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June 23, 2009

Board of Directors  
Children's Bureau, Inc.  
615 N. Alabama St., Ste. 426  
Indianapolis, IN 46204

We have reviewed the audit report prepared by Katz, Sapper & Miller, LLP, 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 Children's Bureau, Inc., as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the finding in the report. Page 26 contains one current audit finding.

STATE BOARD OF ACCOUNTS



**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**December 31, 2007 and 2006**

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**KATZ, SAPPER & MILLER**

Certified Public Accountants

**CHILDREN'S BUREAU, INC.  
AND  
CHILDREN'S BUREAU FOUNDATION, INC.**

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## *Independent Auditors' Report*

Board of Directors  
Children's Bureau, Inc. and  
Children's Bureau Foundation, Inc.

We have audited the accompanying consolidated statements of financial position of Children's Bureau, Inc. and Children's Bureau Foundation, Inc. (both Indiana not-for-profit organizations) as of December 31, 2007 and 2006, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children's Bureau, Inc. and Children's Bureau Foundation, Inc. at December 31, 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 9 to the consolidated financial statements, as of December 31, 2007, the Organizations adopted the recognition provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit and other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 123R*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2008, on our consideration of Children's Bureau, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidating and additional information on pages 15 to 18 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual organizations. The accompanying schedule of expenditures of federal awards on pages 21 to 22 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Katy, Susan? Miller, LLP

Indianapolis, Indiana  
May 8, 2008

**CHILDREN'S BUREAU, INC. AND  
CHILDREN'S BUREAU FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2007 and 2006**

	2007	2006
<b>ASSETS</b>		
Cash	\$ 1,017,309	\$ 756,587
Accounts receivable	2,528,769	1,707,965
Contributions receivable	611,317	620,686
Prepaid expenses and other assets	190,990	129,065
Investments-Board designated and restricted	3,146,286	3,480,539
Property and equipment	<u>5,267,901</u>	<u>4,979,045</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 12,762,572</u></u>	<u><u>\$ 11,673,887</u></u>
 <b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 366,295	\$ 251,901
Deferred support	203,828	29
Accrued payroll and taxes	254,151	216,915
Accrued vacation pay	155,782	155,398
Accrued pension expense	687,706	499,490
Line of credit borrowings	70,000	
Annuity payment liability	<u>10,373</u>	<u>9,819</u>
Total Liabilities	<u>1,748,135</u>	<u>1,133,552</u>
 <b>NET ASSETS</b>		
Unrestricted		
Board designated	2,793,647	2,840,735
Undesignated	<u>6,704,308</u>	<u>6,441,855</u>
	9,497,955	9,282,590
Temporarily restricted	1,327,112	1,068,375
Permanently restricted	<u>189,370</u>	<u>189,370</u>
Total Net Assets	<u>11,014,437</u>	<u>10,540,335</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 12,762,572</u></u>	<u><u>\$ 11,673,887</u></u>

*See accompanying notes.*

**CHILDREN'S BUREAU, INC. AND  
CHILDREN'S BUREAU FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF ACTIVITIES  
Years Ended December 31, 2007 and 2006**

	Unrestricted	2007 Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE, GAINS AND SUPPORT</b>				
Contributions	\$ 47,478	\$ 830,337		\$ 877,815
Capital Campaign		617,900		617,900
United Way allocation	271,801	797,597		1,069,398
Government grants and contract fees	11,215,594	12,500		11,228,094
In-kind contributions	507,852	71,143		578,995
Interest income	129,574			129,574
Net realized and unrealized investment gains	46,815			46,815
Other income	211,515			211,515
	<u>12,430,629</u>	<u>2,329,477</u>		<u>14,760,106</u>
Net assets released from restrictions:				
United Way	894,066	(894,066)		
Other	1,176,674	(1,176,674)		
Total Revenue, Gains and Support	<u>14,501,369</u>	<u>258,737</u>		<u>14,760,106</u>
<b>EXPENSES</b>				
United Way programs	2,386,602			2,386,602
Other programs	9,134,980			9,134,980
Management and general	2,315,629			2,315,629
Fundraising	201,215			201,215
Total Expenses	<u>14,038,426</u>			<u>14,038,426</u>
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	462,943	258,737		721,680
<b>PENSION ACCOUNTING CHANGE</b>				
Effect of adoption of recognition provisions of SFAS No. 158	247,578			247,578
<b>INCREASE IN NET ASSETS</b>	215,365	258,737		474,102
<b>NET ASSETS</b>				
Beginning of Year	<u>9,282,590</u>	<u>1,068,375</u>	<u>\$ 189,370</u>	<u>10,540,335</u>
End of Year	<u>\$ 9,497,955</u>	<u>\$ 1,327,112</u>	<u>\$ 189,370</u>	<u>\$ 11,014,437</u>

