

HOUSING FIRST, INC.

FINANCIAL REPORT

SEPTEMBER 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Housing First, Inc.
Mobile, Alabama

I have audited the accompanying statements of financial position of Housing First, Inc. as of September 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits 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 I 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Housing First, Inc. as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 25, 2011, on my consideration of Housing First, Inc.'s internal control over financial reporting and on my 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 my 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 my audit.

My audit was conducted for the purpose of forming an opinion on the basic financial statements of Housing First, 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 my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kim K. Enikeieff

January 25, 2011

HOUSING FIRST, INC.

STATEMENTS OF FINANCIAL POSITION
September 30, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current assets		
Cash	\$ 128,162	\$ 76,529
Grants receivable	223,188	165,619
Accounts receivable	12,215	14,153
Inventory	393,143	-
Prepaid expenses	<u>18,299</u>	<u>27,906</u>
Total current assets	<u>775,007</u>	<u>284,207</u>
Fixed assets		
Work in progress	-	65,877
Leasehold improvements	-	3,966
Furniture, fixtures and equipment	95,354	89,645
Vehicles	<u>148,491</u>	<u>65,802</u>
Total property, plant and equipment	243,845	225,290
Less accumulated depreciation	<u>119,316</u>	<u>87,051</u>
Property, plant and equipment - net	<u>124,529</u>	<u>138,239</u>
Other assets	<u>74,950</u>	<u>74,950</u>
Total assets	<u>\$ 974,486</u>	<u>\$ 497,396</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 145,581	\$ 20,216
Grant payable	19,871	8,148
Accrued payroll and related taxes	31,108	21,734
Accrued vacation pay	31,603	13,645
Deferred revenue	170,933	147,750
Current portion of notes payable	<u>117,971</u>	<u>75,136</u>
Total current liabilities	517,067	286,629
Notes payable, less current portion	<u>110,833</u>	<u>61,000</u>
Total liabilities	<u>627,900</u>	<u>347,629</u>
Net assets		
Unrestricted	345,666	138,847
Temporarily restricted	920	10,920
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>346,586</u>	<u>149,767</u>
Total liabilities and net assets	<u>\$ 974,486</u>	<u>\$ 497,396</u>

See notes to financial statements.

HOUSING FIRST, INC.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010 with Comparative Totals for 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Public support and revenue				
Public support:				
HUD pass through grant revenues	\$ 1,914,975	\$ -	\$ 1,914,975	\$ 1,818,667
City of Mobile	848,890	-	848,890	145,733
Mobile County	237,070	-	237,070	11,934
Baldwin County	-	-	-	11,600
State of Alabama	641,043	-	641,043	-
HUD grants	1,019,603	-	1,019,603	1,018,066
HHS grants	234,223	-	234,223	-
United Way Allocation	23,568	-	23,568	27,161
Other grants	112,878	-	112,878	34,960
Donations	30,501	-	30,501	81,769
Total public support	<u>5,062,751</u>	<u>-</u>	<u>5,062,751</u>	<u>3,149,890</u>
Revenue				
Program service fees	172,202	-	172,202	127,102
Housing First Enterprises program revenue	24,064	-	24,064	1,914
Administrative fees	89,429	-	89,429	93,954
Accounting fees	3,000	-	3,000	9,000
Miscellaneous	9,736	-	9,736	12,824
Total revenue	<u>298,431</u>	<u>-</u>	<u>298,431</u>	<u>244,794</u>
Net assets released from restrictions	<u>10,000</u>	<u>(10,000)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>5,371,182</u>	<u>(10,000)</u>	<u>5,361,182</u>	<u>3,394,684</u>
Expenses:				
HUD pass through grants expenditures	1,914,975	-	1,914,975	1,818,667
HUD program expenses - Homeless Information System	103,900	-	103,900	74,174
Other grant and program expenses	194,312	-	194,312	169,712
HUD Housing grant expenses	1,121,354	-	1,121,354	834,532
Housing First Enterprise expenses	225,818	-	225,818	87,446
Homeless Prevention and Rapid Rehousing expenses	1,303,608	-	1,303,608	5,452
General and administrative	300,396	-	300,396	390,174
Total expenses	<u>5,164,363</u>	<u>-</u>	<u>5,164,363</u>	<u>3,380,157</u>
Change in net assets	206,819	(10,000)	196,819	14,527
Net assets, beginning of period	<u>138,847</u>	<u>10,920</u>	<u>149,767</u>	<u>135,240</u>
Net assets, end of period	<u>\$ 345,666</u>	<u>\$ 920</u>	<u>\$ 346,586</u>	<u>\$ 149,767</u>

