
**ABERDEEN NEIGHBORHOOD
HOUSING SERVICES
DBA NEIGHBORWORKS® OF
GRAYS HARBOR COUNTY**
A Washington Not For Profit Organization

Financial Statements
For the Fiscal Year Ended June 30, 2011

Aiken & Sanders, Inc PS

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

November 30, 2011

To the Board of Directors
Aberdeen Neighborhood Housing Services
DBA NeighborWorks® of Grays Harbor County
710 E. Market Street
Aberdeen, WA 98520

We have audited the accompanying statement of financial position of Aberdeen Neighborhood Housing Services (ANHS) as of June 30, 2011; the related statement of activities and changes in net assets; statement of functional expenses; and the statement of cash flows for the fiscal year then ended. These financial statements are the responsibility of ANHS's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from ANHS's 2010 financial statements and, in our report dated November 18, 2010, we expressed an unqualified opinion on those financial 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 Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ANHS as of June 30, 2011, and the changes in its net assets and its cash flows for the fiscal 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 November 30, 2011 on our consideration of ANHS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the ANHS taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
DBA NEIGHBORWORKS® OF GRAYS HARBOR COUNTY**

STATEMENT OF FINANCIAL POSITION

June 30, 2011 (With Comparative Totals for 2010)						2011	2010
<u>ASSETS</u>	Operating	Land, Buildings, & Equipment	<u>Loan Funds</u>			Total	Total
	Fund	Fund	CDBG	NRC	Other		
Cash	\$ 184,505	\$ 8,391	\$ 124,230	\$ -	\$ 85,056	\$ 402,182	\$ 324,587
Cash - restricted	61,465	-	-	524,673	-	586,138	214,340
Grant funds receivable	1,203	15	66,833	-	-	68,051	177,703
Accounts receivable	12,915	2,408	74	-	-	15,397	15,695
Prepaid expenses	17,987	12,269	7,145	-	-	37,401	34,759
Loans to property owners -							
- amortized, net	287,195	39,238	852,880	460,050	458,000	2,097,363	1,863,403
- deferred, net	12,347	-	25,640	-	-	37,987	37,609
Due from other funds	1,003,311	-	4,179	418,478	-	1,425,968	1,512,539
Land, buildings and equipment, net	55,589	216,256	147,303	-	-	419,148	506,294
Other assets	48,124	799,681	978,591	71,728	-	1,898,124	1,513,605
Total assets	\$ 1,684,641	\$ 1,078,258	\$ 2,206,875	\$ 1,474,929	\$ 543,056	\$ 6,987,759	\$ 6,200,534
 <u>LIABILITIES AND NET ASSETS</u>							
LIABILITIES							
Accounts payable	\$ 3,506	\$ 3,176	\$ 2,938	\$ 73	\$ -	\$ 9,693	\$ 10,835
Accrued expenses	13,374	339	98	-	-	13,811	14,754
Custodial funds	32,231	-	-	-	-	32,231	54,016
Construction loans in progress	-	-	70,431	126,589	11,123	208,143	344,586
Deferred revenue	61,465	233	563	456,248	-	518,509	216,022
Due to other funds	90,852	1,225,306	109,810	-	-	1,425,968	1,512,539
Long-term debt	-	110,619	-	-	-	110,619	108,000
Total liabilities	201,428	1,339,673	183,840	582,910	11,123	2,318,974	2,260,752
 NET ASSETS							
Unrestricted	1,483,213	(316,375)	2,023,035	183,898	531,933	3,905,704	3,251,945
Temporarily restricted	-	54,960	-	-	-	54,960	77,752
Permanently restricted	-	-	-	708,121	-	708,121	610,085
Total net assets	1,483,213	(261,415)	2,023,035	892,019	531,933	4,668,785	3,939,782
Total liabilities and net assets	\$ 1,684,641	\$ 1,078,258	\$ 2,206,875	\$ 1,474,929	\$ 543,056	\$ 6,987,759	\$ 6,200,534

The accompanying notes are an integral part of these financial statements.

