B34707

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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 29, 2009

Board of Directors
Corvilla, Inc.
3231 Sugar Maple Bus Ct.
South Bend, IN 46628

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Corvilla, Inc., as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

CORVILLA, INC.

FINANCIAL STATEMENTS
December 31, 2008 and 2007

CORVILLA, INC.
South Bend, Indiana

FINANCIAL STATEMENTS
December 31, 2008 and 2007

CONTENTS

REPORT OF INDEPENDENT AUDITORS 1

FINANCIAL STATEMENTS

STATEMENTS OF ACTIVITIES 2

BALANCE SHEETS 3

STATEMENTS OF CASH FLOWS 4

NOTES TO FINANCIAL STATEMENTS 5

SUPPLEMENTARY INFORMATION

SCHEDULES OF UNRESTRICTED REVENUES AND PROGRAM COSTS 12

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES 13

Crowe Horwath

Crowe Horwath LLP
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Corvilla, Inc.
South Bend, Indiana

We have audited the accompanying balance sheets of Corvilla, Inc. as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 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 audits provide 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 Corvilla, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of unrestricted revenues and program costs, and general and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
February 4, 2009

CORVILLA, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2008 and 2007

	2008	2007
Unrestricted net assets		
Resident services revenue	$ 2,265,568	$ 2,108,761
Program costs		
Nursing and direct service	1,037,246	974,088
Dietary	66,583	62,012
Laundry and housekeeping	13,942	15,610
Maintenance and occupancy	218,979	201,876
Recreation and social service supplies	6,650	8,854
Ancillary	1,444	1,869
Day service expense	324,078	304,821
Provider assessment expense	116,640	128,427
	1,785,562	1,697,557
General and administrative expenses	492,598	459,089
Total expenses	2,278,160	2,156,646
Operating income (loss)	(12,592)	(47,885)
Other income (Note 1)		
Fund raising, net	8,748	1,253
Donations	72,601	223,404
Investment income	(619,169)	127,915
Gain (loss) on disposal of equipment	-	(286)
Other	7,915	912
Net assets released from restriction	-	663
	(529,905)	353,861
Change in unrestricted net assets	(542,497)	305,976
Temporarily restricted net assets		
Temporarily restricted donations	1,000	-
Net asset released from restriction	-	(663)
Change in temporarily restricted net assets	1,000	(663)
Change in net assets	(541,497)	305,313
Net assets at beginning of year	3,465,478	3,160,165
Net assets at end of year	$ 2,923,981	$ 3,465,478

See accompanying notes to financial statements.

CORVILLA, INC.
BALANCE SHEETS
December 31, 2008 and 2007

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 468,983	$ 862,137
Short-term investments	589,000	-
Accounts receivable	174,292	161,263
Bequests receivable (Note 2)	60,056	150,000
Other current assets	37,061	35,240
Total current assets	1,329,392	1,208,640
Land, buildings, equipment and vehicles (Note 1)		
Land, buildings and improvements	1,012,274	1,000,489
Movable equipment	49,313	49,313
Vehicles and equipment	14,619	14,619
	1,076,206	1,064,421
Accumulated depreciation	601,980	558,208
	474,226	506,213
Investments (Note 3)	1,479,570	2,125,651
	$ 3,283,188	$ 3,840,504
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities		
Current portion of long-term debt (Note 4)	$ 11,062	$ 10,446
Accounts payable	73,756	85,358
Accrued salaries and wages	49,496	39,691
Accrued reimbursement liability (Note 1)	1,540	5,116
Total current liabilities	135,854	140,611
Long-term debt (Note 4)	223,353	234,415
Unrestricted net assets		
Designated for use in future years	1,479,570	2,125,651
Undesignated	1,442,074	1,338,490
Total unrestricted net assets	2,921,644	3,464,141
Temporarily restricted	2,337	1,337
Total net assets	2,923,981	3,465,478
	$ 3,283,188	$ 3,840,504

See accompanying notes to financial statements.