See notes to financial statements.

HOUSING FIRST, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2010 with Comparative Totals for 2009**

	Other Grant and Program Expenses	HUD Program Expenses HIMS	HUD Housing Grant Expenses	Housing First Enterprise Expenses	Homeless Prevention and Rapid Re-housing Expenses	Total Program Expenses	Management and General Expenses	2010 Total Expenses	2009 Total Expenses
Salaries	\$ -	\$ 40,246	\$ 310,681	\$ 79,865	\$ 274,872	\$ 705,664	\$ 127,670	\$ 833,334	\$ 432,790
Payroll taxes	-	3,751	27,558	7,373	24,900	63,582	13,656	77,238	36,718
Fringe benefits	-	6,558	32,064	15,107	22,335	76,064	22,597	98,661	52,077
Total personnel	-	50,555	370,303	102,345	322,107	845,310	163,923	1,009,233	521,585
Accounting fees	-	-	-	-	-	-	6,600	6,600	6,000
Auditing fees	-	-	-	-	-	-	8,000	8,000	6,700
Administrative charges	-	-	-	-	-	-	-	-	1,943
Bad debt expense	-	-	4,479	-	-	4,479	-	4,479	18,713
Contract labor	-	12,555	-	83,797	-	96,352	5,924	102,276	74,697
Equipment rental and maintenance	-	2,295	8,056	761	19,497	30,609	22,114	52,723	19,578
HUD pass through grant expenditures	1,914,975	-	-	-	-	1,914,975	-	1,914,975	1,818,667
HUD grant expenditures	114,424	-	-	-	-	114,424	-	114,424	119,347
Grant and program expenditures	10,506	-	-	-	-	10,506	-	10,506	5,241
Insurance	-	-	-	3,229	-	3,229	13,134	16,363	21,843
Interest	-	-	-	9,923	-	9,923	1,328	11,251	1,231
Leasing and utility expenses	-	-	452,382	-	-	452,382	-	452,382	457,069
Loss on disposal of equipment	-	-	-	-	270	270	2,873	2,873	-
Miscellaneous expenses	-	-	6,236	5,626	-	12,132	4,827	16,959	4,499
Mobile County Public School Grant	57,994	-	-	-	-	57,994	-	57,994	11,600
Operations	-	-	91,122	-	-	91,122	-	91,122	104,146
Other grant expenditures	-	-	9,688	-	921,866	931,554	-	931,554	4,240
Postage	-	-	-	-	-	-	2,623	2,623	1,787
Printing	-	-	-	-	-	-	313	313	1,084
Professional fees	-	-	85,542	-	-	85,542	4,868	90,410	22,438
Rent	-	7,473	24,288	7,000	10,962	49,723	11,455	61,178	31,034
Software	-	20,665	-	-	7,671	28,336	535	28,871	14,687
Stand down	1,388	-	-	-	-	1,388	-	1,388	3,961
Supplies	-	1,237	15,596	2,456	3,090	22,379	13,894	36,273	12,399
Telephone and utilities	-	7,752	5,796	1,265	13,503	28,316	9,647	37,963	17,306
Travel, conventions and meetings	-	1,368	18,070	9,083	4,642	33,163	16,719	49,882	30,332
Women's shelter	10,000	-	-	-	-	10,000	-	10,000	25,323
Total expenses before depreciation	2,109,287	103,900	1,091,558	225,485	1,303,608	4,833,838	288,777	5,122,615	3,357,450
Depreciation	-	-	29,796	333	-	30,129	11,619	41,748	22,707
Total expenses	\$ 2,109,287	\$ 103,900	\$ 1,121,354	\$ 225,818	\$ 1,303,608	\$ 4,863,967	\$ 300,396	\$ 5,164,363	\$ 3,380,157

See notes to financial statements.

