



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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November 20, 2009

Board of Directors
Community Action of
Southern Indiana, Inc.
1613 E. 8th Street
Jeffersonville, IN 47130

We have reviewed the audit report prepared by Gauthier & Kimmerling, LLC, Independent Public Accountants, for the period April 1, 2007 to March 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Community Action of Southern Indiana, Inc., as of March 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report except for the effects of not capitalizing certain equipment.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. The Summary Schedule of Prior Audit Findings contains the status of three prior audit findings. The Schedule of Findings and Questioned Costs contains seven current audit findings.

STATE BOARD OF ACCOUNTS

**COMMUNITY ACTION
OF SOUTHERN INDIANA, INC.**

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

MARCH 31, 2008

COMMUNITY ACTION OF SOUTHERN INDIANA, INC.

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Independent Auditors' Report

Board of Directors
Community Action of
Southern Indiana, Inc.
Jeffersonville, Indiana

We have audited the accompanying statement of financial position of Community Action of Southern Indiana, Inc. (CASI) as of March 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of CASI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As disclosed in Note 10 to the financial statements, CASI excluded certain equipment from property in the accompanying statement of activities. In our opinion, accounting principles generally accepted in the United States of America require that such obligations be included in the statement of financial position.

In our opinion, except for the effects of not capitalizing certain equipment and, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of CASI as of March 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 23, 2008, on our consideration of CASI'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.

Community Action of
Southern Indiana, Inc.
Page 2

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying statement of revenue and expenses for the Head Start Program grant number 05CH4040/42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

Gauthier & Krumholz, LLC

December 23, 2008

COMMUNITY ACTION OF SOUTHERN INDIANA, INC.
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2008

ASSETS

| | |
|---|---------------------|
| Cash | \$ 283,136 |
| Certificates of deposit | 37,393 |
| Grants receivable (Note 5) | 249,723 |
| Loans receivable (Note 4) | 6,442 |
| Prepaid expenses | 9,048 |
| Property and equipment purchased with federal funds (Note 7) | 698,082 |
| Property and equipment, net of accumulated depreciation of \$62,115 (Note 7) | <u>84,704</u> |
| Total Assets | <u>\$ 1,368,528</u> |

LIABILITIES AND NET ASSETS

Liabilities:

| | |
|----------------------------------|---------------------|
| Accounts payable | \$ 189,901 |
| Accrued payroll and vacation | 127,607 |
| Notes payable (Note 8) | 10,000 |
| Deferred revenue (Note 12) | <u>341,773</u> |
| Total Liabilities | <u>669,281</u> |
| Unrestricted Net Assets | <u>699,247</u> |
| Total Liabilities and Net Assets | <u>\$ 1,368,528</u> |

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

COMMUNITY ACTION OF SOUTHERN INDIANA, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008

| | Unrestricted | Temporarily Restricted | Total |
|---|--------------|---------------------------|--------------|
| <u>REVENUES AND OTHER SUPPORT</u> | | | |
| Grants (Note 9) | \$ 6,340,877 | \$ - | \$ 6,340,877 |
| In-kind contribution (Note 13) | 515,845 | - | 515,845 |
| Contract income | 68,923 | - | 68,923 |
| Contributions | 1,500 | - | 1,500 |
| Rental income | 15,342 | - | 15,342 |
| Fundraising | 8,984 | - | 8,984 |
| Interest | 7,451 | - | 7,451 |
| Miscellaneous income | 48,268 | - | 48,268 |
| Program revenue | 28,375 | - | 28,375 |
| Revenues and other support | 7,035,565 | - | 7,035,565 |
| Revenues released from restriction | - | - | - |
| Total Revenues and Other Support | 7,035,565 | - | 7,035,565 |
| <u>EXPENSES</u> | | | |
| Head start | 2,396,856 | - | 2,396,856 |
| Self-sufficiency | 193,628 | - | 193,628 |
| Drug prevention | 104,449 | - | 104,449 |
| Housing assistance and rehabilitation | 1,640,029 | - | 1,640,029 |
| Energy services | 1,820,481 | - | 1,820,481 |
| Weatherization services | 411,884 | - | 411,884 |
| Other programs | 127,209 | - | 127,209 |
| Administrative and general | 321,829 | - | 321,829 |
| Total Expenses | 7,016,365 | - | 7,016,365 |
| Increase (decrease) in net assets | 19,200 | - | 19,200 |
| Net assets - beginning of year | 777,749 | - | 777,749 |
| Less: current period adjustment (Note 13) | (97,702) | - | (97,702) |
| | 680,047 | - | 680,047 |
| Net assets - end of year | \$ 699,247 | \$ - | \$ 699,247 |

