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October 3, 2013

Board of Directors
Future Choices, Inc.
309 N. High Street
Muncie, IN 47305

We have reviewed the audit report prepared by Thomas & Reed, LLC, Independent Public Accountants, for the period October 1, 2010 to September 30, 2011. 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 Future Choices, Inc., as of September 30, 2011, 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.

STATE BOARD OF ACCOUNTS



Thomas & Reed, LLC
Certified Public Accountants & Consultants

**FUTURE CHOICES, INC.
AUDIT OF FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND SEPTEMBER 30, 2010**



CONFIDENTIAL

FUTURE CHOICES, INC.
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Thomas & Reed, LLC

Certified Public Accountants & Consultants

Independent Accountants' Audit Report

December 31, 2011

To the Board of Directors
Future Choices, Inc.
309 N. High Street.
Muncie, IN 47305

We have audited the accompanying statements of financial position of Future Choices, Inc. (Future Choices), a non-profit organization for the fiscal years ending September 30, 2011 and September 30, 2010 and related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Future Choices management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements 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 Future Choices as of September 30, 2011 and September 30, 2010, 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.

Sincerely,

Stephen A. Reed, CPA, MBA
Audit Member
Indianapolis, Indiana

“Our Client’s Success Is Our Success”

9011 N. Meridian St., Suite 235, Indianapolis, IN 46260
Office: 317-571-7600; Fax: 317-571-7601

FUTURE CHOICES, INC.
STATEMENT OF FINANCIAL POSITION
As of September 30, 2011 and September 30, 2010

	Unrestricted	Temporarily Restricted	2011 Total	Unrestricted	Temporarily Restricted	2010 Total
ASSETS						
Cash and equivalents	\$ 276,945	\$ -	\$ 276,945	\$ 254,308	\$ -	\$ 254,308
Cash - payee account	77,593	-	77,593	58,316	-	58,316
Accounts receivable	2,452	-	2,452	76,789	-	76,789
Grants receivable	192,451	-	192,451	318,091	-	318,091
Net property, plant, and equipment(Notes 2)	99,756	-	99,756	90,348	-	90,348
Total Current Assets	649,197	-	649,197	797,852	-	797,852
OTHER ASSETS						
Due from Daley Apartments, L.P.	\$ 11,850	-	\$ 11,850	\$ 11,850	-	\$ 11,850
Consulting fees receivable - Daley Apartments, L.P.	43,091	-	43,091	25,500	-	25,500
Investment in Daley Apartments, L.P.	41,604	-	41,604	41,604	-	41,604
Notes receivable(Notes 5)	175,000	250,000	425,000	175,000	250,000	425,000
Interest receivable(Notes 5)	155,131	183,893	339,024	144,613	170,768	315,381
Total Other Assets	426,676	433,893	860,569	398,567	420,768	819,335
Total Assets	\$ 1,075,873	\$ 433,893	\$ 1,509,766	\$ 1,196,419	\$ 420,768	\$ 1,617,187
LIABILITIES						
Accounts payable	\$ 18,706	\$ -	\$ 18,706	\$ 3,423	\$ -	\$ 3,423
Accounts payable - payee account	77,593	-	77,593	58,316	-	58,316
Accrued payroll and payroll tax	10,167	-	10,167	17,137	-	17,137
Accrued vacation and payroll tax	23,037	-	23,037	20,032	-	20,032
Notes payable(Notes 6)	215,312	-	215,312	246,562	-	246,562
TOTAL LIABILITIES	\$ 344,815	\$ -	\$ 344,815	\$ 345,470	\$ -	\$ 345,470
NET ASSETS	731,058	433,893	1,164,951	850,949	420,768	1,271,717
TOTAL LIABILITIES AND NET ASSETS	\$ 1,075,873	\$ 433,893	\$ 1,509,766	\$ 1,196,419	\$ 420,768	\$ 1,617,187

