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AN EQUAL OPPORTUNITY EMPLOYER

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May 7, 2008

Board of Directors
Noble, Inc.
7701 E. 21st St.
Indianapolis, IN 46219

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period July 1, 2006 to June 30, 2007. 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 Noble, Inc., as of June 30, 2007, 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. The management letter contains three comments.

STATE BOARD OF ACCOUNTS

Noble, Inc.

Accountants' Report and Financial Statements

June 30, 2007 and 2006

Noble, Inc.
June 30, 2007 and 2006

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Noble, Inc.
Indianapolis, Indiana

We have audited the accompanying statements of financial position of Noble, Inc. (Noble) as of June 30, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Noble'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 Noble, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2007, on our consideration of Noble's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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.

BKD LLP

October 25, 2007

Noble, Inc.
Statements of Financial Position
June 30, 2007 and 2006

	2007	2006
Assets		
Cash and cash equivalents	\$ -	\$ 12,316
Accounts receivable, net of allowance (Note 2)	1,500,797	1,711,350
Contributions receivable, net of allowance (Note 3)	515,792	702,217
Investments (Note 4)	6,530,503	6,006,997
Prepaid expenses and other assets	192,191	180,864
Property and equipment, net (Note 5)	2,933,784	2,451,481
Total assets	\$ 11,673,067	\$ 11,065,225
Liabilities and Net Assets		
Liabilities		
Accounts payable and other accrued expenses	\$ 749,093	\$ 629,600
Retirement plan contribution payable	182,190	219,059
Notes payable - bank line of credit (Note 6)	2,005,804	1,654,001
Long-term debt (Note 7)	737,286	611,745
Total liabilities	3,674,373	3,114,405
Net Assets		
Unrestricted	6,068,834	6,145,331
Temporarily restricted (Note 9)	859,270	745,950
Permanently restricted (Note 9)	1,070,590	1,059,539
Total net assets	7,998,694	7,950,820
Total liabilities and net assets	\$ 11,673,067	\$ 11,065,225

Noble, Inc.
Statements of Activities
Years Ended June 30, 2007 and 2006

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Public support				
Contributions	\$ 1,131,686	\$ 320,718	\$ 11,051	\$ 1,463,455
United Way of Central Indiana	485,176	-	-	485,176
Service revenue from government agencies	4,197,244	-	-	4,197,244
Grants from local government agencies	1,024,988	-	-	1,024,988
Other revenue				
Program fees (individual and third party)	70,041	-	-	70,041
Group home income	1,836,374	-	-	1,836,374
Contract and sales income	1,741,595	-	-	1,741,595
Interest and dividends (Note 4)	144,363	33,097	-	177,460
Miscellaneous	12,580	-	-	12,580
	<u>10,644,047</u>	<u>353,815</u>	<u>11,051</u>	<u>11,008,913</u>
Net assets released from restrictions	342,900	(342,900)	-	-
Total revenues and other support	<u>10,986,947</u>	<u>10,915</u>	<u>11,051</u>	<u>11,008,913</u>
Expenses (and Losses)				
Children's services	976,177	-	-	976,177
Adult developmental services	2,939,973	-	-	2,939,973
Noble Industries	3,714,513	-	-	3,714,513
Supported employment	1,011,357	-	-	1,011,357
Communitas	497,790	-	-	497,790
Business Enterprise	290,977	-	-	290,977
Total program expenses	<u>9,430,787</u>	<u>-</u>	<u>-</u>	<u>9,430,787</u>
Management and general	1,547,414	-	-	1,547,414
Fund raising	579,818	-	-	579,818
Total expenses	<u>11,558,019</u>	<u>-</u>	<u>-</u>	<u>11,558,019</u>
Change in Net Assets From Operations	(571,072)	10,915	11,051	(549,106)
Provision for uncollectible contributions receivable	-	(4,553)	-	(4,553)
Net realized gains on investments (Note 4)	295,418	66,870	-	362,288
Net unrealized gains on investments (Note 4)	199,157	40,088	-	239,245
Losses on disposition of assets	-	-	-	-
Change in Net Assets	(76,497)	113,320	11,051	47,874
Net Assets, Beginning of Year	<u>6,145,331</u>	<u>745,950</u>	<u>1,059,539</u>	<u>7,950,820</u>
Net Assets, End of Year	<u>\$ 6,068,834</u>	<u>\$ 859,270</u>	<u>\$ 1,070,590</u>	<u>\$ 7,998,694</u>

