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NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2012 AND 2011

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GROSS MENDELSOHN
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To the Board of Directors
National Center for Healthy Housing, Inc. and Subsidiary

Independent Auditor's Report

We have audited the accompanying consolidated statement of financial position of National Center for Healthy Housing, Inc. and Subsidiary (the "Center") as of September 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Center as of and for the year ended September 30, 2011, were audited by other auditors whose report dated May 14, 2012 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing 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 the Center as of September 30, 2012, 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 January 17, 2013 on our consideration of the Center'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 considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The 2012 supplementary information, contained on pages 16 through 21, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose 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 audit of the 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
January 17, 2013

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Financial Position
September 30, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 567,213**	$ 358,903
Grants and other receivables	**622,151**	850,882
Prepaid expenses and other assets	**70,938**	42,053
Total Current Assets	**1,260,302**	1,251,838
Property		
Office equipment	**70,014**	47,057
Less: Accumulated depreciation	**18,503**	27,036
Net Property	**51,511**	20,021
Other Asset		
Deferred income taxes	**-0-**	7,875
Total Assets	**$ 1,311,813**	$ 1,279,734
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	**$ 216,590**	$ 115,802
Accrued expenses	**116,967**	245,551
Payroll taxes payable	**26,048**	32,440
Other current liabilities	**8,497**	6,764
Short-term bank borrowings	**-0-**	40,149
Current maturities of capital lease obligation	**3,436**	-0-
Deferred income taxes	**1,110**	745
Total Current Liabilities	**372,648**	441,451
Non-Current Liabilities		
Capital lease obligation, net of current maturities	**15,417**	-0-
Total Liabilities	**388,065**	441,451
Net Assets		
Unrestricted	**833,069**	703,148
Temporarily restricted	**90,679**	135,135
Total Net Assets	**923,748**	838,283
Total Liabilities and Net Assets	**$ 1,311,813**	$ 1,279,734

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

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Activities
Years Ended September 30, 2012 and 2011

	2012		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Grants and contracts	$ 3,763,925	$ -0-	$ 3,763,925
Contributions	412,475	83,786	496,261
Interest income	1,764	-0-	1,764
Miscellaneous	4,545	-0-	4,545
	4,182,709	83,786	4,266,495
Net assets released from restriction	128,242	(128,242)	-0-
Total Support and Revenue	4,310,951	(44,456)	4,266,495
Expenses			
Program	3,800,309	-0-	3,800,309
General and administrative	331,743	-0-	331,743
Fundraising	22,480	-0-	22,480
Total Expenses	4,154,532	-0-	4,154,532
Change in Net Assets Before Provision for Income Taxes	156,419	(44,456)	111,963
Provision for Income Tax Expense (Benefit)	26,498	-0-	26,498
Change in net assets	129,921	(44,456)	85,465
Net Assets - Beginning of Year	703,148	135,135	838,283
Net Assets - End of Year	$ 833,069	$ 90,679	$ 923,748

2011			
Unrestricted	Temporarily Restricted	Total	Increase (Decrease)
$ 3,377,602	$ -0-	$ 3,377,602	$ 386,323
44,692	500,000	544,692	(48,431)
1,583	-0-	1,583	181
3,814	-0-	3,814	731
3,427,691	500,000	3,927,691	338,804
505,973	(505,973)	-0-	-0-
3,933,664	(5,973)	3,927,691	338,804
3,765,049	-0-	3,765,049	35,260
111,922	-0-	111,922	219,821
5,847	-0-	5,847	16,633
3,882,818	-0-	3,882,818	271,714
50,846	(5,973)	44,873	67,090
(4,144)	-0-	(4,144)	30,642
54,990	(5,973)	49,017	$ 36,448
648,158	141,108	789,266	
$ 703,148	$ 135,135	$ 838,283	

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

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Functional Expenses
Years Ended September 30, 2012 and 2011

