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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, 2006 to December 31, 2006. 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, 2006, 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. Page 30 contains the status of one prior audit finding.

STATE BOARD OF ACCOUNTS

HUMAN SERVICES, INC. AND SUBSIDIARY

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BUSINESS PLANNING
FINANCIAL STATEMENTS
BUSINESS VALUATIONS
TAX PLANNING
TAX PREPARATION

Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of Human Services, Inc. and Subsidiary as of December 31, 2006 and 2005 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Human Services, Inc. and Subsidiary as of December 31, 2006 and 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 August 28, 2007 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on 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 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.

August 28, 2007

HUMAN SERVICES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2006

ASSETS

| | Human Services, Inc. | | | 2006 Subsidiary | 2006 Consolidated |
|---|----------------------|---------------------------|---------------------|--------------------|----------------------|
| | Unrestricted | Temporarily Restricted | 2006 Total | | |
| CURRENT ASSETS | | | | | |
| Cash | \$ 545,321 | \$ - | \$ 545,321 | \$ 37,634 | \$ 582,955 |
| Investments - held for sale | 1,704 | - | 1,704 | - | 1,704 |
| Investments - affiliate projects | - | - | - | 185,302 | 185,302 |
| Grants receivable | 937,063 | - | 937,063 | - | 937,063 |
| Notes receivable - current portion | 350,446 | - | 350,446 | 20,389 | 370,835 |
| Inventory | 18,664 | - | 18,664 | - | 18,664 |
| Prepaid expenses | 38,693 | - | 38,693 | - | 38,693 |
| Total current assets | <u>1,891,891</u> | <u>-</u> | <u>1,891,891</u> | <u>243,325</u> | <u>2,135,216</u> |
| PROPERTY AND EQUIPMENT | | | | | |
| Buildings | 926,379 | 490,000 | 1,416,379 | - | 1,416,379 |
| Equipment | 900,046 | - | 900,046 | - | 900,046 |
| Land | 97,900 | - | 97,900 | - | 97,900 |
| | <u>1,924,325</u> | <u>490,000</u> | <u>2,414,325</u> | <u>-</u> | <u>2,414,325</u> |
| Less accumulated depreciation | (966,286) | - | (966,286) | - | (966,286) |
| Total property and equipment, net | <u>958,039</u> | <u>490,000</u> | <u>1,448,039</u> | <u>-</u> | <u>1,448,039</u> |
| OTHER ASSETS | | | | | |
| Notes receivable - net of current portion | 2,859,364 | - | 2,859,364 | - | 2,859,364 |
| Total assets | <u>\$ 5,709,294</u> | <u>\$ 490,000</u> | <u>\$ 6,199,294</u> | <u>\$ 243,325</u> | <u>\$ 6,442,619</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | \$ 1,067,231 | \$ - | \$ 1,067,231 | \$ 7,805 | \$ 1,075,036 |
| Accrued salaries and wages | 61,347 | - | 61,347 | - | 61,347 |
| Accrued payroll taxes | 41,931 | - | 41,931 | - | 41,931 |
| Accrued income taxes | - | - | - | 936 | 936 |
| Advances payable | 215,133 | - | 215,133 | - | 215,133 |
| Current portion of long-term liabilities | 397,378 | - | 397,378 | - | 397,378 |
| Total current liabilities | <u>1,783,020</u> | <u>-</u> | <u>1,783,020</u> | <u>8,741</u> | <u>1,791,761</u> |
| LONG-TERM LIABILITIES | | | | | |
| Irwin Union - term loan | 19,477 | - | 19,477 | - | 19,477 |
| Lincoln Bank - term loan | 133,021 | - | 133,021 | - | 133,021 |
| Affiliates - term loans | 2,859,364 | - | 2,859,364 | - | 2,859,364 |
| Total long-term liabilities | <u>3,011,862</u> | <u>-</u> | <u>3,011,862</u> | <u>-</u> | <u>3,011,862</u> |
| Total liabilities | <u>4,794,882</u> | <u>-</u> | <u>4,794,882</u> | <u>8,741</u> | <u>4,803,623</u> |
| NET ASSETS | | | | | |
| | <u>914,412</u> | <u>490,000</u> | <u>1,404,412</u> | <u>234,584</u> | <u>1,638,996</u> |
| Total liabilities and net assets | <u>\$ 5,709,294</u> | <u>\$ 490,000</u> | <u>\$ 6,199,294</u> | <u>\$ 243,325</u> | <u>\$ 6,442,619</u> |

See accompanying notes to financial statements.