2006

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 749,638	\$ 350,544	\$ 19,702	\$ 1,119,884
477,792	-	-	477,792
4,578,436	-	-	4,578,436
1,027,542	-	-	1,027,542
63,577	-	-	63,577
1,726,189	-	-	1,726,189
1,295,691	-	-	1,295,691
119,877	22,119	-	141,996
17,243	-	-	17,243
10,055,985	372,663	19,702	10,448,350
794,195	(794,195)	-	-
10,850,180	(421,532)	19,702	10,448,350
923,206	-	-	923,206
2,644,714	-	-	2,644,714
3,138,393	-	-	3,138,393
1,362,798	-	-	1,362,798
1,139,919	-	-	1,139,919
-	-	-	-
9,209,030	-	-	9,209,030
1,542,140	-	-	1,542,140
496,933	-	-	496,933
11,248,103	-	-	11,248,103
(397,923)	(421,532)	19,702	(799,753)
-	(43,077)	-	(43,077)
823,517	55,157	-	878,674
85,311	17,654	-	102,965
(2,069)	-	-	(2,069)
508,836	(391,798)	19,702	136,740
5,636,495	1,137,748	1,039,837	7,814,080
\$ 6,145,331	\$ 745,950	\$ 1,059,539	\$ 7,950,820

Noble, Inc.
Statement of Functional Expenses
Year Ended June 30, 2007

	Children's Services	Adult Developmental Services	Noble Industries	Supported Employment	Communitas	Business Enterprise	Total Program Expense	Management and General	Fund Raising	Total Expenses
Salaries and wages	\$ 430,273	\$ 1,523,601	\$ 2,275,651	\$ 665,508	\$ 301,422	\$ 17,624	\$ 5,214,079	\$ 823,619	\$ 293,771	\$ 6,331,469
Benefits	71,152	355,654	294,177	127,308	59,284	4,880	912,455	215,490	64,293	1,192,238
Total salaries, wages and related expenses	501,425	1,879,255	2,569,828	792,816	360,706	22,504	6,126,534	1,039,109	358,064	7,523,707
Contracts and professional fees	196,587	57,979	89,505	26,247	4,456	102,566	477,340	175,223	14,135	666,698
Client transportation fees	-	112,519	147,826	19,984	644	-	280,973	-	-	280,973
Supplies	7,856	43,138	90,264	6,792	1,734	23,989	173,773	21,202	2,019	196,994
Telephone	8,153	35,276	18,138	15,436	7,492	2,449	86,944	17,283	2,274	106,501
Postage and freight	1,713	366	14,065	354	141	23	16,662	4,331	6,499	27,492
Occupancy	44,570	320,117	169,337	24,510	47,918	42,098	648,550	62,796	8,144	719,490
Printing and publications	275	606	972	163	-	-	2,016	2,925	2,610	7,551
Vehicle expense	-	53,334	67,605	-	-	-	120,939	15,397	-	136,336
Staff travel	11,967	7,172	4,426	35,398	6,850	-	65,813	4,464	1,849	72,126
Conferences and meetings	1,038	834	693	2,380	655	-	5,600	10,863	16,587	33,050
Interest expense	19,425	55,757	69,820	20,169	9,617	11,628	186,416	-	11,430	197,846
Client support	500	27	115	332	-	-	974	-	-	974
Client activities	100,617	1,124	5,815	8	225	-	107,789	-	-	107,789
Insurance	3,264	33,495	25,360	5,433	1,707	-	69,259	23,417	1,375	94,051
Bad debt expense	24,965	34,538	43,405	4,656	-	-	107,564	-	4,802	112,366
Visibility and awareness	36,005	105,183	250,386	37,653	17,969	70,159	517,355	5,197	132,178	654,730
Sales and marketing	-	-	5,528	-	-	1,843	7,371	-	-	7,371
Miscellaneous	228	8	262	682	-	-	1,180	58,427	2,903	62,510
Expenses before depreciation	958,588	2,740,728	3,573,350	993,013	460,114	277,259	9,003,052	1,440,634	564,869	11,008,555
Depreciation	17,589	199,245	141,163	18,344	37,676	13,718	427,735	106,780	14,949	549,464
Totals	\$ 976,177	\$ 2,939,973	\$ 3,714,513	\$ 1,011,357	\$ 497,790	\$ 290,977	\$ 9,430,787	\$ 1,547,414	\$ 579,818	\$ 11,558,019

