GARY NEIGHBORHOOD SERVICES, INC.

Financial Statements for the
Years Ended June 30, 2013 and 2012 and
Independent Auditors' Report

GARY NEIGHBORHOOD SERVICES, INC.

GARY, INDIANA

2013 FINANCE COMMITTEE PACKAGE

	Exhibit
FINANCIAL STATEMENTS…………………………………………………………	Yellow
REQUIRED COMMUNICATIONS………………………………………………….	Red
ADJUSTING JOURNAL ENTRIES………………………………………………….	White
COMMUNICATIONS OF SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES…………………………………………………………………….	Green
REPRESENTATION LETTER……………………………………………………….	Pink

GARY NEIGHBORHOOD SERVICES, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Gary Neighborhood Services, Inc. ("GNS") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and 2012 and the related statements of activities, functional expenses, and cash flows for the years 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 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Gary Neighborhood Services, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 8, Gary Neighborhood Services, Inc. has communicated the significant decreased in funding and lack of viable programs awarded to the organization therefore creating a possibility for the organization to not be able to pay their debts as they become due. The financial statements do not include any adjustment relating to the amounts and classification of liabilities that might be necessary if GNS is unable to meet its debts as they come due.

Whittaker + Company, PLLC

Whittaker & Company, PLLC
Gary, IN
February 27, 2014

GARY NEIGHBORHOOD SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and Cash equivalents	$ 1,657	$ 6,391
Accounts Receivable (Note 2)	41,632	52,988
Other Accounts Receivable (Note1)	5,000	549
Total current assets	48,289	59,928
Property and Equipment	6,768	6,768
Furniture and equipment	39,807	39,807
Vehicles	15,900	15,900
Total Cost	62,475	62,475
Less accumulated depreciation	(58,639)	(56,638)
Net property and equipment (Note 1)	3,836	5,837
Total long-term assets	3,836	5,837
Total assets	$ 52,125	$ 65,765
Current Liabilities		
Accounts Payable	$ 20,804	$ 24,718
Accrued Payroll	13,304	20,312
Accrued Vacation	12,972	15,088
Payroll Taxes withheld and payable	2,458	1,364
Accrued Liabilities	4,032	-
Other Accrued Liability - Coffy (Note 3)	398	-
Line of credit - Centier (Note 2)	60,000	60,010
Total current liabilities	$ 113,968	$ 121,492
Net Assets		
Unrestricted	(69,659)	(55,726)
Temporarily restricted	7,816	-
Total net assets	(61,843)	(55,726)
Total liabilities and net assets	$ 52,125	$ 65,766

See accompanying notes to financial statements.

GARY NEIGHBORHOOD SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	Unrestricted	Temporarily Restricted	2013 Total	2012 Total
REVENUE, GAINS, AND OTHER SUPPORT:				
Homemaker Chore Assistance	$ 194,072	$ -	$ 194,072	$ 181,374
Lake Area United Way	102,918	-	102,918	109,472
Space Rental	48,647		48,647	52,203
Energy Assistance Program	109,205	-	109,205	52,750
Attendant Care Program	12,507		12,507	29,460
21st Century Learning Grants	-	-	-	12,523
Partnership, Drug-free Lake County	-	-	-	8,395
Community Workshop	-	-	-	9,595
Community Organizations for Families and Youth (COFFY) (Note 4)	-	23,053	23,053	7,575
Contributions - Facilities	74,353	-	74,353	67,529
Contributions	19,945	-	19,945	8,028
Concession Income	1,478	-	1,478	2,038
Miscellaneous Income	267	-	267	1,100
Net assets released from restrictions (Note 4)	15,237	(15,237)	-	-
Total revenue, gains, and other support	578,629	7,816	586,445	542,042
EXPENSES:				
Health and Counseling	43,671	-	43,671	48,367
Chore Assistance	275,328	-	275,328	303,156
Special Services	94,697	-	94,697	103,017
Management and general	178,100	-	178,100	170,441
Total expenses	591,796	-	591,796	624,981
Change in net assets	**(13,167)**	**7,816**	**(5,352)**	**(82,939)**
Period Restatement	**(765)**	**-**	**(765)**	**-**
Net assets at beginning of year	(55,726)	-	(55,726)	27,212
Net assets at end of year	**$ (68,893)**	**$ 7,816**	**$ (61,843)**	**$ (55,727)**

See accompanying notes to financial statements.