See Accompanying Accountants' Audit Report and Notes to Financial Statements

FUTURE CHOICES, INC.
STATEMENT OF ACTIVITIES
Years Ended September 30, 2011 and September 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011 Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010 Total</u>
REVENUE						
Fees and grants/government agencies	\$ 405,497	\$ -	\$ 405,497	\$ 516,070	\$ 141,776	\$ 657,846
Service fees	25,878	2,276	28,154	-	2,969	2,969
Program fees	-	10,849	10,849	-	10,380	10,380
Forgiveness of debt revenue	23,643	-	23,643	23,643	-	23,643
Rent income	13,942	-	13,942	12,467	-	12,467
Miscellaneous income	32,598	-	32,598	27,382	-	27,382
TOTAL REVENUE	\$ 501,558	\$ 13,125	\$ 514,683	\$ 579,562	\$ 155,125	\$ 734,687
RECLASSIFICATION OF RESTRICTED ASSETS						
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL RECLASSIFICATIONS	-	-	-	-	-	-
EXPENSES						
Management and general	59,456	-	59,456	42,686	-	42,686
Program	561,993	-	561,993	485,700	-	485,700
TOTAL EXPENSES	<u>621,449</u>	<u>-</u>	<u>621,449</u>	<u>528,386</u>	<u>-</u>	<u>528,386</u>
INCREASE IN NET ASSETS	\$ (119,891)	\$ 13,125	\$ (106,766)	\$ 51,176	\$ 155,125	\$ 206,301
NET ASSETS						
Beginning of year	<u>850,949</u>	<u>420,768</u>	<u>1,271,717</u>	<u>799,773</u>	<u>265,643</u>	<u>1,065,416</u>
End of year	<u><u>\$ 731,058</u></u>	<u><u>\$ 433,893</u></u>	<u><u>\$ 1,164,951</u></u>	<u><u>\$ 850,949</u></u>	<u><u>\$ 420,768</u></u>	<u><u>\$ 1,271,717</u></u>

See Accompanying Accountants' Audit Report and Notes to Financial Statements

FUTURE CHOICES, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
Years Ended September 30, 2011 and September 30, 2010

	<u>Management and General</u>	<u>Program Support</u>	<u>2011 Total</u>	<u>Management and General</u>	<u>Program Support</u>	<u>2010 Total</u>
Conferences, workshops and meetings	295	4,093	4,388	208	2,882	3,090
Dues and subscriptions	240	3,326	3,566	393	5,452	5,845
Grants and donations	525	7,290	7,815	338	4,691	5,029
Insurance	2,065	27,896	29,961	889	12,341	13,230
Miscellaneous	1,160	16,100	17,260	1,123	15,587	16,710
Payroll tax expense	2,112	29,316	31,428	1,984	27,542	29,526
Postage and shipping	115	1,591	1,706	74	1,032	1,106
Printing and publications	833	11,572	12,405	254	3,524	3,778
Professional fees	2,268	16,393	18,661	1,905	26,443	28,348
Rent	1,209	16,791	18,000	1,209	16,791	18,000
Repairs and maintenance	2,940	40,816	43,756	2,804	38,936	41,740
Salaries and wages	24,912	345,878	370,790	20,631	286,445	307,076
Supplies	7,347	10,548	17,895	600	8,331	8,931
Telephone	934	8,407	9,341	678	9,418	10,096
Travel	2,120	14,163	16,283	1,173	16,292	17,465
Utilities	1,220	7,813	9,033	720	9,993	10,713
TOTAL EXPENSES BEFORE DEPRECIATION AND INTEREST EXPENSE	50,295	561,993	612,288	34,983	485,700	520,683
Depreciation	9,161	-	9,161	7,703	-	7,703
TOTAL EXPENSES	\$ 59,456	\$ 561,993	\$ 621,449	\$ 42,686	\$ 485,700	\$ 528,386

See Accompanying Accountants' Audit Report and Notes to Financial Statements

FUTURE CHOICES, INC.
STATEMENT OF CASH FLOWS
Years Ended September 30, 2011 and September 30, 2010

