THE NEXTDOOR, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

DECEMBER 31, 2007 AND 2006

THE NEXTDOOR, INC.

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CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Directors
The Nextdoor, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of The Nextdoor, Inc. (the "Organization") as of December 31, 2007 and 2006, and the related statements of activities, cash flows and functional expenses for the years 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 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 audits 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 audits provide 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 Nextdoor, Inc. as of December 31 2007 and 2006, 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 July 15, 2008, 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, 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 audits.

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Board of Directors
The Nextdoor, Inc.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of The Nextdoor, Inc. taken as a whole. The accompanying schedule of expenditures of federal and state awards for the year ended December 31, 2007, is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crosslin & Associates, P.C.

Nashville, Tennessee
July 15, 2008

THE NEXTDOOR, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31, 2007	December 31, 2006
Cash	$ 345,291	$346,233
Government grants receivable	49,474	1,394
Prepaid insurance	-	5,404
Land, building and equipment, net	1,634,593	556,584
Total assets	$2,029,358	$909,615

LIABILITIES

	2007	2006
Accounts payable and accrued expenses	$ 3,855	$ 6,696
Note payable	225,925	-
Total liabilities	229,780	6,696

NET ASSETS

	2007	2006
Unrestricted	1,776,528	880,000
Temporarily restricted	23,050	22,919
Total net assets	1,799,578	902,919
Total liabilities and net assets	$2,029,358	$909,615

See accompanying notes to the financial statements.

THE NEXTDOOR, INC.
STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2007		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:			
Support:			
Contributions	$ 865,687	$ -	$ 865,687
Grants	940,134	-	940,134
Total support	1,805,821	-	1,805,821
Revenue:			
Rental income	161,737	-	161,737
Interest income	9,439	131	9,570
Other income	6,620	-	6,620
Total revenue	177,796	131	177,927
Total support and revenue	1,983,617	131	1,983,748
EXPENSES:			
Program services:			
Counseling	167,399	-	167,399
Housing and ministry	680,809	-	680,809
Total program services	848,208	-	848,208
Supporting services:			
Administrative	194,954	-	194,954
Fund raising	43,927	-	43,927
Total supporting services	238,881	-	238,881
Total expenses	1,087,089	-	1,087,089
Net increase in net assets	896,528	131	896,659
Net assets at beginning of year	880,000	22,919	902,919
Net assets at end of year	$1,776,528	$23,050	$1,799,578

Year Ended December 31, 2006		
Unrestricted	Temporarily Restricted	Total
$423,471	$ -	$423,471
235,862	-	235,862
659,333	-	659,333
79,213	-	79,213
6,204	119	6,323
4,800	-	4,800
90,217	119	90,336
749,550	119	749,669
79,300	-	79,300
394,588	-	394,588
473,888	-	473,888
82,552	-	82,552
8,783	-	8,783
91,335	-	91,335
565,223	-	565,223
184,327	119	184,446
695,673	22,800	718,473
$880,000	$22,919	$902,919

See accompanying notes to the financial statements.

THE NEXTDOOR, INC.
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2007	2006
Cash flows from operating activities:		
Increase in net assets	$ 896,659	$ 184,446
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	43,672	18,983
(Increase) decrease in government grants receivable	(48,080)	33,187
Decrease (increase) in prepaid insurance	5,404	(3,561)
Decrease in accounts payable	(2,841)	(82,392)
Net cash provided by operating activities	894,814	150,663
Cash flows from investing activities:		
Purchases of land, building and equipment	(895,756)	(121,928)
Net cash used in investing activities	(895,756)	(121,928)
Net (decrease) increase in cash	(942)	28,735
Cash at beginning of year	346,233	317,498
Cash at end of year	$ 345,291	$ 346,233

Supplemental Cash Flow Information:

During the year ended December 31, 2007 the Organization issued a note payable for $225,925 in connection with the acquisition of land and a building.

Cash paid for interest totaled $4,013 and $-0- for the years ended December 31, 2007 and 2006, respectively.

See accompanying notes to the financial statements.

