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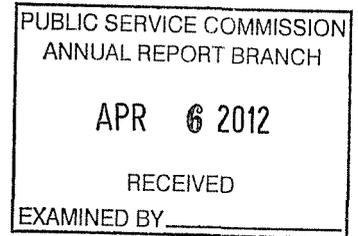
CERTIFIED PUBLIC ACCOUNTANTS



KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.

AUDITED FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT FOR THE YEAR ENDED
JUNE 30, 2011

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CERTIFIED PUBLIC ACCOUNTANTS

200 North Third Street
Richmond, Kentucky 40475

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kentucky Mountain Housing Development Corporation, Inc.
Manchester, KY

We have audited the accompanying statement of financial position of Kentucky Mountain Housing Development Corporation, Inc. (a non-profit organization) as of June 30, 2011, and the related statement 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 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 Kentucky Mountain Housing Development Corporation, Inc., as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of Kentucky Mountain Housing Development Corporation, Inc.'s internal control over financial reporting and 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.

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KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

	<u>2011</u>
Cash and cash equivalents	\$ 3,582,132
Interest receivable	40,412
Grants receivable	4,500
Accounts receivable	5,189
Notes receivable, net allowance for doubtful accounts \$600,200	7,865,843
Investments	1,102,513
Inventory	222,450
Prepaid expenses	11,082
Construction in progress	92,457
Property and equipment, net	<u>624,814</u>
TOTAL ASSETS	<u><u>\$ 13,551,392</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 27,948
Accrued expenses	55,205
Promissory notes payable	<u>1,483,293</u>
TOTAL LIABILITIES	<u>1,566,446</u>
NET ASSETS	
Unrestricted	<u>11,984,946</u>
Total Net Assets	<u>11,984,946</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 13,551,392</u></u>

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

REVENUES, RECLASSIFICATIONS
AND OTHER SUPPORT

Contributions	
Individuals and churches	\$ 3,475
Non-Federal Grants	
Affordable Housing Trust Fund	28,175
Other non federal grants	52,396
Federal Financial Assistance	368,933
Program service revenues	
Construction receipts	456,239
Rent receipts	27,562
Miscellaneous	3,669
Residential revenue	3,702
Investment return	
Interest income	217,316
Investment earnings	13,939
Realized Loss	(59,893)
Unrealized gain	<u>285,503</u>
TOTAL REVENUES, RECLASSIFICATIONS AND OTHER SUPPORT	<u>1,401,016</u>
EXPENSES	
Program Services	918,940
Supporting Services	<u>334,184</u>
TOTAL EXPENSES	<u>1,253,124</u>
CHANGE IN NET ASSETS	147,892
NET ASSETS BEGINNING OF YEAR	<u>11,837,054</u>
NET ASSETS END OF YEAR	<u><u>\$ 11,984,946</u></u>

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 147,892
Adjustment to reconcile change in net assets to net cash provided by operating activities	
Depreciation	21,912
(Increase) decrease in operating assets	
Grants receivable	8,650
Marketable securities	(139,545)
Interest receivable	(7,554)
Inventory	(76,222)
Construction in progress	(57,119)
Prepaid expenses	(4,117)
Increase (decrease) in operating liabilities	
Accounts payable	2,498
Accrued expenses and other liabilities	<u>13,239</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>(90,366)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease in notes receivable	497,526
Purchase of fixed assets	<u>(5,534)</u>
NET CASH (USED) BY INVESTING ACTIVITIES	<u>491,992</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Decrease in notes payable	<u>(90,949)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(90,949)</u>
NET INCREASE IN CASH	310,677
CASH AT BEGINNING OF YEAR	<u>3,271,455</u>
CASH AT END OF YEAR	<u><u>\$3,582,132</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	<u><u>\$ 19,283</u></u>

