

**LIGHTHOUSE COMMUNITIES, INC.  
AND SUBSIDIARY**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*Year Ended June 30, 2009*

---

*Goodlander, Sweet & Rybicki  
Certified Public Accountants*

CONTENTS

INDEPENDENT AUDITORS' REPORT.....1-2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....3

CONSOLIDATED STATEMENT OF ACTIVITIES.....4

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES.....5

CONSOLIDATED STATEMENT OF CASH FLOWS.....6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....7-12

# GOODLANDER, SWETT & RYBICKI

CERTIFIED PUBLIC ACCOUNTANTS

3900 COSTA N.E. • GRAND RAPIDS, MI 49525

PHONE (616) 361-1896 • (616) 364-4000

FAX (616) 361-0276


## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Lighthouse Communities, Inc.  
Grand Rapids, Michigan

We have audited the accompanying consolidated statement of financial position of Lighthouse Communities, Inc. (a non-profit organization) and subsidiary as of June 30, 2009, and the related consolidated statements 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 have conducted our audit 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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse Communities, Inc. and subsidiary as of June 30, 2009, 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.

  
Goodlander, Swett & Rybicki  
Certified Public Accountants

October 27, 2009

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year Ended June 30, 2009

ASSETS		
Cash		\$ 90,406
Grants receivable		2,126,369
Accounts receivable		259,913
Neighborhood housing fund loan receivable		741,079
Deposit		3,000
Houses held for resale		311,155
Property and equipment		2,789,803
Equity investment in affiliate		<u>26,111</u>
TOTAL ASSETS		<u>\$6,347,836</u>
LIABILITIES		
Lines of credit		\$ 439,745
Accounts payable		164,485
Pre-development loan		39,250
Tenant security deposits		21,012
Long-term debt		<u>3,163,410</u>
TOTAL LIABILITIES		3,827,902
NET ASSETS		
Unrestricted		665,201
Temporarily restricted		<u>1,854,733</u>
TOTAL NET ASSETS		<u>2,519,934</u>
TOTAL LIABILITIES		
AND NET ASSETS		<u>\$6,347,836</u>

See Notes to Consolidated Financial Statements.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

CHANGES IN UNRESTRICTED NET ASSETS		
UNRESTRICTED REVENUES AND SUPPORT		\$
Contributions	17,477	
Government grants	112,504	
Sale of rehabilitated houses	195,751	
Rental income	173,972	
Developer fees and cost reimbursements for projects	298,701	
Interest income	43,923	
Special events net of expenses of \$10,975	15,155	
Program income	<u>27,982</u>	
	885,465	
Net assets released from restrictions		
Restrictions satisfied by payments	<u>629,613</u>	
	1,515,078	
TOTAL UNRESTRICTED REVENUE AND SUPPORT		1,515,078
EXPENSES		
Program services	1,371,382	
Supporting services:		
Management and general	165,860	
Fund raising	<u>56,960</u>	
	1,594,202	
DECREASE IN UNRESTRICTED NET ASSETS	( 79,124)	
CHANGES IN TEMPORARILY RESTRICTED ASSETS		
Non-government grants	365,300	
Government grants	1,120,904	
Net assets released from restrictions		
Restrictions satisfied by payments	<u>( 629,613)</u>	
	856,591	
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS		856,591
	777,467	
INCREASE IN NET ASSETS		1,742,467
NET ASSETS AT BEGINNING OF YEAR		<u>1,742,467</u>
	NET ASSETS AT END OF YEAR	\$2,519,934
		=====

See Notes to Consolidated Financial Statements.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2009

	<u>Program Services</u>	<u>Supporting Services</u>			<u>Total</u>
		<u>Management</u>	<u>Fund Raising</u>	<u>Total</u>	
Salaries	\$ 270,579	\$ 104,524	\$ 40,909	\$ 145,433	\$ 416,012
Employee benefits	34,916	13,488	5,279	18,767	53,683
Payroll taxes	24,932	9,631	3,769	13,400	38,332
<b>TOTAL PERSONNEL EXPENSES</b>	<b>330,427</b>	<b>127,643</b>	<b>49,957</b>	<b>177,600</b>	<b>508,027</b>
Maintaining and operating rental properties	110,396				110,396
Program costs for housing acquisition, development and resale	295,918				295,918
Lead hazard remediation contractor cost	36,770				36,770
Healthy neighborhood program costs	191,257				191,257
Other program direct costs	23,230	1,104		1,104	24,334
Professional fees	24,524	19,309		19,309	43,833
Office expense	18,341	7,084	2,773	9,857	28,198
Depreciation	118,290	3,873	1,550	5,423	123,713
Bad debts	58,800				58,800
General insurance	23,343	978	383	1,361	24,704
Interest	140,086	5,869	2,297	8,166	148,252
	<u>\$ 1,371,382</u>	<u>\$ 165,860</u>	<u>\$ 56,960</u>	<u>\$ 222,820</u>	<u>\$ 1,594,202</u>

