

**NATIONAL CENTER FOR HEALTHY HOUSING, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

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Independents Auditors' Report

The Board of Directors of the
National Center for Healthy Housing, Inc.
and Subsidiary

We have audited the accompanying consolidated statements of financial position of National Center for Healthy Housing, Inc. (a non-profit organization) and Subsidiary as of September 30, 2011 and 2010, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Center For Healthy Housing, Inc. and Subsidiary, as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2012 on our consideration of National Center for Healthy Housing, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 audits.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated basic financial statements as a whole.

The accompanying supplemental statements of financial position by entity, supplemental statements of activities by entity, and supplemental schedules of grant and contract revenue - National Center For Healthy Housing, Inc., for the years ended September 30, 2011 and 2010 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The consolidated supplemental information and schedules for the years ended September 30, 2011 and 2010 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated basic financial statements taken as a whole.

Clark and Anderson, P.A.

CLARK AND ANDERSON, P.A.
Certified Public Accountants

Glen Burnie, Maryland

May 14, 2012

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and equivalents	\$ 358,903	\$ 325,183
Grants and other receivables	850,882	683,592
Deferred income taxes	7,130	3,130
Prepaid expenses and other assets	<u>42,053</u>	<u>33,170</u>
Total Current Assets	<u>1,258,968</u>	<u>1,045,075</u>
Fixed Assets		
Office equipment	47,057	32,877
Less: Accumulated depreciation	<u>(27,036)</u>	<u>(22,504)</u>
Net Fixed Assets	<u>20,021</u>	<u>10,373</u>
Investment in Subsidiary	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 1,278,989</u>	<u>\$ 1,055,448</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 115,802	\$ 152,905
Accrued expenses	245,551	61,200
Payroll taxes payable	32,440	6,079
Loan payable	40,149	40,000
Other payables	<u>6,764</u>	<u>5,998</u>
Total Current Liabilities	<u>440,706</u>	<u>266,182</u>
Net Assets and Equity		
Unrestricted	703,148	648,158
Temporarily restricted	<u>135,135</u>	<u>141,108</u>
Total Net Assets and Equity	<u>838,283</u>	<u>789,266</u>
Total Liabilities and Net Assets	<u>\$ 1,278,989</u>	<u>\$ 1,055,448</u>

-See independent auditors' report and accompanying notes-

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contracts	\$ 3,377,602	\$ -	\$ 3,377,602
Contributions	44,692	500,000	544,692
Interest income	1,583	-	1,583
Other revenue	3,814	-	3,814
Net assets released from restriction	505,973	(505,973)	-
Total Revenue and Support	<u>3,933,664</u>	<u>(5,973)</u>	<u>3,927,691</u>
Expenses			
Program	3,765,049	-	3,765,049
General and administrative	111,922	-	111,922
Fundraising	5,847	-	5,847
Total Expenses	<u>3,882,818</u>	<u>-</u>	<u>3,882,818</u>
Change in net assets before provision for income taxes	50,846	(5,973)	44,873
Benefit for income taxes	(4,144)	-	(4,144)
Change in net assets	54,990	(5,973)	49,017
Net assets, beginning of year	<u>648,158</u>	<u>141,108</u>	<u>789,266</u>
Net assets, end of year	<u>\$ 703,148</u>	<u>\$ 135,135</u>	<u>\$ 838,283</u>

