YEAR	566,621
Supplemental Cash Flow Information:	
Cash Paid During Year for Interest	46,145

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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, 2012.

Contributed Services/Property

During the year ended June 30, 2012, various groups volunteered time in rehab and new home projects. These contributions are reflected in the financial statements.

Estimates

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.

HOUSING DEVELOPMENT ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

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). Housing Development Alliance, Inc. currently capitalizes, at cost, all expenditures for fixed assets in excess of $1,500.

Financial Statement Presentation

Under FASB ASC 958, 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.

Income Taxes

Housing Development Alliance, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Financial Accounting Standards Board (FASB) has issued ASC 740-10, *Income Taxes* (formerly FIN 48, *Accounting for Uncertainty in Income Taxes*), which requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain income tax positions as of February 2, 2013. The Organization could be subject to examination by the Internal Revenue Service or other applicable tax jurisdictions.

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

Inventories

Inventories are valued at the lower of cost or market.

Loans

Loans are reported at their recorded investment, which is the outstanding principal balance plus accrued interest and net of any unearned income, such as deferred fees or costs, charge-offs and unamortized premiums or discounts on originated loans. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Allowance For Loan Losses

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for losses each quarter. To determine the total allowance for loan losses, the Company estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to the real estate portfolio.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Loan Charge-Off Policies

Real Estate - Loans are generally charged down to the net realizable value when the loan is 180 days past due.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a TDR. Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

HOUSING DEVELOPMENT ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

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.

Contribution Expense

Contribution expenses are expenses that Housing Development Alliance, Inc. elects to incur related to the home closing process that may or may not be directly or indirectly reimbursed or subsidized by another funding source.

Functional Expense Reporting

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

Investments

Investments consist of cash and publicly traded stocks maintained by an investment firm as further described in Note 19.

Note 2 – Cash

The composition of cash at June 30, 2012, is as follows:

	Book Balance	Bank Balance	Interest Rate	Financial Institution
Regular Operating Account	40,940	142,883	N/a	Peoples Bank & Trust
Revolving Loan Fund	5,205	5,205	0.60%	Peoples Bank & Trust
HAC/SHOP Restricted Account	124,890	124,890	0.60%	Peoples Bank & Trust
HOME Restricted Account	60,755	60,755	N/a	Peoples Bank & Trust
Operating Reserve	25,652	25,652	0.60%	Peoples Bank & Trust
RCDF	2,860	2,860	N/a	Peoples Bank & Trust
Money Market Account	49,824	49,824	0.10%	Community Trust Bank
CHDO Proceeds	169,139	169,139	N/a	Community Trust Bank
Loan Fund	87,055	87,055	1.00%	First Trust Bank
RHED Fund	151	151	N/a	Whitaker Bank
Petty cash	150	N/a	N/a	N/a
Total	566,621	668,414		

HOUSING DEVELOPMENT ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

Note 2 – Cash (continued)

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. All of the Organization’s deposits were covered by FDIC at June 30, 2012. 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 significant long term investment accounts. Concentrations of credit risk are the risk of loss attributed to the magnitude of the Entity’s investment in a single issuer. Substantially all of the organization’s cash and investments are held at local financial institutions.

Note 3 – Financing Receivables

Mortgages/Loans Receivable Reporting

Mortgages/Loans Receivable are reported at their recorded investment, which is the outstanding principal balance plus accrued interest and net of any unearned income, such as deferred fees or costs, charge-offs, and unamortized premiums or discounts on originated loans. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Mortgages/Loans Receivables are classified by Portfolio, Portfolio Segment, and Portfolio Class. The following matrix presents the system of classification of the Organization with regards to Mortgages/Loans Receivable at June 30, 2012.

