

Good Shepherd Housing and Family Services, Inc.

Financial Statements
and Independent Auditors' Report

OMB Circular A-133 Reports

June 30, 2006 and 2005

Good Shepherd Housing and Family Services, Inc.

Financial Statements
June 30, 2006 and 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Good Shepherd Housing and Family Services, Inc.

We have audited the accompanying statement of financial position of Good Shepherd Housing and Family Services, Inc. (the Organization) as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Organization as of June 30, 2005, were audited by other auditors whose report dated December 21, 2005 expressed an unqualified opinion of those statements.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of Good Shepherd Housing and Family Services, Inc. at June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006 on our consideration of the internal control of the Organization over financial reporting and on our test of their 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements of the Organization. The accompanying schedule of expenditures of federal awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, flowing style.

Vienna, Virginia
August 25, 2006

Good Shepherd Housing and Family Services, Inc.

Statements of Financial Position June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash	\$ 273,142	\$ 252,717
Accounts receivable, net	20,230	19,577
Grants receivable	12,396	200
Investments	84,952	83,133
Deposits and prepaid expenses	25,654	16,980
Property and equipment, net	2,029,109	1,274,611
Loan fees, net	37,990	39,390
	<u> </u>	<u> </u>
Total assets	<u>\$ 2,483,473</u>	<u>\$ 1,686,608</u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 159	\$ 2,529
Other liabilities	-	2,655
Security deposits payable	22,629	24,319
Lines of credit	1,597,847	1,091,767
Forgivable loans	435,561	134,561
	<u> </u>	<u> </u>
Total liabilities	<u>2,056,196</u>	<u>1,255,831</u>
 Net Assets		
Unrestricted:		
Undesignated	275,940	272,725
Board designated – General reserve	60,000	60,000
Board designated – Legacy fund	12,336	12,336
	<u> </u>	<u> </u>
Total unrestricted	348,276	345,061
Temporarily restricted	-	6,715
Permanently restricted	79,001	79,001
	<u> </u>	<u> </u>
Total net assets	<u>427,277</u>	<u>430,777</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 2,483,473</u>	<u>\$ 1,686,608</u>

See accompanying notes

Good Shepherd Housing and Family Services, Inc.

Statement of Activities
For the Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Rental income and rent subsidies	\$ 795,310	\$ -	\$ -	\$ 795,310
Government grants	247,750	-	-	247,750
Contributions	474,495	-	-	474,495
Indirect public support	34,811	-	-	34,811
Fundraising events	109,153	-	-	109,153
In-kind donations	76,570	-	-	76,570
Interest and dividend income	3,196	-	-	3,196
Unrealized gain on investments	1,819	-	-	1,819
Other income	3,769	-	-	3,769
Net assets released from restrictions:				
Satisfaction of purpose restrictions	6,715	(6,715)	-	-
Total revenue and support	<u>1,753,588</u>	<u>(6,715)</u>	<u>-</u>	<u>1,746,873</u>
Expenses				
Program services				
ABC (Rental Assistance)	1,272,197	-	-	1,272,197
Emergency Services	170,754	-	-	170,754
Homeless Transition	133,117	-	-	133,117
Total program services	<u>1,576,068</u>	<u>-</u>	<u>-</u>	<u>1,576,068</u>
Supporting services				
Management and general	59,640	-	-	59,640
Fundraising	114,665	-	-	114,665
Total supporting services	<u>174,305</u>	<u>-</u>	<u>-</u>	<u>174,305</u>
Total expenses	<u>1,750,373</u>	<u>-</u>	<u>-</u>	<u>1,750,373</u>
Change in Net Assets	3,215	(6,715)	-	(3,500)
Net Assets, beginning of year	<u>345,061</u>	<u>6,715</u>	<u>79,001</u>	<u>430,777</u>
Net Assets, end of year	<u>\$ 348,276</u>	<u>\$ -</u>	<u>\$ 79,001</u>	<u>\$ 427,277</u>

See accompanying notes

Good Shepherd Housing and Family Services, Inc.

