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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

August 19, 2009

Board of Directors
Human Services Inc. and Subsidiary
1585 Indianapolis, Rd., P.O. Box 588
Columbus, IN 47202

We have reviewed the audit report prepared by Comer, Nowling and Associates, PC, Independent Public Accountants, for the period January 1, 2005 to December 31, 2005. 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 Human Services Inc. and Subsidiary, as of December 31, 2005, 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.

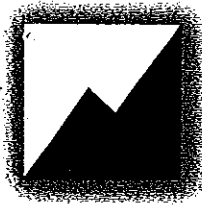
We call your attention to the finding in the report. Pages 28 and 29 contain one current audit finding.

STATE BOARD OF ACCOUNTS

HUMAN SERVICES, INC. AND SUBSIDIARY

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COMER
NOWLING AND
ASSOCIATES, P.C.

BUSINESS PLANNING
FINANCIAL STATEMENTS
BUSINESS VALUATIONS
TAX PLANNING
TAX PREPARATION

Independent Auditor's Report

Board of Directors
Human Services, Inc. and Subsidiary
Columbus, Indiana

We have audited the accompanying consolidated statement of financial position of Human Services, Inc. and Subsidiary as of December 31, 2005 and the related consolidated statement of activities, functional expenses, and cash flows for the year 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Human Services, Inc. and Subsidiary as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2006, on our consideration of Human Services, Inc. and Subsidiary'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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Human Services, Inc. and Subsidiary 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 aspects, in relation to the basic financial statements taken as a whole.

Comer, Nowling And Associates, P. C.

Comer, Nowling And Associates, P.C.

December 13, 2006

HUMAN SERVICES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005

ASSETS

	Human Services, Inc.			Subsidiary	Consolidated
	Unrestricted	Temporarily Restricted	Total		
CURRENT ASSETS					
Cash	\$ 184,965	\$ -	\$ 184,965	\$ 17,165	\$ 202,130
Investments - held for sale	1,508	-	1,508	-	1,508
Investments - affiliate projects	-	-	-	185,391	185,391
Grants receivable	1,113,699	-	1,113,699	-	1,113,699
Notes receivable - current portion	21,548	-	21,548	20,389	41,937
Inventory	19,348	-	19,348	-	19,348
Prepaid expenses	31,446	-	31,446	-	31,446
Total current assets	<u>1,372,514</u>	<u>-</u>	<u>1,372,514</u>	<u>222,945</u>	<u>1,595,459</u>
PROPERTY AND EQUIPMENT					
Buildings	869,682	490,000	1,359,682	-	1,359,682
Equipment	877,671	-	877,671	-	877,671
Land	90,000	-	90,000	-	90,000
	<u>1,837,353</u>	<u>490,000</u>	<u>2,327,353</u>	<u>-</u>	<u>2,327,353</u>
Less accumulated depreciation	(855,485)	-	(855,485)	-	(855,485)
Total property and equipment, net	<u>981,868</u>	<u>490,000</u>	<u>1,471,868</u>	<u>-</u>	<u>1,471,868</u>
OTHER ASSETS					
Notes receivable - net of current portion	<u>2,225,591</u>	<u>-</u>	<u>2,225,591</u>	<u>-</u>	<u>2,225,591</u>
Total assets	<u>\$ 4,579,973</u>	<u>\$ 490,000</u>	<u>\$ 5,069,973</u>	<u>\$ 222,945</u>	<u>\$ 5,292,918</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 1,142,809	\$ -	\$ 1,142,809	\$ -	\$ 1,142,809
Accrued salaries and wages	68,695	-	68,695	-	68,695
Accrued payroll taxes	18,774	-	18,774	-	18,774
Current portion of long-term liabilities	64,928	-	64,928	-	64,928
Total current liabilities	<u>1,295,206</u>	<u>-</u>	<u>1,295,206</u>	<u>-</u>	<u>1,295,206</u>
LONG-TERM LIABILITIES					
Irwin Union - term loan	25,570	-	25,570	-	25,570
Lincoln Bank - term loan	174,546	-	174,546	-	174,546
Affiliates - term loans	2,225,732	-	2,225,732	-	2,225,732
Total long-term liabilities	<u>2,425,848</u>	<u>-</u>	<u>2,425,848</u>	<u>-</u>	<u>2,425,848</u>
Total liabilities	<u>3,721,054</u>	<u>-</u>	<u>3,721,054</u>	<u>-</u>	<u>3,721,054</u>
NET ASSETS					
	<u>858,919</u>	<u>490,000</u>	<u>1,348,919</u>	<u>222,945</u>	<u>1,571,864</u>
Total liabilities and net assets	<u>\$ 4,579,973</u>	<u>\$ 490,000</u>	<u>\$ 5,069,973</u>	<u>\$ 222,945</u>	<u>\$ 5,292,918</u>

See accompanying notes to financial statements.