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

COMMUNITY ACTION OF SOUTHERN INDIANA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2008

| | Child Education | Self- Sufficiency | Drug Prevention | Housing | Energy | Weatherization Programs | Other Programs | Program Total | Administrative and General | Total |
|---------------------------------|--------------------|----------------------|--------------------|--------------------|--------------------|----------------------------|-------------------|---------------------|----------------------------------|---------------------|
| Salaries and benefits | \$1,322,243 | \$ 77,276 | \$ 64,149 | \$ 123,860 | \$ 104,620 | \$ 142,064 | \$ - | \$ 1,834,212 | \$ 186,300 | \$ 2,020,512 |
| Professional fees/services | 92,487 | 40,070 | 85 | 9,617 | 9,122 | 477 | - | 151,858 | 22,618 | 174,476 |
| Contracted services | 12,598 | 17,485 | 5,293 | 21,828 | 36,174 | 159,348 | - | 252,726 | - | 252,726 |
| Materials and supplies | 70,966 | 3,090 | 5,098 | 1,292 | 908 | 788 | - | 82,142 | 11,828 | 93,970 |
| Food and meals | 34,929 | 80 | 130 | 135 | - | - | 127,209 | 162,483 | 14,788 | 177,271 |
| Building rental | | | | | | | | | | |
| and maintenance | 171,819 | 40,903 | 2,445 | 3,380 | 8,137 | 13,117 | - | 239,801 | 8,767 | 248,568 |
| Equipment rental | | | | | | | | | | |
| and maintenance | 17,098 | 1,050 | 1,187 | 1,313 | 1,239 | 6,228 | - | 28,115 | 4,710 | 32,825 |
| Occupancy - utilities | 35,917 | - | - | - | - | - | - | 35,917 | 28,523 | 64,440 |
| Building and property insurance | 33,201 | 1,789 | 1,731 | 1,800 | 2,610 | 6,304 | - | 47,435 | 3,483 | 50,918 |
| Telephone | 11,333 | 2,243 | 947 | 1,677 | 1,355 | 1,770 | - | 19,325 | 3,395 | 22,720 |
| Postage | 1,693 | 2,165 | 286 | 4,010 | 1,108 | 152 | - | 9,414 | 2,956 | 12,370 |
| Public relations and printing | 7,710 | 670 | 19,336 | 577 | 866 | 461 | - | 29,620 | 8,430 | 38,050 |
| Travel and meetings | 54,929 | 4,469 | 2,887 | 3,053 | - | 564 | - | 65,902 | 1,518 | 67,420 |
| Dues and memberships | 8,114 | 1,476 | 875 | 1,266 | 58 | 51 | - | 11,840 | 4,443 | 16,283 |
| Special events | - | - | - | - | - | - | - | - | 3,323 | 3,323 |
| In-kind expense | 515,845 | - | - | - | - | - | - | 515,845 | - | 515,845 |
| Direct assistance | 5,974 | 862 | - | 1,466,221 | 1,654,284 | 80,560 | - | 3,207,901 | 1,810 | 3,209,711 |
| Depreciation | - | - | - | - | - | - | - | - | 8,202 | 8,202 |
| Other expenses | - | - | - | - | - | - | - | - | 6,735 | 6,735 |
| | <u>\$2,396,856</u> | <u>\$193,628</u> | <u>\$104,449</u> | <u>\$1,640,029</u> | <u>\$1,820,481</u> | <u>\$ 411,884</u> | <u>\$127,209</u> | <u>\$ 6,694,536</u> | <u>\$ 321,829</u> | <u>\$ 7,016,365</u> |

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

**COMMUNITY ACTION OF SOUTHERN INDIANA, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|-----------------|
| Change in net assets | \$ 19,200 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 8,202 |
| (Increases) decreases in operating assets: | |
| Grants receivable | 125,929 |
| Loan receivable | (6,442) |
| Prepaid expenses | (867) |
| Increases (decreases) in operating liabilities: | |
| Accounts payable | (105,164) |
| Accrued payroll and related liabilities | (4,452) |
| Deferred revenue | <u>(17,562)</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>18,844</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|-----------------|
| Increase in certificate of deposit | (1,273) |
| Purchase of equipment | <u>(34,493)</u> |
| Net Cash Provided by (Used in) Investing Activities | <u>(35,766)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---|-------------------|
| Payment on debt | <u>(10,000)</u> |
| Net Cash Provided by (Used in) Financing Activities | <u>(10,000)</u> |
| Net increase (decrease) in cash | (26,922) |
| Cash - beginning of year | <u>310,058</u> |
| Cash - end of year | <u>\$ 283,136</u> |
| Interest paid during the year | <u>\$ 1,098</u> |

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

COMMUNITY ACTION OF SOUTHERN INDIANA, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

1. NATURE OF THE ORGANIZATION

Community Action of Southern Indiana, Inc. (CASI) was established in 1965 to develop and provide resources for the purpose of assisting low-income individuals through a variety of programs in Clark, Floyd, and Harrison counties in Indiana.