Statement of Activities For the Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support				
Rental income and rent subsidies	\$ 777,468	\$ -	\$ -	\$ 777,468
Government grants	240,168	-	-	240,168
Contributions	425,189	6,715	-	431,904
Indirect public support	31,820	-	-	31,820
Fundraising events	90,321	-	-	90,321
In-kind donations	126,247	-	-	126,247
Interest and dividend income	2,875	-	-	2,875
Unrealized loss on investments	(2,234)	-	-	(2,234)
Other income	31,448	-	-	31,448
Net assets released from restrictions:				
Satisfaction of purpose restrictions	53,854	(53,854)	-	-
Total revenue and support	<u>1,777,156</u>	<u>(47,139)</u>	<u>-</u>	<u>1,730,017</u>
Expenses				
Program services				
ABC (Rental Assistance)	1,204,431	-	-	1,204,431
Emergency Services	170,932	-	-	170,932
Homeless Transition	111,249	-	-	111,249
Other programs	27,657	-	-	27,657
Total program services	<u>1,514,269</u>	<u>-</u>	<u>-</u>	<u>1,514,269</u>
Supporting services				
Management and general	62,160	-	-	62,160
Fundraising	131,118	-	-	131,118
Total supporting services	<u>193,278</u>	<u>-</u>	<u>-</u>	<u>193,278</u>
Total expenses	<u>1,707,547</u>	<u>-</u>	<u>-</u>	<u>1,707,547</u>
Change in Net Assets	69,609	(47,139)	-	22,470
Net Assets, beginning of year	<u>275,452</u>	<u>53,854</u>	<u>79,001</u>	<u>408,307</u>
Net Assets, end of year	<u>\$ 345,061</u>	<u>\$ 6,715</u>	<u>\$ 79,001</u>	<u>\$ 430,777</u>

See accompanying notes

Good Shepherd Housing and Family Services, Inc.

Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		
Changes in net assets	\$ (3,500)	\$ 22,470
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	57,377	25,751
Unrealized (gain) loss on investments	(1,819)	2,234
Change in operating assets and liabilities:		
(Increase) decrease in assets		
Accounts receivable	(653)	(14,415)
Grants receivable	(12,196)	22,049
Deposits and prepaid expenses	(8,674)	(2,053)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	2,370	(4,462)
Other liabilities	2,655	2,235
Security deposits payable	1,690	(3,214)
	37,250	50,595
Cash Flows from Investing Activities		
Proceed from sale of investments	-	4,637
Purchase of property and equipment	(3,375)	(55,604)
	(3,375)	(50,967)
Net cash used in investing activities	(3,375)	(50,967)
Cash Flows from Financing Activities		
Principal payments on lines of credit	(13,450)	(10,021)
	(13,450)	(10,021)
Net cash used in financing activities	(13,450)	(10,021)
Net Increase (Decrease) in Cash	20,425	(10,393)
Cash, beginning of year	252,717	263,110
Cash, end of year	\$ 273,142	\$ 252,717
Supplemental Disclosure		
Interest paid	\$ 65,598	\$ 33,429
Noncash purchase of property and equipment	\$ 807,100	\$ 878,052

See accompanying notes

Good Shepherd Housing and Family Services, Inc.

Notes to Financial Statements
June 30, 2006 and 2005

1. Nature of Operations

Good Shepherd Housing and Family Services, Inc. (the Organization) is a not-for-profit organization incorporated in the Commonwealth of Virginia on January 25, 1974. The Organization was formed to provide housing for families or individuals who may be in need of relief and to conduct programs or projects, which are concerned with the treatment of personal, economic, and social needs of families or individuals in the southern part of Fairfax County, Virginia.

