

HOUSING DEVELOPMENT ALLIANCE, INC.

FINANCIAL STATEMENTS
AND REPORT OF AUDIT

For the Year Ended June 30, 2009

HOUSING DEVELOPMENT ALLIANCE, INC.

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Chris Gooch

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Housing Development Alliance, Inc. (a nonprofit organization) as of June 30, 2009, 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, 2009, 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 16, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

A handwritten signature in black ink, appearing to read "Chris Gooch". The signature is fluid and cursive, with the first name "Chris" and last name "Gooch" clearly distinguishable.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

December 16, 2009

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FINANCIAL POSITIONJune 30, 2009ASSETS

Current Assets:

Cash - Unrestricted		215,728
Receivables (Net of Allowance for Losses):		
Contracts	207,903	
Draws	34,000	
Grants	52,894	
Loans	35,836	
Mortgages	913,143	
Other	32,500	
Total Receivables		1,276,276
Inventories - Materials and Supplies		4,059
Inventories - Homes for Sale		443,383
Prepaid Items and Accrued Expense		<u>20,272</u>
<u>Total Current Assets</u>		<u>1,959,718</u>

Fixed Assets:

Property and Equipment (Net of Accumulated Depreciation)		<u>1,969,127</u>
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Other Assets:

Deferred Mortgages Receivable	631,737	
Restricted Cash	253,315	
Replacement Reserves	<u>8,492</u>	
<u>Total Other Assets</u>		<u>893,544</u>

<u>Total Assets</u>		<u>4,822,389</u>
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See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FINANCIAL POSITIONJune 30, 2009LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	40,065
Accrued Payroll and Withholding	11,026
Accrued Fringe Benefits	38,708
Other Current Liabilities	152,008
Current Portion of Long-term Debt	<u>57,640</u>
<u>Total Current Liabilities</u>	<u>299,447</u>

Long-term Debt	<u>1,384,569</u>
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Rental Security Deposits	<u>2,000</u>
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Total Liabilities	<u>1,686,016</u>
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Net Assets:

Temporarily Restricted	2,049,444
Unrestricted	<u>1,086,929</u>
<u>Total Net Assets</u>	<u>3,136,373</u>

<u>Total Liabilities and Net Assets</u>	<u>4,822,389</u>
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See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2009

	Un restricted	Temporarily Restricted	Total
<u>REVENUES AND SUPPORT</u>			
Construction Revenue/Grants	-	1,013,073	1,013,073
HOME Grant Revenue	-	140,635	140,635
CHDO Operating Revenue	20,000	-	20,000
HAC/SHOP Revenue	-	113,670	113,670
RHED Revenue	-	45,000	45,000
KY Social Welfare Grant	-	-	-
NHPL/NHRL Grant Revenue	-	24,930	24,930
Community Support/Contributions	74,356	-	74,356
ARC Grant Revenue	-	90,824	90,824
AHTF Grant Revenue	-	202,317	202,317
Fundraising Revenue	19,952	-	19,952
Developer's Fee	81,317	-	81,317
Other Grant Revenue	-	63,600	63,600
Interest Revenue	15,992	-	15,992
Rental Revenue	39,146	-	39,146
Miscellaneous Revenue	8,675	-	8,675
Volunteer Services & Fees	187,188	-	187,188
Youthbuild	30,000	-	30,000
Donated Assets	13,001	-	13,001
Houseworks Grant	-	65,301	65,301
KHC/FAHE Operational Support	13,500	-	13,500
Net Assets Released from Restrictions	<u>1,817,275</u>	<u>(1,817,275)</u>	<u>-</u>
<u>Total Revenue and Support</u>	<u>2,320,402</u>	<u>(57,925)</u>	<u>2,262,477</u>
Functional Expenses:			
Management and General	183,261	-	183,261
Program Services	1,940,810	-	1,940,810
Rental	55,224	-	55,224
Fundraising	<u>6,703</u>	<u>-</u>	<u>6,703</u>
<u>Total Expenses</u>	<u>2,185,998</u>	<u>-</u>	<u>2,185,998</u>
Increase (Decrease) in Net Assets	134,404	(57,925)	76,479
<u>Net Assets, Beginning of Year, Restated</u>	<u>952,525</u>	<u>2,107,369</u>	<u>3,059,894</u>
<u>Net Assets, End of Year</u>	<u>1,086,929</u>	<u>2,049,444</u>	<u>3,136,373</u>