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

ASSETS

| | Human Services, Inc. | | | 2005 Subsidiary | 2005 Consolidated |
|---|----------------------|---------------------------|---------------------|--------------------|----------------------|
| | Unrestricted | Temporarily Restricted | 2005 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 | <u>(855,485)</u> | <u>-</u> | <u>(855,485)</u> | <u>-</u> | <u>(855,485)</u> |
| 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 | | | | | |
| 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, 2006**

| | Human Services, Inc. | | | 2006 Subsidiary | 2006 Consolidated |
|--|----------------------|---------------------------|---------------------|--------------------|----------------------|
| | Unrestricted | Temporarily Restricted | 2006 Total | | |
| REVENUE AND SUPPORT | | | | | |
| Grant revenue | \$ 8,388,836 | \$ - | \$ 8,388,836 | \$ - | \$ 8,388,836 |
| Contributions | 317,314 | - | 317,314 | - | 317,314 |
| Rental income | 86,391 | - | 86,391 | 22,500 | 108,891 |
| Interest income | 453 | - | 453 | 33 | 486 |
| Inkind donations | 349,591 | - | 349,591 | - | 349,591 |
| Other income | 205,959 | - | 205,959 | - | 205,959 |
| Total support | <u>9,348,544</u> | <u>-</u> | <u>9,348,544</u> | <u>22,533</u> | <u>9,371,077</u> |
| Operating Expenses: | | | | | |
| CSBG | 359,054 | - | 359,054 | - | 359,054 |
| Energy assistance | 2,242,573 | - | 2,242,573 | - | 2,242,573 |
| Weatherization | 503,971 | - | 503,971 | - | 503,971 |
| Head Start and USDA | 2,959,523 | - | 2,959,523 | - | 2,959,523 |
| Commodities | 47,599 | - | 47,599 | - | 47,599 |
| CCDF | 193,838 | - | 193,838 | - | 193,838 |
| Other programs | 2,715,667 | - | 2,715,667 | - | 2,715,667 |
| Management and general | 271,022 | - | 271,022 | - | 271,022 |
| Subsidiary | - | - | - | 10,894 | 10,894 |
| Total operating expenses | <u>9,293,247</u> | <u>-</u> | <u>9,293,247</u> | <u>10,894</u> | <u>9,304,141</u> |
| Increase (decrease) in net assets before unrealized gain on investments | 55,297 | - | 55,297 | 11,639 | 66,936 |
| Net unrealized gain on investments | 196 | - | 196 | - | 196 |
| Increase (decrease) in net assets | <u>55,493</u> | <u>-</u> | <u>55,493</u> | <u>11,639</u> | <u>67,132</u> |
| NET ASSETS AT BEGINNING OF YEAR | <u>858,919</u> | <u>490,000</u> | <u>1,348,919</u> | <u>222,945</u> | <u>1,571,864</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 914,412</u> | <u>\$ 490,000</u> | <u>\$ 1,404,412</u> | <u>\$ 234,584</u> | <u>\$ 1,638,996</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. | | | 2005 <u>Subsidiary</u> | 2005 <u>Consolidated</u> |
|--|----------------------|----------------------------------|----------------------|---------------------------|-----------------------------|
| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | 2005 <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 | 393,171 | - | 393,171 | - | 393,171 |
| Other income | 268,622 | - | 268,622 | - | 268,622 |
| Total support | 8,185,528 | - | 8,185,528 | - | 8,185,528 |
| 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 | 3,155,422 | - | 3,155,422 | - | 3,155,422 |
| 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 | 8,321,417 | - | 8,321,417 | 5,535 | 8,326,952 |
| 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 | (135,430) | - | (135,430) | (5,535) | (140,965) |
| 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 | \$ 858,919 | \$ 490,000 | \$ 1,348,919 | \$ 222,945 | \$ 1,571,864 |

See accompanying notes to financial statements.