*See accompanying notes.*

Unrestricted	2006		Total
	Temporarily Restricted	Permanently Restricted	
\$ 1,079	\$ 1,174,695		\$ 1,175,774
	858,070		858,070
10,061,916	495,224		10,061,916
145,435			145,435
303,916			303,916
256,650	46,687		303,337
<u>10,768,996</u>	<u>2,574,676</u>		<u>13,343,672</u>
1,202,174	(1,202,174)		
<u>1,141,612</u>	<u>(1,141,612)</u>		
<u>13,112,782</u>	<u>230,890</u>		<u>13,343,672</u>
2,340,445			2,340,445
8,157,246			8,157,246
2,176,503			2,176,503
212,620			212,620
<u>12,886,814</u>			<u>12,886,814</u>
225,968	230,890		456,858
<u>225,968</u>	<u>230,890</u>		<u>456,858</u>
9,056,622	837,485	\$ 189,370	10,083,477
<u>\$ 9,282,590</u>	<u>\$ 1,068,375</u>	<u>\$ 189,370</u>	<u>\$ 10,540,335</u>

**CHILDREN'S BUREAU, INC. AND  
CHILDREN'S BUREAU FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
Years Ended December 31, 2007 and 2006**

	United Way Programs		Other Programs	
	2007	2006	2007	2006
Salaries and wages	\$ 1,367,443	\$ 1,339,286	\$ 4,876,354	\$ 4,201,624
Payroll taxes and employee benefits	<u>377,581</u>	<u>335,313</u>	<u>1,291,924</u>	<u>1,114,184</u>
	1,745,024	1,674,599	6,168,278	5,315,808
Professional fees	79,121	76,834	288,036	299,789
Supplies	18,735	16,190	92,978	66,935
Occupancy and utilities	151,196	157,890	455,243	402,490
Postage	7,961	7,870	40,118	32,426
Printing and publications	10,931	9,749	41,998	34,444
Transportation	71,723	64,744	223,472	152,230
Conferences and meetings	6,920	10,645	26,867	22,355
Specific assistance	37,813	65,365	845,017	1,072,502
Repairs/maintenance and equipment rental	78,325	68,108	341,705	179,819
Depreciation	45,401	48,454	194,621	200,734
Bad debt expense			7,564	47,147
In-kind expense	113,285	118,314	291,813	232,754
Loss on disposals of property and equipment		(434)	56,025	1,665
Miscellaneous	<u>20,167</u>	<u>22,117</u>	<u>61,245</u>	<u>96,148</u>
<b>TOTAL EXPENSES</b>	<u><u>\$ 2,386,602</u></u>	<u><u>\$ 2,340,445</u></u>	<u><u>\$ 9,134,980</u></u>	<u><u>\$ 8,157,246</u></u>

*See accompanying notes.*

Management and General		Fundraising		Total	
2007	2006	2007	2006	2007	2006
\$ 1,068,260	\$ 936,421	\$ 85,861	\$ 85,167	\$ 7,397,918	\$ 6,562,498
250,692	233,866	24,051	32,227	1,944,248	1,715,590
<u>1,318,952</u>	<u>1,170,287</u>	<u>109,912</u>	<u>117,394</u>	<u>9,342,166</u>	<u>8,278,088</u>
270,043	200,373	239	143	637,439	577,139
31,517	24,232	1,950	996	145,180	108,353
120,606	124,528	6,795	6,847	733,840	691,755
15,901	13,980	6,592	4,715	70,572	58,991
26,966	35,373	2,299	2,984	82,194	82,550
7,822	7,275	844	1,018	303,861	225,267
14,013	12,633	974	1,666	48,774	47,299
3,364	3,470		83	886,194	1,141,420
56,154	48,747	1,516	718	477,700	297,392
81,623	58,669	7,648	6,891	329,293	314,748
7,450	38,489			15,014	85,636
336,268	332,066	30,477	33,582	771,843	716,716
	31		1,049	56,025	2,311
<u>24,950</u>	<u>106,350</u>	<u>31,969</u>	<u>34,534</u>	<u>138,331</u>	<u>259,149</u>
<u>\$ 2,315,629</u>	<u>\$ 2,176,503</u>	<u>\$ 201,215</u>	<u>\$ 212,620</u>	<u>\$ 14,038,426</u>	<u>\$ 12,886,814</u>

**CHILDREN'S BUREAU, INC. AND  
CHILDREN'S BUREAU FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2007 and 2006**

	2007	2006
<b>OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 474,102	\$ 456,858
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	329,293	314,748
Net losses (gains) on disposals of property and equipment	56,025	(20,044)
Net realized (gains) losses on investments	(175,909)	20,518
Net unrealized (gains) losses on investments	129,094	(316,138)
(Increase) decrease in certain assets:		
Unrestricted receivables	(737,241)	(163,490)
Prepaid expenses	(61,925)	79,827
Increase (decrease) in certain liabilities:		
Accounts payable and accrued expenses	96,416	120,404
Deferred support	203,799	(21,083)
Accrued payroll and taxes	37,236	30,930
Accrued vacation pay	384	12,105
Accrued pension expense	188,216	70,662
Annuity payment liability	554	(555)
Contributions restricted for Capital Campaign	(617,900)	
Net Cash Provided (Used) by Operating Activities	<u>(77,856)</u>	<u>584,742</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(674,174)	(540,971)
Purchases of investments	(747,639)	(731,604)
Sales and maturities of investments	1,128,707	615,106
Net Cash Used by Investing Activities	<u>(293,106)</u>	<u>(657,469)</u>
<b>FINANCING ACTIVITIES</b>		
Collections of contributions restricted for Capital Campaign	561,684	
Proceeds from line of credit borrowings	70,000	
Net Cash Provided by Financing Activities	<u>631,684</u>	
<b>NET INCREASE (DECREASE) IN CASH</b>	260,722	(72,727)
<b>CASH</b>		
Beginning of Year	<u>756,587</u>	<u>829,314</u>
End of Year	<u>\$ 1,017,309</u>	<u>\$ 756,587</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ 13,346	
Donated property and equipment	242,000	
Contributions restricted for capital campaign	(56,216)	

