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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

June 5, 2009

Board of Directors
Family Services of Elkhart County, Inc.
101 E. Hively Ave.
Elkhart, IN 46517

We have reviewed the audit report prepared by Jurgonski & Fredlake, CPAs, 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 Services of Elkhart County, 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.

STATE BOARD OF ACCOUNTS

FAMILY SERVICES OF ELKHART COUNTY, INC.

FINANCIAL REPORT

December 31, 2007

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Jurgonski & Fredlake CPAs

418 W. Jefferson Blvd., South Bend, Indiana 46601

Office (574) 251-1414

Fax (574) 251-1477

Greg Jurgonski

John A. Fredlake

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Family Services of Elkhart County, Inc.
Elkhart, Indiana

We have audited the accompanying statement of financial position of Family Services of Elkhart County, Inc. (Organization) as of December 31, 2007 and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Family Services of Elkhart County, Inc.'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Services of Elkhart County, Inc. as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Jurgonski & Fredlake CPAs

South Bend, Indiana
January 24, 2008

FAMILY SERVICES OF ELKHART COUNTY, INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2007

ASSETS

CURRENT ASSETS

| | |
|----------------------|----------------|
| Cash | \$ 105,119 |
| Accounts receivable | 2,065 |
| Grants receivable | 60,178 |
| Prepaid expenses | <u>8,847</u> |
| Total current assets | <u>176,209</u> |

PROPERTY AND EQUIPMENT

| | |
|-------------------------------|------------------|
| Land | 26,875 |
| Building and improvements | 958,347 |
| Equipment | <u>168,666</u> |
| Total property and equipment | 1,153,888 |
| Less accumulated depreciation | <u>(541,422)</u> |
| Property and equipment, net | <u>612,466</u> |

OTHER ASSETS

| | |
|---|---------------|
| Franchise fee | 36,623 |
| Investments | 20,264 |
| Beneficial interest in assets held by the Community Foundation | <u>21,576</u> |
| Total other assets | <u>78,463</u> |

| | |
|--------------|-------------------|
| Total assets | <u>\$ 867,138</u> |
|--------------|-------------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|--------------------------------------|---------------|
| Accounts payable | \$ 1,650 |
| Current maturities of long term debt | 30,000 |
| Accrued expenses | <u>31,969</u> |
| Total current liabilities | <u>63,619</u> |

LONG TERM LIABILITIES

| | |
|-----------------------------|----------------|
| Long term debt | <u>330,000</u> |
| Total long term liabilities | <u>330,000</u> |

| | |
|-------------------|----------------|
| Total liabilities | <u>393,619</u> |
|-------------------|----------------|

NET ASSETS

| | |
|------------------------|----------------|
| Unrestricted | 413,819 |
| Temporarily restricted | 26,124 |
| Permanently restricted | <u>33,576</u> |
| Total net assets | <u>473,519</u> |

| | |
|----------------------------------|-------------------|
| Total liabilities and net assets | <u>\$ 867,138</u> |
|----------------------------------|-------------------|

See Notes to Financial Statements.

FAMILY SERVICES OF ELKHART COUNTY, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2007

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|-----------------------|-----------------------------------|-----------------------------------|-----------------------|
| SUPPORT AND REVENUE: | | | | |
| Program fees | \$ 108,859 | \$ | \$ | \$ 108,859 |
| Grants | 603,383 | | | 603,383 |
| United Way | 146,530 | | | 146,530 |
| Contributions | 97,175 | 27,907 | | 125,082 |
| Fundraising | 16,081 | | | 16,081 |
| Interest | 700 | | | 700 |
| Investment income | 1,546 | | | 1,546 |
| In kind contributions | 5,246 | | | 5,246 |
| Other income | 77,483 | | | 77,483 |
| Gain on sale of assets | 97,867 | | | 97,867 |
| Gain in investment fair market value | | 464 | | 464 |
| Net assets released from restrictions: | | | | |
| Satisfaction of purpose restrictions | <u>31,795</u> | <u>(31,795)</u> | | |
| Total support and revenue | <u>1,186,665</u> | <u>(3,424)</u> | | <u>1,183,241</u> |
| EXPENSES: | | | | |
| Program services | | | | |
| Counseling/Life Skills | 206,887 | | | 206,887 |
| Shelter/Transitional Housing | 358,517 | | | 358,517 |
| Family Empowerment | 137,775 | | | 137,775 |
| Helping Hand | 77,376 | | | 77,376 |
| Teen Court/MCOP | <u>87,448</u> | | | <u>87,448</u> |
| Total program service expenses | 868,003 | | | 868,003 |
| Management and general | 232,063 | | | 232,063 |
| Fundraising | <u>3,917</u> | | | <u>3,917</u> |
| Total expenses | <u>1,103,983</u> | | | <u>1,103,983</u> |
| Change in net assets | 82,682 | (3,424) | | 79,258 |
| Net assets, beginning of year | <u>331,137</u> | <u>29,548</u> | <u>33,576</u> | <u>394,261</u> |
| Net assets, at end of year | <u>\$ 413,819</u> | <u>\$ 26,124</u> | <u>\$ 33,576</u> | <u>\$ 473,519</u> |