HUMAN SERVICES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | CSBG | Energy Assistance | Weatherization | Head Start and UDSA |
|--|-------------------|----------------------|-------------------|---------------------------|
| OPERATING EXPENSES: | | | | |
| Salaries and wages | \$ 187,308 | \$ 202,816 | \$ 219,957 | \$ 1,467,220 |
| Payroll taxes | 20,997 | 23,717 | 25,475 | 187,321 |
| Employee benefits | 22,406 | 21,798 | 28,458 | 319,494 |
| Employee related expenses | 2,167 | 418 | 255 | 6,176 |
| Professional fees | 5,462 | 3,234 | 14,274 | 23,296 |
| Supplies | 15,546 | 39,632 | 10,847 | 229,163 |
| Communications | 9,301 | 7,406 | 4,516 | 15,424 |
| Shipping | 3,794 | 5,382 | 582 | 3,216 |
| Occupancy cost | 25,960 | 21,774 | 20,726 | 197,363 |
| Equipment rental and maintenance | 5,308 | 4,009 | 3,678 | 46,024 |
| Printing and publications | 2,867 | 752 | 486 | 2,055 |
| Travel and transportation | 15,497 | 3,894 | 22,073 | 125,651 |
| Conferences and meetings | 19,544 | 3,196 | 2,029 | 25,899 |
| Specific assistance to individuals | 19,100 | 1,901,869 | 139,371 | 1,184 |
| Membership dues | 935 | 450 | 139 | 2,300 |
| Income tax expense | - | - | - | - |
| Insurance and other expenses | 2,862 | 2,226 | 11,105 | 307,737 |
| Total expenses reported by function before GAAP adjustments | <u>359,054</u> | <u>2,242,573</u> | <u>503,971</u> | <u>2,959,523</u> |
| GAAP adjustments: | | | | |
| Asset capitalization | - | - | - | - |
| Depreciation | - | - | - | - |
| Total expenses reported by function after GAAP adjustments | <u>\$ 359,054</u> | <u>\$ 2,242,573</u> | <u>\$ 503,971</u> | <u>\$ 2,959,523</u> |

See accompanying notes to financial statements.

| | | | | | 2006 | |
|------------------|-------------------|---------------------|------------------------|------------------|---------------------|--|
| Commodities | CCDF | Other Programs | Management and General | Subsidiary | Consolidated Totals | |
| \$ 9,418 | \$ 45,926 | \$ 510,107 | \$ 2,294 | \$ - | \$ 2,645,046 | |
| 1,290 | 5,739 | 59,652 | 293 | - | 324,484 | |
| 3,111 | 9,280 | 61,227 | - | - | 465,774 | |
| 41 | 92 | 606 | - | - | 9,755 | |
| 2,682 | 100,943 | 447,230 | 182,100 | 9,817 | 779,221 | |
| 1,343 | 2,136 | 29,378 | 152 | - | 328,197 | |
| 2,928 | 6,802 | 11,809 | - | 78 | 58,186 | |
| 276 | 1,278 | 3,711 | 764 | 33 | 19,003 | |
| 10,806 | 14,287 | 86,852 | - | - | 377,768 | |
| 9,495 | 3,520 | 16,899 | - | - | 88,933 | |
| 252 | 154 | 2,669 | - | - | 9,235 | |
| 1,416 | 914 | 17,286 | 237 | - | 186,968 | |
| 149 | 353 | 4,601 | - | - | 55,771 | |
| 1,374 | - | 1,406,661 | 878 | - | 3,470,437 | |
| 15 | 67 | 568 | - | - | 4,474 | |
| - | - | - | - | 840 | - | |
| 3,003 | 2,347 | 56,411 | 25,474 | 126 | 411,165 | |
| <hr/> | | | | | | |
| 47,599 | 193,838 | 2,715,667 | 212,192 | 10,894 | 9,234,417 | |
| <hr/> | | | | | | |
| - | - | - | (51,971) | - | (51,971) | |
| - | - | - | 110,801 | - | 110,801 | |
| <hr/> | | | | | | |
| <u>\$ 47,599</u> | <u>\$ 193,838</u> | <u>\$ 2,715,667</u> | <u>\$ 271,022</u> | <u>\$ 10,894</u> | <u>\$ 9,293,247</u> | |

