



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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July 8, 2009

Board of Directors
Family Service Association of Howard County, Inc.
and FSA Asset Management, Inc.
618 South Main St.
Kokomo, IN 46901

We have reviewed the audit report prepared by Rea Logan & Co., Inc., 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 Service Association of Howard County, Inc. and FSA Asset Management, 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 findings in the report. The management letter contains two comments.

STATE BOARD OF ACCOUNTS

**FAMILY SERVICE ASSOCIATION
OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007

**FAMILY SERVICE ASSOCIATION
OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Statement of Financial Position -- Exhibit A	2
Statement of Activities -- Exhibit B	3
Statement of Functional Expenses -- Exhibit C	4
Statement of Cash Flows -- Exhibit D	5
Notes to Financial Statements	6-10

SUPPLEMENTAL

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	11-12
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance	13-14
Schedule of Expenditures of Federal Awards	15
Notes to Schedule of Expenditures of Federal Awards	16
Schedule of Findings and Questioned Costs	17

CERTIFIED PUBLIC ACCOUNTANTS



Member of American Institute and Indiana CPA Society

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS

**FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC. AND FSA ASSET
MANAGEMENT, INC.**

Kokomo, Indiana

We have audited the accompanying consolidated statement of financial position of Family Service Association of Howard County, Inc. and FSA Asset Management, Inc. as of December 31, 2007 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family Service Association of Howard County, Inc. and FSA Asset Management, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2008 on our consideration of Family Service Association of Howard County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Family Service Association of Howard County, Inc. and FSA Asset Management, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purpose 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

Rea Logan & Co, Inc.

Marion, Indiana
September 4, 2008

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FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007

	<u>ASSETS</u>			
	<u>Family Service</u>	<u>Asset Management</u>	<u>Eliminations</u>	<u>Consolidated</u>
OPERATING ASSETS:				
Cash	\$ 162,457	\$ 14,521	\$ -	\$ 176,978
Accounts receivable - clients	1,767	-	-	1,767
Accounts receivable - CCCS	732	-	-	732
Grants receivable	131,227	-	-	131,227
Prepaid expenses	16,932	-	(7,750)	9,182
	<u>313,115</u>	<u>14,521</u>	<u>(7,750)</u>	<u>319,886</u>
Total Operating Assets				
FIXED ASSETS:				
Land	-	73,400	-	73,400
Buildings	-	664,484	-	664,484
Furniture and equipment	256,365	-	-	256,365
Leasehold improvements	31,270	-	-	31,270
Vehicle	25,004	-	-	25,004
	<u>312,639</u>	<u>737,884</u>	<u>-</u>	<u>1,050,523</u>
Less accumulated depreciation	<u>240,903</u>	<u>85,873</u>	<u>-</u>	<u>326,776</u>
	<u>71,736</u>	<u>652,011</u>	<u>-</u>	<u>723,747</u>
Total Fixed Assets				
TOTAL ASSETS	<u>\$ 384,851</u>	<u>\$ 666,532</u>	<u>\$ (7,750)</u>	<u>\$ 1,043,633</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
Accounts payable	\$ 18,662	\$ 10,474	\$ (7,750)	\$ 21,386
Payroll withholdings	(67)	-	-	(67)
Accrued wages	4,434	-	-	4,434
Accrued vacation	37,268	-	-	37,268
Funds held for others	7,098	-	-	7,098
Notes and mortgages payable	95,345	618,451	-	713,796
	<u>162,740</u>	<u>628,925</u>	<u>(7,750)</u>	<u>783,915</u>
TOTAL LIABILITIES				
NET ASSETS:				
Unrestricted:				
Available for operations	98,945	37,607	-	136,552
Building and equipment fund	71,735	-	-	71,735
Temporarily restricted	51,431	-	-	51,431
	<u>222,111</u>	<u>37,607</u>	<u>-</u>	<u>259,718</u>
Total Net Assets				
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 384,851</u>	<u>\$ 666,532</u>	<u>\$ (7,750)</u>	<u>\$ 1,043,633</u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Family Service Association			FSA Asset Management Unrestricted	Eliminations	Consolidated
	Unrestricted	Temporarily Restricted	Total			
SUPPORT AND REVENUES:						
Public Support:						
United Way	\$ 295,755	\$ -	\$ 295,755	\$ -	\$ -	\$ 295,755
Membership dues	3,864	-	3,864	-	-	3,864
Contributions	80,624	-	80,624	-	(10,000)	70,624
Medicaid and Medicare	(734)	-	(734)	-	-	(734)
Total Public Support	379,509	-	379,509	-	(10,000)	369,509
Government support	-	1,155,656	1,155,656	-	-	1,155,656
Other grants and awards	-	75,133	75,133	-	-	75,133
Total Support	-	1,230,789	1,230,789	-	-	1,230,789
Revenues:						
Program service fees	123,230	-	123,230	-	-	123,230
Miscellaneous	2,167	-	2,167	-	-	2,167
Rental income	-	-	-	95,400	(93,000)	2,400
Investment income	1,858	-	1,858	-	-	1,858
Special events	34,516	-	34,516	-	-	34,516
Total Revenues	161,771	-	161,771	95,400	(93,000)	164,171
Net assets released from restrictions:						
Satisfaction of program restrictions	1,193,247	(1,193,247)	-	-	-	-
TOTAL SUPPORT AND REVENUES	1,734,527	37,542	1,772,069	95,400	(103,000)	1,764,469
EXPENSES:						
Program services	1,596,185	-	1,596,185	-	(93,000)	1,503,185
Support services	-	-	-	81,574	(10,000)	71,574
TOTAL EXPENSES	1,596,185	-	1,596,185	81,574	(103,000)	1,574,759
CHANGE IN NET ASSETS	138,342	37,542	175,884	13,826	-	189,710
NET ASSETS - Beginning	32,338	13,889	46,227	23,781	-	70,008
NET ASSETS - Ending - Exhibit A	\$ 170,680	\$ 51,431	\$ 222,111	\$ 37,607	\$ -	\$ 259,718