CORVILLA, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	$ (541,497)	$ 305,313
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	43,772	43,665
Net unrealized (gain) loss on investments	612,720	338,523
Net realized (gain) loss on investments	82,019	(277,512)
(Gain) loss on sale of fixed assets	-	286
Change in assets and liabilities		
Accounts receivable	(13,029)	(5,368)
Bequests receivable	89,944	(150,000)
Other current assets	(1,821)	7,899
Accounts payable	(11,602)	(4,738)
Other current liabilities	6,229	7,903
Net cash from operating activities	266,735	265,971
Cash flows from investing activities		
Capital expenditures	(11,785)	(20,503)
Proceeds from sales of investments	358,387	6,592,492
Purchase of investments	(996,045)	(6,728,543)
Net cash from investing activities	(649,443)	(156,554)
Cash flows from financing activities		
Principal payments on long-term debt	(10,446)	(9,863)
Net cash from financing activities	(10,446)	(9,863)
Net change in cash and cash equivalents	(393,154)	99,554
Cash and cash equivalents at beginning of year	862,137	762,583
Cash and cash equivalents at end of year	$ 468,983	$ 862,137
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 13,806	$ 14,389
Schedule of non-cash investing and financing activities		
Disposed of fully depreciated equipment	$ -	$ 28,597

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: The Organization operates four community residential facilities for developmentally disabled individuals in St. Joseph County, Indiana. The Organization is reimbursed by the Indiana Family and Social Services Administration and individual residents for occupancy according to per resident day reimbursement rates based on allowable costs as prescribed by the State of Indiana. Amounts due for payment of services is shown as accounts receivable and estimated amounts due for repayment of reimbursement amounts is shown as a liability on the balance sheet. At December 31, 2008 and 2007, all of the accounts receivable are due from the Indiana Family and Social Services Administration.

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.

Financial Statement Presentation: The financial statements have been prepared in accordance with Statement of Financial Accounting Standard (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. SFAS No. 117 requires, among other things, that the financial statements report the changes in, and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

Unrestricted net assets represent the part of the net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization. The temporarily restricted net assets at December 31, 2008 and 2007 are restricted for use within the Myrtle and Bulla homes.

Permanently restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization does not possess any permanently restricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates associated with the allowance for uncollectible accounts, estimated depreciable lives of property and equipment and accrued reimbursement liability are particularly susceptible to material changes in the near term. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to $100,000 (increased to $250,000 effective October 2008) per financial institution. The Organization has cash on deposit with several financial institutions which, at times, may be in excess of federally insured limits. Additionally, for the purpose of the statement of cash flows, the Organization considers all highly liquid investments of operating cash purchased with an original maturity of three months or less to be cash equivalents.

Resident Services Revenue: Resident services revenue is reported at the estimated net realizable amounts due from residents, third-party payors, and others for residential services provided. Resident services revenue is also adjusted for estimated retroactive adjustments under reimbursement agreements with third-party payors.

Contributions: Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist.

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.

If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as unrestricted.

Accounts Receivable: The accounts receivable balance represents the unpaid amounts billed to residents and third-party payors. An allowance for doubtful accounts is recorded to report receivables for resident services at net realizable value. The Organization does not accrue interest on any of its past due accounts receivable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts: The allowance for doubtful accounts is determined by management based on the Organization's historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have failed. No allowance for doubtful accounts is provided since management believes all receivables at December 31, 2008 and 2007 are collectible.

Land, Buildings, Equipment, Vehicles and Depreciation: Land, buildings, equipment, and vehicles are stated at cost or, if donated to the Organization, at fair market value on the date of acquisition. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	10 - 30 years
Movable equipment	3 - 5 years
Vehicles and equipment	3 - 5 years

The Organization has a capitalization policy that states all property and equipment in excess of $500 are to be capitalized and depreciated.

