

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B35310

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

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

December 10, 2009

Board of Directors
Family Service Society, Inc.
101 S. Washington St, Ste. 200
Marion, IN 46952

We have reviewed the audit report prepared by Rea Logan & Co., Inc., Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Family Service Society, Inc., as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the findings in the report. The management letter contains two comments.

STATE BOARD OF ACCOUNTS

**FAMILY SERVICE SOCIETY, INC.
MARION, INDIANA**

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

DECEMBER 31, 2007 AND 2006

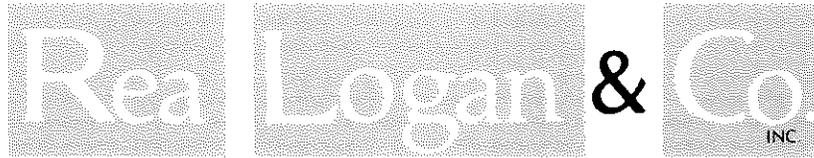
**FAMILY SERVICE SOCIETY, INC.
MARION, INDIANA**

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

DECEMBER 31, 2007 AND 2006

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Statements of Financial Position – Exhibit A	2
Statements of Activities – Exhibit B	3
Statements of Functional Expenses – Exhibit C & D	4-5
Statements of Cash Flows – Exhibit E	6
Notes to Financial Statements	7-12
<u>SUPPLEMENTAL</u>	
Schedule of Expenditures of Federal Awards	13
Notes to Schedule of Expenditures of Federal Awards	14
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15
Report on Compliance with Requirements Applicable to Each Major Program And on Internal Control over Compliance in Accordance with OMB Circular A-133	16-17
Schedule of Findings and Questioned Costs	18



Member of American Institute and Indiana CPA Society

INDEPENDENT AUDITOR'S REPORT

**TO THE BOARD OF DIRECTORS
FAMILY SERVICE SOCIETY, INC.
Marion, Indiana**

We have audited the accompanying statements of financial position of Family Service Society, Inc. as of December 31, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years 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 with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the 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 Family Service Society, Inc. as of December 31, 2007 and 2006 and the changes in its net assets and its cash flows for the years 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 July 23, 2008, on our consideration of Family Service Society, 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 performed for the purpose of forming an opinion on the basic financial statements of Family Service Society, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is 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.

Rea Logan & Co., Inc.

Certified Public Accountants

Marion, Indiana
July 23, 2008

P.O. Box 1059 / 202 South Washington Street / Marion, IN 46952 / (765) 664-2366 / Fax: (765) 664-4644

P.O. Box 317 / 54 West Hill Street / Wabash, IN 46992 / (260) 563-1141 / Fax: (260) 563-4627

206 North Grant Street / Peru, IN 46970 / (765) 473-8840 / Fax: (765) 473-8890

FAMILY SERVICE SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
OPERATING ASSETS:		
Cash and cash equivalents	\$ 53,848	\$ 43,112
Cash - restricted	7,991	6,053
Certificates of deposit	85,871	83,016
Accounts receivables	453,703	528,083
Prepaid expenses	4,950	10,567
Cash surrender value of life insurance policy	13,601	12,642
	619,964	683,473
FIXED ASSETS:		
Land	26,188	26,188
Buildings & improvements	695,389	695,389
Furniture and equipment	225,517	219,983
Shelter furnishing	13,789	13,789
Vehicle	9,750	9,750
	970,633	965,099
Less accumulated depreciation	379,014	334,896
	591,619	630,203
TOTAL ASSETS	\$ 1,211,583	\$ 1,313,676
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable	\$ 63,480	\$ 50,693
Lease payables	8,730	918
Payroll taxes payable	7,331	9,887
Notes payable - line of credit	229,850	250,950
Mortgage payable	92,502	99,662
	401,893	412,110
TOTAL LIABILITIES	401,893	412,110
NET ASSETS:		
Unrestricted - Exhibit B	798,881	843,614
Temporarily restricted - Exhibit B	10,809	57,952
	809,690	901,566
TOTAL LIABILITIES AND NET ASSETS	\$ 1,211,583	\$ 1,313,676

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

FAMILY SERVICE SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007		
	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT:			
Contributions	\$ 23,575	\$ -	\$ 23,575
Counseling and service fees	536,750	-	536,750
Income on investments	4,050	-	4,050
Grant income	2,253,522	42,425	2,295,947
United Way	60,673	-	60,673
Fund raising activities	58,507	-	58,507
Other income	15,168	-	15,168
Gain (loss) on sale of assets	(1,199)	-	(1,199)
Net assets released from restrictions:			
Satisfaction of program restrictions	89,568	(89,568)	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	3,040,614	(47,143)	2,993,471
EXPENSES AND LOSSES:			
Fundraising	13,047	-	13,047
Functional expenses - Exhibit C	3,072,300	-	3,072,300
Total Expenses and Losses	3,085,347	-	3,085,347
CHANGES IN NET ASSETS:	(44,733)	(47,143)	(91,876)
NET ASSETS - Beginning	843,614	57,952	901,566
NET ASSETS - Ending - Exhibit A	\$ 798,881	\$ 10,809	\$ 809,690

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

2006		
Unrestricted	Temporarily Restricted	Total
\$ 22,982	\$ -	\$ 22,982
689,391	-	689,391
4,479	-	4,479
2,173,604	56,032	2,229,636
62,972	-	62,972
55,304	-	55,304
19,996	-	19,996
(398)	-	(398)
<u>8,375</u>	<u>(8,375)</u>	<u>-</u>
<u>3,036,705</u>	<u>47,657</u>	<u>3,084,362</u>
15,846	-	15,846
<u>2,985,876</u>	<u>-</u>	<u>2,985,876</u>
<u>3,001,722</u>	<u>-</u>	<u>3,001,722</u>
34,983	47,657	82,640
<u>808,631</u>	<u>10,295</u>	<u>818,926</u>
<u>\$ 843,614</u>	<u>\$ 57,952</u>	<u>\$ 901,566</u>

FAMILY SERVICE SOCIETY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007
WITH COMPARATIVE TOTALS FOR 2006

	<u>ADMINISTRATIVE SUPPORT</u>	<u>COUNSELING</u>	<u>HANDS OF HOPE</u>	<u>FAMILY SUPPORT</u>
Salaries & wages	\$ -	\$ 689,291	\$ 242,289	\$ 528,235
Employee benefits	186	134,349	64,405	128,009
Professional services	-	7,599	2,308	4,662
Purchased services	488	37,718	9,585	81,592
Supplies - office	559	6,861	2,459	7,625
Staff development	279	3,151	2,525	8,569
Travel	-	25,283	3,026	22,497
Administrative/marketing	2,534	5,981	1,954	1,031
Property	(1,022)	89,258	31,702	62,002
Insurance	(959)	8,051	4,476	6,922
Interest - credit line	23,317	-	-	-
Interest - mortgage	-	723	3,904	-
Interest - amortization	(198)	37	21	42
Interest - medicaid audit	-	1,720	-	-
Bad debt	-	26,050	-	-
Other	3,039	8,079	3,890	5,221
Equipment (under \$500)	-	470	400	990
Bank fees	2,052	-	-	-
Direct client expenditures	-	2,950	6,409	15,151
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Expenses	30,275	1,047,571	379,353	872,548
Depreciation	-	9,583	21,109	11,745
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 30,275</u>	<u>\$ 1,057,154</u>	<u>\$ 400,462</u>	<u>\$ 884,293</u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

<u>FAMILY PRESERVATION</u>	<u>OTHER AREA AGENCY EXPENSES</u>	<u>2007 TOTAL EXPENSES</u>	<u>2006 TOTAL EXPENSES</u>
\$ 446,019	\$ 32,434	\$ 1,938,268	\$ 1,878,034
118,062	5,094	450,105	414,169
3,264	151	17,984	18,453
5,195	208	134,786	143,754
2,892	123	20,519	21,309
2,353	423	17,300	20,662
20,570	1,254	72,630	80,057
2,371	36	13,907	18,784
38,855	2,432	223,227	216,069
4,847	223	23,560	21,953
-	-	23,317	15,673
1,591	289	6,507	6,947
27	3	(68)	258
-	-	1,720	-
-	-	26,050	671
2,978	(331)	22,876	31,415
-	-	1,860	788
-	-	2,052	2,179
1,736	542	26,788	39,363
<u>650,760</u>	<u>42,881</u>	<u>3,023,388</u>	<u>2,930,538</u>
<u>5,810</u>	<u>665</u>	<u>48,912</u>	<u>55,338</u>
<u>\$ 656,570</u>	<u>\$ 43,546</u>	<u>\$ 3,072,300</u>	<u>\$ 2,985,876</u>

FAMILY SERVICE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>ADMINISTRATIVE SUPPORT</u>	<u>COUNSELING</u>	<u>HANDS OF HOPE</u>	<u>FAMILY SUPPORT</u>
Salaries & wages	\$ -	\$ 681,820	\$ 242,052	\$ 503,391
Employee benefits	53	128,595	65,391	108,705
Professional services	2,250	7,311	1,974	3,726
Purchased services	2,010	37,248	13,525	86,853
Supplies - office	189	8,051	2,871	6,653
Staff development	-	6,502	2,172	10,781
Travel	-	33,232	3,724	24,944
Administrative/marketing	2,520	6,370	2,083	2,951
Property	6,384	80,745	29,498	63,365
Insurance	(171)	7,151	4,056	6,610
Interest - credit line	15,673	-	-	-
Interest - mortgage	-	775	4,183	-
Interest - amortization	-	69	52	82
Bad debt	4,191	(3,520)	-	-
Other	2,011	8,683	4,800	12,408
Equipment (under \$500)	176	579	-	-
Bank fees	2,149	30	-	-
Direct client expenditures	200	3,400	13,104	22,799
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Expenses	37,635	1,007,041	389,485	853,268
Depreciation	-	11,220	24,131	11,317
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	\$ 37,635	\$ 1,018,261	\$ 413,616	\$ 864,585

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

<u>FAMILY PRESERVATION</u>	<u>OTHER AREA AGENCY EXPENSES</u>	<u>2006 TOTAL EXPENSES</u>
\$ 403,409	\$ 47,362	\$ 1,878,034
99,928	11,497	414,169
2,874	318	18,453
3,449	669	143,754
3,164	381	21,309
1,181	26	20,662
16,550	1,607	80,057
4,089	771	18,784
32,664	3,413	216,069
3,852	455	21,953
-	-	15,673
1,705	284	6,947
51	4	258
-	-	671
3,356	157	31,415
33	-	788
(140)	-	2,179
-	-	39,363
576,165	66,944	2,930,538
7,200	1,470	55,338
<u>\$ 583,365</u>	<u>\$ 68,414</u>	<u>\$ 2,985,876</u>

FAMILY SERVICE SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash from service recipients	\$ 669,637	\$ 621,183
Cash from contributions	23,575	22,982
Cash from grants awarded	2,295,812	2,152,734
Interest and dividends received	4,050	4,479
Miscellaneous receipts	74,642	82,968
Interest paid	(31,476)	(23,091)
Cash paid to employees and suppliers	<u>(2,993,529)</u>	<u>(2,923,293)</u>
Net Cash Provided (Used) by Operating Activities	<u>42,711</u>	<u>(62,038)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	<u>(11,527)</u>	<u>(17,146)</u>
Net Cash Provided (Used) by Investing Activities	<u>(11,527)</u>	<u>(17,146)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	1,592,490	1,623,900
Payments on line of credit	(1,613,590)	(1,609,400)
Payments on capital leases	(918)	(2,941)
Proceeds from capital leases	8,730	-
Payment on mortgage	<u>(7,160)</u>	<u>(6,694)</u>
Net Cash Provided (Used) by Financing Activities	<u>(20,448)</u>	<u>4,865</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,736	(74,319)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>43,112</u>	<u>117,431</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 53,848</u>	<u>\$ 43,112</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	\$ (91,876)	\$ 82,640
Loss on disposal of assets	1,199	398
Depreciation	48,912	55,338
Increase in restricted programs	(1,938)	(2,766)
Increase in certificates of deposits	(2,855)	(83,016)
(Increase) decrease in accounts receivable	74,380	(129,840)
Increase in life insurance cash surrender value	(959)	(574)
(Increase) decrease in prepaid expenses	5,617	(1,121)
Increase in accounts payable	12,787	13,908
Increase (decrease) in accrued expense	<u>(2,556)</u>	<u>2,995</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 42,711</u>	<u>\$ (62,038)</u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

FAMILY SERVICE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF OPERATIONS – Family Service Society, Inc. was established and incorporated on May 14, 1954. Family Service is a non-profit corporation whose purpose is to strengthen and improve the quality of life for all individuals and families, regardless of economic or social status, throughout the life cycle and to foster a community environment that promotes social responsibility for the family. Funding for this purpose comes partially from the Indiana Family and Social Services Administrations, Division of Family and Children.

ACCRUAL BASIS – Family Service Society, Inc. prepared its financial statements on the accrual basis of accounting. The financial statements report amounts separately by class of net assets:

- a. Unrestricted amounts are those currently available at the discretion of the Board of Directors for use in the organization's operations and those resources invested in property and equipment.
- b. Temporarily restricted amounts are those which are stipulated by donors and/or grantors for specific operating purpose not yet satisfied at the end of the year.
- c. Permanently restricted amounts are those which are stipulated by donors and/or grantors for specific purposes and are to be returned if not used for the specific purposes. There are no permanently restricted funds at December 31, 2007 and 2006.

RECOGNITION OF DONOR RESTRICTIONS – Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents consist of cash held in checking, savings, and money market accounts and certificates of deposit with original maturities of three months or less.

INCOME TAXES – The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in these financial statements.

STATEMENT OF CASH FLOWS – The Organization maintains a checking account and an interest bearing cash management investment account, which it classifies as cash for purpose of statement of cash flows.

FIXED ASSETS – Fixed assets are recorded at cost or, if donated at estimated fair market value. 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, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets at that time. Depreciation is provided on a straight-line method over the useful life ranging from three to thirty-nine years. Depreciation expense for the year ended December 31, 2007 and 2006 was \$48,912 and \$55,338. The Organization expenses purchases of equipment under \$500.

FAMILY SERVICE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

ACCOUNTS RECEIVABLE – The Organization considers accounts receivable to be fully collectible at December 31, 2007 and 2006; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

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 reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DONATED SERVICES – Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments. The value of this contributed time is not reflected in the accompanying financial statements since the volunteer's time does not meet the criteria for recognition.

IN-KIND CONTRIBUTIONS -- In-kind contributions are recorded at fair market value and recognized in the accounting period when they are received.

NOTE 2 – ALLOCATION OF EXPENSE:

The grantee allocated costs by the direct method for the following contract service code:

1. 0600.3

Non-purchased and disallowed expenses were separated from the remaining expenses. The remaining expenses were allocated between administrative and contract service code 1502.11 by the following method:

- a. Time studies, developed over the past 12 months, provided a means to allocate salaries and fringe expense.
- b. Records were kept on postage expenses, long distance telephone expenditures and on the number of copies produced. As a result, direct expenses were charged against each program and the remaining amount was allocated to administrative support.
- c. Time studies developed over the preceding fiscal period, provided a means to allocate administrative costs based on administrative staff hours to total staff hours worked.

FAMILY SERVICE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 3 – RENTAL LEASE:

Wabash Office:

On September 17, 2006, the Organization entered into a lease agreement for 1091 Central Avenue, Wabash. The lease agreement is for a five year term with monthly payments of \$1,800. In January 2008, the Wabash location closed and the lease has been terminated at no additional cost to the Organization.

Marion Office:

On January 1, 2006, the Organization entered into a lease agreement for a ten year term with the right to extend for an additional five years. Monthly payments are \$7,910 until January, 2011 when they increase to \$8,392 per month.

The Organization has verbal agreements to lease various storage spaces at \$50 to \$85 per month. These are operating leases and can be canceled at any time.

Future rent requirements over the next five years are as follows: 2008, \$96,720; 2009, \$94,920; 2010, \$94,920; 2011, \$100,704; and 2012, \$100,704.

NOTE 4 – MORTGAGE PAYABLE:

The Organization has a mortgage payable with Mutual Federal Savings Bank. The mortgage is payable in monthly installments of \$1,139, including interest at 6.75% per annum, until maturity in January 2017. Interest expense for 2007 and 2006 was \$6,507 and \$6,947. Real estate at 1642 West 3rd Street, Marion, Indiana is pledged as collateral.

Future mortgage payments for the next five years are as follows:

2008	\$ 7,639
2009	8,189
2010	8,759
2011	9,369
2012	10,011
Thereafter	<u>48,535</u>
Total	<u>\$ 92,502</u>

NOTE 5 – UNRESTRICTED NET ASSETS:

Unrestricted net assets includes board designated funds of \$11,530 for the Andrew Schramm Memorial Fund at December 31, 2007. These funds are designated for use in children activities.

FAMILY SERVICE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS:

Includes the following:

	<u>2007</u>	<u>2006</u>
Family Violence	-	4,133
Grant Co. Child Abuse Prevention Council	7,991	1,920
Neighborhood Assistance Program	<u>2,818</u>	<u>51,899</u>
Total	<u>\$ 10,809</u>	<u>\$ 57,952</u>

NOTE 7 – OPERATING LEASES:

The Organization has several noncancellable operating leases primarily for copiers and printers that expire at various dates through December 2012. The Organization is required to pay all executory costs such as maintenance and insurance. Rental expenses for the years ended 2007 and 2006 for those leases were \$27,384 and \$20,011, respectively.

Total lease payments required in the next five years is as follows under the agreements.

<u>Year</u>	
2008	\$ 32,997
2009	32,997
2010	32,997
2011	32,997
2012	<u>13,749</u>
Total	<u>\$ 145,737</u>

NOTE 8 - CONCENTRATIONS OF CREDIT RISKS:

The Organization maintains a cash balance at Mutual Federal Savings Bank. This institution is covered by Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per customer. As of December 31, 2007 and 2006 the Organization's uninsured balance was none and none, respectively.

FAMILY SERVICE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 9 – CAPITAL LEASES:

The Organization leases office equipment from various companies under capital leases. The economic substance is that the Organization is financing the acquisition of the assets through the leases, and accordingly, they are recorded in the Organization's assets and liabilities.

The following is an analysis of the leased assets included in property and equipment:

	<u>2007</u>	<u>2006</u>
Equipment	\$ 8,730	\$ 5,993
Less accumulated depreciation	<u>873</u>	<u>4,195</u>
Total	<u>\$ 7,857</u>	<u>\$ 1,798</u>

The lease agreements contain a bargain purchase option at the end of the lease term.

The following is a schedule by years of future minimum payments under the lease together with their present value as of December 31, 2007.

	<u>Year</u>	
	2008	\$ 3,992
	2009	3,992
	2010	3,992
	2011	-
	2012	<u>-</u>
Total minimum payments		11,976
Less amount representing interest		<u>3,246</u>
Present value of minimum lease payments		<u>\$ 8,730</u>

Amortization of assets held under capital leases is included in depreciation expense.

NOTE 10 – LINE OF CREDIT:

The Organization has a \$300,000 revolving line of credit for 2007 and 2006, of which \$70,150 and \$49,050 were unused at December 31, 2007 and 2006, respectively. Bank advances on the credit line are payable on demand and carries an initial interest rate of 8.25%. This rate is subject to change from time to time based on changes in an independent index which is the prime rate as published in the *Wall Street Journal* for 75% of the largest banks in the United States. Collateral is all inventory and equipment.

See Independent Auditor's Report.

FAMILY SERVICE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 11 – ADVERTISING EXPENSE:

Advertising expenses for 2007 and 2006 were \$13,907 and \$18,784.

NOTE 12 – CASH SURRENDER VALUE OF LIFE INSURANCE:

The Organization is the owner and beneficiary of a life insurance policy on the life of the director. The cash surrender value relative to the policy at December 31, 2007 and 2006 was \$13,601 and \$12,642, respectively.

NOTE 13 – TAX DEFERRED ANNUITY PLAN:

The Organization has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees of the Organization. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Organization provided no matching contribution.

FAMILY SERVICE SOCIETY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
Passed through from Indiana Family and Social Services Administration, Division of Family and Children:		
Family Violence Prevention & Service Grant	93.671	\$ 30,411
Sexual Offense Service	93.991	6,680
Child Welfare Service	93.556	91,971
Title Twenty	93.667	26,109
Passed through from Indiana State Department of Health and Human Services:		
Project Respect	93.235	21,250
Passed through from Indiana State Department of Health and Human Services, Public Health Services, Maternal and Child Health Bureau:		
Maternal Child Health	93.994	88,525
Passed through from Indiana State Department of Health and Human Services, Public Health Services, Centers for Disease Control & Prevention:		
Purdue CARE	93.991	<u>20,313</u>
Total U.S. Department of Health and Human Services		<u>285,259</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-through
Grantor/Program

<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
--------------------------------	---------------------------------

U.S. DEPARTMENT OF JUSTICE

Passed through from U.S.Department of Justice, Office of
Justice Programs:

Criminal Justice-Victims of Crime Act
Victim Assistance Grant

16.575	\$ 56,035
--------	-----------

Criminal Justice-STOP Violence Against Women
Formula Grants Program

16.588	42,653
--------	--------

Passed through from Indiana Family and Social Services
Administration, Division of Family and Children:

Healthy Families

16.540	<u>722,165</u>
--------	----------------

Total U.S. Department of Justice

<u>820,853</u>

U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT

Passed through from Indiana Family and Social Services
Adminstration, Division of Family and Children:

Emergency Shelter Grant Program

14.231	<u>20,250</u>
--------	---------------

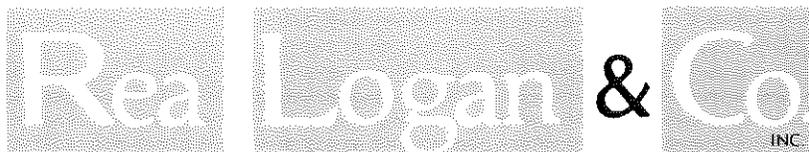
TOTAL EXPENDITURES OF FEDERAL AWARDS

<u>\$ 1,126,362</u>

FAMILY SERVICE SOCIETY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 – BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Family Service Society, Inc. and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the presentation of, the basic financial statements.



Member of American Institute and Indiana CPA Society

**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
FAMILY SERVICE SOCIETY, INC.
Marion, Indiana**

We have audited the financial statements of Family Service Society, Inc. (a nonprofit organization) as of and for the year ended December 31, 2007 and have issued our report thereon dated July 23, 2008. 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 Family Service Society, 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 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 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 matter involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

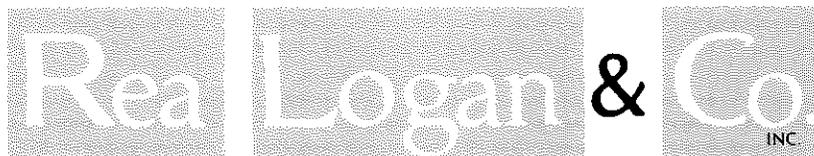
As part of obtaining reasonable assurance about whether Family Service Society, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Family Service Society, Inc. in a separate letter dated July 23, 2008.

This report is intended solely for the information and use of the audit committee, others within the organization, 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.

Rea Logan & Co., Inc.
Certified Public Accountants

Marion, Indiana
July 23, 2008



Member of American Institute and Indiana CPA Society

**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
FAMILY SERVICE SOCIETY, INC.
Marion, Indiana**

Compliance

We have audited the compliance of Family Service Society, Inc. (a nonprofit 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 each of its major federal programs for the year ended December 31, 2007. Family Service Society, Inc.'s major federal program is 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 Family Service Society, Inc.'s management. Our responsibility is to express an opinion and Family Service Society, 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 Organization*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirement 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 Family Service Society, 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 of Family Service Society, Inc.'s compliance with those requirements.

In our opinion, Family Service Society, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Family Service Society, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Family Service Society, 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

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 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 requirement 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. 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 audit committee, management, others within the organization, 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.

Rea Logan & Co., Inc.

Certified Public Accountants

Marion, Indiana
July 23, 2008

FAMILY SERVICE SOCIETY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

SUMMARY OF AUDITOR'S RESULTS

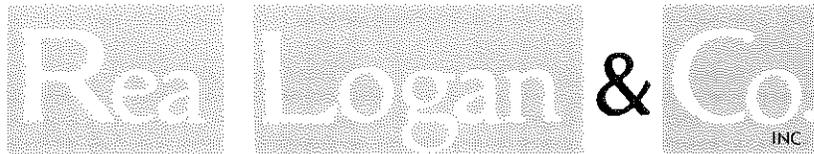
1. The auditor's report expresses an unqualified opinion on the financial statements of Family Service Society, Inc.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit Performed in Accordance with *Government Audit Standards*.
3. No instances of noncompliance material to the financial statements of Family Service Society, 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 Family Service Society, Inc. expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs for Family Service Society, Inc.
7. The program tested as major program included: Healthy Families Fund – CFDA No. 16.540.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Family Service Society, Inc. qualified as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None



Member of American Institute and Indiana CPA Society

July 23, 2008

To the Board of Directors
Family Service Society, Inc.
Marion, Indiana

In planning and performing our audit of the financial statements of Family Service Society, Inc. as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Family Service Society, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

ACCOUNTS RECEIVABLE

Currently, no reconciliation is being completed between the accounts receivable software (Lytec) and the accounting software (Profund). Due to no regular reconciliation and adjustments being completed this can cause a large discrepancy between the software programs. A quarterly reconciliation needs to be completed by the staff and reviewed to insure that all balances are adjusted.

PROGRAM EXPENSES

Program expenses are being allocated to the various programs. However, the program expenses are not being reviewed and reconciled throughout the year. This reflects incorrect program expenses during the year making it difficult to track the programs progress. We recommend a monthly reconciliation be completed to reflect the correct allocated expenses to each individual program. The Director of Operations should review the reconciliation and investigate any reconciling items and have them cleared promptly.

Family Service Society, Inc.

July 23, 2008

Page 2

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

Sincerely,

Linda L. Rea, CPA

REA LOGAN & CO., INC.