

NEIGHBORHOOD HOUSE ASSOCIATION, INC.
FINANCIAL REPORT
YEARS ENDED DECEMBER 31, 2009 AND 2008

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

June 30, 2010

The Board of Directors
Neighborhood House Association, Inc
Elyria, Ohio

We have audited the accompanying statement of financial position of Neighborhood House Association, Inc. (an Ohio non-profit organization) as of December 31, 2009 and the related statements of activities and changes in net assets, 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, 2008 has been derived from the Organization's December 31, 2008 financial statements. We audited the financial statements of Neighborhood House Association, Inc. as of December 31, 2008 with the report dated June 2, 2009, and 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 Neighborhood House Association, Inc. as of December 31, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2010 on our consideration of Neighborhood House Association, 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 financial statements of Neighborhood House Association, 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 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.

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets:		
Cash	\$ 20,673	\$ 33,681
Grants receivable	244,706	314,111
Promises to give	92,398	107,398
Prepaid expenses	<u>2,501</u>	<u>11,316</u>
Total current assets	360,278	466,506
Property and Equipment	2,126,301	2,069,133
Less accumulated depreciation	<u>1,264,923</u>	<u>1,170,026</u>
	861,378	899,107
Investments	102,684	100,451
Beneficial interest in perpetual trust	112,679	101,490
Deposits	<u>1,600</u>	<u>1,600</u>
Total assets	<u>\$ 1,438,619</u>	<u>\$ 1,569,154</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of long-term debt	\$ 43,026	\$ 53,704
Line of credit	175,756	104,770
Accounts payable	262,767	231,835
Accrued expenses	41,264	47,492
Funds in trust	<u>351</u>	<u>44,701</u>
Total current liabilities	523,164	482,502
Long-Term Debt:		
Notes payable	<u>519,232</u>	<u>562,229</u>
Total liabilities	1,042,396	1,044,731
NET ASSETS		
Unrestricted	48,625	124,173
Temporarily restricted	132,235	198,309
Permanently restricted	<u>215,363</u>	<u>201,941</u>
Total net assets	<u>396,223</u>	<u>524,423</u>
Total liabilities and net assets	<u>\$ 1,438,619</u>	<u>\$ 1,569,154</u>

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2009

WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
REVENUES, GAINS AND OTHER SUPPORT					
Government agencies	\$ 2,332,774	\$ -	\$ -	\$ 2,332,774	\$ 2,504,700
United Way	14,249	184,797	-	199,046	196,685
Program fees	34,243	-	-	34,243	50,608
Contributions:					
- cash	86,016	-	-	86,016	73,685
- donated facilities/food	97,371	-	-	97,371	114,930
Foundations	42,750	50,621	-	93,371	168,485
Investment income	28,912	-	13,422	42,334	(15,205)
Legacies & Bequests	11,370	-	-	11,370	261,000
Special events	65,149	-	-	65,149	49,268
Sales	53,904	-	-	53,904	17,007
Other Income	1,528	-	-	1,528	3,326
Net assets released from restrictions	301,492	(301,492)	-	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	3,069,758	(66,074)	13,422	3,017,106	3,424,489
EXPENSES					
Program services:					
Child Care and Developmental Youth Svcs	957,236	-	-	957,236	1,072,317
Help Me Grow	294,433	-	-	294,433	269,320
Cafeteria	97,778	-	-	97,778	36,322
Oberlin Senior Services	191,627	-	-	191,627	195,152
Emergency Service	417,163	-	-	417,163	410,900
Senior Nutrition	770,797	-	-	770,797	920,054
	<u>2,729,034</u>	<u>-</u>	<u>-</u>	<u>2,729,034</u>	<u>2,904,065</u>
Supporting services:					
Management and general	221,551	-	-	221,551	223,433
Fundraising	194,721	-	-	194,721	190,196
TOTAL EXPENSES	3,145,306	-	-	3,145,306	3,317,694
CHANGES IN NET ASSETS	(75,548)	(66,074)	13,422	(128,200)	106,795
NET ASSETS AT BEGINNING OF YEAR	124,173	198,309	201,941	524,423	417,628
NET ASSETS AT END OF YEAR	\$ 48,625	\$ 132,235	\$ 215,363	\$ 396,223	\$ 524,423

