

HOUSING DEVELOPMENT ALLIANCE, INC.

FINANCIAL STATEMENTS  
AND REPORT OF AUDIT

For the Year Ended June 30, 2011

HOUSING DEVELOPMENT ALLIANCE, INC.

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AND REPORT OF AUDIT

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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, 2011, 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, 2011, 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 December 19, 2011, 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 information is fairly stated in all material respects in relation to the financial statements as a whole.



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

December 19, 2011

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FINANCIAL POSITIONJune 30, 2011ASSETS

## Current Assets:

Cash - Unrestricted		468,793
Receivables (Net of Allowance for Losses):		
Contracts	395,170	
Grants	164,243	
Draws	122,750	
Loans	31,850	
Mortgages	898,486	
Other	91,500	
<u>Total Receivables</u>		1,703,999
Inventories - Materials and Supplies		4,922
Inventories - Homes for Sale		255,124
Prepaid Items and Other Assets		35,859
<u>Total Current Assets</u>		<u>2,468,697</u>

## Fixed Assets:

Property and Equipment (Net of Accumulated Depreciation)		<u>2,883,500</u>
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## Other Assets:

Deferred Mortgages Receivable	653,722	
Restricted Cash	358,213	
Replacement Reserves	14,522	
<u>Total Other Assets</u>		<u>1,026,457</u>

<u>Total Assets</u>		<u>6,378,654</u>
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See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FINANCIAL POSITIONJune 30, 2011LIABILITIES AND NET ASSETS

## Current Liabilities:

Accounts Payable	131,007
Accrued Payroll and Withholding	7,829
Accrued Fringe Benefits	56,126
Other Current Liabilities	536,846
Current Portion of Long-term Debt	<u>70,648</u>
<u>Total Current Liabilities</u>	<u>802,456</u>

Long-term Debt	<u>1,757,605</u>
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Rental Security Deposits	<u>2,372</u>
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<u>Total Liabilities</u>	<u>2,562,433</u>
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## Net Assets:

Temporarily Restricted	3,480,708
Unrestricted	<u>335,513</u>
<u>Total Net Assets</u>	<u>3,816,221</u>

<u>Total Liabilities and Net Assets</u>	<u>6,378,654</u>
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See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUES AND SUPPORT</u>			
Construction Revenue/Grants	-	1,805,559	1,805,559
HOME Grant Revenue	-	360,850	360,850
CHDO Operating Revenue	50,000	-	50,000
HAC/SHOP Revenue	-	106,742	106,742
RHED Revenue	-	115,000	115,000
NHPL/NHRL Grant Revenue	-	30,652	30,652
Community Support/Contributions	78,966	-	78,966
ARC Grant Revenue	-	78,880	78,880
AHTF Grant Revenue	-	165,150	165,150
Fundraising Revenue	18,666	-	18,666
Developer's Fee	170,020	-	170,020
Other Grant Revenue	-	266,213	266,213
Interest Revenue	18,395	-	18,395
Rental Revenue	61,646	-	61,646
Miscellaneous Revenue	16,680	-	16,680
Volunteer Services & Fees	107,223	-	107,223
Youthbuild	30,000	-	30,000
Donated Assets	86,528	-	86,528
Net Assets Released from Restrictions	<u>2,127,949</u>	<u>(2,127,949)</u>	<u>-</u>
<u>Total Revenue and Support</u>	<u>2,766,073</u>	<u>801,097</u>	<u>3,567,170</u>
Functional Expenses:			
Management and General	255,106	-	255,106
Program Services	2,863,526	-	2,863,526
Rental	75,131	-	75,131
Fundraising	<u>17,469</u>	<u>-</u>	<u>17,469</u>
<u>Total Expenses</u>	<u>3,211,232</u>	<u>-</u>	<u>3,211,232</u>
Increase (Decrease) in Net Assets	(445,159)	801,097	355,938
<u>Net Assets, Beginning of Year-Restated</u>	<u>780,672</u>	<u>2,679,611</u>	<u>3,460,283</u>
<u>Net Assets, End of Year</u>	<u>335,513</u>	<u>3,480,708</u>	<u>3,816,221</u>

