



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B43615

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

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

June 5, 2014

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

We have reviewed the audit report prepared by Gauthier & Kimmerling, LLC, for the period January 1, 2012 to December 31, 2012. 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 Human Services, Inc., as of December 31, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. The schedule of findings and questioned costs includes two major program findings for federal awards.

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

**HUMAN SERVICES, INC.
AND SUBSIDIARIES**

**REPORT ON AUDIT OF
CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2012

HUMAN SERVICES, INC.
AND SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Consolidated Statement of Financial Position	3 - 4
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	6 - 7
Consolidated Statement of Cash Flows	8
Notes to the Financial Statements	9 - 19
Supplemental Information	20 - 25



Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Human Services, Inc., Inc. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 20 - 25 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlining accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Austin + Kimmberly LLC

August 27, 2013

HUMAN SERVICES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 396,252
Security deposits	48,702
Mortgage escrows	81,090
Accounts receivable	28,210
Accounts receivable - tenant	7,005
Grants receivable	520,963
Reserves	348,486
Prepaid expenses	43,753
Other current assets	<u>1,641</u>
Total Current Assets	<u>1,476,102</u>

Property and Equipment

Buildings	14,970,883
Site costs	814,261
Personal Property	379,640
Equipment	1,517,250
Land and land improvements	<u>463,887</u>
	18,145,921
Less accumulated depreciation	<u>(6,224,947)</u>
Total Property and Equipment	<u>11,920,974</u>

Other Assets

Intangible assets, net	18,438
Notes receivable	<u>29,534</u>
Total Other Assets	<u>47,972</u>

Total Assets \$ 13,445,048

(Continued)

HUMAN SERVICES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION - Continued
DECEMBER 31, 2012

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 324,651
Accounts payable - limited partners	64,728
Developer fees payable	234,200
Accrued salaries and wages	163,479
Accrued interest payable	924,138
Accrued real estate taxes	61,982
Advances payable	204,153
Security deposits	49,578
Prepaid rent	1,635
Note payable - current portion	<u>804,189</u>
Total Current Liabilities	<u>2,832,733</u>

Long-Term Liabilities

Notes payable - less current portion	<u>4,233,647</u>
Total Long-Term Liabilities	<u>4,233,647</u>

Total Liabilities	<u>7,066,380</u>
-------------------	------------------

Net Assets

Non-controlling interest in net assets	4,182,897
Unrestricted Net Assets	<u>2,195,771</u>
Total Unrestricted Net Assets	<u>2,195,771</u>
Total Liabilities and Net Assets	<u>\$ 13,445,048</u>

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

HUMAN SERVICES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

REVENUES AND OTHER SUPPORT

Government grants	\$ 8,546,766
Contributions	438,632
Net rental income	878,305
Interest Income	3,475
Miscellaneous tenant charges	10,667
Other income	121,027
Inkind donations	<u>398,397</u>
Revenues and other support	<u>10,397,269</u>
Total Unrestricted Revenues and Other Support	<u>10,397,269</u>

EXPENSES

CSBG	336,017
Section 8	2,762,652
Energy assistance	397,271
Headstart	4,022,954
Weatherization	124,625
WIC	325,244
USDA	87,618
HPRP	93,439
Commodities	441,389
CCDF	100,332
Low-income housing	1,257,552
Other programs	<u>802,055</u>
Total Program	<u>10,751,148</u>
Management and general	<u>429,435</u>
Total Expenses	<u>11,180,583</u>
Increase (decrease) in net assets before non-controlling interest	<u>(783,314)</u>
Non-controlling interest's portion of loss	<u>455,239</u>
Increase (decrease) in net assets	(328,075)
Unrestricted net assets - beginning of year	<u>2,523,846</u>
Unrestricted net assets - end of year	<u>\$ 2,195,771</u>

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

HUMAN SERVICES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	CSBG	Sec 8	Energy Assistance	Head Start	Weatherization	WIC	USDA	HPRP
Salaries and wages	\$ 156,295	\$ 138,106	\$ 166,688	\$ 2,221,701	\$ 51,210	\$ 206,974	\$ 39,800	\$ 29,727
Payroll taxes	15,561	15,308	19,620	238,604	6,760	22,045	3,350	2,921
Employee Benefits	20,019	43,676	75,620	409,066	13,958	7,365	444	4,509
Employee Related Expenses	4,102	552	5	15,411	(4)	479	10	-
Professional fees	9,979	3,365	20,419	41,126	14,165	2,759	1,661	21
Supplies	20,578	8,623	24,320	179,964	414	24,164	2,612	587
Communications	16,699	3,222	13,194	36,039	716	10,816	480	712
Shipping	2,826	4,382	2,248	3,339	118	2,716	14	132
Occupancy Costs	42,115	13,248	43,990	366,400	6,916	39,584	37,303	426
Equipment Rental and Maintenance	9,924	4,385	7,721	29,867	906	2,214	23	91
Printing	1,454	743	616	6,049	324	521	-	-
Travel	13,807	6,123	2,584	148,409	9,049	3,854	163	1,416
Conferences	15,506	2,339	46	46,056	2,873	532	29	-
Specific Assistance to Individuals	2,090	2,517,039	15,990	256,587	13,741	-	-	52,633
Membership Dues	2,076	7	96	905	-	50	-	-
Interest Expense	-	-	-	-	-	-	-	-
Insurance Expense	2,986	1,534	2,114	23,431	3,479	1,171	1,729	264
Taxes	-	-	-	-	-	-	-	-
Construction Expense	-	-	-	-	-	-	-	-
Advertising	-	-	-	-	-	-	-	-
Property Maintenance	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-
Partnership fees	-	-	-	-	-	-	-	-
Amortization	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-
Total	\$ 336,017	\$ 2,762,652	\$ 397,271	\$ 4,022,954	\$ 124,625	\$ 325,244	\$ 87,618	\$ 93,439

(Continued)