**HUMAN SERVICES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Human Services, Inc.			<u>Subsidiary</u>	<u>Consolidated</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>		
REVENUE AND SUPPORT					
Grant revenue	\$ 7,289,840	\$ -	\$ 7,289,840	\$ -	\$ 7,289,840
Contributions	155,194	-	155,194	-	155,194
Rental income	78,513	-	78,513	-	78,513
Interest income	188	-	188	-	188
Inkind donations	52,288	-	-	-	-
Other income	268,622	-	268,622	-	268,622
Total support	<u>7,844,645</u>	<u>-</u>	<u>7,844,645</u>	<u>-</u>	<u>7,844,645</u>
Operating Expenses:					
CSBG	275,277	-	275,277	-	275,277
Energy assistance	2,851,412	-	2,851,412	-	2,851,412
Weatherization	467,795	-	467,795	-	467,795
Head Start and USDA	2,814,539	-	2,814,539	-	2,814,539
Commodities	65,556	-	65,556	-	65,556
CCDF	96,636	-	96,636	-	96,636
Other programs	1,076,494	-	1,076,494	-	1,076,494
Management and general	332,825	-	332,825	-	332,825
Subsidiary	-	-	-	5,535	5,535
Total operating expenses	<u>7,980,534</u>	<u>-</u>	<u>7,980,534</u>	<u>5,535</u>	<u>7,986,069</u>
Increase (decrease) in net assets before unrealized gain on investments	(135,889)	-	(135,889)	(5,535)	(141,424)
Net unrealized gain on investments	459	-	459	-	459
Increase (decrease) in net assets	<u>(135,430)</u>	<u>-</u>	<u>(135,430)</u>	<u>(5,535)</u>	<u>(140,965)</u>
NET ASSETS AT BEGINNING OF YEAR	616,391	490,000	1,106,391	228,480	1,334,871
PRIOR PERIOD ADJUSTMENT	377,958	-	377,958	-	377,958
NET ASSETS AT END OF YEAR	<u>\$ 858,919</u>	<u>\$ 490,000</u>	<u>\$ 1,348,919</u>	<u>\$ 222,945</u>	<u>\$ 1,571,864</u>

See accompanying notes to financial statements.

Commodities	CCDF	Other Programs	Management and General	Subsidiary	Consolidated Totals
\$ 27,256	\$ 38,271	\$ 361,186	\$ 54,385	\$ -	\$ 2,523,690
2,875	4,716	43,439	4,233	-	313,348
5,717	6,317	42,793	391	-	459,631
47	129	734	(59)	-	7,877
448	16,570	193,381	224,745	-	475,404
2,948	8,820	41,629	-	-	444,335
2,087	4,372	10,143	(19)	-	48,424
63	1,501	3,745	164	-	18,961
10,614	12,744	56,128	57,037	-	447,218
7,007	2,864	15,092	-	-	103,229
224	200	4,173	54	-	14,017
5,036	586	12,236	-	-	193,735
341	730	2,586	-	-	51,391
-	484	274,566	8,366	-	2,921,580
312	195	836	-	-	3,265
634	773	18,242	73,046	5,535	139,002
<u>65,609</u>	<u>99,272</u>	<u>1,080,909</u>	<u>422,343</u>	<u>5,535</u>	<u>8,165,107</u>
<u>(53)</u>	<u>(2,636)</u>	<u>(4,415)</u>	<u>(89,518)</u>	<u>-</u>	<u>(179,038)</u>
<u>\$ 65,556</u>	<u>\$ 96,636</u>	<u>\$ 1,076,494</u>	<u>\$ 332,825</u>	<u>\$ 5,535</u>	<u>\$ 7,986,069</u>

