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January 20, 2010

Board of Directors  
North Central Community  
Action Agencies, Inc.  
301 East 8<sup>th</sup> St.  
Michigan City, IN 46360

We have reviewed the audit report prepared by Cullar & Associates, PC, Independent Public Accountants, for the period January 1, 2008 to December 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 North Central Community Action Agencies, Inc., as of December 31, 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 20 and 21 contain two current audit findings. Pages 22 through 26 contain the status of eleven prior audit findings. Management's response is on pages 27 and 28.

STATE BOARD OF ACCOUNTS

*FINANCIAL AND COMPLIANCE REPORT*

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**

December 31, 2008 and 2007

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

To the Board of Directors  
NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.  
Michigan City, Indiana

We have audited the accompanying statements of financial position of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. (the "Organization") as of December 31, 2008 and 2007, and the related 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 financial statements referred to above present fairly, in all material respects, the financial position of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 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 financial statements taken as a whole. The accompanying schedule of expenditures of federal awards 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 financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Cullen & Associates, P.C.*

July 17, 2009

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2008 and 2007

---

<b>Assets:</b>	<u>2008</u>	<u>2007</u>
Current Assets:		
Cash and cash equivalents	\$ 434,603	\$ 578,683
Grants and contributions receivable	923,212	391,663
Prepaid expenses	<u>12,372</u>	<u>58,929</u>
<i>Total current assets</i>	<u>1,370,187</u>	<u>1,029,275</u>
Property and Equipment	<u>89,015</u>	<u>220,506</u>
<i>Total assets</i>	<u>\$ 1,459,202</u>	<u>\$ 1,249,781</u>
<b>Liabilities and Net Assets:</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,164,706	\$ 704,747
Deferred revenue	<u>159,845</u>	<u>227,324</u>
<i>Total current liabilities</i>	<u>1,324,551</u>	<u>932,071</u>
Net Assets:		
Unrestricted	124,355	273,587
Temporarily restricted	<u>10,296</u>	<u>44,123</u>
<i>Total net assets</i>	<u>134,651</u>	<u>317,710</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,459,202</u>	<u>\$ 1,249,781</u>

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

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years Ended December 31, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues and Gains:</b>						
Grants and contracts	\$ 3,693,783	\$ -	\$ 3,693,783	\$ 3,291,807	\$ -	\$ 3,291,807
Contributions	3,094	4,613	7,707	13,097	2,500	15,597
Interest income	817	-	817	880	-	880
Rent and other income	20,669	-	20,669	26,304	-	26,304
Net assets released from restrictions	<u>38,440</u>	<u>(38,440)</u>	<u>-</u>	<u>37,269</u>	<u>(37,269)</u>	<u>-</u>
<i>Total revenues and gains</i>	<u>3,756,803</u>	<u>(33,827)</u>	<u>3,722,976</u>	<u>3,369,357</u>	<u>(34,769)</u>	<u>3,334,588</u>
<b>Expenses:</b>						
Energy assistance	2,277,031	-	2,277,031	1,576,763	-	1,576,763
Weatherization	250,516	-	250,516	361,638	-	361,638
Women, infants, and children	378,104	-	378,104	338,756	-	338,756
Housing	645,018	-	645,018	776,659	-	776,659
Arts and recreation	6,536	-	6,536	17,525	-	17,525
Community agencies support	66,871	-	66,871	56,461	-	56,461
Administrative and general	<u>281,959</u>	<u>-</u>	<u>281,959</u>	<u>295,745</u>	<u>-</u>	<u>295,745</u>
<i>Total expenses</i>	<u>3,906,035</u>	<u>-</u>	<u>3,906,035</u>	<u>3,423,547</u>	<u>-</u>	<u>3,423,547</u>
<b>Change in net assets</b>	(149,232)	(33,827)	(183,059)	(54,190)	(34,769)	(88,959)
Net assets, beginning of year	<u>273,587</u>	<u>44,123</u>	<u>317,710</u>	<u>327,777</u>	<u>78,892</u>	<u>406,669</u>
<i>Net assets, end of year</i>	<u>\$ 124,355</u>	<u>\$ 10,296</u>	<u>\$ 134,651</u>	<u>\$ 273,587</u>	<u>\$ 44,123</u>	<u>\$ 317,710</u>