HOUSING FIRST, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 196,819	\$ 14,527
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	4,479	18,713
Depreciation	41,748	22,707
Donated vehicle	(12,200)	-
Loss on disposal of equipment	2,873	-
(Increase) decrease in:		
Grants receivable	(57,569)	(165,619)
Accounts receivable	(2,541)	(557)
Prepaid expenses	9,607	(14,507)
Increase (decrease) in:		
Accounts payable and other accrued expenses	125,365	(12,807)
Grant payable	11,723	(12,902)
Accrued payroll and related taxes	9,374	12,254
Accrued vacation pay	17,958	5,700
Deferred revenue	23,183	141,283
Net cash provided by operating activities	370,819	8,792
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(411,854)	(71,918)
Net cash used by investing activities	(411,854)	(71,918)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	104,833	126,127
Payment of short-term borrowings	(12,165)	(10,928)
Net cash provided by financing activities	92,668	115,199
Net increase in cash	51,633	52,073
Cash, beginning of year	76,529	24,456
Cash, end of year	\$ 128,162	\$ 76,529
Supplemental disclosures:		
Cash paid during the year for interest	\$ 11,251	\$ 1,231

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Organization

Housing First, Inc. provides indirect services to the homeless population of Mobile, Alabama. These services include assessment of the current homeless population and their needs and providing assistance in coordinating these needs with services available from other community organizations and as grantee for several federal grants which are passed through to subgrantees.

The Organization is directed by an active Board of Directors whose members serve without compensation.

Summary of Significant Accounting Policies

Method of accounting

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting.

Contributions

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting (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.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Accounts and grants receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. There was no allowance for doubtful accounts at September 30, 2010 and 2009. Changes in the valuation allowance have not been material to the financial statements.

Inventory

Inventory consists of five residential homes for sale to qualified buyers. The homes were remodeled and repaired through the Neighborhood Stabilization Program.

Property and equipment

Property and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Property and equipment are depreciated over estimated useful lives using the straight-line method of depreciation. The Organization's policy is to capitalize capital acquisitions costing \$500 or more. Depreciation expense was \$41,748 and \$22,707 in 2010 and 2009, respectively.

Summary of Significant Accounting Policies (continued)

Income taxes

Income taxes are not provided for in the financial statements since the Organization is exempt from federal and state income taxes under section 501 (c)(3) of the Internal Revenue Code and similar state provisions. The Organization is not classified as a private foundation.

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.

Donated materials and services

Donated materials or equipment, when received, are reflected as contributions in the accompanying financial statements at their estimated fair market values at the date of receipt. No amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services. Nevertheless, a substantial number of volunteers donated significant amounts of their time in the Organization's program services.

Functional expenses

Functional expenses have been allocated among the program and supporting services based upon an analysis of the expenses and benefits derived.

Reclassifications

Certain reclassifications have been made to 2009 amounts to conform to the 2010 presentation.

Comparative amounts

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2009, from which the summarized information was derived.

Other Assets

Other assets consist of multiple parcels of land donated to the Organization in September 2008 which the Organization intends to sell and use the proceeds to fund the various programs of the Organization. These parcels also serve as collateral for the secured debt of the Organization.

