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May 7, 2008

Board of Directors
Elka Child Educational
Center, Inc.
1953 Georgia St.
Gary, IN 46407

We have reviewed the audit report prepared by Whittaker & Company, PLLC, Independent Public Accountants, for the period July 1, 2006 to June 30, 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 Elka Child Education Center, Inc., as of June 30, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report except for the effects, if any, as might have been determined to be necessary if evidence regarding a journal entry had been able to be examined.

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

STATE BOARD OF ACCOUNTS

***Elka Child Educational
Center, Inc.***

*Basic Financial Statements for the
Years Ended June 30, 2007 and 2006 and
Independent Auditors' Report*

ELKA CHILD EDUCATIONAL CENTER, INC
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Elka Child Educational Center, Inc.
1953 Georgia Street
Gary, Indiana 46407

We have audited the accompanying statement of financial position of Elka Educational Center, Inc. ("Elka") as of June 30, 2007 and 2006 and the related statements of support and revenue, expenses and changes in net assets and cash flows for the years then ended. These general purpose financial statements are the responsibility of the management of the Elka. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Elka's 2006 financial statements and, in our report dated November 27, 2007, we expressed an unqualified opinion on the respective financial statements of financial position and related statements of support and revenue, expenses and changes in net assets and cash flows.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

No accounting controls were exercised over journal entries that are recorded in the accounting records. Specifically, we were unable to obtain sufficient corroborating evidence to support an adjusting journal entry related to fiscal year 2007 in the amount of \$42,575. This difference causes liability balances to be overstated.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding this journal entry balance, the financial statements referred to above present fairly, in all material respects, the financial position of the Elka as of June 30, 2007 and 2006, and the results of its operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Whittaker & Company PLLC

Whittaker & Company PLLC

Gary, Indiana

November 27, 2007

ELKA CHILD EDUCATIONAL CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,661	\$ 4,663
Accounts Receivable	-	361
Other current assets	1,454	454
Total current assets	8,115	5,478
Property and equipment		
Land, building, and improvements	387,317	452,308
Office furniture and equipment	148,605	168,490
Accumulated depreciation	(241,696)	(288,015)
Total long-term assets	294,226	332,783
Total assets	\$ 302,341	\$ 338,261
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	12,081	23,917
Payroll liabilities	-	75,794
Loans payable - due w/in one year	11,850	9,663
Vehicle loan payable - due w/in one year	14,128	14,128
Mortgages payable - due w/in one year	-	40,379
Total current liabilities	38,059	163,881
Long-term liabilities		
Loans payable - due after one year	32,401	44,251
Vehicle loan payable - due after one year	14,016	26,728
Refunds payable	-	2,340
Total long-term liabilities	46,417	73,319
Total liabilities	84,476	237,200
Net assets		
Unrestricted	217,865	101,061
Temporarily restricted	-	-
Total net assets	217,865	101,061
Total liabilities and net assets	\$ 302,341	\$ 338,261

See accompanying notes to financial statements

ELKA CHILD EDUCATIONAL CENTER, INC.
STATEMENTS OF SUPPORT AND REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
JUNE 30, 2007 AND 2006

	2007			2006		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues						
Contributions						
Government Fee income	587,536	-	587,536	602,224	-	602,224
Grants	25,000	-	25,000	34,937	-	34,937
Interest Income	6	-	6	2	-	2
Private fee income	43,904	-	43,904	42,740	-	42,740
Fundraising income	9,362	-	9,362	9,291	-	9,291
Rental income	-	-	-	100	-	100
Miscellaneous income	16,029	-	16,029	7,321	-	7,321
Gain on Sale of Building	113,398	-	113,398	-	-	-
Total support and revenues	795,235	-	795,235	696,615	-	696,615
Program service expenses						
Dues and subscriptions	265	-	265	289	-	289
Food and kitchen supplies	35,779	-	35,779	33,545	-	33,545
Payroll and other taxes	285,576	-	285,576	254,745	-	254,745
Transportation expense	16,901	-	16,901	14,045	-	14,045
Miscellaneous	38	-	38	90	-	90
Utilities	14,821	-	14,821	17,610	-	17,610
Employee benefits	7,642	-	7,642	8,609	-	8,609
Classroom supplies	23,574	-	23,574	15,913	-	15,913
Total Project expenses	384,596	-	384,595	344,846	-	344,846
Administrative expenses						
Advertising	8,126	-	8,126	9,984	-	9,984
Bank service charges	6,395	-	6,395	5,127	-	5,127
Office, phone, and equipment	17,486	-	17,486	12,875	-	12,875
Payroll and other taxes	122,390	-	122,390	109,177	-	109,177
Office repairs and maintenance	320	-	320	2,080	-	2,080
Professional fees	12,453	-	12,453	9,015	-	9,015
Insurance	54,493	-	54,493	32,057	-	32,057
Interest	9,587	-	9,587	9,791	-	9,791
Miscellaneous	19,540	-	19,540	8,869	-	8,869
Equipment lease and rental	5,856	-	5,856	6,220	-	6,220
Support staff	37,959	-	37,959	35,778	-	35,778
Utilities	3,705	-	3,705	4,402	-	4,402
Employee benefits	3,275	-	3,275	3,690	-	3,690
Depreciation	15,687	-	15,687	23,338	-	23,338
Total Administrative expenses	317,272	-	317,272	272,403	-	272,403
Fundraising expenses						
Fundraiser activities	4,907	-	4,907	5,552	-	5,552
Total Fundraising expenses	4,907	-	4,907	5,552	-	5,552
Total Expenses	706,775	-	706,774	622,801	-	-
Increase in Net Assets	88,460	-	88,460	73,814	-	73,814
Net Assets - Beginning of Year (as re:	129,404	-	129,404	27,247	-	27,247
Net Assets - End of Year	217,864	-	217,864	101,061	-	101,061