	2011	2010
	Total	Total
OPERATING ACTIVITIES		
(Decrease)Increase in net assets	\$ (106,766)	\$ 206,301
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	9,161	7,703
Decrease(Increase) in account receivable	199,977	(148,438)
(Increase) in consulting fees	-	(3,000)
(Increase) in interest receivable	(41,234)	(23,643)
Increase(Decrease) in accounts payable	15,283	(7,190)
Increase (Decrease) in accrued expenses	(3,965)	27,112
Net Cash Provided by Operating Expenses	<u>\$ 72,456</u>	<u>\$ 58,845</u>
INVESTING ACTIVITIES		
Cash purchases of property and equipment	(18,569)	(6,898)
Net Cash Used by Investing Activities	<u>(18,569)</u>	<u>(6,898)</u>
FINANCING ACTIVITIES		
(Decrease)Increase in notes payable	(31,250)	263
Net Cash (Used)Provided by Financing Activities	<u>(31,250)</u>	<u>263</u>
NET CASH INCREASE IN CASH AND EQUIVALENTS	\$ 22,637	\$ 52,210
CASH AND EQUIVALENTS		
Beginning of Year	\$ 254,308	\$ 202,098
End of Year	<u>\$ 276,945</u>	<u>\$ 254,308</u>

See Accompanying Accountants' Audit Report and Notes to Financial Statements.

FUTURE CHOICES, INC.

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Future Choices, Inc. was organized in 1995 as a 501 © 3 not-for-profit corporation for the purpose of providing access to services and to conduct activities to ensure that people in Delaware County, Indiana with special needs and their families are empowered to make personal choices from a wide range of acceptable options, which lead to the greatest level of independence. Future Choices is funded by a network of individuals, the Muncie community, the State of Indiana and Federal government.

Through community education, statewide collaboration, partnerships and outreach, Future Choices currently provides direct services in six counties in Indiana. These counties are: Blackford, Delaware, Grant, Howard, Madison and Randolph as well as extended services in Henry and Tipton counties.

Basis of Accounting

The financial statements of Future Choices have been prepared on the accrual basis of accounting and accordingly reflect all receivables and payables.

Financial Statement Presentation

In accordance with FASB ASC 958-205 Not-For-Profit Entities, Future Choices is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Future Choices did not have any permanently restricted net assets as of September 30, 2011 and September 30, 2010.

Cash and Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity of less than three months. The carrying value of cash and cash equivalents approximates fair market value because of the short maturities of those financial instruments.

Estimates

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

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions. Generally, the donors of these assets permit Future Choices to use all part of the income earned on the related investments for general or specific purposes.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method. Future Choices capitalizes its property acquisitions greater than \$500, unless property of a grantor per grant agreements.

Investment Transactions and Related Investment Income

Investment transactions are accounted for as of the date the investments are purchased or sold. Interest income and dividend income are accounted for on the accrual basis. The cost of investments sold and/or redeemed is computed on the specific identification method except when mutual funds are purchased in which the costs are computed on the average cost basis.

Investments in equity securities with readily determinable fair market values and debt securities are reported in the financial statements at fair market value. Fair market value is determined by quoted market prices. Certificates of deposits are valued based on amortized costs or original costs plus accrued interest.

Functional Expenses

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

A-133 Audit Requirements

The Office of Management and Budget (OMB) has issued Circular A-133 which requires institutions of higher education and nonprofit institutions that expend \$500,000 or more in federal funds to annually conduct a detailed, organization wide audit that complies with the criteria established in the circular. Future Choices reviewed its obligations under programs in which federal funds were received to ensure that all such requirements are completely fulfilled. The organization was not subject to A-133 requirements. In that, the "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" will not be presented as in prior years.

NOTE 2 – FIXED ASSETS

Acquisitions of property and equipment are capitalized for purchases greater than or equal to \$500. Property and equipment are carried at costs or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using straight-line method.

Land, Property and Equipment consist of the following at September 30, 2011 and September 30, 2010:

Land, Property and Equipment:	2011	2010
Land	\$2,703	\$-----
Furniture and Equipment	58,589	51,602
Leasehold Improvements	5,829	5,829
Residential Real Estate	83,834	83,834
Vehicle	10,000	3,500
Sub-Total	160,955	144,765
Accumulated Depreciation	<u>(61,199)</u>	<u>(51,637)</u>
Total Property and Equipment	<u>\$99,756</u>	<u>\$93,128</u>

NOTE 3 – PAYEE ACCOUNTS

The Organization serves as the representative payee, approved by the Social Security Administration (SSA), for various consumers who require assistance with their financial responsibilities. The SSA requires the Organization to maintain a separate bank account into which the SSA makes direct deposits for each consumer; these monies do not belong to the Organization. Therefore, the Organization has recorded a current asset and an off-setting current liability. At September 30, 2011, the balance was \$72,593 and September 30, 2010, the balance was \$58,316.