**HUMAN SERVICES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Human Services, Inc.			<u>Subsidiary</u>	<u>Consolidated</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Increase (decrease) in net assets	\$ (135,889)	\$ -	\$ (135,889)	(5,535)	\$ (141,424)
Adjustments to reconcile increase in net assets to net cash used in operating activities:					
Depreciation	100,118	-	100,118	-	100,118
Increase (decrease) in cash from changes in:					
Grants receivable	76,096	-	76,096	-	76,096
Inventory	(16,775)	-	(16,775)	-	(16,775)
Prepaid expenses	6,634	-	6,634	-	6,634
Accounts payable	268,378	-	268,378	-	268,378
Accrued salaries and wages	23,621	-	23,621	-	23,621
Accrued payroll taxes	18,774	-	18,774	-	18,774
Net cash provided by (used in) operating activities	<u>340,957</u>	<u>-</u>	<u>340,957</u>	<u>(5,535)</u>	<u>335,422</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property and equipment	<u>(89,518)</u>	<u>-</u>	<u>(89,518)</u>	<u>-</u>	<u>(89,518)</u>
Net cash used in investing activities	<u>(89,518)</u>	<u>-</u>	<u>(89,518)</u>	<u>-</u>	<u>(89,518)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayment of lines of credit	(100,000)	-	(100,000)	-	(100,000)
Borrowings from term loans	219,660	-	219,660	-	219,660
Repayment of term loans	<u>(257,999)</u>	<u>-</u>	<u>(257,999)</u>	<u>-</u>	<u>(257,999)</u>
Net cash used in financing activities	<u>(138,339)</u>	<u>-</u>	<u>(138,339)</u>	<u>-</u>	<u>(138,339)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	113,100	-	113,100	(5,535)	107,565
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	71,865	-	71,865	22,700	94,565
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 184,965</u>	<u>\$ -</u>	<u>\$ 184,965</u>	<u>\$ 17,165</u>	<u>\$ 202,130</u>
SUPPLEMENTAL DISCLOSURES:					
Cash paid for:					
Interest	<u>\$ 28,690.00</u>				

See accompanying notes to financial statements.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Human Services, Inc. (the "Organization"), and its wholly-owned subsidiary, HSI Properties, Inc. All material intercompany transactions have been eliminated in consolidation.

NATURE OF ACTIVITIES

Human Services, Inc. was incorporated and commenced operations as a not-for-profit organization on October 20, 1965, under the laws of the State of Indiana. The Organization is committed to helping families and children improve their quality of life in Bartholomew, Brown, Decatur, Jackson, Johnson and Shelby counties in Indiana. On November 26, 1990, Human Services, Inc. formed HSI Properties, Inc. as a wholly owned subsidiary under the laws of the State of Indiana. Currently, HSI Properties, Inc. holds a minority general partner interest in three low-income housing projects and membership in one limited liability company which holds minority general partner interest in one low-income housing project.

BASIS OF ACCOUNTING

The financial statements of the Organization and Subsidiary have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

REVENUE RECOGNITION

The Organization receives grants from the State of Indiana (State) and the federal government to carry out certain program activities. The grants are received under contracts which require the Organization to submit to the State appropriate records of services provided to eligible individuals. Revenues under the contracts are recognized as the services are provided;

The Subsidiary recognizes revenue as it is earned and billed.

PROPERTY AND EQUIPMENT

Organization property and equipment are stated at cost and depreciated over estimated useful lives of five to thirty-nine years using the straight-line method. The following is a summary of the lives for each class of asset:

Buildings/leasehold improvements	5 - 39 years
Equipment	5 - 10 years
Vehicles	5 - 10 years

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY AND EQUIPMENT (Continued)

Expenditures for improvements and major renewals are capitalized. When property is sold, retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is credited or charged to income. Expenditures for maintenance and repairs are expensed when incurred.

The Subsidiary provides for depreciation in amounts sufficient to relate the cost of depreciable assets to operations using the straight-line method. It is the Subsidiary's general practice to charge maintenance and repairs to expense in the current period. As of December 31, 2005, the Subsidiary maintained no property and equipment on its Statement of Financial Position.

INCOME TAX STATUS

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Income tax expense for the Subsidiary will include federal and state taxes currently payable and deferred taxes arising from temporary differences between income for financial reporting and income tax purposes. No such differences existed as of December 31, 2005.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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 and expenses during the reporting period. Actual results could differ from those estimates.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL STATEMENT PRESENTATION

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. For comparability purposes, the Subsidiary's financial statement presentation follows that of the Organization.