See accompanying notes to financial statements

ELKA CHILD EDUCATIONAL CENTER, INC.
STATEMENTS OF CASH FLOWS
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Change in net assets	88,460	73,814
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	15,687	23,338
Decrease in accounts receivable	(639)	(3,578)
Decrease in prepaid insurance	-	(11,055)
Decrease in loan payables	(11,836)	(9,678)
(Decrease)/Increase in notes payable	(62,754)	7,512
Decrease in payroll liabilities	(75,794)	(11,481)
(Decrease)/Increase in refunds payable	<u>(2,340)</u>	<u>2,340</u>
Net cash (used in)/from operating activities	(49,216)	71,212
Cash flows from investing activities		
Purchase of vehicle	-	(66,300)
Gain on sale of Building	113,398	-
Disposal of fixed assets - book value	<u>(62,184)</u>	<u>-</u>
Net cash from/(used in) investing activities	51,214	(66,300)
Net change in cash and cash equivalents	\$ 1,998	\$ 4,912
Cash and cash equivalents at beginning of year	<u>\$ 4,663</u>	<u>\$ (249)</u>
Cash and cash equivalents at end of year	<u>\$ 6,661</u>	<u>\$ 4,663</u>

See accompanying notes to financial statements

ELKA CHILD EDUCATIONAL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Activities: Elka Child Educational Center, Inc. (“Elka” or the “Organization”) was incorporated as a 501 (c) 3 not for profit organization in 1972 under the laws of the State of Indiana. Elka is not considered a private foundation.

Elka was organized to operate nursery schools and to own, lease and rent real estate and to engage in service enterprises to the extent permitted under the laws of the State of Indiana. Elka works with parents, businesses and the community in a collaborative effort to provide quality educational experiences, with many hands on activities in a safe, healthy, and pleasurable environment. The nursery school age ranges from two to twelve years of age.

Use of Estimates: In preparing financial statements, management must make estimates and assumptions. These estimates and assumptions affect the amounts reported for assets, liabilities, revenue, and expenses, as well as the disclosures provided. Future results could differ from the current estimates.

Cash and Cash Equivalents: For purposes of the statement of cash flows, all highly liquid financial instruments with a maturity of three months or less are considered to be cash and cash equivalents.

Contributions and Grants: Contributions or grants received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existences of donor restrictions and the nature of restrictions, if they exist. Contributions restricted by the donor are reported as increase in unrestricted net assets in the fiscal year as the contribution. Temporarily restricted net assets are limited by donor-imposed stipulations that expire by the passage of time or that can be fulfilled by actions of the organization. Unrestricted net assets are all other contributions or grants that are not subject to donor-imposed stipulations.

Property and Equipment: Land, building, building improvements, equipment, and automobiles are carried at cost or fair value at date of gift, if donated. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful life of the building and improvements is 39 years, while the estimated useful lives of the office furniture and equipment and automobiles are three to fifteen years. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

ELKA CHILD EDUCATIONAL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data: Comparative totals for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Corporation's financial position and operations.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Unrestricted Net Assets: The unrestricted net asset class includes general and board-designated assets and liabilities of Elka. The unrestricted net assets of Elka may be used at the discretion of management to support Elka purposes and operations.

Temporarily Restricted Net Assets: The temporarily restricted net assets class includes assets of Elka related to gifts with explicitly donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. Unconditional promises to give that are due in future periods and are not prematurely restricted are classified as temporarily restricted net assets.