See Notes to Financial Statements

Noble, Inc.
Statement of Functional Expenses
Year Ended June 30, 2006

	Children's Services	Adult Developmental Services	Noble Industries	Supported Employment	Communitas	Total Program Expense	Management and General	Fund Raising	Total Expenses
Salaries and wages	\$ 329,572	\$ 1,435,503	\$ 1,939,281	\$ 923,660	\$ 709,516	\$ 5,337,532	\$ 852,080	\$ 259,266	\$ 6,448,878
Benefits	70,486	332,152	286,974	205,870	159,314	1,054,796	211,405	51,859	1,318,060
Total salaries, wages and related expenses	400,058	1,767,655	2,226,255	1,129,530	868,830	6,392,328	1,063,485	311,125	7,766,938
Contracts and professional fees	192,869	43,630	75,839	16,063	14,017	342,418	163,803	10,731	516,952
Client transportation fees	-	115,740	151,535	15,212	4,341	286,828	-	-	286,828
Supplies	6,976	39,870	85,268	3,599	5,745	141,458	22,309	3,469	167,236
Telephone	14,604	49,747	28,104	24,313	33,075	149,843	28,540	2,813	181,196
Postage and freight	3,848	1,885	3,157	915	599	10,404	4,439	4,424	19,267
Occupancy	55,343	238,776	191,009	17,700	66,358	569,186	47,055	5,433	621,674
Printing and publications	76	945	-	218	19	1,258	1,072	1,426	3,756
Vehicle expense	-	23,207	79,654	-	25,902	128,763	14,665	-	143,428
Staff travel	7,595	6,872	4,403	45,340	21,058	85,268	8,327	666	94,261
Conferences and meetings	535	3,665	275	2,071	1,488	8,034	13,463	17,879	39,376
Interest expense	11,207	31,772	37,538	16,225	13,610	110,352	-	6,373	116,725
Client support	292	244	126	260	491	1,413	-	-	1,413
Client activities	148,049	1,162	5,873	-	268	155,352	-	-	155,352
Insurance	3,238	27,418	25,151	4,320	7,919	68,046	24,100	1,355	93,501
Bad debt expense	32,000	28,619	20,919	1,828	3,668	87,034	-	-	87,034
Visibility and awareness	31,336	90,070	109,937	48,320	38,955	318,618	6,995	116,666	442,279
Miscellaneous	15	(2,493)	181	843	1,095	(359)	71,145	3,980	74,766
Expenses before depreciation expense	908,041	2,468,784	3,045,224	1,326,757	1,107,438	8,856,244	1,469,398	486,340	10,811,982
Depreciation	15,165	175,930	93,169	36,041	32,481	352,786	72,742	10,593	436,121
Totals	\$ 923,206	\$ 2,644,714	\$ 3,138,393	\$ 1,362,798	\$ 1,139,919	\$ 9,209,030	\$ 1,542,140	\$ 496,933	\$ 11,248,103

Noble, Inc.
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Operating Activities		
Change in net assets	\$ 47,874	\$ 136,740
Items not requiring (providing) cash		
Depreciation	549,464	436,121
Net realized and unrealized gains on investments	(601,533)	(981,639)
Loss on disposition of assets	-	2,069
Changes in		
Accounts receivable	210,553	(324,969)
Contributions receivable	186,425	35,871
Prepaid expenses and other assets	(11,327)	(6,803)
Accounts payable and accrued expenses	119,493	31,702
Retirement plan contribution payable	(36,869)	(38,572)
Net cash provided by (used in) operating activities	464,080	(709,480)
Investing Activities		
Purchase of property and equipment	(778,767)	(266,799)
Purchase of investments	(1,495,799)	(1,151,947)
Proceeds from disposition of investments	1,573,826	1,773,474
Net cash provided by (used in) investing activities	(700,740)	354,728
Financing Activities		
Principle payments under capital lease obligation	(44,982)	(17,832)
Net change in borrowings under lines of credit	351,803	(180,455)
Payments on bond principal	(82,477)	(76,743)
Net cash provided by (used in) financing activities	224,344	(275,030)
Decrease in Cash and Cash Equivalents	(12,316)	(629,782)
Cash and Cash Equivalents, Beginning of Year	12,316	642,098
Cash and Cash Equivalents, End of Year	\$ -	\$ 12,316
Supplemental Cash Flows Information		
Interest paid	\$ 197,846	\$ 116,724
Capital lease obligation incurred for equipment	255,038	252,382

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Noble, Inc. (d/b/a Noble of Indiana), founded and incorporated in 1953 as Noble School, is a charitable organization serving children with developmental delays, adults with developmental disabilities and their families. Today, Noble of Indiana helps central Indiana residents with disabilities pursue meaningful lives through therapeutic treatments and innovative vocational and life skills training.

In July 1987, through reorganization, Noble of Indiana was incorporated as a not-for-profit organization. Noble of Indiana and its affiliate organizations' (collectively "Noble") mission is to inspire the community to recognize, embrace and include the contributions of individuals with disabilities. Noble's primary sources of revenue and support include purchase of service contracts with the State of Indiana along with grants, programs service fees and contributions.

Noble of Indiana's programs include Children's Services, which provide community-based early intervention services for children from birth to age three with - or at risk of - developmental delays and support for their families. Adult Developmental Services include skills training for adults with developmental disabilities in social, vocational and recreational programming, emphasizing person-centered planning. Noble Industries programs focus on skills training and employment in both sheltered and community based work settings. The Supported Employment programs assist employers in hiring people with developmental disabilities and high school students with disabilities to cultivate marketable job skills. Communitas is a service that focuses on self-determination and community involvement in all aspects of life for individuals with developmental disabilities; creating partnerships with community organizations and businesses to expand community involvement and support for individuals with disabilities.

During 2002, Noble initiated "A Noble Campaign: Building Lives, Building Families". The campaign raised program operating funds for Noble's Communitas service and endowment funds for Noble's Center for Family Leadership. The Center for Family Leadership assists families raising children with developmental disabilities by linking them to family mentors and other resources. The mentors, trained and experienced in raising children with disabilities, provide support to other families through relationships, education, encouragement and inspiration.