GARY NEIGHBORHOOD SERVICES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows from operating activities		
Change in net assets	$ (5,352)	$ (82,938)
Period restatement	(762)	(11,885)
Adjustments to reconcile net change in net assets		
to net cash from operating activities		
Deprecation	2,001	4,210
(Increase) decrease in assets		
Accounts receivable	6,905	9,154
Employee Advance - related party	-	1,574
Prepaid Expenses	-	5,919
Increase (decrease) in liabilities		
Accounts payable	(3,914)	6,090
Accrued payroll	(7,008)	4,976
Accrued Vacation	(2,116)	3,675
Payroll taxes withheld and payable	1,094	73
Accrued Liabilities	4,430	-
Net cash (used)/provided by operating activities	(4,724)	(59,154)
Cash flows from investing activities		
Purchase/disposal of equipment		-
Net cash used by investing activities	-	-
Cash flows from financing activities		
Additional Borrowing on Line of Credit	-	72,010
Repayments on line of credit	(10)	(12,000)
Net cash used by financing activities	(10)	60,010
Net change in cash	(4,734)	856
Cash at beginning of year	6,391	5,535
Cash at end of year	**$ 1,657**	**$ 6,391**
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 3,098	$ 1,714

See accompanying notes to financial statements.

GARY NEIGHBORHOOD SERVICES, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services					
	Health & Counseling	**Chore & Assistance**	**Special Services**	**Total Program Services**	**Management & General**	**Total**
SALARIES AND RELATED EXPENSES						
Salaries and wages	$ 27,537	$ 173,446	$ 59,007	$ 259,990	$ 97,630	$ 357,620
Employee Health and Retirement Benefits	2,437	15,348	5,222	23,007	8,639	31,647
Payroll Taxes	2,738	17,245	5,867	25,850	9,707	35,557
Total Salaries and Related Expenses	32,712	206,039	70,096	308,847	115,976	424,823
						-
Professional Fees and Contract Services	1,143	7,202	2,450	10,795	4,054	14,849
Supplies	833	5,248	1,785	7,866	2,954	10,820
Telephone	436	2,749	935	4,120	1,547	5,667
Postage and Shipping	21	130	44	195	73	268
Occupancy	1,857	11,694	3,978	17,529	6,582	24,111
Small Equipment Purchase and Rental	394	2,482	844	3,720	1,397	5,117
Local Transportation	550	3,463	1,178	5,191	1,950	7,140
Client Assistance	-	260	-	260	-	260
Interest Expense	-	-	-	-	3,098	3,098
Dues and Subscriptions	-	-	-	-	388	388
Miscellaneous	-	-	-	-	401	401
Bank Charges	-	-	-	-	97	97
Late Charges	-	-	-	-	398	398
Concession Expense		-	1,119	1,119	-	1,119
COFFY Expense	-	-	-	-	15,237	15,237
Bad Debt Expense	-	-	-	-	1,649	1,649
In-Kind Facility	5,725	36,061	12,268	54,054	20,298	74,352
Total Expenses before Depreciation	**43,672**	**275,328**	**94,697**	**413,696**	**176,099**	**589,795**
Depreciation	-	-	-	-	2,001	2,001
TOTAL EXPENSES	**$ 43,672**	**$ 275,328**	**$ 94,697**	**$ 413,696**	**$ 178,100**	**$ 591,796**

See accompanying notes to financial statements.