NEIGHBORHOOD HOUSE ASSOCIATION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2009
WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2008

	2008 Total	2009 Total	Program Services						Total Program Services	Support Services	
			Child Care Developmental Youth Services		Oberlin Senior Services		Emergency Service	Senior Nutrition		Management and General	Fund Raising
			Help Me Grow	Cafeteria	Help Me Grow	Cafeteria					
Salaries	\$ 1,670,108	\$ 1,604,473	\$ 553,720	\$ 198,336	\$ 41,785	\$ 86,840	\$ 202,805	\$ 300,750	\$ 90,706	\$ 129,531	
Employee benefits	65,062	58,363	25,890	5,822	-	2,666	10,040	8,290	918	4,737	
Payroll taxes	178,407	199,157	70,449	23,460	5,942	10,691	24,948	38,376	10,205	15,086	
Total salaries and related expenses	1,913,577	1,861,993	650,059	227,618	47,727	100,197	237,793	347,416	101,829	149,354	
Professional fees	99,407	94,298	14,988	3,931	856	11,383	7,842	17,950	23,514	13,834	
Supplies	451,154	410,721	117,459	2,120	40,427	2,499	22,418	219,987	2,669	3,142	
Telephone	60,846	64,569	16,690	11,335	112	5,076	13,500	9,456	4,138	4,262	
Postage and shipping	12,627	12,980	386	3,489	-	3,056	735	1,030	1,837	2,447	
Occupancy	160,280	172,012	64,878	10,562	7,165	11,815	52,357	12,586	11,358	1,291	
Rental and maintenance of equipment	63,232	61,233	15,850	8,277	121	9,248	5,961	6,973	10,409	4,394	
Equipment acquisition	20,832	14,767	1,786	127	83	779	9,693	1,451	848	-	
Printing and publications	18,806	11,172	1,116	935	190	659	1,124	848	1,929	4,371	
Mileage/operation travel	116,832	85,179	13,520	12,354	-	18,427	2,280	30,942	4,215	3,441	
Conferences, conventions and meetings	33,492	20,820	3,441	849	-	1,215	1,729	2,938	4,939	5,709	
Specific assistance to individuals	27,756	38,874	-	-	-	2,237	36,637	-	-	-	
Membership dues	3,472	776	12	12	44	37	323	261	78	9	
Interest	42,872	42,763	-	-	-	-	-	-	42,763	-	
Insurance	59,895	53,301	24,474	3,531	-	4,105	5,290	11,264	3,074	1,563	
Miscellaneous	11,278	15,667	1,721	1,188	655	965	1,839	2,945	5,705	649	
Donated facilities	98,309	87,814	-	-	-	-	-	87,814	-	-	
Depreciation and loss on disposal of assets	123,027	96,367	30,856	8,105	398	19,929	17,642	16,956	2,246	255	
Total expenses	\$ 3,317,694	\$ 3,145,306	\$ 957,236	\$ 294,433	\$ 97,778	\$ 191,627	\$ 417,163	\$ 770,797	\$ 221,551	\$ 194,721	

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Change in net assets	\$(128,200)	\$ 106,795
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	96,367	103,543
Loss on disposal of assets	-	19,484
Unrealized (gain) loss on beneficial interest in perpetual trust	(11,189)	43,588
Permanently restricted contributions	-	(100,000)
(Increase) decrease in assets:		
Grants receivable	69,405	3,820
Promises to give	15,000	(23,342)
Prepays and deposits	8,815	4,819
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	24,704	(22,099)
Funds in trust	(44,350)	44,701
	<u>158,752</u>	<u>74,514</u>
Net cash provided by operating activities	30,552	181,309
INVESTING ACTIVITIES		
Purchase of investments	(2,233)	(100,000)
Purchase of property and equipment	(58,639)	(133,067)
Net cash used in investing activities	<u>(60,872)</u>	<u>(233,067)</u>
FINANCING ACTIVITIES		
Permanently restricted contributions	-	100,000
Repayments of long-term debt	(53,674)	(62,491)
Net change in line of credit	70,986	4,770
Net cash provided by financing activities	<u>17,312</u>	<u>42,279</u>
NET DECREASE IN CASH	(13,008)	(9,479)
CASH – BEGINNING OF YEAR	<u>33,681</u>	<u>43,160</u>
CASH – END OF YEAR	<u>\$ 20,673</u>	<u>\$ 33,681</u>

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND 2008

Note 1. Agency Description and Summary of Significant Accounting Policies

- A. Agency Description – Neighborhood House Association, 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 – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. The Agency 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.