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2009

Program Services

	<u>Management and General</u>	<u>Rehab</u>	<u>New Homes</u>	<u>Other</u>	<u>Rental</u>	<u>Fundraising</u>	<u>Total</u>
Materials	-	88,888	436,874	13,823	-	-	539,585
Subcontractors	-	44,429	353,736	10,298	4,168	-	412,631
Materials Fuel Charge	-	70	1,060	-	-	-	1,130
Services	-	1,739	21,324	246	-	-	23,309
Equipment Rental	-	1,310	11,285	74	-	-	12,669
Carpenter Wages	-	63,575	126,631	5,665	-	-	195,871
FICA/MC Expense	-	4,908	9,359	135	-	-	14,402
Americorps	5,300	-	-	-	-	-	5,300
Salary Expense	65,057	34,310	89,354	56,363	2,249	5,166	252,499
FICA/MC Expense	5,583	3,573	9,471	4,274	143	305	23,349
Fringe Benefits	2,421	1,769	4,364	1,051	157	231	9,993
Workers Compensation Insuran	245	11,284	23,525	894	165	-	36,113
Crew Benefits/Work Expense	666	12,726	28,899	2,269	751	-	45,311
Warranty Work Expense	-	178	2,364	-	-	-	2,542
Health Insurance	13,613	13,131	29,773	3,810	339	597	61,263
Life Insurance	290	283	612	95	8	17	1,305
L/T & S/T Disability	940	923	2,006	307	24	55	4,255
Health Reimbursement Account	-	2,025	1,199	-	-	-	3,224
Benefit Admin	1,660	43	118	30	10	-	1,861
Retirement	8,183	-	-	-	-	-	8,183
Employee Incentives	10,047	-	-	-	-	-	10,047
Accounting/Audit	7,062	-	-	-	-	-	7,062
Advertising	2,371	1,095	2,130	3,728	155	30	9,509
Volunteer Expense	-	-	-	140,001	-	-	140,001
Networking Expense	5,444	-	-	-	-	-	5,444
Computer Software	8,336	-	-	400	-	-	8,736
Copier Supplies	1,203	-	-	16	-	-	1,219
Insurance	5,632	1,149	14,381	2,585	9,671	-	33,418
Storage Rental	-	255	795	1,050	-	-	2,100
Cleaning Services	342	265	733	187	2,835	-	4,362
Maintenance	371	168	539	114	6,668	-	7,860
Cleaning Supplies	125	-	-	15	167	-	307
Office Supplies	2,355	96	265	91	51	29	2,887
Postage	1,170	12	99	95	2	212	1,590
Publications	249	-	-	-	-	-	249
Seminars/Training	2,366	-	-	150	-	-	2,516
Travel/Meals	1,843	-	-	82	-	-	1,925
Telephone	761	661	1,806	461	142	-	3,831
Mobile Phone	810	797	1,974	471	157	-	4,209
Utilities	599	650	2,552	675	9,050	-	13,526
Membership	1,701	-	-	-	-	-	1,701
Board Training	450	-	-	-	-	-	450
Consultant	1,988	-	-	-	-	-	1,988
Shop Supplies	-	48	233	-	-	-	281
Tools and Tool Repairs	-	1,102	4,763	450	-	-	6,315

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)For the Year Ended June 30, 2009

	Management <u>and General</u>	Program Services				Rental	Fundraising	<u>Total</u>
		<u>Rehab</u>	<u>New Homes</u>	<u>Other</u>				
Mileage	30	51	677	388	-	-	1,146	
Fuel	1,576	7,680	12,158	2,872	-	-	24,286	
Vehicle Maintenance	239	1,443	3,719	274	-	-	5,675	
Vehicle Insurance	664	611	3,954	2,574	-	-	7,803	
Appraisal	-	-	350	-	-	-	350	
Inspection Fees	-	-	8,419	334	-	-	8,753	
Recording Fees	173	66	658	55	51	-	1,003	
Legal & Title Fees	-	-	630	733	-	-	1,363	
Loan Origination Fee	1,000	-	-	-	-	-	1,000	
Survey Fees	-	-	464	1,100	-	-	1,564	
Credit Report Fees	-	-	309	-	-	-	309	
Interest Expense	6,989	-	443	5,750	3,339	-	16,521	
Late Fees	357	-	-	-	-	-	357	
Miscellaneous Expense	2,289	1,658	6,952	1,922	-	61	12,882	
Depreciation	10,761	6,040	14,707	3,939	14,922	-	50,369	
Loss Expense	-	-	120,292	5,997	-	-	126,289	
<u>Total</u>	<u>183,261</u>	<u>309,011</u>	<u>1,355,956</u>	<u>275,843</u>	<u>55,224</u>	<u>6,703</u>	<u>2,185,998</u>	