GARY NEIGHBORHOOD SERVICES, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Program Services					
	Health & Counseling	Chore & Assistance	Special Services	Total Program Services	Management & General	Total
SALARIES AND RELATED EXPENSES						
Salaries and wages	$ 18,921	$ 212,004	$ 46,443	$ 277,368	$ 113,567	$ 390,935
Employee Health and Retirement Benefits	552	14,150	572	15,274	10,762	26,036
Payroll Taxes	1,913	21,458	4,700	28,071	10,267	38,338
Workers' Compensation	335	3,634	817	4,786	1,961	6,747
Total Salaries and Related Expenses	21,721	251,246	52,532	325,499	136,557	462,056
				-		-
Professional Fees and Contract Services	2,571	6,079	6,827	15,477	1,907	17,384
Supplies	1,801	2,520	3,105	7,426	338	7,764
Telephone	310	2,515	2,789	5,614	813	6,427
Postage and Shipping	20	172	114	306	115	421
Occupancy	1,346	11,724	12,884	25,954	3,954	29,908
Small Equipment Purchase and Rental	505	4,700	2,733	7,938	289	8,227
Local Transportation	558	4,664	808	6,030	1,374	7,404
Client Assistance	-	-	-	-	-	-
Interest Expense	-	-	-	-	1,714	1,714
Dues and Subscriptions	-	-	-	-	-	-
Miscellaneous	-	-	3	3	407	410
Bank Charges	-	-	-	-	315	315
Late Charges	-	-	-	-	-	-
Concession Expense	-	-	1,689	1,689	-	1,689
COFFY Expense	-	-	-	-	9,522	9,522
Bad Debt Expense	-	-	-	-	-	-
In-Kind Facility	19,534	19,534	19,534	58,602	8,927	67,529
Total Expenses before Depreciation	**48,366**	**303,154**	**103,018**	**454,538**	**166,232**	**620,770**
Depreciation	-	-	-	-	4,210	4,210
TOTAL EXPENSES	**$ 48,366**	**$ 303,154**	**$ 103,018**	**$ 454,538**	**$ 170,442**	**$ 624,980**

See notes to accompanying financial statements.

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Use of Estimates in Preparation of Financial Statements

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

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions whose restrictions are met in the same period as the recognition of the contributions are considered unrestricted for reporting purposes.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Bad Debt and Uncollectibles1

The Organization records bad debts on the direct write-off method when, in management's opinion, an account becomes uncollectible. The direct write-off method is a departure from generally accepted accounting principles. Bad debt expenses, calculated using the direct write-off method, do not differ materially from those calculated using generally accepted methods. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Management considers receivables to be past due after being outstanding for more than 30 days. The bad debt expense for the years ended June 30, 2013 and 2012 was $1,649 and $0 respectively.

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Accounts Receivable

This amount represents the amount owed from the Workforce Development Corporation to fund student scholarships in the amount of $5,000. These funds will be temporarily restricted to the Community Organization for Families and Youth (COFFY) fund.

Property and Equipment

Property and Equipment are carried at cost. Depreciation expense is computed using straight-line methods over the estimated useful life of the assets. The fair market value of donated assets is also capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss resulting from the transactions is recognized as income for the period. The cost of repairs and maintenance is charged to expense as incurred. The depreciation expense was $2,001and $4,210 for the years ended June 30, 2013 and 2012, respectively.

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

2013	Cost or Appraised Value	Accumulated Depreciation	Net Book Value
Program and Office Equipment	$39,807	$39,806	$-
Vehicles	15,900	15,900	-
Leasehold Improvements	6,768	2,933	3,835
Totals	$62,475	$58,639	$3,835

2012	Cost or Appraised Value	Accumulated Depreciation	Net Book Value
Program and Office Equipment	$39,807	$38,232	$1,575
Vehicles	15,900	15,900	-
Leasehold Improvements	6,768	2,506	4,262
Totals	$62,475	$56,638	$5,837

Cash

Cash, as presented on the accompanying statements of financial position and statements of cash flows, includes cash on hand and deposits in interest and non-interest bearing accounts in financial institutions.

Income Tax Status

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertain Income Tax Positions

The Organization adopted the provisions of standards relating to uncertain tax positions. When applicable, changes in benefits arising from current and prior tax positions taken by the Organization are recognized in the period in which the change occurs. Changes resulting from settlements with taxing authorities are recognized in the period that settlement occurs. Reductions in unrecognized tax benefits as a result of a lapse of the applicable statute of limitations are recognized in the period the statute lapses. Projected penalties and interest recognized on tax positions where it is reasonably that the Organization's tax position will not prevail in the review by taxing authorities is recognized as part of current period income tax expense. Management believes that fiscal tax periods 2008 through 2013 remain subject to examination by taxing jurisdictions.