Unrestricted net assets represents assets not restricted by donor-imposed stipulations.

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 recognizes contributions as revenue in the period in which the pledge (promise to give) is received. At December 31, 2009 and 2008, promises to give are due within one year.
- D. Investments – The Agency reports all investments in marketable securities with readily determinable fair values and all equity and debt securities at fair value.
- E. Concentration of Risk – Grants receivable are primarily due from governmental agencies. Deposits with the financial institution, including outstanding checks, occasionally exceed federally insured limits.
- F. Property 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. The Organization capitalized all expenditures for property and equipment in excess of \$500. Maintenance and repairs of property and equipment are charged to expense when incurred and major additions are capitalized.

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND 2008

Note 1. Agency Description and Summary of Significant Accounting Policies (Continued)

- 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 certain reported amounts and disclosures. 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. Fair Value of Financial Instruments - The Agency's financial instruments consist of cash and cash equivalents, grants receivable, accounts payable, and debt. The carrying value of cash, grants receivable and accounts payable approximates fair value due to the short-term maturity of these instruments. The carrying value of the debt approximate fair value due to the underlying interest rates approximates market rates.
- J. Fair Value Measurement – Fair value is defined as the price that the Agency would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. Accounting principles generally accepted in the United States of America establishes a three-tier hierarchy to distinguish between (A) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (B) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Agency's financial instruments. The inputs are summarized in the three broad levels listed below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities (for example, exchange quoted prices).

Level 2 – Inputs to the valuation methodology are observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not sufficiently active to qualify as Level 1, other observable inputs, or inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs to the valuation methodology are significant to the fair value measurement and unobservable (for example, supported by little or no market activity).

Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND 2008

Note 1. Agency Description and Summary of Significant Accounting Policies (Continued)

The Organization has determined the fair value of the investments to be within the Level 1 and 2 of the hierarchy as follows:

Description	Level 1	Level 2	Level 3	December 31, 2009 Total
Beneficial interest JP Morgan Chase		\$ 106,999		\$ 106,999
Beneficial interest Community Foundation of Greater Lorain County		5,680		5,680
Certificates of deposit	102,684			102,684
	\$ 102,684	\$ 112,679	-0-	\$ 215,363
Description	Level 1	Level 2	Level 3	December 31, 2008 Total
Beneficial interest JP Morgan Chase		\$ 96,405		\$ 96,405
Beneficial interest Community Foundation of Greater Lorain County		5,085		5,085
Certificates of deposit	100,451			100,451
	\$ 100,451	\$ 101,490	-0-	\$ 201,941

The assets held by JP Morgan Trust reflected above are valued at the fair value of the units held by JP Morgan of which the Agency receives 50% of its annual earnings in perpetuity 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 assets are valued at the fair value of the Foundation's master pooled investments, which the Organization holds .47% of the portfolio.

The investments in certificates of deposit are valued at the fair value of units held by the Agency at year end.

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND 2008

Note 1. Agency Description and Summary of Significant Accounting Policies (Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

- K. 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, 2008, from which the summarized information was derived.
- L. Functional Allocation of Expenses - The cost of providing various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.
- M. Subsequent Events – Subsequent events have been evaluated through June 30, 2010, the date these financial statements were available to be issued.