See Notes to Consolidated Financial Statements.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Increase in net assets		\$ 777,467
Depreciation		123,713
Decrease (increase) in operating assets:		
Accounts receivable	( 929,349)	
Houses held for resale	67,391	
Deposits	( 3,000)	
Increase (decrease) in operating liabilities:		
Accounts payable	67,254	
Tenant security deposits	678	
		<u>104,154</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		104,154
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Equity investments in partnerships	( 26,111)	
Sale of marketable investments	175,000	
Sale of property and equipment	193,666	
Payments for property and equipment	( 361,761)	
		<u>19,206</u>
NET CASH USED BY INVESTING ACTIVITIES		( 19,206)
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES		
Decrease in short-term debt	( 18,639)	
Proceeds from long-term debt	153,149	
Payments on long-term debt	( 291,140)	
		<u>156,630</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		( 156,630)
NET DECREASE IN CASH		( 71,682)
CASH AT BEGINNING OF YEAR		<u>162,088</u>
CASH AT END OF YEAR		\$ 90,406
Supplementary data:		
Interest paid		\$ 148,252
		=====

See Notes to Consolidated Financial Statements.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2009

NOTE A -- NATURE OF ACTIVITIES

Lighthouse Communities, Inc. is a non-profit organization that seeks to stimulate community revitalization through providing quality affordable housing in target areas within Kent County, Michigan for persons of low and moderate income.

Programs include rental and owner occupied rehabilitated housing, lead paint remediation, housing counseling, and community organizing activities. Lighthouse also actively works to stimulate economic change in its target area through supporting commercial real estate developments. Included in the consolidated financial statements is the financial position and financial results of Roosevelt Park Commercial, LLC, a wholly-owned for profit subsidiary established to develop 2,400 square feet of commercial space in connection with a separate tax credit residential development in the target neighborhood.

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2009

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The consolidated subsidiary is a for profit limited liability company and may generate taxable income in the future.

Lighthouse Communities, Inc. has deferred adoption of Financial Interpretation Number 48 for evaluating uncertain tax positions. The Organization evaluates tax positions based on authoritative rules and does not believe it has taken any uncertain positions.

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

NOTE C -- GRANTS RECEIVABLE

Grants receivable are recorded net of present value discount for amounts scheduled to be received after more than one year. All significant accounts receivable at June 30, 2008 are expected to be received within a year.

NOTE D -- HOUSES HELD FOR RESALE

Under the Acquisition Development Resale (ADR) program, houses are purchased, rehabilitated and resold at affordable prices to individuals meeting certain income tests. The houses held at year end are accounted for as inventory being held for resale. The balance of the houses held for resale includes the cost of acquiring and cost incurred to rehabilitate less grants received to reimburse such costs.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2009

NOTE E -- PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 176,351
Residential rental buildings	2,774,540
Office building used by Organization's staff	192,175
Office equipment	73,323
Construction in progress- subsidiary	<u>208,518</u>
	3,424,907
Accumulated depreciation	<u>( 635,104)</u>
	\$2,789,803
	=====

Under stipulation by the fund providers, the residential rental buildings maintain a 15 year affordability period whereby they must be rented to low-income individuals for 15 years.

NOTE F -- NEIGHBORHOOD HOUSING FUND LOANS

Neighborhood Housing Fund loans are disbursed to home owners who meet certain income and other qualifications and are in targeted neighborhoods. Loans range from \$5,000 to \$70,000 and are at fixed rates of 6% to 6.5% with amortization between 5 and 15 years. All loans are approved by a loan committee prior to origination.

Funding for the loans is from a loan from the Grand Rapids Community Foundation bearing interest at 1.0% and from participation loans from several area banks bearing interest at 5.5%. (See Note I).

