

**HEALTHY NEIGHBORHOODS, INC.**

**Financial Statements  
and  
Independent Auditors' Report**

**Year Ended December 31, 2008**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Healthy Neighborhoods, Inc.

We have audited the accompanying statements of financial position of Healthy Neighborhoods, Inc. (Organization) as of December 31, 2008, and the related statements of activities and changes in net assets, cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We 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 Healthy Neighborhoods, Inc., as of December 31, 2008, and the changes in its net assets and 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 a report dated August 8, 2009 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 considered in assessing the results of our audit.

*Abrams, Foster, Nole & Williams, P.A.*

Abrams, Foster, Nole & Williams, P.A.  
Certified Public Accountants  
Baltimore, Maryland

August 8, 2009

**HEALTHY NEIGHBORHOODS, INC.**  
**Statement of Financial Position**  
**December 31, 2008**

	<b>2008</b>
<b>ASSETS</b>	
Current Assets	
Cash and cash equivalents	\$ 114,032
Investments	1,488,527
City grants receivable	220,379
Notes receivable	100,000
Loans receivable	164,234
Contributions receivable	570,000
Total current assets	2,657,172
Property and Equipment	
Equipment	5,219
Less: accumulated depreciation	(3,935)
Net property and equipment	1,284
Total Assets	\$ 2,658,456
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities	
Accounts payable	\$ 34,992
Accrued payroll expense	10,314
Grants payable	354,371
Total current liabilities	399,677
Net Assets	
Unrestricted net assets	1,356,991
Temporarily restricted net assets	901,788
Total net assets	2,258,779
Total Liabilities and Net Assets	\$ 2,658,456

"See Accompanying Notes"

**HEALTHY NEIGHBORHOODS, INC.**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue and Support</b>			
State / local grants	\$ 474,333	\$ 462,380	\$ 936,713
Contributions and gifts	469,500	635,125	1,104,625
Investment income	22,127	11,829	33,956
Other income	1,338	5,833	7,171
Total revenue and support	967,298	1,115,167	2,082,465
Net assets released from restrictions:			
Satisfaction of program restrictions	700,427	(700,427)	-
Total revenue, support and net assets released from restrictions	1,667,725	414,740	2,082,465
<b>Expenses</b>			
Program activity			
Grant administration	518,134	-	518,134
Grants	789,734	-	789,734
Other charitable expenditures	132,129	-	132,129
Total program activity	1,439,997	-	1,439,997
Supporting expenses			
Management and general	31,658	-	31,658
Development and marketing	35,531	-	35,531
Total supporting expenses	67,189	-	67,189
Total expenses	1,507,186	-	1,507,186
Increase in net assets	160,539	414,740	575,279
Net assets beginning of year	1,196,452	487,048	1,683,500
Net Assets End of Year	\$ 1,356,991	\$ 901,788	\$ 2,258,779

"See Accompanying Notes"

**HEALTHY NEIGHBORHOODS, INC.**  
**Statement of Cash Flows**  
**Year Ended December 31, 2008**

	<b>2008</b>
<b>Cash Flows from Operating Activities</b>	
Change in net assets	\$ 575,279
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,187
Retirement of asset	(1,818)
Changes in assets and liabilities	
(Increase) decrease in assets	
City grants receivable	99,563
Notes receivable	75,000
Loan receivable	(164,234)
Contributions receivable	(540,000)
Increase (decrease) in liabilities	
Accounts payable	1,123
Grants payable	7,059
Accrued liabilities	3,194
Total adjustments	<u>(518,295)</u>
Net cash provided by operating activities	<u>56,353</u>
 <b>Cash Flows from Investing Activities</b>	
Disposal of property and equipment	1,818
Investment purchases	<u>(7,634)</u>
Net cash used by investing activities	<u>(5,816)</u>
 Net increase in cash and cash equivalents	50,537
Cash and cash equivalents at beginning of year	<u>63,495</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 114,032</u></u>

"See Accompanying Notes"

**HEALTHY NEIGHBORHOODS, INC.**  
**Notes to Financial Statements**  
**December 31, 2008**

**1. BACKGROUND**

Healthy Neighborhoods, Inc. (Organization) is a non-profit corporation formed to help strong but undervalued neighborhoods increase home values, market their communities, create high standards for property improvement and forge strong connections among neighbors. Healthy Neighborhoods began as a pilot program of the Baltimore Community Foundation, Inc. (Supported Organization) in 2000. It's purpose was to develop market and asset driven strategies to benefit neighborhoods with significant assets but stagnant real estate values. The pilot recognized the critical importance of making these neighborhoods once again attractive to home purchasers and renovators. Based upon significant measurable performance over three years, the Supported Organization organized a new non-profit corporation, Healthy Neighborhoods, Inc., in 2004 to promote these strategies and bring the program to scale.