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FUNCTIONAL EXPENSESFor the Year Ended June 30, 2011

	Program Services						Total
	Management and General	Rehab	New Homes	Other	Rental	Fundraising	
Materials	-	135,357	419,477	10,388	-	-	565,222
Subcontractors	-	91,854	460,100	66	-	-	552,020
Services	-	2,107	17,772	186	-	-	20,065
Equipment Rental	-	-	109	-	-	-	109
Carpenter Wages	-	121,864	161,928	5,925	-	-	289,717
FICA/MC Expense	-	9,259	12,380	447	-	-	22,086
Salary Expense	88,963	62,435	119,259	50,542	4,273	13,317	338,789
FICA/MC Expense	6,656	6,366	11,953	3,835	416	829	30,055
Fringe Benefits	1,480	2,749	4,498	1,005	140	-	9,872
Workers Compensation Insurance	19,128	11,622	18,490	3,311	308	616	53,475
Crew Benefits/Work Expense	-	23,599	27,216	-	-	-	50,815
Warranty Work Expense	-	519	6,703	-	-	-	7,222
Health Insurance	25,564	25,677	41,074	7,186	698	1,395	101,594
Life Insurance	242	525	840	146	14	29	1,796
L/T & S/T Disability	763	1,661	2,657	465	45	90	5,681
Health Reimbursement Account	6,959	2,310	83	5,404	-	-	14,756
Benefit Admin	2,543	-	-	-	-	-	2,543
Retirement	9,617	-	-	-	-	-	9,617
Accounting/Audit	8,835	-	-	-	-	-	8,835
Advertising	3,945	256	807	6,320	31	179	11,538
Volunteer Expense	-	-	-	70,167	-	-	70,167
Networking Expense	26,905	-	300	400	-	-	27,605
Copier Supplies	1,621	-	51	28	-	-	1,700
Insurance	6,523	6,174	14,511	2,354	1,473	292	31,327
Storage Rental	-	215	710	875	-	-	1,800
Cleaning Services	391	309	855	218	3,014	-	4,787
Maintenance	594	266	1,093	209	10,182	-	12,344
Cleaning Supplies	448	2	84	1	25	-	560
Office Supplies	7,176	119	330	589	-	-	8,214
Postage	1,484	-	-	-	-	132	1,616
Publications	730	-	-	-	-	-	730
Seminars/Training	6,261	1,292	210	-	-	-	7,763
Travel/Meals	5,191	340	26	89	-	-	5,646
Telephone	2,698	1,436	3,969	1,013	338	-	9,454
Utilities	828	400	1,120	336	17,853	-	20,537

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)For the Year Ended June 30, 2011

	Management and General	Program Services					Total
		Rehab	New Homes	Other	Rental	Fundraising	
Membership	4,079	-	-	-	-	-	4,079
Board Training	417	-	-	-	-	-	417
Shop Supplies	-	15	45	-	-	-	60
Tools and Tool Repairs	795	5,912	7,280	245	-	-	14,232
Mileage	-	-	147	-	-	-	147
Fuel	1,487	11,817	21,261	2,954	-	-	37,519
Vehicle Maintenance	970	5,751	4,851	353	18	-	11,943
Vehicle Insurance	1,539	3,366	5,369	1,017	85	169	11,545
Appraisal and Architect Fees	-	-	250	-	-	-	250
Inspection Fees	-	400	10,756	-	-	-	11,156
Closing, Settlement and Recording Fees	29	561	5,031	-	-	-	5,621
Legal & Title Fees	703	-	1,124	23	51	-	1,901
Loan Origination Fee	250	-	83	-	-	-	333
Survey Fees	-	-	2,846	-	-	-	2,846
Licensing and Other Fees	-	862	110	673	-	-	1,645
Interest Expense	2,801	-	364	5,958	1,475	-	10,598
Late Fees	1,170	7	24	-	29	-	1,230
Miscellaneous Expense	1,814	2	1,281	3,813	7,390	19	14,319
Depreciation	3,507	8,827	18,024	2,316	27,273	402	60,349
Contribution Expense	-	1,804	102,803	-	-	-	104,607
Land and Land Development Expense	-	-	252,516	-	-	-	252,516
Uncollectible Receivables	-	-	-	36,687	-	-	36,687
Forgivable Loan Expense	-	-	327,175	-	-	-	327,175
<u>Total</u>	<u>255,106</u>	<u>548,037</u>	<u>2,089,945</u>	<u>225,544</u>	<u>75,131</u>	<u>17,469</u>	<u>3,211,232</u>