*See accompanying notes.*

**CHILDREN'S BUREAU, INC. AND  
CHILDREN'S BUREAU FOUNDATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General:* Children's Bureau, Inc. (the Bureau) is a private, not-for-profit agency formed in 1851, providing human services to families and children living in central Indiana. The agency staff works together with volunteers to provide the services to fulfill the mission of the Bureau supporting and assisting children and families who are at risk. The Bureau offers a wide range of child and family services including programs on adoption, foster care, home-based counseling, group home care, teen pregnancy, crisis intervention, treatment for children who are victims of sexual abuse, shelter care for children who are at risk of abuse/neglect or are homeless, independent living services, and alternative residential programs for emotionally disturbed youth. The Bureau's primary sources of revenue are government grants and contracts, the United Way allocation, and contributions.

Children's Bureau Foundation, Inc. (the Foundation) operates for the benefit of and carries out the purposes of the Bureau. The Foundation's primary sources of revenue are contributions and investment earnings.

*Estimates:* Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

*Principles of Consolidation:* The consolidated financial statements include the accounts of the Bureau and the Foundation (together, the "Organizations"). All material interorganizational accounts and transactions have been eliminated in consolidation.

*Net Asset Classifications:* The consolidated financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. SFAS No. 117 requires, among other things, that the consolidated financial statements report the changes in and the total of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted, and permanently restricted. The following classes of net assets are maintained by the Organizations:

*Unrestricted Net Assets* include general and board designated assets and liabilities which may be used at the discretion of management to support the Organizations' purposes and operations.

*Temporarily Restricted Net Assets* include assets related to gifts with explicit 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 permanently restricted are classified as temporarily restricted net assets.

*Permanently Restricted Net Assets* include assets related to gifts with donor-imposed restrictions that stipulate the principal be held in perpetuity with the earnings there from being unrestricted.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash:** The Organizations maintain their cash in bank deposit accounts which, at times, may exceed the federally insured limits. The Organizations have not experienced any losses from their bank accounts.

**Receivables and Credit Policies:** The Bureau reviews its accounts receivable for collectibility on a monthly basis for client accounts that exceed 60 days past due and older. Payments of accounts receivable are allocated to the specific invoices identified on the client's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. The carrying amount of accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Periodically, management makes a determination if write-offs are necessary.

**Promises to Give:** Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Investments** in marketable securities are carried at fair value based on quoted market prices. Unrealized gains and losses are included in the change in net assets in the statement of activities. The cost of securities used to compute realized gains and losses is determined on a specific identification basis. Dividend and interest income is recognized when received.

**Property and Equipment:** Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost, except for donated items, which are recorded at fair market value at the date of donation. The Bureau provides for depreciation on the straight-line method at rates designed to depreciate the cost of assets over estimated useful lives as follows:

Buildings	20-37.5 years
Leasehold improvements	5-20 years
Furnishings and equipment	5-10 years

**Support and Revenue:** The Organizations report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 and reported in the statement of activities as net assets released from restrictions.

**Government Grants and Contract Fees:** Support funded by grants is recognized as the Bureau performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. The Bureau also receives support under various fee-for-service and per diem contracts from various state and county agencies for providing services to individuals.

**In-Kind Contributions:** In addition to receiving cash contributions, the Bureau receives in-kind contributions from various donors. It is the policy of the Bureau to record the estimated fair market value of certain in-kind donations as an expense in its consolidated financial statements, and similarly increase donations by a like amount. This adjustment amounted to \$578,995 for 2007 and \$495,224 for 2006.

**Expense Allocation:** Expenses are allocated directly or indirectly to various programs and supporting services as listed in the statement of functional expenses. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural classification. All remaining indirect costs are allocated based upon estimates of time spent by Bureau personnel.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Income Taxes:* The Organizations are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and are not considered to be private foundations. However, the Bureau would be required to pay income tax on unrelated business income. Accordingly, no provision for income taxes is required to be made in the consolidated financial statements.

**NOTE 2 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are as follows at December 31, 2007 and 2006:

	2007	2006
Pledges from related parties	\$ 66,118	\$ 686
Fairbanks grant	131,000	260,000
United Way	421,649	360,000
Total Contributions Receivable	<u>618,767</u>	<u>620,686</u>
Less allowance for doubtful accounts	<u>(7,450)</u>	<u>          </u>
Net Contributions Receivable	<u>\$ 611,317</u>	<u>\$ 620,686</u>
Amount due in:		
Less than one year	\$ 583,140	\$ 489,086
One to five years	<u>35,627</u>	<u>131,000</u>
Total Contributions Receivable	618,767	620,686
Less allowance for doubtful accounts	<u>(7,450)</u>	<u>          </u>
Net Contributions Receivable	<u>\$ 611,317</u>	<u>\$ 620,686</u>

As of December 31, 2007, Children's Bureau, Inc. is the recipient of conditional promises to give, as follows:

Promises conditioned on raising matching contributions: \$3,691,050

Conditional contributions are related to the Family Support Center Capital Campaign.