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
DBA NEIGHBORWORKS® OF GRAYS HARBOR COUNTY**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Fiscal Year Ended June 30, 2011 (With Comparative Totals for 2010)				2011	2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<u>SUPPORT AND REVENUE</u>					
Grants	\$ 943,282	\$ -	\$ -	\$ 943,282	\$ 702,150
Grant-Neighborhood Reinvestment Expendable	11,550	-	-	11,550	16,750
Grant-Neighborhood Reinvestment Housing Counseling	7,008	-	-	7,008	11,087
Grant-Neighborhood Reinvestment Community Building	107,861	-	-	107,861	69,043
Grant-Neighborhood Reinvestment CFRAH	-	-	77,736	77,736	-
Grant-Neighborhood Reinvestment Home Equity Conversion Mortgages Counseling	-	-	-	-	313
Grant-Neighborhood Reinvestment Fundraising	-	-	-	-	1,735
Grant-Neighborhood Reinvestment Capital	-	-	18,766	18,766	38,265
Contributions	12,500	-	-	12,500	19,100
Inkind	599	-	-	599	34,780
Interest income and late charges	89,055	-	-	89,055	84,755
Loan and application fees	53,200	-	-	53,200	40,363
Outside service fees	6,150	-	-	6,150	18,203
Management fees	6,803	-	-	6,803	5,935
Miscellaneous income	16,371	-	-	16,371	21,868
Rental income	177,368	-	-	177,368	188,093
Net assets released from restrictions:					
Satisfaction of time restrictions	22,792	(22,792)	-	-	-
Total support and revenue	1,454,539	(22,792)	96,502	1,528,249	1,252,440
<u>EXPENSES</u>					
Program services:					
Operating	225,957	-	-	225,957	199,822
Land, buildings & equipment	111,247	-	-	111,247	103,100
CDBG	249,734	-	-	249,734	87,919
NRC	43,227	-	-	43,227	19,598
Other loan fund	14,184	-	-	14,184	12,185
Total program services	644,349	-	-	644,349	422,624
Management & general	75,398	-	-	75,398	68,697
Total expenses	719,747	-	-	719,747	491,321
CHANGE IN NET ASSETS BEFORE OTHER REVENUE & EXPENSES	734,792	(22,792)	96,502	808,502	761,119
<u>OTHER REVENUE & EXPENSES</u>					
Depreciation	(93,781)	-	-	(93,781)	(96,467)
Gain (Loss) on sale of property & equipment	14,282	-	-	14,282	-
Total other revenue & expenses	(79,499)	-	-	(79,499)	(96,467)
CHANGE IN NET ASSETS	655,293	(22,792)	96,502	729,003	664,652
NET ASSETS, beginning of year	3,250,411	77,752	611,619	3,939,782	3,275,130
NET ASSETS, end of year	\$ 3,905,704	\$ 54,960	\$ 708,121	\$ 4,668,785	\$ 3,939,782

The accompanying notes are an integral part of these financial statements.

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
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STATEMENT OF CASH FLOWS

Fiscal year ended June 30, 2011 (With Comparative Totals for 2010)	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 729,003	\$ 664,652
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	93,781	96,467
Present value of future obligation	2,620	2,388
Donated property	-	(34,780)
Loss (Gain) on sale of property & equipment	(14,282)	-
(Increase) decrease in--		
Grant funds receivable	109,652	(171,778)
Accounts receivable	298	(52)
Prepaid expenses	(2,642)	(1,716)
Loans to property owners:		
--amortized	(233,960)	(395,678)
--deferred	(378)	(11,352)
Other assets	(384,519)	(630,954)
Increase (decrease) in--		
Accounts payable	(1,142)	929
Accrued expenses	(943)	(78)
Custodial funds	(21,784)	(108,378)
Construction loans in progress	(136,442)	254,440
Deferred revenue	302,487	142,119
Net cash provided (used) by operating activities	<u>441,749</u>	<u>(193,771)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(141,595)	(7,561)
Proceeds from sale of property	149,239	-
Net cash provided (used) by investing activities	<u>7,644</u>	<u>(7,561)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash used by financing activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	449,393	(201,332)
Cash, at beginning of year	<u>538,927</u>	<u>740,259</u>
Cash, at end of year	<u>\$ 988,320</u>	<u>\$ 538,927</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash includes cash on hand and cash on deposit in financial institutions.		
Cash paid during the year for interest	\$ <u>-</u>	\$ <u>-</u>

The accompanying notes are an integral part of these financial statements.

