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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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August 20, 2009

Board of Directors
Gary Neighborhood Services, Inc.
300 W. 21st Ave.
Gary, IN 46407

We have reviewed the audit report prepared by Swartz, Retson & Co., P.C., 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 Gary Neighborhood Services, Inc., 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 findings in the report. The Independent Auditor's Report makes mention of going concern considerations.

STATE BOARD OF ACCOUNTS

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

GARY NEIGHBORHOOD SERVICES, INC.

DECEMBER 31, 2006 AND 2005

SWARTZ, RETSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
235 E. 86TH AVENUE
MERRILLVILLE, INDIANA 46410

GARY NEIGHBORHOOD SERVICES, INC.

GARY, INDIANA

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Swartz Retson

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Gary Neighborhood Services, Inc.

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Gary Neighborhood Services, Inc. as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 5 to the financial statements, the Organization has a deficiency in unrestricted net assts that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of the uncertainty.

Swartz-Retson + Co., P.C.

Merrillville, IN
September 5, 2007

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005

ASSETS

	2006	2005
ASSETS		
Cash and Cash Equivalents	$ 12,724	$ 3,566
Accounts Receivable	68,277	72,743
Investments	12,164	13,487
Prepaid Expenses	4,142	7,618
Property and Equipment – Net	26,292	46,204
TOTAL ASSETS	$123,599	$143,618

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts Payable	$ 24,842	52,560
Accrued Payroll	13,219	15,777
Payroll Taxes Withheld and Payable	134,088	122,198
Payroll Deductions Payable	00	335
Accrued Liabilities	4,089	4,089
Total Liabilities	176,238	194,959
NET ASSETS		
Unrestricted	(52,639)	(51,341)
TOTAL LIABILITIES AND NET ASSETS	$123,599	$143,618

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Unrestricted	Temporarily Restricted	2006 Total
REVENUES, GAINS AND OTHER SUPPORT			
Title XX Daycare and Chore Assistance	$152,798	$ 00	$152,798
Lake County Voucher	39,627	00	39,627
Daycare Fees	8,775	00	8,775
Child Care Food Program	16,701	00	16,701
Workforce Development Program	12,837	00	12,837
Information and Referral Services	19,806	00	19,806
Energy Assistance Program	76,013	00	76,013
Parents as Teachers – Lake County	5,442	00	5,442
Partnership, Drug Free – Lake County	4,143	00	4,143
Tobacco Prevention – Lake County	5,070	00	5,070
Lake Area United Way	136,262	00	136,262
EDS – Medicare	10,886	00	10,886
Space Rental	54,845	00	54,845
Contributions – Facilities	70,600	00	70,600
Contributions	2,347	00	2,347
Fundraising Dinner Income	9,220	00	9,220
Concession Income	4,573	00	4,573
Miscellaneous	1,330	00	1,330
Dividends	176	00	176
Total Revenues, Gains and Other Support Prior to Reclassification of Net Assets:	631,451	00	631,451
Reclassification of Net Assets	00	00	00
Total Revenues, Gains and Other Support	631,451	00	631,451
EXPENSES			
Daycare	126,136	00	126,136
Counseling	108,782	00	108,782
Chore Assistance	74,505	00	74,505
Special Services	152,179	00	152,179
Management and General	171,147	00	171,147
Total Expenses	632,749	00	632,749
CHANGE IN NET ASSETS	(1,298)	00	(1,298)
NET ASSETS – Beginning of Year	(51,341)	00	(51,341)
NET ASSETS – End of Year	$ (52,639)	$ 00	$ (52,639)