**NOTE 3 - INVESTMENTS**

Investments are as follows at December 31, 2007 and 2006:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
U.S. Government bonds	\$ 510,993	\$ 515,953	\$ 899,041	\$ 897,081
Corporate bonds	393,512	390,885	172,104	175,851
Bond funds	360,470	390,077	50,813	50,263
U.S. Treasury notes			50,435	49,936
Common stocks	<u>1,253,102</u>	<u>1,849,371</u>	<u>1,507,432</u>	<u>2,307,408</u>
Total Investments	<u>\$2,518,077</u>	<u>\$3,146,286</u>	<u>\$ 2,679,825</u>	<u>\$3,480,539</u>

#### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment are as follows at December 31, 2007 and 2006:

	2007	2006
Land	\$ 297,786	\$ 261,381
Buildings and improvements	5,569,027	5,626,845
Furnishings and equipment	1,770,780	1,714,671
Construction in progress	<u>462,838</u>	
	8,100,431	7,602,897
Less: Accumulated depreciation	<u>2,832,530</u>	<u>2,623,852</u>
Total Property and Equipment	<u>\$5,267,901</u>	<u>\$4,979,045</u>

#### NOTE 5 - ANNUITIES PAYABLE

The Foundation is the recipient of a gift annuity, which requires future payments to the donor. The asset received from the donor is recorded at fair market value. The Foundation has recorded a liability of approximately \$10,000 at December 31, 2007 and 2006, which represents the approximate present value of the future annuity obligation to the donor. The liability has been determined using Internal Revenue Service joint annuity tables.

#### NOTE 6 - DEBT

The Bureau has a \$200,000 bank line of credit for short-term borrowings through October 1, 2008, of which \$70,000 was borrowed and outstanding at December 31, 2007. Interest on borrowings is due and payable monthly, and computed at the Bank's prime lending rate (7.25% at December 31, 2007). Line of credit borrowings are secured by the Bureau's cash accounts on deposit with the Bank and all accounts receivable.

#### NOTE 7 - LEASES

The Bureau has several operating leases, primarily for office space and equipment. These leases generally contain renewal options for periods ranging from three to four years. Rental expense was \$210,358 in 2007 and \$261,149 in 2006.

Future minimum lease payments required by all noncancellable operating leases at December 31, 2007, are as follows:

Payable In	Rental Payments
2008	\$ 215,277
2009	49,167
2010	34,464
2011	<u>2,872</u>
Total	<u>\$ 301,780</u>

## NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31, 2007 and 2006:

	2007	2006
<b>Children's Bureau, Inc.</b>		
United Way Programs:		
Adoption Program	\$ 8,382	
Pro-100	15,000	\$ 40,000
Crisis/Respite	32,500	
United Way Funding Allocation	421,649	360,000
Lilly Grant	267,832	
Advocacy Program	280	
NACS-East Program	5,002	37,673
TLP Program	70,444	67,009
Adoption/Celebrity Cook-off	36,921	49,685
Fairbanks Grant	131,000	327,008
Family Support Center Pledges	52,216	
Family Support Center Capital Campaign	98,886	
<b>Children's Bureau Foundation, Inc.</b>		
Building maintenance	182,000	182,000
Advocacy	<u>5,000</u>	<u>5,000</u>
Total Temporary Restricted Net Assets	<u>\$1,327,112</u>	<u>\$1,068,375</u>

For the years ended December 31, 2007 and 2006, net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors were as follows:

	2007	2006
<b>Purpose restrictions accomplished (United Way):</b>		
Crisis/Respite	\$ 278,570	\$ 437,121
Adoption Program	105,158	62,241
Counseling	199,217	237,264
Teen Pregnancy Program	107,500	161,518
Project Safe Place Program		5,000
Pro-100	145,000	159,560
NACS-West Program	23,250	24,852
Anderson - Any Child	10,760	114,618
Anderson - Parents as Teachers	<u>24,611</u>	
Total Restrictions Released (United Way)	<u>894,066</u>	<u>1,202,174</u>

**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)**

	2007	2006
Purpose restrictions accomplished (Other):		
TLP Program	\$ 125,565	\$ 102,932
Garrard House		58,985
Evans House		23,300
Supervised Visitation Program		19,765
Downtown Office		335
Johnson County		8,000
Advocacy Program	9,940	
Community relations and marketing	32,000	32,000
Volunteer Services	14,344	332,010
Development	16,000	277,113
Adoption/Celebrity Cook-off	62,282	38,232
Family Group Conferencing Program		42,968
Retreat facility		5,610
NACS-East Program	73,568	56,599
Executive/Lilly Endowment	32,500	
Executive/Lilly Grant	140,128	
Foster Care	3,500	
Pro-100/CICF	8,000	
TLP/Fairbanks Grant	196,009	
Family Support Center Capital Expenditures	462,838	
Other programs		124,493
Technology		19,270
Total Restrictions Released (Other)	<u>1,176,674</u>	<u>1,141,612</u>
Total Restrictions Released	<u>\$2,070,740</u>	<u>\$2,343,786</u>

**NOTE 9 - CONCENTRATIONS OF FUNDING**

Government funding provided 76% and 75% of revenue for the Organization for the years ended December 31, 2007 and 2006, respectively. In 2007, as part of federal funding the Community Partners Grant provided 10% of revenue.

