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AN EQUAL OPPORTUNITY EMPLOYER

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December 31, 2009

Board of Directors
Real Services, Inc. and Affiliates
1151 S. Michigan St., P.O. Box 1835
South Bend, IN 46601

We have reviewed the audit report prepared by Cullar & Associates, PC, Independent Public Accountants, for the period July 1, 2007 to June 30, 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 Real Services, Inc. and Affiliates, as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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. Pages 23 through 25 contain four current audit findings. Pages 27 and 28 contain the status of four prior audit findings. Management's response and corrective action plan is on pages 29 through 32.

STATE BOARD OF ACCOUNTS

CONSOLIDATED FINANCIAL AND COMPLIANCE REPORT

REAL SERVICES, INC. AND AFFILIATES

June 30, 2008 and 2007

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**INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPORTING SCHEDULE**

To the Board of Directors
REAL SERVICES, INC. AND AFFILIATES
South Bend, Indiana

We have audited the accompanying consolidated statements of financial position of REAL SERVICES, INC. AND AFFILIATES (the "Organization") as of June 30, 2008 and 2007, and the related consolidated statements of activities, functional expenses, and cash flows 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of REAL SERVICES, INC. AND AFFILIATES as of June 30, 2008 and 2007, and the consolidated changes in its net assets and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2009 on our consideration of the Organization'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 important for assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidated schedule of expenditures of federal and nonfederal awards on pages 15 and 16 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated

financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Cullen & Associates, P.C.

January 13, 2009

REAL SERVICES, INC. AND AF FILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets:		
Cash and cash equivalents	\$ 1,522,303	\$ 1,467,795
Investments	-	16,794
Grants, contributions, and fees receivable	1,727,236	1,888,172
Prepaid expenses	134,846	-
Beneficial interest in assets held by others	589,241	619,775
Property and equipment	1,813,408	1,582,969
Cash held in escrow for employee benefits	797,436	842,282
Assets held for others under guardianship	<u>173,137</u>	<u>254,543</u>
<i>Total assets</i>	<u>\$ 6,757,607</u>	<u>\$ 6,672,330</u>
 Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,073,719	\$ 887,381
Refundable advances	194,434	477,612
Debt	2,399	31,206
Accrued employee benefits	797,436	842,282
Liability for assets held under guardianships for others	<u>173,137</u>	<u>254,543</u>
<i>Total liabilities</i>	<u>2,241,125</u>	<u>2,493,024</u>
 Net Assets:		
Unrestricted	4,304,267	3,655,078
Temporarily restricted	<u>212,215</u>	<u>524,228</u>
<i>Total net assets</i>	<u>4,516,482</u>	<u>4,179,306</u>
 <i>Total liabilities and net assets</i>	 <u>\$ 6,757,607</u>	 <u>\$ 6,672,330</u>

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2008 and 2007

	2008			2007		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains, Other Support:						
Grants and fees	\$ 15,279,335	\$ 9,000	\$ 15,288,335	\$ 13,525,100	\$ -	\$ 13,525,100
Program service revenue	692,878	-	692,878	657,849	-	657,849
Contributions	12,985	689,841	702,826	8,175	384,434	392,609
Investment return	35,771	-	35,771	138,050	-	138,050
Other	58,833	-	58,833	76,879	-	76,879
Net assets released from restrictions	1,010,854	(1,010,854)	-	93,741	(93,741)	-
<i>Total revenues, gains, and other support</i>	<u>17,090,656</u>	<u>(312,013)</u>	<u>16,778,643</u>	<u>14,499,794</u>	<u>290,693</u>	<u>14,790,487</u>
Expenses:						
Nutrition	2,096,577	-	2,096,577	1,739,899	-	1,739,899
Foster Grandparents	203,349	-	203,349	216,350	-	216,350
Area Agency on Aging	1,278,954	-	1,278,954	1,082,395	-	1,082,395
Senior Employment	14,955	-	14,955	62,577	-	62,577
Crime Victim	36,060	-	36,060	18,907	-	18,907
Energy Assistance	4,079,647	-	4,079,647	3,448,940	-	3,448,940
Case Management	2,304,406	-	2,304,406	1,639,693	-	1,639,693
Transportation	198,580	-	198,580	183,815	-	183,815
Weatherization	2,141,629	-	2,141,629	1,344,269	-	1,344,269
Community Services	631,619	-	631,619	553,353	-	553,353
Home Health Care	2,959,816	-	2,959,816	3,253,178	-	3,253,178
Guardianship	93,519	-	93,519	104,656	-	104,656
Management and general	402,356	-	402,356	709,257	-	709,257
<i>Total expenses</i>	<u>16,441,467</u>	<u>-</u>	<u>16,441,467</u>	<u>14,357,289</u>	<u>-</u>	<u>14,357,289</u>
Change in net assets	649,189	(312,013)	337,176	142,505	290,693	433,198
Net assets, beginning of year	3,655,078	524,228	4,179,306	3,512,573	233,535	3,746,108
<i>Net assets, end of year</i>	<u>\$ 4,304,267</u>	<u>\$ 212,215</u>	<u>\$ 4,516,482</u>	<u>\$ 3,655,078</u>	<u>\$ 524,228</u>	<u>\$ 4,179,306</u>