Investments and Board Designated Assets: The Organization has adopted Statement of Financial Accounting Standard (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organization". Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value based on quoted market prices or dealer quotes in the balance sheets. These investments are initially recorded at cost if they were purchased or at their fair market value on the date of the gift if they were received as a donation. Unrealized gains and losses resulting from year-end adjustments are included in the statement of activities. Certain investments have been internally designated by the Board of Directors for use in future years. These investments are managed by an investment broker and totaled $1,479,570 and $2,125,651 at December 31, 2008 and 2007, respectively.

Fund Raising: The Organization holds various fund raising events throughout the year to assist in the funding of various resident care expenses. Monies received from the participants of these events totaled $23,740 and $17,848 for the years ended December 31, 2008 and 2007, respectively. In addition, the Organization received in-kind donations valued at $10,343 and $14,761 to assist in holding the various events, which are recorded as donation income in the statement of activities. The costs associated with these events totaled $14,992 and $16,595 for the years ended December 31, 2008 and 2007, respectively; which also include the value of the in-kind donations. The Organization utilizes a significant number of volunteer hours to host these events. Pursuant to current accounting standards, the value of these volunteer hours is not reflected within the statements of activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: The Organization is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. In addition, the Organization may participate in certain activities not directly related to the Organization's exempt purpose and as such, would be subject to unrelated business income tax.

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

Adoption of New Accounting Standard: In 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current U.S. GAAP standards and expands the disclosure of the methods used and the effect of fair value measurements on earnings. This Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Organization adopted applicable portions of this standard for the year ended December 31, 2008.

NOTE 2 - BEQUEST RECEIVABLE

During 2007 the Organization was notified that it had been named as the primary beneficiary in a will for an estimated amount of $150,000 to $175,000. As of December 31, 2007, there had been no additional information provided to management other than an updated estimate of the estate. Management recorded the receivable at the lower end of the estimated value, which was reflected in the 2007 balance sheet as a bequest receivable.

During 2008, the Organization received payments related to the bequest in the amount of $89,944. Other than the payments, management had not received any additional information on the status of the bequest. On February 2, 2009, the Organization received a final payout from the bequest in the amount of $149,215.

NOTE 3 - INVESTMENTS

Investments are reflected at fair market value and consist of the following:

	2008	2007
Money market funds	$ 28,804	$ 42,009
Mutual funds	1,450,766	2,083,642
	$ 1,479,570	$ 2,125,651

Investment income is comprised of the following for the year ending December 31, 2008 and 2007:

	2008	2007
Interest and dividends	$ 75,570	$ 188,926
Realized gain (loss) on sale of investments	(82,019)	277,512
Unrealized gain (loss) on investments	(612,720)	(338,523)
	$ (619,169)	$ 127,915

NOTE 4 - LONG-TERM DEBT

Long-term debt at December 31, 2008 and 2007 consists of the following:

	2008	2007
Chase - Mortgage payable in 360 monthly installments of $917 including interest at 5.75%, commencing August 2003; secured by facility real estate.	$ 106,235	$ 110,978
Chase - Mortgage payable in 360 monthly installments of $625 including interest at 5.75%, commencing August 2003; secured by facility real estate.	71,871	75,136
Chase - Mortgage payable in 360 monthly installments of $479 including interest at 5.75%, commencing August 2003; secured by facility real estate.	56,309	58,747
	234,415	244,861
Current portion	11,062	10,446
	$ 223,353	$ 234,415

NOTE 4 - LONG-TERM DEBT (Continued)

Principal payments for the next five years are due as follows:

2009	$ 11,062
2010	11,715
2011	12,407
2012	13,140
2013	13,916

Interest expense for 2008 and 2007 totaled $13,806 and $14,389, respectively.

NOTE 5 - LEASE COMMITMENTS

At December 31, 2008, the Organization has entered into various operating leases for vehicles and other small office equipment. Total lease expense for 2008 and 2007 was $54,063 and $53,465, respectively.