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Housing Services</u>	<u>Management & General</u>	<u>Totals</u>
Personnel	\$ 126,457	\$ 187,096	\$ 313,553
Employee benefits			
Medical	25,122	37,684	62,806
Retirement	9,056	13,585	22,641
Payroll taxes	8,443	12,665	21,108
Advertising		203	203
Construction			
Materials	191,972		191,972
Small tools	734		734
Subcontractors	382,565		382,565
Dues and fees	3,500	4,465	7,965
Travel and training	2,858	2,818	5,676
Depreciation	21,912		21,912
Insurance			
General Liability	25,851	1,542	27,393
Worker's Compensation	8,625		8,625
Interest	19,283		19,283
Maintenance of equipment	15,677		15,677
Occupancy			
Building maintenance		3,173	3,173
Utilities		9,713	9,713
Postage		2,821	2,821
Professional services		35,675	35,675
Supplies	3,451		3,451
Telephone and internet		7,374	7,374
Transportation			
Gas and oil	6,048		6,048
Vehicle	1,134		1,134
Treatment and disposal	2,414		2,414
Volunteer expense	12,535		12,535
Miscellaneous	51,303	15,370	66,673
TOTAL EXPENSES	<u><u>\$ 918,940</u></u>	<u><u>\$ 334,184</u></u>	<u><u>\$1,253,124</u></u>

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Kentucky Mountain Housing Development Corporation, Inc. is a faith-based non-profit corporation whose mission is to provide safe, decent and affordable housing for low and very low income families in Southeastern Kentucky. The organization provides both construction and financing to eligible families.

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization 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. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Expense Allocation

Expenses are charged to programs and supporting services based on the use of expenditures. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 180(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Financial Accounting Standards Board (FASB) has issued an Interpretation (FIN48), *Accounting for Uncertainty in Income Taxes*, which requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain income tax positions as of December 31, 2011. The Organization has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2008 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

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.

Revenue Recognition

Kentucky Mountain Housing Development Corporation, Inc. receives funding from federal, state and other non-profit organizations. The funding can be for a variety of housing programs including forgivable loans, low interest loans, counseling grants, or development programs. Revenue recognition depends on the contracts and grants. Construction management fees and interest income are recognized when earned.

Any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by Kentucky Mountain Housing Development Corporation, Inc. with the terms of the grants/contracts.

The Organization recognizes revenues on the completed-contract method. That method is used because the typical contract is completed in two months or less, and financial position and results of operations do not vary significantly from those that would result using the percentage-of-completion method. A contract is considered complete when a customer accepts the work.

Donations and Promises to Give

Donations received may be recorded either as unrestricted, temporarily restricted, or permanently restricted support depending on the existence of any donor restrictions.

Donations are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donations that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized.

The Organization 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.

Cash and Cash Equivalents

Cash equivalents consist of all demand deposits and highly liquid investments not permanently restricted with an initial maturity date of one year or less. Accordingly, carrying amounts approximate fair value due to their short-term nature.

Investments

The Organization has adopted SFAS No. 124, Accounting for Certain Investments Held by Not-for Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values, which are established by quoted market prices at year-end. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Certificates of deposits are carried at cost, which approximates fair market value.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory generally consists of houses reacquired by the Organization and is carried at cost plus the cost of any improvements or repairs and is limited to the net realizable value.

Allowance for Uncollectible Loans

The Organization has not had sufficient experience with bad debts to establish a policy. The Organization considers loans receivable to be fully collectible. Additionally, the Organization treats all forgivable deferred loans as bad debts due to the terms of the loans.

Fixed Assets

Kentucky Mountain Housing Development Corporation, Inc. follows the practice of capitalizing all expenditures for property, furniture, fixtures and office equipment in excess of \$500.

Contributed Services

Services contributed to the Organization are recorded at fair market value by the donor. The contributed services are recorded as income and expensed in the same period. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Subsequent Events

Management of the Organization has considered subsequent events through December 21, 2011, the date this report becomes available for issue.

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2011 the carrying amount of the Organization's cash and cash equivalents was \$3,582,132. The Organization maintains its cash balance with several financial institutions in Southeastern Kentucky. From time to time, the Organization's cash balances may exceed federally insured limits. The Organization considered the risk associated with excess cash balances to be minimal.

NOTE 3 – NOTES RECEIVABLE

Notes receivable are executed by the Organization based on a recipient's credit history and financial need. All notes are collateralized by real estate to which they relate. The majority of notes bear interest from one to three percent.

NOTE 4 – NET ASSETS

Organizations may have certain contractual or other limitations placed on the use of net assets other than those resulting from donor-imposed restrictions. If the limitations or restrictions on net assets do not relate to donor stipulations, the net assets are unrestricted. Certain government grants that are exchange transactions may have restrictions limiting the organization's use of the funds. If there are restrictions related to these exchange transactions, the associated net assets are unrestricted because the restrictions are imposed by the other party to the exchange, not by a donor.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 – NET ASSETS (CONTINUED)

Exchange transactions are reciprocal transfers in which each party receives and gives up something of value. Exchange transactions that give rise to revenues typically involve an organization’s efforts to provide goods or services to its members, clients or customers. Revenues for these transactions are recorded in the financial statements when the amounts are realized (convertible into cash) and when earned (activities prerequisite to obtaining benefits have been completed). The organization considers all grant revenue received to be exchange transactions.