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
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STATEMENT OF FUNCTIONAL EXPENSES

Fiscal Year Ended June 30, 2011 (With Comparative Totals for 2010)						2011			2010
	Operating Fund	Land, Buildings, & Equipment Fund	Loan Funds			Total Program Services	Management & General	Total	Total
			CDBG	NRC	Other				
Salaries	\$ 140,833	\$ 26,804	\$ 32,863	\$ 4,931	\$ 10,170	\$ 215,601	\$ 30,773	\$ 246,374	\$ 231,402
Payroll taxes	16,129	3,234	3,829	513	851	24,556	2,534	27,090	22,925
Employee benefits	38,893	6,581	6,274	1,856	1,961	55,564	6,685	62,249	58,965
Advertising	-	79	232	-	-	311	-	311	267
Supplies and postage	4,602	464	503	563	58	6,191	433	6,624	4,416
Insurance and property taxes	998	18,861	15,618	916	166	36,560	7,915	44,475	38,912
Repairs and maint.	6,170	11,649	4,590	803	310	23,523	1,708	25,231	22,931
Conferences, conventions, meetings	3,452	-	-	-	-	3,452	1,909	5,361	1,313
Utilities and telephone	5,404	26,688	11,810	722	266	44,891	1,314	46,205	46,270
Professional Expenses	960	-	1,364	1,131	347	3,802	12,402	16,204	14,561
Miscellaneous	5,838	2,206	1,198	1,797	55	11,095	-	11,095	11,854
Marketing	-	-	-	-	-	-	9,725	9,725	10,202
Dues & subscriptions	1,121	-	-	235	-	1,356	-	1,356	1,593
Bad Debts	-	5,391	-	29,760	-	35,151	-	35,151	6,365
Grants to Individuals/Others	-	-	171,443	-	-	171,443	-	171,443	4,214
Interest and loan									
Processing expense	1,556	9,290	10	-	-	10,856	-	10,856	15,131
Total expenses before depreciation	225,957	\$ 111,247	\$ 249,734	\$ 43,227	\$ 14,184	\$ 644,349	\$ 75,398	\$ 719,747	\$ 491,321
Depreciation	3,281	59,729	25,417	-	-	88,427	5,354	93,781	96,467
Total expenses	\$ 229,237	\$ 170,976	\$ 275,151	\$ 43,227	\$ 14,184	\$ 732,776	\$ 80,752	\$ 813,528	\$ 587,788

The accompanying notes are an integral part of these financial statements.

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
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NOTES TO FINANCIAL STATEMENTS

June 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization, purpose and principal program--

The Aberdeen Neighborhood Housing Services (ANHS) was incorporated in the State of Washington as a nonprofit corporation on November 17, 1981. During the fiscal year ended June 30, 2003, ANHS entered into a trademark license agreement to use NeighborWorks® of Grays Harbor County as a trade name. The purpose of ANHS is to stimulate revitalization in Grays Harbor County for the benefit of the residents by promoting reinvestment, restoring confidence and emphasizing pride through the efforts of neighborhood residents acting in concert with financial institutions, local government, and the business community.

ANHS has received funds from Neighborhood Reinvestment Corporation, Washington State Housing Trust Fund, Grays Harbor County, Department of Commerce, Community Development Block Grant, and contributions from private foundations and individuals. These funds are used to provide safe, decent housing that is affordable to low and moderate income persons in Grays Harbor County. The Neighborhood Reinvestment Corporation Loan Fund represents funds provided by Neighborhood Reinvestment Corporation for making loans and for capital projects. All resources granted to this fund must be maintained permanently. The ANHS is permitted to transfer or expend the income (or other economic benefits) derived from capital assets in excess of the relevant Capital Fund Agreement.

