

SAFE HOUSING AND ECONOMIC DEVELOPMENT (S.H.E.D.), INC.

FINANCIAL REPORT

JUNE 30, 2010 AND 2009



**PERSINGER COMPANY CPAS, INC.**  
*Certified Public Accountants*

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**PERSINGER COMPANY CPAs, INC.**  
*Certified Public Accountants*

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Safe Housing and Economic Development, Inc.  
P.O. Box 234  
Welch WV, 24801

We have audited the accompanying statements of financial position of the Safe Housing and Economic Development, Inc. as of June 30, 2010 and 2009, and the related statements of activities, statements of cash flows, and schedule of functional expenses for the years then ended. These financial statements are the responsibility of Safe Housing and Economic Development, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Safe Housing and Economic Development, Inc. as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Persinger Company CPAs Inc.*

Covington, Virginia  
January 18, 2011

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.  
STATEMENT OF FINANCIAL POSITION  
June 30, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 219,460	\$ 230,907
Designated and restricted cash	62,251	121,718
Prepaid expenses	5,249	678
Housing Development Property (Note 2)	56,870	-
Program loan proceeds receivable (Note 6)	255,897	203,763
Total current assets	599,727	557,066
PROPERTY AND EQUIPMENT (Note 3)		
Land, buildings, and equipment, net	1,098,064	1,110,419
OTHER ASSETS		
Note receivable from the Oaks	26,230	-
Deferred loan fees, less amortization; \$250	1,625	1,875
Total other assets	27,855	1,875
TOTAL ASSETS	\$ 1,725,646	\$ 1,669,360
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 14,861	\$ 20,535
Notes payable (Note 4)	150,000	150,000
Current portion of long term debt (Note 5)	22,495	21,642
	187,356	192,177
LONG TERM DEBT (Note 5)	885,305	872,434
OTHER LIABILITIES		
Funds held as fiscal agent (Note 8)	-	18,101
NET ASSETS (Note 9)		
Unrestricted		
Operating	591,599	512,014
Designated-Loan reserve	53,279	61,448
	644,878	573,462
Temporarily restricted	8,107	13,186
Total net assets	652,985	586,648
TOTAL LIABILITIES AND NET ASSETS	\$ 1,725,646	\$ 1,669,360

See Notes to Financial Statements.

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.  
STATEMENT OF ACTIVITIES  
For the years ended June 30, 2010 and 2009

	2010	2009
CHANGES IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Grants	\$ 427,759	\$ 243,283
Rent	125,876	165,681
Loan subsidy (Note 5)	24,690	23,869
Interest income	4,971	3,902
Loan fees	5,453	10,086
Other income	8,436	6,489
Total support and revenue	597,185	453,310
Net assets released from restriction:		
Satisfaction of purpose restrictions	5,079	10,051
Total Unrestricted Support and Revenue	602,264	463,361
EXPENSES		
Program	472,107	360,070
General and administrative	58,741	52,481
Total expenses	530,848	412,551
CHANGE IN UNRESTRICTED NET ASSETS	71,416	50,810
TEMPORARILY RESTRICTED NET ASSETS		
Receipts	10,920	13,710
Assets released from restrictions	(15,999)	(23,761)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(5,079)	(10,051)
TOTAL INCREASE (DECREASE) IN NET ASSETS	66,337	40,759
NET ASSETS, Beginning of Year	586,648	545,889
NET ASSETS, End of Year	\$ 652,985	\$ 586,648

See Notes to Financial Statements.

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.  
STATEMENT OF CASH FLOWS  
For the years ended June 30, 2010 and 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (Decrease) in net assets	\$ 66,337	\$ 40,759
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	37,017	34,517
Amortization	250	250
(Increase) decrease in:		
Prepaid expenses	(4,571)	-
Housing development property inventory	(56,870)	-
Loan proceeds receivable	(52,131)	(152,861)
Increase (decrease) in:		
Accounts payable	(5,677)	4,317
Program loans payable	-	(28,158)
Total adjustments	(81,982)	(141,935)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(15,645)</b>	<b>(101,176)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(24,662)	(1,561)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(24,662)</b>	<b>(1,561)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(36,276)	(24,385)
Proceeds from issuance of long-term debt	50,000	49,999
(Increase) decrease in:		
Notes receivable	(26,230)	-
Funds held as a fiscal agent	(18,101)	(2,899)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(30,607)</b>	<b>22,715</b>
<b>NET INCREASE IN CASH</b>	<b>(70,914)</b>	<b>(80,022)</b>
Cash and Equivalents, Beginning of Year	352,625	432,647
Cash and Equivalents, End of Year	\$ 281,711	\$ 352,625
 Cash and equivalents consists of the following on the balance sheet:		
Unrestricted cash	\$ 219,460	\$ 230,907
Cash held as fiscal agent	-	18,101
Temporarily restricted or designated cash	62,251	103,617
	\$ 281,711	\$ 352,625

See Notes to Financial Statements.