Portfolio	Portfolio Segment	Portfolio Class
Revolving Loan Fund	Loans Individually Evaluated for Impairment	Consumer Real Estate-Related Loans Receivable (Unsecured)
Revolving Loan Fund	Loans Individually Evaluated for Impairment	Real Estate Mortgage Loans Receivable (Secured)
Revolving Loan Fund	Loans Individually Evaluated for Impairment	Consumer Real Estate-Related Loans Receivable (Deferred)
Revolving Loan Fund	Loans Individually Evaluated for Impairment	Real Estate Mortgage Loans Receivable (Deferred)
Revolving Loan Fund	Loans Collectively Evaluated for Impairment	Consumer Real Estate-Related Loans Receivable (Unsecured)
Revolving Loan Fund	Loans Collectively Evaluated for Impairment	Real Estate Mortgage Loans Receivable (Secured)
Revolving Loan Fund	Loans Collectively Evaluated for Impairment	Consumer Real Estate-Related Loans Receivable (Deferred)
Revolving Loan Fund	Loans Collectively Evaluated for Impairment	Real Estate Mortgage Loans Receivable (Deferred)
Revolving Loan Fund	Loans Not Evaluated for Impairment	Consumer Real Estate-Related Loans Receivable (Forgivable)
Revolving Loan Fund	Loans Not Evaluated for Impairment	Real Estate Mortgage Loans Receivable (Forgivable)

Note 3 – Financing Receivables (continued)

Revolving Loan Fund	Loans Acquired with Deteriorated Credit Quality	Consumer Real Estate-Related Loans Receivable (Unsecured)
Revolving Loan Fund	Loans Acquired with Deteriorated Credit Quality	Consumer Real Estate-Related Loans Receivable (Forgivable)
Revolving Loan Fund	Loans Acquired with Deteriorated Credit Quality	Consumer Real Estate-Related Loans Receivable (Deferred)
Revolving Loan Fund	Loans Acquired with Deteriorated Credit Quality	Real Estate Mortgage Loans Receivable (Secured)
Revolving Loan Fund	Loans Acquired with Deteriorated Credit Quality	Real Estate Mortgage Loans Receivable (Forgivable)
Revolving Loan Fund	Loans Acquired with Deteriorated Credit Quality	Real Estate Mortgage Loans Receivable (Deferred)

Mortgages/Loans Receivable Charge-Off Policies

Mortgage/Loans are generally charged down to the net realizable value when the loan is 180 days past due. The difference between the net realizable value of the loan and its recorded value is booked to uncollectible accounts receivable expense. Recoveries of amounts that have been charged to uncollectible accounts receivable expense are used to reduce such expense at the time of recovery.

Forgivable Mortgages/Loans Receivable Policies

Some of the Organization’s Mortgages/Loans Receivable consists of zero percent loans that are forgivable over five, ten, fifteen, thirty, or other individualized terms of years. A contra-asset adjustment is made to reflect the *pro-rata* share that is forgiven for each year that the homeowner dwells in the unit. The entire Forgivable Mortgages/Loans Expense, however, is matched to the time period that the home was sold to the homeowner. The Forgivable Mortgages/Loans Receivable balance at June 30, 2012 was $658,642 and its contra asset account balance was ($658,642).

Troubled Debt Restructurings (TDR) Policies

Management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered in situations where the borrower has financial difficulties due to economic or legal reasons. Such a related loan is classified as a Troubled Debt Restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, Management measures any impairment on the restructuring as noted above for impaired loans.

The Organization did not work out any TDRs during the fiscal year that ended on June 30, 2012. Any debt restructuring that the Organization facilitated during that time were related to the re-deferral of deferred loans that had or were about to mature.

Note 3 – Financing Receivables (continued)

Mortgage/Loan Loss Allowances

The allowance for Mortgage/Loan losses reflects Management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for losses each quarter. To determine the total allowance for loan losses, the Organization estimates the reserves needed for each Portfolio Segment by using the below-described Loss Allowance guidelines.