The Organization has raised \$40 million below market loans for purchase and rehabilitation, refinance and rehabilitation and home improvement by homeowners, provides free professional advice for rehabbers, offers grants for community projects which support positive images, neighborhood marketing, performance measures, and partnerships which support other community development action. The Organization supports the marketing and organizing of 14 neighborhood organizations active in 35 Baltimore neighborhoods. The Organization is performance driven. Success of the Organization is measured by home values, tax base, time on market, the value of other neighborhood investments and neighborhood organizations and activity. Data are collected and reported to the Organization's board and partners quarterly.

The Organization's financial records are managed by its Supported Organization.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

A. Basis of Accounting

The Organization records its transactions on the accrual basis of accounting with a calendar year ending December 31.

B. Basis of Presentation

The financial statement presentation follows the guidance of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: (1) unrestricted, (2) temporarily restricted, and (3) permanently restricted.

**HEALTHY NEIGHBORHOODS, INC.**  
**Notes to Financial Statements**  
**December 31, 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

**B. Basis of Presentation (Continued)**

The net assets of the Organization are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Organization's operations, at the discretion of its Board of Directors.
- Temporarily restricted net assets represent funds which are specifically restricted by donors or grants for future use or restricted for a specific purpose. The Organization reports contributions 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-imposed 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 reported in the accompanying statements of activities as net assets released from restrictions.

**C. Revenue and Receivables**

Revenue is recorded as earned. No allowance for doubtful accounts is recorded as management believes all receivables are fully collectible.

**D. Federal Income Taxes**

The Organization is nonprofit and is exempt from income taxes under IRS Code, Section 501(c)(3).

**E. Cash and Cash Equivalents**

The Organization considers all highly liquid investments with maturity of three months or less at the date of acquisition to be cash equivalents. Cash and cash equivalents are held under its Supported Organization.

**F. Investments**

Investments are comprised of money market funds and are included in an investment pool with other funds under the Supported Organization. Investments are recorded in the financial statements at fair value.

**HEALTHY NEIGHBORHOODS, INC.**  
**Notes to Financial Statements**  
**December 31, 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

G. Property and Equipment

Assets are recorded at cost and are depreciated on a straight-line basis over the life of the asset. It is the Organization's policy to capitalize assets with a cost of \$500 or greater, with a life greater than one year. Depreciation is calculated using depreciable lives of three years for computer equipment and five years for office equipment. Depreciation expense for 2008 was \$ 1,187.

H. Grants

Unconditional promises by the Organization to give (grant commitments) are recognized as payables and corresponding grant expenses in the year the promises or commitments are made.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**3. FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK**

The Organization maintains its cash in a pooled checking under its Supported Organization. Periodically during the year, cash has exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limitation. Non-interest bearing accounts are fully insured through December 31, 2008 and interest bearing accounts are insured up to \$250,000. The Organization has not experienced any losses in such accounts.

**4. INVESTMENTS**

Investments recorded in the Organization's financial statements consists of money market funds in an investment pool held by its Supported Organization. As December 31, 2008, the market value of the Organization's holdings is \$1,386,194.

**HEALTHY NEIGHBORHOODS, INC.**  
**Notes to Financial Statements**  
**December 31, 2008**

**4. INVESTMENTS (Continued)**

In addition, the Organization holds a certificate of deposit account invested in a Treasury Index Fund. As of December 31, 2008, the market value of the account is \$102,333.

**5. NOTES RECEIVABLE**

In June 2007, the Organization entered into an agreement with PPCDC Financing, LLC to lend it \$175,000 at an interest rate of 5%. The loan was guaranteed by the Patterson Park Community Development Corporation. The principal amount is due in June 2009. The borrower defaulted on the agreement and its guarantor filed for Chapter 11 bankruptcy protection in February 2009. The note receivable has been written down to its net realizable value of \$100,000.