See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.STATEMENT OF CASH FLOWSFor the Year Ended June 30, 2009CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in net assets	76,479
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	50,369
Prior Period Adjustment	17,285
(Increase) Decrease in Operating Assets:	
Receivables	(203,085)
Inventories	326,529
Prepaid and Accrued Expense	(7,504)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	(174,806)
Accrued Payroll and Withholding	5,925
Accrued Fringe Benefit	11,898
Other Current Liabilities	<u>130,419</u>
 Net Cash Provided by Operating Activities	 <u>233,509</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of Property and Equipment	(870,547)
Sale and Disposal of Property	272,316
Net Increase in Reserve Account	<u>(1,707)</u>
 <u>Net Cash Used by Investing Activities</u>	 <u>(599,938)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Loan Proceeds/Advances	491,218
Reduction of Principal	(104,154)
Net Increase in Rental Security Deposits	<u>311</u>
 <u>Net Cash Used by Financing Activities</u>	 <u>387,375</u>

NET INCREASE IN CASH	20,946
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<u>CASH, BEGINNING OF YEAR</u>	448,097
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<u>CASH, END OF YEAR</u>	469,043
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Supplemental Cash Flow Information:

Cash Paid During Year for Interest	<u>16,521</u>
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See notes to financial statements.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTSJune 30, 2009

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, 2009.

Contributed Services/Property

During the year ended June 30, 2009, 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, 2009Estimates

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

Property and Equipment

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

Financial Statement Presentation

In its initial year Housing Development Alliance, Inc. elected to adopt early implementation of Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, Housing Development Alliance, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, Housing Development Alliance, Inc. is required to present a statement of cash flows.

Contributions

In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2009Income Taxes

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

Inventories

Inventories are valued at the lower of cost or market.

Loans Receivable

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

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

Allowance for Loan Losses

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

Cash and Cash Equivalents

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

Restrictions on Assets

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

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2009Functional Expense Reporting

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

Note 2 – Cash

The composition of cash at June 30, 2009, is as follows:

	Book	Bank	
	Balance	Balance	Financial Institution
Regular Operating Account	22,558	79,057	Peoples Bank & Trust
Revolving Loan Fund	5,092	5,092	Peoples Bank & Trust
HAC/SHOP Restricted Account	939	939	Peoples Bank & Trust
HOME Restricted Account	5	5	Peoples Bank & Trust
Operating Reserve	25,094	25,094	Peoples Bank & Trust
Money Market Account	85,736	85,736	Community Trust Bank
CHDO Proceeds	49,486	49,486	Community Trust Bank
Loan Fund	77,248	88,221	First Trust Bank
FHLB Fund	202,516	202,516	First Federal Savings & Loan
RHED Fund	<u>369</u>	<u>369</u>	Whitaker Bank
<u>Total</u>	<u>469,043</u>	<u>536,515</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 no deposits exceeding FDIC coverage limits. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The organization has no investment accounts. Concentrations of credit risk are the risk of loss attributed to the magnitude of the Entity's investment in a single issuer. All of the organization's cash and investments are held at local financial institutions.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2009

Note 3 – Receivables

Receivables consist of the following at June 30, 2009:

Grant Receivable		
CHDO	5,000	
EQT Foundation	25,000	
NHPR	4,060	
ARC	<u>18,834</u>	52,894
Contracts Receivable		207,903
Draws Receivable		34,000
Other Receivables:		
Youthbuild Coordination	7,500	
FHLB	<u>25,000</u>	32,500
Mortgages and Loans Receivable	1,629,604	
Less: Loan Loss Allowance	<u>(48,888)</u>	
<u>Total Mortgages and Loans Receivable</u>		<u>1,580,716</u>
<u>Total Receivable</u>		<u>1,908,013</u>

Mortgage and loans receivable consist of the following at June 30, 2009:

Mortgages Receivables	962,031
Loan Receivable	
Various Individual Loans	<u>35,836</u>
<u>Sub-total</u>	997,867
Deferred Mortgages Receivable (listed as other assets)	631,737
Indirect Mortgages Receivable	18,646
Less: Payments made directly to Kentucky Housing Corporation	(18,646)
Allowance for doubtful accounts	<u>(48,888)</u>
<u>Total Mortgages/Loans Receivable</u>	1,580,716

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2009

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, 2009 is \$20,830.