During 2008, CASI was actively involved in:

- Child education
- Weatherization and energy services
- Job training and employment services
- Housing voucher program
- Housing rehabilitation
- Alcohol and drug prevention

CASI receives funding from many organizations, but its primary sources of revenue are state and federal government grants.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared using the accrual basis of accounting, as described below.

In accordance with Statement of Financial Accounting Standards (SFAS) 117, Financial Statements of Not-for-Profit Organizations, unrestricted net assets include all assets over which CASI has full discretion as to use. Temporarily restricted net assets include net assets whose use by CASI is limited by donor-imposed restrictions that either expire by the passage of time or are fulfilled by CASI. As the restrictions are met, the net assets are released from restrictions and included in unrestricted net assets.

Contributions for which the restrictions are met in the same period in which the contribution is received are also recorded as unrestricted. Permanently restricted net assets include net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of CASI.

Federal and state grant awards are recognized as unrestricted revenue subject to compliance with grant restrictions. Unexpended funds are reported as temporarily restricted revenue.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. Actual amounts may differ from these estimates.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

CASI allocates its expenses on a functional basis among various programs. Expenses directly related to certain programs are expensed to those programs. Other expenses that are common to several programs are allocated based upon a rational and systematic method.

CASI is exempt from income taxation under the Internal Revenue Code Section 501(c)(3).

Property and equipment not acquired under federal and state programs are capitalized and recorded at cost. Property and equipment donated are recorded at fair market value at date of donation. Maintenance and repairs are charged to expense when incurred; renewals or betterments are capitalized. Gain or loss on retirements or disposition of assets is charged to operations, and respective costs and accumulated depreciation are eliminated from the accounts.

Depreciation is provided on the estimated useful lives of the assets using the straight-line method. The estimated useful lives are 15 years for leasehold improvements and 5 years for vehicles. Only assets in excess of \$5,000 are capitalized as property and equipment on the financial statements.

Accounts and Loan Receivable are charged to bad debt expense when they are determined to be uncollectible based on a periodic review of the accounts by management. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

3. FINANCIAL INSTRUMENTS

CASI maintains its cash in deposit accounts that, at times, may exceed federally insured limits. As of December 31, 2008, such excess totaled approximately \$29,000.

CASI has not experienced any losses in its accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

4. LOANS RECEIVABLE

CASI operates a Micro-Loan grant program that provides loans to low-income business owners. The loans are at .5% above prime and are repayable on an installment basis over various loan maturities. Interest rates usually range from 6% to 8%. Repaid loans and interest are used by the Agency for similar purposes. As of March 31, 2008, \$6,442 was recorded in deferred loans receivable (revolving grant funds). Interest payments are recorded as revenue when received.

5. GRANT REVENUE, GRANTS RECEIVABLE, AND DEFERRED REVENUE

CASI's grant revenue and grants receivable consist of the following at December 31:

| Grantor/Program Title | Grants Receivable 3/31/07 | Grant Revenue 3/31/08 | Collections 3/31/08 | Grants Receivable 3/31/08 |
|---|---------------------------------|-----------------------------|------------------------|---------------------------------|
| U.S. Department of Agriculture | | | | |
| Child and Adult Care Food Program | \$ 103,922 | \$ 127,209 | \$ 207,336 | \$ 23,795 |
| HUD | | | | |
| HOME | 49,167 | 18,496 | 67,663 | - |
| Section 8 | - | 1,610,855 | 1,610,855 | - |
| U.S. Department of Energy | | | | |
| Weatherization Assistance | 165,322 | 348,744 | 494,633 | 19,433 |
| HHS | | | | |
| CSBG | - | 178,912 | 135,267 | 43,645 |
| LIHEAP | 36,757 | 1,867,188 | 1,820,407 | 83,538 |
| IDA | - | 14,190 | 14,190 | - |
| Grassroots | - | 124,754 | 122,803 | 1,951 |
| Head Start | - | 2,039,631 | 1,962,270 | 77,361 |
| State and Other Programs | | | | |
| WHAS Crusade for Children | - | 4,238 | 4,238 | - |
| Tobacco Prevention and Cessation | - | 6,660 | 6,660 | - |
| Other | 20,484 | - | 20,484 | - |
| Totals | \$ 375,652 | \$ 6,340,877 | \$ 6,466,806 | \$ 249,723 |

6. EMPLOYEE RETIREMENT PLAN

CASI offers a 401(K) retirement plan. An employee must have completed one year of full-time employment to be eligible. CASI contributes 1% of employee compensation for the year for all eligible participants. Contributions made by CASI were \$12,365 for the year ended March 31, 2008.