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

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2008

	<u>Energy Assistance</u>	<u>Weatherization</u>	<u>Women, Infants, and Children</u>	<u>Housing</u>	<u>Arts and Recreation</u>	<u>Community Agencies Support</u>	<u>Administrative and General</u>	<u>Total</u>
Salaries and wages	\$ 102,740	\$ 48,243	\$ 225,247	\$ 29,392	\$ 2,560	\$ -	\$ 157,653	\$ 565,835
Employee benefits	7,021	5,518	43,454	9,351	-	-	36,023	101,367
Payroll taxes	8,752	4,162	19,197	2,486	197	-	2,597	37,391
Training	285	171	550	-	-	-	411	1,417
Contracts	68,247	3,834	499	347	-	66,871	-	139,798
Occupancy	9,775	6,007	34,718	25,156	615	-	20,250	96,521
Telephone	4,314	3,250	7,634	1,137	-	-	7,509	23,844
Postage	5,359	14	2,136	116	-	-	1,021	8,646
Equipment and supplies	18,366	13,559	28,594	2,125	1,951	-	8,633	73,228
Professional fees	77	804	1,188	-	-	-	11,167	13,236
Conferences and travel	2,208	5,590	7,486	3,523	362	-	9,326	28,495
Insurance	1,020	6,054	5,814	397	-	-	17,007	30,292
Financial assistance	2,048,721	151,627	-	429,321	-	-	-	2,629,669
Dues and subscriptions	108	108	996	-	-	-	2,929	4,141
Depreciation	-	1,465	-	141,504	851	-	6,230	150,050
Other	38	110	591	163	-	-	1,203	2,105
<i>Totals</i>	<u>\$ 2,277,031</u>	<u>\$ 250,516</u>	<u>\$ 378,104</u>	<u>\$ 645,018</u>	<u>\$ 6,536</u>	<u>\$ 66,871</u>	<u>\$ 281,959</u>	<u>\$ 3,906,035</u>

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

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2007

	<u>Energy Assistance</u>	<u>Weatherization</u>	<u>Women, Infants, and Children</u>	<u>Housing</u>	<u>Arts and Recreation</u>	<u>Community Agencies Support</u>	<u>Administrative and General</u>	<u>Total</u>
Salaries and wages	\$ 89,128	\$ 71,547	\$ 207,658	\$ 84,371	\$ 12,164	\$ -	\$ 145,091	\$ 609,959
Employee benefits	4,915	5,999	30,684	18,388	-	-	10,486	70,472
Payroll taxes	7,635	6,391	21,505	6,750	982	-	18,145	61,408
Training	-	1,050	209	300	-	-	1,509	3,068
Contracts	43,398	3,643	8,798	485	-	56,461	-	112,785
Occupancy	6,439	12,538	35,253	30,543	228	-	15,006	100,007
Telephone	4,568	4,641	3,380	1,190	-	-	9,189	22,968
Postage	1,920	780	1,019	94	-	-	391	4,204
Equipment and supplies	12,044	9,564	22,282	4,870	2,408	-	12,559	63,727
Professional fees	-	2,171	-	-	-	-	16,881	19,052
Conferences and travel	5,425	11,158	4,287	7,813	537	-	9,072	38,292
Insurance	161	2,563	1,119	1,264	-	-	15,961	21,068
Financial assistance	1,400,837	224,808	-	607,352	-	-	28,958	2,261,955
Dues and subscriptions	151	2,050	2,487	312	426	-	992	6,418
Depreciation	-	2,583	-	12,927	780	-	5,346	21,636
Other	142	152	75	-	-	-	5,992	6,361
Interest	-	-	-	-	-	-	167	167
<i>Totals</i>	<u>\$ 1,576,763</u>	<u>\$ 361,638</u>	<u>\$ 338,756</u>	<u>\$ 776,659</u>	<u>\$ 17,525</u>	<u>\$ 56,461</u>	<u>\$ 295,745</u>	<u>\$ 3,423,547</u>