**NOTE 10 - EMPLOYEE BENEFITS**

*Defined Benefit Pension Plan*

The Bureau sponsors a noncontributory defined benefit pension plan covering substantially all of its employees. Plan benefits are determined by a formula based on earnings.

As of December 31, 2007, the Bureau adopted the recognition provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 123R*, which requires that the funded status of defined benefit pension and other postretirement plans be fully recognized in the statement of financial position. The incremental effects of applying SFAS No. 158 on individual line items in the consolidated statement of financial position as of that date are as follows:

	Before Application	Adjustments	After Application
Pension liability	\$ 440,128	\$ 247,578	\$ 687,706
Unrestricted net assets	9,745,533	(247,578)	9,497,955

**NOTE 10 - EMPLOYEE BENEFITS (CONTINUED)**

The following table sets forth the Plan's funded status and amounts recognized in the Bureau's financial statements at December 31, 2007 and 2006, and for the years then ended. The measurement date used to determine the pension measurements for the majority of Plan assets and benefit obligations was September 30 of each year:

<b>Obligations and Funded Status</b>	<b>2007</b>	<b>2006</b>
<b>Change in Benefit Obligation:</b>		
Benefit obligation at beginning of year	\$ 4,197,687	\$ 3,970,191
Service cost	193,664	188,181
Interest cost	237,645	224,564
Actuarial (gain) loss	(131,548)	(65,735)
Benefits paid	<u>(122,299)</u>	<u>(119,514)</u>
Benefit obligation at end of year	<u>4,375,149</u>	<u>4,197,687</u>
<b>Change in Plan Assets:</b>		
Fair value of plan assets at beginning of year	3,201,488	3,052,004
Actual return on plan assets	372,267	127,924
Employer contributions	235,987	141,074
Benefits paid	<u>(122,299)</u>	<u>(119,514)</u>
Fair value of plan assets at end of year	<u>3,687,443</u>	<u>3,201,488</u>
<b>Funded Status at End of Year</b>	<u>\$ (687,706)</u>	<u>\$ (996,199)</u>
<b>Accumulated benefit obligation at end of year</b>	<u>\$ 3,805,702</u>	<u>\$ 3,700,978</u>
<b>Amount recognized in the statement of financial position as a noncurrent liability</b>	<u>\$ 687,706</u>	
<b>Components of Net Periodic Benefit Cost:</b>		
Service cost	\$ 193,664	\$ 188,181
Interest cost	237,645	224,564
Expected return on plan assets	(372,268)	(127,924)
Amortization of prior service cost/(credit)	(12,262)	(12,262)
Recognized net loss/ (gain)	<u>149,772</u>	<u>(80,750)</u>
<b>Net Periodic Benefit Cost for the Year</b>	<u>\$ 196,551</u>	<u>\$ 191,809</u>
<b>Weighted-average assumptions:</b>		
Discount rate	5.75%	5.75%
Expected long-term return on plan assets	7.50	7
Rate of compensation increase	3.50	3.50

The expected long-term rate of return on assets assumption is 7.5%. As defined in SFAS No. 87, this assumption represents the rate of return on Plan assets reflecting the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

**NOTE 10 - EMPLOYEE BENEFITS (CONTINUED)**

The Plan's investment policy is to seek primarily capital appreciation and to a lesser extent income for reinvestment or cash flow purposes, with the preservation of capital also being an important investment objective. Equity securities consist of investments in common stock shares and have a target asset allocation of 50-70% of total Plan assets. Debt securities (U.S. Government securities and corporate bonds) and other investments (money market fund shares) have target asset allocations of 30-50% and 0-20%, respectively. Investments are purchased with the intent to hold the asset for the long-term. The Plan does not participate in hedging transactions.

The Plan's weighted-average asset allocations at September 30, 2007 and 2006 (the Plan's measurement dates) by asset category are as follows:

	2007	2006
Equity securities	54%	59%
Debt securities	41	32
Other	5	9

The Bureau expects to contribute \$216,912 to the Plan in 2008.

The expected benefits to be paid in each of the next five years and thereafter are as follows:

Payable In	Benefits
2008	\$ 135,172
2009	133,872
2010	139,284
2011	150,981
2012	201,906
2013-2017	<u>1,247,240</u>
	<u>\$2,008,455</u>

On October 11, 2007, the Bureau's Board of Directors voted to amend the Plan to freeze Plan participation effective January 1, 2008. Plan participants who had met eligibility requirements before the effective date of the freeze will continue to accrue benefits. Employees hired prior to January 1, 2008 will continue to participate even if they have not met eligibility requirements yet.

*Defined Contribution Plan (401k)*

The Bureau also sponsors a defined contribution plan for all of its qualified employees. All plan participants are permitted to make salary reduction contributions to the Plan and the Bureau contributes, on a matching basis, 100% of each participant's contribution up to 3% of each participant's annual salary. The Bureau may also make a discretionary contribution, to be determined annually based on eligible earnings of participants. Participants become fully vested in the Bureau's contributions and earnings thereon after five years of service. The Bureau contributed \$97,191 in 2007 and \$86,294 in 2006 to the Plan.

