

NEIGHBORS IN NEED OF SERVICES, INC.

AUDITED ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED MARCH 31, 2013

SCHRIVER|CARMONA|CARRERA P.L.L.C.

Certified Public Accountants

NEIGHBORS IN NEED OF SERVICES, INC.
AUDITED FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED MARCH 31, 2013

Board of Directors

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Henry Lopez

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Antonio Ortiz

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Mary F. Sosa

Esperanza Vera

Executive Director
Manuela Rendon

Finance Director
Tracy L. Torres

NEIGHBORS IN NEED OF SERVICES, INC.
AUDITED ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED MARCH 31, 2013

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Independent Auditor's Report

UNQUALIFIED OPINION ON FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

To the Board of Directors of
Neighbors in Need of Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Neighbors in Need of Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of March 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighbors in Need of Services, Inc. as of March 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013, on our consideration of Neighbors in Need of Services, Inc.'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Neighbors in Need of Services, Inc.'s internal control over financial reporting and compliance.



Schrive, Carmona & Carrera, PLLC
Certified Public Accountants
San Antonio, Texas
October 30, 2013

NEIGHBORS IN NEED OF SERVICES, INC
Consolidated Statement of Financial Position
March 31, 2013

Assets

Current Assets	
Cash and Cash Equivalents	\$ 492,761
Other Current Assets:	
Accounts Receivable	1,246
Grant Receivable	589,096
Investment - CD	206,113
Prepaid Items	31,710
Total Current Assets	<u>1,320,926</u>
Property, Plant and Equipment	
Land	416,627
Building and Improvements	2,611,860
Leasehold Improvements	765,674
Vehicles & Equipment	2,456,691
Less: Accumulated Depreciation	(4,381,608)
Total Property, Plant and Equipment	<u>1,869,244</u>
Total Assets	<u>\$ 3,190,170</u>

Liabilities and Net Assets

Current Liabilities	
Accounts Payable	\$ 120,679
Wages & Salaries Payable	278,124
Payroll Liabilities	335,660
Deferred Income	31,710
Current Portion - Notes Payable	5,148
Total Current Liabilities	<u>771,321</u>
Notes Payable - USDA	121,310
Total Liabilities	<u>892,631</u>
Net Assets	
Net Assets - Temporarily Restricted	7,161
Net Assets - Unrestricted	2,290,378
Total Net Assets	<u>2,297,539</u>
Total Liabilities and Net Assets	<u>\$ 3,190,170</u>

See accompanying notes to financial statements.

NEIGHBORS IN NEED OF SERVICES, INC
Consolidated Statement of Activities
For the Year Ended March 31, 2013

	Unrestricted	Temporarily Restricted	Total 2012
Support, Revenues and Reclassifications			
U.S. Health and Human Services Commission	\$ 20,575,472	\$ -	\$ 20,575,472
Texas Dept of Agriculture	2,158,783	-	2,158,783
Program Income	99,023	-	99,023
Contributions and Donations (In Kind)	5,171,140	-	5,171,140
Other Revenue	228,484	12,575	241,059
Net Assets Released from Restrictions			
Restrictions Satisfied by Payments	15,600	(15,600)	-
Total Support, Revenue and Reclassifications	<u>28,248,502</u>	<u>(3,025)</u>	<u>28,245,477</u>
Expenses			
Program Services:			
Program Expenses	26,263,078	-	26,263,078
Total Program Services	<u>26,263,078</u>	<u>-</u>	<u>26,263,078</u>
Support Services:			
General and Administrative	1,724,097	-	1,724,097
Total Support Services	<u>1,724,097</u>	<u>-</u>	<u>1,724,097</u>
Total Expenses	<u>27,987,175</u>	<u>-</u>	<u>27,987,175</u>
Change in Net Assets	261,327	(3,025)	258,302
Net Assets - April 1, 2012	<u>2,029,051</u>	<u>10,186</u>	<u>2,039,237</u>
Prior Period Adjustment	-	-	-
Net Assets - March 31, 2013	<u>\$ 2,290,378</u>	<u>\$ 7,161</u>	<u>\$ 2,297,539</u>

See accompanying notes to financial statements.