2. Summary of Significant Accounting Policies

Classification of Net Assets

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Organization's operations. Included in unrestricted net assets is a board designated reserve for general reserve and Legacy fund in the amount of \$60,000 and \$12,336, respectively, at both June 30, 2006 and 2005.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of the Organization or the passage of time.
- *Permanently restricted net assets* represent funds in which the principal must be held in perpetuity, while the earnings may be available for the general operations of the Organization or the restricted purpose imposed by the donors.

Investments

Investments at June 30, 2006 and 2005 consisted of certificates of deposits and common stocks. Investments are recorded at fair value based on quoted market prices.

Accounts Receivable

Accounts receivable consists of amounts due from the assisted tenants for monthly rents, late fees, and other related costs. Allowance for doubtful accounts was \$19,349 and \$0 at June 30, 2006 and 2005, respectively.

Property and Equipment

Property and equipment with a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to 27.5 years. Expenditures for major repairs and maintenance are capitalized.

Good Shepherd Housing and Family Services, Inc.

Notes to Financial Statements
June 30, 2006 and 2005

2. Summary of Significant Accounting Policies (continued)

Loan Fees

Fees associated with the lines of credit are being amortized on the straight-line method over a period of 120 months which is the repayment term of lines of credit. Amortization expense was \$1,400 and \$1,586 for the years ended June 30, 2006 and 2005, respectively. At June 30, 2006 and 2005, accumulated amortization was \$3,064 and \$1,664, respectively.

Revenue Recognition

All grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Organization reports grants and contributions as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received.

Federal and state government grants that are cost reimbursable in nature are recognized as revenue as the related expenditures are incurred. Costs incurred in excess of cash received are reflected as grants receivable.

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

Revenue from all other sources is recognized when earned.

Donated Materials and Services

Donated materials and services are included in contributions at fair market value as of the date of the donation. The Organization also receives a substantial amount of services donated by volunteers in carrying out its program services. No amounts have been recognized in the accompanying financial statements, as these services do not meet the criteria for recognition under Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*.

Good Shepherd Housing and Family Services, Inc.

Notes to Financial Statements
June 30, 2006 and 2005

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of the Organization's programs and administration have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs or functions benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation. None of these reclassifications affected the prior year change in net assets.

3. Concentration of Credit Risk

The Organization maintains cash deposits with a major bank which from time to time may exceed federally insured limits. Management periodically assesses the financial condition of the banking institution and believes that the risk of any loss is minimal.

4. Investments

Investments consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Certificates of deposit	\$ 79,384	\$ 77,496
Common stocks	<u>5,568</u>	<u>5,637</u>
Total investments	<u>\$ 84,952</u>	<u>\$ 83,133</u>

For the years ended June 30, 2006 and 2005, investment income is composed of \$3,196 and \$2,875, respectively, in interest and dividends and \$1,819 and \$(2,234), respectively, in unrealized gain (loss).

Good Shepherd Housing and Family Services, Inc.

Notes to Financial Statements
June 30, 2006 and 2005

5. Property and Equipment

The Organization held the following property and equipment at June 30:

	<u>2006</u>	<u>2005</u>
Land	\$ 291,559	\$ 163,399
Rental property	1,817,731	1,138,791
Furniture and office equipment	<u>42,843</u>	<u>39,468</u>
Total property and equipment	2,152,133	1,341,658
Less: accumulated depreciation	<u>(123,024)</u>	<u>(67,047)</u>
Property and equipment, net	<u>\$ 2,029,109</u>	<u>\$ 1,274,611</u>

Depreciation expense was \$55,977 and \$24,441 for the years ended June 30, 2006 and 2005, respectively.

6. Forgivable Loans

The Organization receives funds from the Community Development Block Grant and HOME Investment Partnership Program passed through by the County of Fairfax Department of Housing and Community Development (DHCD grant). As a part of the DHCD grant, the Organization receives assistance at closing on purchases of low income housing units in the form of loans. These loans are due 20 years, 25 years or 30 years from the date of closing. However, these loans will be forgiven if certain covenants are met. At June 30, 2006 and 2005, \$435,561 and \$134,561, respectively, have been disbursed at closings and are reflected as forgivable loans in the accompanying statements of financial position.