**NOTE 11 – FAMILY SUPPORT CENTER COMMITMENT**

The Organizations are in the process of building a new Family Support Center. The Center is expected to cost \$8.2 million. The Organizations are initiating a capital campaign to raise \$9.2 million in funding for this project. If the additional \$1 million is raised, it will be used for additional items for the Center. During 2007, \$508,000 for the initial phases of the project had been spent.

**CHILDREN'S BUREAU, INC. AND  
CHILDREN'S BUREAU FOUNDATION, INC.**

**CONSOLIDATING SCHEDULE-STATEMENT OF FINANCIAL POSITION INFORMATION  
December 31, 2007**

	Children's Bureau, Inc.	Children's Bureau Foundation Inc.	Eliminations	Consolidated
<b>ASSETS</b>				
Cash	\$ 908,450	\$ 108,859		\$ 1,017,309
Accounts receivable	2,533,826		\$ (5,057)	2,528,769
Contributions receivable	604,865	6,452		611,317
Prepaid expenses and other assets	190,990			190,990
Investments-Board designated and restricted	76,150	3,070,136		3,146,286
Property and equipment	<u>5,267,901</u>			<u>5,267,901</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 9,582,182</u></u>	<u><u>\$ 3,185,447</u></u>	<u><u>\$ (5,057)</u></u>	<u><u>\$ 12,762,572</u></u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 366,295	\$ 5,057	\$ (5,057)	\$ 366,295
Deferred support	203,828			203,828
Accrued payroll and taxes	254,151			254,151
Accrued vacation pay	155,782			155,782
Accrued pension expense	687,706			687,706
Line of credit	70,000			70,000
Annuity payment liability		10,373		10,373
Total Liabilities	<u>1,737,762</u>	<u>15,430</u>	<u>(5,057)</u>	<u>1,748,135</u>
<b>NET ASSETS</b>				
Unrestricted	6,704,308	2,793,647		9,497,955
Temporarily restricted	1,140,112	187,000		1,327,112
Permanently restricted		189,370		189,370
Total Net Assets	<u>7,844,420</u>	<u>3,170,017</u>		<u>11,014,437</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 9,582,182</u></u>	<u><u>\$ 3,185,447</u></u>	<u><u>\$ (5,057)</u></u>	<u><u>\$ 12,762,572</u></u>

**CHILDREN'S BUREAU, INC. AND  
CHILDREN'S BUREAU FOUNDATION, INC.**

**CONSOLIDATING SCHEDULE-STATEMENT OF ACTIVITIES INFORMATION  
Year Ended December 31, 2007**

	Unrestricted			
	Children's Bureau, Inc.	Children's Bureau Foundation, Inc.	Eliminations	Total
<b>REVENUE, GAINS AND SUPPORT</b>				
Contributions	\$ 210,842	\$ 21,636	\$ (185,000)	\$ 47,478
Capital Campaign				
United Way allocation	271,801			271,801
Government grants and contract fees	11,215,594			11,215,594
In-kind contributions	507,852			507,852
Interest income	21,822	107,752		129,574
Net realized and unrealized investment gains (losses)	(947)	47,762		46,815
Other income	211,503	12		211,515
	<u>12,438,467</u>	<u>177,162</u>	<u>(185,000)</u>	<u>12,430,629</u>
Net assets released from restrictions:				
United Way	894,066			894,066
Other	1,176,674			1,176,674
Total Revenue, Gains and Support	<u>14,509,207</u>	<u>177,162</u>	<u>(185,000)</u>	<u>14,501,369</u>
<b>EXPENSES</b>				
United Way programs	2,386,602			2,386,602
Other programs	9,134,980			9,134,980
Management and general	2,276,379	224,250	(185,000)	2,315,629
Fundraising	201,215			201,215
Total Expenses	<u>13,999,176</u>	<u>224,250</u>	<u>(185,000)</u>	<u>14,038,426</u>
<b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	510,031	(47,088)		462,943
<b>PENSION ACCOUNTING CHANGE</b>				
Effect of adoption of recognition provisions of SFAS No. 158	(247,578)			(247,578)
<b>INCREASE (DECREASE) IN NET ASSETS</b>	262,453	(47,088)		215,365
<b>NET ASSETS</b>				
Beginning of Year	<u>6,441,855</u>	<u>2,840,735</u>		<u>9,282,590</u>
End of Year	<u>\$ 6,704,308</u>	<u>\$ 2,793,647</u>	<u>\$ -</u>	<u>\$ 9,497,955</u>

Temporarily Restricted			Permanently Restricted	
Children's Bureau, Inc.	Children's Bureau Foundation, Inc.	Total	Children's Bureau Foundation, Inc.	Consolidated
\$ 830,337		\$ 830,337		\$ 877,815
617,900		617,900		617,900
797,597		797,597		1,069,398
12,500		12,500		11,228,094
71,143		71,143		578,995
				129,574
				46,815
				211,515
<u>2,329,477</u>		<u>2,329,477</u>		<u>14,760,106</u>
(894,066)		(894,066)		
<u>(1,176,674)</u>		<u>(1,176,674)</u>		
<u>258,737</u>		<u>258,737</u>		<u>14,760,106</u>
				2,386,602
				9,134,980
				2,315,629
				<u>201,215</u>
				<u>14,038,426</u>
258,737		258,737		721,680
				(247,578)
<u>258,737</u>		<u>258,737</u>		474,102
<u>881,375</u>	<u>\$ 187,000</u>	<u>1,068,375</u>	<u>\$ 189,370</u>	<u>10,540,335</u>
<u>\$ 1,140,112</u>	<u>\$ 187,000</u>	<u>\$ 1,327,112</u>	<u>\$ 189,370</u>	<u>\$ 11,014,437</u>