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.  
SCHEDULE OF FUNCTIONAL EXPENSES  
June 30, 2010

	<u>PROGRAM</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>TOTAL</u>
Salaries and wages	\$ 124,421	\$ 13,825	\$ 138,246
Employee benefits	21,887	2,432	24,319
Payroll taxes	14,157	1,573	15,730
Home repair grants	86,334	-	86,334
Housing program expense	71,744	-	71,744
Interest expense	47,440	-	47,440
Depreciation and amortization	33,079	4,188	37,267
Repairs and maintenance	25,925	4,009	29,934
Utilities	25,205	2,800	28,005
Professional and audit	5,690	5,690	11,380
Loan program expense	-	10,636	10,636
Taxes and licenses	2,728	2,729	5,457
Training and travel	4,945	-	4,945
Rent	-	4,800	4,800
Insurance	3,858	429	4,287
Telephone	3,574	397	3,971
Office expense	-	2,766	2,766
Credit and background check	-	2,141	2,141
Program supplies and expense	1,120	-	1,120
Advertising	-	326	326
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 472,107</u>	<u>\$ 58,741</u>	<u>\$ 530,848</u>

See Notes to Financial Statements.

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.  
SCHEDULE OF FUNCTIONAL EXPENSES  
June 30, 2009

	PROGRAM	GENERAL AND ADMINISTRATIVE	TOTAL
Salaries and wages	\$ 116,711	\$ 12,968	\$ 129,679
Employee benefits	15,817	1,757	\$ 17,574
Payroll taxes	17,424	1,936	19,360
Interest expense	45,049	4,855	49,904
Utilities	36,935	-	36,935
Depreciation and amortization	34,267	250	34,517
Repairs and maintenance	23,690	5,923	29,613
Loan program expense	26,705	-	26,705
Program supplies and expense	15,818	-	15,818
Insurance	6,759	6,758	13,517
Professional and audit	7,661	5,000	12,661
Training and travel	9,879	-	9,879
Office expense	-	5,121	5,121
Advertising	-	4,560	4,560
Telephone	1,750	1,749	3,499
Taxes and licenses	1,605	1,604	3,209
	<u>360,070</u>	<u>52,481</u>	<u>412,551</u>
Total	<u>\$ 360,070</u>	<u>\$ 52,481</u>	<u>\$ 412,551</u>

See Notes to Financial Statements.



SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities:

The Safe Housing and Economic Development, Inc., also known as S.H.E.D., is a non-profit corporation organized under the laws of the State of West Virginia and is operated to provide affordable housing to low and moderate income individuals through the development, financing, and management of rental properties, and through development, financing, and sale of residential properties in McDowell and other southern West Virginia counties. S.H.E.D. also engages in activities associated with economic development, such as providing technical business assistance, financial, and marketing assistance to entrepreneurs in these same areas.

S.H.E.D. is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as an entity that is not a private foundation within the meaning of Section 509 (a).

A summary of the Organization's significant accounting policies follows:

Basis of accounting:

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Source of revenue:

S.H.E.D. receives revenue from federal, state, and other grants, along with rent from tenants in its housing facility, and subsidy credits from USDA-Rural Development applied to reduce loan payments for the purchase and renovation of housing facilities.

Cash and cash equivalents:

The Organization considers all cash accounts which are not subject to withdrawal restrictions or penalties and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Property and equipment:

Expenditures for the acquisition of property and equipment are capitalized at cost. The fair market value of donated property and equipment at the date of gift is similarly capitalized. Donated property and equipment for which it is impracticable to determine a value is not capitalized. Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the property.

## NOTES TO FINANCIAL STATEMENTS

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

#### Functional allocation of expenses:

The costs of providing the programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting service benefited.

#### Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

#### Reclassification:

Some prior year financial statement accounts have been reclassified for comparative purposes.

### Note 2. Housing Development Property

S.H.E.D. is involved with a program with the West Virginia Housing Development Fund through HUD-HOMECHDO to develop and sell single family housing units to individuals and families who may not be able to purchase a house by any other means. S.H.E.D. had purchased, renovated, or received by donation property for development and/or resale at fair market value of \$ 56,870 as of June 30, 2010.