See Notes to Financial Statements.

FAMILY SERVICES OF ELKHART COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2007

| | Counseling/ Life Skills | Shelter/ Transitional Housing | Family Empowerment | Helping Hand | Teen Court/ MCOP | Management and General | Total |
|---|----------------------------|-------------------------------------|-----------------------|-----------------|---------------------|------------------------------|--------------|
| Salaries and related expenses | | | | | | | |
| Salaries | \$ 107,633 | \$ 198,958 | \$ 77,567 | \$ 47,321 | \$ 43,721 | \$ 122,187 | \$ 597,387 |
| Payroll taxes | 9,027 | 17,420 | 6,339 | 3,499 | 3,622 | 9,227 | 49,134 |
| Employee insurance | 7,806 | 15,937 | 7,732 | 9,396 | 4,000 | 11,228 | 55,899 |
| Retirement plan | 5,006 | 9,483 | 4,618 | 2,935 | 2,658 | 7,310 | 32,010 |
| Other employee benefits | | 213 | | | | 2,375 | 2,588 |
| Total salaries and related expenses | 129,272 | 242,011 | 96,256 | 63,151 | 54,001 | 152,327 | 737,018 |
| Program costs | | | | | | | |
| Insurance | 3,852 | 11,787 | 2,752 | 2,253 | 1,721 | 4,999 | 27,364 |
| Professional fees | 23,521 | 10,655 | 1,280 | 1,045 | 21,842 | 2,987 | 61,330 |
| Supplies and client expenses | 10,923 | 16,456 | 21,388 | 2,835 | 1,505 | 6,318 | 59,425 |
| Utilities | 4,224 | 16,060 | 4,035 | 1,680 | 823 | 4,902 | 31,724 |
| Rent | 256 | 789 | 216 | 51 | 51 | (148) | 1,215 |
| Local transportation | 408 | 2,047 | 3,008 | 1,582 | 141 | 489 | 7,675 |
| Conference and conventions | 169 | 1,919 | 318 | 43 | 3,364 | 2,428 | 8,241 |
| Membership dues | 2,593 | 4,496 | 1,666 | 1,703 | 1,277 | 229 | 11,964 |
| Recruitment | 127 | 167 | | | | | 294 |
| Printing and publications | 191 | 276 | 129 | 96 | 79 | 317 | 1,088 |
| Contributed materials | | 5,246 | | | | | 5,246 |
| Total program costs | 46,264 | 69,898 | 34,792 | 11,288 | 30,803 | 22,521 | 215,566 |
| Office expenses | | | | | | | |
| Interest | | 6,782 | | | | | |
| Facility repairs and maintenance | 2,208 | 8,479 | 2,127 | 894 | 859 | 35,207 | 41,989 |
| Postage and shipping | 1,450 | 2,031 | 1,005 | 574 | 287 | 9,067 | 23,634 |
| Books and resources | | 137 | | | | 35 | 5,382 |
| Total office expenses | 3,658 | 17,429 | 3,132 | 1,468 | 1,146 | 44,706 | 71,539 |
| Other | | | | | | | |
| Miscellaneous | | 615 | | | 861 | 6,770 | 8,246 |
| Bad debt expense | 20,194 | | | | | | 20,194 |
| Total other expenses | 20,194 | 615 | | | 861 | 6,770 | 28,440 |
| Total functional expenses before depreciation | 199,388 | 329,953 | 134,160 | 75,907 | 86,811 | 226,324 | 1,052,563 |
| Depreciation | 7,499 | 28,564 | 3,595 | 1,469 | 637 | 5,739 | 47,503 |
| Total functional expenses | \$ 206,887 | \$ 358,517 | \$ 137,775 | \$ 77,376 | \$ 87,448 | \$ 232,063 | \$ 1,100,066 |

See Notes to Financial Statements.