7. PROPERTY AND EQUIPMENT

CASI's property and equipment consisted of the following at March 31, 2008:

| | Cost | Accumulated Depreciation | Net Book Value |
|-----------------------|-------------------|-----------------------------|-------------------|
| Building improvements | \$ 86,557 | \$ (34,621) | \$ 51,936 |
| Equipment | 34,493 | (1,725) | 32,768 |
| Vehicles | 27,494 | (27,494) | - |
| Total | \$ 148,544 | \$ (63,840) | \$ 84,704 |

Continued

7. PROPERTY AND EQUIPMENT – Continued

Depreciation expense for the year totaled \$8,202.

CASI's property and equipment purchased with federal funds at March 31, 2008:

| | |
|-----------------------|-------------------|
| Building improvements | \$ 473,252 |
| Vehicles | <u>224,830</u> |
| Total | <u>\$ 698,082</u> |

8. NOTES PAYABLE

CASI has a \$50,000 line of credit with Republic Bank & Trust Co. payable on demand. Interest only payments are required monthly at the bank's prime rate of 6%. The balance outstanding at March 31, 2008 totaled \$10,000. The line of credit is secured by deposits. Total maximum outstanding during the year totaled \$20,000.

Future principal maturities on the notes payable are as follows:

| | | |
|--------------------------|------------|------------------|
| Year ending December 31, | | |
| | 2009 | \$ 10,000 |
| | 2010 | - |
| | 2011 | - |
| | 2012 | - |
| | 2013 | - |
| | Thereafter | <u>-</u> |
| | Total | <u>\$ 10,000</u> |

9. CHANGE IN ACCOUNTING PRINCIPLE

Beginning in fiscal year 2008, CASI has adapted the preferred method of recognizing vested accrued vacation expense in the year the obligation occurs. CASI previously accounted for its accrued vacation by showing it as a receivable and liability on the statement of financial position. The cumulative effect of applying this change has been reflected as an adjustment to beginning net assets on the statement of activities. The prior years cumulative effect as of March 31, 2007 was \$97,702.

10. DEPARTURE FROM GAAP-FIXED ASSETS

CASI has excluded from property in the statement of activities certain equipment that, in our opinion, should be capitalized in order to conform with accounting principles generally accepted in the United States of America. If the equipment were capitalized, property would be increased by \$15,918 and equity by \$14,820 as of March 31, 2008. Additionally, net income would be increased by \$14,820.

11. LEASE

CASI leases its office from the City of Jeffersonville, Indiana. The lease for the office calls for monthly payments of \$15,000 for 120 months. Lease expense for the year ended March 31, 2008 totaled \$186,400, of which includes \$6400 of rent payments for Head Start offsite locations. The lease expires on November 30, 2011.

CASI leases its copier. The lease calls for monthly payments of \$415 for 36 months. The lease expired July 14, 2008. CASI entered into a new lease agreement on December 8, 2008. The new lease calls for monthly payments of \$420 for 39 months. The lease expires March 8, 2012.

CASI leased another copier. The lease called for monthly payments of \$127 for 36 months. The lease expired August 8, 2008. The lease was not renewed.

Future minimum lease payments are as follows:

Year ending March 31

| | | |
|------------|----|----------------|
| 2009 | \$ | 185,513 |
| 2010 | | 185,040 |
| 2011 | | 125,040 |
| 2012 | | 4,620 |
| Thereafter | | <u>-</u> |
| Total | \$ | <u>500,213</u> |

Lease payments are included in equipment rental and maintenance on the statement of functional expenses.

12. DEFERRED REVENUE

As of March 31, 2008, deferred revenue consisted of the following:

| | | |
|---|----|----------------|
| IDA - New Direction Housing | \$ | 13,187 |
| IDA - Match Funds | | 146,545 |
| Certificate of Deposit - IDA | | 37,393 |
| Joe Lear Scholarship Fund | | 2,629 |
| Section 8 | | 133,019 |
| Indiana Econ. Dev. Corp. for Microloans | | <u>9,000</u> |
| Total | \$ | <u>341,773</u> |

New Direction Housing provided funds to CASI to be used for the IDA Program in a prior year. The above amount is the remaining balance of those funds.