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

| | CSBG | Energy Assistance | Weatherization | Head Start and UDSA |
|--|-------------------|----------------------|-------------------|---------------------------|
| OPERATING EXPENSES: | | | | |
| Salaries and wages | \$ 153,036 | \$ 153,606 | \$ 213,601 | \$ 1,522,349 |
| Payroll taxes | 17,421 | 17,801 | 27,210 | 195,653 |
| Employee benefits | 25,445 | 15,062 | 32,489 | 331,417 |
| Employee related expenses | 929 | 331 | 221 | 5,545 |
| Professional fees | 4,433 | 5,440 | 3,388 | 26,999 |
| Supplies | 8,082 | 69,254 | 16,294 | 297,308 |
| Communications | 7,142 | 5,518 | 3,350 | 15,831 |
| Shipping | 1,760 | 5,422 | 411 | 5,895 |
| Occupancy cost | 25,987 | 20,980 | 20,468 | 243,260 |
| Equipment rental and maintenance | 3,021 | 47,420 | 2,783 | 25,042 |
| Printing and publications | 349 | 242 | 576 | 8,199 |
| Travel and transportation | 9,143 | 1,457 | 25,507 | 139,770 |
| Conferences and meetings | 7,645 | 9,348 | 3,863 | 26,878 |
| Specific assistance to individuals | 6,711 | 2,522,015 | 108,589 | 849 |
| Membership dues | 175 | 195 | 469 | 1,083 |
| Insurance and other expenses | 10,388 | 5,235 | 9,050 | 356,982 |
| Total expenses reported by function before GAAP adjustments | <u>281,667</u> | <u>2,879,326</u> | <u>468,269</u> | <u>3,203,060</u> |
| GAAP adjustments | | | | |
| Asset capitalization and depreciation | <u>(6,390)</u> | <u>(27,914)</u> | <u>(474)</u> | <u>(47,638)</u> |
| Total expenses reported by function after GAAP adjustments | <u>\$ 275,277</u> | <u>\$ 2,851,412</u> | <u>\$ 467,795</u> | <u>\$ 3,155,422</u> |

See accompanying notes to financial statements.

| | | | | | 2005 | |
|-------------|-----------|----------------|------------------------|------------|---------------------|--|
| 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 | 479,885 | |
| <hr/> | | | | | | |
| 65,609 | 99,272 | 1,080,909 | 422,343 | 5,535 | 8,505,990 | |
| <hr/> | | | | | | |
| (53) | (2,636) | (4,415) | (89,518) | - | (179,038) | |
| <hr/> | | | | | | |
| \$ 65,556 | \$ 96,636 | \$ 1,076,494 | \$ 332,825 | \$ 5,535 | \$ 8,326,952 | |