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Unrestricted	Temporarily Restricted	2005 Total
REVENUES, GAINS AND OTHER SUPPORT			
Title XX Daycare and Chore Assistance	$218,878	$ 00	$218,878
Lake County Voucher	17,177	00	17,177
Daycare Fees	12,405	00	12,405
Child Care Food Program	185,958	00	185,958
Workforce Development Program	26,099	00	26,099
Information and Referral Services	28,672	00	28,672
Energy Assistance Program	54,611	00	54,611
Project Respect, Indiana Dept of Health	11,342	00	11,342
Parents as Teachers, Lake County	10,113	00	10,113
Partnership – Drug Free, Lake County	5,600	00	5,600
Tobacco Prevention, Lake County	4,801	00	4,801
Other Grants	676	9,739	10,415
Lake Area United Way	159,036	00	159,036
EDS – Medicare	1,546	00	1,546
Space Rental	58,058	00	58,058
Contributions – Facilities	74,550	00	74,550
Contributions	4,959	00	4,959
Fundraising Dinner Income	9,695	00	9,695
Concession Income	7,072	00	7,072
Miscellaneous	8,512	00	8,512
Unrealized Gain on Investments	2,349	00	2,349
Dividends	169	00	169
Gain on Disposal of Assets	2,600	00	2,600
Total Revenues, Gains and Other Support Prior To Reclassification of Net Assets	904,878	9,739	914,617
Reclassification of Net Assets	9,739	(9,739)	00
Total Revenues, Gains and Other Support	914,617	00	914,617
EXPENSES			
Daycare	310,656	00	310,656
Counseling	141,285	00	141,285
Chore Assistance	86,058	00	86,058
Special Services	141,687	00	141,687
Management and General	181,532	00	181,532
Total Expenses	861,218	00	861,218
CHANGE IN NET ASSETS	53,399	00	53,399
NET ASSETS – Beginning of Year	(104,740)	00	(104,740)
NET ASSETS – End of Year	$ (51,341)	$ 00	$ (51,341)

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

	PROGRAM SERVICES					SUPPORTING SERVICES	
	Daycare	Counseling	Chore Assistance	Special Services	Total Program Services	Management & General	Total Expenses
SALARIES AND RELATED EXPENSES							
Salaries	$ 69,849	$ 71,451	$ 56,026	$ 58,219	$255,545	$ 92,656	$348,201
Employee Health and Retirement Benefits	3,313	6,947	2,199	3,603	16,062	6,084	22,146
Payroll Taxes	6,660	6,717	5,773	5,783	24,933	7,192	32,125
Workers' Compensation	1,277	1,288	1,107	1,109	4,781	1,379	6,160
Total Salaries and Related Expenses	81,099	86,403	65,105	68,714	301,321	107,311	408,632
Professional Fees and Contract Services	5,784	2,705	572	14,575	23,636	2,025	25,661
Supplies	13,933	5,094	50	6,591	25,668	2,120	27,788
Telephone	1,288	624	133	3,269	5,314	406	5,720
Postage and Shipping	821	383	82	1,114	2,400	1,159	3,559
Occupancy	18,423	8,491	1,838	45,020	73,772	5,810	79,582
Small Equipment Purchase and Rental	2,103	1,487	189	5,040	8,819	632	9,451
Outside Printing and Art Work	613	270	88	858	1,829	935	2,764
Local Transportation	1,413	3,258	6,394	3,851	14,916	7,832	22,748
Conferences and Meetings	620	67	54	00	741	470	1,211
Interest	00	00	00	00	00	23	23
Fundraising Dinner Expense	00	00	00	00	00	3,856	3,856
Miscellaneous	39	00	00	999	1,038	837	1,875
Advertising	00	00	00	00	00	92	92
Bank Charges	00	00	00	00	00	313	313
Concession Expense	00	00	00	2,148	2,148	00	2,148
Bad Debts	00	00	00	00	00	300	300
Unrealized Loss on Investments	00	00	00	00	00	1,323	1,323
Loss on Disposal of Assets	00	00	00	00	00	13,262	13,262
Penalties	00	00	00	00	00	12,098	12,098
Total Expenses Before Depreciation	126,136	108,782	74,505	152,179	461,602	160,804	622,406
Depreciation	00	00	00	00	00	10,343	10,343
TOTAL EXPENSES	$126,136	$108,782	$ 74,505	$152,179	$461,602	$171,147	$632,749