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

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**

**STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2008 and 2007

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<b>Change in Cash and Cash Equivalents:</b>	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (183,059)	\$ (88,959)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	150,050	21,636
Change in assets and liabilities:		
Grants and contributions receivable	(531,549)	794,717
Prepaid expenses	46,557	14,586
Accounts payable and accrued liabilities	459,959	(58,082)
Deferred revenue	<u>(67,479)</u>	<u>(118,881)</u>
<i>Net cash provided by (used in) operating activities</i>	<u>(125,521)</u>	<u>565,017</u>
Cash Flows from Financing Activities:		
Payments for purchase of property and equipment	<u>(18,559)</u>	<u>(5,955)</u>
Cash Flows from Financing Activities:		
Borrowings on bank line of credit	-	20,000
Payments on bank line of credit	<u>-</u>	<u>(20,000)</u>
<i>Net cash provided by (used in) financing activities</i>	<u>-</u>	<u>-</u>
<b>Net change in cash and cash equivalents</b>	(144,080)	559,062
Cash and cash equivalents, beginning of year	<u>578,683</u>	<u>19,621</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 434,603</u>	<u>\$ 578,683</u>
<i>Supplemental cash flows information:</i>		
Interest paid	<u>\$ -</u>	<u>\$ 167</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

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

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

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**NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. (the "Organization") is an Indiana nonprofit corporation that administers programs providing financial and other assistance to low-income persons. Its operations are supported primarily by grants from governmental agencies.

Significant Accounting Policies:

*Use of estimates:*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States 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 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 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, 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.

*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 as net assets released from restrictions.

*Cash and cash equivalents:*

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

*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 deferred revenue in the accompanying statements of financial position.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2008 and 2007

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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 included as revenue until the conditions are substantially met.

*Contributed services:*

Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such services are recorded at their estimated fair market value. No contributed services were recognized as revenue in either year ended December 31, 2008 or 2007.

*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:

Rental properties.....	20 years <sup>1</sup>
Neighborhood centers.....	20 years
Vehicles .....	10 years
Playground equipment.....	7 years

<sup>1</sup>-As discussed in Note 3, in 2008 the Organization decided to discontinue its rental programs and to transfer all rental properties to another nonprofit organization in mid-2009. Consequently, depreciation was accelerated on all rental properties in 2008 so that they will be fully depreciated by the date of the expected transfer.

*Income taxes:*

The Organization is 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 the Organization as other than a private foundation under Internal Revenue Code Section 509(a)(1).

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

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The Organization classifies interest and penalties, if any, associated with uncertain tax positions as a component of income tax expense. Management has not identified any uncertain tax positions taken or expected to be taken in a tax return. In addition, there were no accrued interest or penalties related to unrecognized tax benefits at either December 31, 2008 or 2007 or any interest or penalties expense related to unrecognized tax benefits for the years then ended. The Organization is no longer subject to examination by the Internal Revenue Service or the State of Indiana for years prior to 2005.

*Adoption of new accounting standard:*

In 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 provides guidance on recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that an entity has taken or expects to take on a tax return. FIN 48 was effective for fiscal years beginning after December 15, 2007 for non-public entities. Accordingly, the Organization adopted applicable portions of this interpretation for the year ended December 31, 2008. As a result of this adoption, the Organization did not identify any uncertain tax positions taken or expected to be taken in a tax return that would require adjustment to the financial statements.

**NOTE 2. GRANTS AND CONTRIBUTIONS RECEIVABLE**

Grants and contributions receivable consist primarily of reimbursements due under government grants and contracts. All amounts are due within one year, and no allowance for uncollectible amounts is considered necessary.