-See independent auditors' report and accompanying notes-

2010

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 3,416,365	\$ -	\$ 3,416,365
30,273	160,000	190,273
235	-	235
2,831	-	2,831
<u>252,908</u>	<u>(252,908)</u>	<u>-</u>
<u>3,702,612</u>	<u>(92,908)</u>	<u>3,609,704</u>
3,510,609	-	3,510,609
44,052	-	44,052
<u>6,118</u>	<u>-</u>	<u>6,118</u>
<u>3,560,779</u>	<u>-</u>	<u>3,560,779</u>
141,833	(92,908)	48,925
<u>(5,305)</u>	<u>-</u>	<u>(5,305)</u>
147,138	(92,908)	54,230
<u>501,020</u>	<u>234,016</u>	<u>735,036</u>
<u>\$ 648,158</u>	<u>\$ 141,108</u>	<u>\$ 789,266</u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011			Total
	Program	General and Administrative	Fund Raising	
Salaries and fringe benefits	\$ 1,495,403	\$ 341,074	\$ 3,802	\$ 1,840,279
Bank service fees	-	1,516	-	1,516
Consultants	979,530	101,860	-	1,081,390
Depreciation	-	4,532	-	4,532
Dues and subscriptions	23,624	8,990	-	32,614
Equipment rental and maintenance	-	13,950	-	13,950
Insurance	-	28,020	-	28,020
Interest expense	-	2,077	-	2,077
Licenses and fees	-	-	-	-
Meetings and conferences	36,237	2,525	-	38,762
Miscellaneous	-	1,379	-	1,379
Office supplies	52,559	11,920	-	64,479
Other costs and supplies	276,565	(22,369)	-	254,196
Postage and delivery	3,564	2,639	-	6,203
Printing and reproduction	1,340	4,347	-	5,687
Professional fees	-	127,399	-	127,399
Recruiting	-	990	-	990
Rent	16,279	119,878	-	136,157
Software	3,895	12,053	-	15,948
Storage	-	2,102	-	2,102
Telecommunications	4,011	20,966	-	24,977
Temporary help	1,181	5,526	-	6,707
Training and professional development	-	2,515	-	2,515
Travel	156,545	18,803	-	175,348
Trustee expenses	-	15,591	-	15,591
Indirect cost allocation	<u>714,316</u>	<u>(716,361)</u>	<u>2,045</u>	<u>-</u>
Total Expenses	<u>\$ 3,765,049</u>	<u>\$ 111,922</u>	<u>\$ 5,847</u>	<u>\$ 3,882,318</u>

-See independent auditors' report and accompanying notes-

2010

<u>Program</u>	<u>General and Administrative</u>	<u>Fund Raising</u>	<u>Total</u>
\$ 1,350,983	\$ 357,631	\$ 3,821	\$ 1,712,435
-	1,067	-	1,067
824,606	84,648	-	909,254
-	4,365	-	4,365
2,515	5,181	-	7,696
-	12,209	-	12,209
-	28,593	-	28,593
-	716	-	716
-	308	-	308
16,652	1,651	-	18,303
-	655	-	655
245,846	13,374	-	259,220
93,400	-	-	93,400
11,329	2,989	-	14,318
772	850	-	1,622
-	168,972	-	168,972
-	-	-	-
-	125,331	-	125,331
-	-	-	-
-	1,894	-	1,894
3,256	21,488	-	24,744
8,909	915	-	9,824
-	1,740	-	1,740
141,751	7,248	-	148,999
-	15,114	-	15,114
810,590	(812,887)	2,297	-
<u>\$ 3,510,609</u>	<u>\$ 44,052</u>	<u>\$ 6,118</u>	<u>\$ 3,560,779</u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 49,017	\$ 54,230
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Non-Cash Adjustments		
Depreciation and amortization	4,532	4,365
(Increase)decrease in operating assets		
Grants and other receivables	(167,290)	(6,012)
Deferred income taxes	(4,000)	-
Prepaid expenses and other assets	(8,883)	(82)
Increase(decrease) in operating liabilities		
Accounts payable and accrued expenses	148,014	43,497
Payroll taxes payable	<u>26,361</u>	<u>(14,216)</u>
Net Cash Provided By Operating Activities	<u>47,751</u>	<u>81,782</u>
Cash Flows from Investing Activities		
Net Cash Used In Investing Activities -		
Purchase of fixed assets	<u>(14,180)</u>	<u>(6,454)</u>
Cash Flows from Financing Activities		
Net Cash Provided By Financing Activities -		
Net increase in note payable, short-term	<u>149</u>	<u>40,000</u>
Net Increase In Cash	33,720	115,328
Cash and Equivalents, Beginning of Year	<u>325,183</u>	<u>209,855</u>
Cash and Equivalents, End of Year	<u>\$ 358,903</u>	<u>\$ 325,183</u>
Supplement Disclosure of Cash Flow Information		
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 1,928</u>	<u>\$ 716</u>

-See independent auditors' report and accompanying notes-

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

Note 1 – Description of the Organization

The accompanying consolidated financial statements include the following entities hereinafter referred to as “the Organization”:

National Center for Healthy Housing, Inc.

The National Center for Healthy Housing, Inc. (the Center), formerly known as the National Center for Lead-Safe Housing, Inc., was founded in 1992 to bring the housing, environmental, and public health communities together to combat childhood lead poisoning. The Center is a nonprofit organization committed to developing and promoting practical methods to protect children from environmental health hazards in their homes while preserving affordable housing.

Until April 2007, the Center was a supporting organization of the Alliance for Healthy Homes, a nonprofit organization with similar activities and programs. The relationship was legally terminated.