Inventory

Inventory consists of five residential homes which have been remodeled and repaired through the Neighborhood Stabilization Program. These homes are for sale to qualified buyers. The following is a schedule of such inventory at September 30:

	<u>2010</u>	<u>2009</u>
1467 Barkley Street, Mobile, Alabama	\$ 117,337	\$ -
1654 Van Dorn Street, Mobile, Alabama	63,337	-
706 Louise Drive, Mobile, Alabama	76,785	-
5112 Garland Drive, Mobile, Alabama	73,069	-
904 Rowell Street, Mobile, Alabama	<u>62,615</u>	<u>-</u>
Total	<u>\$ 393,143</u>	<u>\$ -</u>

Notes Payable

The following is a summary of debt:

In August 2007, the Organization obtained a \$50,000 revolving line of credit, with a commitment of \$27,971 as of September 30, 2010. The loan is a demand note, but if no demand is made it is payable in monthly installments in the amount of 3% of the outstanding balance and interest at 6.00%, until August 8, 2017, at which time the remaining principal amount becomes due. The line of credit is unsecured.

In August 2010, the Organization obtained a \$100,000 revolving line of credit, with a commitment of \$90,000 as of September 30, 2010. The loan is a demand note, but if no demand is made it is payable upon maturity which is August 26, 2011. Interest is payable monthly at 5.50%. The line of credit is secured by real estate.

In August 2009, the Organization obtained a \$150,000 revolving line of credit, with a commitment of \$110,833 as of September 30, 2010. The loan is a demand note, but if no demand is made it is payable upon maturity which is April 15, 2012. Interest is payable monthly at 4.50%. The line of credit is unsecured.

Operating Leases

As of July 1, 2010, the Organization entered into a two year lease for office space, expiring July 31, 2012. This lease requires monthly rental payments of \$3,000. As of July 1, 2010, the Organization entered into a three year lease for program office space, expiring June 30, 2013. This lease requires monthly rental payments of \$3,764. The amount reported in rent expense was \$61,178 and \$31,034 for the years ended September 30, 2010 and 2009, respectively. The future minimum lease payments under these leases are as follows:

2011	\$ 81,168
2012	75,168
2013	<u>33,876</u>
Total	<u>\$ 190,212</u>

Pension Plan

The Organization sponsors a defined contribution pension plan covering substantially all employees who have attained age twenty-one and have completed one year of service. The Organization's quarterly contribution was six percent for the years ended September 30, 2010 and 2009 of the participants' compensation. The amount of pension expense was \$18,693 and \$23,249 for 2010 and 2009, respectively.

Related Party Transactions

Housing First, Inc. provides monthly bookkeeping services and grant administrative services to the various subgrantee organizations. Accounting fees paid to Housing First, Inc. amounted to \$3,000 and \$9,000 in 2010 and 2009, respectively. Grant administrative fees paid to Housing First, Inc. amounted to \$89,429 and \$93,954 for 2010 and 2009, respectively. Accounts receivable from the various subgrantee organizations amounted to \$10,551 and \$10,750 at September 30, 2010 and 2009, respectively.

Concentration

The Organization seeks and receives funds from various sources, including the City of Mobile, Mobile County, Department of Housing and Urban Development, and other private sources. All of these revenue sources are subject to the discretion of the entity granting the revenue.

Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes or period at September 30:

	2010	2009
Capital expenditures	\$ 920	\$ 920
Scholarships	-	10,000
Total	<u>\$ 920</u>	<u>\$ 10,920</u>

Subsequent Events

The Organization has received additional advances under the various lines of credit in the amount of \$15,000 as of January 25, 2011.