CASH AND CASH EQUIVALENTS

For purposes of the Consolidated Statement of Cash Flows, the Organization and Subsidiary consider all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

DONATED MARKETABLE SECURITIES

Donated marketable securities are presented at their fair market value.

EXPENSE ALLOCATION

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and in the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

INVESTMENTS

The classification of investments is generally determined at the date of purchase or donation. Gains and losses on the sale of investments are recognized on a specific identification basis.

The Organization's investments in marketable securities are being held for an indefinite period and, in accordance with the Financial Accounting Standards Board's Statement 115 (FASB 115), are classified as available for sale. Investments available for sale are adjusted to market value at year-end. The cumulative unrealized gain on these investments was \$459 at December 31, 2005. In accordance with FASB 115, the unrealized gain was recorded as a separate component of net assets. Investments available for sale will be used as a part of the Organization's cash management strategy and may be sold in response to changes in market rates, the need to increase cash balances and other factors.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS (Continued)

The estimated cost and market value of equity securities are as follows:

As of December 31, 2005:	Cost or Original Donated Value	Market Value	Gross Unrealized Gain (loss)
Wells Fargo & Company Stock	<u>\$ 1,049</u>	<u>\$ 1,508</u>	<u>\$ 459</u>

CONTRIBUTIONS

The Organization reports gifts 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. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

CONTRIBUTED SERVICES

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance non-financial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, solicitations, and various committee assignments.

IN-KIND CONTRIBUTIONS

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair market value of certain in-kind donations as an expense in its financial statements, and similarly increase revenue and other support by a like amount. For the year ended December 31, 2005, this adjustment amounted to approximately \$52,288 and is included in other revenue and support on the Consolidated Statements of Activities.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IN-KIND CONTRIBUTIONS (continued)

The Organization has recorded in-kind contributions for professional services on the Consolidated Statement of Activities in accordance with Statement of Financial Accounting Standards No. 116 (SFAS 116), *Accounting for Contributions Received and Contributions Made*. SFAS 116 requires that only contributions of services received that create or enhance a non-financial assets or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of SFAS 116 are different from the in-kind requirements of the Organization's grant funding sources.

Of the \$52,288 of in-kind contributions and related expenses recorded in the Organization's Consolidated Statement of Activities, contributed services meeting the requirements of SFAS 116 are \$1,562, with the remaining \$50,726 consisting of food, clothing and other goods donated to the Organization's Horizon House services. In addition, the Organization received contributions of services from non-professional volunteers during the year with an estimated value of \$296,445, primarily for its Head Start program which are not recorded in the Consolidated Statement of Activities.

GOVERNMENT GRANTS

Support funded by grants is recognized as the Organization performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. Amounts required prior to expenditures being incurred would be reflected as refundable advances in the Consolidated Statement of Financial Position.

INTEREST INCOME

Interest income is recognized in the accounting period in which it is earned. The Organization maintains funds received from various sources in interest bearing checking accounts. The portion of interest on advances of direct funds is remitted to the federal funding sources in accordance with OMB Circular A-110, Attachment D, *Uniform Administrative Requirements of Grants and Agreements with Non-profit Organizations*. The interest earned on other funds is included in unrestricted funds and is used to support the Organization's programs. This is in accordance with the Intergovernmental Cooperation Act (31 U.S.C. 6501 etc seq) and applicable State of Indiana regulations.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GRANTS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The grants receivable represent amounts the Organization has filed claims for the year ended and were awaiting payment. A substantial majority of receivables are due from government sources. The amount deemed uncollectible is zero. Therefore, no bad debt allowance is considered necessary.

COST ALLOCATION

Joint costs are allocated to benefiting programs using various allocation methods, depending on the type of joint cost being allocated. Joint costs are those costs incurred for the common benefit of all agency programs, but which cannot be readily identified with a final cost objective. Cost allocation methods are as follows:

Personnel

Agency administrative financial personnel (executive director, deputy director, fiscal director, financial assistants, etc.) record the time they spend working on specific programs and general agency matters on their time sheets. The time specifically identifiable to a particular program is charged to that program. The time spent on general agency matters is charged to programs using a percentage based on the direct labor charges to programs.

Supplies

All supplies are inventoried and signed out to specific programs when needed. The supplies are expensed to specific programs monthly on a first-in, first-out basis.