PROGRAM SERVICES

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

Homemaker Chore and Assistance Program assign staff members who perform household services for clients who are handicapped or unable to care for themselves and provides assistance to persons in need. In addition, through Northwest Indiana Community Action Corporation, (NWICA), GNS provides energy assistance and education to residents within the community.

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

CONTRIBUTED FACILITIES - FACILITY LEASE AGREEMENT

Certain contributed facility use is recorded as support and expense at fair market value when determinable, otherwise at values indicated by the donor. Gary Neighborhood Services, Inc. entered into a 10 year, below market lease with the City of Gary Parks Department. The lease was effective January 1, 1990 for the Barbara Wesson center. The payment required was $1.00 per year, to be paid in full in 1990. During January 2010, the lease was renewed for a third 10 year period with the same terms. The Organization records an in-kind contribution and occupancy expense based on the estimated fair market value. During the years ended June 30, 2013 and 2012, the Organization recorded $74,353 and $67,529, respectively, as contributed facility usage.

NOTE 2 - LINE OF CREDIT

GNS has an existing line of credit with Centier Bank which carries a maximum possible balance of $64,000. The loan has a variable interest rate that is 1.5% higher than the bank's prime rate. As of the date of the financial statements, GNS had draw down $60,000 of the loan balance. Centier Bank has renewed the line of credit until March 30, 2015. Collateral used to secure the loan is all present and future inventory, accounts receivable, contract rights, general intangibles, and all equipment of any kind owned or acquired including any machinery (fixed or movable) wherever located in the operation of the business together with any other proceeds from all aforementioned property. Specifically, the accounts receivable balance of $41,632 is pledge as collateral on the outstanding line of credit due to Centier Bank.

NOTE 3 – Loan Owed to COFFY

Throughout the fiscal year, GNS borrowed monies form the COFFY funds to meet operating needs. This amount represents the amount loaned to GNS that will be reimbursed to COFFY.

NOTE 4 - EQUIPMENT LEASE AGREEMENT

Beginning in April 2012, the Organization received a new copier which is being leased for five years. The copier requires monthly lease payments of $235. The lease expense for the years ended June 30, 2013 was $2,820. The lease is included in the account Small Equipment Purchase and Rental on the statement of functional expenses.

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

Year	Amounts
2014	$2,820
2015	$2,820
2016	$2,820
2017	$2,820

NOTE 5 -TEMPORARILY RESTRICTED NET ASSETS

GNS receives temporarily restricted funds from Community Organization for Families and Youth (COFFY) whose mission is to strengthen other community organizations in the City of Gary. During fiscal year 2013, temporarily restricted net assets were available for the following purposes or periods:

	2013
COFFY related programming	$7,816

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes for the year ended June 30, 2013 are as follows:

	2013
Annual COFFY Conference	$15,237

NOTE 6 - RELATED PARTY TRANSACTIONS

As of June 30, 2013, there were no related party transactions.

NOTE 7 – CONCENTRATION OF REVENUE

During the years ending June 30, 2013 and 2012, the Organization received 69% and 62%, respectively, of its revenues from two funding sources. There are no reserves for potential losses made by management if either granting agency fails to fund current receivables recorded by GNS.

NOTE 8 – ACCUMULATED DEFICIT

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles. However, as of June 30, 2013, the organization has an accumulated deficit of $(61,843). This and other factors raise concern as to whether GNS may be able to pay their debts as they come due.

NOTE 9 – PERIOD RESTATEMENT

During the current fiscal year, several accounts were adjusted to properly reflect the correct balance at fiscal year end June 30, 2013.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to June 30, 2013 through February 27, 2014, the date the report was available to be issued. The following events occurred:

During fiscal year 2014, GNS was unable to meets its general operating obligations, therefore, GNS did not timely remit payroll tax withholdings to the Internal Revenue Service. As such, GNS was assessed penalties and interest. As of the time the audit was available to be issued, the liability associated with the outstanding payroll tax withholding had not been paid in full.