NEIGHBORS IN NEED OF SERVICES, INC
Consolidated Statement of Cash Flows
For the Year Ended March 31, 2013

Cash Flows from Operating Activities

Change in Net Assets	\$ 258,302
Adjustments to Reconcile excess to Net Cash provided by Operating Activities:	
Depreciation and Amortization	40,163
(Increase) Decrease in Accounts Receivable	413
(Increase) Decrease in Grant Receivable	365,448
(Increase) Decrease in Other Receivables	(862)
(Increase) Decrease in Prepaid Expenses	(12,731)
Increase (Decrease) in Accounts Payable	(272,585)
Increase (Decrease) in Wage & Salary Payable	(28,504)
Increase (Decrease) in Accrued Liabilities	67,451
Increase (Decrease) in Deferred Income	12,731
Net Cash Provided (Used) by Operating Activities	<u>429,826</u>

Cash Flows from Investing Activities

Acquisition of Capital Assets	(290,132)
Purchase of CD and Interest Reinvested	196,572
Net Cash Provided (Used) by Investing Activities	<u>(93,560)</u>

Cash Flows from Financing Activities

Payment on Long Term Debt	(4,907)
Net Cash Provided (Used) by Financing Activities	<u>(4,907)</u>
Net Increase (Decrease) in Cash	<u>331,359</u>
Cash and Cash Equivalents at April 1, 2012	161,402
Prior Period Adjustment	-
Cash and Cash Equivalents at March 31, 2013	<u>\$ 492,761</u>

Supplementary Information:

Interest Expense	6,253
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See accompanying notes to financial statements.

NEIGHBORS IN NEED OF SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Neighbors In Need Of Services, Inc. ("NINOS") is a not-for-profit Texas corporation organized in 1990. The primary purpose of NINOS is to operate the Head Start Program in Cameron and Willacy Counties as sponsored by the U.S. Department of Health and Human Services. NINOS provides child development services including education services to children from infancy up to compulsory enrollment in school. These services are available to children based on family income guidelines and include children with disabilities. NINOS also operates the Child and Adult Care Food Program from the Texas Department of Human Services, which is sponsored by the U.S. Department of Agriculture. The Food Program participates with the Head Start and Early Head Start Programs in providing support for nutrition assistance services. NINOS also receives funding from the Head Start/Early Head Start Regional office via the Training and Technical Assistance Program (T/TA). The financial activity of Advocacy of NINOS, Inc. and the Head Start Policy Council, both subsidiaries of NINOS for the purpose of financial reporting have been consolidated with NINOS' financial activity and all appropriate consolidating eliminations have been made as a result of the consolidation.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements are prepared on the accrual basis in conformity with accounting principals generally accepted in the United States of America.

Financial Statement Presentation and Contributions and Support

NINOS has elected to adopt Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, NINOS is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

NINOS also elected to adopt SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a donor restriction expires, that is, when the 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: satisfaction or usage restriction. NINOS has no permanently restricted net assets.

Recognition of Grant Support

Head Start, Early Head Start, ARRA and THHSC grant funds are recognized as support when related program expenses are incurred. Food Program grants funds are recognized as support when complete program meals and snacks are provided to eligible participants. The amount of resources recognized under the food program is based on the number of complete program meals and snacks provided times the related rates authorized by the grantor.

Functional Allocation of Expenses

The expenses of NINOS have been reported on a functional basis. This requires the allocation of certain expenses between program and support services based on an analysis of each expense account or in certain instances on estimates made by management.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of replacement cost or estimated net realizable value.

Property and Equipment

Leasehold improvements are carried at cost net of accumulated amortization. Amortization is computed on a straight-line basis over the term of the lease.

Equipment, furnishings and building in excess of \$5,000 are capitalized and carried at cost net of accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets of a period ranging from 5 to 50 years. Equipment and furnishings costing less than \$5,000 are charged to expense when incurred.