Building

Space costs (maintenance costs, supplies, depreciation, etc.) are allocated based on the number of square feet of space each program occupies. Space occupied by administrative staff is allocated based upon the allocation of the administrative staff's time.

Copy Costs

A record is maintained of copies for each program. Copy costs are charged to programs based on the number of copies in the month.

Insurance

Insurance is allocated to benefiting programs depending on the equipment, space or people covered by the insurance.

Other Joint Costs

Other joint costs (telephone, computer usage, etc.) are allocated to agency programs based on the amounts used by each program.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of December 31, 2005:

Checking accounts	\$ 184,796
Money market accounts	169
	<u>\$ 184,965</u>

NOTE 3 - RELATED PARTIES AND NOTES RECEIVABLE

HSI Properties, Inc. is a wholly owned Subsidiary of the Organization. In addition, HSI Properties owns a minority general partner interest in Oak Hill Apartments I, L.P., Oak Hill Apartments II, L.P., and Ridgecrest, L.P. HSI Properties is also a 50% member of Jerman Housing, LLC which owns a minority general partner interest in Jerman Housing, L.P.

The Organization has provided \$235,732 of funds to Oak Hill Apartments, L.P. under the Affordable Housing Program (AHP). Dated May 7, 1997, the note accrues interest annually at a rate of 1% and the balance of all unpaid principal and interest is due on May 1, 2017. The note is collateralized by all of the real estate and land improvements of the partnership. As of December 31, 2005, the balance of the note receivable was \$235,732.

The Organization has also provided \$490,132 of funds to Oak Hill Apartments, L.P. under the Home Investment Partnership Program (HOME). Dated September 1, 1997, the note accrues interest at a rate of 1% per annum and the balance of all unpaid principal and interest is due on September 1, 2017. The note is collateralized by a mortgage lien and security interest in the partnership's property, subordinate to a mortgage in favor of Irwin Union Bank. As of December 31, 2005, the balance of the note receivable was \$490,132.

The Organization has provided \$464,000 to Oak Hill Apartments II, L.P. through the Indiana Housing Finance Authority (IHFA). Dated June 26, 2001, the note bears interest at 2.35% per annum, is payable in semi-annual installments of \$15,209 and matures on June 30, 2008. The mortgage note is collateralized by certain real estate, improvements and an assignment of rents earned by the partnership. As of December 31, 2005, \$382,775 was still receivable of the note.

The Organization has also provided \$300,000 to Oak Hill Apartments II, L.P. through the Affordable Housing Program of the Federal Home Loan Bank (FHLB). Dated February 11, 2000, the note requires annual interest payments of 1% to be each December 31, to the extent of available cash flow. The note is collateralized by certain real estate and improvements of the partnership and the balance of all unpaid principal and interest is due on February 11, 2020. As of December 31, 2005, the balance of the note receivable was \$300,000.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 3 – RELATED PARTIES AND NOTES RECEIVABLE (Continued)

HSI Properties, Inc. has made operating advances totaling \$20,389 to Oak Hill Apartments II, L.P. which bears interest at a rate of 6% per annum. These advances are unsecured and can only be repaid subject to available cash flow. As of December 31, 2005, none of the advances had been repaid and \$20,389 was still receivable.

The organization has provided \$208,500 to Ridgecrest Limited, L.P. through the HOME program. Dated June 22, 1999, the note bears interest at 5.79% per annum with payments of principal and interest being made from available cash flow. The note is collateralized by a subordinated mortgage on the real estate of the partnership and the balance of all unpaid principal and interest is due on June 22, 2019. As of December 31, 2005, \$208,500 was still receivable on the note.

The organization has provided \$360,000 to Jerman Housing, L.P. through the AHP program. Dated July 30, 2003, the note bears interest at 4.17% per annum with payments of principal and interest being made from available cash flow. The note is collateralized by real estate, improvements and assignment of the rents earned by the partnership and the balance of all unpaid principal and interest is due on December 31, 2033. As of December 31, 2005, the balance of the note receivable was \$360,000.

The Organization has also provided \$300,000 to Jerman Housing, L.P. through the AHP program of the FHLB. Dated July 30, 2003, the note bears interest at 4.65% per annum with payments of principal and interest being made from available cash flow. The note is collateralized by real estate, improvements and assignment of the rents earned by the partnership and the balance of all unpaid principal and interest is due on December 31, 2033. As of December 31, 2005, \$30,000 of principal had been repaid and the balance of the note receivable was \$270,000.