Portfolio Segment	Portfolio Class	Loss Allowance %	Loss Allowance %
		Minimum	**Maximum**
Loans Individually Evaluated for Impairment	Consumer Real Estate-Related Loans Receivable (Unsecured)	0.00%	100.00%
Loans Individually Evaluated for Impairment	Real Estate Mortgage Loans Receivable (Secured)	0.00%	100.00%
Loans Individually Evaluated for Impairment	Consumer Real Estate-Related Loans Receivable (Deferred)	0.00%	100.00%
Loans Individually Evaluated for Impairment	Real Estate Mortgage Loans Receivable (Deferred)	0.00%	100.00%
Loans Collectively Evaluated for Impairment	Consumer Real Estate-Related Loans Receivable (Unsecured)	3.00%	100.00%
Loans Collectively Evaluated for Impairment	Real Estate Mortgage Loans Receivable (Secured)	3.00%	100.00%
Loans Collectively Evaluated for Impairment	Consumer Real Estate-Related Loans Receivable (Deferred)	3.00%	100.00%
Loans Collectively Evaluated for Impairment	Real Estate Mortgage Loans Receivable (Deferred)	3.00%	100.00%
Loans Not Evaluated for Impairment	Consumer Real Estate-Related Loans Receivable (Forgivable)	0.00%	0.00%
Loans Not Evaluated for Impairment	Real Estate Mortgage Loans Receivable (Forgivable)	0.00%	0.00%
Loans Acquired with Deteriorated Credit	Consumer Real Estate-Related Loans Receivable (Unsecured)	3.00%	100.00%
Loans Acquired with Deteriorated Credit	Consumer Real Estate-Related Loans Receivable (Forgivable)	0.00%	0.00%
Loans Acquired with Deteriorated Credit	Consumer Real Estate-Related Loans Receivable (Deferred)	3.00%	100.00%
Loans Acquired with Deteriorated Credit	Real Estate Mortgage Loans Receivable (Secured)	3.00%	100.00%
Loans Acquired with Deteriorated Credit	Real Estate Mortgage Loans Receivable (Forgivable)	0.00%	0.00%
Loans Acquired with Deteriorated Credit	Real Estate Mortgage Loans Receivable (Deferred)	3.00%	0.00%

Note 3 – Financing Receivables (continued)

The minimum loan loss allowance percentage of three percent is reflective of Management's historical minimum loss threshold estimation processes and policies for collectively evaluated loans. In addition, Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior Management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the Loan Portfolio. Management exercises significant judgment over classifying each loan by Portfolio Class into a Portfolio Segment. Management seeks to best match the credit risk characteristics of each loan in a Portfolio Class to its proper Portfolio Segment. The Organization uses internally developed models in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are validated independently and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

Consumer Real Estate-Related Loans Receivable. Consumer Real Estate-Related Loans are pooled by one of four Portfolio Segments: Loans Individually Evaluated for Impairment; Loans Collectively Evaluated for Impairment; Loans Not Evaluated for Impairment; or Loans Acquired with Deteriorated Credit Quality. The time frames for historical losses are based on historical loss experience modeling and other qualitative, quantitative, and mathematical migration techniques over the loss emergence period. At June 30, 2012, the historical loss time frame for this class was 18 months. In addition, based on Management's analysis of leading predictors of losses, additional loss multipliers are likely to be applied to relevant loan balances.

Real Estate Mortgage Loans Receivable. Real Estate Mortgage Loans are pooled by one of four Portfolio Segments: Loans Individually Evaluated for Impairment; Loans Collectively Evaluated for Impairment; Loans Not Evaluated for Impairment; or Loans Acquired with Deteriorated Credit Quality. The time frames for historical losses are based on historical loss experience modeling and other qualitative, quantitative, and mathematical migration techniques over the loss emergence period. At June 30, 2012, the historical loss time frame for this class was 18 months. In addition, based on Management's analysis of leading predictors of losses, additional loss multipliers are likely to be applied to relevant loan balances.

The Organization's Estimation Process. The Organization estimates loan losses under multiple scenarios to establish a range of potential outcomes for each criterion applied to the allowance calculation. Management applies judgment to develop its own view of loss probability within that range, using external and internal parameters with the objective of establishing an allowance for the losses inherent within these portfolios as of the reporting date.

HOUSING DEVELOPMENT ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

Note 3 – Financing Receivables (continued)