Permanently Restricted Net Assets: The permanently restricted net asset class includes assets of Elka for which the donor has stipulated that the contribution be maintained in perpetuity. Donor imposed restrictions limiting the use of the assets or its economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

NOTE 2 – CASH AND CASH EQUIVALENTS

At June 30, 2007 and 2006, cash and cash equivalents consisted of money held in one bank account in the amount of \$6,661 and \$4,663, respectively, therefore being fully covered by the FDIC.

NOTE 3 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Expenses incurred at June 30, 2007 or prior but not paid until July 1, 2007 and after are considered to be accounts payable for the purpose of these financial statements. At June 30, 2007 and 2006, Elka had accounts payables in the amount of \$12,081 and \$23,917, respectively.

ELKA CHILD EDUCATIONAL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4 – LOANS PAYABLE

In fiscal year 2006, the Executive Director loaned money to Elka totaling \$61,000. At the beginning of the loan process, Elka repaid \$2,000. The remaining balance of \$59,000 is to be repaid over a five year period at an interest rate of 13%. Maturities of long-term debt to be paid for the upcoming years are as follows:

2008	\$ 11,660
2009	14,242
2010	<u>6,499</u>
Total	<u>\$ 32,401</u>

In fiscal year 2006 two vans were purchased from Midwest Transit but financed through Centier Bank. The cost of each van was \$33,150. A down payment of \$6,480 was paid at the time of purchasing the vehicle. The total loan Centier Bank provided to Elka was \$59,820. The loan is to be repaid over a five year period at an interest rate of 6.74%. Maturities of long-term debt to be paid for the upcoming years are as follows:

2008	\$ <u>14,016</u>
Total	<u>\$ 14,016</u>

NOTE 5 – PAYROLL LIABILITIES

At June 30, 2006, Elka had outstanding payroll liabilities in the amount of \$75,794 due to the Internal Revenue Service. However, at June 30, 2007, Elka sold existing property and with the proceeds paid the payroll liabilities entire balance. Therefore at June 30, 2007 Elka had no outstanding payroll liabilities.

NOTE 6 – OPERATING LEASE

On July 1, 2004, Elka entered into a lease agreement with Eleanor O. Hill to lease commercial building space for the purpose of storing documents and other items. The lease agreement term ends on June 30, 2009. The minimum lease payments over the life of the lease, in the amount of \$10,500, are payable in advance in monthly installments of \$350 on the first day of the month for a period of five years. During fiscal year 2007 and 2006, Elka paid \$4,163 and \$4,200, respectively in leasing expenses. At June 30, 2007, the remaining payments are to be paid through 2009 as follows:

2008	\$ 4,200
2009	<u>4,200</u>
Total	<u>\$ 8,400</u>

ELKA CHILD EDUCATIONAL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 7 – BUILDINGS, FURNITURE, AND EQUIPMENT

Buildings, furniture, equipment are summarized as follows:

Description	<u>2007</u>	<u>2006</u>
Land, buildings, and improvements	\$ 387,313	\$ 452,308
Office furniture and equipment	<u>148,605</u>	<u>168,490</u>
Total at cost	535,922	620,798
Less: accumulated depreciation	<u>(241,696)</u>	<u>(288,015)</u>
Total	<u>\$ 294,226</u>	<u>\$ 332,783</u>

NOTE 8 – RELATED PARTY TRANSACTIONS

In fiscal year 2006, the Executive Director loaned money to Elka totaling \$61,000. At the beginning of the loan process, Elka repaid \$2,000. The remaining balance of \$59,000 is to be repaid over a five year period at an interest rate of 13%.

Elka leases storage space from the spouse of the Executive Director. The leased space is used to store documents of Elka. The space rental fee is \$350 per month. The rental space provided by the spouse of the Executive Director is considered an operating lease.

NOTE 9 – PRIOR PERIOD ADJUSTMENT

In fiscal year 2007, Elka restated the beginning net asset balance by \$93,217 to adjust remaining fixed assets that are still in use by the organization. Elka also made adjustments to payroll to reflect the total wages paid to employees during the fiscal year. In fiscal year 2006, Elka made similar adjustments totaling \$45,477.

NOTE 10 – SUBSEQUENT EVENTS

During fiscal year 2008, the Executive Director was repaid a lump sum of \$25,000 which was applied to the outstanding loan liability. The loan due to the Executive Director is expected to be repaid early.

During fiscal year 2008, the Organization has placed the property owned on 61st Avenue for sale. The proceeds will be used to build up a cash reserve. As of the issuance of the financial statements, the Organization had not sold the property.