	2012			
	Program Services	General and Administrative	Fund-raising	Total
Salaries and fringe benefits	$ 1,823,947	$ 317,180	$ 8,916	$ 2,150,043
Bad debt expense	-0-	13,721	-0-	13,721
Bank service fees	-0-	1,709	-0-	1,709
Consultants	975,364	136,403	9,090	1,120,857
Depreciation	-0-	7,646	-0-	7,646
Dues and subscriptions	22,809	9,929	-0-	32,738
Equipment rental and maintenance	-0-	14,562	-0-	14,562
Insurance	-0-	29,236	-0-	29,236
Interest expense	-0-	1,958	-0-	1,958
Meetings and conferences	47,706	2,703	-0-	50,409
Miscellaneous	-0-	6,649	-0-	6,649
Office supplies	35,103	9,492	-0-	44,595
Other costs and supplies	142,489	(18,857)	-0-	123,632
Postage and delivery	5,733	2,264	-0-	7,997
Printing and reproduction	53	1,390	-0-	1,443
Professional fees	-0-	144,655	-0-	144,655
Recruiting	-0-	-0-	-0-	-0-
Rent	17,974	116,764	-0-	134,738
Software	3,227	11,266	-0-	14,493
Storage	-0-	2,751	-0-	2,751
Telecommunications	13,864	21,682	-0-	35,546
Temporary help	3,237	1,937	-0-	5,174
Training and professional development	-0-	2,747	-0-	2,747
Travel	175,312	13,302	475	189,089
Trustee expeneses	-0-	18,144	-0-	18,144
Indirect cost allocation	533,491	(537,490)	3,999	-0-
Total expenses	$ 3,800,309	$ 331,743	$ 22,480	$ 4,154,532

2011				
Program Services	General and Administrative	Fund-raising	Total	Increase (Decrease)
$ 1,495,403	$ 341,074	$ 3,802	$ 1,840,279	$ 309,764
-0-	-0-	-0-	-0-	13,721
-0-	1,516	-0-	1,516	193
979,530	101,860	-0-	1,081,390	39,467
-0-	4,532	-0-	4,532	3,114
23,624	8,990	-0-	32,614	124
-0-	13,950	-0-	13,950	612
-0-	28,020	-0-	28,020	1,216
-0-	2,077	-0-	2,077	(119)
36,237	2,525	-0-	38,762	11,647
-0-	1,379	-0-	1,379	5,270
52,559	11,920	-0-	64,479	(19,884)
276,565	(22,369)	-0-	254,196	(130,564)
3,564	2,639	-0-	6,203	1,794
1,340	4,347	-0-	5,687	(4,244)
-0-	127,399	-0-	127,399	17,256
-0-	990	-0-	990	(990)
16,279	119,878	-0-	136,157	(1,419)
3,895	12,053	-0-	15,948	(1,455)
-0-	2,102	-0-	2,102	649
4,011	20,966	-0-	24,977	10,569
1,181	5,526	-0-	6,707	(1,533)
-0-	2,515	-0-	2,515	232
156,545	18,803	-0-	175,348	13,741
-0-	15,591	-0-	15,591	2,553
714,316	(716,361)	2,045	-0-	-0-
$ 3,765,049	$ 111,922	$ 5,847	$ 3,882,818	$ 271,714

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

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	**$ 85,465**	$ 49,017
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad Debts	**13,721**	-0-
Deferred income taxes	**8,240**	(4,000)
Depreciation and amortization	**7,646**	4,532
Changes in operating assets and liabilities:		
Grants and other receivables	**215,010**	(167,290)
Prepaid expenses and other assets	**(28,885)**	(8,883)
Accounts payable and accrued expenses	**(27,796)**	148,014
Payroll taxes payable	**(6,392)**	26,361
Other payables	**1,733**	-0-
Net Cash Provided by Operating Activities	**268,742**	47,751
Cash Flows From Investing Activities		
Purchase of property	**(19,493)**	(14,180)
Cash Flows From Financing Activities		
Net increase (decrease) in short-term bank borrowings	**(40,149)**	149
Payments on capital lease obligations	**(790)**	-0-
Net Cash Provided by (Used in) Financing Activities	**(40,939)**	149
Net Increase in Cash and Cash Equivalents	**208,310**	33,720
Cash and Cash Equivalents at Beginning of Year	**358,903**	325,183
Cash and Cash Equivalents at End of Year	**$ 567,213**	$ 358,903
Supplemental Information:		
Interest paid	**$ 2,114**	$ 1,928
Noncash Investing and Financing Activities		
Acquisition of property	**$ 22,957**	$ -0-
Less: Property acquired under capital lease obligation	**(19,643)**	-0-
Net cash paid for property	**$ 3,314**	$ -0-