HUMAN SERVICES INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - Continued
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Independent Living	HHF	Low-Income Housing	Other Programs	Total Programs	Management And General	Total Expenses
Salaries and wages	\$ 185,401	\$ 59,539	\$ 115,482	\$ 192,120	\$ 3,565,043	\$ 29,381	\$ 3,594,424
Payroll taxes	17,741	3,489	11,279	18,874	375,552	3,228	378,780
Employee Benefits	23,862	9,344	-	30,312	638,175	17,650	655,825
Employee Related Expenses	65	64	-	1,035	21,719	(53)	21,666
Professional fees	20,226	12,322	87,229	30,843	244,115	17,146	261,261
Supplies	12,489	1,418	59,180	251,977	586,326	(17,041)	569,285
Communications	4,654	733	18,403	2,665	108,333	1,569	109,902
Shipping	335	359	-	915	17,384	62	17,446
Occupancy Costs	23,303	5,625	-	17,490	596,400	7,925	604,326
Equipment Rental and Maintenance	3,594	1,249	-	7,607	67,581	(8,945)	58,636
Printing	410	342	-	636	11,095	105	11,200
Travel	3,879	4,605	83	16,841	210,813	1,146	211,959
Conferences	736	325	-	176	68,618	1,562	70,180
Specific Assistance to Individuals	141,185	1	-	225,011	3,224,277	3,743	3,228,020
Membership Dues	100	-	-	3	3,237	-	3,237
Interest Expense	-	-	244,165	-	244,165	-	244,165
Insurance Expense	3,409	917	43,179	5,550	89,763	71,538	161,301
Taxes	-	-	63,762	-	63,762	7,204	70,966
Construction Expense	-	-	-	-	-	784	784
Advertising	-	-	1,346	-	1,346	-	1,346
Property Maintenance	-	-	77,121	-	77,121	-	77,121
Utilities	-	-	83,114	-	83,114	-	83,114
Partnership fees	-	-	12,892	-	12,892	-	12,892
Amortization	-	-	3,673	-	3,673	-	3,673
Depreciation	-	-	436,644	-	436,644	292,430	729,074
Total	\$ 441,389	\$ 100,332	\$ 1,257,552	\$ 802,055	\$ 10,751,148	\$ 429,435	\$ 11,180,583

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

HUMAN SERVICES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (328,075)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	729,074
Amortization	3,673
Change in non-controlling interest	(455,239)
(Increases) decreases in operating assets:	
Grants receivable	77,129
Accounts receivable	8,498
Accounts receivable - tenant	136
Mortgage escrow	2,818
Security deposits	(4,235)
Operating reserves	16,519
Notes receivable	17,438
Inventory	36,704
Other Assets	(318)
Prepaid expenses	6,453
Increases (decreases) in operating liabilities:	
Accounts payable	71,066
Accounts payable - limited partners	12,312
Accrued interest payable	107,897
Accrued real estate taxes	6,482
Accrued salaries and wages	29,065
Security deposits	1,098
Prepaid rent	(1,994)
Advances payable	2,244
Net Cash Provided by (Used in) Operating Activities	<u>338,745</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net deposits to replacement reserve	(20,007)
Purchase of property and equipment	<u>(173,219)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(193,226)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment on debt	<u>(67,142)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(67,142)</u>
Net increase (decrease) in cash	78,377
Cash - beginning of year	<u>317,875</u>
Cash - end of year	<u>\$ 396,252</u>
Interest paid during the year	<u>\$ 135,578</u>

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

HUMAN SERVICES, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. NATURE OF THE ORGANIZATION

The consolidated financial statements include the accounts of Human Services, Inc. (the Organization) and its wholly owned subsidiaries, HSI Properties, Inc. and HSI Solutions, Inc. The statements also include the following for-profit tax credit partnerships established to construct and rent apartment units to low-income individuals, which results in federal income tax credits being made available to investors: Oak Hill Apartments, L.P., Oak Hill Apartments II, L.P., Pearson Place, L.P. and Ridgecrest Limited, L.P. HSI Properties is the general partner in each of these partnerships and has a .01% controlling financial interest in Pearson Place, L.P. and .1% controlling interest in the others. HSI Properties also has a 50% controlling financial interest in Jerman Housing, LLC, an entity which has a .01% controlling financial interest as a general partner in Jerman Housing, L.P., an entity which also constructs and rents apartment units to low-income individuals. HSI Properties is also the non-managing general partner of Brownstown Senior Housing, L.P. which is not consolidated in this report.

Human Services, Inc. was incorporated and commenced operations as a non-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. (Properties) as a wholly owned subsidiary under the laws of the State of Indiana. As discussed below, Properties holds a general partner interest in six low-income housing projects. HSI Solutions, Inc. was formed on April 16, 2009 as a wholly owned subsidiary under the laws of the state of Indiana. The for-profit venture was formed to provide construction services to the properties owned by Properties.

Oak Hill Apartments, L.P. was formed in 1996 for the purpose of constructing 48 housing units in Seymour, Indiana. The units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. As discussed above, the sole general partner is Properties. The investor limited partner is House Investments – 1997 Tax Credits, L.P. The special limited partner is House Investments Credit Associates, LLC.

Oak Hill Apartments II, L.P. was formed in 1999 for the purpose of constructing 24 housing units in Seymour, Indiana. The units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. As discussed above, the sole general partner is Properties. The investor limited partners are House Investments – Midwest Corporate Tax Credit Fund V, L.P., House Investments – Irwin Union Tax Credit Fund, L.P., and House Investments – Midwest Corporate Tax Credit Fund IV, L.P. The special limited partner is House Investments Credit Associates II, LLC.

(Continued)

1. NATURE OF THE ORGANIZATION - Continued

Pearson Place, L.P. (the Partnership) was formed in 2005 for the purpose of constructing 35 housing units in Shelbyville, Indiana. The units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. As discussed above, the sole general partner is Properties. The limited partner is Enterprise Housing Partners XIII Limited Partnership.

Ridgecrest Limited, L.P. (the Partnership) constructed 20 housing units in Greensburg, Indiana. Nineteen of the units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. As discussed above, the sole general partner is Properties. The investor limited partner is House Investments – Midwest Corporate Tax Credit Fund IV, L.P. and the special limited partner is House Investments Credit Associates, LLC.

Jerman Housing, L.P. (the Partnership) was formed in 2002 for the purpose of constructing 36 housing units in Greensburg, Indiana. The units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. The general partner is Jerman Housing, LLC, of which Properties and Maxwell Properties V, Inc. are members. The limited partner is Freddie Mac Equity II-ESIC-Limited Partnership. The sponsor of the project is Human Services, Inc.