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Family Service Association						
	Domestic Violence	Prevent Child Abuse	Family Educator	Family Life Education	Chores	Individual Counseling	Healthy Families
Salaries	\$ 254,208	\$ -	\$ 60,895	12,338	\$ 83,880	\$ 4,423	\$ 520,533
Payroll taxes	25,111	-	5,531	495	8,228	1,434	56,548
Employee benefits	16,916	-	6,567	195	6,369	-	48,979
Total salaries and related expenses	296,235	-	72,993	13,028	98,477	5,857	626,060
Professional fees	200	-	-	7,851	-	-	225
Supplies	12,479	6,358	21	93	197	2	7,230
Telephone	4,186	-	1,774	-	539	-	10,046
Postage	356	414	27	119	24	15	391
Occupancy	43,265	-	3,687	1,169	2,275	-	27,063
Repairs and maintenance	6,717	-	524	100	523	76	5,246
Advertising and printing	831	317	231	1,296	322	1,303	210
Travel	1,688	268	5,829	96	11,270	-	13,996
Conference and training	1,801	941	2	1,494	246	-	3,085
Insurance	2,104	-	340	-	207	-	2,368
Dues and subscriptions	503	250	-	3	3	-	159
Miscellaneous	1,803	28	296	43	1,145	136	2,418
Payments to affiliates	1,142	-	254	-	469	279	8,754
Contributions	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-
Small equipment purchases	291	500	-	-	-	-	-
Bad debts	-	-	-	-	(372)	-	-
Depreciation	635	-	-	-	-	-	8,966
Administrative overhead	45,633	-	10,837	-	16,700	768	88,282
Total expenses	\$ 419,869	\$ 9,076	\$ 96,815	\$ 25,292	\$ 132,025	\$ 8,436	\$ 804,499

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

Family Service Association							
Consumer Credit Counseling	Total Program Services	Management and General	Fund Raising	Totals	Asset Management	Eliminations	Consolidated
\$ 48,433	\$ 984,710	\$ 41,413	\$ 10,898	\$ 1,037,021	\$ -	\$ -	\$ 1,037,021
5,130	102,477	6,655	1,138	110,270	-	-	110,270
8,002	87,028	3,480	-	90,508	-	-	90,508
61,565	1,174,215	51,548	12,036	1,237,799	-	-	1,237,799
1,615	9,891	10,628	-	20,519	-	-	20,519
525	26,905	3,926	1,461	32,292	-	-	32,292
2,316	18,861	9,736	270	28,867	-	-	28,867
1,863	3,209	2,347	227	5,783	-	-	5,783
7,374	84,833	35,230	125	120,188	-	(93,000)	27,188
1,711	14,897	11,154	125	26,176	1,308	-	27,484
853	5,363	6,906	257	12,526	-	-	12,526
-	33,147	147	82	33,376	-	-	33,376
6	7,575	1,081	4,990	13,646	-	-	13,646
1,251	6,270	2,628	-	8,898	-	-	8,898
-	918	338	2	1,258	-	-	1,258
3,058	8,927	4,130	470	13,527	1,510	-	15,037
314	11,212	-	-	11,212	-	-	11,212
-	-	-	-	-	10,000	(10,000)	-
517	517	8,039	-	8,556	52,144	-	60,700
20	811	847	-	1,658	-	-	1,658
-	(372)	-	-	(372)	-	-	(372)
4,900	14,501	5,775	-	20,276	16,612	-	36,888
12,285	174,505	(154,460)	(20,045)	-	-	-	-
<u>\$ 100,173</u>	<u>\$ 1,596,185</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,596,185</u>	<u>\$ 81,574</u>	<u>\$ (103,000)</u>	<u>\$ 1,574,759</u>