**6. LOANS RECEIVABLE**

In 2008, Baltimore City (City), committed \$1,000,000 in funds to be provided to qualified borrowers for rehabilitation or purchase of home in qualified neighborhoods. The City funds are matching loan funds granted through the approval of the partnering financial institution. The City loan funds are matched \$1 for \$1 up to \$10,000 for qualified borrowers. The loans are forgivable based on the satisfaction of certain requirements for a length of five years. For each year that a borrower satisfies the requirements, 20% of the loan is forgiven and expensed by the Organization. Upon the utilization of the full \$1,000,000 the remaining balance of the loans will be donated back to the City. As of December 31, 2008, the loan receivable balance is \$ 164,234. The loans receivable amortization follows:

<u>Year</u>	<u>Amount Satisfied</u>	<u>Amount Due December 31</u>
2008	\$ -0-	\$164,234
2009	32,847	131,387
2010	32,847	98,540
2011	32,847	65,693
2012	32,847	32,846
2013	32,846	-0-

**HEALTHY NEIGHBORHOODS, INC.**

**Notes to Financial Statements**

**December 31, 2008**

**7. CONTRIBUTIONS RECEIVABLE**

The Organization received unconditional contribution pledges which are recognized as receivables and as corresponding contribution revenue in the year the pledges are made. Conditional pledges to give, which depend on the occurrence of a specified future and uncertain event, are not recognized as revenue until the conditions have been met. As of December 31, 2008, the Organization has recorded unconditional pledges of \$570,000, which are due in 2009. Management anticipates that all unconditional pledges are collectible. Accordingly, no allowance for uncollectible pledges has been established.

**8. EMPLOYEE PENSION PLAN**

The Organization's employees are granted benefits under its Supported Organization's retirement savings plan. Employees are eligible after a full month of employment following their hire date and may voluntarily contribute into the retirement plan up to the current allowable IRS maximum limits.

For employees with a full year of service, the Organization will contribute 5% of the employee's annual salary to the employee's 401k account. Additionally, after one year of service, the Organization may at its discretion match voluntary employee contributions, up to an additional 5% of the employee's annual salary. Pension expense for the year ending December 31, 2008 is \$18,496.

**9. RELATED PARTY TRANSACTIONS**

A. Operating Lease

The Organization leases office space on the 2<sup>nd</sup> floor of 2 East Read Street under a sublease agreement with its Supported Organization. The Organization's lease expires in November 2013. Annual rent payments were \$24,346 for the year ending December 31, 2008, and the expense increases approximately 3.6% annually. Future minimum payments required under the existing lease are as follows:

<u>Year</u>	<u>Amount Due</u>
2009	\$ 29,730
2010	30,810
2011	31,890
2012	32,980
2013	<u>31,240</u>
Total future payments	<u>\$156,650</u>

**HEALTHY NEIGHBORHOODS, INC.**  
**Notes to Financial Statements**  
**December 31, 2008**

**9. RELATED PARTY TRANSACTIONS (Continued)**

B. Administrative Fee

The Organization has an agreement to pay administrative expenses to its Supported Organization. The administrative expenses include accounting, payroll services, human resources and other administrative duties that are carried out by the Supported Organization. Administrative expenses paid for the year ending December 31, 2008 is \$30,000.

**10. COMMITMENTS**

Grants

A portion of the Organization's revenue and support is provided through grants from the Department of Housing and Community Development of Baltimore City. Certain expenses of these funds are subject to audit by the grantor, and to the extent an audit determines any expenses were disallowed, the amount is subject to being refunded to the grantor. Management does not believe the expenses, if audited, would be disallowed. A reduction in the funding level could have a significant impact on the Organization.

**11. SUBSEQUENT EVENT**

As described in Note 1, the Organization organized the Healthy Neighborhoods Loan Pool, a \$40 million loan participation to be funded by 10 financial institutions. A Master Participation Agreement formalizes the agreement among the 10 financial institutions, 4 guarantors and Bradford Bank (Principal) and the Organization. The Principal serves as the program manager, loan servicer and interim lender.

In the period subsequent to the end of the 2008 fiscal year, the Principal ceased operations and could not fulfill its duties under the Master Participation Agreement. The Organization is negotiating with other financial institutions to serve as the Principal. During the transitional period the Organization advanced \$570,558 to qualified borrowers to provide interim financing. The loan advances were funded by the Organization's operating reserves and were subsequently purchased by the Healthy Neighborhoods Loan Pool.

**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**



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## **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**

To the Board of Directors  
Healthy Neighborhoods, Inc.

We have audited the financial statements of Healthy Neighborhoods, Inc. (Organization), as of and for the year ended December 31, 2008, and have issued our report thereon dated August 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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 Organization'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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization'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 of the audit Committee, 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.



Abrams, Foster, Nole & Williams, P.A.  
Certified Public Accountants  
Baltimore, Maryland

August 8, 2009