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December 10, 2009

Board of Directors
Guerin, Inc.
8037 Unruh Drive
Georgetown, IN 47122

We have reviewed the audit report prepared by Deming, Malone, Livesay & Ostroff, Independent Public Accountants, for the period September 1, 2006 to August 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Guerin, Inc., as of August 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. The management letter contains three comments.

STATE BOARD OF ACCOUNTS

22-638.00

GUERIN, INC.

FINANCIAL STATEMENTS

Years Ended August 31, 2007 and 2006

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DEMING MALONE LIVESAY & OSTROFF
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Guerin, Inc.
Georgetown, Indiana

We have audited the accompanying statements of financial position of Guerin, Inc. (a not-for-profit organization) as of August 31, 2007 and 2006, and the related statements of activities 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 statement. 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 Guerin, Inc. as of August 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
February 19, 2007

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GUERIN, INC.

STATEMENTS OF FINANCIAL POSITION
August 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 316,128	$ 227,054
Receivables	390	52,076
Interest receivable	2,940	
Total current assets	319,458	279,130
ASSETS WHOSE USE IS LIMITED		
Cash - Reserve funds	37,642	25,016
Cash - Security deposits	8,167	8,147
Grant receivable	250,000	
	295,809	33,163
PROPERTY AND EQUIPMENT, at cost		
Land and improvements	487,552	487,552
Building and improvements	3,880,709	3,744,348
Furniture and fixtures	165,106	165,106
	4,533,367	4,397,006
Less accumulated depreciation	472,856	335,436
	4,060,511	4,061,570
Total assets	$ 4,675,778	$ 4,373,863

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2007	2006
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 18,158	$ 3,288
Accounts payable	1,004	2,551
Accrued expenses	2,048	1,320
Payable to related party	11,714	16,309
Total current liabilities	32,924	23,468
SECURITY DEPOSITS	8,167	8,147
LONG-TERM LIABILITIES		
Accounts payable - construction costs	14,884	37,809
Construction loan		210,298
Long-term debt, less current maturities	535,840	206,841
Total long-term liabilities	550,724	454,948
Total liabilities	591,815	486,563
NET ASSETS		
Unrestricted	3,833,963	3,887,300
Temporarily restricted	250,000	
	4,083,963	3,887,300
Total liabilities and net assets	$ 4,675,778	$ 4,373,863

GUERIN, INC.

STATEMENTS OF ACTIVITIES

Years Ended August 31, 2007 and 2006

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Unrestricted
Revenues and other support:				
Grant revenues	$ 10,691	$ 250,000	$ 260,691	$ 690,129
Contributions	83,603		83,603	195,270
Rental income	98,565		98,565	52,613
Interest income	7,859		7,859	1,596
Total revenues and other support	200,718	250,000	450,718	939,608
Expenses:				
Depreciation	137,420		137,420	113,942
Contract services	49,750		49,750	50,727
Repairs and maintenance	4,746		4,746	7,560
Insurance	6,770		6,770	5,214
Utilities	13,495		13,495	6,383
Professional fees	12,846		12,846	7,967
Travel	405		405	229
Small equipment				1,706
Office supplies	305		305	659
Postage	269		269	168
Interest	26,729		26,729	22,319
Miscellaneous	1,320		1,320	3,822
Total expenses	254,055		254,055	220,696
Net (decrease) increase in total net assets	(53,337)	250,000	196,663	718,912
Net assets at beginning of year	3,887,300		3,887,300	3,168,388
Net assets at end of year	$ 3,833,963	$ 250,000	$ 4,083,963	$ 3,887,300

See Notes to Financial Statements.

GUERIN, INC.

STATEMENTS OF CASH FLOWS

Years Ended August 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net increase in total net assets	$ 196,663	$ 718,912
Adjustments to reconcile net increase in total net assets to net cash used in operating activities:		
Depreciation	137,420	113,942
Grants and contributions received for long-term purposes	(145,980)	(634,021)
In-kind donation of land		(185,000)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(198,314)	(21,440)
Interest receivable	(2,940)	
Increase (decrease) in:		
Accounts payable	(1,547)	(13,991)
Deferred revenue		(34,668)
Accrued expenses	728	1,321
Payable to related party	(4,595)	13,309
Total adjustments	(215,228)	(760,548)
Net cash used in operating activities	(18,565)	(41,636)
Cash flows from investing activities:		
(Increase) decrease in assets whose use is limited	(12,626)	21,963
Purchases of property and equipment	(159,286)	(773,072)
Net cash used in investing activities	(171,912)	(751,109)
Cash flows from financing activities:		
Grants and contributions received for long-term purposes	145,980	634,021
Proceeds from long-term debt	144,702	241,459
Payments on long-term debt	(11,131)	(2,471)
Net cash provided by financing activities	279,551	873,009
Net increase in cash and cash equivalents	89,074	80,264
Cash and cash equivalents at beginning of year	227,054	146,790
Cash and cash equivalents at end of year	$ 316,128	$ 227,054
Supplemental disclosures of cash flow information:		
Interest paid	$26,001	$ 20,998
Acquisition of land by donation		$ 185,000

See Notes to Financial Statements.