In order to meet operating needs, GNS in December 2013, received an advance payment of approximately $17,700 from Lake Area United Way, a major grantor. The advance payment to GNS represents two months of their monthly allocation and as a result GNS will not receive from Lake Area United Way their allocation in the months of April and May of 2014.

The Board of Directors of
Gary Neighborhood Services, Inc.

Dear Members of the Board of Directors:

We have audited the financial statements of the Gary Neighborhood Services, Inc. (“GNS”) for the year ended June 30, 2013, and have issued our report thereon dated February 27, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. In planning and performing our audit of the financial statements of GNS we considered the internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered the internal controls since the date of our report.

GNS’s managing staff is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by managing staff are required to assess the expected benefits and related costs of internal control policies and procedures. The objective of internal control is to provide managing staff with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and transactions are executed in accordance with managing staff’s authorization and are recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Because of inherent limitations in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk procedures and may become inadequate because of changes in conditions or the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal controls would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted three matters involving internal control and its operation that we consider to be material weaknesses as defined above.

We noted one matter involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect GNS's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration in the accompanying memorandum. These comments and recommendations are offered as constructive suggestions for the consideration of managing staff as part of the ongoing process of modifying and improving accounting procedures and internal controls, as well as other financial, operational and administrative practices and procedures. These comments have been discussed with the appropriate members of managing staff. In addition, we have provided certain disclosures we are required by professional standards to make to you in connection with our audit.

Sincerely,

Whittaker + Company, PLLC

Whittaker & Company, PLLC
Gary, Indiana
February 27, 2014

GARY NEIGHBORHOOD SERVICES, INC.

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Communication of Significant Deficiencies and Material Weaknesses

Gary Neighborhood Services, Inc.
Board of Directors and Management

In planning and performing our audit of the financial statements of the Gary Neighborhood Services, Inc., ("GNS") as of and for the year ended June 30, 2013, in accordance with standards generally accepted in the United States of America, we considered GNS's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GNS's internal control. Accordingly, we do not express an opinion on the effectiveness of GNS'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 certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency exists when the design or operation of a control does not allow management or employees, during the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a control deficiency, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more that a remote likelihood that a misstatement of GNS's financial statements that is more than inconsequential will not be prevented or detected by the GNS's internal control. We believe that the following deficiencies constitute material weaknesses:

1. While performing test of accounts payable, W&C noted a significant balance with a vendor on the organization outstanding vendor payable summary. This vendor balance had been previously paid by GNS and was no longer outstanding. The amount was $72,413 and materially overstates outstanding liabilities on the financial statements.

   W&C recommends that outstanding accounts payable is thoroughly reviewed each month to assure that amounts outstanding for each vendor reflects the actual amount owed.

   <u>Management Response</u>
   Outstanding accounts payable will be reviewed monthly to assure outstanding vendor bills will reflect actual amounts owed.

2. During our testing of revenue, W&C note that GNS receives restricted funds but these funds are not being properly recorded and tracked.

W&C recommends that GNS track all revenues received and expenses incurred for COFFY to derive the funds remaining each year relative to COFFY.

Management Response

COFFY funds have a separate and restricted cash account for revenues received. Expenses incurred are being properly recorded and tracked on a separate revenue and disbursement sheet so remaining funds can be determined each year relative to COFFY.

3. While performing test of cash, W&C noted that COFFY funds were being used to support the operating needs of GNS. These transactions are not being properly tracked and recorded by GNS. Additionally, funds borrowed from COFFY represent a loan to GNS from COFFY and should be recorded as an outstanding liability. W&C noted that GNS funds were used to pay COFFY expenses and these transactions were not recorded correctly.

   W&C recommends that each time GNS borrows from COFFY funds that a loan payable is recorded. As these funds are paid back to COFFY, GNS should reduce the liability owed. Additionally, there should be no COFFY expenses paid from GNS bank accounts.

   Management Response

   A COFFY loan account payable has been set up to record an outstanding liability until such time funds are repaid to COFFY. All COFFY expenses will be paid from the restricted COFFY bank account.

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. We consider the following deficiencies in GNS's internal control to be significant deficiencies.