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2008

	<u>Nutrition</u>	<u>Foster Grand Parents</u>	<u>Area Agency on Aging</u>	<u>Senior Employment</u>	<u>Crime Victim</u>	<u>Energy Assistance</u>	<u>Case Management</u>	<u>Transpor- tation</u>	<u>Weather- ization</u>	<u>Community Services</u>	<u>Home Health Care</u>	<u>Guardianship and General</u>	<u>Management</u>	<u>Total</u>
Personnel	\$ 862,717	\$ 51,964	\$ 633,238	\$ 12,521	\$ 30,079	\$ 264,375	\$ 1,808,513	\$ 133,737	\$ 266,923	\$ 211,190	\$ -	\$ 76,906	\$ 366,213	\$ 4,718,376
Contract services	13,515	428	59,814	51	93	2,464	11,612	956	905	1,052	-	297	1,562	92,749
Data processing	6,838	454	4,223	48	328	3,265	13,829	983	934	953	-	374	3,660	35,889
Food	692,014	-	9,535	-	-	-	-	-	-	315	-	-	169	702,033
Program supplies	64,633	90	3,107	-	478	-	-	-	-	-	-	-	-	68,308
Office supplies	31,040	2,682	32,872	235	675	15,872	43,952	5,721	11,645	9,568	-	2,903	13,038	170,203
Duplicating	971	315	4,749	85	140	2,268	8,439	1,360	-	355	-	475	1,474	20,631
Recognition	-	1,352	-	-	-	-	-	-	-	-	-	-	-	1,352
Telephone	19,817	391	9,765	135	370	5,925	23,403	3,468	3,056	1,039	-	801	3,613	71,783
Postage	3,817	743	11,165	92	976	7,402	14,331	1,122	1,294	2,569	-	576	2,182	46,269
Occupancy	72,911	5,103	50,029	943	1,617	39,543	92,762	3,699	11,034	28,411	-	5,710	113	311,875
Insurance	15,195	690	3,242	54	92	2,198	9,042	1,075	4,424	907	-	371	1,599	38,889
Printing and advertising	1,695	79	9,961	62	17	1,985	29,935	782	419	956	-	612	1,773	48,276
Vehicle expenses	45,645	13,036	-	-	-	-	-	32,156	8,892	-	-	-	-	99,729
Travel and conferences	2,802	1,755	30,941	512	265	1,155	70,492	7,308	4,650	2,815	-	3,111	6,949	132,755
Dues and subscriptions	5,080	8	4,026	33	69	43	8,180	903	90	2,154	303	320	118	21,327
Assistance to individuals	- 189,225	- 117,908	- 389,446	-	-	3,726,386	98,106	-	1,821,920	361,945	2,959,513	-	-	9,664,449
Training	244	12	7,023	30	1	11	20,650	4	4	2,455	-	171	27	30,632
Equipment expense	6,242	218	3,743	143	850	6,654	48,232	269	1,112	4,868	-	811	3,412	76,554
Equipment depreciation	61,545	3,111	7,968	-	-	-	1,648	4,294	4,327	-	-	-	7,214	90,107
Other	631	3,010	4,107	11	10	101	1,280	743	-	67	-	81	(10,760)	(719)
<i>Totals</i>	<u>\$ 2,096,577</u>	<u>\$ 203,349</u>	<u>\$ 1,278,954</u>	<u>\$ 14,955</u>	<u>\$ 36,060</u>	<u>\$ 4,079,647</u>	<u>\$ 2,304,406</u>	<u>\$ 198,580</u>	<u>\$ 2,141,629</u>	<u>\$ 631,619</u>	<u>\$ 2,959,816</u>	<u>\$ 93,519</u>	<u>\$ 402,356</u>	<u>\$16,441,467</u>