**HUMAN SERVICES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | Human Services, Inc. | | | 2006 Subsidiary | 2006 Consolidated |
|--|--------------------------|---------------------------|--------------------------|-------------------------|--------------------------|
| | Unrestricted | Temporarily Restricted | 2006 Total | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Increase (decrease) in net assets | \$ 55,297 | \$ - | \$ 55,297 | 11,639 | \$ 66,936 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities: | | | | | |
| Depreciation | 110,801 | - | 110,801 | - | 110,801 |
| Increase (decrease) in cash from changes in: | | | | | |
| Grants receivable | 176,636 | - | 176,636 | - | 176,636 |
| Inventory | 684 | - | 684 | - | 684 |
| Prepaid expenses | (7,247) | - | (7,247) | - | (7,247) |
| Accounts payable | (75,578) | - | (75,578) | 8,741 | (66,837) |
| Accrued salaries and wages | (7,348) | - | (7,348) | - | (7,348) |
| Accrued payroll taxes | 23,157 | - | 23,157 | - | 23,157 |
| Prepaid county appropriations | 215,133 | - | 215,133 | - | 215,133 |
| Net cash provided by (used in) operating activities | <u>491,535</u> | <u>-</u> | <u>491,535</u> | <u>20,380</u> | <u>511,915</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Investments - affiliate projects | - | - | - | 89 | 89 |
| Acquisition of property and equipment | (86,972) | - | (86,972) | - | (86,972) |
| Net cash provided by (used in) investing activities | <u>(86,972)</u> | <u>-</u> | <u>(86,972)</u> | <u>89</u> | <u>(86,972)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Repayment of term loans | (44,207) | - | (44,207) | - | (44,207) |
| Net cash used in financing activities | <u>(44,207)</u> | <u>-</u> | <u>(44,207)</u> | <u>-</u> | <u>(44,207)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 360,356 | - | 360,356 | 20,469 | 380,736 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 184,965 | - | 184,965 | 17,165 | 202,130 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 545,321</u> | <u>\$ -</u> | <u>\$ 545,321</u> | <u>\$ 37,634</u> | <u>\$ 582,866</u> |
| SUPPLEMENTAL DISCLOSURES: | | | | | |
| Cash paid for: | | | | | |
| Interest | <u>\$ 17,848</u> | | | | |

(972)
5,916
(86,972)
(207)
(87)
36
36

See accompanying notes to financial statements.

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

| | Human Services, Inc. | | | 2005 Subsidiary | 2005 Consolidated |
|--|--------------------------|---------------------------|--------------------------|-------------------------|--------------------------|
| | Unrestricted | Temporarily Restricted | 2005 Total | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Increase (decrease) in net assets | \$ (135,889) | \$ - | \$ (135,889) | (5,535) | \$ (141,424) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by (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</u> | | | | <u>5,422</u> |

See accompanying notes to financial statements.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 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, 2006 AND 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.

Total depreciation expense for the years ended December 31, 2006 and 2005, was \$110,801 and \$100,118, respectively.

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, 2006 and 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, 2006. The provision of income taxes consisted of current federal income taxes payable of \$807, net of current low-income housing tax credits of \$467, and current state income taxes payable of \$500.

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, 2006 AND 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 \$655 at December 31, 2006 and \$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, 2006 AND 2005
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS (Continued)

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

| | Cost or Original Donated Value | Market Value | Gross Unrealized Gain (loss) |
|-----------------------------|---|-----------------|------------------------------------|
| As of December 31, 2006: | | | |
| Wells Fargo & Company Stock | <u>\$ 1,049</u> | <u>\$ 1,704</u> | <u>\$ 655</u> |
| | | | |
| | Cost or Original Donated Value | Market Value | Gross Unrealized Gain (loss) |
| As of December 31, 2005: | | | |
| 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.

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.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the same amount. For the years ended December 31, 2006 and 2005, this adjustment amounted to approximately \$349,591 and \$393,171, respectively, and is included in other revenue and support on the Consolidated Statements of Activities.

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 \$349,591 of in-kind contributions and related expenses recorded in the Organization's Consolidated Statement of Activities for the year ended December 31, 2006, contributed services meeting the requirements of SFAS 116 are \$65. In addition, \$49,902 consisting of food, clothing and other goods were donated to the Organization's Horizon House. During 2006, the Organization also received other in-kind contributions totaling \$536,752 related to its Head Start program which includes services from non-professional volunteers during 2006 with an estimated value of \$237,128, primarily for its Head Start program which are not recorded in the Consolidated Statement of Activities.