Brownstown Senior Housing, L.P. (the Partnership) was formed in 2007 for the purposes of constructing 35 housing units in Brownstown, Indiana. A portion of those units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. The general partners are SCIDCO, LLC, the managing general partner, and Properties. Properties has a .0049% interest in the Partnership. The limited partner is Enterprise Housing Alliance Fund II, L.P.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The Organization received grants from the State of Indiana 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 of Indiana appropriate records of services provided to eligible individuals. Revenues under the contract are recognized as the services are provided.

The Subsidiary and the entities in which it holds a controlling interest recognizes revenue as it is earned and billed.

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.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES - Continued

The Organization follows the practice of capitalizing all expenditures in excess of \$5,000 for property and equipment at cost. The fair value of donated fixed assets is similarly capitalized. Depreciation is provided using the straight-line method over estimated useful lives of 5-40 years. The following is a summary of the lives for each class of asset:

Buildings/leasehold improvements	5-40 years
Equipment	5-10 years
Vehicles	5-10 years

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 expenses when incurred.

Total depreciation expense for the year ended December 31, 2012 was \$729,074.

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 Subsidiaries 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, 2012. The Organization believes it is no longer subject to income tax examination for years prior to 2009.

The Organization and subsidiaries have adopted the accounting policy to recognize a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit will be recorded.

The cost of providing various programs and other activities has 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 benefitted.

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.

Long-lived assets and certain identifiable intangibles held and used by the Organization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

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. A description of the unrestricted, temporarily and permanently restricted net assets classes follows:

- *Unrestricted net assets* represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of the Organization.
- *Temporarily restricted net assets* represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations. Temporarily restricted net assets also include, pursuant to Indiana law, cumulative appreciation and reinvested gains on permanently restricted net assets, which has not been appropriated by the Board of Directors.
- *Permanently restricted net assets* represent contributions and other inflows or assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

The Organization's unrestricted net assets are presented on the statement of financial position. The Organization does not have any temporarily or permanently restricted net assets.

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 stipulation restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

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.

Donated marketable securities are presented at their fair market value.

Rental income is recognized as rental payments become due. Rental payments received in advance are deferred until earned. All leases between the Organization and the tenants of the property are operating leases.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

Common costs of the Organization are allocated to benefitting programs using various allocation methods, depending on the type of joint cost being allocated. Common 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 for the Organization are as follows:

- Personnel – Agency administrative personnel 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 purchased for general use and stored in the main office supply room will be charged to the Community Service Block grant.
- Building – Unallocated occupancy costs are allocated based on the rent distribution at each location. Rent distributions are based on square footage used by each program at each specific location. Occupancy costs include rent, utilities, pest control, trash pick-up, security, fire protection, and storage and building maintenance.
- Printing Costs – Unallocated printing costs are allocated based on each program's percentage of direct labor hours. The most recent month's calculated percentage is used.
- Insurance – Insurance is allocated to benefitting programs depending on the equipment, space or people covered by the insurance. Unallocated insurance is allocated based on the payroll of the program, the number of employees involved, amount of assigned equipment and/or the rent distribution for the specific location. Examples of unallocated insurance include Officers and Directors insurance and non-profit umbrella policy.
- Other Joint Costs – Other joint costs (telephone, computer usage, etc.) are allocated to agency programs based on the amount used by each program.

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 support by the same amount. For the year ended December 31, 2012, this totaled \$398,397 and is included in revenue and support on the consolidated statement of activities.

The Organization has recorded in-kind contributions for professional services on the consolidated statement of activities. The Organization is required by generally accepted accounting principles to only report contributions of services received that create or enhance a non-financial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. These requirements are different from the in-kind requirements of the Organization's grant funding sources.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

Of the \$398,397 of in-kind contributions and related expenses recorded in the Organization's consolidated statement of activities for the year ended December 31, 2012, contributed services meeting the requirement of generally accepted accounting principles are \$70,150. During 2012, the organization also received other in-kind contributions totaling \$263,487, related to its Head Start program which includes services from non-professional volunteers during 2012, which are not recorded in the consolidated statement of activities.

Head Start in-kind professional services	\$ 70,150
Supplies/food/space - in-kind	<u>328,247</u>
Total In-Kind per GAAP	398,397
Head Start volunteer services	<u>263,487</u>
Total In-Kind for All Programs	<u>\$ 661,884</u>

Permanent financing costs are amortized over the term of the mortgage using the straight-line method. Accounting principles generally accepted in the United States of America require the effective yield method to be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Syndication costs are capitalized and not amortized.

3. CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, investments with an original maturity of three months or less are considered to be cash equivalents.

The Organization maintains its cash balances at a commercial bank. These accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 as of December 31, 2012. The balance in excess of FDIC coverage is collaterally secured by the bank with treasury bills. At December 31, 2012, bank balances in excess of FDIC coverage were approximately \$179,000. There have been no losses in such accounts.

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, 2012.

5. LONG-TERM DEBT

Long-term debt of the Organization consists of the following as of December 31, 2012:

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
Note payable - 1% note payable to First Financial Bank (formerly Irwin Union Bank) of Home Investment Partnership Program (HOME) funds dated September 1, 1997, payable at maturity in September 2017.	490,132
Note payable - 5.5% note payable to First Financial Bank (formerly Irwin Union Bank), payable in monthly installments of \$2,676 with interest for 59 months and a final balloon payment due at maturity in October 2013.	260,299
Note payable - 1% note payable to the Federal Home Loan Bank (AHP) funds dated February 11, 2000, annual interest payments from available cash flow of the affiliated housing project.	300,000
Note payable - 5.79% note payable to the Indiana Housing and Community Development Authority (IHCDA) HOME program dated June 22, 1999, payments of principal and interest from the available cash flow of the affiliated housing project.	208,500
Note payable - 4.65% note payable to the Federal Home Loan Bank AHP Program dated June 30, 2003, payments of principal and interest from the available cash flow of the affiliated housing project.	360,000
Note payable - 4.17% note payable to the Federal Home Loan Bank (AHP funds) dated July 30, 2003, payments of principal and interest from the available cash flow of the affiliated housing project.	300,000
Note payable - 1% note payable to the Federal Home Loan Bank (AHP funds) dated December 1, 2005, annual interest payments from the available cash flow of the affiliated housing project. Matures December 31, 2035.	500,000
Note payable - 5% note payable to IHCDA HOME funds dated December 1, 2005, payments of principal and interest from the available cash flow of the affiliated housing project. Matures December 31, 2035.	500,000

(Continued)

5. LONG-TERM DEBT – Continued

Note payable - Union Bank provided Oak Hill Apartments with \$617,835 in December 1998. Interest on this loan is payable based on United States Treasury Securities plus 2.25%. Monthly payments of \$4,361 are to be made. Note matures December 11, 2013.