The State of Indiana matches a specified amount of funds IDA clients put into a savings account. The funds can only be used by IDA clients for education, opening a business, or towards the purchase of a home.

12. DEFERRED REVENUE – Continued

IDA funds are put into certificates of deposit to earn monies for programs.

Joe Lear Scholarship Fund is a scholarship for high school students to use for college.

Section 8 is paid a month in advance. As of March 31, 2008, a balance of \$133,019 of April 2008 Section 8 payments is included in deferred revenue.

Indiana Economic Development Corporation gave CASI \$9,000 in a prior year to loan monies to clients who complete the Micro Enterprise classes. Loans must be used for opening up a small business.

13. IN-KIND CONTRIBUTION

The Head Start grant administered by CASI during the year ended March 31, 2008, required CASI to attain minimum levels of matching funds consisting of "in-kind" donations. These matching funds totaling \$515,845 are included on the statement of activities.

SUPPLEMENTAL INFORMATION



**COMMUNITY ACTION OF SOUTHERN INDIANA, INC.
HEAD START PROGRAM
GRANT NO. 05CH4040/42
STATEMENT OF REVENUE AND EXPENSES
FOR THE PROGRAM YEAR ENDED MARCH 31, 2008**

| | Head Start PA 22 | Head Start PA 20 | Total |
|-------------------------------------|---------------------|---------------------|---------------|
| <u>REVENUE</u> | | | |
| Grant award | \$ 1,853,893 | \$ 25,096 | \$ 1,878,989 |
| Undrawn grant funds | - | - | - |
| Local cash | 2,022 | - | 2,022 |
| In-kind contributions | 515,845 | - | 515,845 |
| Total Revenue | 2,371,760 | 25,096 | 2,396,856 |
| <u>EXPENSES</u> | | | |
| Salaries and benefits | 1,322,243 | - | 1,322,243 |
| Professional fees/services | 91,145 | 1,342 | 92,487 |
| Contracted services | 12,598 | - | 12,598 |
| Materials and supplies | 69,859 | 1,107 | 70,966 |
| Food and meals | 34,929 | - | 34,929 |
| Building rental and maintenance | 171,819 | - | 171,819 |
| Equipment rental and maintenance | 17,098 | - | 17,098 |
| Occupancy - utilities | 35,917 | - | 35,917 |
| Building and property insurance | 33,201 | - | 33,201 |
| Telephone | 11,333 | - | 11,333 |
| Postage | 1,693 | - | 1,693 |
| Public relations and printing | 7,710 | - | 7,710 |
| Travel and meetings | 33,698 | 21,231 | 54,929 |
| Dues and memberships | 6,698 | 1,416 | 8,114 |
| In-kind expense | 515,845 | - | 515,845 |
| Direct assistance | 5,974 | - | 5,974 |
| Total Expenses | 2,371,760 | 25,096 | 2,396,856 |
| Excess of Revenue Over Expenses | \$ - | \$ - | \$ - |

**COMMUNITY ACTION OF
SOUTHERN INDIANA, INC.**

**REPORTS PRESCRIBED BY
OMB CIRCULAR A-133**

MARCH 31, 2008



Gauthier & Kimmerling, LLC
accountants & advisors

233 S. McCrea Street • Suite 1000 • Indianapolis, IN 46225 • (317) 636-3265

Report on Internal Control Over Financial Reporting and Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Directors
Community Action of
Southern Indiana, Inc.
Jeffersonville, Indiana

We have audited the financial statements of Community Action of Southern Indiana, Inc. (CASI) as of and for the year ended March 31, 2008, and have issued our report thereon dated December 23, 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 CASI'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 CASI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CASI's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether CASI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of CASI's Board of Directors, management, others within the entity, and the 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.

Gauthier & Summing, LLC

December 23, 2008



Gauthier & Kimmerling, LLC
accountants & advisors

233 S. McCrea Street • Suite 1000 • Indianapolis, IN 46225 • (317) 636-3265

Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

Board of Directors
Community Action of
Southern Indiana, Inc.
Jeffersonville, Indiana

COMPLIANCE

We have audited the compliance of Community Action of Southern Indiana, Inc. (CASI) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended March 31, 2008. CASI's major federal programs are identified in the summary of auditors' 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 CASI's management. Our responsibility is to express an opinion on CASI'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 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 CASI'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 CASI's compliance with those requirements.

In our opinion, CASI complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-01 through 08-07.