Terms of repayment are identical to the terms of the Organization's related notes payable as described in Note 6. The future maturities of long-term noted receivable are as follows for the years ended December 31,:

2006	\$ 21,548
2007	22,058
2008	339,169
2009	-
2010	-
Thereafter	<u>1,864,364</u>
	<u>\$ 2,247,139</u>

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 4 - PENSION PLAN

The Organization has a 403(b) Plan (the "Plan") in which employees may participate upon their employment. Participants may contribute up to 20% of their pretax annual compensation to the Plan and the Organization may make discretionary contributions to the Plan on behalf of the employees. The participant is 100% vested immediately for any discretionary contributions and participant contributions. The Organization made no discretionary contributions to the Plan during the year ended December 31, 2005.

NOTE 5 - LINES OF CREDIT - BANK

The Organization had a \$100,000 line of credit with Irwin Union Bank. Interest was payable at prime plus 1.0% and was secured by grants receivables. The line of credit expired in August 2005 and was paid off.

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following as of June 30,:

Note payable - adjustable rate beginning at 5.0% in December 2003, payable to Irwin Union Bank in monthly installments of \$634 including interest and maturing in August 2010. Interest rate at December 2005 is 8.25%.	\$ 30,411
Note payable - 8.9% note payable to National City Bank, payable in monthly installments of \$553 including interest, maturing in May 2006.	\$ 279
Note payable - 7.0% note payable to Lincoln Bank dated October 24, 2005, payable in monthly installments of \$4,360 with interest maturing in October 2010.	\$ 212,947
Note payable - 1% note payable to the Federal Home Loan Bank Affordable Housing Program (AHP) dated May 7, 1999, payable at maturity in May 2017.	\$ 235,732

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 6 – LONG-TERM DEBT (Continued)

Note payable – 1% note payable to Irwin Union Bank Home Investment Partnership Program (HOME) dated September 1, 1997, payable at maturity in September 2017	\$ 490,132
Note payable – 2.35% note payable to Indiana Housing Finance Authority HOME program, payable in semi-annual installments of \$15,180 with interest maturing in July 2008.	\$ 382,775
Note payable – 1% note payable to the Federal Home Loan Bank AHP Program dated February 11, 2000, annual interest payments from the available cash flow of the affiliated housing project.	\$ 300,000
Note payable – 5.79% note payable to the Indiana Housing Finance Authority HOME program dated June 22, 1999, payments of principal and interest from the available cash flow of the affiliated housing project.	\$ 208,500
Note payable – 4.17% note payable to the Indiana Housing Finance Authority AHP Program dated July 30, 2003, payments of principal and interest from the available cash flow of the affiliated housing project.	\$ 360,000
Note payable – 4.65% note payable to the Federal Home Loan Bank AHP Program dated July 30, 2003, payments of principal and interest from the available cash flow of the affiliated housing project.	\$ 270,000

The future maturities of long-term debt, based on the refinanced mortgage, are as follows for the years ended December 31,

2006	\$ 64,929
2007	68,853
2008	389,865
2009	54,218
2010	48,548
Thereafter	<u>1,834,364</u>
	<u>\$ 2,490,776</u>

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 7 – OPERATING LEASES

The Organization leases various facilities and equipment for operation of its programs. Rental expense included in the Consolidated Statements Of Activities for the year ended December 31, 2005 was approximately \$219,317.

Future minimum lease payments for the long-term facility lease are as follows for the years ended December 31,

2006	\$ 86,791
2007	59,652
2008	57,533
2009	54,608
2010	<u>48,854</u>
	<u>\$ 307,438</u>

NOTE 8 – PRIOR PERIOD ADJUSTMENTS

During prior years, Human Services acquired two buildings and related land which were not recorded as assets of the Organization. The Organization's 1609 South Miller Street Head Start facility located in Shelbyville, Indiana and acquired in 1999 and Horizon House facility located in Columbus, Indiana and acquired in 2004, were not presented in prior year's financial statements. During these years, these errors resulted in an overstatement of prior years' expenses and an understatement of prior years' net assets by \$376,909. For the year ended December 31, 2005, an adjustment relating to correcting this error increased beginning net assets and increased the buildings and land accounts by \$376,909.