7. Commitments

Lines of Credit

On March 4, 2004, the Organization obtained a line of credit for \$1,405,013 with a financial institution that is collateralized by the Organization's low income housing properties purchased using the fund from this line of credit. The interest rate on scheduled payments on the line of credit is 5.10% annually. Each advance from this line of credit shall be paid in 120 monthly installments of principal and interest in an amount sufficient to amortize the advance over a 30 year period from the date of such advance. Remaining outstanding principal and any accrued unpaid interest are due on the date that is 10 years after the date of the advance.

Good Shepherd Housing and Family Services, Inc.

Notes to Financial Statements
June 30, 2006 and 2005

7. Commitments (continued)

Lines of Credit (continued)

In April 2005, the Organization entered into another revolving line of credit for \$405,000, which is collateralized by the properties acquired using the advances from this line of credit. The interest rate is 6.25% annually. The entire principal balance and any accrued unpaid interest are due on June 14, 2007; however, the Organization may request for renewal of the line of credit for an additional 12 months.

Future minimum maturities on the lines of credit are as follows for each of the years ending June 30:

2007	\$ 277,328
2008	50,919
2009	53,428
2010	56,063
2011	58,827
Thereafter	<u>1,101,282</u>
Total future minimum maturities	<u>1,597,847</u>

Operating Leases

The Organization leases residential property for use in its housing program. These units are in turn leased to people in need of housing assistance to fulfill program objectives. All leases are operating leases and have original terms of one year or less. Rent expense for the years ended June 30, 2006 and 2005 was \$672,304 and \$797,733, respectively.

The Organization also leases office facilities from the County of Fairfax, which are used to carry out program objectives. The current lease is automatically renewed in one year increments commencing on April 1 of each year. Rent expense for the years ended June 30, 2006 and 2005 was \$16,250 and \$15,000, respectively.

Government Cooperative Agreements and Grants

Funds received from DHCD and other government agencies are subject to an audit under the provisions of the grant agreements. The ultimate determination of amounts received under these grants is based upon the allowance of costs reported to and accepted by the oversight agencies. Until such grants are closed out, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability exists.

Good Shepherd Housing and Family Services, Inc.

Notes to Financial Statements
June 30, 2006 and 2005

8. Net Assets

Unrestricted – Board Designated

The Board has designated \$60,000 of funds received from fundraising events and contributions to provide coverage at the beginning of each month to pay rental fees before receiving all sublet payments. In addition, the Board designated \$12,336 for the Organization's Legacy fund.

Temporarily Restricted

Temporarily restricted net assets consisted of the following at June 30:

	<u>2006</u>	<u>2005</u>
Walkathon	\$ -	\$ 212
ABC Program	-	2,045
Homeless transition program	<u>-</u>	<u>4,458</u>
Property and equipment, net	<u>\$ -</u>	<u>\$ 6,715</u>

Permanently Restricted

Permanently restricted net assets of \$79,001 consist of contributions designated for the Legacy Fund. The principal amounts contributed toward the Legacy Fund are held in perpetuity for the benefit of the Organization with earnings considered available for operations. The Organization continues to receive contributions toward this fund.

9. Income Taxes

The Organization is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes except for taxes on unrelated business activities. No tax expense was recorded in the accompanying financial statements for the years ended June 30, 2006 and 2005 as there were no unrelated business activities.

10. Subsequent Events

Subsequent to year end, the Organization closed on two low-income housing properties in the amounts of \$239,000 and \$184,300. These amounts were funded through both private financing and DHCD grants.

SUPPLEMENTAL INFORMATION

Good Shepherd Housing and Family Services, Inc.