**CHILDREN'S BUREAU, INC. AND  
CHILDREN'S BUREAU FOUNDATION, INC.**

**CONSOLIDATING SCHEDULE-STATEMENT OF CASH FLOWS INFORMATION  
Year Ended December 31, 2007**

	Children's Bureau, Inc.	Children's Bureau Foundation Inc.	Consolidated
<b>OPERATING ACTIVITIES</b>			
Increase (decrease) in net assets	\$ 521,190	\$ (47,088)	\$ 474,102
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:			
Depreciation	329,293		329,293
Net losses on disposals of property and equipment	56,025		56,025
Net realized losses (gains) on investments	51,251	(227,160)	(175,909)
Net unrealized (gains) losses on investments	(50,304)	179,398	129,094
(Increase) decrease in certain assets:			
Unrestricted receivables	(730,789)	(6,452)	(737,241)
Prepaid expenses	(61,925)		(61,925)
Increase (decrease) in certain liabilities:			
Accounts payable and accrued expenses	114,394	(17,978)	96,416
Deferred support	203,799		203,799
Accrued payroll and taxes	37,236		37,236
Accrued vacation pay	384		384
Accrued pension expense	188,216		188,216
Annuity payment liability		554	554
Contributions restricted for Capital Campaign	(617,900)		(617,900)
Net Cash Provided (Used) by Operating Activities	<u>40,870</u>	<u>(118,726)</u>	<u>(77,856)</u>
<b>INVESTING ACTIVITIES</b>			
Purchases of property and equipment	(674,174)		(674,174)
Purchases of investments		(747,639)	(747,639)
Sales and maturities of investments	233,141	895,566	1,128,707
Net Cash Provided (Used) by Investing Activities	<u>(441,033)</u>	<u>147,927</u>	<u>(293,106)</u>
<b>FINANCING ACTIVITIES</b>			
Collections of contributions restricted for Capital Campaign	561,684		561,684
Proceeds from line of credit borrowings	70,000		70,000
Net Cash Provided by Financing Activities	<u>631,684</u>	<u>-</u>	<u>631,684</u>
<b>NET INCREASE IN CASH</b>	<b>231,521</b>	<b>29,201</b>	<b>260,722</b>
<b>CASH</b>			
Beginning of Year	<u>676,929</u>	<u>79,658</u>	<u>756,587</u>
End of Year	<u>\$ 908,450</u>	<u>\$ 108,859</u>	<u>\$ 1,017,309</u>

**CHILDREN'S BUREAU, INC.**

**SCHEDULE OF GOVERNMENT GRANTS AND CONTRACT FEES  
Year Ended December 31, 2007**

U.S. Department of Health and Human Services:	
Runaway and Homeless Youth Basic Grant/Street Outreach Grant	\$ 200,000
Indiana Department of Education:	
School Lunch Program	47,136
Indiana Family and Social Services Administration-Division of Family and Children:	
CCDF Voucher Program	1,215,180
Vivian Smith Day Care	11,217
Emergency Shelter Grant	69,659
Project Safe Place	12,405
CDBG Pro 100 Program	30,000
Social Services Block Grant-Title XX	30,336
Youth Services	37,500
Dawn Program	59,425
FSC Daycare	222,000
Parent Assessment	298,081
State of Indiana-Division of Family and Children:	
Title IV-B Any Child/Anderson/PEACE	182,945
Title IV-B Foster Parent Licensing	336,485
Title IV-B Supervised Visitation	216,345
Title IV-E Aftercare/Horizons	177,287
Title IV-B Foster Adoption Kinship Training	217,924
Community Partners for Child Safety	1,599,063
State of Indiana-Department of Corrections	83,827
Healthy Families	211,530
Indiana Adoption Grant	238,624
Johnson County, Indiana	228,947
ATOD Johnson County	43,025
Marion County, Indiana	1,059,845
Madison County, Indiana	158,587
Medicaid	15,110
County per diems (including Marion County)	4,189,941
Other	23,170
	<hr/>
<b>TOTAL GOVERNMENT GRANTS AND CONTRACT FEES</b>	<b><u>\$ 11,215,594</u></b>

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*Independent Auditors' 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*

*Year Ended December 31, 2007*

Board of Directors  
Children's Bureau, Inc.

We have audited the consolidated financial statements of Children's Bureau, Inc. and Children's Bureau Foundation, Inc. (both Indiana not-for-profit organizations) as of and for the year ended December 31, 2007, and have issued our report thereon, dated May 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Children's Bureau, Inc's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Children's Bureau, Inc's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Children's Bureau, Inc'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 entity's ability to initiate, authorize, record process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a 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 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 the 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 the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in the internal control over financial reporting that we consider to be material weaknesses, as defined above.

