

**DOLORES STREET
COMMUNITY SERVICES, INC.**

Financial Statements

June 30, 2006

**DOLORES STREET
COMMUNITY SERVICES, INC.**

Financial Statements

June 30, 2006

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Antoinette G. Nies

Certified Public Accountant

61 Prince Royal Drive
Corte Madera, CA 94925
agn.cpa@att.net
415-927-9475 voice
415-924-6960 fax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
DOLORES STREET COMMUNITY SERVICES, INC.

I have audited the accompanying Statement of Financial Position of Dolores Street Community Services, Inc. as of June 30, 2006, and the related Statements of Activities, Functional Expenses and Cash Flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior-year summarized comparative information has been derived from the Council's 2005 financial statements and, in my report dated June 28, 2006, I expressed an unqualified opinion on those financial statements.

I conducted my 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 I plan and perform the audit 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dolores Street Community Services, Inc. as of 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*, I have also issued my report dated October 6, 2006 on my consideration of Dolores Street Community Services, Inc.'s internal control over financial reporting and on my 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 my 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 my audit.

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

Antoinette G. Nies, CPA
October 6, 2006

DOLORES STREET COMMUNITY SERVICES, INC.
Statement of Financial Position
June 30, 2006
(With Comparative Totals at June 30, 2005)

ASSETS	2006	2005
CURRENT ASSETS		
Cash	\$ 119,321	\$ 107,350
Contracts Receivable	161,096	222,491
Foundation Grants Receivable	39,500	47,166
Other Receivables	2,064	1,612
Investment - Under One Roof	3,500	3,500
Prepaid Expenses and Deposits	8,092	10,673
Total Current Assets	333,573	392,792
NONCURRENT ASSETS		
Property and Equipment	1,037,695	1,080,896
Deposits	5,500	5,500
Total Noncurrent Assets	1,043,195	1,086,396
TOTAL ASSETS	\$ 1,376,768	\$ 1,479,188
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 20,576	\$ 71,174
Accrued Expenses	77,567	73,027
Line of Credit	-	99,950
Notes Payable	-	60,000
Rent Deposits and Funds Held for Residents	2,674	2,674
Refundable Advances	90	90
Total Current Liabilities	100,907	306,915
LONG-TERM LIABILITIES		
Notes Payable	18,517	17,145
Total Long Term Liabilities	18,517	17,145
Total Liabilities	119,424	324,060
NET ASSETS		
Unrestricted	224,544	90,454
Temporarily Restricted	1,032,800	1,064,674
Total Net Assets	1,257,344	1,155,128
TOTAL LIABILITIES AND NET ASSETS	\$ 1,376,768	\$ 1,479,188

DOLORES ST. COMMUNITY SERVICES, INC.
Statement of Activities
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	Unrestricted	Temporarily Restricted	2006	2005
REVENUES, GAINS, AND OTHER SUPPORT:				
Fees and Grants from Governmental Agencies	\$ 1,251,347		\$ 1,251,347	\$ 1,526,313
Foundation and Corporate Grants	90,845	77,500	168,345	193,833
Rent	80,767		80,767	86,765
Contributions	41,583		41,583	57,108
Fundraising Events	14,437		14,437	32,588
Other	9,027		9,027	4,953
Total Revenue, Gains and Other Support	<u>1,488,006</u>	<u>77,500</u>	<u>1,565,506</u>	<u>1,901,560</u>
NET ASSETS RESTRICTED OR RELEASED FROM RESTRICTIONS:				
Satisfaction of Program Requirements	76,000	(76,000)	-	-
Transactions Restricted under Grant				
Depreciation	32,001	(32,001)	-	-
Imputed Interest	1,373	(1,373)	-	-
Total Net Assets Restricted or Released from Restrictions	<u>109,374</u>	<u>(109,374)</u>	<u>-</u>	<u>-</u>
EXPENSES AND LOSSES				
Program Services				
Dolores Housing	588,948		588,948	794,354
Richard M. Cohen Residence	633,610		633,610	723,104
	<u>1,222,558</u>	<u>-</u>	<u>1,222,558</u>	<u>1,517,458</u>
Support Services				
General and Administrative	160,448		160,448	281,177
Development	80,284		80,284	163,579
	<u>240,732</u>	<u>-</u>	<u>240,732</u>	<u>444,756</u>
Total Expenses and Losses	<u>1,463,290</u>	<u>-</u>	<u>1,463,290</u>	<u>1,962,214</u>
Change in Net Assets	134,090	(31,874)	102,216	(60,654)
NET ASSETS, Beginning of Year	<u>90,454</u>	<u>1,064,674</u>	<u>1,155,128</u>	<u>1,215,782</u>
NET ASSETS, End of Year	<u>\$ 224,544</u>	<u>\$ 1,032,800</u>	<u>\$ 1,257,344</u>	<u>\$ 1,155,128</u>

DOLORES STREET COMMUNITY HOUSING, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	Dolores Housing	Richard M. Cohen Residence	Total Programs	General and Administrative	Development	Total Support Services	2006	2005
Salaries	\$ 325,019	\$ 339,905	\$ 664,924	\$ 62,027	\$ 48,491	\$ 110,518	\$ 775,442	\$ 1,120,252
Payroll Taxes and Employee Benefits	109,685	90,155	199,840	17,490	9,719	27,209	227,049	324,559
	434,704	430,060	864,764	79,517	58,210	137,727	1,002,491	1,444,811
Occupancy	81,868	29,704	111,572	12,033	3,290	15,323	126,895	145,540
Professional Fees	5,280	55,545	60,825	48,709	5,189	53,898	114,723	89,024
Food Supplies	12,652	24,684	37,336	-	-	-	37,336	40,302
Office Expense	12,711	6,312	19,023	3,335	3,611	6,946	25,969	33,114
Telephone and Communication	10,038	7,957	17,995	4,174	2,508	6,682	24,677	24,732
Insurance	9,458	10,450	19,908	1,540	830	2,370	22,278	24,704
Interest	361	1,654	2,015	9,803	47	9,850	11,865	5,655
Supplies	4,239	7,111	11,350	506	1,024	1,530	11,350	8,319
Miscellaneous	5,673	3,770	9,443	20	10	30	10,973	13,879
Equipment Maintenance and Repairs	138	9,510	9,648	-	-	-	9,678	8,472
Resident Activities and Expense	-	6,843	6,843	116	1,150	1,266	6,843	2,101
Service Contracts	738	1,327	2,065	2,324	-	-	3,331	10,738
Special Events	-	-	-	175	-	-	2,324	34,031
Staff and Volunteer Development	107	1,606	1,713	283	458	458	2,171	8,509
Recruiting	96	1,188	1,284	115	42	157	1,441	455
Appeal Letters	-	-	-	-	-	-	-	5,994
Newsletter	-	-	-	-	-	-	-	3,135
Total Expenses before Depreciation	578,063	597,721	1,175,784	160,151	78,410	238,561	1,414,345	1,903,515
Depreciation	10,885	35,889	46,774	297	1,874	2,171	48,945	58,699
Total Expenses	\$ 588,948	\$ 633,610	\$ 1,222,558	\$ 160,448	\$ 80,284	\$ 240,732	\$ 1,463,290	\$ 1,962,214

DOLORES ST. COMMUNITY SERVICES, INC.
Statement of Cash Flows
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 102,216	\$ (60,654)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	48,945	58,699
Imputed Interest on Interest Free Loans	1,373	1,270
(Increases) Decreases in Operating Assets		
Contracts Receivable	61,395	(90,885)
Foundation Grants Receivable	7,666	(27,166)
Other Receivables	(453)	(1,613)
Prepaid Expenses and Deposits	2,581	1,519
Increases (Decreases) in Operating Liabilities		
Accounts Payable	(50,598)	54,009
Accrued Expenses	4,540	(40,187)
Rent Deposits and Funds Held for Residents	-	(185)
Refundable Advances	-	(12,359)
Net Cash Provided (Used) by Operating Activities	<u>177,665</u>	<u>(117,552)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(5,744)	-
Investment in Under One Roof	-	(3,500)
Net Cash (Used) by Investing Activities	<u>(5,744)</u>	<u>(3,500)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Payments on Line of Credit	(99,950)	98,005
Borrowings	-	60,000
Payments on Borrowings	(60,000)	-
Payments on Long-Term Debt	-	(17,597)
Net Cash Provided (Used) by Financing Activities	<u>(159,950)</u>	<u>140,408</u>
NET INCREASE IN CASH	11,971	19,356
CASH, Beginning of Year	<u>107,350</u>	<u>87,994</u>
CASH, End of Year	<u>\$ 119,321</u>	<u>\$ 107,350</u>
SUPPLEMENTAL DISCLOSURES:		
Operating activities reflect interest paid of:	<u>\$ 10,492</u>	<u>\$ 4,385</u>

DOLORES STREET COMMUNITY SERVICES, INC.

Notes to Financial Statements

June 30, 2006

1. **Organization**

The Dolores Street Community Services, Inc. (DSCS) is a not-for-profit public benefit corporation established in 1982 to provide neighborhood-based housing, advocacy, and support for people seeking dignity, health, and hope in San Francisco. DSCS derives approximately 80% of its revenue from the City and County of San Francisco with certain portions originating from federal agencies.

The Agency's programs include:

Dolores Housing

A 120 bed emergency housing and support service program for homeless men, primarily the Latino working homeless of San Francisco's Mission District.

Richard M. Cohen Residence

A ten bed, twenty-four hour care assisted living residence for homeless men and women with disabling HIV or AIDS. The Cohen Residence provides a coordinated and integrated system of affordable housing with private rooms, meals and support services in a Victorian cottage.

2. **Summary of Significant Accounting Policies**

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, DSCS 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.

Contracts Receivable

Contracts receivable are stated at their unpaid balances. No allowance for doubtful accounts is considered necessary as the receivables relate primarily to governmental entities.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated Assets

Noncash donations are recorded as contributions at their estimated fair values at the date of donation.

DOLORES STREET COMMUNITY SERVICES, INC.

Notes to Financial Statements

June 30, 2006

(Continued)

2. **Summary of Significant Accounting Policies – continued**

Property and Equipment and Depreciation

DSCS capitalizes all expenditures for property and equipment in excess of \$1,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, DSCS reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. DSCS reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated Services

No amounts have been reflected in the financial statements for donated services. DSCS pays for most services requiring specific expertise.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

DOLORES STREET COMMUNITY SERVICES, INC.

Notes to Financial Statements

June 30, 2006

(Continued)

2. Summary of Significant Accounting Policies – continued

Income Taxes

The Agency is exempt from income taxes under Internal Revenue Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. The Agency 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).

3. Cash

The Agency maintains its cash in bank deposit accounts in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2006, the Agency's uninsured cash balances total approximately \$30,000.

4. Property and Equipment

Property and Equipment consist of the following:

Land	\$ 118,391
Building and Improvements	1,260,408
Furniture and Equipment	153,267
Leasehold Improvements	173,398
Vehicles	<u>9,000</u>
	1,714,464
Less: Accumulated Depreciation	<u>676,769</u>
Net Book Value	<u>\$ 1,037,695</u>

Property includes the Richard M. Cohen Residence. As discussed in notes 6 and 7, ~~DSCS is required to continue to use the residence for low income persons with AIDS or disabling HIV for 50 years commencing in 1991 under the terms of a note payable and of a grant. This property is as follows:~~

Land	\$ 118,391
Building and Improvements	<u>1,260,408</u>
	1,378,799
Less: Accumulated Depreciation	<u>391,570</u>
Net Book Value	<u>\$ 987,229</u>

DOLORES STREET COMMUNITY SERVICES, INC.

Notes to Financial Statements

June 30, 2006

(Continued)

5. Line of Credit

Unsecured bank line of credit in the amount of \$100,000 maturing in February 2007. Interest only at a variable rate, currently 11%, is payable monthly. There is no outstanding balance at June 30, 2006.

6. Notes Payable

Notes payable consist of the following:

Redevelopment Agency of the City and County of San Francisco under the Housing Opportunities for Persons with AIDS (HOPWA) grant agreement with the United States Department of Housing and Urban Development, non-interest bearing, matures in 2044. If DSCS operates the building under the terms of the agreement for fifty years, the loan will be forgiven. The face value of the note is \$372,477, which has been reduced to its present value using a discount rate of 8%. The terms of the loan require that the property be used for low income persons with AIDS or disabling HIV for a period of 10 years, at which time, if the organization provides evidence that there is no longer sufficient need or that the organization is unable to obtain sufficient funds to operate the property solely for persons with HIV/AIDS, the organization may rent to any person or family earning 50% or less of Median income. The terms of the loan provide that, in the event of a default that is not cured, principal and interest at 10% per annum from inception of the loan will be due (See Note 8).

\$ 18,517

Maturities are as follows:

<u>Year Ending June 30,</u>	
2006	\$ -0-
Thereafter	<u>18,517</u>
	\$ <u>18,517</u>

7. Operating Leases

The Organization leases facilities under operating leases expiring in various years through 2008. Minimum future rental payments under these noncancelable leases are as follows:

<u>Year Ending June 30,</u>	
2007	\$ 49,730
2008	<u>6,800</u>
	\$ <u>56,530</u>

Expenses under noncancelable operating leases for the year ended June 30, 2006 totaled \$74,045.

DOLORES STREET COMMUNITY SERVICES, INC.

Notes to Financial Statements

June 30, 2006

(Continued)

8. Temporarily Restricted Net Assets

Temporarily Restricted Net Assets are comprised of the following:

<u>Restriction</u>	<u>Amount</u>
Program Expenditures:	
Dolores Housing	\$ 10,000
Fiscal year ending June 30, 2007	25,000
Business Plan – Dolores Housing	14,000
Capital Improvements and Repairs	15,000
Richard M. Cohen Residence*	614,752
Discounts on Interest Free Notes	<u>354,048</u>
	<u>\$ 1,032,800</u>

* Richard M. Cohen Residence - Under the terms of a 1991 grant from the Redevelopment Agency, DSCS must use the Richard M. Cohen Residence for housing for low-income persons with AIDS or disabling HIV for 50 years. If DSCS does not comply with these restrictions, the Redevelopment Agency reserves the right to purchase the property, subject to outstanding liens and encumbrances for \$1. The amount included in Temporarily Restricted Net Assets is calculated as follows:

Net book value of property	\$ 987,229
Less: Mortgages and notes payable at face value	<u>(372,477)</u>
Temporarily Restricted	<u>\$ 614,752</u>

9. Contingencies

Accrued Interest

As discussed in Note 6, the terms of the notes payable from the Redevelopment Agency require that the properties purchased with note proceeds be used for specified purposes for fifty years following disbursement of the note funds. If DSCS is in noncompliance with these terms, the face value of the notes and accrued interest at 10% become due.

Contracts and Grants

The Agency's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Agency has no provision for the possible disallowance of program costs on their financial statements.

**DOLORES STREET
COMMUNITY SERVICES, INC.**

Supplemental Schedules

June 30, 2006

Dolores Street Community Services, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

<u>Agency/Program Grant Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
San Francisco Redevelopment Agency		
Housing Opportunities for People with AIDS	14.241	\$ 423,238
San Francisco Mayor's Office of Community Development		
Emergency Shelter Grant Program	14.213	48,000
U.S. Department of Health and Human Services		
City and County of San Francisco Department of Public Health		
HIV Emergency Relief Project Grant	93.914	177,958
		<u>\$ 649,196</u>

Note: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Certified Public Accountant

61 Prince Royal Drive
Corte Madera, CA 94925
agn.cpa@att.net
415-927-9475 voice
415-924-6960 fax

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Directors
Dolores Street Community Services, Inc.

I have audited the financial statements of Dolores Street Community Services, Inc. (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued my report thereon dated October 6, 2006. I conducted my audit in accordance with auditing standards generally accepted auditing 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.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Dolores Street Community Services' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of Dolores Street Community Services, Inc. in a separate letter dated October 6, 2006.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dolores Street Community Services, Inc.'s financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, 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.

Antoinette G. Nies, CPA

October 6, 2006

Antoinette G. Nies

Certified Public Accountant

61 Prince Royal Drive
Corte Madera, CA 94925
agn.cpa@att.net
415-927-9475 voice
415-924-6960 fax

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

To the Board of Directors
Dolores Street Community Services, Inc.

Compliance

I have audited the compliance of Dolores Street Community Services, Inc. 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 each of its major federal programs for the year ended June 30, 2006. Dolores Street Community Services, Inc.'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 each of its major federal programs is the responsibility of Dolores Street Community Services, Inc.'s management. My responsibility is to express an opinion on Dolores Street Community Services, Inc.'s compliance based on my audit.

I conducted my 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 I 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 Dolores Street Community Services, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Dolores Street Community Services, Inc.'s compliance with those requirements.

In my opinion, Dolores Street Community Services, Inc. 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.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(continued)**

Internal Control Over Compliance

The management of Dolores Street Community Services, Inc. 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 my audit, I considered Dolores Street Community Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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 reportable 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 caused by error or fraud 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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information of the audit committee, management, Board of Directors 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.

Antoinette G. Nies, CPA

October 6, 2006

DOLORES STREET COMMUNITY SERVICES, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section I
Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<i>Unqualified</i>
Internal control over financial reporting:	
• Material weaknesses identified?	<i>No</i>
• Reportable conditions identified that are not considered to be material weaknesses?	<i>No</i>
Noncompliance material to financial statements noted	<i>No</i>

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	<i>No</i>
• Reportable conditions identified that are not considered to be material weaknesses?	<i>No</i>

Type of auditor's report issued on compliance for major programs:	<i>Unqualified</i>
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Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	<i>Yes</i>
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Identification of major programs:

Department of Housing and Urban Development:

<i>Housing Opportunities for People with AIDS</i>	<i>14.241</i>
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Dollar threshold used to distinguish between Type A and Type B programs	<i>\$300,000.</i>
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Auditee qualified as low risk?	<i>No</i>
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Section II
Financial Statement Findings

None

DOLORES STREET COMMUNITY SERVICES, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section II
Financial Statement Findings

None

Section III
Federal Award Findings and Questioned Costs

None

Section IV
Status of Prior Year Findings

Finding 05-1:

Condition: While actual total costs exceeded amounts reimbursed, individual line items in some cost reports were based on available budget rather than on actual corresponding costs.

Questioned cost: None

Status: The Organization has instituted a program of training and supervision to prevent recurrence. For the year ended June 30, 2006, actual costs were claimed for reimbursement.

To the Board of Directors
Dolores Street Community Services, Inc.

In planning and performing my audit of the financial statements of Dolores Street Community Services, Inc. for the year ended June 30, 2006, I considered the Organization's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect my report dated October 6, 2006 on the financial statements of Dolores Street Community Services, Inc.

I will review the status of these comments during my next audit engagement. My comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. I will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. My comments are summarized as follows:

Segregation of Duties

I appreciate the efforts the Organization has made in attempting to establish the highest degree of internal control with the limited personnel available. It is a general rule that there should be a plan of organization that provides appropriate segregation of functional responsibilities. No single person should control all phases of a transaction without the intervention of some other persons who afford a cross check. Employees responsible for handling cash receipts and disbursements should have no access to the accounting records and vice versa. Whenever practical, this principle of segregating duties should be followed.

I recommend that the following be implemented:

- Signed checks should be given to someone other than the preparer for mailing.
- Payroll reports should be delivered directly to a person other than the preparer for review.
- Check requests should be approved by someone other than the person making the request and this should be documented on the face of the request.
- When possible, two persons should open the mail, restrictively endorse checks received, and make a list of receipts to be given directly to the person reviewing the bank statement.

To the Board of Directors
Dolores Street Community Services, Inc.
Page 2 of 2

Credit Card Purchases

I noted some personal expenses charged to the Organization card. Even when reimbursed, personal purchases on credit cards constitute loans to employees with no controls or prior authorization. I understand that the Organization instituted policies and controls to prevent this subsequent to year end.

Cash at Events

I recommend that the Organization assess the risk of defalcation at each event and institute appropriate preventive procedures.

Bank Accounts and Credit Lines

I was unable to obtain information regarding one credit line because the line is currently only accessible by a former employee. I recommend that the Organization avoid having accounts in its name that can only be accessed by a single person and that prompt action be taken to ensure that authorized signatories are kept current.

I will review the status of these comments during my next audit engagement. I have already discussed them with Organization personnel and I will be pleased to discuss them in further detail at your convenience.

October 6, 2006

Response to the FY 2006 Audit Management Letter

The following actions and procedures have taken place in response to the issues and recommendations of the FY 2006 Audit.

Segregation of Duties

Signed checks should be given to someone other than the preparer for mailing. The accounting assistant now has responsibility for mailing the signed checks prepared by the bookkeeper.*

Payroll reports should be delivered directly to a person other than the preparer for review. The Executive Director now reviews pay checks upon their arrival and initials the envelope to indicate his approval.

Check requests should be approved by someone other than the person making the request and this should be documented on the face of the request. We now enforce the policy requiring two signatures (requestor and supervisor) upon every check request, no matter the size of the request. *

When possible, two persons should open the mail, restrictively endorse checks received, and make a list of receipts to be given directly to the person reviewing the bank statement. The bookkeeper and case manager open all mail together now, deposit-stamp the revenue checks, and enter/initial the information into a log book.

Credit Card Purchases

The policy forbidding personal purchases with company credit cards has been reviewed with staff and personal purchases are no longer being made. Please note that while a small amount of purchases were made in the past, they were always reimbursed in full.

Cash at Events

A new policy of double-custody of cash has been implemented for all major fundraising events. Either two staff members or a staff and volunteer will each count the money raised after an event and initial the amount of cash received on a note to accompany the cash back to the office.

Bank Accounts and Credit Lines

Access to the line of credit has been changed to include only current authorized signatories.

~~*Please note that these two items were also mentioned in the FY 2005 Audit and were dealt with immediately. However, because the FY 2005 Audit was completed at such a late date the actions to remedy the issues were only enacted far into the FY 2006 year.~~

Response to the FY 2006 Audit Management Letter

The following actions and procedures have taken place in response to the issues and recommendations of the FY 2006 Audit.

Segregation of Duties

Signed checks should be given to someone other than the preparer for mailing. The accounting assistant now has responsibility for mailing the signed checks prepared by the bookkeeper.*

Payroll reports should be delivered directly to a person other than the preparer for review. The Executive Director now reviews pay checks upon their arrival and initials the envelope to indicate his approval.*

Check requests should be approved by someone other than the person making the request and this should be documented on the face of the request. We now enforce the policy requiring two signatures (requestor and supervisor) upon every check request, no matter the size of the request.

When possible, two persons should open the mail, restrictively endorse checks received, and make a list of receipts to be given directly to the person reviewing the bank statement. The bookkeeper and case manager open all mail together now, deposit-stamp the revenue checks, and enter/initial the information into a log book.

Credit Card Purchases

The policy forbidding personal purchases with company credit cards has been reviewed with all staff and personal purchases are no longer being made.

Cash at Events

A new policy of double-custody of cash has been implemented for all major fundraising events. Either two staff members or a staff and volunteer will each count the money raised after an event and initial the amount of cash received on a note to accompany the cash back to the office.

Bank Accounts and Credit Lines

Access to the line of credit has been changed to include only current staff and board members.

**Please note that these two items were also mentioned in the FY 2005 Audit and were dealt with immediately. However, because the FY 2005 Audit was completed at such a late date the actions to remedy the issues were only enacted far into the FY 2006 year.*