INTERNAL CONTROL OVER COMPLIANCE

The management of CASI 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 CASI's internal control over compliance with the 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 CASI's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-01 through 08-07 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

CASI's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit CASI's response, and accordingly, we express no opinion on it.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic financial statements of CASI as of and for the year ended March 31, 2008, and have issued our report thereon dated December 23, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

This report is intended solely for the information of CASI's Board of Directors, management, others within the entity, and the 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.

Gauthier & Kimmeling, LLC

December 23, 2008

Community Action of Southern Indiana, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended March 31, 2008

| Federal Grantor Pass-Through Grantor Program Title | Federal CFDA Number | Federal Expenditures |
|---|---------------------------|-------------------------|
| <i>U.S. Department of Agriculture:</i> | | |
| Indiana State Dept. of Health Child and Adult Care Food Program | 10.558 | \$ 127,209 |
| Total U.S. Department of Agriculture | | <u>127,209</u> |
| <i>U.S. Department of Housing and Urban Development:</i> | | |
| Indiana Housing and Community Development Authority HOME Investment Partnerships Program | 14.239 | <u>18,496</u> |
| Total U.S. Department of Housing and Urban Development | | <u>18,496</u> |
| <i>U.S. Department of Energy:</i> | | |
| Indiana Housing and Community Development Authority Weatherization Assistance for Low-Income Persons | 81.042 | <u>348,744</u> |
| Total U.S. Department of Energy | | <u>348,744</u> |
| <i>U.S. Department of Health and Human Services:</i> | | |
| Indiana Housing and Community Development Authority Section 8 Housing Choice Voucher | 14.871 | 1,610,855 |
| Indiana Housing and Community Development Authority Low-Income Home Energy Assistance | 93.568 | 1,867,188 |
| Indiana Housing and Community Development Authority Community Services Block Grant | 93.569 | 178,912 |
| Head Start | 93.600 | 2,039,631 |
| Substance Abuse and Mental Health Services Administration Drug Free Communities Support Program | 93.959 | 124,754 |
| Indiana Housing and Community Development Authority Individual Development Account | 93.602 | <u>14,190</u> |
| Total U.S. Department of Health and Human Services | | <u>5,835,530</u> |
| Total Expenditure of Federal Awards | | <u>\$ 6,329,979</u> |

The accompanying notes are an integral part of this schedule.

Community Action of Southern Indiana, Inc.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended March 31, 2008

The following describes the significant accounting policies used in the preparation of the schedule of expenditures of federal awards:

Basis of Accounting – CASI maintains its financial records in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources are classified for internal accounting purposes into funds that are associated with specific activities or objectives. CAPWI maintains these records on a cash basis. These records have been converted to the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when the related goods or services are received in its preparation of the schedule of expenditures of federal awards. 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.

Sub-recipients – Of the federal expenditures in the schedule, CASI provided federal awards to sub-recipients as follows:

| <u>Program Title</u> | <u>Federal CFDA Number</u> | <u>Amount Provided to Sub-recipients</u> |
|-------------------------------|--------------------------------|--|
| Community Service Block Grant | 93.569 | <u>\$ 35,000</u> |

Community Action of Southern Indiana, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended March 31, 2008

| <u>ITEM NUMBER</u> | <u>AUDIT FINDING</u> |
|-----------------------|--|
| D1 | CASI did not conduct the required physical inventory of equipment acquired under the federal awards program. |
| Corrective Action: | CASI has performed a physical inventory count as of August 1, 2008. |
| D2 | CASI did not follow the requirements of Circular OMB A-110 regarding suspension and debarment. CASI did not verify whether vendors had been suspended or debarred. |
| Corrective Action: | CASI maintains a binder with a list of approved vendors and updates the list on a regular basis. The list is compared to new and existing vendors. |
| D3 | CASI did not monitor its sub-recipients for Federal compliance, as required by OMB Circular A-110. |
| Corrective Action: | CASI monitors its sub-recipients for Federal compliance as of May 1, 2007. |

Community Action of Southern Indiana, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended March 31, 2008

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditor report issued: *Unqualified*

Internal control over financial reporting:

Material weakness(es) identified? *No*

Significant deficiency(ies) identified that are not considered to be material weaknesses? *None reported*

Noncompliance material to financial statements noted: *No*

Federal Awards:

Internal control over major programs:

Material weakness(es) identified: *No*

Significant deficiency(ies) identified that are not considered to be material weaknesses? *Yes*

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? *No*

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program</u> |
|-----------------------|-----------------------------------|
| 93.600 | Head Start |
| 14.871 | Section 8 Housing Voucher Program |

Community Action of Southern Indiana, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended March 31, 2008

Section I - Summary of Auditors' Results - continued

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

FINDING NO. 08-01

U. S. Department of Health and Human Services
CFDA # 93.600 Head Start
Award No. 05CH404/42
Award Year: 4/1/07 – 3/31/08

Condition: During the audit period, CASI valued third-party donated services at a rate inconsistent with the rate paid for similar work in the organization.

