

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

FINANCIAL REPORT

JUNE 30, 2007 AND 2006



PERSINGER & COMPANY, L.L.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Safe Housing and Economic Development, Inc.
P.O. Box 234
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We have audited the accompanying statements of financial position of the Safe Housing and Economic Development, Inc. as of June 30, 2007 and 2006, and the related statements of activities and the statements of cash flows 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, 2007 and 2006, 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, L.L.C.

Covington, Virginia
February 15, 2008

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 224,543	\$ 86,195
Designated and restricted cash	39,922	30,727
Prepaid expenses	317	-
Total current assets	264,782	116,922
PROPERTY AND EQUIPMENT (Note 2)		
Land, buildings, and equipment, net	1,119,553	834,150
OTHER ASSETS		
Deferred loan fees, less amortization; 2007 \$125	2,375	-
TOTAL ASSETS	\$ 1,386,710	\$ 951,072
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 15,900	\$ 4,400
Notes payable (Note 3)	150,000	-
Current portion of long term debt (Note 4)	13,796	5,160
	179,696	9,560
LONG TERM DEBT (Note 4)	754,901	736,712
OTHER LIABILITIES		
Funds held as fiscal agent (Note 5)	41,847	-
NET ASSETS (Note 6)		
Unrestricted		
Operating	365,715	174,040
Designated-Loan reserve	35,726	23,360
	401,441	197,400
Temporarily restricted	8,825	7,400
Total net assets	410,266	204,800
TOTAL LIABILITIES AND NET ASSETS	\$ 1,386,710	\$ 951,072

See Notes to Financial Statements.

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.
STATEMENT OF ACTIVITIES
June 30, 2007 and 2006

	2007	2006
CHANGES IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Grants	391,100	247,371
Rent	105,707	76,578
Loan subsidy (Note 4)	20,742	24,690
Interest income	2,138	2,346
Other income	3,197	1,335
Total support and revenue	522,884	352,320
Net assets released from restriction:		
Satisfaction of purpose restrictions	(1,425)	(3,200)
Total Unrestricted Support and Revenue	521,459	349,120
EXPENSES		
Program	265,517	98,587
General and administrative	51,901	51,590
Total expenses	317,418	150,177
CHANGE IN UNRESTRICTED NET ASSETS	204,041	198,943
TEMPORARILY RESTRICTED NET ASSETS		
Receipts	2,018	3,755
Assets released from restrictions	(593)	(555)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	1,425	3,200
TOTAL INCREASE (DECREASE) IN NET ASSETS	205,466	202,143
NET ASSETS, Beginning of Year	204,800	2,657
NET ASSETS, End of Year	410,266	204,800

See Notes to Financial Statements.

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.
STATEMENT OF CASH FLOWS
June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in net assets	\$ 205,466	\$ 202,143
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	27,167	16,569
Amortization	125	-
(Increase) decrease in:		
Other current assets	-	307
Prepaid expenses	(317)	-
Increase (decrease) in accounts payable	11,500	2,435
Total adjustments	38,475	19,311
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	243,941	221,454
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(312,570)	(190,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(312,570)	(190,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on line of credit	150,000	63,334
Principal payments on long-term debt	(9,841)	(4,860)
Proceeds from issuance of long-term debt	36,666	-
Loan fees	(2,500)	-
Fiscal agent	41,847	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	216,172	58,474
NET INCREASE IN CASH	147,543	89,928
Cash and Equivalents, Beginning of Year	116,922	26,994
Cash and Equivalents, End of Year	\$ 264,465	\$ 116,922
 Cash and equivalents consists of the following on the balance sheet:		
Unrestricted cash	\$ 182,696	\$ 86,195
Cash held as fiscal agent	41,847	-
Temporarily restricted or designated cash	39,922	30,727
	\$ 264,465	\$ 116,922

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. Property and Equipment

Property and equipment at June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Land – Elizabeth Drewey	\$ 52,000	\$ 52,000
Land – Payne Building	10,000	10,000
Elizabeth Drewey Apartments	468,000	468,000
Apartment Improvements	172,272	172,272
Payne Building – Commercial	101,333	-
Payne Building	<u>391,237</u>	<u>180,000</u>
	1,194,842	882,272
Less accumulated depreciation	<u>75,289</u>	<u>48,122</u>
Total housing	<u>\$ 1,119,553</u>	<u>\$ 834,150</u>

Note 3. Notes Payable

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.