Healthy Housing Solutions, Inc.

The Center’s wholly-owned Subsidiary, Healthy Housing Solutions, Inc. (Solutions), was incorporated as a Maryland for-profit stock corporation on November 10, 2003. Solutions is engaged in activities similar to that of the Center and was organized to support the Center’s mission through fee-for-service work.

Note 2 – Summary of Significant Accounting Policies

- (a) Basis of Accounting – The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.
- (b) Principles of Consolidation – The consolidated financial statements have been prepared for the Organization as described previously. All significant intercompany transactions have been eliminated.
- (c) Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

Note 2 – Summary of Significant Accounting Policies (Continued)

- (d) Cash and Equivalents – The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.
- (e) Grants and Other Receivables – Grants and other receivables are recorded net of an allowance for uncollectible receivables, based on management's evaluation of outstanding accounts receivable at year end. Grants and other receivables beyond one year are discounted to reflect the present value of the grant or other receivable. The Center has grants and cooperative agreements with U.S. Government agencies, various state agencies, and other private sources. Management anticipates that all grant and other receivables will be collected in full, and therefore, has not established an allowance for doubtful accounts.
- (f) Gifts and Bequests of Property – Gifts and bequests of property are recorded at the earlier of the date received or when the bequest is no longer subject to probate and its value can be reasonably estimated. Gifts and bequests are valued at their estimated fair market value on the date they are recorded.
- (g) Fixed Assets – Furniture and equipment are reported at cost if purchased and, if donated, at the approximate fair market value at the date of donation. Assets are depreciated over the estimated life using the straight line method. It is the policy of the Organization to capitalize equipment costing over \$1,000 and having a useful life of over one year. Depreciation expense for the years ended September 30, 2011 and 2010 amounted to \$4,532 and \$4,365, respectively.
- (h) Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- (i) Donated Services and Materials – Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. During the years ended September 30, 2011 and 2010, the Center did not receive any donated materials or services subject to the recognition criteria.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

Note 2 – Summary of Significant Accounting Policies (Continued)

- (j) Net Assets – the Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted

Unrestricted net assets represent resources over which the Board of Directors has discretionary control and are used to carry out operations of the Center in accordance with the bylaws.

Temporarily Restricted

Temporarily restricted net assets represent grants and contributions, which have been restricted by donors for specific programs or activities. Restrictions, which have been met by the passage of time or expenditure of net assets, are reported as revenues released from restrictions on the statement of activities. Restricted grants and contributions that are received and released in the same reporting period are recognized as unrestricted grants and contributions. For the years ended September 30, 2011 and 2010 the Center received \$500,000 and \$160,000, respectively, in restricted grants and contributions.

Temporarily restricted net assets as of September 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Home Depot Foundation	\$ 7,335	\$ 4,031
Neighborworks	-	10,000
Blue Cross Blue Shield	-	915
WWFF	6,893	17,806
Private Foundation	-	108,356
The Kresge Foundation	<u>120,907</u>	<u>-</u>
Total	<u>\$135,135</u>	<u>\$141,108</u>

Permanently Restricted

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Center's actions. As of September 30, 2011 and 2010, the Center has no permanently restricted net assets.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

Note 3 – Short-Term Bank Borrowings

Solutions has a \$50,000 revolving line of credit with M&T Bank. Borrowings under the line of credit bear interest at the prime rate plus one point five percent (1.5%), (four point seventy-five percent (4.75%) as of September 30, 2011 and 2010). The line of credit is secured by substantially all of Solutions' assets and is guaranteed by the Center. As of September 30, 2011 and 2010 the outstanding borrowings under the line of credit amounted to \$40,149 and \$40,000, respectively. Interest expense amounted to \$2,077 and \$716 for the years ended September 30, 2011 and 2010, respectively.

The Center has a \$100,000 revolving line of credit with M&T Bank. Borrowings under the line of credit bear interest at the prime rate plus one point five percent (1.5%), (four point seventy-five percent (4.75%) as of September 30, 2011 and 2010). There was no balance due under this line of credit as of September 30, 2011 and 2010.

Note 4 – Pension Plan

The Organization has a 401(k) plan that permits voluntary contributions by employees of the Center and its Subsidiary. The plan covers all eligible employees who meet its eligibility requirements. The Plan provides for employer matching contribution of one hundred percent (100%) of elective deferrals up to three percent (3%) of eligible compensation and fifty percent (50%) of elective deferrals from three percent (3%) to five percent (5%) of eligible compensation. In addition, the plan allows discretionary contributions on an annual basis in amounts determined by the Organization's management. For the years ended September 30, 2011 and 2010, the Organization made matching contributions of \$38,195 and \$39,979, respectively and discretionary contributions of \$19,017 and \$17,595, or two percent (2%) of eligible compensation to the Plan.

