

Barnes Wendling CPAs, Inc.

REPORT PREPARATION AND PROCESSING FORM

Neighborhood House Association of Lorain County, Inc.

Period Ended 12/31/2007

Client # 1461-001

Required Procedures (SSARS - N/A if Audit)

Respond to the following:

1 Do you feel you have sufficient knowledge of the following to render a compilation/review report?

a. Accounting principles and procedures in the industry in which the client operates

___ Yes ___ No

Initials
N/A
N/A
N/A
N/A
N/A

b. The client's business transactions, form of its accounting records, qualifications of accounting personnel, basis of accounting, and form and content of its financial statements

___ Yes ___ No

2 Have you established an understanding with the client regarding the services to be performed

___ Yes ___ No

3 Have you "read" the financial statements and considered whether the statements appear to be appropriate in form and free from obvious material errors?

___ Yes ___ No

4 Have the review procedures (inquiries, analytical procedures and inquiries concerning stockholder minutes) been completed (review only)?

___ Yes ___ No

Required Procedures For All Engagements

5 Client designated person has reviewed and accepted the proposed journal entries and understands the impact on the financial statements

Date N/A ___ Yes ___ No

Initials
N/A

Required Procedures (SAS - N/A if SSARS)

6 Have all procedures been performed according to GAAS and firm standards in order to issue our audit report?

___ Yes ___ No

Initials
NA

Engagement Personnel

- Accountant(s)
- Typist
- Proof financial statements
- Engagement manager
- Client Service Executive
- Revisions
- Pre-Issuance Review
- Final Processor

Scanned 1-24-08

	Initials	Date
ANC	<i>AWC</i>	<i>6/2/08</i>
LAG	<i>[Signature]</i>	<i>6/2/08</i>
RGZ	<i>[Signature]</i>	<i>6/3/08</i>
	<i>KAM</i>	<i>7/24/05</i>

Open Items	Cleared
None	

Processing/Delivery Instructions

- Client**
- Draft copies
 - Final copies: Short Form*
 - *(without supplemental information)
 - Final copies: Long Form

Quantity
<i>75</i>

- Barnes Wendling (White Copies)**
- Accountant(s)
 - Engagement Manager
 - Client Service Executive
 - Others

Quantity

Delivery Instructions

Transmittal to:
Delivery address:

John Wobly Spitz, CFO

3835 Lorain Avenue

Delivery method/special instructions:

Lorain, OH 44045

**THE NEIGHBORHOOD HOUSE ASSOCIATION
OF LORAIN COUNTY, INC.**

FINANCIAL REPORT

DECEMBER 31, 2007

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

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INDEPENDENT AUDITORS' REPORT

June 3, 2008

The Board of Directors
The Neighborhood House Association of Lorain County, Inc
Lorain, Ohio

We have audited the accompanying statement of financial position of The Neighborhood House Association of Lorain County, Inc. (an Ohio non-profit organization) as of December 31, 2007 and the related 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. The prior year summarized comparative information for the year ended December 31, 2006 has been derived from the Organization's December 31, 2006 financial statements. The financial statements of The Neighborhood House Association of Lorain County, Inc. as of December 31, 2006 were audited by other auditors whose report dated August 13, 2007, expressed an unqualified opinion on those statements.

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 Standard, 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Neighborhood House Association of Lorain County, Inc. as of December 31, 2007, 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 June 3, 2008 on our consideration of The Neighborhood House Association of Lorain county 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 on internal control over financial reporting and compliance and the result 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.



Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of The Neighborhood House Association of Lorain County, Inc. taken as a whole. The accompanying schedule of expenditures of federal rewards 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 required part of the basic financial statements. Such information had been subjected to the auditing procedures applied in the audit 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.

Barnes Wendling CPAs, Inc.