During 2001, twenty-four (24) shares of Wells Fargo and Company stock were acquired through donation. This donation and the related fair market value of the shares were not recorded and have not been presented in prior year financial statements. This error resulted in the understatement of prior year net assets and investments. For the year ended December 31, 2005, an adjustment relating to correcting this error increased beginning net assets by \$1,049, increased investments available for sale by \$1,508, and increased unrealized gains on investments by \$459.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 8 – PRIOR PERIOD ADJUSTMENTS (continued)

As a result of the prior period adjustments noted above, beginning net assets for the year ended December 31, 2005 was restated as follows:

Net assets at beginning of year		\$ 1,106,391
Prior period adjustment – property and land		376,909
Prior period adjustment – investments		<u>1,049</u>
	Total	<u>377,958</u>
Net assets at beginning of year - restated		<u>\$ 1,484,349</u>

NOTE 9 – TEMPORARILY RESTRICTED ASSETS

In January 2002, the State of Indiana awarded the Organization a federal Community Development Block Grant (CDBG) on behalf of the United States Department of Housing and Urban Development (HUD) for the purpose of acquiring real estate for use as a Head Start facility in Johnson County, Indiana. The federal grantor has placed restrictions on the use and transfer of this property for five years from the date of the grant. Once the grant restrictions are met the grant amount will be transferred from temporarily restricted assets to unrestricted assets in the Consolidated Statement of Activities.

NOTE 10 - STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 144

SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 144 has not materially affected the Organization's net change in unrestricted net assets, statement of financial position or statement of cash flows.

HUMAN SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through the Indiana State Department of Health			
Women Infants and Children	10.557	WIC 375-1	\$ 155,463
Child and Adult Care Food Program	10.558	WIC 375-1	<u>191,267</u>
			<u>346,730</u>
U.S. Department of Housing and Urban Development			
Passed through the Indiana Finance Housing Authority			
Community Development Block Grant/Small Cities	14.219	HD-003-003	118,616
Emergency Shelter Grants Program	14.231	03-05-09-1678-01/02	31,592
Low Income Housing Assistance Program	14.857	03-02/06-38-1678-02/04	254,887
AHP Loan Funds - Jerman Housing, L.P.	14.239		360,000
HOME Loan Funds - Jerman Housing, L.P.	14.239		270,000
AHP Loan Funds - Oak Hill Apartments, L.P.	14.239		235,732
HOME Loan Funds - Oak Hill Apartments, L.P.	14.239		490,132
IHFA Loan Funds - Oak Hill Apartments II, L.P.	14.239		382,775
FHLB Loan Funds - Oak Hill Apartments II, L.P.	14.239		300,000
IHFA Loan Funds - Ridgecrest Limited, L.P.	14.239		208,500
Passed through the Indiana Department of Commerce			
CDBG Assisted Non-construction Contract	14.235		<u>490,000</u>
			<u>3,142,234</u>
U.S. Department of Energy			
Passed through the Indiana Family and Social Services Administration (IFSSA):			
Weatherization Assistance for Low-Income Persons	81.042	03-04-OJ-01/02	<u>269,365</u>
Federal Emergency Management Agency			
Emergency Food and Shelter Program	83.523	278200/269600/265200/270600-001	<u>56,962</u>
U.S. Department of Health and Human Services			
Direct Program:			
Head Start Program	93.600	05CH-4176-39	<u>2,502,644</u>
Passed through the Indiana Family and Social Services Administration (IFSSA):			
Low-Income Home Energy Assistance	93.568	03-03/05-6S/0S/3S/4S/1S-1678-01/02	3,201,045
Community Services-Block Grant	93.569	03-04-OR-1678-02	275,276
Child Care Development Fund	93.590	07/03/41-03/05/06-34-1678-01	<u>81,243</u>
			<u>3,557,564</u>
Total expenditures of federal awards			<u>\$ 9,869,499</u>

See accompanying note to schedule of expenditures of federal awards.

SINGLE AUDIT SECTION

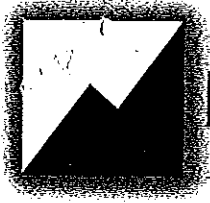
HUMAN SERVICES, INC. AND SUBSIDIARY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2005

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Human Services, Inc. and Subsidiary 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.