Note 4 – Property and Equipment

Changes in property and equipment are as follows:

	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
Land Held for Development	-	8,772	-	8,772
Lot and Improvements -				
Office/Shelter	159,210	-	-	159,210
Office Equipment	53,686	-	-	53,686
Vehicles	117,848	17,953	(2,795)	133,006
Tools and Equipment	38,688	-	-	38,688
Wheel Chair Ramp System	-	10,120	-	10,120
Fall Protection System	-	17,105	-	17,105
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
Perry County COC Rental	125,136	-	(125,136)	-
Moore Street Building	-	197,372	-	197,372
116 Fir Street Building	-	167,374	-	167,374
124 Fir Street Building	-	169,207	-	169,207
Land - Moore Street	-	37,603	-	37,603
Land - 116 Fir Street	-	18,337	-	18,337
Land - 124 Fir Street	-	18,337	-	18,337
Land - Bonnyman 1	-	9,200	-	9,200
Land - 2671 Big Creek	-	10,351	-	10,351
Land - AC Patrick	-	6,431	(6,431)	-
Land - College St	16,335	8,108	-	24,443
Land - Typo Deaton	14,846	-	-	14,846
Land - Long Whitaker Fork	18,028	-	-	18,028
Land - Russell Street	10,045	-	-	10,045
Land - Defiance	53,540	3,436	(17,110)	39,866
Land - Steepfield	41,634	-	-	41,634
Land - Holland	8,326	995	-	9,321
Land - Airport 9 Lot	68,978	401	(69,379)	-
Land - 2170 Big Smith Branch	41,618	1,400	-	43,018
Land - Victory Gardens - Parcel #1	32,533	-	-	32,533
Land - Victory Gardens - Parcel #2	35,000	-	-	35,000
Land - Brownsfork Upper	80,393	-	-	80,393
Land - Whitaker Fk Rd	13,567	-	-	13,567
Land - Jake Fork Road	16,575	-	-	16,575

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2009

Note 4 – Property and Equipment (continued)

	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
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	9,249	250	-	9,499
Land - Combs St	16,766	2,860	-	19,626
Land - 1814 Hwy 451	16,597	-	-	16,597
Land - 133 Combs Street	11,847	-	-	11,847
Land - Pigeon Roost	37,973	2,630	-	40,603
Land - Olinger Dr	14,027	475	-	14,502
Land - AP Sliver	34,083	4,920	(39,003)	-
Land - LL Hall	-	17,078	-	17,078
Land - Ma Turner	-	6,926	-	6,926
Land - LL Triangle	-	105,447	-	105,447
Land - JC Osborne	-	15,257	(15,257)	-
Land - Colonial Club	-	12,202	-	12,202
	<u>1,704,164</u>	<u>870,547</u>	<u>(275,111)</u>	<u>2,299,600</u>
<u>Sub-total</u>				
Less: Accumulated Depreciation	<u>(282,899)</u>	<u>(50,369)</u>	<u>2,795</u>	<u>(330,473)</u>
	<u>1,421,265</u>	<u>820,178</u>	<u>(272,316)</u>	<u>1,969,127</u>
<u>Totals</u>				

Total depreciation expense for the year ended June 30, 2009 was \$50,369.

Note 5 – Other Assets

Other assets at June 30, 2009, consist of the following:

Replacement Reserve - High Street	8,492
Cash Restricted - HAC/SHOP	939
Cash Restricted - HOME	5
Cash Restricted - CHDO Proceeds	49,486
Cash - RHED Fund	369
Cash - FHLB Fund	202,516
Deferred Mortgages Receivable	<u>631,737</u>
<u>Total</u>	<u>893,544</u>

Note 6 – Other Current Liabilities

Other current liabilities consist of the following at June 30, 2009:

Construction Obligations	151,528
Prepaid Rent	480
<u>Total</u>	<u>152,008</u>

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2009

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 was \$8,183 and for the prior year was \$9,045.

Note 8 – Long-term Debt

Long-term debt at June 30, 2009, for the Housing Development Alliance includes the following:

Description	Term	Collateral	Rate	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
Peoples Bank - High Street	Demand	Real Estate	2.60%	13,853	-	(6,825)	7,028
RLF Obligations - High Street	Demand	Real Estate	1.00%	6,811	-	-	6,811
RLF/CLF	Demand	Real Estate	0.00%	127,039	111,676	-	238,715
HOME - High Street	30 years	Real Estate	0.00%	73,350	-	-	73,350
HOME - High Street	10 years	Real Estate	0.00%	500	-	(500)	-
HOME - High Street	30 years	Real Estate	0.00%	150,500	-	(100)	150,400
HOME - Guyla's Grace	30 years	Real Estate	0.00%	79,880	-	-	79,880
HOME - Duplexes	30 years	Real Estate	0.00%	-	73,000	-	73,000
HOME - Duplexes	30 years	Real Estate	0.00%	-	368,218	-	368,218
AHTF Ross Loan #7040	30 years	Real Estate	1.00%	24,445	-	(892)	23,553
AHTF Ross Loan #7096	30 years	Real Estate	1.00%	13,693	-	(444)	13,249
AHTF Bridge III Loan	Demand	Real Estate	0.00%	34,271	-	(1,098)	33,173
AHTF Loan	Demand	Real Estate	7.00%	51,520	-	(2,003)	49,517
HAC/SHOP Loan 56020211	Forgivable	Real Estate	0.00%	20,389	-	(20,389)	-
HAC/SHOP Loan 51030621	Forgivable	Real Estate	0.00%	69,200	-	(49,600)	19,600
FHLB Obligation	Forgivable	Unsecured	0.00%	150,000	50,000	-	200,000
FAHE - Line of Credit #3081	Demand	Real Estate	4.00%	37,761	-	(514)	37,247
FAHE - Ford Loan #9004	Demand	Real Estate	3.00%	66,650	-	-	66,650
FAHE - NHPL Rd #1 - #3/603	Demand	Real Estate	1.00%	2,193	-	(2,193)	-
FAHE - NHPL Rd #2 - #1/506	Demand	Real Estate	1.00%	16,500	-	(1,500)	15,000
FAHE - NHPL Rd #3 - #2/560	Demand	Real Estate	1.00%	24,695	-	(2,245)	22,450
FAHE - NHPL #4/607	Demand	Real Estate	1.00%	39,832	-	(3,319)	36,513
FAHE - NHPR #5	Demand	Real Estate	1.00%	31,200	-	(2,400)	28,800
FAHE - NHPR #7/0203	Demand	Real Estate	1.00%	41,460	-	(2,962)	38,498
FAHE - NHPR #8/60604	Demand	Real Estate	1.00%	47,055	-	(3,137)	43,918
FAHE - NHPR #9/60605	Demand	Real Estate	1.00%	37,837	-	(2,365)	35,472
FAHE - NHPR #10/60606	Demand	Real Estate	1.00%	28,361	-	(1,668)	26,693
Subtotals				1,188,995	602,894	(104,154)	1,687,735
Less: Contra Accounts				(133,850)	(111,676)	-	(245,526)
<u>Totals</u>				<u>1,055,145</u>	<u>491,218</u>	<u>(104,154)</u>	<u>1,442,209</u>

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2009

Note 9 – Net Assets

Net assets consist of the following at June 30, 2009:

Unrestricted		1,086,929
Temporarily restricted:		
Shelter/Office	102,873	
High Street	107,676	
Guyla's Grace Building/Land	18,906	
HOME	5	
HAC/SHOP	939	
Money Market Account	25,000	
ARC Grant Receivable	18,834	
Contracts Receivable	207,903	
Draws Receivable	4,000	
CHDO Proceeds	49,486	
FHLB	202,516	
Land - Steepfield	19,000	
Land - 2170 Big Smith Branch	41,020	
Land - Rowdy (Fugate)	10,415	
Land - LL Triangle	31,120	
Replacement Reserve High St.	7,182	
Replacement Reserve YB	1,310	
Mortgage Receivable	551,579	
Deferred Mortgage Receivable	542,785	
Loans Receivable	1,450	
Inventories - Home for Sale	<u>105,445</u>	<u>2,049,444</u>
	<u>Total Net Assets</u>	<u>3,136,373</u>

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2009

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.

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 all of its cash accounts in Perry County, Kentucky. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2009, the Organization's had no uninsured cash balances.

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, 2009, \$1,037,652 or 45.9% of Housing Development Alliance, Inc.'s receipts were derived via Kentucky Housing Corporation.

HOUSING DEVELOPMENT ALLIANCE, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2009

Note 14 – New Office RHED Commitment

The Organization received an award of \$150,000 from Rural Housing and Economic Development (RHED) for a new office and warehouse. The three-year commitment expired in January of 2009; however, the Organization requested and received an extension from the United States Department of Housing and Urban Development (HUD). The Organization purchased a site for the new office and warehouse in August of 2009 with those funds. The Organization hired an architect, and an initial schematic drawing of the building has been provided. The estimated total development cost of the 3,800 square foot office is between \$1,000,000 and \$1,100,000. In addition to the RHED funding, the Organization received a commitment of coal severance tax funds amounting to \$100,000 from the Commonwealth of Kentucky. The Organization is seeking additional funds to complete the project, including a mix of grants and low interest loans.

Note 15 – Expansion of Program into Surrounding Counties

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

Note 16 – Restatement of Net Assets

Beginning fund balance was increased by \$17,285 to recognize the cost of work completed in fiscal year 2008 on the Moore Street and Fir Street duplexes.

Note 17 – Subsequent Events

Housing Development Alliance, Inc. has evaluated subsequent events through December 16, 2009, the date financial statements were available to be issued.

HOUSING DEVELOPMENT ALLIANCE, INC.

SUPPLEMENTAL INFORMATION

June 30, 2009

HOUSING DEVELOPMENT ALLIANCE, INC.SCHEDULE OF EXPENDITURES OF FEDERAL AWARDSYear Ended June 30, 2009

<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 Kentucky Housing Corporation:			
ARC Construction	23.001	-	<u>90,824</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
Passed through Kentucky Housing Corporation:			
HOME Programs	14.239	-	* 732,364
Rural Housing and Economic Development	14.250	-	45,000
Section 8 Rental Assistance	14.856	-	15,409
CHDO Operating Grant	14.247	-	20,000
Passed through Housing Assistance Council:			
SHOP Loan	14.247	-	162,962
Passed through FAHE:			
HOME Programs	14.239	-	* 40,000
- Direct -			
Rural Housing and Economic Development	14.250	-	<u>10,000</u>
<u>Total Department of Housing and Urban Development</u>			<u>1,025,735</u>
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
Rural Housing Service			
- Direct -			
RD - 502 Programs	10.410	-	* 575,702
RD - 504 Programs	10.417	-	182,264
<u>Total U.S. Department of Agriculture</u>			<u>757,966</u>
<u>Total Federal Awards Expended</u>			<u>1,874,525</u>

* - Indicates major program

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, 2009, and have issued our report thereon dated December 16, 2009. 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 the 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 we reported to management of Housing Development Alliance, Inc. in a separate letter dated December 16, 2009.

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

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

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

December 16, 2009

Chris Gooch

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

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

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

Compliance

We have audited the compliance of Housing Development Alliance, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Housing Development Alliance, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Housing Development Alliance, Inc.'s management. Our responsibility is to express an opinion on Housing Development Alliance, Inc.'s compliance based on our audit.

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

In our opinion, Housing Development Alliance, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Housing Development Alliance, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Housing Development Alliance, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, 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

December 16, 2009

HOUSING DEVELOPMENT ALLIANCE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2009

NONE

HOUSING DEVELOPMENT ALLIANCE, INC.SCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2009SUMMARY 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 programs:
 - U.S. Department of Agriculture
Direct
 - RD – 502 Programs CFDA #10.410
 - U.S. Department of Housing and Urban Development
Passed through Kentucky Housing Corporation
 - HOME Programs CFDA #14.239
 - Passed through (FAHE) Federation of Appalachian Housing Enterprises, Inc.
 - HOME Programs CFDA #14.239
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None