NOTES TO FINANCIAL STATEMENTS

Note 4. 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, 2007 and 2006 was \$505,797 and \$509,673, 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, 2007 and 2006 was \$167,581 and \$168,865, 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 balance at June 30, 2007 was \$95,318.

Maturities of all long term debt are as follows:

<u>June 30,</u>	<u>Amount</u>
2008	\$ 13,796
2009	14,516
2010	15,274
2011	16,073
2012	16,914
Later years	<u>692,124</u>
	<u>\$ 768,697</u>

Note 5. Funds held as fiscal agent

During the year ended June 30, 2007, SHED 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, 2007, SHED received \$58,237 and disbursed \$16,390 in funds on behalf of Ashland Community Utilities. The balance of funds held for the Ashland Wastewater project at June 30, 2007 was \$41,847. These funds are included in cash and cash equivalents in the statement of financial position at year end.

NOTES TO FINANCIAL STATEMENTS

Note 6. 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, 2007 and 2006, \$12,222 and \$7,736 was transferred to the reserve account, respectively. For the years ended June 30, 2007 and 2006, designated cash in the reserve account amounted to \$31,097 and \$23,320, respectively.

Based on loan agreements with HUD, S.H.E.D. shall transfer at least \$4,584 annually to a reserve account related to the Oaks apartment complex beginning July, 2006. During the years ended June 30, 2007 and 2006 \$40 and \$4,589 was transferred to the reserve account, respectively. For the year ended June 30, 2007 and 2006, designated cash in the reserve account amounted to \$4,629 and \$40, 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, 2007 and 2006, security deposits amounted to \$8,825 and \$7,400, respectively.

Note 7. 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.



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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

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

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

Persinger & Company, L.L.C.
Covington, Virginia
February 15, 2008

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
June 30, 2007

	<u>PROGRAM</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>TOTAL</u>
Salaries and wages	\$ 110,082	\$ 12,231	\$ 122,313
Employee benefits and payroll taxes	27,308	3,034	30,342
Interest expense	46,228	5,137	51,365
Utilities	31,908	-	31,908
Depreciation and amortization	27,167	125	27,292
Taxes and licenses	7,593	7,593	15,186
Repairs and maintenance	7,991	5,328	13,319
Insurance	-	10,501	10,501
Professional and audit	2,639	2,639	5,278
Office supplies	-	3,972	3,972
Equipment rental	3,293	-	3,293
Training and travel	1,053	-	1,053
Advertising	-	873	873
Telephone	255	254	509
Miscellaneous	-	214	214
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 265,517</u>	<u>\$ 51,901</u>	<u>\$ 317,418</u>

See Notes to Financial Statements.

SAFE HOUSING AND ECONOMIC DEVELOPMENT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
June 30, 2006

	<u>PROGRAM</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>TOTAL</u>
Salaries and wages	\$ 39,136	\$ 4,300	\$ 43,436
Employee benefits and payroll taxes	4,033	443	4,476
Interest expense	-	40,884	40,884
Utilities	17,544	-	17,544
Depreciation	16,569	-	16,569
Insurance	10,281	-	10,281
Repairs and maintenance	7,869	-	7,869
Professional fees	1,766	1,766	3,532
Audit	-	2,200	2,200
Office supplies	-	1,189	1,189
Training and travel	543	-	543
Telephone	240	243	483
Licenses and permits	430	-	430
Advertising	-	388	388
Miscellaneous	176	177	353
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 98,587</u>	<u>\$ 51,590</u>	<u>\$ 150,177</u>

See Notes to Financial Statements.