Note 5 – Income Taxes

National Center for Healthy Housing, Inc.

The Center is recognized by the Internal Revenue Service as a non-profit organization under section 501(c)(3) of the Internal Revenue Code as other than a private foundation. Therefore, contributions to the Center are tax deductible under Section 170 of the Internal Revenue Code.

The Center follows the guidance of the Financial Accounting Standards Board Accounting Standards Codification 740-10, *Accounting for Uncertainty of Income Taxes* which clarifies the accounting for the recognition and measurement of the benefits of individual tax position in the financial statements, including those non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the financial statements.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

Note 5 – Income Taxes (Continued)

The Center analyzes tax positions taken, including those related to the requirements set forth in Internal Revenue Code Section 501(c) to qualify as a tax exempt organization, activities performed by volunteers and board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland statute. The Center does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Center's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after September 30, 2008 remain subject to examination by federal and state authorities.

Healthy Housing Solutions, Inc.

Solutions is taxed as a for-profit corporation under the Internal Revenue Code and applicable state statutes. The income of Solutions is subject to examination by federal and state taxing authorities. In the event of an examination of the income tax returns, the tax liability could be changed if an adjustment of income is ultimately determined by the taxing authorities.

Certain transactions of Solutions may be subject to accounting methods for federal income tax purposes that differ significantly from the accounting methods used in preparing the financial statements in accordance with generally accepted accounting principles. Accordingly, the taxable income of Solutions reported for federal income tax purposes may differ from net income in these financial statements.

On October 1, 2010 Solutions adopted newly issued accounting rules that prescribe when to recognize and how to measure the financial statement effects, if any, of income tax positions taken or expected to be taken on its income tax returns. These new rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, if it were more than fifty percent (50%) probable that a material amount of income tax would be imposed at the entity level upon examination by the relevant taxing authorities, a liability would be recognized in the accompanying balance sheet along with any interest and penalties that would result from that assessment. Should any such penalties and interest be incurred, Solution's policy would be to recognize them as operation expenses.

Based on the results of management's evaluation, adoption of the new rules did not have a material effect on Solution's financial statements. Further, no interest or penalties have been accrued or charged to expense as of September 30, 2011 or the year then ended.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

Note 5 – Income Taxes (Continued)

Solutions income tax returns are subject to examination by taxing authorities for a period of three (3) years from the date they are filed. As of September 30, 2011 the following tax years are subject to examination.

<u>Jurisdiction</u>	<u>Open Years for Filed Tax Returns</u>	<u>Return to be Filed in 2012</u>
Federal	2008 - 2010	2011
Maryland	2008 - 2010	2011

Note 6 – Income Tax Provision

The provision for income taxes for the years ended September 30, 2011 and 2010 relates to the activities of Solutions and consists of federal and state income taxes payable or receivable.

For the years ended September 30, 2011 and 2010 the benefit for income taxes is as follows:

	<u>2011</u>	<u>2010</u>
Federal	\$(2,765)	\$(3,540)
State	<u>(1,379)</u>	<u>(1,765)</u>
Total Benefit	<u>\$(4,144)</u>	<u>\$(5,305)</u>

Note 7 – Concentration of Risk

The Organization receives a substantial portion of its revenue from federal grants and contracts, primarily from the U.S. Department of Health and Human Services and the U.S. Department of Housing and Urban Development. If a significant reduction of this funding occurs, it may have a significant impact on the Organization's programs. For the years ended September 30, 2011 and 2010, direct and indirect federal grants and contracts represented eighty percent (80%) and seventy-seven percent (77%) of the Organization's total revenue and support, respectively. Management does not anticipate any significant reduction in future funding from federal agencies.

The Organization maintains cash balances in a financial institution which is insured by the Federal Deposit Insurance Corporation for amounts up to \$250,000 for the years 2011 and 2010, respectively. The Organization is exposed to concentrations of credit risk at times when cash balances exceed the FDIC limit. The Organization has not experienced any losses and believes they are not exposed to significant risk.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

Note 8 – Leases and Rent Expenses

In November 2006, the Center entered into a lease agreement for office space in Columbia, Maryland. The lease term commenced November 1, 2006 for a period of sixty (60) months, expiring on October 31, 2011. Monthly payments for base rent in 2011 and 2010 under this agreement amounted to \$7,790 and \$7,738, respectively. The lease provides for annual escalation charges and monthly operating expense charges in excess of base-year operating expenses.