At December 31, 2008, the Organization had received approximately \$1,800,000 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.

**NOTE 3. PROPERTY AND EQUIPMENT**

The cost of property and equipment and the related accumulated depreciation are as follows at December 31, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Land	\$ 16,200	\$ 16,200
Rental properties	235,265	235,265
Neighborhood centers	64,200	64,200
Vehicles	52,107	52,107
Playground equipment	5,955	5,955
Office furniture	<u>18,558</u>	<u>-</u>
	392,285	373,727
Less accumulated depreciation	<u>(303,270)</u>	<u>(153,221)</u>
<i>Net property and equipment</i>	<u>\$ 89,015</u>	<u>\$ 220,506</u>

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

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Two rental properties with a net book value of \$10,296 and \$41,898 at December 31, 2008 and 2007, respectively, were acquired with grants, and their use is restricted for housing for low-income individuals until approximately 2022. If the properties are converted to another use during this period, all or a portion of the grants must be returned to the funding sources. In addition, two other rental properties with a net book value of \$36,991 and \$146,892 at December 31, 2008 and 2007, respectively, have been improved with grants from the Indiana Housing Finance Authority, which are tied to a mortgage on the properties. The mortgage is not payable as long as the Organization uses the properties for low-income housing for fifteen-years, or until approximately 2017. If the properties are converted to another use during this period, all or a portion of the grants must be returned to the funding source.

In 2008, management decided to discontinue its rental programs because they are outside the Organization's core mission and to transfer the properties to another nonprofit organization whose mission involves low-income and transitional housing. Terms are still being negotiated, but the transfer is expected to occur by October 2009. The only consideration expected to be received for the properties is for any transfer costs. The net book value of these properties at December 31, 2008 is \$47,287, and gross rent revenue earned was \$19,166 for the year ending December 31, 2008. Because of the change in the expected useful life of the properties, the depreciable lives were changed in 2008 such that the properties would be fully depreciated by October 2009. Depreciation expense for the year ended December 31, 2008 includes a charge of \$133,412 for the change in these useful lives.

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

**NOTE 4. BANK LINE OF CREDIT**

The Organization maintains an unsecured \$20,000 line of credit facility with a local bank, bearing interest at bank prime. There were no outstanding borrowings on the line at either December 31, 2008 or 2007.

**NOTE 5. NET ASSETS INFORMATION**

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Time restricted for future periods:		
Property restricted for low-income housing	\$ 10,296	\$ 41,898
Purpose restrictions:		
Transitional housing	<u>-</u>	<u>2,225</u>
<i>Total temporarily restricted net assets</i>	<u>\$ 10,296</u>	<u>\$ 44,123</u>

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

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Net assets were released from restrictions for the years ended December 31, 2008 and 2007 as follows:

	<u>2008</u>	<u>2007</u>
Summer recreation	\$ 4,613	\$ 13,875
Depreciation on low-income housing property	31,602	2,707
Transitional housing	2,225	15,687
Playground equipment	-	5,000
<i>Total net assets released</i>	<u>\$ 38,440</u>	<u>\$ 37,269</u>

**NOTE 6. LEASE INFORMATION**

The Organization leases facilities and equipment under non-cancelable operating leases expiring in various months through September 2009. Minimum future rental payments under these leases as of December 31, 2008 are \$23,901, all of which are due in 2009. Total rent expense was \$48,812 and \$50,484 for the years ended December 31, 2008 and 2007, respectively.

**NOTE 7. CONCENTRATIONS AND SUBSEQUENT EVENTS**

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of grants and contributions receivable. All the Organization's grants and contributions receivable are due from agencies of the State of Indiana, which represents a concentration of credit risk.