GUERIN, INC.

NOTES TO FINANCIAL STATEMENT

Note 1. Description of Organization and Summary of Significant Accounting Policies

Description of organization:

Guerin, Inc. (Guerin) is a not-for-profit organization that provides assistance, by way of residential facilities and life skill services, to persons in need. Guerin's goal is to provide decent, affordable housing to the low and moderate income families. Guerin has carried out this mission principally through the construction of group homes and multi-family housing located throughout Floyd County, Indiana. These facilities are utilized and managed by a related not-for-profit organization that provides program services to the needy. Guerin is supported primarily through grants, rents and contributions from the general public.

Significant accounting policies:

This summary of significant accounting policies of Guerin is presented to assist in understanding Guerin's financial statements. The financial statements are representations of Guerin's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Cash and cash equivalents:

Unrestricted demand deposits and interest bearing checking accounts intended to be used for current operations are classified as cash and cash equivalents.

Receivables:

The valuation of accounts and grants receivable is based upon a detail analysis of past due accounts and the history of uncollectible accounts. Estimated uncollectible accounts increase the allowance for doubtful accounts and when the receivable is written off, the allowance for doubtful accounts is decreased. Receivables are considered fully collectable, therefore, no allowance has been recorded.

NOTES TO FINANCIAL STATEMENT

Assets whose use is limited:

Assets whose use is restricted by donors for a specific purpose; designated by Guerin's Board of Directors for future use; setup under terms of grant and loan agreements; and security deposits, are classified as assets whose use is limited.

Property, equipment and depreciation:

Guerin has a policy to capitalize property and equipment with a cost of $1,000 or greater with a useful life greater than one year. Purchased property and equipment is stated at cost. Donated property and equipment is stated at fair market value as of the date of donation. Depreciation of property and equipment is computed by the straight-line method over their estimated useful lives.

Donations:

Guerin records donated services that require specific expertise and would normally have been purchased, and donated services that create or enhance non-financial assets, at fair market value. Those donated services that do not meet these specific criteria are not reflected in the financial statements. Donations other than cash are recorded at their fair market value as of the date of donation. Donations of long-lived assets with explicit restrictions that specify how the assets are to be used and donations of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Guerin reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Assets restricted by donors for future use are classified as temporarily restricted. When a donor's temporary restriction expires, those net assets are reclassified to unrestricted net assets. Temporarily restricted donations are treated as unrestricted if the restriction expires in the same period as it is received.

Conditional promises to give, which depend on the occurrence of specified future and uncertain events to bind the promise, are recognized when the conditions on which they depend are substantially met.

NOTES TO FINANCIAL STATEMENTS

Functional classification:

Total expenses reported on the Statement of Activities by functional classification are as follows:

	2007	2006
Program services	$238,385	$204,797
Management and general	14,517	10,955
Fund-raising	1,153	4,944
	$254,055	$220,696

Estimates:

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

Income taxes:

Guerin is exempt from income taxes as described under section 501(c)(3) of the Internal Revenue Code.

Note 2. Related Party Transactions

Providence Self Sufficiency Ministries, Inc. (PSSM) operates certain of its programs and has its administrative offices in facilities owned by Guerin and also shares certain common Board members with Guerin. The estimated fair value of the space used by PSSM that is donated by Guerin is $120,000. PSSM also incurs certain shared expenses that are paid by PSSM and charged back to Guerin. As of August 31, 2007 and 2006 total amounts due to PSSM for shared expenses was approximately $11,700 and $16,300, respectively and is included as a payable on the statements of financial position.

In August 2006, the Sisters of Providence of Saint Mary-of-the-Woods, Indiana approved a recommendation to the Board of PSSM to loan $400,000 to Guerin for the construction of permanent supportive housing facilities for senior citizens at its Georgetown, Indiana campus to be utilized by PSSM's programs (see Note 4). As of August 31, 2007, no draws have been made from PSSM.

Note 3. Receivables

Receivables consists of the following:

	2007	2006
Paul Ogle Foundation Grant	$250,000	
Indiana Housing & Community Grant		$25,119
Federal Home Loan Bank Grant		26,004
Program services	390	953
	$250,390	$52,076

Note 4. Construction Projects

During the year ended August 31, 2006 Guerin completed construction of an 11 apartment low-income senior housing complex located in Georgetown, Indiana. The total cost of construction was approximately $750,000. Substantial funding for this project included a $440,000 grant and a $315,000 loan from the Indiana Housing and Community Development Authority.