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

Note 1: Summary of Significant Accounting Policies

National Center for Healthy Housing, Inc. (The Center) was formed under the laws of Maryland in 1992 to bring the housing, environment at 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. 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.

Use of 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. Actual results could differ from those estimates.

Basis of Accounting and Principles of Consolidation: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred. The consolidated financial statements include the accounts of National Center for Healthy Housing, Inc., and Healthy Housing Solutions, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue and Expense Recognition: Government and private grants are recognized based on the terms of the specific grant document. Grant revenue received in advance of the grant period is recorded as deferred revenue. Contributions are recognized when the donor makes an unconditional promise to give. Additionally, recognition of contributions is evaluated based on historical trends of collection by specific type of promise to give.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. An unconditional pledge to give support is recognized as a receivable and contribution in the year the pledge is made. Conditional pledges to give which depend on the occurrence of a specified future and uncertain event are not recognized as revenue until the condition has been met.

Contributions which are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the same year in which the contributions are recognized. All other donor-imposed restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Expenses are reported as decreases in unrestricted net assets. Program expenses include costs that are specifically identified with a particular program and an allocation of costs associated with the administration of all the Center’s programs.

Basis of Presentation: Generally accepted accounting principles require that the Center report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Note 1: Summary of Significant Accounting Policies (Continued)

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Center pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

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. The Center has no permanently restricted net assets.

Cash and Cash Equivalents: The Center classifies all investments that are readily convertible to cash and that have a maturity of three months or less when purchased as cash equivalents.

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. The Center has grants and cooperative agreements with U.S. Government agencies, various state agencies, and other private sources. Estimated losses are generally determined from historical collection experience and a review of outstanding grants receivable. Grants receivable are written off by management when, in their determination, all appropriate collection efforts have been taken. The Center has not recorded an allowance for uncollectible contributions since it is management's opinion that all outstanding contributions are collectible.

Property and Depreciation: Property is stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and routine repairs are charged to expense as incurred. Expenditures for improvements and major repairs that materially extend the useful lives of assets are capitalized. Depreciation expense for the years ended September 30, 2012 and 2011 was $7,646 and $4,532, respectively.

Income Taxes: The Center is exempt from federal and state income taxes under Internal Revenue Code §501(c)(3). Income that is not related to exempt purposes, less applicable reductions, is subject to federal and state income taxes. The Center had no unrelated business income for the years ended September 30, 2012 and 2011. The Center's federal exempt tax returns are subject to examination by the Internal Revenue Service, generally for a period of three years after the returns are filed.

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.

Note 1: Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying consolidated financial statements. Costs that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated on the basis of estimates of the portion of time expended by the staff on various functions.

Subsequent Events: In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through January 17, 2013, the date the financial statements were available to be issued. During the period from October 1, 2012 to January 17, 2013, the Center did not have any material recognizable or disclosable subsequent events.

Note 2: Short-Term Bank Borrowings

The Center has a $150,000 revolving line of credit with M&T Bank. Borrowings under the line of credit bear interest at the prime rate plus 1.50% minus a rate reduction of 0.50% (4.75% as of September 30, 2012 and 2011). There was no balance due under this line of credit as of September 30, 2012 and 2011.