In August 2011, the Center entered into a new lease on this property commencing November 1, 2011 for a period of forty-eight (48) months, expiring on October 31, 2015. Initial monthly base rent is \$7,634 for the first twelve months. The lease provides for annual three percent (3%) escalation charges and monthly operating expense charges in excess of the new base-year operating expenses.

Effective June 30, 2009, the Center entered into a month-to-month lease for office space in Washington, DC. The lease is terminable at the will of either party at any time upon thirty (30) days advanced written notice. The lease was terminated on April 30, 2011. Monthly payments on this lease were \$1,300.

In May 2011, the Center entered into a space sharing agreement with another non-profit organization in Washington, DC. The agreement commenced May 1, 2011 for a period of twelve (12) months, expiring on April 30, 2012. Monthly rent payments are \$3,500. Subsequent to year-end, the agreement was amended in April 2012, to extend the term through April 30, 2013 and increase the monthly rent payments to \$3,640 effective May 1, 2012.

Minimum future rental payments under the leases are as follows:

2012	\$134,464
2013	119,629
2014	96,954
2015	99,850
2016	<u>8,341</u>
Total	<u>\$459,238</u>

Lease expenses amounted to \$136,157 and \$125,331 for the years ended September 30, 2011 and 2010, respectively.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

Note 9 – Compliance with Grantor or Donor Restrictions

Financial assistance from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

Note 10 – Merger

On January 15, 2010, the Boards of the Center and The Alliance for Healthy Homes (the Alliance), a 501(c)(3) Organization, voted to pursue a merger of the two Organizations. On February 22, 2011 the merger was finalized. Under the terms of the merger, the Alliance transferred all of its assets, liabilities, property and obligations to the Center.

Note 11 – Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 14, 2012 the date the financial statements were available to be issued.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

SUPPLEMENTAL STATEMENTS OF FINANCIAL POSITION

BY ENTITY (WITH ELIMINATIONS)

SEPTEMBER 30, 2011 AND 2010

	2011			
	National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Combined Totals
ASSETS				
Current Assets				
Cash and equipment	\$ 296,762	\$ 62,141	\$ -	\$ 358,903
Grants and other receivables	631,405	319,289	(99,812)	850,882
Due from subsidiary	-	-	-	-
Deferred income taxes	-	7,130	-	7,130
Prepaid expenses and other assets	42,053	-	-	42,053
Total Current Assets	970,220	388,560	(99,812)	1,258,968
Fixed Assets				
Office equipment	37,360	9,697	-	47,057
Less: Accumulated depreciation	(21,537)	(5,499)	-	(27,036)
Net Fixed Assets	15,823	4,198	-	20,021
Investment in Subsidiary	35,618	-	(35,618)	-
Total Assets	<u>\$ 1,021,661</u>	<u>\$ 392,758</u>	<u>\$ (135,430)</u>	<u>\$ 1,278,989</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 60,771	\$ 154,843	\$ (99,812)	\$ 115,802
Accrued expenses	80,685	164,866	-	245,551
Taxes payable	16,432	16,008	-	32,440
Loan payable	-	40,149	-	40,149
Due to parent	-	-	-	-
Other payables	5,490	1,274	-	6,764
Total Current Liabilities	163,378	377,140	(99,812)	440,706
Net Assets and Equity				
Unrestricted	723,148	-	(20,000)	703,148
Temporarily restricted	135,135	-	-	135,135
Retained earnings	-	15,518	(15,518)	-
Common stock	-	100	(100)	-
Total Net Assets and Equity	858,283	15,618	(35,618)	838,283
Total Liabilities and Net Assets	<u>\$ 1,021,661</u>	<u>\$ 392,758</u>	<u>\$ (135,430)</u>	<u>\$ 1,278,989</u>