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2007

	<u>Nutrition</u>	<u>Foster Grandparents</u>	<u>Area Agency on Aging</u>	<u>Senior Employment</u>	<u>Crime Victim</u>	<u>Energy Assistance</u>	<u>Case Management</u>	<u>Transportation</u>	<u>Weatherization</u>	<u>Community Services</u>	<u>Home Health Care</u>	<u>Guardian-ship</u>	<u>Management and General</u>	<u>Total</u>
Personnel	\$ 801,202	\$ 84,411	\$ 803,501	\$ 60,878	\$ 16,315	\$ 226,656	\$ 1,414,515	\$ 138,566	\$ 216,854	\$ 190,891	\$ -	\$ 92,527	\$ 466,198	\$ 4,512,514
Stipends	-	104,717	-	-	-	-	-	-	-	-	-	-	-	104,717
Contract services	6,595	218	(166)	-	-	-	1,471	-	947	-	-	6	19,961	29,032
Data processing	-	425	2,196	30	42	-	3,844	-	743	90	-	152	22,563	30,085
Food	601,166	-	5,540	-	-	-	43	-	-	-	-	-	157	606,906
Program supplies	51,208	87	3,126	-	(319)	-	-	-	-	-	-	-	6	54,108
Office supplies	604	309	853	30	31	664	13,499	(86)	500	703	-	412	13,618	31,137
Duplicating	2,183	-	686	47	168	2,004	19,697	679	-	-	-	602	1,852	27,918
Recognition	-	1,430	-	-	-	-	-	-	-	-	-	-	-	1,430
Telephone	19,624	327	4,749	120	183	4,690	30,894	4,217	2,453	1,027	-	969	4,355	73,608
Postage	3,861	651	5,573	272	870	8,752	14,460	1,356	1,602	2,007	-	673	23,125	63,202
Occupancy	67,813	3,139	53,443	635	1,046	21,022	51,478	2,561	5,981	7,352	-	3,162	43,558	261,190
Insurance	3,441	95	341	-	-	-	298	-	3,378	-	-	-	34,733	42,286
Printing and advertising	2,484	122	12,206	2	273	2,957	3,374	500	289	865	-	362	2,913	26,347
Vehicle expenses	32,833	12,839	-	-	-	-	-	25,895	5,268	-	-	-	(2,670)	74,165
Travel and conferences	12,077	1,635	15,337	9	263	1,102	66,635	5,242	5,954	4,869	-	3,287	11,963	128,373
Dues and subscriptions	5,217	-	7,174	-	35	-	5,578	348	-	-	-	189	508	19,049
Assistance to individuals	100,123	-	121,567	-	-	3,178,824	(598)	-	1,094,635	345,458	3,253,178	-	-	8,093,187
Training	381	5	2,578	444	-	-	2,240	56	-	(555)	-	305	20	5,474
Equipment expense	457	-	12,915	-	-	2,168	10,500	(371)	1,328	466	-	1,660	3,915	33,038
Equipment depreciation	24,337	3,111	4,593	-	-	-	137	4,294	4,327	-	-	-	5,019	45,818
Other	4,293	2,829	26,183	110	-	101	1,628	558	10	180	-	350	57,463	93,705
<i>Totals</i>	<u>\$ 1,739,899</u>	<u>\$ 216,350</u>	<u>\$ 1,082,395</u>	<u>\$ 62,577</u>	<u>\$ 18,907</u>	<u>\$ 3,448,940</u>	<u>\$ 1,639,693</u>	<u>\$ 183,815</u>	<u>\$ 1,344,269</u>	<u>\$ 553,353</u>	<u>\$ 3,253,178</u>	<u>\$ 104,656</u>	<u>\$ 709,257</u>	<u>\$ 14,357,289</u>

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

Change in Cash and Cash Equivalents:	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 337,176	\$ 433,198
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(309,464)	-
Depreciation	136,072	90,295
Loss on sale of investments	1,607	-
Investments received in demutualization	-	(16,794)
Change in assets and liabilities:		
Grants, contributions, and fees receivable	266,151	(511,642)
Prepaid expenses	(134,846)	-
Beneficial interest in assets held by others	30,534	(61,085)
Accounts payable and accrued liabilities	186,338	(10,799)
Refundable advances	(283,178)	477,612
<i>Net cash provided by operating activities</i>	<u>230,390</u>	<u>400,785</u>
Cash Flows from Investing Activities:		
Proceeds from sale and maturity of investments	15,187	500,748
Purchase of property and equipment	(366,511)	(108,190)
<i>Net cash provided by (used in) investing activities</i>	<u>(351,324)</u>	<u>392,558</u>
Cash Flows from Financing Activities:		
Proceeds from contributions restricted for long-term purposes	204,249	-
Payment of debt	(28,807)	(28,807)
<i>Net cash provided by (used in) financing activities</i>	<u>175,442</u>	<u>(28,807)</u>
Net change in cash and cash equivalents	54,508	764,536
Cash and cash equivalents, beginning of year	<u>1,467,795</u>	<u>703,259</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 1,522,303</u>	<u>\$ 1,467,795</u>

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

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of REAL SERVICES, INC. and its controlled affiliates, REAL SERVICES FOUNDATION, INC., and REAL SERVICES HOUSING, INC. (collectively the "Organization"). Its operations are supported primarily by grants from governmental agencies and other nonprofit organizations.

The affiliates are organized and operated exclusively to carry out the purposes of REAL SERVICES, INC., and the Board of Directors of REAL SERVICES, INC. elects all members of the affiliates' Boards of Directors. All material transactions and balances between the Organizations have been eliminated in these consolidated financial statements.

REAL SERVICES, INC. is an Indiana nonprofit corporation formed to assist in establishing a community in which older adults can maintain their independence to the maximum extent possible and find meaning and satisfaction throughout their lives. The Organization also administers programs assisting low-income persons. REAL SERVICES FOUNDATION, INC. is an Indiana nonprofit corporation formed to solicit and administer contributions received for the benefit of REAL SERVICES, INC. REAL SERVICES HOUSING, INC. is an Indiana nonprofit corporation formed to hold and lease property to REAL SERVICES, INC.

Significant Accounting Policies:

Use of estimates:

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The costs of providing the programs and the supporting service have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and the supporting service benefited based on management's best estimates.

Because the Organization receives the majority of its support from grants and contracts awarded through competitive bidding and from private entities interested in the Organization's purpose, fund raising costs are not material and are not separately presented in the accompanying financial statements.

Net asset classes:

The Organization reports its financial position and activities by the following classes of net assets:

Unrestricted net assets are those currently available for use by the Organization.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and 2007

Temporarily restricted net assets are those received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified to unrestricted net assets and are reported in the statements of activities basis as net assets released from restrictions.

Cash and cash equivalents:

The Organization considers time deposits, certificates of deposit, and other highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Investments and beneficial interest in assets held by others:

Investments and beneficial interest in assets held by others are stated at fair value, and realized and unrealized gains and losses are included in investment return in the statements of activities. The specific identification method is used to determine the cost basis for realized gains and losses. Fair value is estimated using quoted market prices.