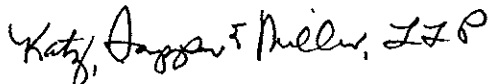
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Children's Bureau, Inc's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Item 07-01.

We noted certain matters that we reported to the management of Children's Bureau, Inc in a separate letter dated May 8, 2008

Children's Bureau, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Children's Bureau, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, Audit Committee and, management of Children's Bureau, Inc., 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.



Indianapolis, Indiana  
May 8, 2008

**CHILDREN'S BUREAU, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2007**

	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
Direct programs:		
Runaway and Homeless Youth Basis Center	93.623	\$ 200,002
Passed through the Indiana Family and Social Services Administration:		
Title IV-B Part I - Child Welfare Services	93.645	521,634
Title IV-B Part II - Respite Services	93.556	451,113
Community Partners	93.590	1,499,170
CCDF Voucher Program	93.596	1,215,180
Passed through Purdue University:		
Alcohol Tobacco and Other Drugs	93.959	38,525
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
Direct programs:		
School lunch	10.550	43,698
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		
Direct programs:		
Shelter Clinic Assistance	14.231	69,658
Pro 100	14.218	<u>30,000</u>
 <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		 <u><u>\$ 4,068,980</u></u>

## CHILDREN'S BUREAU, INC.

### NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

#### NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Children's Bureau, Inc. and is presented on the accrual basis of accounting. The information in this 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 in, or used in the preparation of, the consolidated financial statements.

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*Independent Auditors' Report on Compliance with  
Requirements Applicable to Each Major Program and  
on Internal Control over Compliance  
in Accordance with OMB Circular A-133*

*Year Ended December 31, 2007*

Board of Directors  
Children's Bureau, Inc.

## Compliance

We have audited the compliance of Children's Bureau, Inc. (an Indiana not-for-profit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Children's Bureau, Inc.'s major federal programs are identified in the summary of auditors' 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 Children's Bureau, Inc.'s management. Our responsibility is to express an opinion on Children's Bureau, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 Children's Bureau, 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 Children's Bureau, Inc.'s compliance with those requirements.

In our opinion, Children's Bureau, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Item 07-01.

## Internal Control over Compliance

The management of Children's Bureau, 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 Children's Bureau, 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 Children's Bureau, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we considered to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 07-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Children's Bureau, Inc's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Children's Bureau, Inc's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, Audit Committee, and management of Children's Bureau, Inc., 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.

*Katy Duggan, CPA, FIF*

Indianapolis, Indiana  
May 8, 2008

**CHILDREN'S BUREAU, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended December 31, 2007**

**SECTION I**

**Summary of Auditors' Results**

Katz, Sapper & Miller, LLP has issued an unqualified opinion on the consolidated statement of financial position of Children's Bureau, Inc. and Children's Bureau Foundation, Inc. as of December 31, 2007, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended.

Katz, Sapper & Miller, LLP has also issued an unqualified opinion on the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to Children's Bureau, Inc.'s major federal programs for the year ended December 31, 2007.

The programs identified and tested as major are as follows:

U.S. Department of Health and Human Services – CFDA 93.590  
Discretionary grant with the Indiana Family and Social Services Administration for Community Partners Program

U.S. Department of Health and Human Services – CFDA 93.556  
Discretionary grant with the Indiana Family and Social Services Administration for Respite Services

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

Children's Bureau, Inc. was determined to qualify as a low risk auditee.

**SECTION II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS.**

None

CHILDREN'S BUREAU, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended December 31, 2007

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS  
INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133

Item 07 - 01

Eligibility - CFDA 93.590

*Criteria:* Services must be restricted to the following eligibility categories:

- 1) Children and families for whom a child protection service investigation has not been substantiated.
- 2) Families that have been referred by a community partner or who self-refer due to a determination that, with timely, effective, and appropriate prevention support services, family functioning can be improved and child abuse and neglect prevented.
- 3) Families that do not meet the criteria for Healthy Families Participation.

*Statement of Condition:* It was noted during testing of Children's Bureau, Inc.'s files that there was not consistent documentation of families meeting the above criteria within internally maintained files.

*Cause and Effect:* We selected a sample of 40 individuals that received services billed under the Community Partners Grant from a population of approximately 700 clients. Of the sample, 9 individuals did not have any documentation retained in their file indicating that they did not meet the criteria for Healthy Families Participation, and that they did not have a substantiated investigation through Child Protective Services. In addition, one individual did not indicate that they were not participating in Healthy Families. Two more individuals indicated that they were involved with Child Protective Services, but it did not document that they did not have a substantiated investigation. If required documentation is not maintained in client files, it would be possible that clients are obtaining services that they are not eligible for based on grant eligibility criteria.

*Recommendations:* We recommend that Children's Bureau, Inc. communicate eligibility requirements to all staff initiating program files, and that internal reviews should occur to identify errors of this nature. Further steps should be taken to ensure that this documentation is standardized and required in all files.

*Management Response:* Program managers indicated that they were knowledgeable of the cases and that these individuals did not, in fact, have a substantiated investigation. It was also noted that it is common for Child Protective Services to refer individuals to this program who have been investigated but for whom the investigation was unsubstantiated. Management does require Continue Quality Improvement reviews on a quarterly basis to all programs.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.