LIGHTHOUSE COMMUNITIES, INC. SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended June 30, 2009

NOTE G -- LINES OF CREDIT

The following lines of credit were available at June 30, 2009:

	Balance at
	<u>June 30</u>
Line of credit with the Michigan Interfaith Trust Fund approved for \$500,000, payable interest only at 6%, secured by certain properties held for sale.	\$ 117,155
Lines of credit with several banks bearing interest at rates from 3.74% to 8.5%, maturing at different intervals over the next 18 months, all secured by real estate	<u>322,590</u>
	\$ 739,745
	=====

NOTE H -- LONG-TERM DEBT

Included in long-term debt is an unsecured loan from the Grand Rapids Community Foundation. The proceeds of the loan may be used only to fund acquisition and home improvement loans to individual homeowners in targeted neighborhoods under the Neighborhood Housing Fund loan program. The loan is approved for a total of \$1,000,000 of which \$1,000,000 had been drawn at June 30, 2009. The loan is payable quarterly at interest only at an annual rate of 1.0%. (See Note G). Payments of principal are due \$400,000 on December 31, 2010 and \$200,000 each on December 31, 2011, 2012 and 2013.

Long-term debt at June 30, 2008 is additionally comprised of various mortgages to banks secured by rental properties, the corporate office, lease assignments, and construction in progress. Interest rates are partly fixed and partly variable at rates from .5% to 1.0% over prime, and rates at June 30, 2009 varied from 2.5% to 8.5%. Total monthly payments on all long-term debt including interest was \$14,444 at June 30, 2009.

Additionally, the subsidiary company had a \$144,000 construction loan to fund the commercial project which was secured by construction in progress and guaranteed by Lighthouse. Payments are scheduled to begin at the completion of construction based on a 30 year amortization and 7.5% interest. The loan is due in full on August 1, 2012.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended June 30, 2009

NOTE H -- LONG-TERM DEBT (CONTINUED)

Future maturities of all long-term debt are as follows:

Year ended June 30, 2010	\$1,487,493
2011	652,377
2012	344,000
2013	200,000
After five years	479,540

NOTE I -- DESCRIPTION OF LEASING AGREEMENTS

The rental properties are located in targeted areas within the City of Grand Rapids and are rented to individuals who meet income and other criteria. Lease terms are all for one year.

NOTE J -- RETIREMENT PLAN

The Organization has established a retirement plan under Section 403(b) of the Internal Revenue Code which provides for employee contributions. There were no employer contributions to the plan during the year ended June 30, 2009.

NOTE K -- CONCENTRATIONS OF RISK

During the year the amount deposited in one bank may exceed federally insured limits. Management believes the Organization is not exposed to any significant credit risk as a result.

Funding for future operations of the Organization is in part dependent on the availability of government grants and low income tax incentives. Expenditures of federal funds were below \$500,000 during the year ended June 30, 2009. Therefore, the Organization was not subject to the Single-Audit Act and Government Audit Standards. It is anticipated that expenditures of federal funds will exceed \$500,000 for the year ended June 30, 2010.

NOTE L -- INTERESTS IN LOW INCOME HOUSING TAX CREDIT LIMITED PARTNERSHIPS

At June 30, 2009, in addition to the consolidated subsidiary described in Note A, Lighthouse Communities had formed three for-profit entities, for the purpose of being the general partner with a 0.01% interest in each of the Avenue Apartments Limited

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended June 30, 2009

NOTE L -- INTERESTS IN LOW INCOME HOUSING TAX CREDIT  
LIMITED PARTNERSHIPS (CONTINUED)

Dividend Housing Association Limited Partnership, the Uptown Village Limited Dividend Housing Association Limited Partnership, and the Roosevelt Park Lofts Limited Dividend Housing Association Limited Partnership. The limited partnerships have acquired housing projects which qualify for federal low income housing credits under Sec. 42 of the Internal Revenue Code. The 0.01% interest in the partnerships is not considered material and therefore is not included in the accompanying financial statements.

During the year ended June 30, 2009, Lighthouse Communities recognized \$298,701 of income from the projects for developer fees and cost reimbursements. During the year ended June 30, 2009, \$176,754 of developer fees was left in the Roosevelt Park project as additional equity to close a financing gap. This additional equity investment by Lighthouse has no market value and will not result in any future cash flow to Lighthouse Communities, Inc. Therefore, no recognition of the investment has been recorded in the accompanying financial statements. In future years, if cash flow of the projects permits, there could be minor amounts of fee income received. The general partner can at the end of 15 years purchase the housing projects and assume the loans which would be payable in 30 years which is the end of the low income period.

Subsequent to June 30, 2009, Lighthouse Communities is in the process of pursuing additional similar projects.

In connection with the Uptown Village project, Lighthouse Communities, Inc. owns a 50% equity investment in a for profit limited liability company which will own and lease 7200 square feet of office and retail space to commercial tenants. Lighthouse does not have adequate control over this project to warrant consolidation, and the investment is accounted for using the equity method. The balance of the equity investment is \$26,111 at June 30, 2009.