Generally, Portfolio Class loans that are segmented into Loans Evaluated Individually for Impairment will be assessed objectively on individual merits for a proper per loan percentage loss estimate that translates into a Portfolio Segment loss percentage. Portfolio Class loans that are segmented into Loans Collectively Evaluated for Impairment will be assessed a loss allowance percentage that is equal to one-half the average percentage of loan balances that are greater than 180 days delinquent over the historical loss timeframe. The minimum assessment will not be below three percent according to the Organization's policies and procedures. In other words, 18 months of loan balances that are greater than 180 days delinquent are divided by 18 months of the total Portfolio balance and then multiplied by 100 percent to arrive at the loan loss percentage that is then halved to be applied against the collectively assessed segment. This assessment, again, must exceed three percent. Data relevant to these calculations are reported directly to the Organization from its outsourced loan servicing provider. The Organization nets out Forgivable Loans from the reported Portfolio Balance to arrive at the denominator for the above-described calculation. Portfolio Class Loans that are segmented into Loans Not Evaluated for Impairment are forgivable loans that have already been expensed entirely at origination and, therefore, have nothing remaining to be written down. This segment is dealt with by way of a contra-asset account. Portfolio Class loans that are segmented into Loans Acquired with Deteriorated Credit Quality will be assessed a loss percentage that is to be the greater of three percent or the actual greater than one-half of the 180 day delinquency percentage reported by the Acquiree. Loans in this Portfolio Segment will be charged-off according to the previously-described procedure.

In addition, reflected in portions of the allowance methodologies afore-described are amounts for imprecision or uncertainty that incorporate the range of probable outcomes inherent in estimates used for the allowance that might change from period to period. Such amounts are the results of the Organization's judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect the Organization's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

Allowance for Loans Losses and Recorded Investment by Portfolio Segment and Portfolio Class

The total allowance reflects Management's estimate of loan losses inherent in the Portfolio at the balance sheet date. The Organization considers the allowance for loan losses of $120,012 adequate to cover loan losses inherent in the Portfolio at June 30, 2012. The following table presents the Allowance for Loan Losses by Portfolio Segment and the Recorded Investments in Loans by Portfolio Segment and Portfolio Class at June 30, 2012.

Allowance for Loan Losses	**6/30/2012**
Aggregate of allowance for loan losses	
Beginning balance	47,040
Charge-offs booked directly to allowance for loan losses	11,667
Recoveries booked directly to allowance for loan losses	(4,245)
Additional provisions for allowance for loan losses	65,550
Ending Balance	120,012

Note 3 – Financing Receivables (continued)

Constituents of allowance for loan losses	
Ending balance: individually evaluated for impairment	43,862
Ending balance: collectively evaluated for impairment	76,150
Ending balance: not evaluated for impairment	-
Ending balance: acquired with deteriorated credit quality	-
Ending balance: constituents of allowance for loan losses	120,012
Recorded Investment in Loans by Portfolio Segment	
Ending balance: individually evaluated for impairment	43,862
Ending balance: collectively evaluated for impairment	1,770,928
Ending balance: not evaluated for impairment contra	658,642
Ending balance: not evaluated for impairment	(658,642)
Ending balance: acquired with deteriorated credit quality	-
Ending balance: allowance for loan losses	(120,012)
Ending balance: total recorded investment by portfolio segment	1,694,778
Recorded Investment in Loans by Portfolio Class	
Ending balance: consumer real estate-related loans receivable (unsecured)	33,552
Ending balance: real estate mortgage loans receivable (secured)	1,165,291
Ending balance: consumer real estate-related loans receivable (deferred)	-
Ending balance: real estate mortgage loans receivable (deferred)	615,947
Ending balance: consumer real estate-related loans receivable (forgivable)	-
Ending balance: consumer real estate-related loans receivable contra (forgivabl	-
Ending balance: real estate mortgage loans receivable (forgivable)	658,642
Ending balance: real estate mortgage loans receivable contra (forgivable)	(658,642)
Ending balance: indirect mortgage loans receivable with KHC	7,984
Ending balance: indirect mortgage loans receivable with KHC contra	(7,984)
Ending balance: allowance for loan losses	(120,012)
Ending balance: total mortgages/loans receivable	1,694,778

Credit Quality Information

The Organization grades consumer credit exposures by internally assigned grades. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Organization's internal credit risk grading system is based on experiences with similarly graded loans. Credit risk grades are refreshed each quarter, incorporating external statistics and other credit risk factors.

The Organization's internally assigned grades are as follows:

Pass–No change in the Organization's credit rating of borrower or the loan-to-value of the asset;

Special Mention–Deterioration in the Organization's credit rating of borrower or loan-to-value of the asset; and

Substandard–Significant deterioration in the Organization's credit rating of the borrower and loan-to-value ratio of asset.