ANHS receives a substantial amount of its annual support in the form of government grants. In the event one or more of the government programs from which the grants are received were to end or experience significant budget cuts, ANHS could experience a significant loss of support.

Fund accounting--

The financial statements are prepared on the accrual basis, utilizing the principles of fund accounting for the statement of financial position. The funding categories consist of the operating fund; the land, buildings and equipment fund; and the loan funds. The loan funds include Community Development Block Grant (CDBG) loans, Neighborhood Reinvestment Corporation (NRC) loans, and other loans by various granting agencies. Separate accounts are maintained for each fund.

Loans to property owners--

The loans are valued at face value net of an allowance for doubtful accounts or reserve for debt forgiven. The Board of Directors established a policy whereby amortized loans are reviewed for current status of payments. The provision for bad debts is based on the estimate of loan losses occurring due to default on amortized loans. A provision for bad debts has also been established for zero percent deferred loans equal to the excess of the sum of Aberdeen Neighborhood Housing Services liens and any prior liens over the assessed value of the property. The assessed values approximate fair market value. Bad debt expense for the fiscal years ended June 30, 2011 and 2010, was \$29,760 and \$0, respectively.

Interest rates for amortized loans range from one percent to eight percent. The amortized loans are amortized in accordance with the loan terms. The ceiling rate is dictated by each individual contract or individual risk. Deferred loans are established at a zero percent interest rate.

Land, buildings and equipment--

Land, buildings and equipment are recorded at cost. Equipment, material, and labor donated to ANHS are capitalized at their estimated fair market value. ANHS's policy is to expense the acquisition cost of

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
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NOTES TO FINANCIAL STATEMENTS

June 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.):

equipment in the year of purchase for items of equipment costing less than \$2,000. Depreciation is provided on the straight-line method. A five-year life is used for both purchased and donated equipment. A twenty-five to forty year life is used for buildings and improvements. Maintenance and repairs are charged to expense as incurred; major renewals and improvements are capitalized. When items of equipment are sold or are otherwise disposed of, the appropriate cost and related accumulated depreciation amounts are removed from the accounts and any gain or loss is included in income.

Employee benefits--

ANHS has a cafeteria plan (Section 125) for all employees, as well as a simplified employee pension plan (SEP). The employer discretionary contribution for the fiscal years ended June 30, 2011 and 2010, was 4% of gross wages to all eligible employees. For the fiscal years ended June 30, 2011 and 2010, pension expense was \$9,724 and \$8,479, respectively. Vacation pay is accrued over the year from the date of hire at the rate of 5/6 day per month for the first year of employment and at the rate of 1-1/4 days per month after one year. Annual leave is cumulative up to 80 hours.

Deferred revenues--

Funds received from grantors for particular purposes are deemed to be earned and are reported as revenues when ANHS has incurred expenditures in compliance with contract requirements. Such amounts received but not yet earned are reported as deferred revenues.

Due from/due to other funds--

The due from other funds and due to other funds accounts consist solely of accounts receivable and accounts payable between ANHS funds.

Income tax--

ANHS is a tax exempt non-profit organization under the Internal Revenue Code Section 501(c)(3) and is not classified as a private foundation. Accordingly, the financial statements do not include any provision for taxes.

Estimates--

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

Advertising--

ANHS's policy is to expense advertising costs as they are incurred.

Accounts receivable--

Accounts receivable, as of June 30, 2011 and 2010, includes \$12,048 from the Lincoln Commons Limited Partnership. See Note E. The balance of accounts receivable is from rental tenants and contracted service fees. ANHS uses the direct write-off method, which is not in accordance with generally accepted accounting principles. When an amount becomes uncollectible, it is charged to expense in the year it is deemed to be uncollectible. During the fiscal years ended June 30, 2011 and 2010, there were bad debts of \$5,391 and \$6,365, respectively. As of June 30, 2011, management estimated that all accounts receivable were collectible.