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

	PROGRAM SERVICES					SUPPORTING SERVICES	
	Daycare	Health & Counseling	Chore Assistance	Special Services	Total Program Services	Management and General	Total Expenses
SALARIES AND RELATED EXPENSES							
Salaries	$ 73,273	$ 97,873	$ 69,166	$ 63,839	$304,151	$102,468	$406,619
Employee Health and Retirement Benefits	3,577	7,869	1,908	3,815	17,169	6,678	23,847
Payroll Taxes	6,596	8,811	6,227	5,747	27,381	9,226	36,607
Workers' Compensation	924	1,234	872	805	3,835	1,292	5,127
Total Salaries and Related Expenses	84,370	115,787	78,173	74,206	352,536	119,664	472,200
Professional Fees and Contract Services	4,520	2,697	480	8,761	16,458	4,982	21,440
Supplies	174,167	3,682	184	3,130	181,163	2,946	184,109
Telephone	2,865	2,050	266	6,071	11,252	1,082	12,334
Postage and Shipping	1,414	758	121	1,473	3,766	361	4,127
Occupancy	31,965	5,671	1,048	35,169	73,853	10,665	84,518
Small Equipment, Purchase and Rental	4,212	4,880	163	4,219	13,474	832	14,306
Outside Printing and Art Work	1,184	414	59	757	2,414	1,311	3,725
Local Transportation	4,667	4,851	5,564	3,943	19,025	9,362	28,387
Conferences and Meetings	676	150	00	00	826	596	1,422
Interest	33	26	00	52	111	104	215
Fundraising Dinner Expense	00	00	00	00	00	4,537	4,537
Miscellaneous	409	319	00	649	1,377	1,289	2,666
Advertising	174	00	00	00	174	341	515
Bank Charges	00	00	00	00	00	283	283
Concession Expense	00	00	00	3,257	3,257	00	3,257
Bad Debts	00	00	00	00	00	233	233
Penalties	00	00	00	00	00	10,998	10,998
Total Expenses Before Depreciation	310,656	141,285	86,058	141,687	679,686	169,586	849,272
Depreciation	00	00	00	00	00	11,946	11,946
TOTAL EXPENSES	$310,656	$141,285	$ 86,058	$141,687	$679,686	$181,532	$861,218

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (1,298)	$ 53,399
Adjustments to Reconcile Net Assets to Net Cash Provided by Operating Activities		
Depreciation	10,343	11,946
(Gain) Loss on Disposal of Equipment	13,262	(2,600)
Unrealized (Gain) Loss on Investments	1,323	(2,349)
(Increase) Decrease in:		
Accounts Receivable	4,466	1,249
Prepaid Expenses	3,477	(2,413)
Other Assets	00	865
Increase (Decrease) in:		
Accounts Payable	(27,718)	(36,151)
Accrued Payroll	(2,558)	(1,433)
Payroll Taxes Withheld and Payable	11,890	10,902
Payroll Deductions Payable	(335)	(506)
Accrued Liabilities	00	(10,999)
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,852	21,910
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(3,694)	(17,276)
Proceeds on Sale of Equipment	00	2,600
NET CASH (USED) BY INVESTING ACTIVITIES	(3,694)	(14,676)
CASH FLOWS FROM FINANCING ACTIVITIES		
Reduction of Principal of Notes Payable	00	(6,006)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,158	1,228
CASH AND CASH EQUIVALENTS – Beginning of Year	3,566	2,338
CASH AND CASH EQUIVALENTS – End of Year	$ 12,724	$ 3,566
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Interest	$ 23	$ 215

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Gary Neighborhood Services, Inc. is a not-for-profit corporation organized in the State of Indiana to provide social and educational programs and services to the residents of Gary, Indiana. The Organization is recognized as fully exempt from taxation by the Internal Revenue Code under Section 501(c)(3). The Organization's major sources of funding are from governmental grants and the Lake Area United Way.

Use of Estimates in Preparation of Financial Statements

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.

Financial Statement Presentation

The Organization has adopted 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. Contributions whose restrictions are met in the same period as the recognition of the contributions are

Contributions

The Organization has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.
considered unrestricted for reporting purposes.

Financial Instruments and Credit Risk

The Organization is a not-for-profit corporation operating primarily in Northwest Indiana. As such, the Organization's accounts receivable are from grantors within the same geographic region. The terms of the grants give rise to unsecured accounts receivable, as is common industry practice.

Accounts Receivable

The Organization records bad debts on the direct write-off method when, in management's opinion, an account becomes uncollectible. The direct write-off method is a departure from generally accepted accounting principles. Bad debt expenses calculated using the direct write-off method do not differ materially from those calculated using generally accepted methods.

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management considers receivables to be past due after being outstanding for more than 30 days. Based on management's assessment of the credit history with grantors having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial. The bad debt expense for the years ended December 31, 2006 and 2005 was $300 and $233, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Investments

The Organization follows Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment

Property and equipment are carried at cost. Depreciation expense is computed using straight-line methods over the estimated useful life of the assets. The fair market value of donated assets are also capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss resulting from the transactions is recognized as income for the period. The cost of repairs and maintenance is charged to income as incurred; significant renewals and betterments are capitalized. The depreciation expense was $10,343 and $11,946 for the years ended December 31, 2006 and 2005, respectively.