NOTE 4 – OTHER ASSETS

During the year ended December 31, 1998, Daley Apartments, L.P. was formed. The primary source of financing for the construction of the apartments for low-income and disabled persons was in the form of low-income housing tax credits. Future Choices as a project developer was responsible for the receipt of those tax credits. At September 30, 2011 and September 30, 2010, Future Choices was due \$11,850 in deferred development fees, which are to be paid to Future Choices from Daley Apartments, L.P.'s available cash flow, as defined by the agreement. During the year ended December 31, 2000, Future Choices, entered into an agreement with Daley Apartments, L.P. whereby Future Choices will provide social services consulting for a fee of \$6,000 per year. At September 30, 2011 and September 30, 2010, Future Choices was due \$43,091 and \$37,091 for these consulting fees. As per an agreement with Daley Apartments, L.P. upon receipt of these consulting fees, Future Choices is to pay a like amount to Daley Apartments, L.P. for the social services consultant's apartment rent. As stipulated by the agreement, this rent is not

due until invoiced. No rent expense has been recorded during the years ending September 30, 2011 and September 30, 2010.

During the year ended December 31, 2001, Future Choices paid Daley Apartments, L.P. a capital contribution of \$41,604 for a minority ownership in the limited partnership. As Future Choices has no significant influence over Daley Apartments, L.P.'s operating or financial policies, this investment is recorded in the financial statements of Future Choices using the cost method.

This investment has not been evaluated for impairment because the Organizations management did not identify any events or changes in circumstances that might have an adverse effect on fair value.

NOTE 5 – NOTES AND INTEREST RECEIVABLES

Notes receivable consists of two promissory notes to Daley Apartments, L.P. (the Partnership) as detailed below. Both notes are collateralized by mortgages on the Partnership's real property as of September 30, 2011 and September 30, 2010.

Promissory note related to:

HOME Grant/Forgivable Loan	\$250,000
Affordable Housing Program	<u>175,000</u>
Total	<u>\$425,000</u>

During 1998, Future Choices received a \$250,000 HOME Grant/Forgivable Loan from the City of Muncie, Indiana which they in turn loaned to the Partnership, as allowable by the HOME Grant/Forgivable Loan, to contribute to the cost of construction of HOME-assisted rental units. The promissory note provides that principal along with interest is to be repaid from available cash flow, as defined. Interest is computed at the rate of 5.25% compounded annually. The note matures May 16, 2020. After the Maturity Date or upon an event of default, the promissory note provides for a change in the interest rate to 8% per annum until paid in full. A requirement of the HOME Grant/Forgivable Loan from the City of Muncie, Indiana, provides that the proceeds from the repayment of the loan and the interest received on the said loan shall be reserved for use to maintain, renovate, operate, or obtain future ownership of this project. As of September 30, 2011 and September 30, 2010, no payments had been received.

During 1999, Future Choices received a \$175,000 grant from the Affordable Housing Program of the Federal Home Loan Bank of Indianapolis, which they in turn loaned to the Partnership, as allowable by the grant, for the purpose of providing funding for the construction of low-income housing. The promissory note provides that principal along with interest is to be repaid from available cash flow, as defined, subordinate to the HOME Grant/Forgivable Loan. Interest is computed at the rate of 6.1% with all payments made being applied first to accrued interest with the balance, if any, applied to the outstanding principal balance.

The note matures May 16, 2014 upon which date all outstanding principal and interest is due. As of September 30, 2011 and September 30, 2010, no payments had been received. Interest receivable is broken out below as it relates to this agreement:

	2011	2010
HOME Grant/Forgivable Loan	\$183,893	\$170,768
Affordable Housing Program	<u>155,131</u>	<u>144,613</u>
Total	<u>\$339,024</u>	<u>\$315,381</u>

NOTE 6 – NOTES PAYABLE

As described in NOTE 6, Future Choices received a HOME Grant/Forgivable Loan from the City of Muncie, Indiana. The term of the HOME Grant/Forgivable Loan is twenty years, which began on December 10, 1999, the date of the final disbursement of loan proceeds. As per the HOME Grant/Forgivable Loan agreement, these funds need not be paid back provided there is no default of any of the provisions of the said agreement. As allowable by the said agreement, the loan is forgiven at the rate of 5% on each anniversary date of the final disbursement of the loan proceeds and shall be forgiven in its entirety on the 20th anniversary date of such disbursements.