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
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NOTES TO FINANCIAL STATEMENTS

June 30, 2011

B. FIDELITY BOND COVERAGE:

ANHS has fidelity bond coverage of \$250,000 during the fiscal years ended June 30, 2011 and 2010. Management believes this coverage is adequate for any losses that might occur.

C. LONG-TERM DEBT:

Long term debt consists of the following:

	<u>2011</u>	<u>2010</u>
Housing Trust Fund, Sunrise Court Project	\$ 257,796	\$ 257,796
Less adjustment to present value	<u>(228,907)</u>	<u>(231,526)</u>
Housing Trust Fund, at present value	28,889	26,270
Housing Trust Fund, HAP Program	<u>81,730</u>	<u>81,730</u>
	<u>\$ 110,619</u>	<u>\$ 108,000</u>

1. Note payable to Housing Trust Fund of the State of Washington, Department of Community Development annual payments of \$12,890 are due beginning April 30, 2025. The note bears no interest, and is collateralized by the Sunrise Court Project. The note reflects the present value of the future annual payment obligations, based on an imputed interest rate of 10%.

2. Note payable of \$168,532 to the Housing Trust Fund (HTF) of Washington State Department of Commerce. Annual payments of \$7,653 are due beginning July 1, 1999. The note bears 1% interest and is collateralized by a Deed of Trust executed on 7 pieces of property purchased with these funds. The imputed interest rate of 8% is used to calculate the interest expense and contribution revenue for each fiscal year. During the fiscal year ended June 30, 2009, several properties were sold and the corresponding loan amount of \$13,575 was forgiven. The monies will be used for the revolving loan fund. ANHS understands that loans related to 4 other properties will be forgiven as those properties are sold. The 6th property is held by lease with another nonprofit organization to be used for transitional housing.

ANHS is not currently required to make payments on the balance of the existing loan.

D. INTERFUND TRANSFERS AND NET ASSETS:

Funds were transferred from the Neighborhood Reinvestment Corporation (NRC) Fund to the Land, Buildings and Equipment Fund for Sunrise Court and College Projects, to the Other loan fund for the 703 E. 1st property, to the CDBG Fund for a Rehab Project and Neighborhood Stabilization Projects (NSP), and to the Housing Assistance Program Fund for the HAP Projects. Inter-fund transfers also include interest earned on loans maintained in the Housing Assistance Program Fund. These funds are maintaining the fixed assets purchased and loans with NRC Capital Grant Funds as detailed below:

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NOTES TO FINANCIAL STATEMENTS

June 30, 2011

D. INTERFUND TRANSFERS AND NET ASSETS (Cont.):

<u>Project</u>	<u>June 30, 2011</u> <u>Amount</u>	<u>June 30, 2010</u> <u>Amount</u>	<u>Assets Maintained In</u>
Sunrise Court Capital	\$ 151,539	\$ 151,690	Land, buildings & equip. fund
703 E. 1st Capital	45,400	45,400	Other loan fund
HAP Capital	312	104	Housing assist. Program fund
HAP Capital	20,883	20,883	Housing assist. Program fund
Rehab Project	2,631	39,756	CDBG
NSP Aberdeen	38,972	51,704	CDBG
NSP Hoquiam	18,628	68,984	CDBG
College Projects	<u>140,113</u>	<u>140,113</u>	Land, buildings, & equip. fund
	<u>\$ 418,478</u>	<u>\$ 518,634</u>	

In order to comply with the grant restriction of separate accountability, a permanent inter-fund receivable and payable between NRC, Housing Assistance Program Fund, Other loan fund, and Land, Building and Equipment Fund exists for the above amount with the exception of the College Projects and NSP Projects transfers which will be repaid when houses are sold. The Land, Building, and Equipment Fund category in the financial statements includes the Housing Assistance Program Fund and College Projects.