404,962

Note payable - First Financial Bank provided Pearson Place with \$600,000. The note bears interest at 7.2% and requires monthly payments of \$4,115. The note matures on December 7, 2022.

566,820

Note payable - Enterprise Housing Partners XVII Limited Partnership provided Pearson Place with \$62,794. The note is interest free and due on June 30, 2019.

62,794

Note payable - Enterprise Housing Partners XVII Limited Partnership provided Pearson Place with \$49,206. The note is interest free and due on June 30, 2017.

49,206

Note payable - Enterprise Housing Partners XVII Limited Partnership provided Pearson Place with \$100,000. The note bears interest at 7.2% and has monthly payments of \$679. The note matures on December 31, 2021.

96,317

Note payable - Old National Bank provided Ridgecrest Limited with \$425,000. The note was sold to Bayview Loan Servicing in 2006. The note bears interest at 8% with monthly payments of \$3,280. The note matures on October 15, 2015.

317,597

Note payable - Main Source Bank provided Jerman Housing with \$360,000. The note bears interest at 8% with monthly payments of \$2,670. The note matures in February 2032.

327,977

Note payable - Indiana Housing and Community Development Authority made available \$57,500 for use in their Business Enterprise and Economic Development program. The funds are to be loaned out to local businesses. Should the program become discontinued, the funds will need to be repaid or approval from IHEDA must be obtained to use the funds for other uses.

57,500

\$ 5,037,836

5. LONG-TERM DEBT – Continued

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

2013	\$ 804,189
2014	97,439
2015	307,057
2016	21,392
2017	748,748
Thereafter	<u>3,059,011</u>
	<u>\$ 5,037,836</u>

6. OPERATING LEASES

The Organization leases various facilities and equipment for operation of its programs. Rental expense included in the consolidated statement of activities for the year ended December 31, 2012 was \$322,323.

Future minimum lease payments for these leases are as follows for the year ended December 31,

2013	\$ 130,241
2014	111,923
2015	61,948
2016	27,248
2017	22,658
Thereafter	<u>131,180</u>
	<u>\$ 485,198</u>

None of the subsidiaries held leases during the year ended December 31, 2012.

7. LINE OF CREDIT

The Organization has a line of credit with First Financial Bank in the amount of \$125,000. The line of credit matures on December 6, 2013 and was renewed for three month periods as needed. No funds were drawn on the line of credit at year end.

8. CONCENTRATIONS

The Organization receives a majority of its funding from federal grants accounting for 82% of total revenue in 2012.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

10. FAIR VALUE MEASUREMENT

In accordance with Accounting Standards Codification (ASC) 820, the Organization measures its assets and liabilities at fair value using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that entities maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The three levels of inputs used are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Quoted prices for similar assets or liabilities in active markets
- Level 3 – Unobservable inputs for the asset or liability based on the best available information

There were no assets or liabilities valued on a recurring basis as of December 31, 2012.

The fair value of short-term financial instruments, including cash and cash equivalents, security deposits, reserves, accounts receivable, inventory, prepaid expenses, accounts payable, prepaid revenues, and other accrued liabilities approximate the carrying value in the accompanying financial statements due to the short maturity of such instruments.

The fair value of long-term liabilities, including notes payable, approximates the carrying value in the accompanying financial statements based on current borrowing rates.

All methods of assessing fair value result in a general approximation of value and such value may never be realized.

11. CONTINGENT LIABILITY

The Organization provides repairs and improvements to 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, 2012, the Organization holds 1 mortgage with a total balance of \$24,470. While the Organization holds the zero percent forgivable mortgage, the anticipated future collections cannot be determined. Although this mortgage is secured by a lien on the home, there is a possibility that the Organization may have to repay the governmental funds used under this program if the owner occupant does not occupy the home 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.

12. CAPITALIZED COSTS

The capitalized costs and related amortization are as follows at December 31, 2012:

	<u>Basis</u>	<u>Accumulated Amortization</u>
Permanent financing costs	\$ 43,201	\$ 24,763

Estimated annual amortization expense for each of the next five years is as follows:

Year ending December 31,

2013	\$ 1,517
2014	2,281
2015	2,159
2016	1,710
2017	1,710

SUPPLEMENTAL INFORMATION

HUMAN SERVICES INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

ASSETS

	Human Services	HSI Properties	HSI Solutions	Oak Hill Apartments	Oak Hill Apartments II	Pearson Place	Ridgecrest Limited	Jermon Housing	Eliminations	Consolidated Total
CURRENT ASSETS										
Cash and cash equivalents	\$ 319,651	\$ 27,096	\$ 2,954	\$ 10,997	\$ 5,709	\$ 16,178	\$ 13,667	\$ -	\$ -	\$ 396,252
Security deposits	-	-	-	13,751	8,250	9,750	7,245	9,706	-	48,702
Mortgage escrows	-	184,726	-	58,298	6,451	16,341	-	-	(184,726)	61,090
Investment in Partnerships	-	-	-	28,210	-	-	-	-	-	28,210
Accounts receivable	-	-	-	1,865	3,091	2,049	-	-	-	7,005
Accounts receivable - tenant	520,963	-	-	-	-	-	-	-	(52,389)	520,963
Grants receivable	7,000	45,389	-	-	-	-	-	-	-	-
Notes receivable - current portion	-	-	-	125,537	41,354	33,222	53,757	94,616	-	348,486
Inventory	-	-	-	-	-	6,520	4,891	-	-	43,753
Reserves	32,342	-	-	-	-	-	-	-	-	1,641
Prepaid expenses	1,641	-	-	-	-	-	-	-	-	-
Other current assets	-	-	-	-	-	-	-	-	-	-
Total Current Assets	881,597	257,211	2,954	236,658	64,855	84,050	79,560	104,322	(297,115)	1,476,102
Property and Equipment										
Buildings	1,503,322	-	-	2,140,230	1,137,358	4,911,560	1,242,247	4,036,166	-	14,970,883
Site costs	-	-	-	287,388	409,848	86,235	30,780	-	-	814,261
Personal Property	-	-	-	103,249	44,144	66,369	41,811	124,087	-	379,640
Equipment	1,517,250	-	-	103,449	91,088	6,000	45,000	128,350	-	1,517,250
Land and land improvements	90,000	-	-	2,634,326	1,682,438	5,070,164	1,359,838	4,288,593	-	463,887
	3,110,572	-	-	(1,538,580)	(662,880)	(937,537)	(473,267)	(1,095,735)	-	18,145,821
Less accumulated depreciation	(1,416,948)	-	-	1,095,748	819,588	4,232,627	686,571	3,192,849	-	(6,224,947)
Total Property and Equipment	1,693,624	-	-	1,095,748	819,588	4,232,627	686,571	3,192,849	-	11,920,974
Other Assets										
Intangible assets, net	-	-	-	323	794	4,000	1,591	11,730	(3,155,619)	18,438
Notes receivable - net of current portion	3,185,153	-	-	-	-	-	-	-	-	29,534
Total Other Assets	3,185,153	-	-	323	794	4,000	1,591	11,730	(3,155,619)	47,972
Total Assets	\$ 5,760,374	\$ 257,211	\$ 2,954	\$ 1,394,727	\$ 885,207	\$ 4,320,667	\$ 967,722	\$ 3,308,900	\$ (3,392,734)	\$ 13,445,048