HOUSING DEVELOPMENT ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

Note 3 – Financing Receivables (continued)

The following tables represent consumer credit exposures by internally assigned grades for the year ended June 30, 2012.

Credit Risk Profile by Assigned Grade by Class of Loan	**Pass**	**Special Mention**	**Substandard**
Recorded Investment in Loans			
Consumer Real Estate-Related Loans Receivable (Unsecured)	33,552	-	-
Consumer Real Estate-Related Loans Receivable (Deferred)	-	-	-
Consumer Real Estate-Related Loans Receivable (Forgivable)	-	-	-
Real Estate Mortgage Loans Receivable (Secured)	1,022,547	59,862	82,882
Real Estate Mortgage Loans Receivable (Deferred)	615,947	-	-
Real Estate Mortgage Loans Receivable (Forgivable)	658,642	-	-
Grade Total	2,330,688	59,862	82,882
Total All Grades			2,473,432
Number of Loans	**Pass**	**Special Mention**	**Substandard**
Consumer Real Estate-Related Loans Receivable (Unsecured)	26	-	-
Consumer Real Estate-Related Loans Receivable (Deferred)	-	-	-
Consumer Real Estate-Related Loans Receivable (Forgivable)	-	-	-
Real Estate Mortgage Loans Receivable (Secured)	67	5	5
Real Estate Mortgage Loans Receivable (Deferred)	37	-	-
Real Estate Mortgage Loans Receivable (Forgivable)	45	-	-
Grade Total	175	5	5
Total All Grades			185

Age Analysis of Past Due Financing Receivables

The following table presents an aging analysis of the Organization’s recorded investment of past due financing receivables at June 30, 2012. Loans are included that were 90 days or more past due as to interest and principal, and still accruing, because they are (1) well-secured and in the process of collection or (2) real estate loans or loans exempt under regulatory rules from being classified as nonaccrual.

Age Analysis Financing Receivable by Portfolio Class	**30-59**	**60-89**	**90+**	**Total Past Due**	**Total Current**	**Total Financing Receivables**
Consumer Real Estate-Related Loans Receivable (Unsecured)	-	-	-	-	33,552	33,552
Consumer Real Estate-Related Loans Receivable (Deferred)	-	-	-	-	-	-
Consumer Real Estate-Related Loans Receivable (Forgivable)	-	-	-	-	-	-
Real Estate Mortgage Loans Receivable (Secured)	25,959	13,839	125,102	164,900	1,000,391	1,165,291
Real Estate Mortgage Loans Receivable (Deferred)	-	-	3,803	3,803	612,144	615,947
Real Estate Mortgage Loans Receivable (Forgivable)	-	-	-	-	658,642	658,642
Total	25,959	13,839	128,905	168,703	2,304,729	2,473,432

Note 3 – Financing Receivables (continued)

Impaired Loans

Management considers a loan to be impaired when, based on current information and events, it is determined that the Organization will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When Management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, Management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If Management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The Organization did not have any impaired loans at June 30, 2012.

Note 4 – Receivables

Receivables consist of the following at June 30, 2012:

Grant Receivable		
CHDO		12,500
Draws Receivable		63,000
Contracts Receivable		185,911
Other Receivables:		
Youthbuild Coordination	30,000	
New Home Closing	12,224	
FHLB	50,826	93,050
Mortgages and Loans Receivable	1,814,790	
Less: Loan Loss Allowance	(120,012)	
Total Mortgages and Loans Receivable		1,694,778
Total Receivables		2,049,239

HOUSING DEVELOPMENT ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

Note 4 – Receivables (continued)

Mortgage and loans receivable consist of the following at June 30, 2012:

Mortgages Receivables	1,165,291
Loan Receivable	
Various Individual Loans	33,552
Sub-total	1,198,843
Deferred Mortgages Receivable (listed as other assets)	615,947
Indirect Mortgages Receivable	7,984
Less: Payments made directly to Kentucky Housing Corporation	(7,984)
Allowance for doubtful accounts	(120,012)
Total Mortgages/Loans Receivable	1,694,778

Note 5 – Property and Equipment

Changes in property and equipment are as follows:

	July 1, 2011	Additions	Deletions	June 30, 2012
Office/Shelter Property	159,210	-	-	159,210
New Office Property	997,406	87,005	-	1,084,411
Land - Storage Building	20,582	-	-	20,582
Land - Brashear Rental Lot #2	11,179	-	-	11,179
Office Equipment	108,094	67,845	-	175,939
Vehicles	127,676	91,846	(6,550)	212,972
Tools and Equipment	33,241	2,131	-	35,372
Wheel Chair Ramp System	10,120	-	-	10,120
Fall Protection System	33,141	-	-	33,141
High Street Property	434,899	4,650	-	439,549
Guyla's Grace Property	98,786	-	-	98,786
Young Street Property	32,786	-	-	32,786
Moore Street Property	234,975	-	-	234,975
116 Fir Street Property	185,711	-	-	185,711
124 Fir Street Property	187,544	-	-	187,544
Land - Held for Development	599,757	155,114	-	754,871
Sub-total	3,275,107	408,591	(6,550)	3,677,148
Less: Accumulated Depreciation	(391,607)	(115,116)	6,480	(500,243)
Totals	2,883,500	293,475	(70)	3,176,905

Total depreciation expense for the year ended June 30, 2012 was $115,116.

HOUSING DEVELOPMENT ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

Note 6 – Other Current Liabilities

Other current liabilities consist of the following at June 30, 2012:

Construction Obligations	75,545
Deferred Revenue	20,110
Accrued Audit Expense	9,650
Accrued Interest Expense	6,345
Total	111,650

Note 7 – Other Assets

Other assets at June 30, 2012, consist of the following:

Replacement Reserves	18,104
Cash Restricted - HAC/SHOP	124,890
Cash Restricted - HOME	60,755
Cash Restricted - CHDO Proceeds	108,389
Cash - RCDF Fund	2,860
Deferred Mortgages Receivable	615,947
Total	930,945

Note 8 – 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 $12,957 and for the prior year was $9,617.

Note 9 – Long-term Debt

Long-term debt at June 30, 2012, for the Housing Development Alliance includes the following:

Description	Term	Collateral	Rate	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
RLF/CLF	Demand	Real Estate	0.00%	217,063	135,559	-	352,622	-
KHC HOME - High Street #500120	30 years	Real Estate	0.00%	127,924	-	(7,525)	120,399	7,525
KHC HOME - High Street #500120	Forgivable	Real Estate	0.00%	85,112	-	-	85,112	-
KHC HOME - Guyla's Grace #500665	30 years	Real Estate	0.00%	79,880	-	-	79,880	-
KHC HOME - Duplexes #500697	30 years	Real Estate	0.00%	69,756	-	(2,433)	67,323	2,433
KHC HOME - Duplexes Deferred #5006!	30 years	Real Estate	0.00%	425,950	-	-	425,950	-
KHC AHTF Ross Loan #7040	30 years	Real Estate	1.00%	21,740	-	(920)	20,820	929
KHC AHTF Ross Loan #7096	30 years	Real Estate	1.00%	12,348	-	(459)	11,889	462
KHC AHTF Bridge III Loan #7124	Demand	Real Estate	0.00%	30,943	-	(1,131)	29,812	1,143
KHC AHTF Loan #7013	Demand	Real Estate	7.00%	45,450	-	(2,084)	43,366	2,085

HOUSING DEVELOPMENT ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

Note 9 – Long-term Debt (continued)