THE NEXTDOOR, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2007

	Program Services	
	Counseling	Housing and Ministry
Total salaries, wages and benefits	$167,399	$198,090
Other expenses:		
Counseling	-	-
Rent	-	53,783
Other program expenses	-	7,200
Utilities	-	54,185
Maintenance	-	74,534
Provision for depreciation	-	41,488
Telephone	-	13,721
Resident outfitting	-	13,581
Resident meals	-	27,151
Automobile expenses	-	5,064
Insurance	-	47,610
Travel and entertainment	-	-
Supplies	-	85,403
Professional fees	-	-
Dues and subscriptions	-	-
Postage and delivery	-	761
Marketing	-	1,500
Training and support services	-	56,738
Total other expenses	-	482,719
Total program expenses	$167,399	$680,809

Supporting Services		
Administrative	Fund Raising	Total
$100,638	$ 5,000	$ 471,127
300	-	300
2,100	6,332	62,215
2,826	1,365	11,391
3,389	-	57,574
23,911	-	98,445
2,184	-	43,672
12,343	-	26,064
-	-	13,581
-	-	27,151
2,256	-	7,320
6,191	-	53,801
2,729	4,279	7,008
27,742	-	113,145
1,460	2,388	3,848
1,076	2,486	3,562
584	1,580	2,925
3,924	20,344	25,768
1,301	153	58,192
94,316	38,927	615,962
$194,954	$43,927	$1,087,089

See accompanying notes to the financial statements.

THE NEXTDOOR, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006

	Program Services	
	Counseling	Housing and Ministry
Total salaries, wages and benefits	$ -	$172,972
Other expenses:		
Counseling	79,300	-
Rent	-	49,199
Other program expenses	-	3,734
Utilities	-	38,850
Maintenance	-	13,263
Provision for depreciation	-	18,034
Telephone	-	8,150
Resident outfitting	-	10,833
Resident meals	-	9,641
Automobile expense	-	1,011
Insurance	-	4,234
Travel and entertainment	-	3,178
Supplies	-	41,519
Professional fees	-	5,629
Dues and subscriptions	-	-
Postage and delivery	-	-
Marketing	-	-
Training and support services	-	14,341
Total other expenses	79,300	221,616
Total expenses	$79,300	$394,588

Supporting Services		
Administrative	Fund Raising	Total
$17,492	$3,887	$194,351
-	-	79,300
2,740	-	51,939
180	-	3,914
4,317	-	43,167
-	-	13,263
949	-	18,983
5,433	-	13,583
-	-	10,833
-	-	9,641
1,007	-	2,018
14,606	-	18,840
1,852	69	5,099
22,185	-	63,704
6,717	-	12,346
1,488	393	1,881
588	104	692
696	4,201	4,897
2,302	129	16,772
65,060	4,896	370,872
$82,552	$8,783	$565,223

See accompanying notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Nextdoor, Inc., (the "Organization") is a not-for-profit organization incorporated in 2003 to provide physical, emotional, and spiritual support to women at their point of need. The Organization provides these women with transitional living and supportive services such as skills training and counseling services.

Accrual Basis and Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting.

The Organization classifies its revenue, expenses, gains, and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of the Organization and changes therein are classified as follows:

> Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.
>
> Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is displayed in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities. The Organization has no permanently restricted net assets as of December 31, 2007 and 2006.

In the event a donor makes changes to the nature of a restricted gift which affects its classification among the net asset categories, such amounts are reflected as reclassifications in the statement of activities.

Certain reclassifications have been made to the financial statements for 2006 to conform to the presentation adopted for 2007.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, 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 statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Land, Building and Equipment

Land, building and equipment are stated at cost, or if contributed, at fair market value at date of gift. Depreciable assets are being depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to thirty years. Leasehold improvements are depreciated over the estimated useful life of the property, or over the expected term of the lease, whichever is shorter. Maintenance and repairs are charged to expense as incurred, and betterments are capitalized.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the financial statements.