In April 2007, Noble commenced a Business Enterprise operation to provide financial support for Noble's core programs. A 40,000 square foot building on Guion Road was leased for three years with a renewal option for \$132,000 per year. Additionally, equipment of \$255,000 was acquired and financed by a four-year capital lease.

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Noble considers all liquid investments with original maturities of three months or less (excluding cash equivalents managed by outside investment firms) to be cash equivalents. At June 30, 2007 and 2006, cash equivalents consisted primarily of money market funds and certificates of deposit.

Investments and Investment Return

Investments in equity securities having a readily determinable fair market value and all debt securities are carried at fair market value. Investment return includes dividends, interest, realized gains and losses and unrealized gains and losses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Accounts Receivable and Service Revenue From Government Agencies

Noble provides services for adults and children with developmental disabilities, where reimbursement for services are funded and controlled by agencies of the State of Indiana. Noble's billings are subject to review by the agencies and availability of program funds. As a result of these reviews, adjustments to billing and revenue may be required and are recorded in the period the State requests the adjustment. Management believes such adjustments, if required, will not have a material adverse impact on Noble's financial condition.

Accounts receivable are stated at the amount billed to the various funding sources. Noble provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Property and Equipment

Property and equipment are depreciated on the straight-line basis over the estimated useful life of each asset. Noble provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

	<u>Years</u>
Furniture and equipment	5 - 7
Leasehold improvements	15
Buildings and building improvements	33 ½

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Noble has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Noble in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor 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. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case, the gifts are reported as temporarily or permanently restricted revenue and net assets.

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Income Taxes

Noble is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Noble would be subject to federal income tax on any unrelated business taxable income.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on the actual expenditures and cost allocations estimated by Noble's personnel.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Accounts Receivable

Accounts receivable at June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Government agencies - service revenue	\$ 538,522	\$ 646,299
Government agencies - grants	262,488	500,000
Group home income	320,939	319,659
Contract revenue	425,370	249,546
Other	106,162	75,017
Allowance for uncollectible accounts	<u>(152,684)</u>	<u>(79,171)</u>
	<u>\$ 1,500,797</u>	<u>\$ 1,711,350</u>

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Note 3: Contributions Receivable

Contributions receivable consisted of the following:

	2007		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 225,077	\$ 100,000	\$ 325,077
Due in one to five years	284,778	-	284,778
	509,855	100,000	609,855
Less:			
Allowance for uncollectible contributions	(67,204)	-	(67,204)
Unamortized discount	(26,859)	-	(26,859)
	\$ 415,792	\$ 100,000	\$ 515,792
	2006		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 382,300	\$ 104,802	\$ 487,102
Due in one to five years	227,057	100,000	327,057
	609,357	204,802	814,159
Less:			
Allowance for uncollectible contributions	(68,290)	-	(68,290)
Unamortized discount	(28,974)	(14,678)	(43,652)
	\$ 512,093	\$ 190,124	\$ 702,217

Discount rates ranged from 3.16% to 5.18% for 2007 and 2.27% to 5.18% for 2006.

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Note 4: Investments

Investments at June 30 consisted of the following:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 71,810	\$ 71,810	\$ 20,669	\$ 20,669
U. S. Government securities	613,818	603,124	1,034,040	984,778
Corporate bonds	397,469	385,617	660,332	644,708
Mutual funds	3,596,917	4,478,010	2,832,953	3,555,597
Common stocks	482,684	643,802	330,443	482,784
Preferred stocks	13,000	11,882	13,000	11,596
Alternative investments - private equity funds	300,000	336,258	300,000	306,865
	<u>\$ 5,475,698</u>	<u>\$ 6,530,503</u>	<u>\$ 5,191,437</u>	<u>\$ 6,006,997</u>

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30:

	2007		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 144,363	\$ 33,097	\$ 177,460
Net realized gain on investments	295,418	66,870	362,288
Net unrealized gain on investments	199,157	40,088	239,245
Total return on investments	<u>\$ 638,938</u>	<u>\$ 140,055</u>	<u>\$ 778,993</u>
	2006		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 119,877	\$ 22,119	\$ 141,996
Net realized gain on investments	823,517	55,157	878,674
Net unrealized gain on investments	85,311	17,654	102,965
Total return on investments	<u>\$ 1,028,705</u>	<u>\$ 94,930</u>	<u>\$ 1,123,635</u>

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Note 5: Property and Equipment

Property and equipment at June 30 consists of:

	2007	2006
Land	\$ 157,003	\$ 157,003
Land improvements	79,697	79,697
Building - Noble Industries	1,113,776	1,064,400
Building - Noble Adult Centers	3,973,999	3,499,253
Equipment	3,511,232	3,026,982
	8,835,707	7,827,335
Less accumulated depreciation	(5,901,923)	(5,375,854)
	\$ 2,933,784	\$ 2,451,481

Note 6: Lines of Credit

Borrowings under Noble's lines of credit at June 30 consist of:

	2007	2006
Line of credit (A)	\$ 2,005,804	\$ 1,654,001

(A) \$2,700,000 line of credit with a local financial institution, which expires January 31, 2008, and is collateralized by Noble's investments. Interest is charged at the bank's prime rate less .50% (7.75% at June 30, 2007 and 2006).