-See independent auditors' report and accompanying notes-

2010

National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Combined Totals
\$ 321,914	\$ 3,269	\$ -	\$ 325,183
612,664	121,744	(50,816)	683,592
1,156	-	(1,156)	-
-	3,130	-	3,130
<u>33,170</u>	<u>-</u>	<u>-</u>	<u>33,170</u>
968,904	128,143	(51,972)	1,045,075
25,374	7,503	-	32,877
<u>(17,972)</u>	<u>(4,532)</u>	<u>-</u>	<u>(22,504)</u>
7,402	2,971	-	10,373
<u>4,641</u>	<u>-</u>	<u>(4,641)</u>	<u>-</u>
<u>\$ 980,947</u>	<u>\$ 131,114</u>	<u>\$ (56,613)</u>	<u>\$ 1,055,448</u>
\$ 134,423	\$ 69,298	\$ (50,816)	\$ 152,905
28,546	32,654	-	61,200
2,714	3,365	-	6,079
-	40,000	-	40,000
-	1,156	(1,156)	-
<u>5,998</u>	<u>-</u>	<u>-</u>	<u>5,998</u>
171,681	146,473	(51,972)	266,182
668,158	-	(20,000)	648,158
141,108	-	-	141,108
-	(15,459)	15,459	-
-	100	(100)	-
<u>809,266</u>	<u>(15,359)</u>	<u>(4,641)</u>	<u>789,266</u>
<u>\$ 980,947</u>	<u>\$ 131,114</u>	<u>\$ (56,613)</u>	<u>\$ 1,055,448</u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

SUPPLEMENTAL STATEMENTS OF ACTIVITIES
BY ENTITY (WITH ELIMINATIONS)

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011			Combined Totals
	National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	
Revenue and Support				
Grants and contracts	\$ 2,340,237	\$ 1,308,882	\$ (271,517)	\$ 3,377,602
Contributions	544,692	-	-	544,692
Interest income	1,465	118	-	1,583
Dividend income	-	-	-	-
Other revenue	29,508	-	(25,694)	3,814
Total Revenue and Support	2,915,902	1,309,000	(297,211)	3,927,691
Expenses				
Salaries and fringe benefits	1,380,465	459,814	-	1,840,279
Consultants	887,773	468,343	(274,726)	1,081,390
Professional fees	101,104	48,780	(22,485)	127,399
Rent	108,653	27,504	-	136,157
Interest expense	-	2,077	-	2,077
Others	419,867	275,649	-	695,516
Total Expenses	2,897,862	1,282,167	(297,211)	3,882,818
Change in net assets before equity in earnings of subsidiary and income taxes	18,040	26,833	-	44,873
(Benefit for income taxes)	-	(4,144)	-	(4,144)
Change in net assets before equity in earnings of subsidiary	18,040	30,977	-	49,017
Equity in earnings of subsidiary	30,977	-	(30,977)	-
Change in net assets	49,017	30,977	(30,977)	49,017
Net Assets, Beginning of Year	809,266	(15,359)	(4,641)	789,266
Net Assets, End of Year	\$ 858,283	\$ 15,618	\$ (35,618)	\$ 838,283

-See independent auditors' report and accompanying notes-

2010

National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Combined Totals
\$ 3,076,306	\$ 522,694	\$ (182,635)	\$ 3,416,365
190,273	-	-	190,273
227	8	-	235
-	-	-	-
23,898	630	(21,697)	2,831
<u>3,290,704</u>	<u>523,332</u>	<u>(204,332)</u>	<u>3,609,704</u>
1,375,199	337,236	-	1,712,435
987,078	102,944	(180,768)	909,254
146,743	43,620	(21,391)	168,972
100,503	24,828	-	125,331
-	716	-	716
568,378	77,866	(2,173)	644,071
<u>3,177,901</u>	<u>587,210</u>	<u>(204,332)</u>	<u>3,560,779</u>
112,803	(63,878)	-	48,925
-	(5,305)	-	(5,305)
112,803	(58,573)	-	54,230
(58,573)	-	58,573	-
54,230	(58,573)	58,573	54,230
755,036	43,214	(63,214)	735,036
<u>\$ 809,266</u>	<u>\$ (15,359)</u>	<u>\$ (4,641)</u>	<u>\$ 789,266</u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC.