Buildings, furniture and equipment of NINOS are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Leasehold Improvements	39
Land Improvements	20
Portable Buildings	15
Office Equipments	10
Motor Vehicles	5
Heavy Construction Equipment	5
Computer Equipment	5
Kitchen equipment	5

All property, equipment, and furnishings have been acquired with Federal grant assistance; therefore, any proceeds received from the disposition of such property are to be administered as follows. If NINO'S program for which the property was acquired is still receiving grant support from the same federal program, the grantor may authorize use of any proceeds received for allowable costs of that program. Otherwise, the net amount of any proceeds received must be remitted to the grantor.

The net property and equipment balance has been recorded as a separate component in unrestricted net assets.

Income Taxes

NINOS is not-for-profit organized under Section 501 (c) (3) of the Internal Revenue Code and is generally exempt from Federal income taxes and, accordingly, no provision for income taxes is included in the financial statements.

Accumulation of Employee Benefits

Employees of NINOS are entitled to paid vacation depending on length of service and other factors.

Sick leave is not accrued because it does not vest. Employees are not paid for any unused sick leave at termination of employment.

Statement of Cash Flows

For purpose of reporting cash flows, cash includes cash on hand and cash in banks.

During the year ended March 31, 2013 NINOS paid no income taxes and paid interest of \$6,253.

Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires managements to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE C – Deposits and Investments and Credit Risk

At March 31, 2013, the carrying amount of the NINOS' deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$698,874 and the bank balance was \$837,332. \$500,000 of NINOS' cash deposits at March 31, 2013 and during the year ended March 31, 2013 was entirely covered by FDIC insurance (\$250,000 per depository institution). \$337,332 was unsecured. NINOS has not experienced any losses on these accounts and management believes it is not exposed to any significant credit risk on the excess amounts.

Note D – Grants and Other Receivables

Grants and other receivables as of March 31, 2013 consist of the following:

Receivable	Amount
U.S. Department of Health and Human Services	\$ 398,904
Texas Department of Agriculture (Health Nutrition Program)	<u>190,192</u>
Total Grants Receivable	\$ 589,096

Note E – Property and Equipment

A summary of property and equipment at March 31, 2013 follows:

Assets	Cost
VEHICLES & EQUIPMENT	\$ 2,456,691
LEASEHOLD IMPROVEMENTS	765,674
BUILDINGS	2,611,860
	5,834,225
Less: Accumulated Depreciation/Amortization	<u>(4,381,608)</u>
	1,452,617
Land	<u>416,627</u>
	<u>\$ 1,869,244</u>

Depreciation expense for the year ended March 31, 2013 totaled \$40,163.

There were \$290,132 of property and equipment acquisitions and no disposals during the year ended March 31, 2013.

Note F – Retirement Plan

NINOS sponsors an employee retirement plan similar to a profit-sharing plan covering employees who have completed at least six months of service. Under the plan, NINOS may contribute an amount to be determined annually by the board of directors. Employees may also make voluntary "Tax Deferred" contributions up to 15% of their pay to the plan. Employees will be 100% vested as to the employer contributions plus earnings. During the year ended March 31, 2013 the board of directors authorized contributions to the plan of 8% of an eligible employee's salary. The total employer contributions for the year ended March 31, 2013 totaled \$908,228.

Note G – Contingencies

NINOS participants in programs that are sponsored by Federal government grants. Expenditures financed by grants are subject to audit by the appropriate grantor agency. If program expenditures or support claims are disallowed due to noncompliance with grant program regulations, NINOS may be required to reimburse the grantor. NINOS believes it has substantially complied with applicable laws and regulations and any subsequent examinations will not have a material effect on any of the individual governmental resources of the overall financial position of NINOS.

The future operations of NINOS are contingent upon continual funding from the U.S. Department of Health and Human Services and the U.S. Department of Agriculture.

Note H – Operating Leases

NINOS leases operating space for all of its centers under operating leases primarily from governmental agencies. The lease agreements are generally for a one to five year term. Total rent paid for the year ended March 31, 2013 was \$79,915. Total minimum lease payment obligations of these leases are as follows:

<u>Year ending March 31,</u>	
2014	\$28,085
2015	28,085
2016	28,085
2017	28,085
2018 and thereafter	28,085
Total	<u>\$140,425</u>

Note I – In-Kind Contributions

NINOS Inc. received a total of \$5,171,140 in In-Kind contributions related to rent, donations and volunteer labor. This amount is reflected in the financial statements.