Of the \$393,171 of in-kind contributions and related expenses recorded in the Organization's Consolidated Statement of Activities for the year ended December 31, 2005, contributed services meeting the requirements of SFAS 116 are \$1,562. In addition, \$50,726 consisting of food, clothing and other goods were donated to the Organization's Horizon House. During 2005, the Organization also received other in-kind contributions totaling \$637,328 related to its Head Start program which includes services from non-professional volunteers during the year with an estimated value of \$296,445. Per the requirements of SFAS 116; the value of these non-professional volunteer hours are not reflected in the Organization's Consolidated Statement of Activities.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COST ALLOCATION (Continued)

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.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of December 31, 2006:

| | |
|-------------------|-------------------|
| Checking accounts | \$ 545,121 |
| Petty cash | 200 |
| | <u>\$ 545,321</u> |

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

| | |
|-----------------------|-------------------|
| Checking accounts | \$ 184,596 |
| Money market accounts | 169 |
| Petty cash | 200 |
| | <u>\$ 184,965</u> |

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

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., Ridgecrest, L.P., and Pearson Place, 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, 2006 and 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, 2006 and 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, 2006 and 2005, the balance of the note was \$350,446 and \$382,775, respectively.

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, 2006 and 2005, the balance of the note receivable was \$300,000.

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, 2006 and 2005, none of the advances had been repaid and \$20,389 was still receivable.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

NOTE 3 – RELATED PARTIES AND NOTES RECEIVABLE (Continued)

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, 2006 and 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, 2006 and 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, 2006 and 2005, the balance of the note receivable was \$300,000.

The Organization has provided \$500,000 to Pearson Place, L.P. through the AHP program. Dated December 1, 2005, the note bears interest at 5% 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, 2035. As of December 31, 2006, the balance of the note receivable was \$500,000.

The Organization has also awarded \$500,000 of funds to Pearson Place, L.P. under the Home Investment Partnership Program (HOME). Dated December 1, 2005, the note accrues interest at a rate of 5% per annum and the balance of all unpaid principal and interest is due on December 31, 2035. The note is collateralized by a mortgage lien and security interest in the partnership's property, subordinate to a first and second mortgage. As of December 31, 2006, the Organization had received \$495,000.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

NOTE 3 -- RELATED PARTIES AND NOTES RECEIVABLE (Continued)

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 notes receivable are as follows for the years ended December 31,:

| | |
|------------|---------------------|
| 2007 | \$ 350,446 |
| 2008 | -0- |
| 2009 | -0- |
| 2010 | -0- |
| 2011 | -0- |
| Thereafter | <u>2,859,364</u> |
| | <u>\$ 3,209,810</u> |

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, 2006 or 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 was renewed in October 2006 and matures in January 2007. At December 31, 2006, the balance was zero.

NOTE 6 -- LONG-TERM DEBT

Long-term debt consists of the following as of December 31,:

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| 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 2006 and 2005 was 9.25% and 8.25%. | \$ 25,193 | \$ 30,411 |

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

NOTE 6 – LONG-TERM DEBT (continued)

| | <u>2006</u> | <u>2005</u> |
|--|-------------|-------------|
| 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. | \$ 174,237 | \$ 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 | 235,732 |
| 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 | 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. | 350,446 | 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 | 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 | 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 | 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 | 270,000 |

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

NOTE 6 – LONG-TERM DEBT (Continued)

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| Note payable – 1% note payable to the Federal Home Loan Bank AHP Program dated December 1, 2005, annual interest payments from the available cash flow of the affiliated housing project. | \$ 500,000 | \$ -0- |
| Note payable – 5% note payable to Indiana Housing and Community Development Authority Home Investment Partnership Program (HOME) dated December 1, 2005, payments of principal and interest from the available cash flow of the affiliated housing project. | \$ 495,000 | \$ -0- |

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

| | |
|------------|---------------------|
| 2007 | \$ 397,378 |
| 2008 | 50,418 |
| 2009 | 54,218 |
| 2010 | 47,862 |
| 2011 | -0- |
| Thereafter | <u>2,859,364</u> |
| | <u>\$ 3,409,240</u> |

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, 2006 and 2005 was approximately \$244,547 and \$219,317, respectively.