The Organization recognizes its beneficial rights in assets held by others unless the donor has granted the recipient organization variance power. However, those rights are recognized as assets even if the recipient organization has been granted variance power if the Organization is both the donor and the beneficiary of the assets.

Gifts and grants:

The majority of the Organization's revenue is earned under cost-reimbursement awards from government agencies. Revenues are recognized under such awards when costs allowable under the terms of the awards are incurred. Advances received in excess of allowable costs are reported as liabilities.

The Organization reports gifts and grants 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 statements of activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions revenue. Conditional promises to give are not recognized as revenue until the conditions are substantially met.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and 2007

Fees for services:

Fees for services are recognized as revenue when the services are substantially performed. Fees received in advance of substantial performance are reported as liabilities.

Property and equipment:

Property and equipment is stated at cost, if acquired, or at fair value at the date of receipt, if donated, less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which are generally as follows:

Building.....	40 years
Leasehold improvements	Lesser of lease term or 10 years
Program equipment.....	10 years
Vehicles	8 years
Office equipment.....	5 to 8 years

Income taxes:

The Organizations are exempt from income tax under Internal Revenue Code Section 501(c)(3) and a similar section of the Indiana Code. Consequently, the accompanying financial statements do not include any provision for income taxes. The Internal Revenue Service classifies all the entities as other than private foundations under Internal Revenue Code Section 509(a)(1).

NOTE 2. INVESTMENTS AND BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Investments at June 30, 2007 consist of stock received in the demutualization of an insurance company.

The Organization is the beneficiary of a fund held by Community Foundation of St. Joseph County, Inc. (Community Foundation) for which the Organization was the donor. Total accumulated contributions by the Organization to the fund were \$300,000, all of which were made prior to 2007. The Organization granted the Community Foundation variance power in the distribution of earnings or principal to other organizations if, in the sole judgment of Community Foundation, such distributions become necessary to fulfill the charitable needs of the area served by Community Foundation. The fund's value of \$589,241 and \$619,775 at June 30, 2008 and 2007, respectively, (which includes \$25,686 and \$26,495, respectively, available for distribution) is presented in the accompanying statements of financial position as beneficial interest in assets held by others. For the years ended June 30, 2008 and 2007, the fund increased (decreased) in value by (\$2,214) and \$87,589, which is included in investment return, and distributed \$28,320 and \$26,504.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and 2007

Investment return is as follows for the years ended June 30, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Interest on bank accounts	\$ 39,592	\$ 32,166
Interest and dividends on investments	-	18,295
(Loss) on sale of investments	(1,607)	-
Increase (decrease) in beneficial interests in assets held by others	<u>(2,214)</u>	<u>87,589</u>
<i>Net investment return</i>	<u>\$ 35,771</u>	<u>\$ 138,050</u>

NOTE 3. GRANTS, CONTRIBUTIONS, AND FEES RECEIVABLE AND REFUNDABLE ADVANCES

Grants, contributions, and fees receivable consist of reimbursements due under government cost-reimbursement awards, unconditional promises to give to the Organization, and fees earned under government contracts, and are due as follows at June 30, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Due in less than one year	\$ 1,713,601	\$ 1,888,172
Due in one to five years	<u>16,473</u>	<u>-</u>
	1,730,074	1,888,172
Unamortized discount	(2,674)	-
Allowance for uncollectibles	<u>(164)</u>	<u>-</u>
<i>Net receivables</i>	<u>\$ 1,727,236</u>	<u>\$ 1,888,172</u>

At June 30, 2008, the Organization had received approximately \$2,168,000 of conditional promises to give in excess of allowable costs incurred under cost-reimbursement grants. Such promises will be recognized as revenue if and when allowable costs are incurred.

At June 30, 2008 and 2007, the Organization had received \$194,134 and \$477,612, respectively, of advances on cost-reimbursement grants in excess of allowable costs incurred that are reflected as refundable advances in the accompanying statements of financial position. Such advances are required to be returned if the Organization does not incur allowable costs by the end of the grant periods.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Land	\$ 168,019	\$ 131,734
Building	1,731,962	1,725,837
Leasehold improvements	64,357	64,357
Program equipment	38,795	38,795

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Vehicles	262,064	262,064
Office equipment	<u>128,763</u>	<u>60,441</u>
	2,393,960	2,283,228
Less accumulated depreciation	<u>(825,274)</u>	<u>(700,259)</u>
	1,568,686	1,582,969
Construction-in-progress	<u>244,722</u>	-
<i>Net property and equipment</i>	<u>\$ 1,813,408</u>	<u>\$ 1,582,969</u>

Substantially all of the Organization's program equipment and vehicles have been purchased with governmental grant funds. Disposition of these assets, as well as the ownership of any sale proceeds, is subject to funding source and other regulatory directives. Because management expects such assets to be used in accordance with the funding source directives, the cost of the assets is recorded as an asset when they are acquired.

NOTE 5. DEBT

In 2007 the Organization maintained an unsecured \$750,000 bank line of credit, bearing interest at bank prime, that was collateralized by substantially all assets of the Organization. The line expired subsequent to June 30, 2007 and was not renewed. No borrowings were outstanding on the line at June 30, 2007. Subsequent to June 30, 2008, the Organization obtained a new \$500,000 line of credit, bearing interest at bank prime, that is collateralized by a mortgage on the Organization's primary facilities.

Debt at June 30, 2008 and 2007 consisted of four non-interest bearing installment notes due to a finance company that are secured by specific vehicles and that are payable in monthly installments of \$2,399 through July 2008. The entire outstanding balance at June 2008 of \$2,399 is due in the next year.