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF CASH FLOWSFor the Year Ended June 30, 2011

<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Increase in net assets	355,938
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	60,349
Restatement of Net Assets	36,660
(Increase) Decrease in Operating Assets:	
Receivables	(538,037)
Inventories	283,538
Prepaid and Accrued Expense	(21,956)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	(81,730)
Accrued Payroll and Withholding	(7,248)
Accrued Fringe Benefit	9,768
Other Current Liabilities	<u>468,505</u>
 <u>Net Cash Provided by Operating Activities</u>	 <u>565,787</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Acquisition of Property and Equipment	(1,456,521)
Sale and Disposal of Property	542,408
Net Increase in Reserve Account	<u>(3,798)</u>
 <u>Net Cash Used by Investing Activities</u>	 <u>(917,911)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>	
Loan Proceeds/Advances	690,935
Reduction of Principal	(302,451)
Net Increase in Rental Security Deposits	<u>35</u>
 <u>Net Cash Used by Financing Activities</u>	 <u>388,519</u>
 <u>NET INCREASE IN CASH</u>	 <u>36,395</u>
 <u>CASH, BEGINNING OF YEAR</u>	 <u>790,611</u>
 <u>CASH, END OF YEAR</u>	 <u>827,006</u>
 Supplemental Cash Flow Information:	
Cash Paid During Year for Interest	<u>10,598</u>

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTSJune 30, 2011

## 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, 2011.

Contributed Services/Property

During the year ended June 30, 2011, 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, 2011Estimates

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). 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.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2011Income 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.

Forgivable loans are expensed on the closing day of the sale.

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. Once management has determined that a loan is impaired the mortgage receivable is decreased and uncollectible loan receivable expense is increased.

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, 2011Contribution 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.

## Note 2 – Cash

The composition of cash at June 30, 2011, is as follows:

	<u>Book</u>	<u>Bank</u>	<u>Interest</u>	<u>Financial Institution</u>
	<u>Balance</u>	<u>Balance</u>	<u>Rate</u>	
Regular Operating Account	105,577	178,152	N/a	Peoples Bank & Trust
Revolving Loan Fund	5,169	5,169	0.75%	Peoples Bank & Trust
HAC/SHOP Restricted Account	40,844	40,844	0.75%	Peoples Bank & Trust
HOME Restricted Account	5	5	N/a	Peoples Bank & Trust
Operating Reserve	25,473	25,473	0.75%	Peoples Bank & Trust
RCDF	100	100	N/a	Peoples Bank & Trust
Money Market Account	105,881	105,881	0.10%	Community Trust Bank
CHDO Proceeds	211,982	232,056	N/a	Community Trust Bank
Loan Fund	222,293	292,153	1.50%	First Trust Bank
FHLB Fund	105,282	105,282	1.00%	First Federal Savings & Loan
RHED Fund	3,805	3,805	N/a	Whitaker Bank
Charles Schwab Account	445	445	N/a	Charles Schwab
Petty cash	150	N/a	N/a	N/a
<u>Total</u>	<u>827,006</u>	<u>989,365</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 \$42,153 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 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.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2011

## Note 3 – Receivables

Receivables consist of the following at June 30, 2011:

Grant Receivable		
CHDO		12,500
Coal Severance		47,015
Rural Development		104,728
Draws Receivable		122,750
Contracts Receivable		395,170
Other Receivables:		
Youthbuild Coordination	30,000	
KDVA	10,500	
FHLB	<u>51,000</u>	91,500
Mortgages and Loans Receivable	1,631,098	
Less: Loan Loss Allowance	<u>(47,040)</u>	
Total Mortgages and Loans Receivable		<u>1,584,058</u>
<u>Total Receivables</u>		<u>2,357,721</u>