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

| | |
|------|-------------------|
| 2007 | \$ 87,993 |
| 2008 | 77,795 |
| 2009 | 58,439 |
| 2010 | 48,854 |
| 2011 | <u>-0-</u> |
| | <u>\$ 273,081</u> |

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

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.

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.

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

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.

NOTE 11 — CONTINGENT LIABILITY

A new program, Owner Occupied Rehabilitation, became available to the Organization's clients in 2005. In this program, low income persons can qualify for repairs and improvements of owner occupied residences. The Organization holds a mortgage equal to the amount of the repairs for each participating homeowner. These mortgages are forgivable if the mortgagor owns and occupies the mortgaged premises for at least thirty-six (36) months. As of December 31, 2006, the Organization holds 38 mortgages with a total balance of \$553,313. Allowing credit for those mortgages held for more than one year, makes the prorated balance as of December 31, 2006 equal \$465,486. As of December 31, 2005, the Organization held 21 mortgages, with a total balance of \$263,480. While the Organization holds these zero percent forgivable mortgages, the anticipated future collections cannot be determined. Although these mortgages are secured by a lien on the homes, there is a possibility that the Organization may have to repay the governmental funds used under this program if the owner occupants do not occupy the homes for the thirty-six (36) month mandatory period. The final liability, if any, to be paid cannot be determined at this time. Accordingly, these financial statements do not reflect any liability, which may arise as a result.

SINGLE AUDIT SECTION

HUMAN SERVICES, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Grant or Identifying Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|--|---------------------------------|
| U.S. Department of Agriculture | | | |
| Passed through the Indiana State Department of Education | | | |
| Women, Infants & Children | 10.557 | WIC 375-1 | \$ 245,308 |
| USDA | 10.558 | USDA 142 | 197,000 |
| | | | <u>442,308</u> |
| U.S. Department of Housing and Urban Development | | | |
| Passed through the Indiana Housing and Community Development Authority & Family Social Services Administration | | | |
| Home OOR 59/144/154 | 14.219 | HD-003-003 | 228,060 |
| Emergency Shelter Grants Program | 14.231 | 03-05-09-1678-01/ES-006-049 | 16,649 |
| Low Income Housing Assistance Program | 14.857 | 03-02/06-38-1678-02/04 | 1,218,145 |
| Continuum of Care 79 | 14.235 | IN36B402018 | 61,637 |
| Transitional Housing 98 | 14.235 | IN36B402010 | 39,954 |
| Continuum of Care 79 | 14.235 | IN36B402018 | 68,340 |
| Transitional Housing 98 | 14.235 | IN36B402010 | 33,813 |
| | | | <u>1,666,598</u> |
| U.S. Department of Energy | | | |
| Passed through the Indiana Housing and Community Development Authority & Family Social Services Administration | | | |
| Weatherization Assistance for Low-Income Persons | 81.042 | 03-04-0J-01/02 | 301,216 |
| Federal Emergency Management Agency | | | |
| Emergency Food and Shelter Program | 83.523 | | 50,503 |
| U.S. Department of Health and Human Services | | | |
| Direct Program: | | | |
| Head Start Program | 93.600 | 05CH-4176-39 | 2,455,933 |
| Passed through the Indiana Housing and Community Development Authority & Family Social Services Administration | | | |
| Low-Income Home Energy Assistance | 93.568 | 03-05-0S/3S/4S/1S-1678-02 | 2,445,329 |
| Community Services Block Grant | 93.569 | 03-04-OR-1678-02/CS-006-0 | 359,053 |
| | | | <u>2,804,382</u> |
| Passed through the Indiana Family Social Services Administration | | | |
| Child Care Development Fund | 93.596 | 03-06-34-1678 | 194,805 |
| | | | <u>\$ 5,455,120</u> |

See accompanying note to schedule of expenditures of federal awards.