(Continued)

HUMAN SERVICES INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - Continued
DECEMBER 31, 2012

LIABILITIES AND NET ASSETS

	Human Services	HSI Properties	HSI Solutions	Oak Hill Apartments	Oak Hill Apartments II	Pearson Place	Ridgecrest Limited	Jerman Housing LLC	Eliminations	Consolidated Total
Current Liabilities										
Accounts payable	\$ 297,557	\$ -	\$ -	\$ 9,163	\$ 2,063	\$ 8,445	\$ 2,368	\$ 6,035	\$ -	\$ 324,651
Accounts payable - related parties	-	2,931	-	12,000	8,000	25,000	22,500	19,297	(25,000)	84,728
Developer fees payable	-	-	-	-	-	92,000	-	142,200	-	234,200
Accrued salaries and wages	163,479	-	-	-	-	-	-	-	-	163,479
Accrued payroll taxes and withholdings	-	-	-	122,157	49,952	321,834	199,609	270,666	-	924,156
Accrued interest payable	-	-	-	19,500	8,100	13,682	8,200	12,500	-	61,982
Accrued real estate taxes	204,153	-	-	13,750	8,250	9,750	7,245	10,583	-	204,153
Advances payable	-	-	-	927	577	10	121	-	-	1,635
Security deposits	-	-	-	404,992	260,299	59,525	14,578	7,225	7,000	804,189
Prepaid rent	57,500	(7,000)	-	-	-	-	-	-	-	-
Note payable - current portion	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	<u>722,889</u>	<u>(4,069)</u>	-	<u>581,479</u>	<u>337,241</u>	<u>550,246</u>	<u>214,721</u>	<u>468,426</u>	<u>(16,000)</u>	<u>2,832,733</u>
Long-Term Liabilities										
Notes payable - less current portion	3,155,819	14,000	-	725,864	320,489	1,715,512	511,419	980,752	(3,190,008)	4,233,647
Total Long-Term Liabilities	<u>3,155,819</u>	<u>14,000</u>	-	<u>725,864</u>	<u>320,489</u>	<u>1,715,512</u>	<u>511,419</u>	<u>980,752</u>	<u>(3,190,008)</u>	<u>4,233,647</u>
Total Liabilities	<u>3,878,308</u>	<u>9,931</u>	-	<u>1,307,343</u>	<u>657,730</u>	<u>2,245,758</u>	<u>726,140</u>	<u>1,449,178</u>	<u>(3,206,008)</u>	<u>7,066,380</u>
Net Assets										
Non-controlling interest in net assets	-	-	-	27,741	227,220	2,075,041	176,093	1,674,802	-	4,182,897
Unrestricted Net Assets	1,882,066	247,280	2,854	(357)	257	(112)	63,489	184,920	(184,726)	2,195,771
Total Unrestricted Net Assets	<u>1,882,066</u>	<u>247,280</u>	<u>2,854</u>	<u>(357)</u>	<u>257</u>	<u>(112)</u>	<u>63,489</u>	<u>184,920</u>	<u>(184,726)</u>	<u>2,195,771</u>
Total Liabilities and Net Assets	<u>\$ 5,760,374</u>	<u>\$ 257,211</u>	<u>\$ 2,954</u>	<u>\$ 1,334,727</u>	<u>\$ 885,207</u>	<u>\$ 4,320,687</u>	<u>\$ 987,722</u>	<u>\$ 3,308,900</u>	<u>\$ (3,392,734)</u>	<u>\$ 13,445,048</u>