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 1.50% (4.75% as of September 30, 2012 and 2011). The line of credit is secured by substantially all of Solutions' assets and is guaranteed by the Center. As of September 30, 2012 and 2011 the outstanding borrowings under the line of credit amounted to $-0- and $40,149, respectively. Interest expense amounted to $696 and $2,077 for the years ended September 30, 2012 and 2011, respectively.

Note 3: Capital Lease Obligation

During 2012, the Center entered into a capital lease agreement for the purchase of a telephone system. The lease began in July 2012 and requires 60 equal monthly payments of $396.

Future minimum lease payments required under the lease for the year ended September 30, are as follows:

2013	$ 4,747
2014	4,747
2015	4,747
2016	4,747
2017	3,561
Total approximate minimum lease payments	22,549
Less: approximate amount representing interest	3,696
Present value of minimum lease payment	18,853
Less: current maturity	3,436
Non-current maturity	$ 15,417

Note 3: Capital Lease Obligation (Continued)

The following is an analysis of the leased asset included in office equipment at September 30, 2012:

Office equipment	$ 19,643
Less: Accumulated depreciation	702
Net leased property	$ 18,941

Note 4: Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of September 30, 2012 and 2011:

	2012	2011
Pew Charitable Trusts	$ 43,281	$ -0-
Private Foundation	24,255	-0-
Saint Luke's Foundation	16,250	-0-
WWFF	6,893	6,893
The Kresge Foundation	-0-	120,907
Home Depot Foundation	-0-	7,335
Total	$ 90,679	$ 135,135

Net assets were released from donor restrictions for the years ended September 30, 2012 and 2011 by incurring expenses satisfying the restricted purposes, by occurrence of other events or by satisfaction of time restrictions. Below are the details of these net assets that were released from restriction.

	2012	2011
The Kresge Foundation	$ 120,907	$ 279,092
Home Depot Foundation	7,335	96,697
Private Foundation	-0-	108,356
WWFF	-0-	10,913
Neighborworks	-0-	10,000
Blue Cross Blue Shield	-0-	915
Total	$ 128,242	$ 505,973

Note 5: Retirement 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, 2012 and 2011, the Organization made matching contributions of $46,726 and $38,195, respectively and discretionary contributions of $25,368 and $19,017, or two percent (2%) of eligible compensation to the Plan.

Note 6: Income Tax Provision

The provisions for income taxes for the years ended September 30, 2012 and 2011 consist of the following components:

	2012	2011
Federal and state income taxes currently payable	$ 18,258	$ -0-
Refundable federal and state income taxes due to net operating loss carryback	-0-	(144)
Change in deferred income taxes (deferred income tax benefits)	8,240	(4,000)
Total provision for income taxes (benefits)	$ 26,498	$ (4,144)

The provision for income taxes reflects effective tax rates which result from the applicability of federal statutory graduated rates. Certain expenses incurred during the years ended September 30, 2012 and 2011 totaling $888 and $-0-, respectively, were not deductible for income tax purposes.

Solutions computes deferred income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Solutions provides for the recognition and measurement of deferred income tax benefits based on the likelihood of their realization in future years. A valuation allowance must be established to reduce deferred income tax benefits if it is more likely than not that a portion of the benefits will not be realized. It is management's opinion that the entire deferred tax benefit will be recognized in future years. Therefore, no valuation allowance has been established.

Note 6: Income Tax Provision (Continued)

Following is a summary of the tax effects of the temporary differences between financial and income tax accounting that give rise to the Company's deferred tax assets and deferred tax liabilities as of September 30, 2012 and 2011:

	2012	2011
Deferred tax assets:		
Net operating loss carryforward	$ -0-	$ 7,875
Deferred tax liabilities:		
Property	(1,110)	(745)
Net deferred tax asset (liability)	$ (1,110)	$ 7,130

The preceding amounts are reflected in the accompanying balance sheets as follows:

	2012	2011
Other Assets:		
Deferred income tax benefits	$ -0-	$ 7,875
Current Liabilities:		
Deferred income taxes	(1,110)	(745)
	$ (1,110)	$ 7,130

Note 7: Concentration of Credit 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 funding occurs, it may have a significant impact on the Organization’s programs. For the years ended September 30, 2012 and 2011, direct and indirect federal grants and contracts represented 83% and 80%, respectively, of the Organization’s total revenue and support. Management does not anticipate any significant reduction in future funding from federal agencies.