NOTE 5 – PROMISSORY NOTES PAYABLE

Promissory notes payable as of June 30, 2011 consisted of the following:

	<u>2011</u>
Red Bird Missionary Conference, Inc. unsecured, 90 day notice	\$ 25,000
Jackson County Bank, due December 2, 2018, bearing 2% interest; secured by Certificates of Deposit totaling \$150,000	83,946
Note payable to an individual, non interest bearing, due January 1, 2012; unsecured	10,000
Notes payable to various charitable organizations, bearing interest up to 1% payable annually, with principal amounts due at various dates through June 4, 2014; unsecured	175,000
Jackson County Bank, due December 18, 2020, bearing interest of 2%; secured by Certificates of Deposit totaling \$150,000	103,180
Kentucky Housing Corporation, bearing interest at 1% and due in annual principal amounts ranging from \$3,000 to \$12,630, due at various dates through July 1, 2016; unsecured.	136,600
The Housing Foundation, Inc., due in annual installments of \$1500, non-interest bearing, due March 1, 2016	9,000
The Federation of Housing Enterprises, Inc., interest at 1%, payable quarterly, with annual principal payments ranging from \$3,437 to \$6,485, due at various dates through June 15, 2025	487,513
Kentucky Housing Corporation – Affordable Housing Trust Fund, interest at 1%, payable monthly and quarterly, with annual principal payments ranging from \$609 - \$5,559 due at various dates through July 1, 2034	<u>453,054</u>
Total	<u>\$ 1,483,293</u>

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – PROMISSORY NOTES PAYABLE (CONTINUED)

The principal repayment requirements at June 30, 2011 relating to the above notes payable are as follows:

2012	\$ 178,989
2013	233,289
2014	173,698
2015	116,115
2016	110,541
Later Years	<u>670,661</u>
Total	<u>\$ 1,483,293</u>

NOTE 6 – RETIREMENT PROGRAM

The Organization participates in a Tax Shelter Annuity Retirement Program (“Program”) covering all eligible employees. The Organization makes contributions of 4 percent of annual employee compensation, provided the employee contributes 50 percent of the employer portion. Contributions are deposited into an investment account in the names of participating employees. Contributions to the Program for the year ended June 30, 2011 amounted to \$22,641. The Organization has no further obligations beyond the annual contributions.

NOTE 7 – PROPERTY AND EQUIPMENT

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>June 30, 2011</u>
Land	\$ 136,819	\$	\$ 136,819
Buildings and improvements	641,111	5,432	646,543
Equipment	<u>307,718</u>	<u> </u>	<u>307,718</u>
Total at historical cost	<u>1,085,648</u>	<u>5,432</u>	<u>1,091,080</u>
Less: Accumulated Depreciation			
Buildings and improvements	175,638	16,265	191,903
Equipment	<u>268,716</u>	<u>5,647</u>	<u>274,363</u>
Total accumulated depreciation	<u>444,354</u>	<u>21,912</u>	<u>466,266</u>
Capital assets – net	<u>\$ 641,294</u>	<u>\$ (16,480)</u>	<u>\$ 624,814</u>



ADAMS, HILL, MCDANIELS & CO., P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

200 North Third Street
Richmond, Kentucky 40475

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Kentucky Mountain Housing Development Corporation, Inc.
Manchester, Kentucky

We have audited the financial statements of Kentucky Mountain Housing Development Corporation, Inc. (a non-profit organization) as of and for the twelve months ended June 30, 2011, and have issued our report thereon dated December 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits continued 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 Kentucky Mountain Housing Development Corporation, 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 Kentucky Mountain Housing Development Corporation, 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 statement 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 result 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. However, we noted certain other matters that we reported to the management of Kentucky Mountain Housing Development Corporation, Inc. in a separate letter dated December 21, 2011

Our consideration of the 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Kentucky Mountain Housing Development Corporation, 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 that are required to be reported under *Government Auditing Standards*.

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

Adams, Hill, McDaniels & Co.

Adams, Hill, McDaniels & Co.
December 21, 2011