During the year ended August 31, 2007, Guerin started construction of two 7,100-square-foot Villas, located on its Georgetown, Indiana campus, that will function as assisted-living and comprehensive-care facilities for 20 senior citizens. The total estimated construction cost of the Villas is approximately $2 million and is expected to be completed in the spring of 2008. In August 2007, Guerin obtained a non-interest bearing, $500,000 construction loan with the Indiana Housing & Community Development Authority. Upon completion of the Villas, the construction loan will be converted into a 15 year permanent mortgage loan with a stated fixed rate of interest at 2%. As of August 31, 2007, no draws had been made on this construction loan. In April 2007, Guerin obtained a HOME cost reimbursement grant award from the Indiana Housing & Community Development Authority in the amount of $262,200 in connection with the construction of the Villas. For the year ended August 31, 2007, Guerin had recorded approximately $8,000 of revenues in connection with this grant. In December 2007, Guerin was awarded a $245,000 cost reimbursement grant from the Indiana Housing and Community Development Authority in connection with the construction of the Villas. Guerin also has a $400,000 loan commitment from PSSM (see Note 2). Guerin expects to receive grants and contributions from individuals and other organizations to provide additional funding for the construction of the Villas.

NOTES TO FINANCIAL STATEMENT

Note 5. Long-term debt

Long-term debt consists of the following:

	2007	2006
Indiana Housing and Community Development Authority, payable in semi-annual installments of $8,037, including interest at a fixed rate of 1%. A balloon payment will be due October 2021 of all unpaid principal and interest. The note is collateralized by real estate located in Georgetown, Indiana.	$308,538	
Your Community Bank, payable in monthly installments of $1,551, including interest at a fixed rate of 7.25%. A balloon payment will be due April 2021 of all unpaid principal and interest. The note is collateralized by real estate located in Georgetown, Indiana.	206,846	$210,129
Your Community Bank, payable in monthly installments of $366, including interest at a fixed rate of 7.25%. The note matures in October 2021. The note is collateralized by real estate located in Georgetown, Indiana.	38,614	
	553,998	210,129
Less current maturities	18,158	3,288
	$535,840	$206,841

Future maturities of long-term debt are as follows:

Year ending August 31, 2008	$ 18,158
2009	18,721
2010	19,274
2011	19,661
2012	20,293
Thereafter	457,891
	$553,998

Guerin had an available $315,000 construction loan from Indiana Housing and Community Development Authority in connection with the construction of a new apartment complex. As of August 31, 2006 Guerin had drawn down $210,298 of the available construction loan. Interest only payments were due monthly on the outstanding principal balance through August 31, 2006. Effective October 1, 2006, the outstanding balance of $315,000 was converted into an installment obligation, as discussed above.

Note 6. Purchase Commitments

Guerin obtained an option in June 2004 to purchase a certain 11 acres of unimproved land in Georgetown, Indiana. The total purchase price of the land is $285,000, which is to be paid as individual parcels are acquired. The option agreement provides that Guerin must pay interest on the unpaid balance of the purchase price. The interest rate is at prime. At August 31, 2007 and 2006, the remaining commitment under this option purchase agreement was $152,125. Interest expense related to this option was $6,084 for each of the years ended August 31, 2007 and 2006.

Note 7. Concentration of Credit Risk

Guerin maintains cash balances at various financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At August 31, 2007, Guerin's uninsured cash balances total approximately $261,000. Management does not believe that Guerin is exposed to any significant credit risk on uninsured amounts.

Note 8. Warranty Deed Restrictions

Guerin's two rental facilities in Georgetown, Indiana are limited by the Indiana Housing & Community Development Authority deed restrictions to low-income housing residents for a period of twenty years. The restrictions relating to the two rental facilities expire in the years 2025 and 2026. The Senior Center located in Georgetown, Indiana is limited to providing of senior services for a period five years. The restriction expires in 2010. Failure to comply with the deed restrictions may result in a refundable balance due up to the original amounts of the grants of approximately $2,200,000.

Note 9. Subsequent Event

In November 2007, the Board of Directors of Guerin formed The Meadows of Guerin, Inc., a separate not-for-profit corporation which has common board members with Guerin, whose purpose will be to construct, own and operate a 25 unit Section 202 supportive housing facility for the elderly. The construction of the facility, with an estimated cost of $2.5 million, and rental of the apartment units is to be substantially funded by a capital advance and rent assistance payments through the U.S Department of Housing and Urban Development (HUD). Construction of the facility is expected to begin in the spring of 2008 and will be located at the Georgetown, Indiana campus.

GUERIN, INC

REPORT TO MANAGEMENT

Year Ended August 31, 2007

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February 19, 2008

To the Board of Directors
Guerin, Inc.