Note 8: Operating Leases

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. In August 2011, the Center renewed its lease on this property commencing November 1, 2011 for a period of forty-eight (48) months, expiring on October 31, 2015.

Note 8: Operating Leases (Continued)

Initial monthly base rent on the new lease is $7,634 for the first twelve months. Monthly payments for base rent in 2012 and 2011 under these agreements amounted to $7,634 and $7,970, respectively. The new lease provides for annual three percent (3%) escalation charges and monthly operating expense charges in excess of base-year operating expenses.

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. 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.

Lease expense for office space amounted to $134,738 and $136,157 for the years ended September 30, 2012 and 2011, respectively.

In prior years, the Center entered into an agreement to lease a copier under a non-cancelable operating lease that expired in April 2012. In May 2012, the Center entered into an agreement to lease a new copier under a non-cancelable operating lease expiring in July, 2017. Lease expense under these two agreements for the years ended September 30, 2012 and 2011 totaled $4,684 and $6,156, respectively.

The minimum annual rental payments under the current leases as of September 30, 2012 are as follows:

2013	$ 124,653
2014	101,978
2015	104,874
2016	13,365
2017	4,187
Total	$ 349,057

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: Uninsured Balances

The Center maintains its cash balances at various financial institutions. Periodically during the year, the Center's cash balances may exceed federally insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash balances.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2012 AND 2011

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidating Statements of Financial Position
September 30, 2012 and 2011

	2012			
Assets	National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Combined Totals
Current Assets				
Cash and cash equivalents	$ 383,279	$ 183,934	$ -0-	$ 567,213
Grants and other receivables	488,617	187,340	(53,806)	622,151
Prepaid expenses and other assets	59,195	11,743	-0-	70,938
Total Current Assets	931,091	383,017	(53,806)	1,260,302
Property				
Office equipment	56,675	13,339	-0-	70,014
Less: Accumulated depreciation	11,259	7,244	-0-	18,503
Net Property	45,416	6,095	-0-	51,511
Other Assets				
Deferred income taxes	-0-	-0-	-0-	-0-
Investment in subsidiary	118,515	-0-	(118,515)	-0-
Total Other Assets	118,515	-0-	(118,515)	-0-
Total Assets	$ 1,095,022	$ 389,112	$ (172,321)	$ 1,311,813
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 79,853	$ 190,543	$ (53,806)	$ 216,590
Accrued expenses	28,909	88,058	-0-	116,967
Payroll taxes payable	17,085	8,963	-0-	26,048
Other current liabilities	6,574	1,923	-0-	8,497
Short-term bank borrowings	-0-	-0-	-0-	-0-
Current maturities of long-term debt	3,436	-0-	-0-	3,436
Deferred income taxes	-0-	1,110	-0-	1,110
Total Current Liabilities	135,857	290,597	(53,806)	372,648
Non-Current Liabilities				
Long-term debt, net of current maturities	15,417	-0-	-0-	15,417
Total Liabilities	151,274	290,597	(53,806)	388,065
Net Assets and Equity				
Unrestricted	853,069	-0-	(20,000)	833,069
Temporarily restricted	90,679	-0-	-0-	90,679
Retained earnings	-0-	98,415	(98,415)	-0-
Common stock	-0-	100	(100)	-0-
Total Net Assets and Equity	943,748	98,515	(118,515)	923,748
Total Liabilities and Net Assets	$ 1,095,022	$ 389,112	$ (172,321)	$ 1,311,813