NOTE 6. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Homemaker pilot program	\$ 64,432	\$ 184,376
Time restricted for future kitchen	105,215	-
Purpose restricted for future kitchen	-	50
Client self-sufficiency programs	33,568	-
Guardianship programs	9,000	-
Senior housing	-	330,756
Residential home projects	<u>-</u>	<u>9,046</u>
<i>Total temporarily restricted net assets</i>	<u>\$ 212,215</u>	<u>\$ 524,228</u>

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and 2007

Net assets were released from restrictions by incurring expenses satisfying restricted purposes specified by donors as follows for the years ended June 30, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Homemaker pilot program	\$ 119,944	\$ 38,852
Senior housing program	664,090	2,578
Volunteer awareness	-	45,000
Residential home projects	9,046	1,261
Meals on Wheels	12,215	6,050
Kitchen project	204,300	-
Client self-sufficiency programs	1,259	-
<i>Total net assets released from restrictions</i>	<u>\$ 1,010,854</u>	<u>\$ 93,741</u>

NOTE 7. LEASE INFORMATION

The Organization leases certain facilities and equipment under non-cancelable operating leases expiring in various months through May 2011. Minimum future rental payments under these leases as of June 30, 2008 for each of the next three years and in the aggregate are as follows:

2009	\$ 45,800
2010	31,000
2011	<u>11,000</u>
<i>Total minimum future rental payments</i>	<u>\$ 87,800</u>

Total rent expense was \$77,141 and \$71,035 for the years ended June 30, 2008 and 2007, respectively.

NOTE 8. EMPLOYEE BENEFIT PLANS

The Organization maintains a defined-contribution tax-deferred annuity pension plan covering substantially all of its employees. Pension costs are funded in the period that they accrue. Pension expense was \$142,120 and \$131,476 for the years ended June 30, 2008 and 2007, respectively.

The Organization also maintains a self-funded medical plan for its full-time employees that is managed by a third-party administrator. The Organization has purchased a stop-loss insurance policy for the plan that reimburses the Organization for individual claims in excess of \$30,000 annually. The Organization funds a separate bank account that is restricted for payment of claims and insurance. The Organization has recorded accruals for its estimated portion of self-insured claims based on estimated claims incurred through June 30, 2008 and 2007.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 9. COMMITMENTS AND CONTINGENCIES

The Organization is conducting a fund raising campaign to build a kitchen facility for its nutrition program that is expected to cost approximately \$1.2 million. Through June 30, 2008, approximately \$310,000 of contributions for the facility have been recognized as revenue, of which approximately \$105,000 remain to be collected and are included in grants, contributions, and fees receivable. Through June 30, 2008, approximately \$280,000 has been expended on the facility.

The Organization is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Organization's financial position or results of operations.

NOTE 10. CONCENTRATIONS

All of the Organization's programs and activities occur in Northern Indiana; consequently, its sources of support and revenue may be affected by conditions in that area. In addition, for the year ended June 30, 2008, approximately 91% of total revenues were from state and federal government sources, with approximately 50% of total revenues received from Indiana Family and Social services Administration and approximately 34% of total revenues received from Indiana Housing and Community Development Authority. For the year ended June 30, 2007, approximately 90% of total revenues were received from state and federal governmental sources, with approximately 52% of total revenues received from Indiana Family and Social Services Administration and approximately 37% of total revenues received from Indiana Housing and Community Development Authority.

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and grants and fees receivable. The Organization has cash on deposit with financial institutions that, at times, may exceed the insurance limit of the Federal Deposit Insurance Corporation and are not otherwise secured by specific collateral. At June 30, 2008, the Organization had cash on deposit with financial institutions exceeding federal insurance limits and specific collateral provided by the institutions by approximately \$141,000. In addition, at June 30, 2008 the Organization had approximately \$1,255,000 of cash equivalents invested in short-term government agency securities through "sweep account" arrangements with financial institutions that are not covered by federal deposit insurance. In addition, grants and fees receivable are due primarily from Indiana Family and Social Services Administration and Indiana Housing and Community Development Authority under contracts and cost-reimbursement grants, which represents a concentration of credit risk.

REAL SERVICES, INC. AND AFFILIATES, INC.
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2008