E. LINCOLN COMMONS LIMITED PARTNERSHIP:

ANHS is a 5% general partner in the Lincoln Commons Limited Partnership. ANHS's equity balance in the Partnership as of June 30, 2011 and 2010 is \$0. Consequently, no amount is reflected in the statement of financial position. The purpose of the Partnership is to develop and own a low income housing tax credit project in Hoquiam, Washington.

The units are rented to low income people.

F. RECOGNITION OF CONTRIBUTION REVENUE:

ANHS reports gifts of cash and other assets as restricted support if they are received with donor stipulations limiting the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

ANHS 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 having explicit restrictions specifying how the assets are to be used, and gifts of cash or other assets to be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, ANHS reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

If the restrictions on a contribution are met in the same year that the contribution is received, it is ANHS' policy to record the contribution as unrestricted on the statement of activities and changes in net assets.

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
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NOTES TO FINANCIAL STATEMENTS

June 30, 2011

G. RELATED PARTY TRANSACTIONS:

During the fiscal year ended June 30, 1996, ANHS formed Oakview Association, a not-for-profit corporation. The Oakview Association was formed to provide elderly or disabled persons with housing facilities and services specifically designated to meet their physical, social and psychological needs, and to promote their health, security, happiness and usefulness in longer living. ANHS provides bookkeeping, management services, and maintenance services for Oakview Association. The cost of these services for the fiscal years ended June 30, 2011 and 2010, was \$7,503 and \$7,182, respectively.

H. CUSTODIAL FUNDS:

ANHS provides services to help individuals obtain loans for remodeling or purchasing a home. ANHS also performs the bid process, inspections and construction oversight on real estate owned by the individuals. Custodial funds were \$32,231 and \$54,016 for the fiscal years ended June 30, 2011 and 2010, respectively.

For construction projects, ANHS deposits the individual's money into ANHS' bank account and sets up a holding account until the construction is completed. The individuals have a contract directly with the contractor. The contractor then provides the bills to ANHS and, after owner approval, ANHS pays the bills.

When the construction or purchase is completed, the individual makes monthly loan payments to ANHS. ANHS then remits the payment to the lender.

I. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets of \$708,121 represents the balance in the Neighborhood Reinvestment Loan Fund. This amount is restricted to investments in perpetuity, the income of which is expendable (unrestricted) to support the operations of ANHS.

The permanently restricted net assets for the fiscal year ended June 30, 2011, is comprised of the following:

Funding from Neighborhood Reinvestment Corporation	\$1,164,369
Less deferred revenue	<u>456,248</u>
	<u>\$708,121</u>

J. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets of \$10,143 is comprised of the land and buildings purchased through the Housing Trust Fund, less the accumulated depreciation and loan payable balances. The property is temporarily restricted in serving low income households at fifty percent of median income or less for thirty years beginning July 1, 1993.

Temporarily restricted net assets of \$44,817 is comprised of amounts expended for property less the amount of accumulated depreciation taken on those assets. The property is to be used for low income housing rental in perpetuity throughout its useful life.

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
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NOTES TO FINANCIAL STATEMENTS

June 30, 2011

K. OTHER LOAN FUNDS:

The "Other" Loan Fund category in the financial statements is made up of the following:

- Northwest Area Foundation Fund
- CACH Revolving Loan Fund
- Board Designated Revolving Loan Fund

L. CONSTRUCTION LOANS IN PROCESS:

When a construction loan is approved by ANHS, a loan receivable and a loan in process is recorded in the financial records for the full amount of the loan. As the payments are made to the contractor, the loan in process account is reduced by the payments. The loan in process account is the unexpended portion of the loan. As of June 30, 2011 and 2010, there were 42 and 45 loans in process accounts, respectively. The client makes payments on the loan during this period.

M. SUBSEQUENT EVENTS:

ANHS did not have any subsequent events through November 30, 2011, which is the date the financial statements were available to be issued based on clients facts and circumstances for events requiring recording or disclosure in the financial statements for the year ended June 30, 2011.