Schedule of Functional Expenses
For the Year Ended June 30, 2006

	Program Services				Supporting Services			
	ABC (Rental Assistance)	Emergency Services	Homeless Transition	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	\$ 172,774	\$ 39,119	\$ 39,119	\$ 251,012	\$ 19,559	\$ 55,418	\$ 74,977	\$ 325,989
Payroll taxes	13,077	2,961	2,961	18,999	1,480	4,195	5,675	24,674
Employee benefits	18,276	4,138	4,138	26,552	2,069	5,862	7,931	34,483
Rents and utilities	763,266	-	-	763,266	-	-	-	763,266
Direct assistance payments	-	78,402	70,059	148,461	-	-	-	148,461
In-kind donation	22,971	30,628	11,486	65,085	3,829	7,657	11,486	76,571
Bad debts	72,210	-	-	72,210	-	-	-	72,210
Repairs and maintenance	48,329	-	-	48,329	-	-	-	48,329
Professional fees	2,337	1,385	647	4,369	25,644	948	26,592	30,961
Printing	1,061	1,061	354	2,476	530	530	1,060	3,536
Miscellaneous	66	66	22	154	33	33,559	33,592	33,746
Depreciation and amortization	57,377	-	-	57,377	-	-	-	57,377
Office rents and utilities	4,969	4,969	1,656	11,594	2,484	2,484	4,968	16,562
Insurance	1,526	1,526	509	3,561	763	763	1,526	5,087
Postage	1,288	1,288	429	3,005	644	644	1,288	4,293
Equipment maintenance	1,165	1,165	388	2,718	582	582	1,164	3,882
Interest expense	84,569	-	-	84,569	-	-	-	84,569
Dues and taxes	3,204	314	105	3,623	157	157	314	3,937
Bank service charges	666	666	222	1,554	333	333	666	2,220
Travel	741	741	247	1,729	370	370	740	2,469
Supplies	903	903	301	2,107	452	452	904	3,011
Telephone	1,422	1,422	474	3,318	711	711	1,422	4,740
Total Expenses	\$ 1,272,197	\$ 170,754	\$ 133,117	\$ 1,576,068	\$ 59,640	\$ 114,665	\$ 174,305	\$ 1,750,373

Good Shepherd Housing and Family Services, Inc.

Schedule of Functional Expenses
For the Year Ended June 30, 2005

	Program Services				Total Program Services	Supporting Services		
	ABC (Rental Assistance)	Emergency Services	Homeless Transition	Other Programs		Management and General	Fundraising	Total
Salaries	\$ 177,823	\$ 37,617	\$ 41,036	\$ 10,259	\$ 266,735	\$ 20,518	\$ 54,715	\$ 341,968
Payroll taxes	15,702	3,322	3,624	905	23,553	1,812	4,831	30,196
Employee benefits	14,214	3,007	3,280	820	21,321	1,640	4,373	27,334
Rents and utilities	797,733	-	-	-	797,733	-	-	797,733
Direct assistance payments	-	68,736	40,378	-	109,114	-	-	109,114
In-kind donation	36,612	49,236	18,937	2,525	107,310	6,312	12,625	126,247
Bad debts	48,550	-	-	-	48,550	-	-	48,550
Other program costs	6,250	-	-	11,070	17,320	-	-	17,320
Repairs and maintenance	26,225	-	-	-	26,225	-	-	26,225
Professional fees	-	-	-	-	-	13,389	-	13,389
Consultants and contractors	2,442	1,027	-	-	3,469	-	-	3,469
Printing	475	237	119	59	890	178	6,391	7,459
Miscellaneous	2,530	-	-	-	2,530	2,768	38,464	43,762
Depreciation and amortization	23,435	-	-	-	23,435	2,317	-	25,752
Office expenses	1,957	978	489	245	3,669	734	489	4,892
Office rents and utilities	6,000	3,000	1,500	750	11,250	2,250	1,500	15,000
Insurance	3,077	-	-	-	3,077	4,023	-	7,100
Postage	1,517	758	379	190	2,844	569	6,223	9,636
Equipment maintenance	2,597	1,299	650	325	4,871	974	650	6,495
Training and conferences	-	-	-	-	-	709	-	709
Interest expense	33,429	-	-	-	33,429	-	-	33,429
Dues and taxes	433	-	-	-	433	605	-	1,038
Bank service charges	-	-	-	80	80	2,076	-	2,156
Travel	1,137	569	284	142	2,132	426	284	2,842
Telephone	2,293	1,146	573	287	4,299	860	573	5,732
Total Expenses	\$ 1,204,431	\$ 170,932	\$ 111,249	\$ 27,657	\$ 1,514,269	\$ 62,160	\$ 131,118	\$ 1,707,547