Advances to Noble are dependent upon maintaining satisfactory financial position, as defined in the credit agreement, which includes certain covenants. Upon expiration of the line of credit, management expects to renew the agreement with similar amounts and terms.

Note 7: Long-Term Debt

In August 2000, through the Indiana Development Finance Authority, Noble issued \$700,000 of Economic Development Revenue Bonds, Series 2000. The loan agreement prohibits the sale of assets and also contains covenants, which require Noble to meet, among other things, a cash flow coverage ratio. The bonds bear interest, payable monthly, at an annual rate of 7.45%. The bonds mature on January 1, 2011.

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

In 2006, Noble signed a capital lease which expires in 2011 for a new phone system. Under the terms of the lease, Noble is required to make monthly payments of \$6,231.

In June 2007, Noble of Indiana entered into a capital lease agreement with Chase Bank, N.A. for the financing of the shrink wrapping equipment at the Guion Road facility. The capital lease provides for a financing amount of \$255,000 over a 48 month term at an interest rate of 8.45%. The monthly payments on the capital lease are \$6,230. The lease matures on June 28, 2011.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2007, are:

	Long-Term Debt (Excluding Leases)	Capital Lease Obligations	Total
2008	\$ 80,707	\$ 134,459	\$ 215,166
2009	86,929	134,459	221,388
2010	93,631	134,459	228,090
2011	33,452	109,585	143,037
	<u>\$ 294,719</u>	512,962	807,681
Less amount representing interest		<u>(70,395)</u>	<u>(70,395)</u>
Present value of future minimum lease payments		<u>\$ 442,567</u>	<u>\$ 737,286</u>

Property and equipment include the following property under capital leases at June 30, 2007:

	2007	2006
Equipment	\$ 425,620	\$ 252,382
Less accumulated depreciation	<u>(65,076)</u>	<u>(8,413)</u>
	<u>\$ 360,544</u>	<u>\$ 243,969</u>

Note 8: Annuities Payable

Noble has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair market value. Noble has recorded a liability at June 30, 2007 and 2006 of \$83,151 and \$85,962, which represents the present value of the future annuity obligations. This liability is included in accounts payable and other accrued expenses. The liability has been determined using discount rates of 6.0% to 12.2%.

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Note 9: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	<u>2007</u>	<u>2006</u>
Communitas	\$ 27,278	\$ 75,379
Other programs and time restrictions	<u>831,992</u>	<u>670,571</u>
	<u>\$ 859,270</u>	<u>\$ 745,950</u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	<u>2007</u>	<u>2006</u>
Investment in perpetuity, the income of which is expendable to support Activities and services directed at enhancing a mother's ability to parent a child with disabilities	\$ 1,035,579	\$ 1,024,703
Other program activities	<u>35,011</u>	<u>34,836</u>
	<u>\$ 1,070,590</u>	<u>\$ 1,059,539</u>

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2007</u>	<u>2006</u>
Purpose restrictions accomplished		
Communitas	\$ 56,582	\$ 642,210
Other program expenses	51,767	52,408
Time restriction satisfied	<u>234,551</u>	<u>99,577</u>
	<u>\$ 342,900</u>	<u>\$ 794,195</u>

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Note 10: Related Party Transactions

In the normal course of business, Noble enters into certain transactions with entities that are owned by or employ certain board members of Noble. During the years ended June 30, 2007 and 2006, Noble incurred expenses with related parties of approximately \$408,000 and \$418,000, respectively.

Note 11: Operating Leases

Noble has noncancellable operating leases for office equipment and buildings which expire in various years through November 2014. Rental expense included in the statements of activities was \$363,125 and \$334,994 for 2007 and 2006, respectively.

Future minimum lease payments at June 30 were:

2008	\$ 395,322
2009	355,236
2010	396,433
2011	202,611
2012	212,070
Thereafter	<u>311,853</u>
	<u>\$ 1,873,525</u>

Note 12: Pension Plan

Noble has a defined-contribution retirement plan for employees with at least one year of service and 18 years of age. Contributions are at the discretion of the Board and are currently 5% of each employee's total compensation. Employee benefit expense under this plan was \$182,203 and \$220,114 for 2007 and 2006, respectively. During 2003, Noble adopted changes to the plan that allow Noble to offset expenses with forfeitures. The plan forfeitures reduced the 2007 and 2006 expenses by \$35,535 and \$31,450, respectively.

For employees hired prior to November 1, 2001, benefits are 20% vested after three years of service, 40% vested after four years of service and fully vested after five years of service. Benefits for employees hired after October 31, 2001 are fully vested after five years of service.