Description	Term	Collateral	Rate	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
First Federal S&L New Office #8896	15 years	Real Estate	5.00%	146,373	41,126	(6,418)	181,081	8,942
First Federal S&L #0300	3 years	Real Estate	5.00%	-	36,152	(9,607)	26,545	11,946
USDA Rural Development Loan	32 years	Real Estate	4.00%	450,000	-	-	450,000	-
HAC/SHOP 08	Forgivable	Real Estate	0.00%	12,000	5,852	-	17,852	-
HAC/SHOP 09	Forgivable	Real Estate	0.00%	14,000	33,484	-	47,484	-
FAHE - Line of Credit #3081	Demand	Real Estate	4.00%	31,915	-	(4,651)	27,264	3,511
FAHE - Ford Loan #9004	Demand	Real Estate	3.00%	66,650	-	-	66,650	-
FAHE - NHPL Rd #2 - #1860	Demand	Real Estate	1.00%	12,000	-	-	12,000	1,500
FAHE - NHPL Rd #3 - #1861	Demand	Real Estate	1.00%	17,960	-	-	17,960	2,245
FAHE - NHPL #4 - #1863	Demand	Real Estate	1.00%	29,874	-	-	29,874	3,319
FAHE - NHPR #5 - #1864	Demand	Real Estate	1.00%	24,000	-	-	24,000	2,400
FAHE - NHPR #7 - #1865	Demand	Real Estate	1.00%	32,636	-	(61)	32,575	2,961
FAHE - NHPR #8 - #1866	Demand	Real Estate	1.00%	37,644	-	-	37,644	3,137
FAHE - NHPR #9 - #1867	Demand	Real Estate	1.00%	30,742	-	-	30,742	2,365
FAHE - NHPR #10 - #2034	Demand	Real Estate	1.00%	23,356	-	(972)	22,384	1,668
Subtotals				2,045,316	252,173	(36,261)	2,261,228	58,571
Less: Contra Accounts				(217,063)	(135,559)	-	(352,622)	-
Totals				1,828,253	116,614	(36,261)	1,908,606	58,571

In February 2012, Housing Development Alliance, Inc. modified an agreement with Federation of Appalachian Housing Enterprises, Inc. (FAHE) granting Housing Development Alliance, Inc. a revolving line of credit for $100,000. At June 30, 2012 no funds had been disbursed to Housing Development Alliance, Inc.

Note 10 – Net Assets

Net assets consist of the following at June 30, 2012:

Unrestricted		734,126
Temporarily restricted:		
Shelter/Office	92,773	
New Office Building/Land	442,802	
High Street	73,122	
Guyla's Grace Building/Land	85,804	
HOME Fund - Cash	60,755	
HAC/SHOP - Cash	124,890	
Operating Reserve - Cash	20,000	
CHDO Proceeds - Cash	108,389	
RDCF - Cash	2,760	
Other Receivables	1,320	
Contracts Receivable	171,833	

HOUSING DEVELOPMENT ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

Note 10 – Net Assets (continued)

Grant Receivables	12,500	
Draws Receivable	63,000	
Storage Building	20,054	
Moore Street Building/Land	175,761	
116 Fir Street	138,058	
124 Fir Street	139,407	
Brashear Rental Lot	11,179	
Land - Held for Development	79,523	
Replacement Reserves	18,104	
Mortgage Receivable	381,156	
Deferred Mortgage Receivable	585,321	
Inventories - Homes/Land for Sale	467,066	3,275,577
Total Net Assets		4,009,703

Note 11 – 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 12 – Litigation

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

Note 13 – 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. It is not considered expended and recognized as revenue until a new home is sold to the home owner. At June 30, 2012, the amount recognized as a short-term liability by the Organization is as follows. Loan Number 1-1218-0902 (HAX/SHOP 2008) has a short-term obligation of $17,852 and Loan Number 1-1317-1004 (HAC/SHOP 2009) has a short-term

Note 13 – Commitments and Contingencies (continued)

obligation of $47,484. In addition to the accrued obligations on the aforementioned loans, portions of Housing Assistance Council Loan Numbers 1-1218-0902, HLP-1218-0902 and 1-1317-1004 remain contingent upon formal forgiveness by the Housing Assistance Council according to funding guidelines. In addition, remaining contingencies from Housing Assistance Council Loan Number HLP-1218-0902 were converted into contingencies within the 1-1218-0902 facility.

Note 14 – 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.

The Organization maintains most of its cash accounts in Perry County, Kentucky, with the exception of the Schwab Investment account. The balances are insured by the Federal Deposit Insurance Corporation. At June 30, 2012, all of the Organization's cash balances were covered by FDIC.

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, 2012, $1,464,698 or 32.06% of Housing Development Alliance, Inc.'s receipts were derived via Kentucky Housing Corporation.

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. The Organization is scheduled to complete a new strategic plan in 2012 that is likely to amend certain of these goals in whole or part.

Note 16 – Subsequent Events

Housing Development Alliance, Inc. has evaluated subsequent events through February 2, 2013, the date financial statements were available to be issued.