2011				
	National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Combined Totals
	$ 296,762	$ 62,141	$ -0-	$ 358,903
	631,405	319,289	(99,812)	850,882
	42,053	-0-	-0-	42,053
	970,220	381,430	(99,812)	1,251,838
	37,360	9,697	-0-	47,057
	21,537	5,499	-0-	27,036
	15,823	4,198	-0-	20,021
	-0-	7,875	-0-	7,875
	35,618	-0-	(35,618)	-0-
	35,618	7,875	(35,618)	7,875
	$ 1,021,661	$ 393,503	$ (135,430)	$ 1,279,734
	$ 60,771	$ 154,843	$ (99,812)	$ 115,802
	80,685	164,866	-0-	245,551
	16,432	16,008	-0-	32,440
	5,490	1,274	-0-	6,764
	-0-	40,149	-0-	40,149
	-0-	-0-	-0-	-0-
	-0-	745	-0-	745
	163,378	377,885	(99,812)	441,451
	-0-	-0-	-0-	-0-
	163,378	377,885	(99,812)	441,451
	723,148	-0-	(20,000)	703,148
	135,135	-0-	-0-	135,135
	-0-	15,518	(15,518)	-0-
	-0-	100	(100)	-0-
	858,283	15,618	(35,618)	838,283
	$ 1,021,661	$ 393,503	$ (135,430)	$ 1,279,734

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidating Statements of Activities
Years Ended September 30, 2012 and 2011

	2012			
	National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Combined Totals
Support and Revenue				
Grants and contracts	$ 2,109,639	$ 1,904,719	$ (250,433)	$ 3,763,925
Contributions	496,261	-0-	-0-	496,261
Interest income	1,546	218	-0-	1,764
Miscellaneous	40,502	1,300	(37,257)	4,545
Total Support and Revenue	2,647,948	1,906,237	(287,690)	4,266,495
Expenses				
Salaries and fringe benefits	1,523,221	626,822	-0-	2,150,043
Consultants	583,420	825,124	(287,690)	1,120,854
Professional fees	98,582	49,627	-0-	148,209
Rent	103,083	31,655	-0-	134,738
Interest expense	374	1,584	-0-	1,958
Others	336,700	262,030	-0-	598,730
Total Expenses	2,645,380	1,796,842	(287,690)	4,154,532
Change in Net Assets Before Earnings from Wholly Owned Subsidiary and Income Taxes	2,568	109,395	-0-	111,963
Provision for Income Taxes	-0-	26,498	-0-	26,498
Change in Net Assets Before Earnings from Subsidiary	2,568	82,897	-0-	85,465
Earnings From subsidiary	82,897	-0-	(82,897)	-0-
Change in Net Assets	85,465	82,897	(82,897)	85,465
Net Assets - Beginning of Year	858,283	15,618	(35,618)	838,283
Net Assets - End of Year	$ 943,748	$ 98,515	$ (118,515)	$ 923,748

2011			
National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Combined Totals
$ 2,340,237	$ 1,308,882	$ (271,517)	$ 3,377,602
544,692	-0-	-0-	544,692
1,465	118	-0-	1,583
29,508	-0-	(25,694)	3,814
2,915,902	1,309,000	(297,211)	3,927,691
1,380,465	459,814	-0-	1,840,279
887,773	468,343	(274,726)	1,081,390
101,104	48,780	(22,485)	127,399
108,653	27,504	-0-	136,157
-0-	2,077	-0-	2,077
419,867	275,649	-0-	695,516
2,897,862	1,282,167	(297,211)	3,882,818
18,040	26,833	-0-	44,873
-0-	(4,144)	-0-	(4,144)
18,040	30,977	-0-	49,017
30,977	-0-	(30,977)	-0-
49,017	30,977	(30,977)	49,017
809,266	(15,359)	(4,641)	789,266
$ 858,283	$ 15,618	$ (35,618)	$ 838,283

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Independent Auditor's 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
National Center for Healthy Housing, Inc. and Subsidiary

We have audited the financial statements of National Center for Healthy Housing, Inc. and Subsidiary (the "Center") as of and for the year ended September 30, 2012, and have issued our report thereon dated January 17, 2013. 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

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center'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 Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center'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.