1. During our test of controls over cash, W&C noted payments to vendors that were paid via telephone and mailed. The actual check was not voided and incorrectly remained as an outstanding check on the bank reconciliation even though the amount was paid via the telephone.

   W&C recommend vendors be paid via check. If GNS must expedite a payment via the telephone, the actual check should be immediately voided to properly reflect the accurate cash balance. This is imperative for proper accuracy of cash.

   Management Response

   All vendors will be paid by check and if a payment must be expedited via phone, the actual check will be voided immediately to properly reflect an accurate cash balance.

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

Whittaker & Company, PLLC

Whittaker & Company, PLLC
Gary, IN
February 27, 2014

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

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 about whether the financial statements of GNS are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the GNS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Significant Accounting Policies

The managing staff has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise managing staff about the appropriateness of accounting policies and their application. No new accounting policies were adopted and the application of the existing policies was not changed during the year. We noted no transactions entered into by the GNS 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.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by managing staff and are based on managing staff'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.

We believe managing staff's estimate of expenses represents such an estimate. We have performed tests of the expenses to satisfy ourselves that the estimate is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For the 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 GNS's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed, and management recorded, the adjustments that are attached to this document.

Uncorrected Financial Statement Misstatements

We are also responsible for informing those charged with governance about uncorrected financial statement misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Consultation with Other Accountants

In some cases, managing staff 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 GNS's financial statements or a determination of the type of auditor's opinion that may be expected 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 are no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the internal use of the GNS's Board of Director's and managing staff and is not intended to be and should not be used by anyone other than these specified parties.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 27, 2014.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Preparation of Financial Statements

The GNS has requested our assistance in preparing the financial statements and related disclosures for the year ended June 30, 2013.

Letter Communicating Significant Deficiencies and Material Weakness

Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in an Audit"* requires us to communicate certain matters relating to the Organization's internal control that are observed by us in the conduct of our financial statement audit. These matters represent significant deficiencies in the design or operation of the internal control system, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Illegal Acts

We are required to inform the Finance Committee of any illegal acts that come to our attention during the audit including a description of the illegal act, the circumstances of its occurrence, and the effect on the financial statements. Illegal Acts, as defined by the Statement on Auditing Standards No. 54 "*Illegal Acts by Clients,*" includes violations of laws or governmental regulations attributable to the entity, or acts by management or employees on behalf of the entity. Illegal acts do not include personal misconduct by the entity's personnel unrelated to their business activities.

Fraud

We are required to bring any evidence of fraud to the attention of the appropriate level of management, even in the case of an inconsequential fraud, such as minor defalcation by a lower-level employee. Fraud involving senior management and any fraud that causes a material misstatement of the financial statements is required to be communicated to the Finance Committee.

We are not aware of any evidence of fraud involving senior management or any other employee of the Organization, as required to be reported under Statement of Auditing Standards No. 99, "*Consideration of Fraud in a Financial Statement Audit"*.

GARY NEIGHBORHOOD SERVICES, INC.

Required Communications

Year ended June 30, 2013

This report is intended solely for the internal use of the GNS's Board of Directors and managing staff and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Whittaker & Company, PLLC

Whittaker & Company, PLLC
Gary, Indiana
February 27, 2014

Classifying of COFFY Receivables

During our audit, we noted that a receivable for COFFY was recorded within the GNS receivable account.

We recommend that any receivable for COFFY is recorded in a separate accounts receivable account to properly segregate these funds from GNS operations.

Management Response

Separate account receivable to b established for COFFY account in order to properly segregate these funds from GNS operations as recommended.

Proper Recording of Space Rental Income

During our audit, we noted that monthly space rental revenue for certain clients was not recorded for each month.

We recommend that GNS each month review the space rental revenue account and ensure that all monthly amounts have been properly recorded.

Management Response

Monthly reporting of space rental income to be tracked on Excel worksheet with dated payments and deposits. Anticipated revenues that are not collected will be notated with reason for failure to collect. Fiscal Manager will complete a monthly reconciliation with adjustments reflected on excel worksheet.

Proper Review of Accounts Receivable

During our testing of accounts receivable, we noted that there were receivables over one year old remaining as outstanding.