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation are exercised by management in certain areas of the preparation of financial statements. The most significant area is the recovery period for the building, leasehold improvements and equipment. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For purpose of the statements of cash flows, the Organization considers all cash and all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The carrying value of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The carrying value of the note payable is not materially different from the estimated fair value of this instrument.

B. GOVERNMENT GRANTS RECEIVABLE

Government grants receivable are due within one year of December 31, 2007 and 2006. No allowance for uncollectible accounts was considered necessary as of December 31, 2007 and 2006.

C. LAND, BUILDING AND EQUIPMENT

Land, building and equipment at December 31, 2007 and 2006, consisted of the following:

	2007	2006
Land	$ 132,450	$ -
Building	907,415	-
Leasehold improvements	533,776	533,776
Furniture and fixtures	75,158	23,635
Equipment and computers	68,142	37,849
	1,716,941	595,260
Less: Accumulated depreciation	(82,348)	(38,676)
	$ 1,634,593	$ 556,584

Depreciation expense for the years ended December 31, 2007 and 2006 totaled $43,672 and $18,983, respectively.

D. NOTE PAYABLE

At December 31, 2007, the Organization has a note payable totaling $225,925, due in monthly principal and interest installments of $1,866 at 5.75% through February 2023. The note is collateralized by the land and building of the Organization.

The future note payable maturities are as follows:

2008	$ 8,209
2009	10,384
2010	10,997
2011	11,646
2012	12,334
Thereafter	172,355
Total	$225,925

E. TEMPORARILY RESTRICTED NET ASSETS

No temporarily restricted net assets were released from donor restrictions for the years ended December 31, 2007 and December 31, 2006. Temporarily restricted net assets totaled $23,050 and $22,919 as of December 31, 2007 and 2006, respectively, and are restricted for the renovation of certain facilities.

F. LEASES

The Organization leases a copier. Rent expense under the operating lease for the years ended December 31, 2007 and 2006, was $1,932 for each year. The remaining lease commitment under this agreement totals $1,610 and expires in October 2008.

G. ADVERTISING COSTS

The Organization expenses the cost of advertising and marketing when incurred, which totaled $25,768 and $4,897 for the years ended December 31, 2007 and 2006, respectively.

H. GIFTS IN KIND

The Organization records donated materials and services at fair value on the date of donation. The Organization recorded donated materials and supplies with fair values of $28,318 and $33,899 for the years ended December 31, 2007 and 2006, respectively.

In addition, The Nextdoor, Inc., leases a building from a related party. The lease arrangement with the related party provides The Nextdoor, Inc. with certain contributed rent advantages which were recorded at a fair value of $42,000 for each of the years ended December 31, 2007 and 2006.

I. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in high credit quality financial institutions at balances which, at times, may be uninsured or may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to a significant concentration of risk on cash. An accounting risk also extends to receivables, all of which are uncollateralized.

J. COMMITMENTS AND CONTINGENCIES

The Organization has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Although such audits could generate expenditures disallowance under terms of the grants, management believes any required reimbursements would not be material to the financial statements of the Organization.

SUPPLEMENTAL INFORMATION

THE NEXTDOOR, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Contract Number	Grant Period
FEDERAL AWARDS			
U.S. Department of Housing and Urban Development/Supportive Housing Program	14.235	TN37B604006	08-01-07 to 07-31-09
U.S. Department of Housing and Urban Development/State of Tennessee Department of Human Services/Emergency Shelter Grant Program	14.231	Z 07-031468	07-01-06 to 06-30-07
	14.231	Z 08-022598	07-01-07 to 06-30-08
U.S. Department of Housing and Urban Development/Metropolitan Development Housing Agency-Nashville/Emergency Shelter Grant Program	14.231	N/A	04-01-07 to 03-31-08
U.S. Department of Justice/ State of Tennessee, Office of Justice Programs/Edward Byrne Justice Assistance Grant Program	16.738	Z 06-027518	07-01-07 to 06-30-10
U.S. Department of Health and Human Services/Tennessee Department of Mental Health and Developmental Disabilities/Tennessee Access to Recovery for Methamphetamine Users	93.275	DP 06-02295	08-03-05 to 08-02-06
	93.275	DP 07-02403	08-03-06 to 08-02-07
	93.275	DP 08-22319	08-03-07 to 05-03-08
STATE AWARDS			
State of Tennessee/Tennessee Department of Mental Health and Development Disabilities/ Permanent Housing Program	N/A	GR 07-20946	05-01-07 to 07-30-07
State of Tennessee/Tennessee Housing Development Agency/ Housing Trust Fund	N/A	HTF-07-13	07-01-07 to 06-30-09
Totals			