All of the Organization's programs and activities occur in LaPorte, Starke, and Pulaski counties, Indiana. Consequently, its sources of support and revenue may be affected by conditions in that area. In addition, of total 2008 revenues, approximately 85% and 11% were received from Indiana Housing and Community Development Authority and Indiana Department of Health, respectively, and of total 2007 revenues, approximately 84%, and 11% were received from Indiana Housing and Community Development Authority and Indiana Department of Health, respectively. During 2008, the Organization and Indiana Housing and Community Development Authority mutually agreed to reassign the Organization's Section 8 housing program to another entity. That program generated approximately 10% of total revenues in 2008. In addition, during 2008 Indiana Housing and Community Development Authority temporarily reassigned the Organization's weatherization programs to another entity. These programs generated approximately 5% of total revenues in 2008.

Subsequent to December 31, 2008, Indiana Housing and Community Development Authority awarded the Organization approximately \$619,000 for its weatherization programs from LIHEAP, SWEEP, and Department of Energy funds, and notified the Organization that an additional \$276,000 for those programs would be forthcoming from funds provided by the American Recovery and Reinvestment Act. In addition, subsequent to December 31, 2008, the Organization was awarded \$179,000 from the City of Michigan City for the improvement of two of the Organization's neighborhood centers from funds provided by the 2009 American Recovery and Reinvestment Act.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2008

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<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract or Agreement Numbers</u>	<u>Federal Expenditures</u>
<u>United States Department of Agriculture:</u>			
Passed-Through Indiana State Department of Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	A70-9-070158	\$ <u>417,911</u>
<u>United States Department of Housing and Urban Development:</u>			
Passed-through City of Michigan City:			
Community Development Block Grants/Entitlement Grants	14.218	n/a	24,501
Community Development Block Grants/State's Program	14.228	n/a	36,595
Passed-through Indiana Housing and Community Development Authority:			
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	SH-006-010	<u>388,672</u>
<i>Total United States Department of Housing and Urban Development</i>			<u>449,768</u>
<u>United States Department of Energy:</u>			
Passed-through Indiana Housing and Community Development Authority:			
Weatherization Assistance for Low-Income Persons- Remediation Agreement	81.042	AC-008-027	40,379
Weatherization Assistance for Low-Income Persons	81.042	WX-007-017	<u>68,296</u>
<i>Total United States Department of Energy</i>			<u>108,675</u>
<u>United States Department of Health and Human Services:</u>			
Passed-through Indiana Housing and Community Development Authority:			
Low-Income Home Energy Assistance	93.568	LI-009-017 & LI-007-017	2,293,509
Low-Income Home Energy Assistance	93.568	WL-007-017	96,993
Low-Income Home Energy Assistance	93.568	WL-007-017	33,471
Community Services Block Grant	93.569	CS-007-017-02	<u>229,865</u>
<i>Total United States Department of Health and Human Services</i>			<u>2,653,838</u>
<u>United States Department of Homeland Security:</u>			
Passed-Through Emergency Food and Shelter National Board:			
Emergency Food and Shelter National Board Program	97.024	n/a	<u>9,674</u>
<i>Total federal assistance</i>			<u>\$ 3,639,866</u>

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The accompanying notes are an integral part of this schedule.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2008

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**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activities of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC., (the "Organization") 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 financial statements.

**NOTE 2. SUBRECIPIENTS**

The Organization provided federal awards to subrecipients under the following programs during the year ended December 31, 2008:

Low-Income Home Energy Assistance, CFDA #93.568	\$ 48,551
Community Services Block Grant, CFDA #93.569	<u>66,871</u>
<i>Total</i>	<u>\$ 115,422</u>



**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  
NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.  
Michigan City, Indiana

We have audited the financial statements of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. (the "Organization") as of and for the year ended December 31, 2008, and have issued our report thereon dated July 17, 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 a certain deficiency in internal control over financial reporting that we consider to be a material weaknesses.

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 a combination of control deficiencies, that adversely affect the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 08-1 to be a significant deficiency 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, we consider the significant deficiency described above and in finding 08-1 to be a material weakness.

**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 finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Cullen & Associates, P.C.*

July 17, 2009

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

To the Board of Directors  
NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.  
Michigan City, Indiana

**Compliance**

We have audited the compliance of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. (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 December 31, 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.