SUPPLEMENTAL SCHEDULES OF GRANT AND CONTRACT REVENUE

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
US Department of Health and Human Services		
Centers for Disease Control and Prevention		
National Healthy Homes Training Center & Network	\$ 512,884	\$ 250
Conference Support for the Lead Poisoning Prevention Training Center	249,029	109,947
Smoke-Free Multi-unit Housing Policy Study	203,915	-
Green Housing Study	<u>62,009</u>	<u>-</u>
Total US Department of Health and Human Services	<u>1,027,837</u>	<u>110,197</u>
US Department of Housing and Urban Development		
Healthy Homes Demonstration Grants	176,213	288,840
Lead Technical Studies Grants	122,168	368,542
Healthy Homes Technical Studies Task Orders (Fixed Price)	121,708	278,844
Healthy Homes Technical Studies Grants	481,526	288,329
Green and Healthy Homes Technical Studies Program	<u>47,723</u>	<u>79,272</u>
Total US Department of Housing and Urban Development	<u>949,338</u>	<u>1,303,827</u>
Environmental Protection Agency		
Surveys, Studies, Investigations, Demonstrations Relating to the Clear Air Act	-	14,000
National Environmental Education Training Program	73,287	-
Integrated Pest Management in Affordable Housing Initiatives	<u>32,282</u>	<u>30,368</u>
Total Environmental Protection Agency	<u>105,569</u>	<u>44,368</u>
Federal Pass-Through Grants and Contracts		
<i>Department of Agriculture:</i>		
The Pennsylvania State University	41,118	11,828
<i>Department of Health and Human Services:</i>		
National Environmental Health Association	-	628,523
New York University	76,216	89,955
<i>Department of Housing and Urban Development:</i>		
Boston Medical Center	138,203	75,362
King County Housing Authority	48,042	41,101
National Capitol Contractors, LLC	1,702	24,153
SONA Contracting, LLC	-	18,945
University of Illinois at Chicago	240,019	144,931
<i>Environmental Protection Agency:</i>		
Battelle Memorial Institute	-	3,930
<i>Department of Energy:</i>		
Advanced Energy Corporation	876	11,828
Alliance for Sustainable Energy	<u>65,793</u>	<u>105,353</u>
Total Federal Pass-Through Grants and Contracts	<u>611,969</u>	<u>1,155,909</u>
Total Federal Grants and Contracts	<u>2,694,713</u>	<u>2,614,301</u>

-See independent auditors' report and accompanying notes-

NATIONAL CENTER FOR HEALTHY HOUSING, INC.

SUPPLEMENTAL SCHEDULES OF GRANT AND CONTRACT REVENUE

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Non-Federal Grants and Contracts		
City of Cincinnati Health Department	35,110	906
Community & Economic Development Office of Burlington	40,018	-
District of Columbia	1,104	12,482
Greater Rochester Health Foundation	1,488	8,835
Healthy Homes Coalition of West Michigan Foundation	-	7,500
Healthy Homes Training Center - Various Contracts	60,250	22,190
Howard County Housing	2,969	12,042
Indiana State Department of Health	21,302	9,453
Lead Safety for Renovation, Repair & Painting (Training Program)	189,308	389,200
National Association for State Community Services	21,251	-
NeighborWorks America	5,160	-
New Hampshire Department of Health & Human Services	11,788	29,659
New York Department of Health	268,761	263,733
Norfolk Redevelopment & Housing Authority	2,044	19,498
Phoenix Children's Hospital	6,384	15,001
Various Other Contracts	<u>15,952</u>	<u>11,565</u>
Total Non-Federal Grants and Contracts	<u>682,889</u>	<u>802,064</u>
Total Grants and Contracts	<u>\$ 3,377,602</u>	<u>\$ 3,416,365</u>