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets:		
Cash	\$ 43,160	\$ 44,659
Grants receivable	317,931	269,982
Pledges receivable	84,056	119,362
Prepaid expenses	<u>16,135</u>	<u>36,891</u>
Total current assets	461,282	470,894
Property, Plant and Equipment	2,168,676	2,029,142
Less accumulated depreciation	<u>1,353,296</u>	<u>1,259,345</u>
	815,380	769,797
Investments held in perpetuity	145,529	144,643
Deposits	<u>1,600</u>	<u>2,600</u>
Total assets	<u>\$ 1,423,791</u>	<u>\$ 1,387,934</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of long-term debt	\$ 43,775	\$ 24,152
Line of credit	100,000	82,000
Accounts payable	285,000	295,474
Accrued expenses	<u>16,426</u>	<u>23,201</u>
Total current liabilities	445,201	424,827
Long-Term Debt:		
Notes payable	604,737	559,074
Less current portion	<u>43,775</u>	<u>24,152</u>
	560,962	534,922
Total liabilities	<u>1,006,163</u>	<u>959,749</u>
NET ASSETS		
Unrestricted	130,216	16,386
Temporarily restricted	141,883	267,156
Permanently restricted	<u>145,529</u>	<u>144,643</u>
Total net assets	<u>417,628</u>	<u>428,185</u>
Total liabilities and net assets	<u>\$ 1,423,791</u>	<u>\$ 1,387,934</u>

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2007

WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
REVENUES, GAINS AND OTHER SUPPORT					
Government agencies	\$2,166,152	\$ -	\$ -	\$2,166,152	\$1,929,682
United Way	11,152	139,111	-	150,263	155,680
Program fees	29,384	-	-	29,384	223,138
Contributions:					
- cash	120,120	500	-	120,620	100,408
- donated facilities/food	119,650	-	-	119,650	108,541
Foundations	54,691	69,500	-	124,191	162,372
Change in fair market value of investments	-	-	886	886	8,145
Investment income	20,117	-	-	20,117	19,772
Special events	35,887	-	-	35,887	14,150
Other Income	15,411	-	-	15,411	6,135
Net assets released from restrictions	334,384	(334,384)	-	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	2,906,948	(125,273)	886	2,782,561	2,728,023
EXPENSES					
Program services:					
Child Care and Developmental Youth Svcs	860,062			860,062	771,497
Help Me Grow	237,043			237,043	197,859
Parenting Plus	16,043			16,043	42,760
Oberlin Senior Services	163,248			163,248	139,931
Emergency Service	365,944			365,944	366,478
Senior Nutrition	834,715			834,715	639,001
Lakeview Assisted Living	-			-	260,796
	2,477,055	-	-	2,477,055	2,418,322
Supporting services:					
Management and general	196,861			196,861	169,877
Fund raising	119,202			119,202	53,396
TOTAL EXPENSES	2,793,118	-	-	2,793,118	2,641,595
CHANGE IN NET ASSETS	113,830	(125,273)	886	(10,557)	86,428
NET ASSETS AT BEGINNING OF YEAR	16,386	267,156	144,643	428,185	341,757
NET ASSETS AT END OF PERIOD	\$ 130,216	\$ 141,883	\$ 145,529	\$ 417,628	\$ 428,185