Except as discussed in the following paragraph, 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 of the Organization's compliance with those requirements.

We were unable to obtain sufficient documentation supporting compliance of the Organization's Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation, CFDA #14.856, regarding eligibility because all participant records were transferred to another entity under the direction of state officials, and that entity revised or destroyed such records; nor were we able to satisfy ourselves as to the Organization's compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding compliance with eligibility requirements of the Organization's Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation, CFDA #14.856, the Organization 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 December 31, 2008.

**Internal Control Over Compliance**

The management of the Organization 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 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 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.

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, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Cullen & Associates, P.C.*

July 17, 2009

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2008

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**Section 1-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:	Qualified
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>
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation
93.568	Low-Income Home Energy Assistance
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2008

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**Section 2 – Findings in Financial Statements Audit**

MATERIAL WEAKNESS

Finding 08-1

*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 because, as the independent auditor, we are not considered to be part of the Organization's internal control.

*Criteria:*

Statement on Auditing Standards No. 112 defines a material weakness in internal control as 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. Without adequate time or accounting reporting services, management is not able to completely comply with U.S. generally accepted accounting principles, including preparation of required disclosures to the financial statements.

*Effect:*

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

*Views of Responsible Officials:*

As non-profit accounting training becomes available the Accountant will take it. In the meantime, we have been in contact with an outside firm that could help when circumstances require it. We believe there would be an estimated fee savings of \$500 to the audit costs if we were able to have an outside firm prepare the financial statements of the report.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2008

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**Section 3 – Findings in Major Federal Award Programs Audit**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**Passed-Through Indiana Housing and Community Development Authority**  
**CFDA Number 14.856**  
**Lower Income Housing Assistance-Section 8 Moderate Rehabilitation**

**Finding 08-2**

*Condition:*

During 2008, this program was reassigned to another entity by state officials and all participant records were transferred to that entity, which revised or destroyed such records. Consequently, we were unable to audit any evidence regarding the Organization's compliance with eligibility requirements of this program.

*Views of Responsible Officials:*

The agency agrees the Section 8 program was reassigned to another entity by state officials and all participant records were transferred to that entity, which revised or destroyed such records.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2008

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**Findings in Financial Statements Audit**

SIGNIFICANT DEFICIENCIES

Finding 07-1

*Condition:*

Voided checks are not mutilated to prevent them from being cashed.

*Recommendations:*

We recommended that all voided checks have their routing numbers ripped off or be otherwise mutilated to prevent them from being cashed.

*Current status:*

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

Finding 07-2

*Condition:*

The payroll module of the accounting software was incorrectly set-up so that accruals of state unemployment tax continues on compensation above the \$7,000 per employee limit. Accounting personnel did not review the accuracy of the accrual on a periodic basis.

*Recommendations:*

We recommended that the payroll module be corrected to limit accruals of state unemployment tax on compensation of only up to \$7,000 per employee per year. We also recommend that the set-up options in the accounting software be routinely reviewed by an individual familiar with payroll tax and other accounting rules. In addition, accounting personnel should review the unemployment tax accrual along with other accruals at each month-end to determine the accuracy of those accruals.

*Current status:*

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

MATERIAL WEAKNESSES

Finding 07-3

*Condition:*

The year-end bank statement reconciliation was not properly prepared by accounting staff or reviewed by the Executive Director. The reconciliation contained variances of approximately

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2008

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\$15,000 for a receipt that was incorrectly dated in 2007 rather than 2008, and \$29,700 for checks incorrectly dated in 2008 rather than 2007.

*Recommendations:*

Bank statements should be reconciled to the general ledger monthly, with any variances investigated and properly accounted for. The reconciliations should be reviewed and approved by the Executive Director or Board Treasurer, and such review should include questioning of any large, old, or unusual reconciling items and verification that the reconciled balances agree to the general ledger.

*Current status:*

No recommendation was adopted. No similar finding was noted in the 2008 audit.