N. UNCERTAIN TAX POSITIONS:

ANHS files income tax returns in the U.S. federal jurisdiction. ANHS is no longer subject to U.S. federal income tax examinations by tax authorities for years before June 30, 2008. Currently, there is no examination or pending examination with the Internal Revenue Service (IRS).

ANHS adopted the provisions of FASB ASC 740, Accounting for Uncertainty in Income Taxes, on July 1, 2009. As of June 30, 2011, there are no tax positions for which the deductibility is certain but for which there is uncertainty regarding the timing of such deductibility.

O. SCHEDULE OF FEDERAL AWARDS:

The accompanying schedule of federal awards includes the federal grant activity of ANHS 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 Government, 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.

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
DBA NEIGHBORWORKS® OF GRAYS HARBOR COUNTY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

P. LAND, BUILDINGS AND EQUIPMENT:

Balances of land, buildings and equipment by fund as of June 30, 2011, are as follows:

	6/30/11			
	CDBG & Land, Buildings, and Equipment Fund	Operating Fund	2011 Total	2010 Comparative Totals
Administrative Buildings:				
Land	\$ -	\$ 12,955	\$ 12,955	\$ 12,955
Buildings and improvements	-	142,922	142,922	146,322
Furniture and equipment	-	33,551	33,551	40,530
Total administrative property	-	189,428	189,428	199,807
Less depreciation	-	(139,575)	(139,575)	(144,920)
Net administrative property	-	49,853	49,853	54,887
Rental Houses:				
Land	50,114	-	50,114	50,114
Buildings	902,888	-	902,888	902,888
Furniture and equipment	7,777	-	7,777	7,777
Improvements	114,375	-	114,375	110,194
Total rental houses	1,075,154	-	1,075,154	1,070,973
Less depreciation	(782,283)	-	(782,283)	(733,663)
Net rental houses	292,871	-	292,871	337,310
Sunrise Court:				
Land	28,795	-	28,795	28,795
Buildings	635,525	-	635,525	635,525
Furniture and equipment	19,631	-	19,631	19,631
Improvements	88,796	-	88,796	88,796
Total Sunrise Court	772,747	-	772,747	772,747
Less depreciation	(702,239)	-	(702,239)	(665,929)
Net Sunrise Court	70,508	-	70,508	106,818
Furniture and equipment	1,080	142,284	143,364	143,364
Less depreciation	(900)	(136,548)	(137,448)	(136,085)
Net furniture and equipment	180	5,736	5,916	7,279
Net land, buildings and equipment	\$ 363,559	\$ 55,589	\$ 419,148	\$ 506,294

Q. OTHER ASSETS:

Other assets include land and buildings acquired for the college projects. These projects as of June 30, 2011 or 2010, were \$847,735 and \$907,832, respectively. Other assets also include land that ANHS is planning to build houses on and sell. This project as of June 30, 2011 and 2010, were \$71,728 and \$70,616, respectively. Other assets also include foreclosed properties that were purchased and will be rehabbed to sell to low, moderate and middle income households. These properties as of June 30, 2011, were \$978,591.

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
DBA NEIGHBORWORKS® OF GRAYS HARBOR COUNTY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

R. LOANS TO PROPERTY OWNERS:

Net loan receivable balances of June 30, 2011, are calculated as follows:

	2011						
	Loan Funds			Operating Fund	Land, Buildings, and Equipment Fund	Total	2010 Comparative Totals
	CDBG	NRC	Other				
Loans to property owners:							
Amortized loans (ranging from 1 to 8 percent interest)	\$ 852,880	\$ 460,050	\$ 459,905	\$ 354,946	\$ 39,238	\$ 2,167,019	\$ 1,933,059
Less allowance for doubtful accounts	-	-	(1,905)	(67,751)	-	(69,656)	(69,656)
Amortized loans - net	<u>\$ 852,880</u>	<u>\$ 460,050</u>	<u>\$ 458,000</u>	<u>\$ 287,195</u>	<u>\$ 39,238</u>	<u>\$ 2,097,363</u>	<u>\$ 1,863,403</u>
Deferred loans	\$ 25,640	\$ -	\$ -	\$ 12,347	\$ -	\$ 37,987	\$ 37,609
Less reserve for debt forgiven	-	-	-	-	-	-	-
Deferred loans - net	<u>\$ 25,640</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,347</u>	<u>\$ -</u>	<u>\$ 37,987</u>	<u>\$ 37,609</u>

