

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

FINANCIAL REPORT

JUNE 30, 2011 AND 2010



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, 2011 and 2010, 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, 2011 and 2010, 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
February 28, 2012

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 82,896	\$ 219,460
Designated and restricted cash	95,154	62,251
Prepaid expenses	6,599	5,249
Housing Development Property (Note 2)	11,068	56,870
Program loan proceeds receivable (Note 6)	257,997	255,897
Total current assets	453,714	599,727
 PROPERTY AND EQUIPMENT (Note 3)		
Land, buildings, and equipment, net	1,212,173	1,098,064
 OTHER ASSETS		
Note receivable from the Oaks	26,230	26,230
Deferred loan fees, less amortization; \$250	1,375	1,625
Total other assets	27,605	27,855
 TOTAL ASSETS	 \$ 1,693,492	 \$ 1,725,646
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 25,896	\$ 14,861
Notes payable (Note 4)	150,000	150,000
Current portion of long term debt (Note 5)	23,398	22,495
	199,294	187,356
 LONG TERM DEBT (Note 5)	 890,973	 885,305
 OTHER LIABILITIES		
 NET ASSETS (Note 9)		
Unrestricted		
Operating	533,019	591,599
Designated-Loan reserve	61,222	53,279
	594,241	644,878
Temporarily restricted	8,984	8,107
Total net assets	603,225	652,985
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,693,492	 \$ 1,725,646

See Notes to Financial Statements.

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.
STATEMENT OF ACTIVITIES
For the years ended June 30, 2011 and 2010

	2011	2010
CHANGES IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Grants	\$ 457,787	\$ 356,759
Rent	130,553	125,876
Proceeds from housing sales	49,000	71,000
Loan subsidy (Note 5)	24,690	24,690
Interest income	32,020	4,971
Loan fees	8,504	5,453
Donations	2,800	-
Other income	11,594	8,436
Total support and revenue	716,948	597,185
Net assets released from restriction:		
Satisfaction of purpose restrictions	(877)	5,079
Total Unrestricted Support and Revenue	716,071	602,264
EXPENSES		
Program	684,417	472,107
General and administrative	82,291	58,741
Total expenses	766,708	530,848
CHANGE IN UNRESTRICTED NET ASSETS	(50,637)	71,416
TEMPORARILY RESTRICTED NET ASSETS		
Receipts	8,875	10,920
Assets released from restrictions	(7,998)	(15,999)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	877	(5,079)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(49,760)	66,337
NET ASSETS, Beginning of Year	652,985	586,648
NET ASSETS, End of Year	\$ 603,225	\$ 652,985

See Notes to Financial Statements.

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.
STATEMENT OF CASH FLOWS
For the years ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in net assets	\$ (49,760)	\$ 66,337
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	36,078	37,017
Amortization	250	250
(Increase) decrease in:		
Prepaid expenses	(1,356)	(4,571)
Housing development property inventory	45,802	(56,870)
Loan proceeds receivable	(2,100)	(52,131)
Increase (decrease) in:		
Accounts payable	11,041	(5,677)
Total adjustments	89,715	(81,982)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	39,955	(15,645)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(150,187)	(24,662)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(150,187)	(24,662)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(43,429)	(36,276)
Proceeds from issuance of long-term debt	50,000	50,000
(Increase) decrease in:		
Notes receivable	-	(26,230)
Funds held as a fiscal agent	-	(18,101)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	6,571	(30,607)
NET INCREASE IN CASH	(103,661)	(70,914)
Cash and Equivalents, Beginning of Year	281,711	352,625
Cash and Equivalents, End of Year	\$ 178,050	\$ 281,711
Cash and equivalents consists of the following on the balance sheet:		
Unrestricted cash	\$ 82,896	\$ 219,460
Temporarily restricted or designated cash	95,154	62,251
	\$ 178,050	\$ 281,711

See Notes to Financial Statements.

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
June 30, 2011

	<u>PROGRAM</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>TOTAL</u>
Salaries and wages	\$ 108,009	\$ 27,002	\$ 135,011
Employee benefits	15,808	3,952	19,760
Payroll taxes	17,839	4,460	22,299
Housing program expense	220,942	-	220,942
OSLP grants and expense	88,423	-	88,423
Home repair grants	77,650	-	77,650
Interest expense	47,100	-	47,100
Depreciation and amortization	32,140	4,188	36,328
Utilities	25,341	6,335	31,676
Repairs and maintenance	16,004	6,727	22,731
Training and travel	12,483	-	12,483
Insurance	9,487	2,372	11,859
Professional and audit	-	6,774	6,774
Taxes and licenses	-	5,315	5,315
Rent	-	4,800	4,800
Telephone	3,580	894	4,474
Loan program expense	9,368	4,034	13,402
Office expense	-	3,928	3,928
Credit and background check	-	1,335	1,335
Program supplies and expense	243	-	243
Advertising	-	175	175
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 684,417</u>	<u>\$ 82,291</u>	<u>\$ 766,708</u>

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
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 472,107</u>	<u>\$ 58,741</u>	<u>\$ 530,848</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 \$ 11,068 and \$ 56,870 as of June 30, 2011 and 2010, respectively.

Note 3. Property and Equipment

Property and equipment at June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</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	173,582
Construction in process – Algoma project	123,140	17,352
Payne Building – Commercial	158,075	113,676
Payne Building	<u>440,430</u>	<u>440,430</u>
	1,425,227	1,275,040
Less accumulated depreciation	<u>213,054</u>	<u>176,976</u>
Total housing	<u>\$ 1,212,173</u>	<u>\$ 1,098,064</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, 2011 and 2010 was \$ 487,751 and \$ 492,675, 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, 2011 and 2010 was \$ 161,602 and \$ 163,234, 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, 2011 and 2010 was \$ 60,520 and \$ 69,992, 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, 2011 and 2010 was \$ 43,646 and \$ 50,113, 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, 2011 and 2010 the balance on the loan from DEP was \$ 160,852 and \$ 131,786, respectively. (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	\$ 23,398
2012	24,317
2013	25,312
2014	26,333
2015	27,519
Later years	<u>787,492</u>
	<u>\$ 914,371</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, 2011, S.H.E.D. had loaned \$ 88,861 to qualifying individuals under this program and the note receivable balance from individuals was \$ 58,043 and \$ 59,300 at June 30, 2011 and 2010, 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, 2011, S.H.E.D. had loaned or had loans in process of \$ 229,953 to qualifying individuals under this program and the note receivable balance from individuals was \$ 168,195 and \$ 171,240 at June 30, 2011 and 2010, respectively. SHED wrote off loans totaling \$ 9,368 due to bankruptcy during the current year.

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, SHED 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, 2011 and 2010, \$ 9,944 and \$ 9,961 was transferred to the reserve account, respectively. For the years ended June 30, 2011 and 2010, designated cash in the reserve account amounted to \$ 61,222 and \$ 53,279, 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, 2011 and 2010, security deposits amounted to \$ 8,984 and \$ 8,107, 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 \$ 4,042 and \$ 5,192 at June 30, 2011 and 2010, respectively.