HUMAN SERVICES INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Human Services	HSI Properties	HSI Solutions	Oak Hill Apartments	Oak Hill Apartments, II	Pearson Places	Ridgecrest Limited	Jerman Housing LLC	Eliminations	Consolidated Total
REVENUES AND OTHER SUPPORT										
Government grants	\$ 8,546,766	-	-	-	-	-	-	-	-	\$ 8,546,766
Contributions	488,602	-	-	-	-	-	-	-	-	488,602
Rental income	59,664	31,416	-	233,880	125,081	210,899	115,365	189,000	-	945,424
Loss: Vacancy loss	-	-	-	(18,754)	(12,250)	(16,007)	(746)	(8,910)	-	(55,573)
Rent concessions	-	-	-	(1)	(1,975)	(8,754)	(816)	-	-	(11,546)
Interest income	3,171	-	-	139	28	28	31	78	-	3,475
Miscellaneous tenant charges	-	-	-	2,223	2,753	5,014	677	-	-	10,667
Other income	114,782	-	-	925	-	-	110	2,866	-	121,027
In-kind donations	389,397	-	-	-	-	-	-	-	-	389,397
Revenues and other support	<u>9,581,402</u>	<u>31,416</u>	<u>2,325</u>	<u>219,512</u>	<u>113,637</u>	<u>192,179</u>	<u>114,651</u>	<u>183,147</u>	<u>-</u>	<u>10,397,269</u>
Total Unrestricted Revenues and Other Support	<u>9,581,402</u>	<u>31,416</u>	<u>2,325</u>	<u>219,512</u>	<u>113,637</u>	<u>192,179</u>	<u>114,651</u>	<u>183,147</u>	<u>-</u>	<u>10,397,269</u>
EXPENSES										
CSBG	336,017	-	-	-	-	-	-	-	-	336,017
Section 8	2,762,652	-	-	-	-	-	-	-	-	2,762,652
Energy assistance	397,271	-	-	-	-	-	-	-	-	397,271
Headstart	4,022,954	-	-	-	-	-	-	-	-	4,022,954
Weatherization	124,625	-	-	-	-	-	-	-	-	124,625
WIC	325,244	-	-	-	-	-	-	-	-	325,244
USDA	87,618	-	-	-	-	-	-	-	-	87,618
HPRP	93,439	-	-	-	-	-	-	-	-	93,439
Independent living	441,389	-	-	-	-	-	-	-	-	441,389
HHF	100,392	-	-	-	-	-	-	-	-	100,392
Low-income housing	802,055	-	-	299,229	175,726	350,404	135,555	286,638	-	1,257,552
Other programs	-	-	-	-	-	-	-	-	-	602,055
Total Program	<u>9,493,586</u>	<u>-</u>	<u>-</u>	<u>299,229</u>	<u>175,726</u>	<u>350,404</u>	<u>135,555</u>	<u>286,638</u>	<u>-</u>	<u>10,751,148</u>
Management and general	419,380	7,635	-	-	-	-	-	-	-	429,435
Total Expenses	<u>9,912,966</u>	<u>7,635</u>	<u>2,410</u>	<u>299,229</u>	<u>175,726</u>	<u>350,404</u>	<u>135,555</u>	<u>286,638</u>	<u>-</u>	<u>11,180,583</u>
Increase (decrease) in net assets before non-controlling interest	(351,564)	23,781	(65)	(80,717)	(62,089)	(186,225)	(20,904)	(133,491)	-	(783,314)
Non-controlling interest's portion of loss	-	-	-	80,636	62,027	159,209	20,893	133,484	-	455,239
Increase (decrease) in net assets	(351,564)	23,781	(65)	(91)	(62)	(16)	(21)	(7)	-	(328,075)
Net assets - beginning of year	2,293,650	223,499	3,039	(276)	319	(96)	63,510	184,927	(184,726)	2,523,846
Net assets - end of year	<u>1,942,086</u>	<u>247,280</u>	<u>2,974</u>	<u>(357)</u>	<u>257</u>	<u>(112)</u>	<u>63,489</u>	<u>184,920</u>	<u>(184,726)</u>	<u>2,195,771</u>

HUMAN SERVICES INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Human Services	HSI Properties	HSI Solutions	Oak Hill Apartments	Oak Hill Apartments II	Pearson Place	Ridgecrest Limited	Jerman Housing LLC	Eliminations	Consolidated Total
EXPENSES										
Salaries and wages	\$ 3,477,377	\$ -	\$ 1,565	\$ 36,055	\$ 17,288	\$ 19,114	\$ 10,376	\$ 32,649	\$ -	\$ 3,554,424
Payroll taxes	367,501	-	-	6,403	3,015	-	-	1,861	-	378,780
Employee Benefits	635,825	-	-	-	-	-	-	-	-	635,825
Employee Related Expenses	21,666	-	-	-	-	-	-	-	-	21,666
Professional fees	174,020	-	12	19,428	12,152	23,665	12,793	19,231	-	261,261
Supplies	510,105	-	-	28,438	15,739	13,789	545	669	-	589,285
Communications	91,495	-	4	3,934	1,867	4,259	2,404	5,939	-	109,902
Shipping	17,384	-	4	-	-	-	-	-	-	17,446
Occupancy Costs	604,326	-	-	-	-	-	-	-	-	604,326
Equipment Rental and Maintenance	56,636	-	-	-	-	-	-	-	-	56,636
Printing	11,200	-	-	-	-	-	-	-	-	11,200
Travel	211,709	-	-	-	-	83	-	-	-	211,959
Conferences	69,930	-	34	-	-	-	-	-	-	70,180
Specific Assistance to Individuals	3,228,020	-	-	-	-	-	-	-	-	3,228,020
Membership Dues	3,237	-	-	-	-	-	-	-	-	3,237
Interest Expense	-	-	-	36,689	20,345	98,738	39,521	48,872	-	244,165
Insurance Expense	118,115	-	7	11,758	2,797	8,573	4,899	15,152	-	161,301
Taxes	-	7,204	-	19,841	8,187	17,535	7,858	10,241	-	70,966
Construction Expense	-	-	784	-	-	-	-	-	-	784
Advertising	-	-	-	251	99	200	-	796	-	1,346
Property Maintenance	-	-	-	12,571	9,208	9,723	15,549	30,070	-	77,121
Utilities	-	-	-	24,544	14,288	21,805	4,675	17,802	-	83,114
Partnership fees	-	-	-	2,000	1,000	3,478	2,500	3,914	-	12,892
Amortization	-	-	-	330	1,059	400	571	1,313	-	3,673
Depreciation	292,430	-	-	96,987	68,682	128,942	33,904	108,129	-	729,074
Total Expenses	\$ 9,912,986	\$ 7,635	\$ 2,410	\$ 299,229	\$ 175,726	\$ 350,404	\$ 135,555	\$ 296,638	\$ -	\$ 11,180,563