The following schedule presents, by year, the future minimum lease payments under the above noncancellable leases as of December 31, 2008:

2009	$ 47,510
2010	38,687
2011	29,798
2012	3,269
2013	817
	$ 120,081

NOTE 6 - EMPLOYEE BENEFIT RETIREMENT PLAN

The Organization has a tax sheltered annuity plan, provided for in Internal Revenue Code Section 403(b), for all eligible employees. The amount of the contribution to the plan represents a matching of employee contributions of up to 5% of the employee's salary. The Organization contributed $24,165 and $20,190 to the plan for the years ended December 31, 2008 and 2007.

NOTE 7 - FAIR VALUE MEASUREMENTS

Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS No. 157) defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in Corvilla's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair values of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates [or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities] (Level 2 inputs).

Contributions are reported at fair value at the date the contribution is made. Contributions may include cash, securities, fixed assets or pledges receivable. Securities are measured using the same methodology as discussed above. Fixed assets are measured using appraisals or quoted market prices for similar assets or other market data.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are the investments of the Organization and these investments are classified in the Level 1 category, as described above. The value of these investments as of December 31, 2008, is $1,479,570.

No other assets or liabilities are measured on a recurring basis as of December 31, 2008.

SUPPLEMENTARY INFORMATION

CORVILLA, INC.
SCHEDULES OF UNRESTRICTED REVENUES AND PROGRAM COSTS
Years ended December 31, 2008 and 2007

	2008		2007	
	Amount	Per Resident Day	Amount	Per Resident Day
Resident Services Revenue	$2,265,568	$ 225.79	$2,108,761	$ 220.19
Program Costs				
Nursing and direct service				
Nursing wages	46,370	4.62	44,792	4.68
House manager and residential instructors	805,485	80.28	744,700	77.76
Employee benefits	164,332	16.38	166,801	17.42
Medical director	4,800	0.48	4,800	0.50
Routine nursing supplies and other	16,259	1.62	12,995	1.36
	1,037,246	103.38	974,088	101.72
Dietary				
Dietitian	790	0.08	1,048	0.11
Food	65,793	6.56	60,964	6.37
	66,583	6.64	62,012	6.48
Laundry and housekeeping				
Laundry supplies	1,947	0.19	1,651	0.17
Housekeeping supplies	11,995	1.20	13,959	1.46
	13,942	1.39	15,610	1.63
Maintenance and occupancy				
Maintenance wages	35,539	3.54	33,930	3.54
Employee benefits	6,941	0.69	7,135	0.75
Utilities	29,082	2.90	26,050	2.72
Depreciation	32,257	3.21	31,716	3.31
Interest	13,806	1.38	14,389	1.50
Leases	37,436	3.73	35,406	3.70
Insurance	22,850	2.28	26,621	2.78
Repairs and maintenance	29,790	2.97	15,904	1.66
Other plant operations	11,278	1.12	10,725	1.12
	218,979	21.82	201,876	21.08
Recreation and social service supplies	6,650	0.66	8,854	0.92
Ancillary	1,444	0.14	1,869	0.20
Day service	324,078	32.30	304,821	31.83
Provider assessment	116,640	11.62	128,427	13.41
Total program costs	$1,785,562	$ 177.95	$1,697,557	$ 177.27

CORVILLA, INC.
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
Years ended December 31, 2008 and 2007

	2008		2007	
	Amount	Per Resident Day	Amount	Per Resident Day
Administrative wages	$ 238,694	$ 23.79	$ 226,999	$ 23.70
Qualified mental retardation wages	56,686	5.65	42,739	4.46
Employee benefits	57,686	5.75	56,770	5.93
Retirement benefits	24,165	2.41	20,190	2.11
Training	569	0.06	352	0.04
Professional services	25,306	2.52	16,711	1.74
Depreciation	11,515	1.15	11,949	1.25
Leases	16,627	1.66	18,059	1.89
Advertising	1,065	0.11	1,177	0.12
Travel	25,775	2.57	22,793	2.38
Telephone	7,567	0.75	6,317	0.66
Licenses, dues and subscriptions	8,615	0.86	10,195	1.06
Office supplies and postage	8,572	0.85	12,508	1.31
Other administrative	9,756	0.97	12,330	1.29
	$ 492,598	$ 49.10	$ 459,089	$ 47.94