**HUMAN SERVICES, INC. AND SUBSIDIARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2005**

No findings were noted in the prior year audit report.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING
STANDARDS***

To the Board of Directors
Human Services, Inc. and Subsidiary
Columbus, Indiana

We have audited the financial statements of Human Services, Inc. and Subsidiary (a nonprofit organization), as of and for the year ended December 31, 2005, and have issued our report thereon dated December 13, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether Human Services, Inc. and Subsidiary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 05-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Human Services, Inc. and Subsidiary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Human Services, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 05-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We did however, note other matters involving the internal control over financial reporting, which we have reported to the management of Human Services, Inc. in a separate letter dated December 13, 2006.

This report is intended solely for the information and use of the board of directors, management, others within the organization, 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.

Comer, Nowling And Associates, P.C.

Comer, Nowling And Associates, P.C.
December 13, 2006



**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
Human Services, Inc. and Subsidiary
Columbus, Indiana

Compliance

We have audited the compliance of Human Services, Inc. and Subsidiary (a nonprofit 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 its major federal programs for the year ended December 31, 2005. Human Services, Inc. and Subsidiary'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 its major federal program is the responsibility of Human Services, Inc. and Subsidiary's management. Our responsibility is to express an opinion on Human Services, Inc. and Subsidiary's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Human Services, Inc. and Subsidiary'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 Human Services, Inc. and Subsidiary's compliance with those requirements.

In our opinion, Human Services, Inc. and Subsidiary complied, in all material respects, with the requirements referred above that are applicable to its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of Human Services, Inc. and Subsidiary is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Human Services, Inc. and Subsidiary's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose

of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, others within the organization, 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.

Comer, Nowling And Associates, P.C.

Comer, Nowling And Associates, P.C.

December 13, 2006

**HUMAN SERVICES, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2005**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes No

Type of auditors report issued: Unqualified

Any audit findings disclosed required to be reported in Accordance with Section 510(a) of Circular A-133 Yes No

Programs tested as major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.600	U.S. Dept. of Health and Human Services- Head Start Program
93.569	Community Services Block Grant
14.857	U.S. Dept. of Housing and Urban Development- Low Income Housing Assistance Program

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

Auditee qualified as low-risk auditee? Yes No

HUMAN SERVICES, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2005

Section II – Financial Statement Findings

Finding 05-1 – Fiscal Oversight of In-Kind Matching Requirements (Head Start Program - CFDA No. 93.600)

Condition: During the detailed testing of the in-kind matching requirement relating to the Head Start program, it was noted that the fiscal department of the organization was not performing a cursory review of the in-kind calculation to determine that the contributions were from an allowable source or to corroborate the values placed on the in-kind contributions by Head Start program personnel.

Criteria: Per OMB Circular A-110, Section 23...

(h) The value of donated property shall be determined in accordance with the usual accounting policies of the recipient, with the following qualifications...

(5) The following requirements pertain to the recipients supporting records for in-kind contributions from third parties.

(i) Volunteer services shall be documented and, to the extent feasible, supported by the same methods used by the recipient for its own employees.

(ii) The basis for determining the valuation of personal service, material, equipment, buildings and land shall be documented.

Effect: Material in-kind contributions are not reviewed by fiscal department personnel to determine that the source of the contributions is allowable, to corroborate the value used in the calculation and verify the accuracy of the calculation made by Head Start program personnel. Although we found no exceptions and all calculations were properly supported, internal controls are not in place to ensure compliance with OMB Circular A-110.

Cause: Appropriate policies and procedures have not been written and adopted to ensure that fiscal staff properly review the source and calculations relating to the in-kind matching contributions and determine that the source of the contribution was allowable, to corroborate the value used in the calculation and verify the accuracy of the calculation as prepared by the Head Start program personnel.

Recommendation: Appropriate written policies and procedures should be established to ensure that the fiscal staff adequately reviews the source, value and calculation of in-kind matching contributions as they pertain to the Head Start Program.

HUMAN SERVICES, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2005

Management Response (Corrective Action Plan)

Management will draft appropriate written policies to ensure that the fiscal staff properly reviews all in-kind matching contributions to determine that they were from an allowable source, that all values have been corroborated and that the calculation is accurate. Based upon that review the appropriate accounting entry will be made on the books of the organization.

Section III – Federal Awards Findings

None.