### Note 3. Property and Equipment

Property and equipment at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Land – Elizabeth Drewey	\$ 52,000	\$ 52,000
Land – Payne Building	10,000	10,000
Elizabeth Drewey Apartments	468,000	468,000
Apartment Improvements	173,582	176,915
Construction in process – Algoma project	17,352	-
Payne Building – Commercial	113,676	105,765
Payne Building	<u>440,430</u>	<u>440,430</u>
	1,275,040	1,253,110
Less accumulated depreciation	<u>176,976</u>	<u>142,691</u>
Total housing	<u>\$ 1,098,064</u>	<u>\$ 1,110,419</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Notes Payable (See Note 6)

On September 29, 2006, Federal Appalachian Housing Enterprises, Inc. (FAHE), a Member-driven collaborative of nonprofit organizations that provide affordable housing options for economically disadvantaged communities in Appalachia, extended a line of credit in the amount of \$ 150,000 to S.H.E.D., for ten years. These funds are to be used to capitalize lines of credit to assist homeowners with housing repairs, improvements, and rehabilitation of houses purchased in the S.H.E.D. program. The applicable interest rate on the credit line is 3%, with interest to be paid quarterly. One-third of the principal amount of the loan will be due annually on July 1, 2014 and 2015 with the remainder of the outstanding principal and interest due on July 1, 2016. The credit line is collateralized by assignment of first lien position Deed of Trust or other approved collateral as determined by FAHE staff.

### Note 5. Long Term Debt and Contingencies

During the year ended June 30, 2003 the United States Department of Agriculture Rural Housing Service loaned S.H.E.D. \$ 520,000, with interest fixed at 6.00%, secured by the Elizabeth Drewey Apartment complex, for the purchase of the complex. The loan is payable over 40 years in monthly installments of \$ 2,862, including principal and interest. Of the monthly payments, \$ 1,317 shall be paid by S.H.E.D. and \$ 1,545 will be applied as a subsidy from the lending agency. The balance at June 30, 2010 and 2009 was \$ 492,675 and \$ 497,313, respectively.

During the year ended June 30, 2003 the United States Department of Agriculture Rural Housing Service loaned S.H.E.D. \$ 172,230, with interest fixed at 6.00%, secured by the Elizabeth Drewey Apartment complex, for the renovation of the complex. The loan is payable over 40 years in monthly installments of \$ 948, including principal and interest. Of the monthly payments, \$ 436 shall be paid by S.H.E.D. and \$ 512 will be applied as a subsidy from the lending agency. The balance at June 30, 2010 and 2009 was \$ 163,234 and \$ 164,770, respectively.

On December 21, 2006 the Federal Appalachian Housing Enterprises, Inc. (FAHE) loaned S.H.E.D. \$ 100,000, with interest fixed at 4.50%, secured by the Payne Building commercial property, to pay off a \$ 100,000 credit line extended by Local Initiative Support Corporation (LISC). LISC, a New York not-for-profit corporation, originally extended the line of credit on May 26, 2006 to assist in the acquisition and renovation of commercial space located in the Payne Building. The loan is payable over 10 years in monthly installments of \$ 1,036, including principal and interest. The balance at June 30, 2010 and 2009 was \$ 69,992 and \$ 79,041, respectively.

On January 10, 2008 the West Virginia Housing Development Fund (WVHDF) loaned S.H.E.D. \$ 66,000 with interest fixed at 1.00%, secured by the Payne Building residential property, for the renovation of residential space located in the complex. The loan is payable over 10 years in monthly installments of \$ 578, including principal and interest. The balance at June 30, 2010 and 2009 was \$ 50,113 and \$ 56,516, respectively.

Effective October 1, 2007 the West Virginia Department of Environmental Protection (DEP) entered into an agreement with S.H.E.D. to make a non-interest bearing loan to the organization for up to \$ 200,000 to use in the Onsite Systems Loan Program (OSLP). This program will allow SHED to use the proceeds to finance at below market interest rates projects and endeavors designed to eliminate non-point source pollution sites by effecting the repair or replacement of failing onsite sewage disposal systems and/or facilitating the connection to publicly owned treatment facilities. Starting in January, 2009, S.H.E.D. will make quarterly principal payments to DEP as they collect on the loans that they have made to qualifying individuals. At June 30, 2010 the balance on the loan from DEP was \$ 131,786. (See Note 6)