Note J – Note Payable-Advocacy of NINOS, INC.

Amount of Loan	Loan #	Date of Loan	Interest Rate	Unpaid Principal
\$138,000	01	4/24/2000	4.750	\$100,098
\$ 35,800	03	4/24/2000	5.125	\$26,360

Unpaid Principal Total

The current portion of the debt for the year ended March 31, 2013 was \$5,148.

The payment schedule for the two outstanding notes payable follows:

Five-year
schedule: payment

Note Description	03/31/14	03/31/15	03/31/16	03/31/17	03/31/18	Thereafter
USDA, Rural Development	8,784	8,784	8,784	8,784	8,784	50,898
USDA, Rural Development	2,376	2,376	2,376	2,376	2,376	13,097
	11,160	11,160	11,160	11,160	11,160	63,995

Note K – Subsequent Events

Subsequent events have been evaluated through October 30, 2013, which is the date the financial statements were available to be issued.

NEIGHBORS IN NEED OF SERVICES, INC
Consolidated Schedule of Functional Expenses
For the Year Ended March 31, 2013

	Program Expense	Support Services	Total Expenses
Salary & Wages	11,376,940	1,425,017	12,801,957
Employee Benefits	3,422,051	-	3,422,051
Payroll Tax Expense	1,309,201	-	1,309,201
Classroom Expense	436,170	-	436,170
Depreciation & Amortization	40,163	-	40,163
Dues & Subscriptions	-	15,453	15,453
Insurance Expense	323,020	-	323,020
Interest Expense	6,253	-	6,253
Nutrition Program	1,775,150	-	1,775,150
Parent Services	98,058	-	98,058
Professional Services	21,999	35,175	57,174
Property Taxes	357	-	357
Rent	79,915	-	79,915
Repair & Maintenance	427,298	8,940	436,238
Scholarship Expenses	15,600	-	15,600
Staff Development	-	34,087	34,087
Supplies	145,257	134,593	279,850
Telephone	118,562	-	118,562
Travel	36,800	70,832	107,632
Vehicle Expense	156,989	-	156,989
Utilities	410,388	-	410,388
Other	901,767	-	901,767
In Kind Utilization	5,161,140	-	5,161,140
Total Expenses	<u>26,263,078</u>	<u>1,724,097</u>	<u>27,987,175</u>

See accompanying notes to financial statements.

SCHRIVER|CARMONA|CARRERA P.L.L.C.
Certified Public Accountants

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

Independent Auditor's Report

To the Board of Directors of
Neighbors in Need of Services, Inc.

We have audited, in accordance with the 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, the financial statements of Neighbors in Need of Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of March 31, 2013 and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Neighbors in Need of Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neighbors in Need of Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Neighbors in Need of Services, Inc.'s financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, appearing to read "Schriver Carmona Carrera", written in black ink.

Schriver, Carmona & Carrera, PLLC
Certified Public Accountants
San Antonio, Texas
October 30, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

To the Board of Directors of
Neighbors in Need of Services, Inc.

Report on Compliance for Each Major Federal Program

We have audited Neighbors in Need of Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Neighbors in Need of Services, Inc.'s major federal programs for the year ended March 31, 2013. Neighbors in Need of Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Neighbors in Need of Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Neighbors in Need of Services, Inc.'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Neighbors in Need of Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Neighbors in Need of Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2013.

Report on Internal Control Over Compliance

Management of Neighbors in Need of Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Neighbors in Need of Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Neighbors in Need of Services, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schrivier, Carmona & Carrera, PLLC
Certified Public Accountants
San Antonio, Texas
October 30, 2013

NEIGHBORS IN NEED OF SERVICES, INC.

NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS FISCAL YEAR ENDED MARCH 31, 2013

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal Award Programs of Neighbors in Need of Services, Inc. (a nonprofit organization).

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

3. Relationship to Federal Financial Reports Basis of Accounting

Amounts reported in the accompanying schedule may not agree with the amounts reported in the related Federal financial reports filed with the grantor agencies because of accruals made in the schedule, which will be included in future reports filed with the agencies.