Note A: The schedule of grant activity includes the federal and state grant activity of the Organization. The information in this schedule is presented in accordance with the requirements of the State of Tennessee.

Program Awards	January 1, 2007 (Accrued) Deferred	Receipts	State Expenditures	Federal Expenditures	December 31, 2007 (Accrued) Deferred
$376,551	$ -	$155,497	$ -	$182,674	$(27,177)
56,621	(1,394)	14,651	-	13,257	-
56,621	-	36,083	-	40,940	(4,857)
12,501	-	12,501	-	12,501	-
210,753	-	9,554	-	19,439	(9,885)
N/A	-	6,028	-	6,028	-
N/A	-	38,845	-	38,845	-
N/A	-	18,895	-	26,450	(7,555)
100,000	-	100,000	100,000	-	-
500,000	-	500,000	500,000	-	-
	$(1,394)	$892,054	$600,000	$340,134	$(49,474)

See accompanying independent auditors' report.

CROSSLIN
&ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors
The Nextdoor, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of The Nextdoor, Inc. (the "Organization") as of and for the year ended December 31, 2007, and have issued our report thereon dated July 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items IC-1 through IC-6, to be significant deficiencies in internal control over financial reporting.

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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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be 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 grants 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items IC-5 and IC-6.

* * * * *

The Organization's response to the findings identified in our audit are described accompanying schedule of findings and responses. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors and management of The Nextdoor, Inc. and federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
July 15, 2008

ITEM IC-1
PAYROLL POLICY

Criteria, Condition, Context, Cause and Effect

We noted that for a portion of 2007, the Organization did not maintain documentation of pay rates with necessary approvals in the personnel files. The employee file should also contain all approved salary increases so that, at any point in time, the employee's current salary can be verified.

Recommendation

We recommend the Organization retain signed salary agreements for all employees in the personnel files and implement a policy of requiring employees to sign salary agreements any time there is a change in compensation. Furthermore, we recommend that a member of management, separate from payroll, perform reviews of any changes in compensation to ensure the process has been performed correctly. This change will help to prevent erroneous and/or unauthorized payroll edits and provide much stronger internal control and a much needed audit trail.

Management's Response

Beginning in September 2007, all new employees received written salary agreements to document compensation. The agreements were placed in the individual's personnel file. Employees hired prior to September 2007, will receive written salary agreements to document compensation based on pay increases as a result of their annual evaluation. The salary agreements will be placed in the employee's personnel file. The process will be completed by December 2008.

ITEM IC-2
JOURNAL ENTRY APPROVAL

Criteria, Condition, Context, Cause and Effect

We noted that the Organization does not have an official policy for the approval of journal entries. All journal entries are made from one computer that is password protected, but there is no policy that requires management's approval of the proposed journal entries before they are posted.

Recommendation

We recommend the Organization establish a policy that all manual journal entries are approved by a member of financial management. A record of all manual journal entries should be maintained and reviewed by another member of management on a monthly basis in order to make inquiries into any unusual entries. This will help to ensure that only appropriate manual journal entries are posted to the general ledger.

Management's Response

All journal entries entered in The Next Door's accounting system will be reviewed and approved by the Chief Executive Officer prior to posting. The posting will take place at least once a month. Oversight of this process will be provided by the Treasurer, or his designee, on a monthly basis.