Note 2. Property and Equipment

Property and equipment as of December 31, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>	<u>Useful Life (years)</u>
Land	\$ 85,831	\$ 85,831	
Land improvements	76,441	64,720	20 – 30
Buildings	622,823	622,823	40
Building and improvements	938,856	913,876	5 – 40
Equipment	223,645	214,930	5 – 10
Furniture	7,752	7,752	10
Playground equipment	6,760	6,760	10
Kitchen equipment	164,193	152,441	5 - 10
	<u>2,126,301</u>	<u>2,069,133</u>	
Accumulated depreciation	<u>1,264,923</u>	<u>1,170,026</u>	
	<u>\$ 861,378</u>	<u>\$ 899,107</u>	

Note 3. Line of Credit

The Organization has a demand line of credit with a bank with a maximum borrowing of \$200,000 and interest at prime rate (3.25% as of December 31, 2009). The line is secured by substantially all assets of the Organization. At December 31, 2009 and 2008, \$175,756 and \$104,770, respectively, had been borrowed against the line of credit.

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND 2008

Note 4. Long-Term Debt

Long-term debt consisted of the following at December 31, 2009 and 2008:

	<u>Due Date</u>	<u>Balance December 31, 2009</u>	<u>Balance December 31, 2008</u>
Note Payable to First Place Bank. The note is payable in monthly installments of \$1,480 including interest at 7.75%. The note is secured by a vehicle.	April 2011	\$ 22,900	\$ 38,201
Note Payable to Ford Motor Credit. The note is payable in monthly installments of \$675 including interest at 0.9%. The note is secured by a vehicle.	February 2010	728	8,740
Note Payable to Ford Motor Credit. The note is payable in monthly installments of \$752 including interest at 7.75%. The note is secured by a vehicle.	May 2012	20,403	28,774
Note Payable to Ford Motor Credit. The note is payable in monthly installments of \$675 including interest at 0.9%. The note is secured by a vehicle.	April 2010	2,078	10,078
Note payable to Fifth Third Bank. The note is payable in monthly installments of \$521 including interest at 8.0%. The note is secured by substantially all assets of the Organization.	April 2012	12,934	17,905
Note payable to First Place Bank. The note is payable in monthly installments of \$3,542 including interest at 6.5% and is secured by a mortgage on the Sina K. Evans, Elyria Neighborhood Center, City View Center and Oberlin Senior Center buildings.	July 2018	503,215	512,235
Total Long-Term Debt		562,258	615,933
Less: Current Portion		43,026	53,704
Long-Term Portion		<u>\$ 519,232</u>	<u>\$ 562,229</u>

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND 2008

Note 4. Long-Term Debt (Continued)

Principal payments required to be made are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2010	\$ 43,026
2011	31,220
2012	16,980
2013	12,207
2014	13,024
Thereafter	<u>445,801</u>
	<u>\$ 562,258</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. 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.

Note 6. Temporarily Restricted Net Assets

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

	<u>2008</u>		<u>Net</u>		<u>2009</u>
	<u>Balance</u>	<u>Additions</u>	<u>Asset</u>	<u>Released</u>	<u>Balance</u>
Program Restrictions:					
Capital Improvements	\$ 13,576	\$ 34,335	\$ 24,362		\$ 23,549
Haven Center	11,065	-0-	11,065		-0-
Oberlin Senior Services	2,239	-0-	2,239		-0-
Cultural Awareness	87	-0-	87		-0-
Child Care	50,957	16,286	50,954		16,288
Strategic Planning	17,988	-0-	17,988		-0-
Volunteer Coordinator	10,000	-0-	10,000		-0-
Time restrictions:					
General Operations	<u>92,397</u>	<u>184,797</u>	<u>184,797</u>		<u>92,398</u>
	<u>\$ 198,309</u>	<u>\$ 235,418</u>	<u>\$ 301,492</u>		<u>\$ 132,235</u>

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND 2008

Note 7. Endowment

The Agency's endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Ohio enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Organization to appropriate for expenditure or accumulate so much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, that assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. The Organization classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve and build corpus to a sufficient level that allows for a diversified investment strategy.

Strategies Employed for Achieving Objectives

To satisfy its investment objective, the Organization relies on a low risk long-term strategy in which investment returns are achieved through current yield (interest) through certificates of deposits.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Agency has a policy of retaining the total return of its endowment until the endowment grows to an undetermined amount at which time, a spending policy will be developed. The spending policy will allow its endowment to grow at an established percent annually that would exceed the funds appropriated for distribution. This is consistent with the Agency's objective to build the endowed corpus held in perpetuity or for a specified term as well as to provide additional real growth through investment return.