INDEPENDENT AUDITORS' 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*

To the Board of Directors of
Good Shepherd Housing and Family Services, Inc.

We have audited the financial statements of Good Shepherd Housing and Family Services, Inc. (the Organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers + Company PLLC

Vienna, Virginia
August 25, 2006

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

To the Board of Directors of
Good Shepherd Housing and Family Services, Inc.

Compliance

We have audited the compliance of Good Shepherd Housing and Family Services, Inc. (the Organization) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our audit procedures for the year ended June 30, 2006 disclosed an instance of noncompliance and which are described in the accompanying schedule of findings and questioned costs as item 06-1.

Internal Control over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The "R" is large and stylized, and the rest of the text is in a cursive, handwritten style.

Vienna, Virginia
August 25, 2006

Good Shepherd Housing and Family Services, Inc.

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Agency or Pass- Through Grant Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grant Program (Pass-through from the Fairfax county)			
Homes for the Working Poor, Elderly, and Disabled	RQ0469911224L	14.218	\$ 204,000
Mt. Vernon Village	RQ0469911224M	14.218	143,000
Emergency Services – Keeping Families at Home	RQ0469911224N	14.218	43,750
HOME Investment Partnerships Program (Pass- through from the Fairfax County)	M-05-MC-51-0503	14.239	<u>158,000</u>
Total Expenditures of Federal Awards			<u><u>\$ 548,750</u></u>

See accompanying notes to this schedule.

Good Shepherd Housing and Family Services, Inc.

Note to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

1. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred.

Good Shepherd Housing and Family Services, Inc.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Good Shepherd Housing and Family Services, Inc. (the Organization).
2. No instances of noncompliance material to the financial statements of the Organization, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
3. The auditors' report on compliance for the major federal programs of the Organization expresses an unqualified opinion on all major federal programs.
4. There was one audit finding related to the major federal award programs for the Organization. This finding is reported in Part C of this schedule.
5. The threshold for distinguishing Types A and B programs was \$300,000.
6. The following program was tested as major program:

CFDA#/Grant Number	Program Title
14.218	Community Development Block Grant Program
14.239	HOME Investment Partnerships Program

7. The Organization is not deemed to be a low-risk auditee.

B. Findings – Financial Statement Audit

- None

Good Shepherd Housing and Family Services, Inc.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

C. Findings and Questioned Costs – Major Federal Award Program Audit

Finding No. 06-1:

Condition: One employee's timesheets were prepared based on estimates and not the actual time spent on projects.

Criteria: OMB Circular A-133 and A-122 require that timesheets reflect an after-the-fact determination of the actual activity of each employee.

Effect: Payroll expenses charged to federal programs were effectively estimated. Because of this, we were unable to confirm the allowability, validity or completeness of salary expenses claimed as federal expenditures.

Cause: Policies and procedures were not in place to ensure that only actual time spent on federal programs was properly charged.

Questioned Costs: Unknown

Recommendation: We recommend that the Organization update its accounting policies by drafting an accounting manual and implementing procedures to ensure that all timesheets reflect the actual time spent on federal programs.

Grantee Response: Management has noted and recognized this finding. The Organization will implement a new timesheet system. All employees will fill out the timesheets daily and each timesheet will account for an employee's daily activity and will allow them to allocate hours worked to each project including federal grants.

D. Summary Schedule of Prior Audit Findings

- None