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract or Agreement Numbers</u>	<u>Expenditures</u>
Federal Assistance:			
<i>U. S. Department of Housing and Urban Development:</i>			
Passed-through City of Mishawaka:			
Community Development Block Grant/Entitlement Grants	14.218	n/a	\$ 10,000
Passed-through City of South Bend:			
Community Development Block Grant/Entitlement Grants	14.218	n/a	16,873
Passed-through Indiana Housing and Community Development Authority:			
HOME Investment Partnerships Program	14.239	OR-007-017 & OR-007-020	185,694
<i>Total U. S. Department of Housing and Urban Development</i>			<u>212,567</u>
<i>U.S. Department of Justice:</i>			
Passed-through City of South Bend:			
Crime Victim Assistance	16.575	#2007-VA-GX-0039	<u>10,500</u>
<i>U.S. Department of Energy:</i>			
Passed-through Indiana Housing and Community Development Authority:			
Weatherization Assistance for Low-Income Persons	81.042	WX-007-020-02A & WX-007-020	<u>331,578</u>
<i>U.S. Department of Health and Human Services:</i>			
Passed-through Indiana Family and Social Services Administration:			
Title VII - Long-Term Care Ombudsman Services for Older Individuals	93.042	71-08-OV-1521-03	31,415
Title IIID Disease Prevention and Health Promotion Services	93.043	71-08-OV-1521-09	75,687
Title IIIB Grants for Supportive Services and Senior Centers	93.044	71-08-OV-1521-01	213,218
Title IIIB Grants for Supportive Services and Senior Centers	93.044	71-08-OV-1521-03	575,711
Title IIIC Nutrition Services	93.045	71-08-OV-1521-05 & 71-08-OV-1521-07	1,163,805
Title IIIE National Family Caregiver Support Nutrition Services Incentive Program	93.052	71-08-OV-1521-11	394,054
	93.053	71-08-02-1521-01	199,376
Social Services Block Grant	93.667	71-08-OC-1521-01	686,959
Medical Assistance Program	93.778	71-08-70-1521-01	353,568
Centers for Medicare and Medicaid Services (CMS)	93.779	71-05-3N-1521-05	41,208
Passed-through Indiana Housing and Community Development Authority:			
Low-Income Home Energy Assistance	93.568	WL-007-020-YR-A & WL-007-020-YR1	404,999
Low-Income Home Energy Assistance	93.568	WL-007-020-YR2-A & WL-007-020-YR1	44,583
Low-Income Home Energy Assistance	93.568	LI-007-020 YR2 & LI-007-020 YR1	4,102,821
Community Services Block Grant	93.569	007-020-02 & 71-06-OR-1521-02	647,416
<i>Total U.S. Department of Health and Human Services</i>			<u>8,934,820</u>

REAL SERVICES, INC. AND AFFILIATES, INC.
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2008

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract or Agreement Numbers</u>	<u>Expenditures</u>
<i>Corporation for National and Community Service:</i>			
Foster Grandparent Program	94.011	06SFNIN004	<u>227,622</u>
<i>United States Department of Homeland Security:</i>			
<i>Passed-Through Emergency Food and Shelter National Board:</i>			
Emergency Food and Shelter National Board Program	97.024	n/a	<u>98,862</u>
<i>Total federal expenditures</i>			<u>\$ 9,815,949</u>
Nonfederal Assistance:			
<i>Indiana Family and Social Services Administration:</i>			
CHOICE		71-08-10-1521-01	\$ 2,965,909
CHOICE Wait List		GA06-6-71-06-0V-1521	309,453
Assisted Living Ombudsman		71-08-2V-1521-01	18,861
Older Hoosier Act		71-08-0M-1521-01	168,143
Medicaid reimbursements		n/a	1,265,926
Medicaid Waiver Administration		n/a	<u>208,203</u>
<i>Total State expenditures</i>			<u>\$ 4,936,495</u>
<i>St. Joseph County Commissioners:</i>			
Meal on Wheels		n/a	\$ 6,560
Senior employment grant		n/a	13,110
Crime Victim grant		n/a	<u>12,565</u>
<i>Total County expenditures</i>			<u>\$ 32,235</u>
Total expenditures of federal and nonfederal awards			<u><u>\$ 14,784,679</u></u>

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL
AWARDS
Year Ended June 30, 2008

NOTE 1. BASIS OF PRESENTATION

The accompanying consolidated schedule of expenditures of federal and nonfederal awards includes the federal and nonfederal grant activities of REAL SERVICES, INC. AND AFFILIATES and is presented in conformity with accounting principles generally accepted in the United States of America. The information in the schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE 2. SUBRECIPIENTS

The Organization provided federal awards to subrecipients under the following program during the year ended June 30, 2008:

Community Services Block Grant, CFDA #93.569	<u>\$ 327,569</u>
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Directors
REAL SERVICES, INC. AND AFFILIATES
South Bend, Indiana

We have audited the consolidated financial statements of REAL SERVICES, INC. AND AFFILIATES (the "Organization") as of and for the year ended June 30, 2008, and have issued our report thereon dated January 13, 2009. 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 reliability 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 questioned costs as findings 08-1 through 08-4 to be significant deficiencies in internal control over financial reporting.

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 the 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 the internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 08-2 through 08-4 to be material weaknesses.

Compliance and Other Matters

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

The Organization's response to the findings identified in our audit is described in the accompanying auditee's response and corrective action plan. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, the Indiana State Board of Accounts, 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.

Cullen & Associates, P.C.

January 13, 2009



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
REAL SERVICES, INC. AND AFFILIATES
South Bend, Indiana

Compliance

We have audited the compliance of REAL SERVICES, INC. AND AFFILIATES (the "Organization") 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 June 30, 2008. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization'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 the Organization'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 on the Organization's compliance with those requirements.

In our opinion, REAL SERVICES, INC. AND AFFILIATES 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 June 30, 2008.

Internal Control over Compliance

The management of REAL SERVICES, INC. AND AFFILIATES is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the

effectiveness of the Organization's internal control over compliance.

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.

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.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

The Organization's response to the findings identified in our audit is described in the accompanying auditee's response and corrective action plan. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, the Indiana State Board of Accounts, 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.

Cellan & Associates, P.C.