We recommend that GNS perform a quarterly review of its accounts receivable aging summary and ensure that all receivables are valid. In terms of receivables with granting agencies, W& C recommends that GNS review the aging summary quarterly and before the final closeout to ensure that the granting agency agrees with GNS's outstanding receivable balance. This will minimize the risk that GNS's receivable balance disagrees with the balance of the grantor before the fiscal period for the grant is closed.

Management Response

Outstanding receivables stemmed from either overbilling or designation of wrong funding source in 2010 and 2011. Reconciliation of billings is traditionally completed. Problem reflects failure to reconcile year end income versus billings. We currently do a monthly reconciliation and will continue to do so in order to eliminate discrepancies within QuickBooks.

Properly Recording Year End Accruals and Payables

During our audit of expenses, W&C noted that year end accruals were not recorded for salary and vacation expenses as of June 30, 2013.

Finally, we recommend the GNS record necessary accruals at year end to properly state expenses incurred by the organization.

Management Response

Year end accruals to be recorded for salary and vacation expenses as recommended.

Prepared by_______

Reviewed by_______

GARY NEIGHBORHOOD SERVICES
Adjusting Journal Entries

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
1	Adjusting	06/30/13					
		4900	In-Kind - Facility		74,353.38		
		5900	In-kind - Facility	74,353.38			
						0.00	
			To properly record in-kind activity for building lease				K - 5 - 2
2	Adjusting	06/30/13					
		2011	Additional Accounts Payable	72,413.00			
		3900	Retained Earnings		72,413.00		
						0.00	
			To properly remove additional accounts payable at year end				L - 1 - 3
3	Adjusting	06/30/13					
		1020	Cash-Centier General	999.48			
		5172	TELEPHONE SERVICES		999.48		
						999.48	
			To properly record cash at June 30, 2013				K - 1 - 4
4	Adjusting	06/30/13					
		5470	Depreciation expense	2,001.10			
		1650	A/D Equipment		1,575.00		
		1620	A/D Buildings		426.10		
						(2,001.10)	
			To properly record depreciation expense				
5	Adjusting	06/30/13					
		3900	Retained Earnings	448.95			
		1499	Undeposited Funds	100.00			
		1101	Additional Accounts Receivable		548.90		
		1300	Prepaid Expenses		0.05		
						0.00	
			To properly state other current assets at 6-30-13.				
6	Adjusting	06/30/13					
		5000	SALARIES		2,115.96		
		2080	Accrued Vacation	2,115.96			
						2,115.96	

GARY NEIGHBORHOOD SERVICES
Adjusting Journal Entries

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
			To properly record accrued salary vacation at 6-30-13.				
7	Adjusting	06/30/13					
		5000	SALARIES		7,156.22		
		2020	Accrued Salaries/Wages - GNS	7,156.22			
						7,156.22	
			To properly record salary expense at 6-30-13.				
8	Adjusting	06/30/13					
		2011	Additional Accounts Payable	5,000.00			
		3900	Retained Earnings		5,000.00		
						0.00	
			To properly write off other accounts payable at 6-30-13.				
9	Adjusting	06/30/13					
		5379	Bad Debt Expenses	1,459.00			
		1100	Accounts Receivable		1,459.00		
						(1,459.00)	
			To properly record bad debt expense at 6-30-13.				
10	Adjusting	06/30/13					
		5252	TRANSPORTATION: Transportat	32.72			
		5180	POSTAGE & SHIPPING	1.92			
		5450	CONCESSION EXPENSE	50.95			
		5110	SUPPLIES: Maintenance Supplies	15.10			
		1085	PETTY CASH		100.69		
						(100.69)	
			To properly state petty cash at 6-30-13.				
11	Adjusting	06/30/13					
		1101	Additional Accounts Receivable	5,000.00			
		1100	Accounts Receivable		5,000.00		
						0.00	
			To reclass Workforce Development receivable restricted to Coffy.				
12	Adjusting	06/30/13					
		5062	PAYROLL TAXES: Employer FIC	990.30			
		2210	W/H: FICA Tax Payable		990.30		