We have audited the financial statements of Guerin, Inc. for the year ended August 31, 2007, and have issued our report thereon dated February 19, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Guerin, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

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

The most sensitive estimates affecting the financial statements were management's estimate of the useful lives of fixed assets and the valuation of accounts receivable. We evaluated the key factors and assumptions used to develop the useful lives of fixed assets and the valuation of accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Organization's financial reporting process (that is, cause future financial statements to be materially misstated). During our audit, we proposed the following adjustments:

	Increase (Decrease) Net Assets
• Record accrued interest expense	$ (2,048)
• Record and adjust additional depreciation expense and accumulated depreciation	(24,137)
Net decrease in total net assets	$ (26,185)

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management and staff and appreciate their assistance during the performance and completion of the audit.

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

Very truly yours,

Jeffrey K. McCaffrey

JKM:js

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To the Board of Directors
Guerin, Inc.

In planning and performing our audit of the financial statements of Guerin, Inc. as of and for the year ended August 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Guerin, Inc.'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.

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. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency and a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We have identified a deficiency which we consider to be a significant deficiency in internal control as item 1.

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

We also noted other matters that came to our attention that are opportunities for strengthening internal controls and operating efficiency that are not considered to be either significant deficiencies or material weaknesses and are listed as items 2 and 3.

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We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with management, and we will be pleased to discuss this in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

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

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
February 19, 2008

GENERAL COMMENTS

In performing the audit for the year ended August 31, 2007, we were provided financial information by the accounting manager and the assistant accounting manager. This information included general ledger account analysis; account reconciliations; source documentation for grants, contracts and agreements; audit schedules that we specifically requested; answers to our inquiries; and responses to our other requests for information in order for us to perform the audit and assist in the preparation of the financial statements.

In working with these individuals, we noted that they were very competent and knowledgeable in the general posting and recording of transactions, including billings and collections of revenues and processing of payables and disbursements, and other general accounting functions. However, we also noted some lack of understanding of the proper accounting, reporting and disclosure for certain transactions that are material to the financial statements, which we provided guidance with and proposed and recorded adjusting entries to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America.

The nature and significance of certain of these adjustments and the accounting, reporting and disclosure of them are considered to be significant deficiencies, material weaknesses, or both, as defined above, and required to be communicated to management in accordance with Statements on Auditing Standards No. 112, *"Communicating Internal Control Related Matters Identified in an Audit"*.

1. FINANCIAL STATEMENT PREPARATION

The accounting staff and management prepare interim internal financial reports used by management and the Board to assess ongoing operating results. While these financial reports are considered adequate for management purposes, they are not prepared in accordance with accounting principles generally accepted in the United States, in that they do not include various adjustments for items as discussed above; a statements of cash flows; and full note disclosures. This level of financial statement preparation is beyond the current ability of the accounting staff and management. Management relies on our assistance to prepare the financial statements including full disclosures, as part of performing the audit.

We understand that the current size and complexity of the Organization may not justify the addition of additional qualified accounting personnel with the skills to prepare complete financial statements and who understands and complies with all related accounting and reporting issues applicable to the Organization. However, we recommend that the current accounting staff and management obtain a better understanding of the accounting and reporting requirements for its financial statements. We are also available throughout the year to assist with providing guidance with accounting and reporting issues and also with the preparation of the Organization's year-end financial statements.

2. ACCOUNTING FOR RESTRICTED AND UNRESTRICTED CONTRIBUTIONS AND NET ASSETS

The Organization receives grants and contributions from various sources, some of which are restricted for specific purposes. The accounting for unrestricted contributions, restricted contributions, and restricted net assets is unique to not-for-profit organizations and the authoritative guidance for this is included in SFAS #116 *"Accounting for Contributions Received and Contributions Made"* and SFAS #117 *"Financial Statements of Non-Profit Organizations"*. We noted some uncertainty regarding the proper accounting for temporarily restricted net assets and we provided assistance with reconciling the end of year balance on the statements of financial position.

We recommend that the accounting staff and management consider obtaining a better understanding of the proper accounting and reporting requirements for restricted contributions and net assets and reconcile temporarily restricted net assets on a monthly basis to insure more accurate interim financial reporting.

3. FUNCTIONAL CLASSIFICATION OF EXPENSES

Not-for-profit organizations are required to report total expenses by their functional classification as program, management and general, and fundraising, either in a statement of functional expenses or in total as may be disclosed in the notes to the financial statements. The process of reporting expenses by their functional classification includes identifying and assigning those direct costs to the three functional classifications, and also by allocating indirect costs to the three functional classifications based on an allocation method that is reasonable and applied on a consistent basis. We noted an improvement from the prior year in the Organization's revision of its chart of accounts and posting of expenses to better record expenses by their natural classification and grouped by their functional classification.

We recommend that management and the accounting staff continue to refine the chart of accounts, and expense allocations to better report expenses by both their natural and functional classifications.