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2007
WITH SUMMARIZED FINANCIAL INFORMATION DECEMBER 31, 2006

	2006		2007		Program Services						Support Services	
	Total	Total	Total	Total	Child Care Developmental Youth Services	Help Me Grow	Parenting Plus	Oberlin Senior Services	Emergency Service	Senior Nutrition	Management and General	Fund Raising
Salaries	\$1,271,082	\$ 1,426,445	\$504,387	\$169,060	\$9,841	\$89,126	\$171,128	\$340,365	\$69,387	\$73,151		
Employee benefits	37,266	29,704	13,002	4,867	2,045	2,328	2,694	1,766	2,127	875		
Payroll taxes	114,353	128,722	44,748	14,983	872	7,961	15,710	32,182	5,845	6,421		
Total salaries and related expenses	1,422,701	1,584,871	562,137	188,910	12,758	99,415	189,532	374,313	77,559	80,447		
Professional fees	104,991	64,937	5,673	3,595	-	6,633	4,210	18,554	15,800	10,472		
Supplies	408,864	401,386	96,625	2,801	1	3,386	58,652	229,429	4,088	6,404		
Telephone	51,427	50,301	18,302	6,177	744	3,010	9,778	8,863	1,715	1,712		
Postage and shipping	10,998	10,743	1,005	2,021	3	872	392	844	1,109	4,497		
Occupancy	115,537	137,838	65,124	3,076	292	12,308	46,033	6,034	4,492	479		
Rental and maintenance of equipment	39,592	53,129	17,727	6,422	2	4,331	6,176	7,253	8,294	2,924		
Equipment acquisition	8,361	12,246	6,875	180	-	-	1,420	1,081	2,387	303		
Printing and publications	17,119	23,242	6,047	1,267	12	3,126	1,304	4,014	4,134	3,338		
Mileage/operation travel	135,370	89,297	18,835	12,938	780	6,430	2,378	43,356	2,970	1,610		
Conferences, conventions and meetings	6,055	15,477	3,357	2,966	-	605	1,275	1,283	2,227	3,764		
Specific assistance to individuals	16,710	20,343	-	-	-	660	19,091	-	592	-		
Membership dues	2,541	3,581	350	262	-	342	292	729	1,195	411		
Interest	43,360	57,831	-	-	-	-	-	-	57,831	-		
Insurance	59,658	61,749	19,531	3,564	1,173	3,252	5,533	21,053	5,657	1,986		
Miscellaneous	16,206	10,940	2,061	839	-	351	1,032	2,623	3,596	438		
Donated facilities	100,408	100,408	-	-	-	-	-	100,408	-	-		
Depreciation	81,697	94,799	36,413	2,025	278	18,527	18,846	14,878	3,415	417		
Total expenses	\$ 2,641,595	\$ 2,793,118	\$ 860,062	\$ 237,043	\$ 16,043	\$ 163,248	\$ 365,944	\$ 834,715	\$ 196,861	\$ 119,202		

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (10,557)	\$ 86,428
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	94,799	81,697
(Increase) in fair market value of trust	(886)	(8,145)
Decrease in grants receivable	(47,949)	49,188
Decrease (increase) in pledges receivable	35,306	(26,272)
Decrease (increase) in prepaids and deposits	21,756	(3,650)
Decrease in bank overdraft	-	(5,226)
Increase in accounts payable and accrued expenses	<u>(17,249)</u>	<u>(169,564)</u>
Total adjustments	<u>85,777</u>	<u>(81,972)</u>
Net cash provided by operating activities	75,220	4,456
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	<u>(140,383)</u>	<u>(39,642)</u>
Net cash used in investing activities	(140,383)	(39,642)
FINANCING ACTIVITIES		
Proceeds from long-term debt	85,843	18,934
Repayments of long-term debt	(40,180)	(21,089)
Net change in line of credit	<u>18,000</u>	<u>82,000</u>
Net cash provided by financing activities	63,663	79,845
NET (DECREASE) INCREASE IN CASH	(1,499)	44,659
CASH – BEGINNING OF YEAR	<u>44,659</u>	<u>-</u>
CASH – END OF PERIOD	<u>\$ 43,160</u>	<u>\$ 44,659</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 57,831</u>	<u>\$ 43,360</u>

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

- A. Agency Description – The Neighborhood House Association of Lorain County, Inc. (the "Agency") is a nonprofit social service agency with program operations throughout Lorain County, Ohio. The Agency receives funding support for its programs from a variety of public and private sources.
- B. Reporting – The accompanying financial statements of the Agency have been prepared, in all material respects, as recommended by the American Institute of Certified Public Accountants' (AICPA) Audit and Accounting Guide, Not-for-Profit Organizations. The audit guide includes the requirements of the Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Temporarily restricted net assets result from timing differences between the receipt of funds and the incurrence of the related expenses. The Agency reports receipts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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.

Permanently restricted net assets represent endowment funds which are subject to the restriction of the donors that the principal be invested in perpetuity and only the income be utilized.

The Agency reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Agency records donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

- C. Contributions – The Agency has adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. SFAS No. 116 provides that contributions be recognized as revenue in the period in which the pledge (promise to give) is received. At December 31, 2007 and 2006, all pledges receivable are due within one year.
- D. Investments – The Agency has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. SFAS No. 124 provides that certain investments in equity and debt securities be reported at fair value.
- E. Concentration of Risk – Accounts receivable are primarily due from governmental agencies. The Agency places its temporary cash investments with a high quality financial institution. Deposits with the financial institution, including outstanding checks, occasionally exceed insured limits.

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Property, Plant and Equipment – These assets are stated at cost or fair market value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Maintenance and repairs of property and equipment are charged to expense when incurred and major additions are capitalized.

G. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Donated Facilities – Donated facilities are reflected in the financial statements at the fair market value upon receipt.

I. Tax Status – The Agency is a nonprofit agency exempt from taxes under section 501(c)(3) of the Internal Revenue Code.

J. Comparative Financial Statements – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended December 31, 2006, from which the summarized information was derived.

Note 2. Property, Plant and Equipment

Property, plant and equipment, by location, as of December 31, 2007 and 2006 consisted of the following:

	2006	2007	Useful Life (years)
	<u> </u>	<u> </u>	
Land	85,831	\$ 85,831	
Land improvements	48,595	48,596	20 - 30
Buildings	622,822	622,823	40
Building improvements	860,704	900,982	5 - 40
Equipment	304,342	335,678	5 - 10
Furniture	9,214	9,214	10
Playground equipment	6,760	6,760	10
Kitchen equipment	90,874	158,793	5 - 10
	<u>2,029,142</u>	<u>2,168,676</u>	
Accumulated depreciation	<u>1,259,345</u>	<u>1,353,296</u>	
	<u>\$ 769,797</u>	<u>\$ 815,380</u>	

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Line of Credit

The Organization has a working capital line of credit with a bank with a maximum borrowing of \$100,000 and interest at prime rate (7.25% as of December 31, 2007) plus 2.5%. The line is secured by substantially all assets of the Organization. At December 31, 2007 and 2006, \$100,000 and \$82,000, respectively, had been borrowed against the line of credit. Subsequent to year-end, the line of credit was refinanced with a different bank. The maximum borrowing of the new line of credit is \$150,000 and the interest rate is the Wall Street Journal Prime rate.

Note 4. Long-Term Debt

Long-term debt consisted of the following at December 31, 2007 and 2006:

	<u>Balance</u> <u>December 31,</u> <u>2007</u>	<u>Balance</u> <u>December 31,</u> <u>2006</u>
Note Payable to Ford Motor Credit. The note is payable in monthly installments of \$429 including interest at 12.19%. The note is due October, 2010.	\$ 12,390	\$ -0-
Note Payable to Ford Motor Credit. The note is payable in monthly installments of \$418 including interest at 11.69%. The note is due October, 2011.	15,606	-0-
Note Payable to Ford Motor Credit. The note is payable in monthly installments of \$675 including interest at 0.9%. The note is due February, 2010.	16,730	-0-
Note Payable to Ford Motor Credit. The note is payable in monthly installments of \$675 including interest at 0.9%. The note is due April, 2010.	18,106	18,644
Note payable to Fifth Third Bank. The note is payable in monthly installments of \$521 including interest at 8.0%. The note is due April, 2012. The line is secured by substantially all assets of the Organization.	22,497	-0-
Note payable to Ford Motor Credit. The noted is payable in monthly installments of \$614 including interest at 7.99%. The note is due October 2007.	-0-	5,966

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Long-Term Debt (Continued)

Note payable to North Coast Community Development. The note is payable in monthly installments of \$4,206 including interest at 2% above the FHLB of Cincinnati's 5 year fixed rate and is secured by a mortgage on the Sina K. Evans, Elyria Neighborhood Center and City View buildings. The note is due July, 2025. The bank's base rate at December 31, 2007 was 6.61%. Subsequent to year-end, this note was refinanced with a different bank. The interest rate per the new agreement is 6.5%.

	<u>519,408</u>	<u>534,464</u>
Total Long-Term Debt	604,737	559,074
Less: Current Portion	<u>43,775</u>	<u>24,152</u>
Long-Term Portion	<u>\$ 560,962</u>	<u>\$ 534,922</u>

Principal payments required to be made are as follows:

Year ending December 31,

2008	\$ 43,775
2009	46,302
2010	34,977
2011	29,513
2012	23,634
Years thereafter	<u>426,536</u>
	<u>\$ 604,737</u>

Note 5. Donation of Building

During 1991, the Jeanne Beattie Butts Home (Home) was donated to the Agency. The building was determined to have a fair market value of \$167,100 by the donor who imposed the condition that in the event the building is sold between January 1, 1993 and December 31, 2018, the Agency will be required to pay 43% of the proceeds to the donor. Therefore, the Agency recognized the Home in unrestricted net assets. Subsequent to December 31, 2007, an independent appraisal was performed on the building and the fair market value of the Home was estimated at \$315,000. Management considers the likelihood of a sale of the Home occurring prior to 2018 to be remote and therefore, a liability has not been recorded in accordance with Statements of Financial Accounting Standards No. 5, *Accounting for Contingencies*.