-See independent auditors' report and accompanying notes-

REPORTS REQUIRED BY CIRCULAR OMB A-133 SINGLE AUDIT

NATIONAL CENTER FOR HEALTHY HOUSING, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Federal CFDA <u>Number</u>	<u>Expenditures</u>
<u>US Department of Health and Human Services</u>		
DIRECT AWARDS:		
Investigations & Tech Assistance Task Orders Under Contract No. 200-2010-37369		
National Healthy Home Training Center & Network	93.283	\$ 512,884
Conference Support for the Lead Poisoning Prevention Training Center	93.283	249,029
Smoke-Free Multi-unit Housing Policy Study	93.283	203,915
Green Housing Study	93.283	62,009
Sub-total - Direct Programs		<u>1,027,837</u>
PASS-THROUGH AWARDS FROM:		
New York University School of Medicine		
ARRA - NIH Recovery Act Research Support	93.701	<u>76,216</u>
Total US Department of Health and Human Services		<u>1,104,053</u>
<u>US Department of Housing and Urban Development</u>		
DIRECT AWARDS:		
Healthy Homes Demonstration Grant	14.902	176,213
Lead Technical Studies Grants	14.902	122,168
Healthy Homes Technical Studies Task Orders Under Contract No. C-PHI-01067:		
Outreach Services to Lead Hazard Reduction Demonstration Grant Applicants	14.905	8,433
Updating Background Papers on Healthy Homes Topics	14.906	58,613
Healthy Homes Guidance Manual	14.906	54,662
Healthy Homes Technical Studies Grants	14.906	153,282
ARRA - Healthy Homes Technical Studies Grants	14.910	328,244
Green & Healthy Homes Technical Studies Program	14.911	<u>47,723</u>
Sub-total - Direct Programs		<u>949,338</u>
PASS-THROUGH AWARDS FROM:		
King County Housing Authority -		
Healthy Homes Demonstration Grants	14.901	48,042
National Capitol Contracting, LLC -		
Healthy Homes Demonstration Grants - Credential Listing	14.901	1,702
Boston Medical Center -		
Healthy Homes Technical Studies Grants	14.902	138,203
University of Illinois at Chicago -		
Healthy Homes Technical Studies Grants	14.906	<u>240,019</u>
Sub-total - Pass-through Awards		<u>427,966</u>
Total CFDA 14.901		49,744
Total CFDA 14.902		436,584
Total CFDA 14.905		8,433
Total CFDA 14.906		506,576
Total CFDA 14.910		328,244
Total CFDA 14.911		<u>47,723</u>
Total US Department of Housing and Urban Development		<u>1,377,304</u>

-See accompanying notes to schedule of expenditures of federal awards-

NATIONAL CENTER FOR HEALTHY HOUSING, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Federal CFDA <u>Number</u>	<u>Expenditures</u>
<u>US Department of Agriculture</u>		
PASS-THROUGH AWARDS FROM:		
<i>The Pennsylvania State University - Integrated Programs</i>	10.303	<u>41,118</u>
Total US Department of Agriculture		<u>41,118</u>
 <u>Environmental Protection Agency</u>		
DIRECT AWARDS:		
Integrated Pest Management in Affordable Housing Initiatives	66.714	32,282
National Environmental Education Training Program	66.950	<u>73,287</u>
Total Environmental Protection Agency		<u>105,569</u>
 <u>Department of Energy</u>		
PASS-THROUGH AWARDS FROM:		
<i>Alliance For Sustainable Energy LLC -</i>		
ARRA - Energy Efficiency & Renewable Energy Technology Deployment Demonstration and Commercialization	81.129	65,793
<i>Advanced Energy Corporation -</i>		
ARRA - Energy Efficiency & Renewable Energy Technology Deployment Demonstration and Commercialization	81.129	<u>876</u>
Total Department of Energy		<u>66,669</u>
Total Expenditures of Federal Awards		<u>\$ 2,694,713</u>

-See accompanying notes to schedule of expenditures of federal awards-

NATIONAL CENTER FOR HEALTHY HOUSING, INC.
AND SUBSIDIARY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Note A – Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of National Center For Healthy Housing, Inc. and Subsidiary 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**

Board of Directors
National Center For Healthy Housing, Inc. and Subsidiary
Columbia, Maryland 21044

We have audited the financial statements of National Center For Healthy Housing, Inc. (a non-profit organization) and Subsidiary as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated May 14, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered National Center For Healthy Housing, Inc. and Subsidiary'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 National Center For Healthy Housing, Inc. and Subsidiary'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 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 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 National Center For Healthy Housing, Inc. and Subsidiary'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 solely for the information and use of the Finance Committee, the Board of Directors, management, others within National Center For Healthy Housing, Inc. and Subsidiary, 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.

Clark and Anderson, P.A.

Clark and Anderson, P.A.
Certified Public Accountants

Glen Burnie, Maryland

May 14, 2012

**INDEPENDENT AUDITORS' 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**

Board of Directors
National Center For Healthy Housing, Inc. and Subsidiary
Columbia, Maryland 21044

Compliance

We have audited the National Center For Healthy Housing, Inc. (a non-profit organization) and Subsidiary's 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 National Center for Healthy Housing, Inc. and Subsidiary's major federal programs for the years ended September 30, 2011. National Center For Healthy Housing, Inc. and Subsidiary'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 National Center For Healthy Housing, Inc. and Subsidiary's management. Our responsibility is to express an opinion on National Center For Healthy Housing, Inc. and Subsidiary's compliance based on our audits.

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 audits 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 National Center For Healthy Housing, Inc. and Subsidiary'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 National Center For Healthy Housing, Inc. and Subsidiary's compliance with those requirements.

In our opinion, National Center For Healthy Housing, Inc. and Subsidiary 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 year ended September 30, 2011.