HUMAN SERVICES INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Human Services	HSI Properties	HSI Solutions	Oak Hill Apartments	Oak Hill Apartments II	Pearson Place	Ridgecrest Limited	Jerman Housing LLC	Eliminations	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES										
Change in net assets	\$ (351,664)	\$ 23,781	\$ (65)	\$ (60,717)	\$ (62,069)	\$ (159,225)	\$ (20,904)	\$ (133,491)	\$ 455,239	\$ (328,075)
Adjustments to reconcile change in net assets to net cash provided by operating activities:										
Depreciation	292,430	-	-	86,987	66,882	128,942	33,804	108,129	-	729,074
Amortization	-	-	-	330	1,059	400	571	1,313	-	3,673
Change in non-controlling interest	-	-	-	-	-	-	-	-	(455,239)	(455,239)
(Increases) decreases in operating assets:										
Grants receivable	66,596	-	-	-	-	-	-	-	(9,467)	77,129
Accounts receivable	-	-	8,498	-	-	-	-	-	-	8,498
Accounts receivable - tenant	-	-	-	-	-	(43)	-	179	-	136
Mortgage escrow	-	-	-	(378)	(1,109)	4,305	-	(3,270)	-	2,818
Security deposits	-	-	-	(56)	(1,450)	70	465	(54)	-	(4,295)
Operating reserves	-	-	-	(84)	(4)	-	18,661	-	-	18,519
Notes receivable	45,843	-	-	-	-	-	-	-	(28,405)	17,438
Inventory	36,704	-	-	-	-	-	-	-	-	36,704
Other Assets	(318)	-	-	-	-	-	-	-	-	(318)
Prepaid expenses	6,453	-	-	-	-	-	-	-	-	6,453
Increases (decreases) in operating liabilities:										
Accounts payable	89,552	(14)	(9,710)	3,893	899	607	(19,740)	(4,057)	9,539	71,069
Accounts payable - limited partners	-	-	-	2,000	1,000	(3,377)	-	9,758	2,831	12,312
Accrued interest payable	-	-	-	8,293	5,281	59,513	11,560	28,250	-	107,897
Accrued real estate taxes	-	-	-	-	-	6,482	-	-	-	6,482
Accrued salaries and wages	29,065	-	-	50	1,450	(70)	(465)	133	-	29,065
Security deposits	-	-	-	603	(740)	(1,946)	89	-	-	1,098
Prepaid rent	2,244	-	-	-	-	-	-	-	-	(1,994)
Advances payable	-	-	-	-	-	-	-	-	-	2,244
Net Cash Provided by (Used in) Operating Activities	236,885	23,767	1,703	31,027	12,979	30,558	22,141	7,890	(28,405)	336,745
CASH FLOWS FROM INVESTING ACTIVITIES										
Net deposits to replacement reserve	(173,219)	-	-	(7,200)	4,180	(12,159)	(9,615)	(1,223)	-	(20,007)
Purchase of property and equipment	-	-	-	-	-	-	-	-	-	(173,219)
Net Cash Provided by (Used in) Investing Activities	(173,219)	-	-	(7,200)	4,180	(12,159)	(9,615)	(1,223)	-	(193,226)
CASH FLOWS FROM FINANCING ACTIVITIES										
Payment on debt	(16,305)	(12,000)	-	(23,893)	(17,944)	(8,181)	(11,401)	(8,657)	28,405	(67,142)
Net Cash Provided by (Used in) Financing Activities	(16,305)	(12,000)	-	(23,893)	(17,944)	(8,181)	(11,401)	(8,657)	28,405	(67,142)
Net Increase (decrease) in cash	47,461	11,767	1,703	(112)	125	10,308	7,125	-	-	76,377
Cash - beginning of year	272,190	15,329	1,251	11,109	5,594	5,070	6,542	-	-	317,875
Cash - end of year	319,651	27,096	2,954	10,997	5,709	16,178	13,667	-	-	396,252
Interest paid during the year	-	-	-	26,393	15,228	45,124	27,211	19,822	-	135,576

HUMAN SERVICES, INC.
HEAD START PROGRAM
GRANT NO. 05CH4176/46
STATEMENT OF REVENUE AND EXPENSES
FOR THE PROGRAM YEAR ENDED DECEMBER 31, 2012

<u>REVENUE</u>	<u>Full Year Part-Day</u>	<u>Early Head Start</u>	<u>Total</u>
Grant award	\$ 2,640,734	\$ 906,498	\$ 3,547,232
Undrawn grant funds	-	-	-
Local cash	68,738	11,693	80,431
In-kind contributions	<u>398,897</u>	<u>-</u>	<u>398,897</u>
Total Revenue	<u>3,108,369</u>	<u>918,191</u>	<u>4,026,560</u>
 <u>EXPENSES</u>			
Salaries and wages	1,609,784	611,917	2,221,701
Payroll taxes	177,212	61,392	238,604
Employee Benefits	342,388	66,678	409,066
Employee Related Expenses	13,893	1,518	15,411
Professional Fees	26,932	14,194	41,126
Supplies	124,804	55,160	179,964
Communications	26,694	9,345	36,039
Shipping	2,994	345	3,339
Occupancy Costs	306,275	60,125	366,400
Equipment Rental and Maintenance	24,764	5,103	29,867
Printing	4,192	1,857	6,049
Travel	134,536	13,873	148,409
Conferences	35,877	10,179	46,056
Specific Assistance to Individuals	256,578	9	256,587
Membership Dues	140	765	905
Insurance Expense	<u>18,711</u>	<u>4,720</u>	<u>23,431</u>
	<u>3,105,774</u>	<u>917,180</u>	<u>4,022,954</u>
	<u>\$ 2,595</u>	<u>\$ 1,011</u>	<u>\$ 3,606</u>

See independent auditor's report

HUMAN SERVICES, INC.

**REPORTS PRESCRIBED BY
OMB CIRCULAR A-133**

DECEMBER 31, 2012



Gauthier & Kimmerling, LLC
accountants & advisors

7340 Shadeland Station • Suite 100 • Indianapolis, IN 46256 • (317) 572-1130

Report on Internal Control Over Financial Reporting and on Compliance
And Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

Board of Directors
Human Services, Inc.
Columbus, Indiana

We have audited, 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, the financial statements of Human Services, Inc. (HSI), which comprise the consolidated statement of financial position as December 31, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HSI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HSI's internal control. Accordingly, we do not express an opinion on the effectiveness of HSI's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HSI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of HSI's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering HSI's internal control and compliance. Accordingly, this communication is not suitable of any other purpose.

Savithri & Kimmeling, LLC

August 27, 2013



Gauthier & Kimmerling, LLC
accountants & advisors

7340 Shadeland Station • Suite 100 • Indianapolis, IN 46256 • (317) 572-1130

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance;
And Report on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

Independent Auditors' Report

Board of Directors
Human Services, Inc.
Columbus, Indiana

Report on Compliance for Each Major Federal Program

We have audited Human Services, Inc.'s (HSI) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of HSI's major federal programs for the year ended December 31, 2012. HSI's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of HSI's major federal programs based on our audit of the types of compliance requirements referred to above. 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 HSI'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 on compliance for each major federal program. However, our audit does not provide a legal determination of HSI's compliance.