Evaluation of Subsequent Events

The Organization has evaluated subsequent events through January 25, 2011, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HOUSING FIRST, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2010

Federal Grantor/Program Title	Grant Number	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Housing and Urban Development				
Direct Grants:				
HMIS Grant	AL0030B4C010802	14.235		\$ 119,333
Substance Abuse	AL0041B4C010802	14.235		114,424
Community Housing Project	AL0028B4C010802	14.235		479,322
Starship	AL1066	14.235		2,187
Victory Permanent Housing	AL0035B4C010802	14.235		146,621
Victory Transitional Housing	AL0039B4C010802	14.235		108,981
Gateway	AL0025B4C010800	14.235		<u>48,735</u>
Subtotal				<u>1,019,603</u>
U. S. Department of Health and Human Services				
Direct Grants:				
Community Assertive Treatment for Chronic Homeless	1H79SM059114-01	93.243		<u>234,223</u>
Subtotal				<u>234,223</u>
U. S. Department of Housing and Urban Development				
Pass Through Programs From:				
Homeless Prevention and Rapid Rehousing Program - City of Mobile (ARRA)		14.257		\$ 438,808
Homeless Prevention and Rapid Rehousing Program - Mobile County Commission (ARRA)		14.257	S-09-UY-01-0007	227,461
Homeless Prevention and Rapid Rehousing Program - Alabama Department of Economic and Community Affairs (ARRA)		14.257	HP-NP-09-010	<u>641,043</u>
Subtotal				<u>1,307,312</u>
Pass-through to Sub-Grantees:				
Loaves and Fish 15th Place	AL0026B4C010802	14.235		383,669
Dumas Wesley/Family Village	AL0042B4C010802	14.235		164,833
Baldwin Family Violence	AL0031B4C010802	14.235		103,751
Franklin Primary Health	AL0033B4C010802	14.235		83,970
Salvation Army	AL0038B4C010802	14.235		94,984
Service Center of Catholic Social Services	AL0029B4C010802	14.235		27,235
Service Center of Catholic Social Services	AL0036B4C010802	14.235		173,921
Catholic Social Services Baldwin County	AL0037B4C010802	14.235		118,440
Penelope House	AL0043B4C010802	14.235		141,981
St. Mary's Home	AL0032B4C010802	14.235		138,800
Alta Pointe Health Systems	AL0034B4C010802	14.235		235,521
Alta Pointe Health Systems	AL009B701002	14.235		166,579
Family Promise	AL0027B4C010802	14.235		<u>81,291</u>
Subtotal				<u>1,914,975</u>
Total Expenditures of Federal Awards				<u>\$ 4,476,113</u>

HOUSING FIRST, INC.

NOTES to the SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2010

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Housing First, 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 the preparation of, the basic financial statements.

Kim K. Enikeieff
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**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
Housing First, Inc.
Mobile, Alabama:

I have audited the financial statements of Housing First, Inc. as of and for the year ended September 30, 2010, and have issued my report thereon dated January 25, 2011. I conducted my 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 my audit, I considered Housing First, Inc.'s internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Housing First, Inc.'s internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency* in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing First, Inc.'s financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, board of directors, others within the entity, 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.

Kim K. Enikeieff

January 25, 2011
Mobile, Alabama

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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
Housing First, Inc.
Mobile, Alabama:

Compliance

I have audited the compliance of Housing First, Inc., 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 September 30, 2010. Housing First, 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 First, Inc.'s management. My responsibility is to express an opinion on Housing First, Inc.'s compliance based on my audit.

I conducted my 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 I 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 First, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Housing First, Inc.'s compliance with those requirements.

In my opinion, Housing First, 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 September 30, 2010.

Internal Control Over Compliance

Management of Housing First, 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 my audit, I considered Housing First, 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Housing First, Inc.'s internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, board of directors, others within the entity, 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.

Kim K. Enikeieff

Mobile, Alabama
January 25, 2011

HOUSING FIRST, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010**

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Housing First, Inc.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Housing First, Inc. were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal awards programs.
5. The auditor's report on compliance for the major federal award programs for Housing First, Inc. expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs included: CFDA 14.235 - Department of Housing and Urban Development (Supportive Housing Program) and CFDA 14.257 – Department of Housing and Urban Development (Homeless Prevention and Rapid Rehousing Program).
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Housing First, Inc. qualified as a low-risk auditee.

FINDINGS-FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None