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND 2008

Note 7. Endowment (Continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2009 and 2008:

	Permanently Restricted 2009	Permanently Restricted 2008
Donor-restricted endowment funds	<u>\$ 215,363</u>	<u>\$ 201,941</u>

Changes in Endowment Net Assets for the years ended December 31, 2009 and 2008:

	Permanently Restricted 2009		Permanently Restricted 2008
Endowment net assets, January 1, 2009	\$ 201,941	Endowment net assets, January 1, 2008	\$ 145,529
Investment return: Investment income	13,422	Investment return: Investment loss	(43,588)
Contributions	<u>-0-</u>	Contributions	<u>100,000</u>
Endowment net assets, December 31, 2009	<u>\$ 215,363</u>	Endowment net assets, December 31, 2008	<u>\$ 201,941</u>

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, 2009 and 2008 were \$384,802 and \$351,600, respectively. Earnings of \$23,919 and \$23,357 were distributed to the Agency during 2009 and 2008, respectively.

Note 8. Lease Commitments

The Agency leases a building and office equipment under noncancelable operating leases. The total amount charged to expense was \$42,562 and \$60,580, respectively during the years ended December 31, 2009 and 2008.

During 2008, the Organization was notified by their landlord that the building it leases space for its operations was being closed. This action is a violation of the Organization's lease. Although the Organization has retained legal counsel to investigate the matter, resolution to the matter has not been achieved as of the date of this report. No amounts have been recorded in the Organization's financial statements related to this activity.

In February 2010, the Agency began leasing alternative office space under a noncancelable operating lease. The Agency will make monthly payments ranging from \$1,978 - \$2,314 through January 2020. Future payments related to the lease are included in the future minimum lease payments.

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND 2008

Note 8. Lease Commitments (Continued)

Future minimum payments on these noncancelable leases are as follows:

2010	\$ 59,150
2011	61,128
2012	62,008
2013	49,632
2014	25,680
Thereafter	136,698
	<u>\$ 394,296</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, changes in net assets or liquidity of the Agency.

Note 10. Income Tax

The Agency is exempt from Federal income taxes under Section 501(c)(3) and is classified as an organization that is not a "Private Foundation" as defined in Section 509(a) of the Internal Revenue Code.

The Agency is no longer subject to tax examinations for years before 2006 by taxing authorities in jurisdictions where the Agency have filed returns. On January 1, 2009, the Agency adopted the accounting provisions pertaining to uncertain tax positions. The Agency did not identify any material unrecognized tax benefits upon evaluation of tax positions taken and therefore, there was no material effect on the Agency's financial condition or results of operations upon adoption.

The Agency evaluates at each balance sheet date uncertain tax positions taken, if any, to determine the need to record liabilities for taxes, penalties, and interest. The Agency's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2009, the Agency had no accrued taxes, interest or penalties related to uncertain tax positions. The Agency estimates the unrecognized tax benefit will not change significantly within the next twelve months.

Note 11. Supplemental Cash Flow Information

Cash paid for interest was \$42,763 and \$42,872 for December 31, 2009 and 2008, respectively.

During 2008, the Agency acquired \$73,688 of vehicles with loan proceeds. In March 2008, the Agency refinanced \$520,000 of long-term debt.