NOTES TO FINANCIAL STATEMENTS

Note 5. Long Term Debt and Contingencies (continued)

Maturities of all long term debt are as follows:

<u>June 30,</u>	<u>Amount</u>
2011	\$ 22,495
2012	23,409
2013	24,317
2014	25,312
2015	26,333
Later years	<u>785,934</u>
	<u>\$ 907,800</u>

Note 6. Program loan proceeds receivable

As stated above in Note 4, S.H.E.D. has entered into a program with Federal Appalachian Housing Enterprises, Inc. (FAHE) to capitalize lines of credit to assist homeowners with housing repairs, improvements, and rehabilitation of houses purchased in the S.H.E.D. program. As of June 30, 2010, S.H.E.D. had loaned \$ 84,470 to qualifying individuals under this program and the note receivable balance from individuals was \$ 59,300 and \$ 74,278 at June 30, 2010 and 2009, respectively.

As stated above in Note 5, S.H.E.D. has entered into a program with West Virginia Department of Environmental Protection (DEP) to finance at below market interest rates projects to help replace failing septic and sewage systems that are damaging the local environment. As of June 30, 2010, S.H.E.D. had loaned or had loans in process of \$ 189,175 to qualifying individuals under this program and the note receivable balance from individuals was \$ 171,240 and \$ 96,436 at June 30, 2010 and 2009, respectively.

Note 7. Program loan proceeds payable

During the year ended June 30, 2008, S.H.E.D. was approved for the Homeowner Rehabilitation Program (HRP) Pilot Project. The HRP project provides low interest loans for individuals to use for qualifying home rehabilitation and repair. S.H.E.D. is known as the program sponsor for the HRP project, which means that they process the loans for the applicants. When all of the information is received from the homeowner, a request is sent to the "Member Bank" which is Pioneer Community Bank. At that point, Pioneer Community Bank signs the drawdown request. The request is then forwarded to FHL Bank of Pittsburgh. The FHLB then sends the funds to Pioneer Bank and S.H.E.D. requests the funds from Pioneer when the loan is ready to be closed. S.H.E.D. is only responsible as a pass-through agent for the loan funds. At June 30, 2009, the organization had passed-through all of the approved \$ 150,000 in HRP funds that were to be loaned to approved individuals and all of the loans have been closed.

Note 8. Funds held as fiscal agent

During the year ended June 30, 2007, S.H.E.D. agreed to serve as the fiscal agent for the Ashland Wastewater project. The estimated \$ 500,000 project will consist of the development and construction of a new septic system in the Ashland community. The Ashland Community Utilities will own and operate the system upon completion. During the year ended June 30, 2010 and 2009, SHED received \$ 259,332 and \$ 311,965, respectively, and disbursed \$ 277,720 and \$ 315,264, respectively, in funds on behalf of Ashland Community Utilities. The balance of funds held for the Ashland Wastewater project at June 30, 2010 and 2009 was \$ 0 and \$ 18,101, respectively. These funds are included in cash and cash equivalents in the statement of financial position at year end. As of June 30, 2010 the organization had fulfilled its duties as the fiscal agent for this project.

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Designated and Temporarily Restricted Cash/Net Assets

#### Designated:

Based on loan agreements with USDA, S.H.E.D. shall transfer at least \$ 8,331 annually to a reserve account until the amount reaches the minimum sum of \$ 83,319. During the years ended June 30, 2010 and 2009, \$ 9,961 and \$ 7,161 was transferred to the reserve account, respectively. During the year ended June 30, 2010, cash in the amount of \$ 3,550 was withdrawn from this account for required repairs. For the years ended June 30, 2010 and 2009, designated cash in the reserve account amounted to \$ 53,279 and \$ 46,868, respectively.

#### Temporarily restricted:

Security deposits are collected from the tenants of the apartments. These security deposits are refundable to the tenants when they vacate the apartments or are used to repair damage done by the tenants. If the deposits are used to repair damages, the security deposits are recorded as rental income at that time. For the year ended June 30, 2010 and 2009, security deposits amounted to \$ 8,107 and \$ 13,186, respectively.

### Note 10. Compensated absences

In accordance with the organization's personnel policies, its employees earn vacation leave and sick leave throughout the year. Up to 2 weeks (80 hours) can be carried over at the end of each year. Employees are paid any annual leave that is due to them upon termination. As of the end of each fiscal year, all unpaid leave expense is accrued under the rules of a vested plan. Accrued leave amounted to \$ 5,192 and \$ 2,877 at June 30, 2010 and 2009, respectively.