Opinion on Each Major Federal Program

In our opinion, HSI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2. Our opinion on each major federal program is not modified with respect to these matters.

HSI's responses to the noncompliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs. HSI's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of HSI is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HSI's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HSI's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with the type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2, that we consider to be significant deficiencies.

HSI's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. HSI's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable of any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of HSI as of and for the year ended December 31, 2012, and have issued our report thereon dated August 27, 2013, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Hautman & Kummerling, LLC

August 27, 2013

Human Services, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Agriculture			
Women, Infants & Children - Indiana State Department of Education	10.557	WIC 375-1	\$ 324,350
Child and Adult Care Food Program - Indiana State Department of Education	10.558	01-03-0014	252,525
Rural Business Enterprise Grant - Indiana State Department of Education	10.783	RDBCP-09-RBEG	<u>17,500</u>
Total U.S. Department of Agriculture			<u>594,375</u>
U.S. Department of Housing and Urban Development			
Supportive Housing Program	14.235		51,112 10,105 49,825 <u>10,279</u>
Total Supportive Housing Program			<u>121,321</u>
Energy Shelter Grant Program - Indiana Housing and Community Development Authority	14.231	ES-011-029 ESRR-011-02	53,733 <u>98,774</u>
Total Emergency Shelter Grant Program			<u>152,507</u>
Homeless Prevention and Rapid Re-housing - Indiana Housing and Community Development Authority	14.257	HPRP-09-16	69,730
Section 8 Voucher Program - Indiana Housing and Community Development Authority	14.871	SH-006-002	<u>2,765,644</u>
Total U.S. Department of Housing and Urban Development			<u>3,109,202</u>
U.S. Department of Energy			
Weatherization Assistance for Low-income Persons - Indiana Housing and Community Development Authority	81.042	WX-010-013	76,800
Home Energy Conservation for Low-income Persons - Indiana Housing and Community Development Authority	81.042	HEC-012-013	<u>27,482</u>
Total U.S. Department of Energy			<u>104,282</u>

(Continued)

Human Services, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Homeland Security			
Emergency Food and Shelter Program	97.523	N/A	<u>12,012</u>
Total U.S. Department of Homeland Security			<u>12,012</u>
U.S. Department of Human Services:			
Head Start Cluster			
Head Start Program	93.600	05CH-4176-47	2,640,734
Early Head Start	93.709	05SA-4176-02	906,498
Early Learning Mentoring Coached Grant	93.708	90ST0052-01	<u>80,431</u>
Total Head Start Cluster			<u>3,627,663</u>
Low Income Home Energy Assistance			
- Indiana Housing and Community Development Authority	93.568	LI-009-013-3 WL-012-013	350,321
			<u>1,558,572</u>
Total Low Income Home Energy Assistance			<u>1,908,893</u>
Community Services Block Grant			
- Indiana Housing and Community Development Authority	93.569	CS-012-013	337,967
Business Enterprise & Economic Development			
- Indiana Housing and Community Development Authority	93.569	CS-010-023CSBG	<u>10,000</u>
Total U.S. Department of Human Services			<u>5,884,523</u>
Total Expenditures of Federal Awards			<u>\$ 9,704,394</u>

*Includes \$1,283,126 paid directly to Indiana Housing and Community Development Authority on behalf of HIS.

Human Services, Inc.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

The following describes the significant accounting policies used in the preparation of the schedule of expenditures of federal awards:

Basis of Presentation – The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of HSI under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*. Because the schedule presents only a select portion of the operations of HSI, it is not intended to and does not present the financial position, changes in net assets or cash flows of HSI.

Summary of Significant Accounting Policies – Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Human Services, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2012

ITEM NUMBER

AUDIT FINDING

FINDING NO. 2011-01

Specific program documentation was not centralized or reviewed for completeness for the Section 8 program which resulted in missing, inaccurate and/or incomplete forms.

Corrective Action:

This was repeated as finding No. 2012-02.

Human Services, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditor report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses? *None reported*

Noncompliance material to financial statements noted: *No*

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified: *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses? *Yes*

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? *Yes*

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
93.600, 93.709, 93.708	Headstart Cluster
10.557	Women, Infants, and Children
14.871	Low-income Housing Assistance Program
93.569	Community Services Block Grant

Human Services, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

Section I - Summary of Auditors' Results - continued

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

Auditee qualified as low-risk auditee? No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

FINDING NO. 2012-01

U.S. Department of Human Services
CFDA #93.600 – Headstart; 93.569 - CSBG
Award Year: 1/1/12-12/31/12

Criteria: Allocated expenses need to be allocated based on the correct approved allocation method.

Condition: Client used incorrect allocation method for certain expenses.

Context: During our review of expenses, we found certain expenses that required allocation which were allocated using the incorrect method.

Questioned Cost: Amount is immaterial to programs.

Effect: Specific expenses for programs were different than they should have been if the correct allocation method was followed. Total expenses for the programs were correct.

Cause: Client uses numerous allocation methods which change throughout the year. The wrong method was used for certain expenses at various times during the year.

Recommendation: Allocation of expenses should be reviewed before posting to ensure the correct method was applied.

Management response: HSI has adjusted their allocation methods beginning in 2013 to simplify the process. The allocation entries will be reviewed to ensure the correct method was applied.

FINDING NO. 2012-02

U.S. Department of Housing and Urban Development
Indiana Housing and Community Development Authority
CFDA #14.871 - Section 8 Voucher Program
Award No. SH-006-002
Award Year: 1/1/12-12/31/12

Criteria: Required documentation should be complete, accessible and accurate.

Condition: Client files inspected contained incomplete and/or missing documents

Context: During our review of tenant files, we found files that were not in compliance due to the condition stated above.

Questioned Cost: None

Effect: Some documentation was incomplete and/or missing.

Cause: Specific program documentation was not centralized or reviewed for completeness which resulted in missing, and/or incomplete forms.

Recommendation: HSI should maintain client files in accordance with grant requirements in a systematic manner

Management response: HSI will review all current client files and ensure they are complete, accurate and in compliance with grant requirements.