

**SOMERSET HOME FOR
TEMPORARILY DISPLACED CHILDREN, INC.**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2006**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Somerset Home for Temporarily Displaced Children, Inc.


We have audited the accompanying statement of financial position of Somerset Home for Temporarily Displaced Children, Inc. (a nonprofit organization) as of December 31, 2006 and the related statements of activities, cash flows, and functional expenses 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.

We conducted our audit in accordance auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statements referred to above present fairly, in all material respects, the financial position of Somerset Home for Temporarily Displaced Children, Inc. as of December 31, 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 April 27, 2007, on our consideration of Somerset Home For Temporarily Displaced Children, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of expenditures of federal and state 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 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 our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Watchung, New Jersey
April 27, 2007

MEMBER: NEW JERSEY SOCIETY OF CPA'S - AMERICAN INSTITUTE OF CPA'S

**SOMERSET HOME FOR TEMPORARILY DISPLACED CHILDREN, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2006**

ASSETS

Current Assets:	
Cash	\$ 268,948
Accounts Receivable	<u>131,363</u>
Total Current Assets	<u>400,311</u>
Endowment Fund	81,616
Fixed Assets(less accum.depr.)	1,174,693
Land	<u>382,197</u>
TOTAL ASSETS	<u>\$2,038,817</u>

LIABILITIES & NET ASSETS

Current Liabilities:	
Accounts Payable and Accrued Expenses	\$ 87,476
Current Portion L.T. Debt	<u>23,419</u>
Total Current Liabilities	<u>110,895</u>
Long Term Liabilities:	
Notes Payable	461,910
Mortgages Payable	<u>224,610</u>
Total Long Term Liabilities	<u>686,520</u>
TOTAL LIABILITIES	<u>797,415</u>
Net Assets:	
Unrestricted	1,076,105
Temporarily Restricted	101,275
Permanently Restricted	<u>64,022</u>
TOTAL NET ASSETS	<u>1,241,402</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$2,038,817</u>

SEE ACCOMPANYING NOTES

SOMERSET HOME FOR TEMPORARILY DISPLACED CHILDREN, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT & REVENUES				
Grants From Governmental Agencies	\$1,404,774	\$ -	\$ -	\$1,404,774
Indirect Public Support	83,955	-	-	83,955
Program Services	1,395,101	-	-	1,395,101
Contributions	166,301	101,275	11,031	278,607
Fundraisers	39,616	-	-	39,616
Donations-In-Kind	3,600	-	-	3,600
Gain/Loss Endowment Fund	15,209	-	-	15,209
Gain/Loss Fixed Asset Disposal	10,000	-	-	10,000
Interest Income	3,752	-	-	3,752
Net Assets Released From Restrictions:				
Satisfaction of Building Construction Restrictions	231,978	<231,978>	-	-
TOTAL SUPPORT & REVENUES	<u>3,354,286</u>	<u><130,703></u>	<u>11,031</u>	<u>3,234,614</u>
EXPENSES				
Program Services	2,868,315	-	-	2,868,315
Supporting Services				
Management & General	326,707	-	-	326,707
Fundraising	36,834	-	-	36,834
Total Supporting Services	<u>363,541</u>	<u>-</u>	<u>-</u>	<u>363,541</u>
TOTAL EXPENSES	<u>3,231,856</u>	<u>-</u>	<u>-</u>	<u>3,231,856</u>
INCREASE/DECREASE IN NET ASSETS	122,430	<130,703>	11,031	2,758
NET ASSETS AT BEGINNING OF YEAR	<u>953,675</u>	<u>231,978</u>	<u>52,991</u>	<u>1,238,644</u>
NET ASSETS AT END OF YEAR	<u>\$1,076,105</u>	<u>\$ 101,275</u>	<u>\$ 64,022</u>	<u>\$1,241,402</u>

SEE ACCOMPANYING NOTES

SOMERSET HOME FOR TEMPORARILY DISPLACED CHILDREN, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Change In Net Assets	\$ 2,758
Adjustments To Reconcile Change In Net Assets to Net Cash Used By Operating Activities:	
Depreciation	184,148
Decrease In Accounts Receivable	113,738
Increase In Accounts Payable & Accrued Expenses	30,586
Contributions Restricted For Long-Term Purposes	<11,031>
Net Realized And Unrealized Gains On Endowments	<15,209>
Gain/Loss On Equipment Disposal	<u><10,000></u>
Net Cash Provided By <Used By> Operating Activities	<u>294,990</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase Of Building, Improvements & Equipment	<656,844>
Purchase Of Investments	<21,740>
Gain On Equipment Disposal	<u>10,000</u>
Net Cash Provided By <Used By> Investing Activities	<u><668,584></u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Increase In Current Portion of L.T. Debt	1,964
Increase In Notes Payable	276,345
Decrease In Mortgages Payable	<16,168>
Receipts Of Endowment Funds	<u>26,240</u>
Net Cash Provided By <Used By> Financing Activities	<u>288,381</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	<85,213>
CASH AT BEGINNING OF YEAR	<u>354,161</u>
CASH AT END OF YEAR	<u>\$ 268,948</u>

SUPPLEMENTAL DISCLOSURE:

Interest Paid During 2006	<u>\$ 18,219</u>
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SEE ACCOMPANYING NOTES

SOMERSET HOME FOR TEMPORARILY DISPLACED CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>	<u>Total Program And Supporting Service Expenses</u>
	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>		
Salaries	\$1,747,756	\$ 174,775	\$ 19,420	\$ 194,195	\$1,941,951
Payroll Taxes	171,137	17,113	1,902	19,015	190,152
Employee Benefits	195,705	19,571	2,174	21,745	217,450
Mileage/Travel	28,760	2,876	387	3,263	32,023
Depreciation	165,733	16,573	1,842	18,415	184,148
Interest Expense	16,397	1,640	182	1,822	18,219
Van Expense	20,115	-	-	-	20,115
Repairs & Maintenance	74,478	3,724	196	3,920	78,398
Insurance - General	84,566	4,451	-	4,451	89,017
Telephone/Communications	24,047	3,819	425	4,244	28,291
Professional Fees	-	46,381	1,500	47,881	47,881
Utilities	65,833	3,465	-	3,465	69,298
Office Expenses	13,949	7,904	5,130	13,034	26,983
Printing	14,257	3,802	950	4,752	19,009
Postage	7,624	3,812	1,430	5,242	12,866
Dues & Subscriptions	15,014	5,005	235	5,240	20,254
Recreation	21,688	-	-	-	21,688
House Expenses	26,331	-	-	-	26,331
Food Expenses	94,855	-	437	437	95,292
Client Assistance	35,398	-	-	-	35,398
Advertising	10,275	914	624	1,538	11,813
Education/Conferences	32,446	8,111	-	8,111	40,557
Occupancy	1,951	1,951	-	1,951	3,902
Bank Charges	-	620	-	620	620
Contributions	-	200	-	200	200
Total Functional Expenses	<u>\$2,868,315</u>	<u>\$ 326,707</u>	<u>\$ 36,834</u>	<u>\$ 363,541</u>	<u>\$3,231,856</u>

SEE ACCOMPANYING NOTES

SOMERSET HOME FOR TEMPORARILY DISPLACED CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - NATURE OF ORGANIZATION

The Somerset Home for Temporarily Displaced Children, Inc. program is a non-profit organization designed to provide temporary care of unwanted or runaway children and to teach them the life skills necessary to care for themselves.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with: A.) the recommendations of the American Institute of Certified Public Accountants in its industry guide, AICPA Audit and Accounting Guide for Not-For-Profit Organizations and Audits of State and Local Government Units. B.) the U.S. General Accounting Office's Standards for Audit of Governmental Organizations, Programs, Activities and Functions. C.) OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations. D.) N.J. Department of Human Services' Contract Policy and Information Manual and Contract Reimbursement Manual.

The significant accounting policies followed are described below:

A. Income Tax Status

Somerset Home for Temporarily Displaced Children, Inc. is a nonprofit organization exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

B. Financial Statement Presentation

In accordance with SFAS No. 117, the accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

C. Contributions

In accordance with SFAS No. 116, contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. 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.

D. Functional Expenses

Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated based on managements' estimates.

E. Property & Equipment

Depreciation has been provided on a straight-line basis over the estimated useful lives of the assets. The cost of such assets at December 31, 2006 is as follows:

Building and Improvements	\$2,404,534
Furniture and Fixtures	170,505
Vans and Equipment	<u>487,956</u>
Total Depreciable Assets	3,062,995
Less: Accumulated Depreciation	<u><1,888,302></u>
Net Fixed Assets	<u>\$1,174,693</u>

F. Revenue Recognition

Federal funds and certain state funds are received on a cost reimbursement basis. Revenue with respect to these federal and state awards is recognized to the extent of expenses incurred under the award terms. Upon completion or expiration of a grant, unexpended funds are not available to Somerset Home for Temporarily Displaced Children, Inc..

G. Cash

Cash includes cash on hand and cash in bank accounts. Cash for purposes of the statement of cash flows excludes permanently restricted cash.

H. 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 these estimates.

NOTE 3 - RECEIVABLES

The receivable balance at December 31, 2006 consists of the following:

Program Services	<u>\$131,363</u>
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NOTE 4 - LONG-TERM DEBT

The Organization is obligated to the New Jersey Department of Human Services under five separate 20-year notes. The notes were created in accordance with the Division of Youth and Family Services' capital funding agreement for construction of the Passages group home facility, the renovation of the Residential shelter facility and improvements at My Place. The amount of each note shall be reduced for each full year of service provided by the facilities, with full satisfaction of the notes by the year 2012, 2014, 2019, 2020, and 2025 respectively. The outstanding balance of the notes at December 31, 2006 is \$84,723.

The Organization is obligated to the New Jersey Department of Human Services on a promissory note in the amount of \$100,000. The note is secured by the My Place group home located in Bridgewater, New Jersey and is payable upon demand.

The Organization is obligated to the New Jersey Department of Human Services on a promissory note in the amount of \$25,000. The note is secured by the Whitney House group home located in Bridgewater, New Jersey and is payable upon demand.

The Organization is obligated to the County of Somerset on a loan in the amount of \$260,010. The loan is secured by the Whitney House group home located in Bridgewater, New Jersey and is a Permanent Development Loan.

Mortgages Payable

During 1996, the Organization refinanced the mortgages secured by the land and building located at 49 Brahma Avenue, Bridgewater, New Jersey. The refinancing mortgage is a 30 year, fixed rate, 7.95% mortgage secured by the property and building located at 47-49 Brahma Avenue, Bridgewater, New Jersey. It is payable in monthly installments of \$1,205 and matures in December 2026. The principal balance at December 31, 2006 is \$144,704.

During 1993, the Organization obtained a 20-year adjustable-rate mortgage, secured by the Passages building located in Bridgewater, New Jersey. The balance is payable in monthly installments of \$1,609, which may be subject to change, depending on fluctuations in the interest rate. The mortgage is scheduled to mature on March 1, 2013. The outstanding principal balance at December 31, 2006 is \$95,502.

Maturities of long term debt are as follows:

<u>Year Ended December 31</u>	<u>Aggregate Obligation</u>
2007	23,419
2008	24,628
2009	24,902
2010	27,334
Thereafter	<u>609,656</u>
Total	<u>\$709,939</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

Improvement Fund	\$101,275
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NOTE 6 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are endowment funds consisting of cash received from the Organization's endowment fund drive and are restricted in perpetuity to continue the tradition of the Organization. Income generated by these assets can be used for operating expenses or may be reinvested at the discretion of the Board of Trustees.

NOTE 7 - DONATIONS - IN - KIND

The Organization received donations of goods and services for the year. The fair market value of these donated items estimated by management and included in the financial statements for the year ended December 31, 2006 is as follows:

Support (Donations-In-Kind):	
Donated Goods & Services	<u>\$3,600</u>
Expenses:	
Office	\$2,400
Repairs & Maintenance	<u>1,200</u>
Total Expenses	<u>\$3,600</u>

NOTE 8 - FEDERAL/STATE FINANCIAL AWARDS

In regard to the matching requirements of the Department of Health & Human Services the organization has met the grantee participation (10%) in cost sharing.

The amount of interest income applicable to the Federal Funds for 2006 was \$.00. The organization has met the requirements in reporting the interest income to the Payment Management Systems.

There are unobligated balances on federal grants as of December 31, 2006 as follows:

D.H.H.S. - 02CY0186/01	Budget Period 09/01/06 - 08/31/07	\$133,004
D.H.H.S. - 02YO0042/03	Budget Period 09/01/06 - 08/31/07	\$ 73,318

As part of our examination we examined the final SF-269 reports for grant 02CY0166/03 and 02YO0042/02. These reports were accurate as filed. There are no unobligated balances.

NOTE 9 - TAXES

All required tax returns have been filed and taxes (including but not limited to payroll taxes) have been paid.

NOTE 10 - PENSION PLAN

The Organization has established a defined contribution profit sharing plan for the benefit of its employees. The plan is noncontributory and covers full-time employees who are at least 21 years of age and who have completed at least 12 months of service. Under the plan, a predetermined contribution is made to the account of each eligible employee, based on annual compensation levels, and accrued for their benefit. Total contributions and related expenses for the year ended December 31, 2006 was \$66,000.

The Organization has established a 401(k) plan with an employer matching program. For the year ended December 31, 2006, the Organization contributed \$16,899 in matching funds.

**SOMERSET HOME FOR TEMPORARILY DISPLACED CHILDREN, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Federal Grantor Pass-through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Budget Period</u>	<u>Pass-through Grantor's Number</u>	<u>Contract Amount</u>	<u>Disbursements/ Expenditures</u>
Federal Grantor: Department of Health & Human Services					
Direct Programs:					
Brahma House Basic Center	93.623 93.623	09/01/05-08/31/06 09/01/06-08/31/07	02CY0166/03 02CY0186/01	\$150,000 200,000	\$106,271 66,996
Street Outreach	93.557 93.557	09/01/05-08/31/06 09/01/06-08/31/07	02YO0042/02 02YO0042/03	100,000 100,000	73,583 26,682
Passed through: NJ Department of Children & Families Division of Youth & Family Services					
Pathways & Transitional Living Program	93.667	01/01/06-12/31/06	06AMTC	194,775	194,775
Federal Grantor: Department of Agriculture					
Passed through: NJ Department of Education Bureau of Child Nutrition Programs					
Brahma House	10.558	10/01/05-09/30/06 10/01/06-09/30/07	236-09644	-	15,263
Passages	10.558	10/01/05-09/30/06 10/01/06-09/30/07	136-09338	-	18,085

**SOMERSET HOME FOR TEMPORARILY DISPLACED CHILDREN, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Federal Grantor Pass-through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Budget Period</u>	<u>Pass-through Grantor's Number</u>	<u>Contract Amount</u>	<u>Disbursements/ Expenditures</u>
Federal Grantor: U.S. Department Of Housing And Urban Development					
Passed through: <u>Somerset County</u>					
Community Development Grant Program	14.218	08/01/05-07/31/06	05-YSH51-06	\$ 17,500	\$ 17,500
	14.218	08/01/05-07/31/06	05-USH51-06	22,000	22,000
	14.218	08/01/05-07/31/06	05-USH52-06	9,000	4,900
TOTAL FEDERAL ASSISTANCE				\$546,055	\$546,055

**SOMERSET HOME FOR TEMPORARILY DISPLACED CHILDREN, INC.
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>State Grantor Pass-through Grantor Program Title</u>	<u>Budget Period</u>	<u>Pass-through Grantor's Number</u>	<u>Contract Amount</u>	<u>Disbursements/ Expenditures</u>
State Grantor:				
NJ Department Of Children & Families				
Division Of Youth & Family Services				
<u>Direct</u>				
My Place Whitney House	01/01/06-12/31/06 01/01/06-12/31/06	06AMTC 06AMTC	\$347,587 305,174	\$347,587 <u>305,174</u>
TOTAL STATE ASSISTANCE			\$652,761	<u>\$652,761</u>

**SOMERSET HOME FOR TEMPORARILY DISPLACE CHILDREN, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

A. Summary of Audit Results

1. The Auditor's report expresses an unqualified opinion on the financial statements of Somerset Home For Temporarily Displaced Children, Inc..
2. No reportable conditions relating to the audit of the financial statements are reported in the Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing standards*.
3. No instances of noncompliance material to the financial statements of Somerset Home For Temporarily Displaced Children, Inc. were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Somerset Home For Temporarily Displaced Children, Inc. expresses an unqualified opinion.
6. Audit findings relative to the major federal and state award programs for Somerset Home For Temporarily Displaced Children, Inc. are reported in Part C. of this Schedule.
7. The threshold for distinguishing federal Types A and B programs was \$300,000. The programs tested as major federal programs includes:

Department of Health & Human Services - Basic Center	(93.623)
Department of Health & Human Services - Street Outreach	(93.557)
8. The threshold for distinguishing state Types A and B programs was \$300,000. The program tested as major state program includes:

NJ Department of Children & Families/ Division of Youth & Family Services	
My Place	(06AMTC)
9. Somerset Home For Temporarily Displaced Children, Inc. was not determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal And State Award Programs Audit

None

THOMAS O. KLEINER

CERTIFIED PUBLIC ACCOUNTANT

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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 Trustees of
Somerset Home For Temporarily Displaced Children, Inc.

We have audited the financial statements of Somerset Home For Temporarily Displaced Children, Inc. as of and for the year ended December 31, 2006, and have issued our report thereon dated April 27, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Somerset Home For Temporarily Displaced Children, Inc.'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 an opinion 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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



Watchung, New Jersey
April 27, 2007

THOMAS O. KLEINER

CERTIFIED PUBLIC ACCOUNTANT

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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 of
Somerset Home For Temporarily Displaced Children, Inc.

Compliance

We have audited the compliance of Somerset Home For Temporarily Displaced Children, 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 and state programs for the year ended December 31, 2006. Somerset Home For Temporarily Displaced Children, Inc.'s major federal and state 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 and state programs are the responsibility of Somerset Home For Temporarily Displaced Children, Inc.'s management. Our responsibility is to express an opinion on Somerset Home For Temporarily Displaced Children, Inc.'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 or state program occurred. An audit includes examining, on a test basis, evidence about Somerset Home For Temporarily Displaced Children, Inc.'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 Somerset Home For Temporarily Displaced Children, Inc.'s compliance with those requirements.

In our opinion, Somerset Home For Temporarily Displaced Children, Inc. complied in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of Somerset Home For Temporarily Displaced Children, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered Somerset Home For Temporarily Displaced Children, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and 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 caused by error or fraud that would be material in relation to a major federal or state 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 solely for the information and use of the board of trustees and management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Watchung, New Jersey
April 27, 2007