January 13, 2009

REAL SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

Section 1 ó Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued-	Unqualified
Internal control over financial reporting-	
Significant deficiencies identified?	Yes
Material weaknesses identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs-	
Significant deficiencies identified?	No
Material weaknesses identified?	No
Type of auditor’s 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</u>	<u>Name of Federal Program or Cluster</u>
81.042	Weatherization Assistance for Low-Income Individuals
93.044; 93.045; 93.053 (Aging Cluster)	Title IIIB Grants for Supportive Services and Senior Centers Title IIIC Nutrition Services Nutrition Services Incentive Program
93.052	Title IIIE National Family Caregiver Support
93.568	Low-Income Home Energy Assistance
93.569	Community Services Block Grant
93.667	Social Services Block Grant
93.778	Medical Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs-	\$300,000
Auditee qualified as low-risk auditee, as defined in Section 530 of Circular A-133?	No

REAL SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

Section 2 – Findings in Financial Statements Audit

SIGNIFICANT DEFICIENCY

FINDING 08-1

Condition:

The payroll accountant enters all payroll data into the outside payroll service portal and also receives printed payroll packets and checks from the payroll service.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded.

Effect:

There is an inadequate segregation of duties over payroll. One employee is in a position to initiate and review the same transactions.

Recommendations:

We recommend that all payroll reports be opened by a knowledgeable individual not involved in the payroll process, who should review the reports for unusually large amounts or unfamiliar names.

Views of Responsible Officials:

A new system is now in place. All new hire spreadsheets are approved by the Director of Administration & Finance prior to payroll processing. The payroll is opened and reviewed by the President /CEO prior to distributions. The payroll register is also approved by both the President/CEO and the Director of Administration & Finance.

MATERIAL WEAKNESSES

FINDING 08-2

Condition:

Electronic cash disbursements are reviewed by the Organization's President based on documentation provided by the initiator of the disbursements.

REAL SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded.

Effect:

The individual initiating electronic cash disbursements is the same person providing the Organization President with the documentation to review those disbursements. That individual could produce false documentation to hide an unauthorized transaction.

Recommendations:

We recommend that the President obtain on-line access to the bank account and review electronic transactions periodically to verify their propriety. The President should print and sign on-line reports and attach those reports to other documentation supporting the payments.

Views of Responsible Officials:

On-line access to electronic transactions will be obtained by the Director of Administration & Finance who will review and approve reports.

FINDING 08-3

Condition:

An inter-company loan made by an affiliate to REAL Services, Inc. was not recorded in the general ledger and the unrecorded amount was carried as a reconciling item in the monthly bank reconciliations.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded.

Effect:

The Organization's operating bank balance was understated during the year by \$100,000.

Recommendations:

We recommend that all transfers be recorded when they occur. We also recommend that any reconciling items in the bank account reconciliations that do not represent timing differences be investigated and properly recorded rather than being carried forward each month.

REAL SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

Views of Responsible Officials:

This entry has since been made and future transactions will be properly recorded. Bank account reconciliations will be monitored closely by the Director of Administration & Finance.

FINDING 08-4

Condition:

As part of our audit, we proposed adjustments relating to complex accounting standards and drafted the Organization's financial statements and related notes, which were reviewed and approved by management. This service is necessary, in our opinion, because management would be unable to completely comply with such standards or to prepare financial statements and related disclosures in accordance with U.S. generally accepted accounting principles because of limited resources (i.e., time and accounting reporting services). Although this service has historically been part of our audit function, new professional standards require that we now communicate this to you because, as the independent auditor, we are not considered to be part of the Organization's internal control.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded and that financial statements are complete.

Effect:

The overall financial statements, including disclosures, would not be completely in accordance with U.S. generally accepted accounting principles without our assistance.

Recommendations:

We recommend that the Director of Finance and Administration and any related accounting staff take such training courses on nonprofit accounting principles as necessary to develop a sufficient understanding of those principles to either completely comply with U.S. generally accepted accounting principles or to be able to request assistance from another accounting firm when circumstances require.

Views of Responsible Officials:

All accounting staff will be available for training to comply with this recommendation. The staff is pursuing the use of an outside consultant to further assist the agency with accounting principles.

REAL SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

Section 3 – Findings in Major Federal Award Programs Audit

There were no findings in the major federal award programs audit.

REAL SERVICES, INC. AND AFFILIATES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2008

FINDINGS IN FINANCIAL STATEMENTS AUDIT

FINDING 07-1

Condition:

Inter-company loans made from the affiliates to REAL Services, Inc., and a transfer from the money market account to the operating account, were not recorded in the general ledger during the year and the unrecorded amounts were carried as a \$405,000 reconciling item in the monthly bank reconciliations for the operating bank account.

Recommendation:

We recommended that transfers be recorded when they occur. We also recommended that any reconciling items in the bank account reconciliations that do not represent timing differences be investigated and properly recorded rather than being carried forward each month.

Current Status:

The recommendations was not adopted. See finding 08-3 for a similar finding in the 2008 audit.

FINDING 07-2

Condition:

Activity in the Organization's employee trust bank account and in the Guardianship escrow bank account, and the related liabilities, were not recorded during the year, and the monthly bank statements were not reconciled to the related general ledger accounts.

Recommendation:

We recommended that the Administration and Finance department record activity in these accounts monthly and reconcile bank statements to the related general ledger accounts.

Current Status:

The recommendation was adopted. No similar finding was noted during the 2008 audit.

FINDING 07-3

Condition:

Two of the four monthly bank statements examined for the operating account contained no evidence of supervisory review and approval.