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
						(990.30)	
			To properly record employer/fica expenses at 6-30-13.				
13	Adjusting	06/30/13					
		2200	W/H: FED. W/H Taxes	236.63			
		2210	W/H: FICA Tax Payable		236.63		
						0.00	
			To properly reclass payroll withholdings for Flagg for 6-14-13 payroll.				
14	Adjusting	06/30/13					
		5000	SALARIES	164.75			
		5372	MISC. EXPENSE: Bank Service C	12.00			
		2200	W/H: FED. W/H Taxes		7.31		
		2213	W/H: STATE W/H Taxes		5.60		
		2020	Accrued Salaries/Wages - GNS		148.23		
		2210	W/H: FICA Tax Payable		12.61		
		2140	W/H: U.W. Pledges		3.00		
						(176.75)	
			To properly record salary expense for T. Holcomb for 6-15-13 payroll.				
15	Adjusting	06/30/13					
		5372	MISC. EXPENSE: Bank Service C	35.00			
		1070	Cash-Centier Payroll		35.00		
						(35.00)	
			To properly record bank service charge.				
16	Adjusting	06/30/13					
		1070	Cash-Centier Payroll	4,032.27			
		2060	Accrued Other		4,032.27		
						0.00	
			To properly state negative cash at 6-30-13.				
17	Adjusting	06/30/13					
		5370	MISC. EXPENSE	397.58			
		2065	Loan to Coffy		397.58		
						(397.58)	
			To properly state funds owed to Coffy at 6-30-13.				

Prepared by_______	GARY NEIGHBORHOOD SERVICES	GNS
Reviewed by_______	Adjusting Journal Entries	Page 4

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
18	Adjusting	06/30/13					
		2063	Centier Bank Loan	10.00			
		5370	MISC. EXPENSE		10.00		
						10.00	
			To properly state balance of Centier Bank Loan.				
		TOTAL		177,026.31	177,026.31	5,121.24	

Gary Neighorhood Services, Inc.
Jerome Flagg, Executive Director

300 West 21ST Avenue
Gary, IN 46407

Phone: (219) 883-0431
Fax: (219) 883-0919
Email: gns@garyneighsrvc.org

February 27, 2014

Whittaker & Company PLLC
487 Broadway, Suite 207
Gary, IN 46402

We are providing this letter in connection with your audit of the financial statements of the Gary Neighborhood Services, Inc. (the "GNS"). as of June 30, 2013 for the periods then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position, the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of February 27, 2014, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all assets and liabilities under GNS's control.

2. We have made available to you all –

    a. Financial records and related data.

    b. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We acknowledge our responsibility of the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the Organization involving -

   a. Management,

   b. Employees who have significant roles in internal controls or,

   c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others.

8. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

9. We have provided our views on reported findings, conclusions and recommendations, as well as our planned corrective actions, for the report.

10. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.

11. The following, if any, have been properly recorded or disclosed in the financial statements:

    a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

    b. Guarantees, whether written or oral, under which the Organization is contingently liable.

    c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

12. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.

13. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

14. There are no –

    a. Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements or as a basis of recording a loss contingency, or for reporting on noncompliance.

    b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies."

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.

    d. Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.

15. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged, except as made known to you.

16. We have complied with all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

17. We have made a good faith effort to classify all net assets as unrestricted, temporarily restricted or permanently restricted based on our assessment of the donor's intention. We have made these classifications based on the intent of the donor as specified in original donor correspondence where available. Where not available, we used other corroborating evidentiary matters including minutes of the Board of Directors, accounting records and financial statements.

18. Except as discussed in Note 10 of the financial statements, no events have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

To the extent that we were unable to review original donor correspondence to determine the amount of the original gift and donor additions, our determination of such amount was based on our best estimate considering the relevant facts and circumstances, and we believe amounts classified as permanently restricted are subject to donor-imposed or statutory restrictions which require these amounts to be held in perpetuity. In addition, we have classified appreciation related to such donations in accordance with any relevant donor or statutory restrictions.

To the best of our knowledge and belief, no events have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Signed:	Jerome Flagg	William A. Hill
Title:	Executive Director	Board President
Date:	3/19/14	3-19-14