ITEM IC-3
ACCOUNTING FUNCTION

Criteria, Condition, Context, Cause and Effect

Based upon the results of observations made during our audit, we believe the accounting system and overall fiscal management of the Organization could be improved to provide for better internal control and financial information. In general, an accounting and information system should be designed to provide management with accurate and timely financial information to enable well-informed business decisions to be made. The present system fails to meet these expectations. This year the accounting staff required assistance with certain year-end bookkeeping and accounting procedures that are necessary to prepare the books for audit purposes. With adequate training, the accounting staff will become familiar with the necessary procedures to complete the year-end accounting. In time, the condition of the accounting records should improve, and less assistance will be required in this area.

Recommendation

We strongly suggest the Organization provide its accounting staff with the necessary training and oversight to ensure they are able to provide accurate financial information throughout the year and at year-end. This should help to enable the current accounting personnel and system to provide for accountability of assets and maintain an accurate historical record of the Organization's operations.

Management's Response

The Next Door will insure that the staff responsible for day to day oversight of accounting practices has an understanding of daily, year end and other audit accounting practices. Starting in June 2008, the Operations Director will provide the Chief Executive Office with monthly accounting reports to ensure accurate allocation of funds and expenditures.

ITEM IC-4
ACCOUNTING PERSONNEL

Criteria, Condition, Context, Cause and Effect

During our audit procedures we noted that although the Organization continues to grow in size and number of employees, there has not been a proportional increase in the accounting department's staffing. A common management error of many growing organizations, is that insufficient funds and attention are allocated to the internal administrative infrastructure. As a result, the organization may continue to grow for some period until at some point in time a potentially debilitating crisis occurs in one of the administrative areas. Expanding the accounting department would facilitate segregation of duties, and greatly strengthen the Organization's internal controls and the propriety of financial data.

Recommendation

We recommend that the Organization consider either hiring an additional person or shifting certain accounting duties to other current employees to assist in the accounting function.

Management's Response

In May 2008, The Next Door restructured the job description of the Operations Director. The primary function of this position is to administer the daily operations of the organization with a major focus on accounting tasks. She will work closely with the Chief Executive Officer and Board Treasurer to provide accountability and stewardship of financial concerns of the organization.

ITEM IC-5
DAILY DEPOSITS

Criteria, Condition, Context, Cause and Effect

We noted that bank deposits were being made, at most, on a weekly basis. This leaves the Organization susceptible to the physical loss of checks or cash that is being held in the office for several days before it is deposited.

Recommendation

In accordance with state requirements, we suggest that the cash receipts system be designed to ensure that all receipts are deposited within three days of receipt to ensure the Organization's exposure to the physical risk of loss is minimized and funds are properly safeguarded.

Management's Response

As of May 2008, the Organization instituted a deposit process in accordance with state requirements. The mail is checked daily. Checks are immediately placed in the office safe to limit the opportunity for misplacement. When cash is received, it is placed in the safe to secure the funds until deposited.

ITEM IC-6
GRANT AND CONTRACT ACCOUNTING

Criteria, Condition, Context, Cause and Effect

During the preparation of the schedule of expenditures of federal and state awards we encountered a lack of separate accounting for each grant and the ability of the staff to reconcile these amounts to the general ledger and state confirmations. Based on our observation of the work performed and discussions with various personnel, it is our opinion that there was an overall lack of understanding and experience in the area of grant accounting on the part of the staff. Because federal, state, and private grants make up a large portion of the Organization's support, it is our opinion that it is of vital importance that grant administration include individuals who are experienced and knowledgeable in the areas of grant accounting and monitoring.

Recommendation

Although we understand that significant improvements in the maintenance and accounting for grants and contracts were made subsequent to the year ended December 31, 2007, we recommend that the Organization continue to evaluate and improve the processes and system for the grant accounting utilized by the grant administration staff.

Management's Response

The Organization has implemented processes to maintain documentation in paper and electronic format of support relating to allowable grant expenditures. This documentation includes:

- Monthly Invoice Summary
- Invoice for Reimbursement
- Detailed List of Expenditures that includes necessary tracking items

These documented costs are then allocated to each applicable grant or contract agreement within a subsidiary ledger. Additional improvements have been made to track the cost of each Federal and State grant for the purposes of compiling the schedule of expenditures of Federal and State awards.