S. DONATED EQUIPMENT AND MATERIALS:

During the fiscal years ended June 30, 2011 and 2010, ANHS received donated supplies. The value of donated supplies is reflected in the financial statements on the statement of activities for the fiscal years ended June 30, 2011 and 2010, at an estimated fair value of \$599 and \$1,230, respectively. During the fiscal year end June 30, 2010, ANHS received donated property at an estimated fair value of \$33,550. The property was capitalized as an asset on the statement of financial position and recorded as inkind revenue on the statement of activities.

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
DBA NEIGHBORWORKS® OF GRAYS HARBOR COUNTY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2011

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>Department of Housing & Urban Development</u>			
Passed Through City of Aberdeen:			
Community Development Block Grant	14.228	08-64008-014	\$ 300,999
Community Development Block Grant	14.228	08-56401001	332,819
Passed Through City of Hoquiam:			
Community Development Block Grant	14.228	08-F6401-006	298,012
Passed Through Neighborhood Reinvestment Corporation:			
Comprehensive Housing Counseling	14.169	None	7,008
Passed Through Washington State Housing Finance Commission:			
Neighborhood Initiative	14.251	B-08-NI-WA-0036	9,800
			<u>948,638</u>
<u>Department of Treasury</u>			
Passed Through Washington State Housing Finance Commission:			
National Foreclosure Mitigation Counseling	21.000	None	11,550
Passed Through Neighborhood Reinvestment Corporation:			
Capital Grant	21.000	None	18,766
Capital Grant	21.000	None	77,736
Community Building	21.000	None	87,899
Community Building	21.000	None	19,962
			<u>215,913</u>
Total Federal Awards			\$ <u><u>1,164,551</u></u>

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
DBA NEIGHBORWORKS® OF GRAYS HARBOR COUNTY**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2011

No prior year findings.

**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***

November 30, 2011

To the Board of Directors
Aberdeen Neighborhood Housing Services
DBA NeighborWorks® of Grays Harbor County
710 E. Market Street
Aberdeen, WA 98520

We have audited the financial statements of Aberdeen Neighborhood Housing Services (ANHS) as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits 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 ANHS'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 ANHS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ANHS's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. 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 ANHS'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*.

This report is intended for the information of the Board of Directors, management, 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.



Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

November 30, 2011

To the Board of Directors
Aberdeen Neighborhood Housing Services
DBA NeighborWorks® of Grays Harbor County
710 E. Market Street
Aberdeen, WA 98520

Compliance

We have audited the Aberdeen Neighborhood Housing Services's (ANHS) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the ANHS's major federal programs for the fiscal year ended June 30, 2011. The ANHS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the ANHS's management. Our responsibility is to express an opinion on the ANHS's 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 ANHS'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 of the ANHS's compliance with those requirements.

In our opinion, the ANHS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

The management of the ANHS 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 ANHS'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 and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the ANHS'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 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.

This report is intended for the information of the Board of Directors, management, 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.



Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

**ABERDEEN NEIGHBORHOOD HOUSING SERVICES
DBA NEIGHBORWORKS® OF GRAYS HARBOR COUNTY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified: No

Significant deficiencies identified not considered to be material weaknesses: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

Material weaknesses identified: No

Significant deficiencies identified not considered to be material weaknesses: No

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): No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
14.228	Community Development Block Grant

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

Auditee qualified as low-risk auditee: No

Section II – Financial Statement Findings: None

Section III – Federal Award Findings and Question Costs: None