Future Choices also received a grant from the Affordable Housing Program of the Federal Home Loan Bank of Indianapolis, as described in NOTE 6. The term of the grant is 15 years, which began on July 6, 1999, the date of the agreement. As per the grant agreement, these funds need not be paid back provided there is no default of any of the provisions of the said agreement. As allowable by the said agreement, the grant is forgiven at the rate of 5% each year.

The amount of the grant/loan that is forgiven each year is recognized as unrestricted income. The carrying values of the notes payable are computed as follows:

HOME Grant/Forgivable Loan Received	
1999	\$250,000
Allowable annual 5% for years 2000 – 2007	(100,000)
Allowable annual 5% for nine months for year ending September 30, 2008	(9,375)
Allowable annual 5% for year ending September 30, 2009	(12,500)
Allowable annual 5% for year ending September 30, 2010	(12,500)
Allowable annual 5% for year ending September 30, 2011	(12,500)
Carrying value at September 30, 2011	<u>\$103,125</u>
Affordable Housing Program Grant Received	
1999	\$175,000
Allowable annual 5% for years 2000 – 2007	(70,000)
Allowable annual 5% for nine months for year ending September 30, 2008	(6,563)
Allowable annual 5% for year ending September 30, 2009	(8,750)
Allowable annual 5% for year ending September 30, 2010	(8,750)
Allowable annual 5% for year ending September 30, 2011	(8,750)
Carrying value at September 30, 2011	<u>\$72,187</u>

During the years ending September 30, 2011 and September 30, 2010, Future Choices received a HOME Grant/Forgivable Loan from the City of Muncie, Indiana to refurbish a residential building (See NOTE 6). The amount of the HOME grant forgivable loan is for up to \$50,000. As per the HOME Grant/Forgivable Loan agreement, these funds need not be paid back provided there is no default of any of the provisions of said agreement. As allowable by said agreement, the loan is forgiven in its entirety on the 10th anniversary date of the final disbursement. At September 30, 2010, the final disbursement had yet been made. The final disbursement was made during fiscal year ending September 30, 2011. The City of Muncie, Indiana holds a mortgage securing payment of this forgivable loan during the amortization period.

Home Loan Program Grant Received	
2010	\$50,000
Allowable annual 10% for year ending September 30, 2010	(5,000)
Allowable annual 10% for year ending September 30, 2011	(5,000)
Carrying value at September 30, 2011	<u>\$40,000</u>

NOTE 7 – NOTES PAYABLE

The Organization renewed a \$250,000 line of credit with Old National Bank on July 25, 2011 to be drawn down as needed with a variable interest rate of 1% over the prime rate as published in the Wall Street Journal. This line was renewed in fiscal year 2011. As per the agreement, under no circumstances will the interest rate be less than 3.0% per annum. This agreement is secured with, whether now existing or hereafter or later, all assets of the Organization and proceeds from disposition of any such property. At September 30, 2011 and September 30, 2010, the Organization had no outstanding balance owing.

NOTE 8 – RELATED PARTIES

Future Choices has common board members with Daley, Inc., which is the for-profit entity which acts as an intermediary between Future Choices and Daley Apartments, L.P. Future Choices owns 0.1% in Daley Apartments, L.P.

Cash transactions during the years ending September 30, 2011 and September 30, 2010 derived from transactions between these entities are as follows:

Expenses paid by Future Choices on behalf of Daley Apartments, L.P.	\$ 544
Receipt by Future Choices of consulting fees for Housing Program Income	0

Assets carried on the Statement of Financial Position at September 30, 2011 and September 30, 2010 derived from transactions between these entities included the following:

Consulting fees receivable as detailed in NOTE 5	25,500
Note receivable as detailed in NOTE 6	425,000
Interest receivable as detailed in NOTE 6	339,024
Investment in Daley Apartments, L.P. as detailed in NOTE 5	41,604
Due from Daley Apartments, L.P. as detailed in NOTE 5	17,591