FAMILY SERVICES OF ELKHART COUNTY, INC.

STATEMENT OF CASH FLOWS For the Year Ended December 31, 2007

| | |
|--|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Change in net assets | <u>\$ 79,258</u> |
| ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES: | |
| Depreciation | 47,503 |
| Gain in investment fair market value | (464) |
| Gain on sale of assets | (97,867) |
| Non cash adjustment to an accrual of a liability | (76,028) |
| CHANGE IN ASSETS DECREASE (INCREASE): | |
| Accounts receivable | 30,911 |
| Grants receivable | (1,301) |
| Prepaid expenses | (92) |
| CHANGE IN LIABILITIES DECREASE: | |
| Accounts payable and accrued expenses | <u>(1,585)</u> |
| Total adjustments | <u>(98,923)</u> |
| Net cash used in operating activities | <u>(19,665)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Acquisition of assets | (3,691) |
| Proceeds from sale of assets | 138,000 |
| Net sale of investments | <u>(748)</u> |
| Net cash provided by investing activities | <u>133,561</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Net decrease in line of credit | (20,000) |
| Principal payments of long term debt | <u>(35,000)</u> |
| Net cash used in financing activities | <u>(55,000)</u> |
| Net increase in cash | 58,896 |
| Cash at beginning of year | <u>46,223</u> |
| Cash at end of year | <u><u>\$ 105,119</u></u> |
| Supplemental disclosure of cash flow information: | |
| Cash paid during the period for interest: | \$ 42,736 |

See Notes to Financial Statements.

FAMILY SERVICES OF ELKHART COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities:

Family Services of Elkhart County, Inc. (the Organization) is a not for profit Organization principally involved in providing programs for families and individuals in Elkhart County Indiana, including Counseling/Life Skills, youth programs and shelter for abused women. Funding is provided from fees for services and community, governmental and private support.

Significant Accounting Policies

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Revenue Recognition - Revenue from program services is recorded as revenue in the period earned.

Income Tax Status - The Organization operates as a not for profit corporation under Internal Revenue code Section 501(c)(3) and a similar section of the Indiana tax law, which provides exemption from federal and state income taxes.

Grants Receivable - The Organization receives some grants for reimbursement of expenses incurred. A receivable for the reimbursement of allowable program expenditures due from grantors has been recorded at December 31, 2007. No allowance for uncollectible grants has been recorded.

Contributions - Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Contributed Services - A number of unpaid volunteers have made significant contributions of their time to the Organization. During the year ended December 31, 2007, the value of contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the requirements for recognition under SFAS No. 116.

Beneficial Interest in Assets Held by the Community Foundation - The Organization records periodic distributions of income and realizes changes in the market value of its beneficial interest as increases in net assets in the statements of activities.

FAMILY SERVICES OF ELKHART COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Basis of Presentation - Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not for Profit Organizations. Under SFAS No. 117, the Organization 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.

Property and Equipment - Donations of property and equipment 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 to unrestricted net assets at that time.

Purchased property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred while major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities. Depreciation is computed on the straight line method over the estimated useful lives of the assets.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting service expense.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts Receivable - Accounts receivable are recorded at the amount the Organization expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off all uncollectible balances at year end. The Organization uses the allowance method to determine uncollectible accounts receivable. The allowance is based on prior years' and management experience. No allowance for doubtful accounts has been recorded.

Note 2. Line of Credit

The Organization has a bank line of credit available of \$125,000, of which none was utilized at December 31, 2007. The line is secured by accounts receivable and equipment. The line bears interest at prime plus 1.75% or 9% at December 31, 2007. Interest is due monthly on the previous month's activity.

FAMILY SERVICES OF ELKHART COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Fundraising

The Organization received support from fundraising events totaling \$16,081 and incurred fundraising expenses totaling \$3,917 for the year ended December 31, 2007.