Mortgage and loans receivable consist of the following at June 30, 2011:

Mortgages Receivables	945,526
Loan Receivable	
Various Individual Loans	<u>31,850</u>
<u>Sub-total</u>	977,376
Deferred Mortgages Receivable (listed as other assets)	653,722
Indirect Mortgages Receivable	16,876
Less: Payments made directly to Kentucky Housing Corporation	(16,876)
Allowance for doubtful accounts	<u>(47,040)</u>
<u>Total Mortgages/Loans Receivable</u>	<u>1,584,058</u>

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2011

## 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, 2011 is \$170,210.

## Note 4 – Property and Equipment

Changes in property and equipment are as follows:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Lot and Improvements - Office/Shelter	159,210	-	-	159,210
Land - New Office	215,182	-	(14,130)	201,052
New Office Building	-	796,354	-	796,354
Land - Storage Building	11,179	9,403	-	20,582
Land - Brashear Rental Lot #2	-	11,179	-	11,179
Office Equipment	53,686	92,179	(37,771)	108,094
Vehicles	135,101	-	(7,425)	127,676
Tools and Equipment	38,688	13,685	(19,132)	33,241
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	13,700	-	(13,700)	-
Land - 2671 Big Creek	10,351	-	(10,351)	-
Land - Held for Development	66,036	533,721	-	599,757
Land - Typo Deaton	14,846	-	(14,846)	-
Land - Long Whitaker Fork	18,028	-	(18,028)	-
Land - Russell Street	10,045	-	(10,045)	-
Land - Defiance	27,678	-	(27,678)	-
Land - Steepfield	41,634	-	(41,634)	-
Land - Holland	9,321	-	(9,321)	-
Land - 2170 Big Smith Branch	21,929	-	(21,929)	-

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2011

## Note 4 – Property and Equipment (continued)

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</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 - Mary Whitiker 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	-	-	-	-
Land - 1814 Hwy 451	16,597	-	(16,597)	-
Land - 133 Combs Street	11,847	-	(11,847)	-
Land - Pigeon Roost	40,603	-	(40,603)	-
Land - BBL White	53,503	-	(53,503)	-
<u>Sub-total</u>	<u>2,424,714</u>	<u>1,456,521</u>	<u>(606,128)</u>	<u>3,275,107</u>
Less: Accumulated Depreciation	<u>(394,978)</u>	<u>(60,349)</u>	<u>63,720</u>	<u>(391,607)</u>
<u>Totals</u>	<u>2,029,736</u>	<u>1,396,172</u>	<u>(542,408)</u>	<u>2,883,500</u>

Total depreciation expense for the year ended June 30, 2011 was \$60,349.

## Note 5 – Other Current Liabilities

Other current liabilities consist of the following at June 30, 2011:

Construction Obligations	298,137
Construction Payables	104,728
Deferred Revenue	125,000
Accrued Audit Expense	7,950
Accrued Interest Expense	<u>1,031</u>
<u>Total</u>	<u>536,846</u>

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2011

## Note 6 – Other Assets

Other assets at June 30, 2011, consist of the following:

Replacement Reserves	14,522
Cash Restricted - HAC/SHOP	40,844
Cash Restricted - HOME	5
Cash Restricted - CHDO Proceeds	211,982
Cash - FHLB Fund	105,282
Cash - RCDF Fund	100
Deferred Mortgages Receivable	<u>653,722</u>
<u>Total</u>	<u>1,026,457</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 \$9,617 and for the prior year was \$6,422.

## Note 8 – Long-term Debt

Long-term debt at June 30, 2011, for the Housing Development Alliance includes the following:

Description	Term	Collateral	Rate	Balance			Balance June 30, 2011	Current Portion
				July 1, 2010	Additions	Reductions		
RLF/CLF	Demand	Real Estate	0.00%	239,862	-	(22,799)	217,063	-
KHC HOME - High Street #500120	30 years	Real Estate	0.00%	70,161	57,763	-	127,924	-
KHC HOME - High Street #500120	Forgivable	Real Estate	0.00%	150,400	-	(65,288)	85,112	7,525
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%	72,392	-	(2,636)	69,756	2,434
KHC HOME - Duplexes Deferred #500697	30 years	Real Estate	0.00%	425,950	-	-	425,950	-
KHC AHTF Ross Loan #7040	30 years	Real Estate	1.00%	22,651	-	(911)	21,740	920
KHC AHTF Ross Loan #7096	30 years	Real Estate	1.00%	12,800	-	(452)	12,348	458
KHC AHTF Bridge III Loan #7124	Demand	Real Estate	0.00%	32,064	-	(1,121)	30,943	1,131
KHC AHTF Loan #7013	Demand	Real Estate	7.00%	47,494	-	(2,044)	45,450	2,064
First Federal S&L New Office #8896	15 years	Real Estate	5.00%	-	146,373	-	146,373	7,148
USDA Rural Development Loan	32 years	Real Estate	4.00%	-	450,000	-	450,000	-

## HOUSING DEVELOPMENT ALLIANCE, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

## Note 8 – Long-term Debt (continued)

Description	Term	Collateral	Rate	Balance			Balance		Current Portion
				July 1, 2010	Additions	Reductions	June 30, 2011		
HAC/SHOP 07	Forgivable	Real Estate	0.00%	16,627	-	(16,627)	-	-	
HAC/SHOP 08	Forgivable	Real Estate	0.00%	30,000	-	(18,000)	12,000	12,000	
HAC/SHOP 09	Forgivable	Real Estate	0.00%	-	14,000	-	14,000	14,000	
FHLB Obligation	Forgivable	Unsecured	0.00%	150,000	-	(150,000)	-	-	
FAHE - Line of Credit #3081	Demand	Real Estate	4.00%	34,893	-	(2,978)	31,915	3,373	
FAHE - Ford Loan #9004	Demand	Real Estate	3.00%	66,650	-	-	66,650	-	
FAHE - NHPL Rd #2 - #1860	Demand	Real Estate	1.00%	13,500	-	(1,500)	12,000	1,500	
FAHE - NHPL Rd #3 - #1861	Demand	Real Estate	1.00%	20,205	-	(2,245)	17,960	2,245	
FAHE - NHPL #4 - #1863	Demand	Real Estate	1.00%	33,193	-	(3,319)	29,874	3,319	
FAHE - NHPR #5 - #1864	Demand	Real Estate	1.00%	26,400	-	(2,400)	24,000	2,400	
FAHE - NHPR #7 - #1865	Demand	Real Estate	1.00%	35,597	-	(2,961)	32,636	2,961	
FAHE - NHPR #8 - #1866	Demand	Real Estate	1.00%	40,781	-	(3,137)	37,644	3,137	
FAHE - NHPR #9 - #1867	Demand	Real Estate	1.00%	33,107	-	(2,365)	30,742	2,365	
FAHE - NHPR #10 - #2034	Demand	Real Estate	1.00%	25,024	-	(1,668)	23,356	1,668	
Subtotals				1,679,631	668,136	(302,451)	2,045,316	70,648	
Less: Contra Accounts				(239,862)	22,799	-	(217,063)	-	
<b>Totals</b>				<b>1,439,769</b>	<b>690,935</b>	<b>(302,451)</b>	<b>1,828,253</b>	<b>70,648</b>	

## Note 9 – Net Assets

Net assets consist of the following at June 30, 2011:

Unrestricted	335,513
Temporarily restricted:	
Shelter/Office	96,139
High Street	91,332
Guyla's Grace Building/Land	87,802
HOME Fund	5
HAC/SHOP	40,844
CTB Money Market Account	25,000
Other Receivables	61,500
Contracts Receivable	395,170
Grant Receivables	151,743
Draws Receivable	122,750
CHDO Proceeds	211,981
FHLB Fund	100,000
New Office Building/Land	406,436
Storage Building	20,582
Moore Street Building/Land	181,714
116 Fir Street	143,047
124 Fir Street	144,449

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2011

## Note 9 – Net Assets (continued)

Brashear Rental Lot	11,179	
Land - Held for Development	30,553	
Replacement Reserves	14,522	
Mortgage Receivable	566,647	
Deferred Mortgage Receivable	541,941	
Loans Receivable	872	
Inventories - Home for Sale	<u>34,500</u>	<u>3,480,708</u>
<u>Total Net Assets</u>		<u>3,816,221</u>

## 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, 2011, the amount recognized as a short-term liability by the Organization is as follows. Loan Number 1-1218-0902 has a short-term obligation of \$12,000 and Loan Number 1-1317-1004 has a short-term obligation of \$14,000. 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.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2011**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.