NEIGHBORHOOD HOUSE ASSOCIATION, INC.
OMB CIRCULAR A-133 AUDIT REQUIREMENTS

THE NEIGHBORHOOD HOUSE ASSOCIATION OF LORAIN COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through CFDA Number	Total Expenditures
<u>MAJOR PROGRAM</u>		
United States Department of Education passed through the Lorain County Board of Commissioners:		
Special Education - Grants for Infants and Families Recovery Act Help Me Grow Initiative - AARA	84.393 (ARRA)	\$ 87,539
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	136,371
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 Early Learning Initiative	93.558	296,884
United States Department of Health and Human Services passed through the Lorain County Department of Jobs and Family Services:		
Temporary Assistance for Needy Families Emergency Shelter	93.558	<u>62,698</u>
		495,953
Total Major Programs		<u>\$ 583,492</u>
<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 IIIC Nutrition Services	93.045	\$ 448,813
Title IIIB Supportive Services	93.044	<u>26,544</u>
		475,357
U.S. Department of Housing & Urban Development passed through the Ohio Department of Development and the City of Elyria		
Community Development Block Grant	14.231	10,000
U.S. Department of Housing & Urban Development passed through the Ohio Department of Development - Office of Housing and Community Partnerships:		
Homeless Assistance Grant Program	14.231	156,297
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	<u>30,000</u>
		196,297
United States Department of Health and Human Services passed through the Lorain County Department of Jobs and Family Services:		
Social Service Block Grant	93.667	55,911
U.S. Department of Agriculture passed through the Ohio Department of Education:		
Child and Adult Care Food Program	10.558	81,125
Federal Emergency Management Agency passed through the United Way (as a fiscal agent):		
Federal Emergency Management Food and Shelter Program	85.523	32,790
Total Other Federal Assistance		<u>841,480</u>
Total Expenditures of Federal Awards		<u>\$ 1,424,972</u>

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2009

NOTE 1. BASIS OF PRESENTATION

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

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 30, 2010

The Board of Directors
Neighborhood House Association, Inc
Elyria, Ohio

We have audited the financial statements of Neighborhood House Association, Inc. (Agency) as of and for the year ended December 31, 2009, and have issued our report dated June 30, 2010. 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 of the financial statements of Neighborhood House Association, Inc. as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Neighborhood House Association, 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 Neighborhood House Association, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.



Compliance and other Matters

As part of obtaining reasonable assurance about whether Neighborhood House Association, 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 an instance of immaterial noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2009-1.

We noted certain matters we reported to management of Neighborhood House Association, Inc. in a separate letter dated June 30, 2010.

This report is intended solely for the information and use of the board of directors, management of Neighborhood House Association, 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 30, 2010

The Board of Directors
Neighborhood House Association, Inc
Elyria, Ohio

Compliance

We have audited the compliance of Neighborhood House Association, 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, 2009. Neighborhood House Association, Inc.'s major federal 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 Neighborhood House Association, Inc.'s management. Our responsibility is to express an opinion on Neighborhood House Association, 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 Neighborhood House Association, 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 Neighborhood House Association, Inc.'s compliance with those requirements.

In our opinion, Neighborhood House Association, 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, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2009-1.

Internal Control over Compliance

The management of Neighborhood House Association, 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 Neighborhood House Association, 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 in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, we do not express an opinion of the effectiveness of Neighborhood House Association, 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.

Our consideration of the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Neighborhood House Association, 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 Neighborhood House Association, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Directors, management of Neighborhood House Association, Inc. and 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.

Barnes Wendling CPAs, Inc.

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes x no
Significant deficiency(s) identified not
considered to be material weaknesses yes x 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)? x yes no

CFDA Numbers

93.558
84.393

Name of Federal Program or Cluster

Temporary Assistance for Needy Families
Special Education – Grants for Infants and
Families Recovery Act

Dollar threshold used to distinguish
Type A and Type B programs: \$ 300,000

Auditee qualified as a low risk auditee? x yes no

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2009

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

Finding Number: 2009-1

Program Name Help Me Grow

CFDA: 93.558

Compliance Area: Allowable Costs

Condition – In 1 of 34 program expenses selected that were charged to the Help Me Grow program, we noted the required support for the expense was not maintained.

Cause and Effect – Paperwork misplaced during office move. Resulting in failure to provide supporting documentation of expenditure.

Questioned Costs - None

Context – The Organization did not have proper documentation to support expenses charges as required by OMB Circular A-122.

Recommendation – To comply with the requirements of OMB Circular A-122 we recommend that all documentation to support the expense charged to the program are maintained with a copy of the check disbursed.

Views of Responsible Officials and Planned Corrective Actions – On a quarterly basis, Neighborhood House Association, Inc., will randomly select expenses from all of its government funded programs and ensure the correct documentation is on file. These quarterly internal audits will be conducted by the CFO or Billing Specialist and reviewed by the Associate Director.

NEIGHBORHOOD HOUSE ASSOCIATION, INC.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2008

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported