



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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., LLC, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. 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, 2008, 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 finding in the report. The management letter contains one comment.

STATE BOARD OF ACCOUNTS

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

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007**

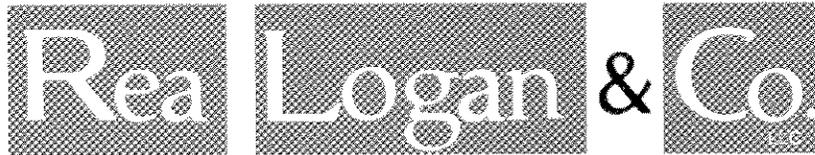
**FAMILY SERVICE SOCIETY, INC.
MARION, INDIANA**

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007**

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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, 2008 and 2007, 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, 2008 and 2007 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 March 19, 2009, 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 important for assessing 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., LLC

Certified Public Accountants

Marion, Indiana
March 19, 2009

FAMILY SERVICE SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008		
	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT:			
Contributions	\$ 28,272	\$ -	\$ 28,272
Counseling and service fees	537,758	-	537,758
Income on investments	2,838	-	2,838
Grant income	2,100,108	36,443	2,136,551
United Way	67,675	-	67,675
Fund raising activities	52,719	-	52,719
Other income	7,409	-	7,409
Gain (loss) on sale of assets	-	-	-
Net assets released from restrictions:			
Satisfaction of program restrictions	38,175	(38,175)	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	2,834,954	(1,732)	2,833,222
EXPENSES AND LOSSES:			
Fundraising	13,236	-	13,236
Functional expenses - Exhibit C	2,897,239	-	2,897,239
Total Expenses and Losses	2,910,475	-	2,910,475
CHANGES IN NET ASSETS:	(75,521)	(1,732)	(77,253)
NET ASSETS - Beginning	798,881	10,809	809,690
NET ASSETS - Ending - Exhibit A	\$ 723,360	\$ 9,077	\$ 732,437

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

2007		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 23,575	\$ -	\$ 23,575
536,750	-	536,750
4,050	-	4,050
2,253,522	42,425	2,295,947
60,673	-	60,673
58,507	-	58,507
15,168	-	15,168
(1,199)	-	(1,199)
<u>89,568</u>	<u>(89,568)</u>	<u>-</u>
<u>3,040,614</u>	<u>(47,143)</u>	<u>2,993,471</u>
13,047	-	13,047
<u>3,072,300</u>	<u>-</u>	<u>3,072,300</u>
<u>3,085,347</u>	<u>-</u>	<u>3,085,347</u>
(44,733)	(47,143)	(91,876)
<u>843,614</u>	<u>57,952</u>	<u>901,566</u>
<u>\$ 798,881</u>	<u>\$ 10,809</u>	<u>\$ 809,690</u>

FAMILY SERVICE SOCIETY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008
WITH COMPARATIVE TOTALS FOR 2007

	<u>ADMINISTRATIVE SUPPORT</u>	<u>COUNSELING</u>	<u>HANDS OF HOPE</u>	<u>FAMILY SUPPORT</u>
Salaries & wages	\$ -	\$ 614,564	\$ 258,892	\$ 518,882
Employee benefits	-	124,048	70,181	128,252
Professional services	-	4,875	1,855	4,190
Purchased services	-	35,590	3,799	81,299
Supplies - office	-	3,659	1,656	4,876
Staff development	284	2,886	617	4,438
Travel	-	12,880	4,485	22,413
Administrative/marketing	229	3,067	4,250	2,584
Property	247	64,419	30,601	63,039
Insurance	(1,226)	5,929	4,024	5,702
Interest - credit line	10,914	-	-	-
Interest - mortgage	-	668	3,605	-
Interest - amortization	-	-	1,662	-
Interest - medicaid audit	-	-	-	-
Bad debt	-	10,396	-	-
Other	562	9,729	4,024	6,671
Equipment (under \$500)	214	241	446	-
Bank fees	2,800	2	-	109
Direct client expenditures	-	2,535	18,202	15,077
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Expenses	14,024	895,488	408,299	857,532
Depreciation	-	6,744	20,802	7,663
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 14,024</u>	<u>\$ 902,232</u>	<u>\$ 429,101</u>	<u>\$ 865,195</u>

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

<u>FAMILY PRESERVATION</u>	<u>OTHER AREA AGENCY EXPENSES</u>	<u>2008 TOTAL EXPENSES</u>	<u>2007 TOTAL EXPENSES</u>
\$ 455,218	\$ 20,593	\$ 1,868,149	\$ 1,938,268
119,119	4,008	445,608	450,105
2,690	129	13,739	17,984
4,315	171	125,174	134,786
1,953	170	12,314	20,519
1,494	10	9,729	17,300
20,790	67	60,635	72,630
1,530	53	11,713	13,907
35,026	1,642	194,974	223,227
3,522	175	18,126	23,560
-	-	10,914	23,317
1,469	267	6,009	6,507
-	-	1,662	(68)
-	-	-	1,720
-	-	10,396	26,050
4,108	284	25,378	22,876
-	-	901	1,860
-	-	2,911	2,052
1,692	-	37,506	26,788
<u>652,926</u>	<u>27,569</u>	<u>2,855,838</u>	<u>3,023,388</u>
<u>5,371</u>	<u>821</u>	<u>41,401</u>	<u>48,912</u>
<u>\$ 658,297</u>	<u>\$ 28,390</u>	<u>\$ 2,897,239</u>	<u>\$ 3,072,300</u>

FAMILY SERVICE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<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	\$ 30,275	\$ 1,057,154	\$ 400,462	\$ 884,293

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>
\$ 446,019	\$ 32,434	\$ 1,938,268
118,062	5,094	450,105
3,264	151	17,984
5,195	208	134,786
2,892	123	20,519
2,353	423	17,300
20,570	1,254	72,630
2,371	36	13,907
38,855	2,432	223,227
4,847	223	23,560
-	-	23,317
1,591	289	6,507
27	3	(68)
-	-	1,720
-	-	26,050
2,978	(331)	22,876
-	-	1,860
-	-	2,052
1,736	542	26,788
<u>650,760</u>	<u>42,881</u>	<u>3,023,388</u>
<u>5,810</u>	<u>665</u>	<u>48,912</u>
<u>\$ 656,570</u>	<u>\$ 43,546</u>	<u>\$ 3,072,300</u>

FAMILY SERVICE SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash from service recipients	\$ 665,851	\$ 669,637
Cash from contributions	28,272	23,575
Cash from grants awarded	2,158,997	2,295,812
Interest and dividends received	2,838	4,050
Miscellaneous receipts	60,128	74,642
Interest paid	(18,585)	(31,476)
Cash paid to employees and suppliers	(2,916,065)	(2,993,529)
Net Cash Provided (Used) by Operating Activities	<u>(18,564)</u>	<u>42,711</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(7,742)	(11,527)
Net Cash Provided (Used) by Investing Activities	<u>(7,742)</u>	<u>(11,527)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	1,525,585	1,592,490
Payments on line of credit	(1,507,436)	(1,613,590)
Payments on capital leases	(2,422)	(918)
Proceeds from capital leases	-	8,730
Payment on mortgage	(7,658)	(7,160)
Net Cash Provided (Used) by Financing Activities	<u>8,069</u>	<u>(20,448)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,237)	10,736
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>53,848</u>	<u>43,112</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 35,611</u>	<u>\$ 53,848</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	\$ (77,253)	\$ (91,876)
Loss on disposal of assets	-	1,199
Depreciation	41,401	48,912
Increase in restricted programs	(1,086)	(1,938)
Decrease (increase) in certificates of deposits	9,258	(2,855)
Decrease in accounts receivable	37,635	74,380
Increase in life insurance cash surrender value	(1,226)	(959)
Decrease (increase) in prepaid expenses	(516)	5,617
Increase (decrease) in accounts payable	(28,153)	12,787
Increase (decrease) in accrued expense	1,376	(2,556)
Net Cash Provided (Used) by Operating Activities	<u>\$ (18,564)</u>	<u>\$ 42,711</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, 2008 AND 2007

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, 2008 and 2007.

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, 2008 and 2007 was \$41,401 and \$48,912. The Organization expenses purchases of equipment under \$500.

See Independent Auditor's Report.

FAMILY SERVICE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

ACCOUNTS RECEIVABLE – The Organization considers accounts receivable to be fully collectible at December 31, 2008 and 2007; 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, 2008 AND 2007

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: 2009, \$94,920; 2010, \$94,920; 2011, \$100,704; 2012, \$100,704; and \$100,704..

NOTE 4 – MORTGAGE PAYABLE:

The Organization has a mortgage payable with Mutual 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 2008 and 2007 was \$6,008 and \$6,507. Real estate at 1642 West 3rd Street, Marion, Indiana is pledged as collateral.

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

2009	\$ 8,189
2010	8,759
2011	9,369
2012	10,011
2013	10,720
Thereafter	<u>37,796</u>
Total	<u>\$ 84,844</u>

NOTE 5 – UNRESTRICTED NET ASSETS:

Unrestricted net assets includes board designated funds of \$6,690 and \$11,530 for the Andrew Schramm Memorial Fund at December 31, 2008 and 2007, respectively. These funds are designated for use in children activities.

See Independent Auditor's Report.

FAMILY SERVICE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS:

Includes the following:

	<u>2008</u>	<u>2007</u>
Grant Co. Child Abuse Prevention Council	\$ 9,077	\$ 7,991
Neighborhood Assistance Program	-	2,818
Total	<u>\$ 9,077</u>	<u>\$ 10,809</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 2008 and 2007 for those leases were \$32,977 and \$27,384, respectively.

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

<u>Year</u>	
2009	\$ 32,997
2010	32,997
2011	32,997
2012	13,749
2013	-
Total	<u>\$ 112,740</u>

NOTE 8 - CONCENTRATIONS OF CREDIT RISKS:

The Organization maintains a cash balance at Mutual Bank. This institution is covered by Federal Deposit Insurance Corporation (FDIC) up to \$250,000 in 2008 and \$100,000 in 2007 per customer. As of December 31, 2008 and 2007 the Organization's uninsured balance was none and none, respectively.

See Independent Auditor's Report.

FAMILY SERVICE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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>2008</u>	<u>2007</u>
Equipment	\$ 8,730	\$ 8,730
Less accumulated depreciation	<u>2,619</u>	<u>873</u>
Total	<u>\$ 6,111</u>	<u>\$ 7,857</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, 2008.

	<u>Year</u>	
	2009	\$ 3,992
	2010	3,992
	2011	-
	2012	-
	2013	<u>-</u>
Total minimum payments		7,984
Less amount representing interest		<u>1,562</u>
Present value of minimum lease payments		<u>\$ 6,422</u>

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

NOTE 10 – LINE OF CREDIT:

The Organization has a \$400,000 and \$300,000 revolving line of credit for 2008 and 2007, respectively, of which \$152,001 and \$70,150 were unused at December 31, 2008 and 2007, respectively. Bank advances on the credit line are payable on demand and carries an initial interest rate of 5% and 8.25% for 2008 and 2007. 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, 2008 AND 2007

NOTE 11 – ADVERTISING EXPENSE:

Advertising expenses for 2008 and 2007 were \$11,713 and \$13,907.

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, 2008 and 2007 was \$14,827 and \$13,601, 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, 2008

<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	\$ 51,775
Sexual Offense Service	93.991	7,876
Child Welfare Service	93.556	108,234
Title Twenty	93.667	22,389
Passed through from Indiana State Department of Health and Human Services, Public Health Services, Maternal and Child Health Bureau:		
Maternal Child Health	93.994	87,712
Passed through from Indiana State Department of Health and Human Services, Public Health Services, Centers for Disease Control & Prevention:		
Purdue CARE	93.991	<u>60,603</u>
Total U.S. Department of Health and Human Services		<u>338,589</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-through
Grantor/Program

FEDERAL
CFDA NUMBER FEDERAL
EXPENDITURES

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	\$	54,658
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Criminal Justice-STOP Violence Against Women Formula Grants Program	16.588		40,910
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Passed through from Indiana Family and Social Services
Administration, Division of Family and Children:

Healthy Families	16.540		<u>715,725</u>
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Total U.S. Department of Justice			<u>811,293</u>
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U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT

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

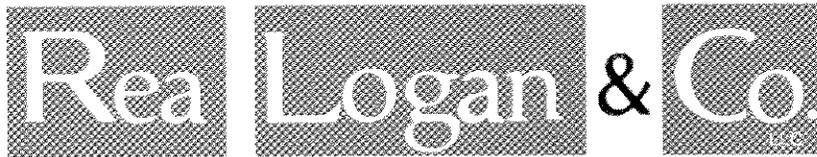
Emergency Shelter Grant Program	14.231		<u>23,448</u>
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TOTAL EXPENDITURES OF FEDERAL AWARDS		\$	<u><u>1,173,330</u></u>
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FAMILY SERVICE SOCIETY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

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.



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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 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, 2008 and have issued our report thereon dated March 19, 2009. 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 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 Family Service Society, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 affect 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*

**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 (CONT'D)**

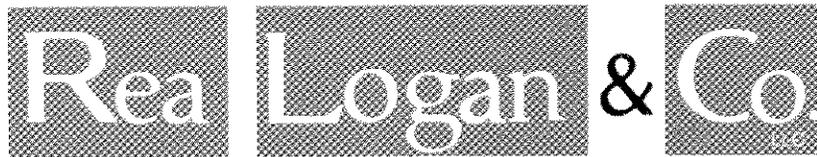
We noted certain other matters that we reported to management of Family Service Society, Inc. in a separate letter dated March 19, 2009.

This report is intended solely for the information and use of management, others within the entity, 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 Lagan & Co., LLC

Certified Public Accountants

Marion, Indiana
March 19, 2009



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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
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, 2008. 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 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 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 programs for the year ended December 31, 2008.

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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Family Service Society, Inc.'s internal control over compliance.

**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)**

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, 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
March 19, 2009

FAMILY SERVICE SOCIETY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

SUMMARY OF AUDITOR'S RESULTS

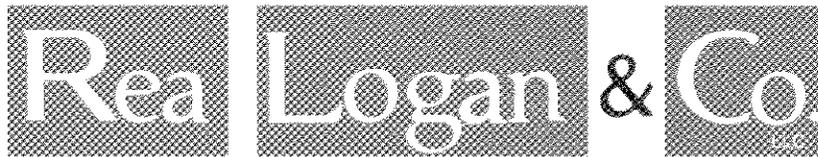
1. The auditor's report expresses an unqualified opinion on the financial statements of Family Service Society, Inc.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters 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

March 19, 2009

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

In planning and performing our audit of the financial statements of Family Service Society, Inc. as of and for the year ended December 31, 2008, 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following matters summarize our comments and suggestions concerning those matters.

Internal Audit

The Organization does not have an internal audit function. We recommend that the company develop an internal audit team to monitor the existence of effective internal controls and compliance with them. The overall objective is to carry out a program of tests of the Organization's financial and operational activities and transactions to provide management with information about the effectiveness of established accounting and operational policies, procedures, and controls and to the extent which they are being followed. The results should be documented, and the reports should be submitted directly the Executive Committee or the Board of Directors.

Family Service Society, Inc.
Page 2
March 19, 2009

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.

Rea Legan & Co., LLC

Marion, Indiana