Noble, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Note 13: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Service Revenue

A significant portion of Noble's service revenue is provided by grants and contracts with the State of Indiana. Such revenue represented approximately 39% and 37% of total revenues for the years ended June 30, 2007 and 2006, respectively. Although the State of Indiana has not indicated reductions to the funding related to this revenue, Noble's operations could be negatively impacted if state budget cuts are extended to social services.

Commitments and Contingencies

Noble is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of Noble.

During 2006, the State of Indiana conducted a review of Noble's grant programs. This review resulted in the State of Indiana questioning approximately \$207,000 of grant expenditures. Management believed Noble had meritorious defenses against the action and vigorously defended the matter. At June 30, 2006, Noble accrued \$40,000, which, in the opinion of management, was the best estimate of loss from this matter. Subsequent to June 30, 2007, Noble and the State of Indiana agreed to settle this matter for \$45,000, which is accrued at June 30, 2007.

Supplementary Information

Noble, Inc.
Schedule of Governmental Awards
Year Ended June 30, 2007

Grantor/Pass-through Grantor/Program Title/Grant Name	Federal CFDA Number	State Grant Number	Total Grant Amount	Grant Reimbursements Receivable, Beginning of Year	Receipts	Disbursements/Expenditures	Grant Reimbursements Receivable, End of Year
U. S. Department of Health and Human Services Pass-through programs Indiana Family and Social Services Administration, Division of Disability, Aging and Rehabilitative Services Title XX Grant/Adult Day Services	93.667	49-04-3H-2630-04	N/A	\$ 147,554	\$ 813,496	\$ 703,542	\$ 37,600
Title XX Grant/OBRA Day Services	93.667	49-04-3H-2630-04	N/A	6,002	25,667	44,648	24,983
Indiana Family and Social Services Administration, Division of Disability, Aging and Rehabilitative Services Respite/Emergency Support Services	N/A	49-04-55-2630-07	N/A	-	-	-	-
Respite/Residential Services & Administration	N/A	49-04-55-2630-08	\$ 32,000	5,333	5,333	-	-
Respite/Family Subsidy	N/A	49-04-56-2630-01	70,000	10,391	51,072	41,809	1,128
U. S. Department of Education Division of Exceptional Learners Pass-through programs Special Education Grant/ Technical Assistance on State Data Collection	84.373		87,560	-	50,608	61,026	10,418
Indianapolis/Marion County City-County Council School to Work	N/A	N/A	1,027,542	500,000	1,262,500	1,024,988	262,488
Metropolitan School District of Pike Township Department of Special Education	N/A	N/A	45,960	23,460	22,500	45,960	46,920
Community Development Block Grant Department of Housing and Urban Development	14-218	N/A	150,000	60,362	171,617	215,591	104,336
			\$ 1,413,062	\$ 753,102	\$ 2,402,793	\$ 2,137,564	\$ 487,873

Noble, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

	Federal Agency/ Pass-through Entity	CFDA Number	Other Identifying Number	Amount
Title XX Grant/Social Services Block Grant/Adult Day Services and Physically Disabled Day Services	U. S. Department of Health and Human Services/State of Indiana/Division of Disability, Aging and Rehabilitative Services	93.667	49-04-3H-2630	\$ 283,955
Community Development Block Grant	U. S. Department of Housing and Urban Development/Consolidated City of Indianapolis	14.218		215,591
Special Education Grant/ Technical Assistance on State Data Collection	U. S. Department of Education/Ball State University	84.373		<u>61,026</u>
				<u>\$ 560,572</u>

Notes to Schedule

1. This schedule includes the federal awards activity of Noble, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Of the federal expenditures presented in this schedule, Noble, Inc. provided no federal awards to subrecipients.



**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of the Financial Statements Performed in
Accordance With *Government Auditing Standards***

Board of Directors
Noble, Inc.
Indianapolis, Indiana

We have audited the financial statements of Noble, Inc. (Noble) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 25, 2007. 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 Noble'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 Noble's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of s internal control over financial reporting.

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

A material weakness is a significant deficiency, or a 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 Noble's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Noble'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*.

We noted certain matters that we reported to Noble's management in a separate letter dated October 25, 2007.

This report is intended solely for the information and use of the governing body, management and others within Noble and is not intended to be and should not be used by anyone other than these specified parties.



Indianapolis, Indiana
October 25, 2007



Independent Accountants' Report on Compliance and Internal Control Over Compliance With Requirements Applicable to Major Federal Awards Programs

Board of Directors
Noble, Inc.
Indianapolis, Indiana

Compliance

We have audited the compliance of Noble, Inc. (Noble) 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, 2007. Noble'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 Noble's management. Our responsibility is to express an opinion on the compliance of Noble 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 Noble'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 Noble's compliance with those requirements.

In our opinion, Noble 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, 2007.

Internal Control Over Compliance

The management of Noble 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 Noble'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 Noble'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 the 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 the governing body, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink, appearing to read "BKD LLP".