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Independent Auditor's 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 (Continued)*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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 such 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 Center's Board of Directors, management, 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.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
January 17, 2013

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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

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

Compliance

We have audited National Center for Healthy Housing, Inc. and Subsidiary's (the "Center") 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 Center's major federal programs for the year ended September 30, 2012. The Center'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 Center's management. Our responsibility is to express an opinion on the Center'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 Government, and Non-Profit Organizations* ("OMB Circular A-133"). 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 Center'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 Center's compliance with those requirements.

In our opinion the Center 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, 2012.

Internal Control over Compliance

The management of the Center 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 Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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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 (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management of 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.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Center's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Center's compliance but not to provide an opinion on the effectiveness of the Center's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Center's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
January 17, 2013

NATIONAL CENTER FOR HEALTHY HOUSING, INC.
Schedule of Expeditures of Federal Awards
Year ended September 30, 2012

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Pass-Through Entity Identifying Numbers	Federal Expenditures
U.S. Department of Agriculture			
Pass-through programs from:			
The Pennsylvania State University	10.303	4141-NCHH-USDA-8446	$ 35,616
Cornell University	10.303	65578-9842	14,148
Total U.S. Department of Agriculture			49,764
U.S. Department of Housing and Urban Development			
Direct:			
Lead Technical Studies Grants	14.902	MDLHT0164-08	154,986
Pass-through programs from:			
The University of Illinois	14.902	ILHHT0173-10	61,103
			216,089
Direct:			
Healthy Homes Technical Studies Grants	14.906		128,942
Pass-through programs from:			
The University of Illinois	14.906		76,304
The University of Illinois	14.906		151,832
The Boston Medical Center	14.906		16,341
			373,419
ARRA - Healthy Homes Demonstration Grants			
Pass-through programs from:			
The King County Housing Authority	14.908		49,914
ARRA - Healthy Homes Technical Studies Grants	14.910		233,186
Green & Healthy Homes Technical Studies Program	14.911		138,395
Total U.S. Department of Housing and Urban Development			1,011,003
U.S. Department of Health and Human Services			
Centers for Disease Control and Prevention: Investigations and Technical Assistance			
Pass-through program from:			
The American Public Health Association	93.283		100,806
ARRA - Trans-NIH Recovery Act Research Report			
Pass-through program from:			
The New York University School of Medicine	93.701		9,302
Total U.S. Department of Health and Human Services			110,108
Total Expenditures of Federal Awards			$ 1,170,875

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Center under programs of the federal government for the year ended September 30, 2012. The information in this Schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, where in certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

Summary of Auditor's Results

1) The auditor's report expresses an unqualified opinion on the financial statements of National Center for Healthy Housing, Inc. and Subsidiary.

2) No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's 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*.

3) No instances of noncompliance material to the financial statements of National Center for Healthy Housing, Inc. and Subsidiary which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4) No reportable conditions relating to the audit of the major federal award programs are reported in the auditor's report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.

5) The auditor's report on compliance for the major federal award programs of National Center for Healthy Housing, Inc. and Subsidiary expresses an unqualified opinion on all major federal programs.

6) There were no audit findings relative to the major federal award programs for National Center for Healthy Housing, Inc. and Subsidiary.

7) The Healthy Homes Technical Studies Grant (CFDA No.14.906) and the ARRA – Healthy Homes Technical Studies Grant (CFDA No. 14.910) were tested as major programs.

8) The threshold used for distinguishing between Type A and B programs was $300,000.

9) National Center for Healthy Housing, Inc. and Subsidiary was determined to be a low-risk auditee.

Major Federal Award Programs Audit – Findings and Questioned Costs

Summary of Current Year Findings

There were no current year findings relative to the major federal awards.

Summary of Prior Year Findings

There were no prior year findings relative to the major federal awards.

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