The details of these accounts and their related accumulated depreciation are as follows:

2006	Cost or Appraised Value	Accumulated Depreciation	Net Book Value
Program and Office Equipment	$127,189	$108,883	$ 18,306
Vehicles	15,900	15,900	00
Leasehold Improvements	24,302	16,316	7,986
Totals	$167,391	$141,099	$ 26,292

2005	Cost or Appraised Value	Accumulated Depreciation	Net Book Value
Program and Office Equipment	$130,352	$110,885	$ 19,467
Vehicles	15,900	14,443	1,457
Leasehold Improvements	109,261	83,981	25,280
Totals	$255,513	$209,309	$ 46,204

Cash and Cash Equivalents

Cash, as presented on the accompanying statements of financial position and statements of cash flows, includes cash on hand and deposits in interest bearing and non-interest bearing accounts in financial institutions. Cash equivalents consist of highly liquid accounts with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments and stated at cost, which approximates market value.

Income Tax Status

The Internal Revenue Service has ruled that the Organization qualifies under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to tax under the present income tax laws. The Organization is not considered to be a private foundation.

NOTE 2 - PROGRAM SERVICES

The Daycare Program provides daycare and educational programs for children ages 3-6. Title XX Energy Assist and Child Care Development Fund (CCDF) reimbursements are provided for clients with salaries below the Title XX maximum salary. A sliding fee scale was established for clients with income in excess of the maximum. After September 2006, all reimbursements are provided by CCDF.

Health and Counseling are programs designed to provide individuals with a variety of group activities and with the primary objective of promoting sound personality and social development of the participants.

The Chore Assistance Program assigns staff members who perform household services for clients who are handicapped or unable to care for themselves. Reimbursement of expense through Title XX is applicable.

Special Services is a program whereby Gary Neighborhood Services, Inc. receives rent as well as maintains buildings for Social Service Agencies and other organizations.

NOTE 3 - CONTRIBUTED FACILITIES - FACILITY LEASE AGREEMENT

Certain contributed facility use is recorded as support and expense at fair market value when determinable, otherwise at values indicated by the donor. Gary Neighborhood Services, Inc. entered into a 10 year, below market lease with the City of Gary Parks Department. The lease was effective January 1, 1990 for the Barbara Wesson Center. The payment required was $1.00 per year, to be paid in full in 1990. During January 2000, the lease was renewed for another 10-year period with the same terms. The Organization records an in-kind contribution and occupancy expense based on the estimated fair market value. During the years ended December 31, 2006 and 2005, the Organization recorded $70,600 and $74,550, respectively as contributed facility usage.

NOTE 4 - EQUIPMENT LEASE AGREEMENT

The Organization has a copier that it leased through March 2007 at the rate of $583 per month. Beginning in March 2007, it received a new copier which is being leased for five years. The new copier requires monthly lease payments of $675. The lease expense for the years ended December 31, 2006 and 2005 was $6,990 and $6,990, respectively.

Future minimum payments expected under the above leases are as follows:

Year Ending	Amount
December 31, 2007	$ 7,823
December 31, 2008	$ 8,100
December 31, 2009	$ 8,100
December 31, 2010	$ 8,100
December 31, 2011	$ 8,100

NOTE 5 - GOING CONCERN

The Organization has a net asset deficit of $52,639 which is related to $133,075 in back taxes, interest and penalties owed to the Internal Revenue Service (IRS). The Organization's continued existence is dependent upon its ability to pay back or settle this liability with the IRS. Management has represented that they are in negotiation with the IRS to settle this liability.

Management has been in negotiation with the IRS and has presented an offer in compromise to resolve the tax liability. Based on discussions with the IRS, management is hopeful that the liability situation will be resolved before the end of 2007.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

During 2005, the Organization received $9,736 in grants to be used on playground equipment purchases. In 2005, this entire amount was expended and $0 remained in temporarily restricted net assets at December 31, 2005. No funds received during 2006 had restrictions.

NOTE 7 - LOSS OF FUNDING

The Organization did not renew the Child Care Food Program beginning in October 2005. The Organization received reimbursements of claims filed by the Organization's daycare and daycare service providers and received fees for administering the program.

NOTE 8 - INVESTMENTS

Investments are stated at fair value and are summarized as follows as of December 31, 2006 and 2005:

2006	Cost	Fair Value	Carrying Value
Unrestricted			
Common Stock – StanCorp Financial Group	$ 3,206	$ 12,164	$ 12,164

2005	Cost	Fair Value	Carrying Value
Unrestricted			
Common Stock – StanCorp Financial Group	$ 3,206	$ 13,487	$ 13,487

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2006 and 2005:

	2006 Unrestricted	2005 Unrestricted
Dividend Income	$ 176	$ 169
Unrealized Gain/(Loss)	(1,323)	2,349
Total Unrestricted Investment Income/(Loss)	$ (1,147)	$ 2,518