Note 17 – Daniel Boone Habitat for Humanity closure

During the fiscal year the Daniel Boone Habitat for Humanity (a non-profit organization) decided to dissolve. As part of that decision, Daniel Boone Habitat for Humanity's Board of Directors offered the majority of their assets to Housing Development Alliance, Inc. These assets have been recorded in Housing Development Alliance, Inc.'s financial statements for the year ended June 30, 2012. The assets included amortized mortgages, forgivable mortgages, 2 tracts of land and a house. As part of the transfer, Housing Development Alliance, Inc. agreed to pay $15,300 toward a note payable on the house.

Note 18 – Endowment

The endowment fund consists of cash and cash equivalents at June 30, 2012 in the amount of $28,638. The principal of the endowment fund is a permanently restricted asset. The income from the endowment fund may be used to support Housing Development Alliance, Inc.

The endowment fund is held by the Foundation for Appalachian Kentucky (The Foundation) for the Housing Development Alliance, Inc. The Foundation will annually distribute the earnings from the fund according to spending guidelines, except for any amount that Housing Development Alliance, Inc. wishes to be reinvested in the principal.

Note 19 – Investments

Investments include cash and stocks in publicly traded companies managed by an outside investment firm. The investments are recorded at fair market value. Changes in the market values are shown as “Change in value of investments” in the statement of activities in accordance with FASB ASC 958. Realized gains and losses from the sale of investments are separately reported. No realized gain or loss was reported during the fiscal year. Income from investments are used to support the goals of the Organization.

At June 30, 2012, investments included the following:

Public company stocks, at cost	536
Public company stocks, at fair market value	756
Cash	445
Total Investments	1,201

Fair market values of public company stocks are determined by quoted prices in active markets for identical assets (Level 1).

Note 20 – Director of Finance Resignation

Prior to the date of the financial statement report, the Organization received notification of the resignation of its Director of Finance effective December 31, 2012. The Board has formed a committee to search for a replacement.

HOUSING DEVELOPMENT ALLIANCE, INC.

SUPPLEMENTAL INFORMATION

June 30, 2012

HOUSING DEVELOPMENT ALLIANCE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program Expenditures
APPALACHIAN REGIONAL COMMISSION:			
Passed through FAHE:			
ARC Construction	23.001	-	98,566
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Passed through Kentucky Housing Corporation:			
HOME Programs	14.239	-	831,613
Section 8 Rental Assistance	14.856	-	21,661
CHDO Operating Grant	14.239	-	55,000
Passed through Housing Assistance Council:			
SHOP Loan	14.247	-	184,805
Passed through Federation of Appalachian Housing Enterprises, Inc:			
HOME Programs	14.239	-	34,609
Passed through LKLP:			
HOME Programs	14.239	-	45,440
- Direct -			
Rural Housing and Economic Development	14.250	-	57,145
Total Department of Housing and Urban Development			1,230,273
U.S. DEPARTMENT OF AGRICULTURE:			
Rural Housing Service			
- Direct -			
RD - 502 Programs	10.410	-	621,000
RD - 504 Programs	10.417	-	116,873
RD - RDCF Grant ARRA	10.780	-	40,878
Total U.S. Department of Agriculture			778,751
Total Federal Awards Expended			2,107,590

See independent auditor’s report.

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.

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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, 2012, and have issued our report thereon dated February 2, 2013. 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.

<u>Internal Control over Financial Reporting</u>

Management of Housing Development Alliance, Inc. is responsible for establishing and maintaining effective 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.

<u>Compliance and Other Matters</u>

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 February 2, 2013.

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.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

February 2, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Housing Development Alliance, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Housing Development Alliance, Inc.'s major federal programs for the year ended June 30, 2012. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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 to determine the 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

February 2, 2013

HOUSING DEVELOPMENT ALLIANCE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2012

NONE

HOUSING DEVELOPMENT ALLIANCE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

SUMMARY 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
   - CHDO Operating Grant CFDA #14.239

   Passed through LKLP
   - HOME Programs CFDA #14.239

   Passed through FAHE
   - HOME Programs CFDA #14.239

   U.S. Department of Agriculture
   Direct
   - RD 502 Program CFDA #10.410

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