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets balances and amounts released are as follows:

	<u>2006</u>		<u>Net Assets</u>	<u>2007</u>
	<u>Balance</u>	<u>Additions</u>	<u>Released</u>	<u>Balance</u>
Program restrictions:				
Oberlin Senior Center	\$ 91,346		\$ 91,346	\$ -
Haven Center	25,000	\$ 40,000	25,000	40,000
Oberlin Senior Services	3,431		621	2,810
Cultural Awareness	87		-	87
Child Care	432	1,000	1,000	432
Senior Nutrition Program	52,500		52,500	-
Volunteer Coordinator	-	29,000	-	29,000
Time restrictions:				
General Operations	<u>94,360</u>	<u>139,111</u>	<u>163,917</u>	<u>69,554</u>
	<u>\$267,156</u>	<u>\$209,111</u>	<u>\$334,384</u>	<u>\$141,883</u>

Note 7. Permanently Restricted Net Assets

Permanently restricted net assets are invested in perpetuity with income to be used for general operations. The total of the funds are held by the following institutions at December 31, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Community Foundation of Greater Lorain County	\$ 7,461	\$ 6,981
JP Morgan Trust	137,583	137,177
Nordson Corporation Stock	<u>485</u>	<u>485</u>
	<u>\$145,529</u>	<u>\$144,643</u>

The Agency recognizes these funds in accordance with Statements of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*.

The assets held by JP Morgan Trust reflected above are recorded at fair value, which is estimated to approximate the present value of expected future distributions from the trusts. The change in value of the perpetual trusts is recognized as permanently restricted revenue in the Statement of Activities.

The assets held at the Community Foundation of Greater Lorain County reflected above were provided by the Agency to be invested in perpetuity and the Agency named itself as the beneficiary. The funds are recorded at fair value. The change in value of the invested funds is recognized as permanently restricted revenue in the Statement of Activities.

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 7. Permanently Restricted Net Assets (Continued)

The Agency is also a beneficiary of funds directly provided to and held at the Community Foundation of Greater Lorain County. Based on the funding of these accounts, the Agency does not record them on its financial statements. The value of the funds at December 31, 2007 and 2006 were \$522,433 and \$512,291, respectively. Earnings of \$19,899 and \$14,789 were distributed to the Agency during 2007 and 2006, respectively.

Note 8. Lease Commitments

The Agency leases office equipment under noncancelable operating leases. The total amount charged to expense was \$35,567 and \$25,734, respectively during 2007 and 2006.

Future minimum payments on these noncancelable leases are as follows:

2008	\$ 41,892
2009	37,392
2010	37,392
2011	37,392
2012 & thereafter	<u>24,936</u>
	<u>\$ 179,004</u>

Note 9. Contingencies

The Agency operates in an environment subject to extensive federal and state laws, rules and regulations, including payment for services, conduct of operations and facility and professional licensure. Changes in law and regulatory interpretations could reduce the Agency's revenue. The Agency is, from time to time, subject to claims and suits for damages arising in the normal course of business. Management believes that the ultimate resolution of any claims will not have a material adverse effect on the financial position, change in net assets or liquidity of the Agency.