HUMAN SERVICES, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

U.S. Department of Housing and Urban Development

Passed through the Indiana Finance Housing Authority

| | | |
|--|--------|----------------|
| AHP Loan Funds - Jerman Housing, L.P. | 14.239 | \$ 360,000 |
| HOME Loan Funds - Jerman Housing, L.P. | 14.239 | 300,000 |
| 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 | 350,446 |
| FHLB Loan Funds - Oak Hill Apartments II, L.P. | 14.239 | 300,000 |
| IHFA Loan Funds - Ridgecrest Limited, L.P. | 14.239 | 208,500 |
| AHP Loan Funds-Pearson Place, L.P. | 14.239 | 500,000 |
| HOME Loan Funds--Pearson Place, L.P. | 14.239 | <u>495,000</u> |

| | | |
|----------|--|------------------|
| Subtotal | | <u>3,239,810</u> |
|----------|--|------------------|

| | | |
|--------------------------------------|--|-----------------------------|
| Total Expenditures of Federal Awards | | <u><u>\$ 11,155,555</u></u> |
|--------------------------------------|--|-----------------------------|

See accompanying note to schedule of expenditures of federal awards.

HUMAN SERVICES, INC. AND SUBSIDIARY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2006

Note 1 – Basis of Presentation

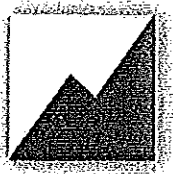
The accompanying schedule of expenditures of federal awards includes the federal grant activity of Human Services, Inc. and Subsidiary and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits 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
DECEMBER 31, 2006

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.

Status: The fiscal department is performing a review of the in-kind calculation. Currently, the fiscal department is in the process of revising the form and the breakdown between categories of in-kind to more easily review and summarize the in-kind contributions.



COMER
NOWLING AND
ASSOCIATES, P.C.

BUSINESS PLANNING
FINANCIAL STATEMENTS
BUSINESS VALUATIONS
TAX PLANNING
TAX PREPARATION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACORDANCE WITH *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 December 31, 2006, and have issued our report thereon dated August 28, 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 Human Services, Inc. and Subsidiary'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. As significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the second paragraph 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 that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Human Services, Inc. and Subsidiary in a separate letter dated August 28, 2007.

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.
August 28, 2007



BUSINESS PLANNING
FINANCIAL STATEMENTS
BUSINESS VALUATIONS
TAX PLANNING
TAX PREPARATION

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

To the Board of Directors
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 December 31, 2006. 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 to above that are applicable to its major federal program for December 31, 2006.

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 (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal

control in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees within a timely period, in the normal course of performing their assigned functions, to prevent or detect noncompliance with applicable requirements of laws, regulations, contracts and grant agreements that would have a direct and material effect on a major federal program. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Human Services, Inc. and Subsidiary's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants such that there is more than a remote likelihood that the Organization's noncompliance that is more than inconsequential will not be prevented or detected by the Organization'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 applicable requirements of laws, regulations, contracts and grants in relation to a major federal program will not be prevented or detected by the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 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.
August 28, 2007

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HUMAN SERVICES, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2006

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 x
- Significant deficiencies identified? Yes ___ No x

Noncompliance material to financial statements noted? Yes ___ No x

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes ___ No x
- Significant deficiencies identified? Yes ___ No x

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 x

Programs tested as major program:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 93.600 | Department. of Health and Human Services, Head Start |
| 81.042 | Department of Energy, Weatherization |
| 14.857 | Department of Housing and Urban Development, Section 8 |
| 14.219 | Department of Health and Human Services, Community Development Block Grant |
| 93.596 | Department of Health and Human Services, Child Care Development Fund |
| 14.239 | Department of Housing and Urban Development, AHP and HOME Loans |
| 10.558 | Child and Adult Care Food Program |

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

Auditee qualified as low-risk auditee? Yes ___ No x

HUMAN SERVICES, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2006

Section II – Financial Statement Findings

None.

Section III – Federal Awards Findings

None.