Criteria: OMB Circular A-110, Subpart C, Paragraph 23–Cost Sharing and Matching, subparagraph (d) states in part:

Rates for volunteer services shall be consistent with those paid for similar work in the recipient's organization. In those instances in which the required skills are not found in the recipient organization, rates shall be consistent with those paid for similar work in the labor market in which the recipient competes for the kind of services involved. In either case, paid fringe benefits that are reasonable, allowable, and allocable may be included in the valuation.

Cause: CASI used a rate of \$16.54 per hour based on U.S. Bureau of Labor Statistics data to compute third-party donated services for matching requirements.

Effect: CASI is in violation of its regulatory agreement with the U.S. Department of Health and Human Services.

Recommendation: CASI should use the combined rate of salary and benefits of a beginning teacher totaling \$13.82 per hour to compute the value of third-party donated services.

Management
Response:

CASI has changed the rate at which it values third-party donated services to the combined rate of salary and benefits of a beginning teacher totaling \$13.82 per hour, beginning April 1, 2008.

FINDING NO. 08-02

U. S. Department of Health and Human Services
CFDA # 93.600 Head Start
Award No. 05CH404/42
Award Year: 4/1/07 – 3/31/08

Condition: Inventory was not reconciled with equipment records within the last two years.

Criteria: OMB Circular A-110, Subpart C, Paragraph 34–Equipment, subparagraph f(3) states in part:

The recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following:

(3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

Cause: CASI performed no physical inventory for equipment acquired with Federal funds and reconciled it with equipment records within the last two years.

Effect: CASI is in violation of its regulatory agreement with the U.S. Department of Health and Human Services.

Recommendation: CASI should perform physical inventory counts on equipment yearly and reconcile it with equipment records.

Management
Response:

CASI has performed a physical inventory count as of August 1, 2008, and reconciled it with equipment records.

FINDING NO. 08-03

U. S. Department of Health and Human Services
CFDA # 93.600 Head Start
Award No. 05CH404/42
Award Year: 4/1/07 – 3/31/08

Condition: Equipment records were not maintained.

Criteria: OMB Circular A-110, Subpart C, Paragraph 34–Equipment, subparagraph (f) states in part:

The recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following:

(i) A description of the equipment. (ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number. (iii) Source of the equipment, including the award number. (iv) Whether title vests in the recipient or the Federal Government. (v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost. (vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government). (vii) Location and condition of the equipment and the date the information was reported. (viii) Unit acquisition cost. (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

Cause: CASI had no lists of inventory purchased specifically for the Head Start program or any records showing equipment: description, I.D. numbers, sources, whom title was vested, acquisition dates, location, condition, unit acquisition costs, federal share in the cost, or ultimate disposition.

Effect: CASI is in violation of its regulatory agreement with the U.S. Department of Health and Human Services.

Recommendation: CASI should maintain equipment records detailing out equipment by description, I.D. numbers, sources, whom title was vested, acquisition dates, location, condition, unit acquisition costs, federal share in the cost, or ultimate disposition, if applicable.

Management Response: CASI created an inventory master list of equipment by description, I.D. numbers, sources, whom title was vested, acquisition dates, location, condition, unit acquisition costs, federal share in the cost, or ultimate disposition, if applicable. This master list was complete as of August 1, 2008.

FINDING NO. 08-04

U. S. Department of Health and Human Services
CFDA # 93.600 Head Start
Award No. 05CH404/42
Award Year: 4/1/07 – 3/31/08

Condition: Internal controls were not effective in establishing accountability for all funds, property, and equipment, nor were controls in place to maintain an adequate separation of duties.

Criteria: Title 45–Public Welfare, Chapter XIII–Office of Human Development Services, Department of Health and Human Services, Part 1304–Program Performance Standards for the Operation of Head Start Subpart D–Program Design and Management, Section 1304.5–Program governance, (g)(2). Governing body responsibilities states the following:

Grantee and delegate agencies must ensure that appropriate internal controls are established and implemented to safeguard Federal funds in accordance with 45 CFR 1301.13.

Cause: Interim finance director has access to blank, pre-signed checks, all accounting software, and was responsible for reconciling bank accounts. CASI did not conduct a physical inventory of equipment and had no lists of equipment purchased with Head Start funds.