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

OMB CIRCULAR A-133 AUDIT REQUIREMENTS

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through CFDA Number	Grantor's Number	Total Expenditures
<u>MAJOR PROGRAM</u>			
United States Department of Health and Human Services passed through the Lorain County Board of Commissioners:			
Temporary Assistance for Needy Families Help Me Grow Initiative	93.558	N/A N/A	\$ 112,050 <u>128,106</u> 240,156
Parenting Plus Program	93.558	N/A	10,063
United States Department of Health and Human Services passed through the Lorain County Department of Jobs and Family Services and Horizon Activities Center:			
Temporary Assistance for Needy Families Camp Program	93.558	N/A	49,465
Early Learning Initiative	93.558	N/A	317,492
United States Department of Health and Human Services passed through the Lorain County Department of Job and Family Services:			
Temporary Assistance for Needy Families Emergency Shelter	93.558	N/A	<u>97,846</u>
Total Major Programs			715,023
<u>OTHER FEDERAL ASSISTANCE</u>			
Senior Nutrition Services - Cluster: United States Department of Health and Human Services passed through Western Reserve Area Agency on Aging:			
Title III C Nutrition Services	93.045	N/A	424,371
Title III B Supportive Services	93.044		<u>30,485</u> 454,856
U.S. Department of Housing & Urban Development passed through the Ohio Department of Development - Office of Housing and Community Partnerships:			
Emergency Shelter Grants Program	14.231	H-05-735-1	137,300
Emergency Shelter Grants Program		R-03-735-2 N-D-06-735-1	3,725 1,700
U.S. Department of Housing & Urban Development passed through the Ohio Department of Development and the Board of Lorain County Commissioners			
Emergency Shelter Grants Program	14.231	N/A	<u>30,000</u> 172,725
United States Department of Health and Human Services passed through the Lorain County Department of Job and Family Services:			
Social Service Block Grant	93.667	N/A	115,125
U.S. Department of Agriculture passed through Ohio Department of Education:			
Child and Adult Care Food Program	10.558	N/A	53,889
Federal Emergency Management Agency passed through United Way (as a fiscal agent):			
Federal Emergency Management Food and Shelter Program	85.523	16-6790-00	<u>24,480</u>
Total Other Federal Assistance			<u>821,074</u>
Total Expenditures of Federal Awards			<u>\$ 1,536,097</u>

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2007

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Neighborhood House Association of Lorain County, 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.

INDEPENDENT AUDITORS 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

June 3, 2008

The Board of Directors
The Neighborhood House Association of Lorain County, Inc
Lorain, Ohio

We have audited the financial statements of The Neighborhood House Association of Lorain County, Inc.(Organization) as of and for the year ended December 31, 2007, and have issued our report dated June 3, 2008. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Neighborhood House Association of Lorain County, 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 The Neighborhood House Association of Lorain County, 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 statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity'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.



Compliance and other Matters

As part of obtaining reasonable assurance about whether The Neighborhood House Association of Lorain County, 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 or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of The Neighborhood House Association of Lorain County, Inc. in a separate letter dated June 3, 2008.

This report is intended solely for the information and use of the board of directors, management of The Neighborhood House Association of Lorain County, Inc., and the entities that provide the Organization federal financial assistance and is not intended to be and should not be used by anyone other than these specified parties.

Barnes Wendling CPAs, Inc.

INDEPENDENT AUDITORS REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

June 3, 2008

The Board of Directors
The Neighborhood House Association of Lorain County, Inc
Lorain, Ohio

Compliance

We have audited the compliance of The Neighborhood House Association of Lorain County, 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 its major federal program for the year ended December 31, 2007. The Neighborhood House Association of Lorain County, Inc.'s major program is 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 its major federal program is the responsibility of The Neighborhood House Association of Lorain County, Inc.'s management. Our responsibility is to express an opinion on The Neighborhood House Association of Lorain County, Inc. compliance based on our audit.

We conducted our 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 we 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 The Neighborhood House Association of Lorain County, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Neighborhood House Association of Lorain County, Inc.'s compliance with those requirements.

In our opinion, The Neighborhood House Association of Lorain County, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control over Compliance

The management of The Neighborhood House Association of Lorain County, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The Neighborhood House Association of Lorain County, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program 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 results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

The Neighborhood House Association of Lorain County, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit The Neighborhood House Association of Lorain County, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Trustees, management of The Neighborhood House Association of Lorain County, Inc. and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barnes Wendling CPAs, Inc.

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency(s) identified not
considered to be material weaknesses yes none reported
Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes no
Significant deficiency(s) identified not
considered to be material weaknesses yes none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510 (a)? yes no

CFDA Numbers

Name of Federal Program or Cluster

93.558

Temporary Assistance for Needy Families

Dollar threshold used to distinguish
Type A and Type B programs:

\$ 300,000

Auditee qualified as a low risk auditee?

yes no

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended December 31, 2007

Section II - Financial Statement Findings

No matters are reported.

Section III - Federal Award Findings and Questioned Costs

No matters are reported.