Note 4. Long Term Debt

Long term debt consists of the following at December 31, 2007:

| | Due within <u>One year</u> | Due after <u>one year</u> |
|---|-------------------------------|------------------------------|
| Note payable to bank, dated March 9, 2005, payable in monthly installments of \$2,500 plus interest at 1.5% above prime, or 8.75% at December 31, 2007. The note is secured by the real estate. A balloon payment is due February 2010. | <u>\$30,000</u> | <u>\$330,000</u> |

Scheduled maturities of long term debt in each of the next three years are as follows:

| | |
|------|-------------------|
| 2008 | \$ 30,000 |
| 2009 | 30,000 |
| 2010 | <u>300,000</u> |
| | <u>\$ 360,000</u> |

The fair value of long term debt approximates the carrying value due to relevant market information.

The note includes various affirmative and negative covenants. The Organization was in compliance of all covenants as of December 31, 2007.

Note 5. Retirement Plan

Family Services of Elkhart County, Inc. participates in a Simplified Employee Plan through Mutual of America. Employees are eligible to participate in the plan the year after they have earned \$500 in compensation. The contribution rate is determined by the Board of Directors. For the year ended December 31, 2007, the contribution rate was 6%. Retirement plan expense for 2007 was \$32,010.

Note 6. Support from Major Funding Sources/Concentrations of Credit Risk

The Organization receives a substantial amount of its support from federal, state and local agencies. A significant reduction in the level of support, if this were to occur, may have a significant effect on the Organization's programs and activities.

The Organization places its cash with a high quality financial institution. The Organization does not limit the amount of credit exposure and has cash balances in excess of the federal depository insurance limits, or \$100,000.

FAMILY SERVICES OF ELKHART COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Restrictions on Assets

Temporarily restricted net assets at December 31, 2007 represent the following:

| | |
|--------------------|------------------|
| Women's Shelter | \$ 23,715 |
| Family Empowerment | <u>2,409</u> |
| | <u>\$ 26,124</u> |

Permanently restricted net assets at December 31, 2007 represent the following:

| | |
|--|------------------|
| Community Foundation - Women's Shelter of Family Services Fund, the income from which is available for current operations. | \$ 21,576 |
| Investments - endowment | <u>12,000</u> |
| | <u>\$ 33,576</u> |

Note 8. Contributions in Kind

The Organization received contributions of the following: clothing, food and household items valued at \$5,246 for the year ended December 31, 2007. Fair market value was utilized in determining the contributions received.

Note 9. Investments

In accordance with Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not for Profit Organizations" the Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Investment earnings that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted investments are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions.

The cost and market value of investments at December 31, 2007 is summarized as follows:

| | <u>Cost</u> | <u>Market Value</u> |
|--------------------|------------------|---------------------|
| Equity investments | <u>\$ 14,506</u> | <u>\$20,264</u> |

Note 10. Advertising

The Organization expenses the cost of advertising the first time the advertising takes place. Advertising expense was \$773 for the year ended December 31, 2007.

FAMILY SERVICES OF ELKHART COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 11. Elkhart County Community Foundation

As of December 31, 2007, the Organization had invested \$15,300, at cost, in a designated separate fund (the Women's Shelter of Family Services Fund – the "Fund") of the Community Foundation of Elkhart County (the "Community Foundation"). The funds invested represent monies originally contributed to the endowment fund of the Organization and the Organization has specified itself as the beneficiary of periodic distributions of investment earnings. The Organization adopted the provisions of Statement of Financial Accounting Standards ("SFAS" No. 136, "Transfers of Assets to a Not for Profit Organization or Charitable Trust That Raises or Holds Contributions for Others." Although the Organization has granted the Community Foundation variance power pursuant to the fund agreement between the Organization and the Community Foundation, under the provisions of SFAS No. 136, the Organization is now permitted to record an asset reflecting the market value of its beneficial interest as both donor and beneficiary of its invested principal and undistributed earnings of the Fund held by the Community Foundation. With respect to contributions received by the Community Foundation on behalf of the Organization from other donors, as prescribed by SFAS No. 136, this portion of the Fund (fair value approximating \$83,598 at December 31, 2007) has not been reflected as part of the Organization's beneficial interest as the donor grants the Community Foundation variance power, which precludes recognition of expected cash flows by the beneficiary.

At December 31, 2007, the fair value of the investments held by the Community Foundation for which the Organization is both donor and beneficiary is reflected in the statement of financial position as "Beneficial interest in assets held by the Community Foundation."

The Organization receives periodic distributions of investment earnings from the Fund which are made in accordance with the distribution policy of the Community Foundation. During the years ended December 31, 2007, the Organization received distributions of \$4,025 from the Community Foundation.