Effect: CASI is in violation of its regulatory agreement with the U.S. Department of Health and Human Services.

Recommendation: CASI should put in place adequate separation of duties so that the interim finance director does not have total access and control over financial transactions. CASI should perform physical inventory counts on equipment yearly and document which grant, if any, was used to purchase inventory.

Management Response: CASI has hired a financial administrative assistant and delegated duties to other employees in order to maintain an adequate separation of duties. CASI has performed an inventory count as of August 1, 2008, and documented which grants, if any, were used to purchase the equipment.

FINDING NO. 08-05

U. S. Department of Health and Human Services
CFDA # 93.600 Head Start
Award No. 05CH404/42
Award Year: 4/1/07 – 3/31/08

Condition: CASI did not provide for the maintenance, repair, and safety for the Jeffersonville, Sellersburg, and Charlestown Head Start facilities.

Criteria: Title 45–Public Welfare, Chapter XIII–Office of Human Development Services, Department of Health and Human Services, Part 1304–Program Performance Standards for the Operation of Head Start Subpart D–Program Design and Management, Section 1304.53–Facilities, Materials, and Equipment (a) Head Start Physical Environment and Facilities (7) states the following:

Grantee and delegate agencies must provide for the maintenance, repair, safety, and security of all Early Head Start and Head Start facilities, materials and equipment.

Cause: Several instances were noted indicating inadequate maintenance of the Head Start facilities resulting from a lack of routine inspections.

Effect: CASI is in violation of its regulatory agreement with the U.S. Department of Health and Human Services.

Recommendation: CASI must inspect all Head Start facilities on a regular basis and repair all maintenance and safety issues found immediately.

Management Response: CASI has all Head Start facilities inspected regularly and makes repairs to all maintenance and safety issues on a timely basis.

FINDING NO. 08-06

U. S. Department of Health and Human Services
CFDA # 93.600 Head Start
Award No. 05CH404/42
Award Year: 4/1/07 – 3/31/08

Condition: CASI did not conduct a review of the 2005 Community Assessment in either of the two years following its completion.

Criteria: Title 45–Public Welfare, Chapter XIII–Office of Human Development Services, Department of Health and Human Services, Part 1305–Eligibility, Recruitment, Selection, Enrollment, and Attendance in Head Start, Section 1305.3–Determining community strengths and needs (e) states the following:

In each of the two years following completion of the Community Assessment, the grantee must conduct a review to determine whether there have been significant changes in the information described in paragraph (b) of this section. If so, the Community Assessment must be updated and the decisions described in paragraph (c) of this section must be reconsidered.

Cause: CASI did not conduct a review of the 2005 Community Assessment in either of the two years following its completion to determine whether there were significant changes.

Effect: CASI is in violation of its regulatory agreement with the U.S. Department of Health and Human Services.

Recommendation: CASI must conduct a review of the 2005 Community Assessment and all future Community Assessments for each of the two years following its completion. The review should be documented and if any significant changes occur in the information as described in Section 1305.3(b), then the Community Assessment must be updated and decisions described in Section 1305.3(c) must be reconsidered.

Management

Response: CASI completed a review for the 2005 Community Assessment on April 1, 2008. CASI will conduct and document a review of all future assessments to comply with federal guidelines.

FINDING NO. 08-07

U. S. Department of Health and Human Services
Indiana Housing and Community Development Authority
CFDA # 14.871 Section 8 Housing Choice Voucher

Condition: A reasonable rent comparison was not performed for 1 of the 24 files selected for testing.

Criteria: Title 24–Housing and Urban Development, Chapter IX–Office of Assistant Secretary for Public and Indiana Housing Services, Department of Housing and Urban Development, Part 982–Section 8 Tenant Based Assistance: Housing Voucher Program, Subpart K–Rent and Housing Assistance Payment Section 982.507–Rent to owner: Reasonable rent(2)(i) states the following:

The PHA must re-determine the reasonable rent before any increase in rent to owner.

Cause: A reasonable rent comparison to other comparable unassisted units was not conducted for 1 of 24 files selected for testing at the time of a rent increase. Therefore, it could not be determined if rent increase to owner was a reasonable rent.

Effect: CASI is in violation of its regulatory agreement with the U.S. Department of Housing and Urban Development.

Recommendation: A control sheet checklist should be created to ensure all required forms and documentation is complete in client files.

Management

Response: CASI's Section 8 department has a new control sheet checklist to ensure all required forms and documentation are complete in order to be compliant with the U.S. Department of Housing and Urban Development regulatory agreement.