*Finding 07-4*

*Condition:*

The Fiscal Manager makes deposits, reconciles bank statements, and maintains the general ledger.

*Recommendations:*

We recommended that an individual other than the Fiscal Manager make bank deposits and that the Fiscal Manager not have access to receipts.

*Current status:*

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

*Finding 07-5*

*Condition:*

The Organization loaned another organization \$9,000 without Board approval. The Organization does not have a policy permitting loans to other organizations.

*Recommendations:*

We recommend that the Organization adopt and follow a policy concerning loans to other entities and employees.

*Current status:*

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

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2008

---

Finding 07-6

*Condition:*

Material adjustments to several accounts were proposed during the audit to record grants receivable, accounts payable, prepaid expenses, accrued liabilities, and depreciation. Additionally, management relied on its external auditor to prepare its financial statements, including the related footnotes.

*Recommendations:*

Management should implement procedures to ensure that material accruals are recorded monthly, that material accounts are reconciled to supporting detail on a timely basis, and that monthly general ledger details are reviewed for proper classifications before financial reports and claims are prepared.

*Current status:*

A similar finding is repeated. See finding 08-1.

*NONCOMPLIANCE*

Finding 07-7

*Condition:*

The Organization does not maintain its books during the year completely in accordance with accounting principles generally accepted in the United States of America (GAAP).

*Recommendations:*

We recommended that the books be kept on a GAAP basis throughout the year, with claims receivable and accounts payable being recorded.

*Current status:*

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

Finding 07-8

*Condition:*

The Organization did not comply with requirements to maintain certain tenant forms, purge its tenant wait list, and maintain a system for tracking various due dates for its Lower Income Housing Assistance program.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2008

---

*Recommendations and current status:*

See findings 07-9 through 07-11 below.

**Findings in Major Federal Award Programs Audit**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**Passed-Through Indiana Housing and Community Development Authority**  
**CFDA Number 14.856**  
**Lower Income Housing Assistance-Section 8 Moderate Rehabilitation**

**Finding 07-9**

*Condition:*

There is no procedure in place to monitor compliance with required documentation of tenant files. Of 40 Section 8 tenant files tested, four were missing rent reasonableness analysis forms, six were missing Form 50058 "Family Report," and five were missing Form 9886 "Release of Information/Privacy Act."

*Recommendations:*

We recommended the Organization develop and maintain a checklist for each tenant file documenting receipt of the required documents.

*Current status:*

Indiana Housing and Community Development Authority transferred the program to another entity in 2008. Because all records were transferred to the other entity and those records were revised or destroyed, we were unable to determine whether the recommendations were implemented.

**Finding 07-10**

*Condition:*

There is no procedure in place to purge the Section 8 wait list, and the Organization has never purged that list.

*Recommendations:*

We recommended that the Organization comply with the state regulations and immediately notify those on the waiting list in accordance with those regulations.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2008

---

*Current status:*

Indiana Housing and Community Development Authority transferred the program to another entity in 2008. Because all records were transferred to the other entity and those records were revised or destroyed, we were unable to determine whether the recommendations were implemented.

*Finding 07-11*

*Condition:*

The Organization has no system for tracking due dates of annual tenant recertifications, inspections, and completion of other forms.

*Recommendations:*

We recommend the Organization comply with federal and state regulations regarding this matter. The Organization should develop a tickler list that includes the names of all tenants and the due dates of all tenant recertifications. The tickler list should also include the due date for all inspections and other forms that must be completed for each tenant.

*Current status:*

Indiana Housing and Community Development Authority transferred the program to another entity in 2008. Because all records were transferred to the other entity and those records were revised or destroyed, we were unable to determine whether the recommendations were implemented.

**NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.**  
**AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN**  
Year Ended December 31, 2008

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North Central Community Action Agencies, Inc. respectfully submits the following response and corrective action plan to the findings in the accompanying schedule of findings and questioned costs:

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](mailto:RCullar@Cullar.com)

Contact Information of Auditee

Cynthia T. Davis, Executive Director  
North Central Community Action Agencies, Inc.  
301 East 8<sup>th</sup> Street  
Michigan City, IN 46360  
(219) 872-0351  
CDavis@nccomact.org

**Section 2 - Findings in Financial Statements Audit**

Finding 08-1

*Statement of 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 because, as the independent auditor, we are not considered to be part of the Organization's internal control.

*Auditee's Response and Corrective Action Plan:*

As non-profit accounting training becomes available the Accountant will take it. In the meantime, we have been in contact with an outside firm that could help when circumstances require it. We believe there would be an estimated fee savings of \$500 to the audit costs if we were able to have an outside firm prepare the financial statements of the report.

**Section 3 – Findings in Major Federal Award Programs Audit**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**Passed-Through Indiana Housing and Community Development Authority**  
**CFDA Number 14.856**  
**Lower Income Housing Assistance-Section 8 Moderate Rehabilitation**

**Finding 08-2**

*Condition:*

During 2008, this program was reassigned to another entity by state officials and all participant records were transferred to that entity, which revised or destroyed such records. Consequently, we were unable to audit any evidence regarding the Organization's compliance with eligibility requirements of this program.

*Auditee's Response and Corrective Action Plan:*

The agency agrees the Section 8 program was reassigned to another entity by state officials and all participant records were transferred to that entity, which revised or destroyed such records.



**INDEPENDENT AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

To the Board of Directors  
NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC.  
Michigan City, Indiana

We have audited the financial statements of NORTH CENTRAL COMMUNITY ACTION AGENCIES, INC. (the "Organization") for the year ended December 31, 2008, and have issued our report thereon dated July 17, 2009. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated April 15, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the Organization's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Significant Audit Findings**

1. *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization are described in Note 1 to the financial statements.

As described in Note 1 to the financial statements, in 2008 the Organization changed its accounting policies by adopting the following new accounting standard:

- FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 provides guidance on recognizing, measuring, presenting, and disclosing in the financial

statements uncertain tax positions that an entity has taken or expects to take on a tax return. The effects of adopting FIN 48 are disclosed in Note 1 to the financial statements under "Income Taxes."

In addition, as described in Note 3 to the financial statements, in 2008 management decided to discontinue the rental programs and to transfer the rental properties to another nonprofit organization for a nominal price. The transfer is expected to occur by October 2009. Consequently, depreciation was accelerated on the properties such that they will be fully depreciated by October 2009, and this resulted in additional depreciation expense in 2008 of \$133,412.

We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the financial statements was the allocation of expenses among programs and supporting services. Management allocated expenses based primarily on estimates of employee time spent on functions and on space used by function. We evaluated the key factors and assumptions used to develop the allocation of expenses among programs and supporting services in determining that they are reasonable in relation to the financial statements taken as a whole.

## 2. *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## 3. *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures were corrected by management:

- Understatement of accrued payroll by approximately \$21,000
- Understatement of accounts payable for December EAP charges by approximately \$165,000
- Understatement of property and equipment for expensed acquisitions of approximately \$19,000
- Understatement of deferred revenues, and overstatement of EAP revenue, of approximately \$163,000
- Unrecorded depreciation of approximately \$77,000

Management has determined that the effects of the following uncorrected misstatement detected as a result of our audit procedures are immaterial to the financial statements as a whole:

- Understatement of cash for checks voided in 2009 of \$1,240
- Understatement of accounts payable for a variance between the aged accounts payable detail and the general ledger of \$1,583
- Understatement of accrued payroll liabilities of \$14,239
- Understatement of grants receivable and revenue for the effect of above understatement of accrued payroll liabilities of \$7,500.
- Understatement of grants receivable of \$1,628
- Understatement of deferred revenue of \$3,582
- Estimated over-charges to federal awards of \$132 for mis-allocated administrative salaries

4. *Disagreements with Management*

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated July 17, 2009.

6. *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

*Cullen & Associates, P.C.*

July 17, 2009