REAL SERVICES, INC. AND AFFILIATES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2008

Recommendation:

We recommended that management comply with its own internal policies that require all monthly bank statements be reviewed and approved by a supervisor.

Current Status:

The recommendations were adopted. No similar finding was noted during the 2008 audit.

FINDING 07-4

Condition:

As part of our audit, we proposed adjustments relating to complex accounting standards and drafted the Organization's financial statements and related notes, which were reviewed and approved by management. This service is necessary, in our opinion, because management would be unable to completely comply with such standards or to prepare financial statements and related disclosures in accordance with U.W. generally accepted accounting principles because of limited resources (i.e., time and accounting reporting services). Although this service has historically been part of our audit function, new professional standards require that we now communicate this to you because, as the independent auditor, we are not considered to be part of the Organization's internal control.

Recommendation:

We recommended that the Director of Finance and Administration and any related accounting staff take such training courses on nonprofit accounting principles as necessary to develop a sufficient understanding of those principles to either completely comply with U.S. generally accepted accounting principles or to be able to request assistance from another accounting firm when circumstances require.

Current Status:

This is a repeat finding in the 2008 audit. See finding 08-4.

FINDINGS IN MAJOR FEDERAL AWARDS PROGRAMS AUDIT

There were no findings in the major federal award program audit.

REAL SERVICES, INC. AND AFFILIATES
AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2008

REAL SERVICES, INC. AND AFFILIATES respectfully submits the following response and corrective action plan for the year ended June 30, 2008.

Contact Information of Independent Public Accounting Firm:

Richard J. Cullar, CPA
Cullar & Associates, PC, Certified Public Accountants
209 North Main Street, Suite 200
South Bend, IN 46601
(574)-288-8320
RCullar@Cullar.com

Contact Information of Auditee:

Andrew S. Vargo, Director of Administration and Finance
REAL Services, Inc.
PO Box 1835
South Bend, IN 46634-1835
(574) 233-8205
avargo@realservicesinc.com

SECTION 2 – FINDINGS IN FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

FINDING 08-1

Condition:

The payroll accountant enters all payroll data into the outside payroll service portal and also receives printed payroll packets and checks from the payroll service.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded.

Effect:

There is an inadequate segregation of duties over payroll. One employee is in a position to initiate and review the same transactions.

REAL SERVICES, INC. AND AFFILIATES
AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2008

Recommendations:

We recommend that all payroll reports be opened by a knowledgeable individual not involved in the payroll process, who should review the reports for unusually large amounts or unfamiliar names.

Auditee's response and correction action plan:

A new system is now in place. All new hire spreadsheets are approved by the Director of Administration & Finance prior to payroll processing. The payroll is opened and reviewed by the President /CEO prior to distributions. The payroll register is also approved by both the President/CEO and the Director of Administration & Finance.

MATERIAL WEAKNESSES

FINDING 08-2

Condition:

Electronic cash disbursements are reviewed by the Organization's President based on data provided by the initiator of the disbursements.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded.

Effect:

The individual initiating electronic cash disbursements is the same person providing the Organization President with the documentation to review those disbursements. That individual could produce false documentation to hide an unauthorized transaction.

Recommendations:

We recommend that the President obtain on-line access to the bank account and review electronic transactions periodically to verify their propriety. The President should print and sign on-line reports and attach those reports to other documentation supporting the payments.

Auditee's response and correction action plan:

On-line access to electronic transactions will be obtained by the Director of Administration & Finance who will review and approve reports.

REAL SERVICES, INC. AND AFFILIATES
AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2008

FINDING 08-3

Condition:

An inter-company loan made by an affiliate to REAL Services, Inc. was not recorded in the general ledger and the unrecorded amount was carried as a reconciling item in the monthly bank reconciliations.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded.

Effect:

The Organization's operating bank balance was understated during the year by \$100,000.

Recommendations:

We recommend that all transfers be recorded when they occur. We also recommend that any reconciling items in the bank account reconciliations that do not represent timing differences be investigated and properly recorded rather than being carried forward each month.

Auditee's response and correction action plan:

This entry has since been made and future transactions will be properly recorded. Bank account reconciliations will be monitored closely by the Director of Administration & Finance.

FINDING 08-4

Condition:

As part of our audit, we proposed adjustments relating to complex accounting standards and drafted the Organization's financial statements and related notes, which were reviewed and approved by management. This service is necessary, in our opinion, because management would be unable to completely comply with such standards or to prepare financial statements and related disclosures in accordance with U.S. generally accepted accounting principles because of limited resources (i.e., time and accounting reporting services). Although this service has historically been part of our audit function, new professional standards require that we now communicate this to you because, as the independent auditor, we are not considered to be part of the Organization's internal control.

REAL SERVICES, INC. AND AFFILIATES
AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2008

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded and that financial statements are complete.

Effect:

The overall financial statements, including disclosures, would not be completely in accordance with U.S. generally accepted accounting principles without our assistance.

Recommendations:

We recommend that the Director of Finance and Administration and any related accounting staff take such training courses on nonprofit accounting principles as necessary to develop a sufficient understanding of those principles to either completely comply with U.S. generally accepted accounting principles or to be able to request assistance from another accounting firm when circumstances require.

Auditee's response and correction action plan:

All accounting staff will be available for training to comply with this recommendation. The staff is pursuing the use of an outside consultant to further assist the agency with accounting principles.

SECTION 3 – FINDINGS IN MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings in the major federal award programs audit.