Indianapolis, Indiana
October 25, 2007

Noble, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report was:
 Unqualified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

7. Noble's major programs were:

Cluster/Program	CFDA Number
Community Development Block Grant	14.218

Noble, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2007

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
9. Noble qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Noble, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2007

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
	No reportable matters noted.	

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No reportable matters noted.	

Noble, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

Reference Number	Summary of Finding	Status
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Not applicable - no reportable matters noted.



Audit Committee
Noble, Inc.
Indianapolis, Indiana

As part of our audit of the financial statements of Noble, Inc. (Noble) as of and for the year ended June 30, 2007, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

Significant Accounting Policies

Noble's significant accounting policies are described in Note 1 of the audited financial statements. There were no significant changes to Noble's accounting policies during 2007

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowance for uncollectible accounts receivable, which is based upon outstanding receivables, historical collection information and existing economic conditions
- Allowance for uncollectible contributions receivable
- The discount rates used to determine the estimated present value of contributions receivable
- The discount rates used to determine the estimated present value of future annuity payments
- Useful lives and methods of depreciation for property and equipment

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. During our audit, we proposed and management recorded one adjustment related to the estimated fair value of investments.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Noble, Inc. (Noble) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Noble's internal control over financial reporting (internal control) 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 Noble's internal control. Accordingly, we do not express an opinion on the effectiveness of Noble's internal control. As such, our consideration of internal controls would not necessarily identify all deficiencies in internal control that might be significant deficiencies or 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 of Noble's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Noble'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 Noble's financial statements that is more than inconsequential will not be prevented or detected by Noble's internal controls.

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

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. It is important to note that the internal control matters reported below may not necessarily be indicative of changes to Noble's internal control environment, but rather may be the result of the implementation of Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. Previously, we made observations as a result of our 2006 audit engagement in a letter dated September 15, 2006.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

No matters are reportable.

Control Deficiencies

Cash Disbursements

During our audit, we noted that the Accounting Director has the ability to sign checks, as well as the ability to record journal entries in the general ledger. This presents the risk that the Accounting Director could change the payee or amount of a check after it has been through the approval process and conceal the defalcation by recording an entry in the general ledger. In an effort to mitigate this risk, Noble has implemented compensating controls. These compensating controls include the fact all checks require two signatures and other individuals are responsible for reconciling the bank statements and accounts payable to the general ledger. Furthermore, there is a detailed review of month-end financial statements.

Receipts

BKD noted that the Receptionist has the primary responsibility to receive all contributions and cash receipts that are sent directly to Noble by donors. This creates the risk that this individual could misappropriate a contribution and hide its receipt without the defalcation being identified. In an effort to mitigate this risk, Noble has implemented preventative controls, that include the fact that this individual does not have the ability to record an entry to either the general ledger or the E-Tapestry system. In addition, this individual does not have the ability to initiate the write-off of a contribution.

Financial Reporting

During our audit, we proposed and management recorded one journal entry related to the valuation of alternative investments for \$19,575. This journal entry appears to be the result of timeliness of information received by Noble and was identified by comparing our audit confirmation to the statement received by Noble.

OTHER MATTERS

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

New Auditing Standards

The Sarbanes-Oxley Act and other events have dramatically affected the setting of auditing standards and the focus of the audit process primarily for public companies. Not surprisingly, the focus has been extended to non-public entities. In 2006, the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA), the standard setting body for audit of non-public entities, issued eleven new auditing standards. These auditing standards include a documentation standard, a suite of eight risk assessment standards, a standard that defines professional requirements in statements on auditing standards, and a standard that provides guidance on communicating matters related to an entity's internal control over financial reporting. The following provides a summary of the risk assessment standards:

Risk Assessment Standards (SAS 104-111)

Statements on Auditing Standards (SAS) No. 104-111 relate to the assessment of risk in an audit of financial statements and are commonly referred to as the Risk Assessment Suite (Suite). The Suite establishes standards and provides guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Additionally, the Suite establishes standards and provides guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

Why SAS 104-111?

The Suite represents a significant strengthening of auditing standards designed to improve the quality and effectiveness of audits. The Suite's primary objective is to enhance the auditor's ability to identify and respond to risks of material misstatement present in a specific audit in a particular period. The Suite is complementary to and incorporates and expands upon many of the concepts of SAS 99, the standard on consideration of fraud in a financial statement audit, that was effective four years ago. The Suite applies to financial statement audits for periods beginning on or after December 15, 2006, meaning these standards will impact Noble's June 30, 2008 audit.

What is a Material Misstatement?

A financial statement misstatement is material if it is probable that the judgment of a reasonable person relying on financial statements would be changed or influenced by an omission or misstatement of accounting information in the statements and related disclosures. Material misstatements are caused by error or fraud. An audit is designed to obtain reasonable assurance about whether the financial statements are free of material misstatement. Reasonable assurance is a high, but not absolute, level of assurance.

What is the Auditor's Principal Responsibility?