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, 2011, the Organization had uninsured cash balances of \$42,153.

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, 2011, \$1,390,884 or 38.99% of Housing Development Alliance, Inc.'s receipts were derived via Kentucky Housing Corporation.

**Note 14 – New Administrative Office Facilities**

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), a \$200,000 grant from Rural Development, a \$450,000 loan from Rural Development, a \$100,000 coal severance grant from the Commonwealth of Kentucky and Perry County, Kentucky and a \$187,500 loan from First Federal Savings and Loan Association. The Organization purchased a site for the new office and warehouse in August of 2009 with the aforementioned RHED funds. The estimated total development cost of the 3,800 square foot office is between \$1,000,000 and \$1,100,000. The office project was substantially completed at June 30, 2011, pending finalization and project closeout. The small house purchased with the land is used as a small warehouse.

**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 December 19, 2011, the date financial statements were available to be issued.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2011

## Note 17 – Restatement of Net Assets

Net assets were increased by \$36,660 to recognize a forgivable loan, amortized over prior periods, which was refinanced and recorded as a mortgage receivable in the current year.

HOUSING DEVELOPMENT ALLIANCE, INC.

SUPPLEMENTAL INFORMATION

June 30, 2011

HOUSING DEVELOPMENT ALLIANCE, INC.SCHEDULE OF EXPENDITURES OF FEDERAL AWARDSYear Ended June 30, 2011

<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>78,880</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
Passed through Kentucky Housing Corporation:			
HOME Programs	14.239	-	747,077
Rural Housing and Economic Development	14.250	-	115,000
Section 8 Rental Assistance	14.856	-	21,816
CHDO Operating Grant	14.239	-	50,000
Passed through Housing Assistance Council:			
SHOP Loan	14.247	-	69,440
Passed through LKLP:			
HOME Programs	14.239	-	14,560
- Direct -			
Rural Housing and Economic Development	14.250	-	<u>15,478</u>
<u>Total Department of Housing and Urban Development</u>			<u>1,033,371</u>
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
Rural Housing Service			
- Direct -			
RD - 502 Programs	10.410	-	616,000
RD - 504 Programs	10.417	-	149,541
RD - RDCF Loan ARRA	10.780	-	450,000
RD - RDCF Grant ARRA	10.780	-	<u>159,213</u>
<u>Total U.S. Department of Agriculture</u>			<u>1,374,754</u>
<u>Total Federal Awards Expended</u>			<u>2,487,005</u>

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.

**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, 2011, and have issued our report thereon dated December 19, 2011. 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.

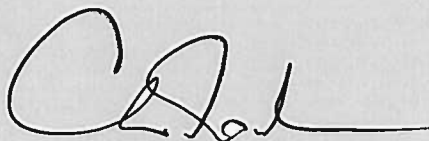
**Compliance and Other Matters**

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 December 19, 2011.

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 black ink, appearing to read 'C. Gooch', with a long horizontal flourish extending to the right.

Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

December 19, 2011

**Chris Gooch**

Certified Public Accountant  
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Hazard, Kentucky 41702  
(606) 436-5700

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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, 2011. 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, 2011.

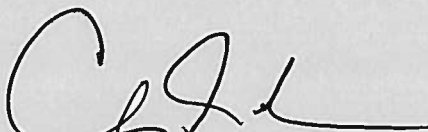
### Internal Control Over Compliance

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, 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

December 19, 2011

HOUSING DEVELOPMENT ALLIANCE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2011

NONE

HOUSING DEVELOPMENT ALLIANCE, INC.SCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2011SUMMARY 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
  - U.S. Department of Agriculture
  - Direct
    - RDCF Loan/Grant ARRA CFDA #10.780
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee did not qualify as a low-risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None