The Suite requires the auditor to plan and perform the audit to obtain such reasonable assurance about whether the financial statements being audited are free of material misstatement. In other words, the auditor must plan and perform the audit to determine with a reasonable rather than absolute degree of certainty whether error or fraud causes the financial statements to be materially misstated. Thus, the auditor is concerned with errors, fraudulent financial reporting and misappropriation of assets that individually or when aggregated together result in material misstatement. Note that management, and not the auditor, is responsible for designing, implementing and maintaining programs and internal control to prevent and detect material misstatement caused by error or fraud.

Does the Suite Require Auditors to Do More?

Yes, the Suite requires auditors to do more to satisfy its primary objective. Substantially all existing requirements are continued with significant enhancements or modifications. Also, significant new requirements are added. Significant requirements of the Suite include:

- Obtaining a more in-depth and expanded understanding of the particular client's business and business environment, significant risks it faces and how it seeks to mitigate those risks. The understanding encompasses the nature of your entity and operations, external factors affecting you, your business risks and how you limit your exposure to those risks, how you measure and manage financial performance and your internal control over financial reporting. New documentation of your internal control and the other matters will be needed in the implementation period with updating or replacement in each subsequent period
- Expanding the existing SAS 99 discussion (brainstorming session) among engagement audit personnel to encompass how and where an entity's financial statements might be susceptible to material misstatement from error or fraud, how such misstatements could occur and go undetected and how auditors might respond
- Enhancing the existing SAS 99 interviews, analytical procedures and risk factor considerations to address information relevant to misstatements caused by error or fraud
- Performing a more rigorous assessment of the risks of material misstatement of the financial statements for the particular period based on the understanding and information obtained. Risks of material misstatement must be assessed and documented at both the overall financial statements level and for each relevant assertion for each significant financial statement amount and disclosure
- Determining if relevant internal controls have been implemented and are operating as designed (assessment of design effectiveness), including walkthroughs of each significant type of transaction each period. Assessment of operating effectiveness of such controls is encouraged but not required
- Developing and performing further audit procedures (tests of controls, analytical procedures or tests of details or any combination thereof) addressing each identified risk of material misstatement. Linkage of each identified risk of material misstatement with the responsive further audit procedures must be documented
- Performing further audit procedures that include tests of controls and/or tests of details in addition to or in lieu of analytical procedures for the assessed risks of material misstatement for the most significant financial statement amounts and disclosures
- Evaluating materiality of identified misstatements individually and in aggregate both quantitatively and qualitatively at both financial statement totals and significant subtotals
- Requesting management to further explore and clarify the amount and causes of likely material misstatements the auditor identifies. Likely misstatements include accounting estimates and those determined by testing fewer than all items in a particular population
- Obtaining an understanding of the business purpose and substance of significant unusual transactions
- Evaluating if required disclosures are made and are complete and understandable
- Concluding at the end of the audit that all identified risks of material misstatement have been adequately assessed and responded to

How are Audit Fees Impacted?

Audit fees are based primarily on time and effort as well as the level of knowledge, experience and expertise of the personnel involved. The Suite increases the amount of time and effort necessary to perform every audit as well as the level of involvement of the engagement partner or manager and other more senior personnel.

As a result, audit fees will increase. A number of factors impact the level of increase, including:

- Entity size, structure and complexity
- Experience, expertise, involvement and responsiveness of management and accounting personnel
- Extent and accuracy of documentation of internal control and other risk assessment information already existing or prepared by entity personnel
- Effectiveness of internal control and other procedures used to mitigate significant risks
- Emphasis placed on and processes implemented by management to prevent or detect and correct misstatements timely and thoroughly
- Accuracy and completeness of accounting records and year-end closing and statement preparation processes
- Nature and quantity of identified risks of material misstatement
- Nature and quantity of misstatements identified and management's responses thereto
- Effectiveness and extent of oversight of the financial reporting process by the entity's audit committee or governing body

Your attention and responsiveness to these factors play a significant role in determining the time and effort required to address the Suite initially and on an ongoing basis as well as the resulting fee increase.

How Does the Suite Benefit My Entity and Me?

The enhanced effort required by SAS 104-111 and resulting fee increase naturally cause each audit client to ask what increases in value it should expect to receive. Increases in value to be received may include:

- Enhanced information on the risks to which your entity is exposed and possible deficiencies in and suggestions for improvement to the controls and other methods used to mitigate those risks
- Reduced opportunities to circumvent prescribed controls and procedures by employees or others
- Reinforced emphasis on doing the right thing continually
- Increased accountability by management for the financial reporting process and risk identification and containment
- Greater probability the audit will detect material misstatement whether caused by error or fraud if present
- Improved consistent reliability of financial statements and disclosures
- More focus by the auditors on what could make a material difference in financial statements

In Conclusion

We encourage you to discuss the Suite and its impacts on Noble with BKD. We will discuss these matters with you candidly to help avoid unnecessary surprises and misconceptions and explore ways we can work together to make implementation of the Suite efficient and cost effective.

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We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on Noble's overall internal control structure; it does, however, include items which we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

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

BKD LLP

October 25, 2007