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Family Service</u>	<u>Asset Management</u>	<u>Eliminations</u>	<u>Consolidated</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from contributions, grants, programs and miscellaneous	\$ 1,747,617	\$ 95,400	\$ (97,500)	\$ 1,745,517
Interest received	1,858	-	-	1,858
Interest paid	(517)	(52,144)	-	(52,661)
Cash paid to employees and suppliers	<u>(1,582,735)</u>	<u>(8,290)</u>	<u>93,000</u>	<u>(1,498,025)</u>
Net Cash Provided (Used) by Operating Activities	<u>166,223</u>	<u>34,966</u>	<u>(4,500)</u>	<u>196,689</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments on loans	(20,359)	(30,761)	-	(51,120)
Fixed asset purchases	<u>(2,525)</u>	<u>-</u>	<u>-</u>	<u>(2,525)</u>
Net Cash Provided (Used) by Financing Activities	<u>(22,884)</u>	<u>(30,761)</u>	<u>-</u>	<u>(53,645)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS:	143,339	4,205	(4,500)	143,044
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>19,118</u>	<u>10,316</u>	<u>4,500</u>	<u>33,934</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 162,457</u>	<u>\$ 14,521</u>	<u>\$ -</u>	<u>\$ 176,978</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Change in net assets	\$ 175,884	\$ 13,826	\$ -	\$ 189,710
Depreciation	20,276	16,612	-	36,888
(Increase)Decrease in receivables	(12,593)	4,500	(4,500)	(12,593)
(Increase) decrease in prepaid expenses	(3,051)	-	-	(3,051)
Increase (decrease) in payables	(13,119)	28	-	(13,091)
(Decrease) in accrued expenses	(504)	-	-	(504)
(Decrease) in custodial funds	<u>(670)</u>	<u>-</u>	<u>-</u>	<u>(670)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 166,223</u>	<u>\$ 34,966</u>	<u>\$ (4,500)</u>	<u>\$ 196,689</u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 – Summary of Significant Accounting Policies:

NATURE OF OPERATIONS – Family Service Association of Howard County, Inc. is a nonprofit corporation that provides a nurturing program for parents and children, individual and family counseling, consumer credit counseling, child abuse treatment, a homemaker program for the elderly and disabled, a healthy families program for parents and families of newborns, and a family life education program that provides education courses to promote new skills for individual and family living.

FSA Asset Management, Inc. is a nonprofit corporation organized to manage the real estate where Family Service Association operates its programs.

METHOD OF ACCOUNTING – Family Service Association of Howard County, Inc. and FSA Asset Management, Inc. record income and expenses under the accrual method of accounting and reports based on a calendar year end accounting period. The financial statements report amounts separately by class of net assets:

- a. Unrestricted amounts are those currently available at the discretion of the Board of Directors for use in the organization's operations and those resources invested in property and equipment.
- b. Temporarily restricted amounts are those which are stipulated by donors and/or grantors for specific operating purposes not yet satisfied at the end of the year.

There are no permanently restricted funds at December 31, 2007.

INCOME TAXES – The Internal Revenue Service has ruled that the Association is exempt from payment of federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code as a corporation organized and operated exclusively for charitable purposes.

The Internal Revenue Service has ruled that the holding company is exempt from payment of federal income tax under the provisions of Section 501(c)(2) of the Internal Revenue Code.

CASH AND CASH EQUIVALENTS – The Association considers all checking, savings, and money market accounts and certificates of deposit with original maturities of three months or less to be cash equivalents.

FIXED ASSETS – Fixed assets are recorded at cost or, if donated at estimated fair market value. Such donations 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 Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Depreciation is provided on a straight-line method over the useful life ranging from three to forty years. Depreciation expense for the year ended December 31, 2007 was \$36,889. The Association expenses purchases of equipment under \$1,000.

EXPENSE ALLOCATIONS – Expenses not identifiable with a specific functional area are allocated to the separate functions based upon the percentage of program costs to overall costs.

See Independent Auditor's Report.

7

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.
NOTES TO FINANCIAL STATEMENTS CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 – Summary of Significant Accounting Policies (cont'd):

RECOGNITION OF DONOR RESTRICTIONS – Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

ACCOUNTS RECEIVABLE – The Association considers accounts receivable to be fully collectible at December 31, 2007; according no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

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 at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION – The consolidated financial statements include the accounts of Family Service Association of Howard County, Inc. and FSA Asset Management, Inc. These statements are consolidated since Family Service Association has control of the Organization by requiring that all board members of FSA Asset Management be board members of Family Service Association.

DONATED SERVICES – Many individuals volunteer their time and perform a variety of tasks that assist the organizations with specific assistance programs, campaign solicitations, and various committee assignments. The value of this contributed time is not reflected in the accompanying financial statements since the volunteer's time does not meet the criteria for recognition.

NOTE 2 – Notes Payable:

The Association has a note payable that is secured by guaranty of FSA Asset Management, Inc. The 60 month note requires payments of \$2,165. Interest rate is 7.75%. The note matures in March, 2012. Balance at December 31, 2007 was \$3,307.

The Association also had an unsecured note payable. The 60 month note requires monthly payments of \$486 including interest that varied from 7.75% to 8.25%. The note matures in July, 2008. Balance at December 31, 2007 was \$92,038.

Future minimum principle payments under the notes are as follows:

2008	\$	21,047
2009		20,954
2010		22,637
2011		24,455
2012		6,252
		6,252
Total	\$	95,345

Interest expense for these notes for the year ended December 31, 2007 was \$8,556.

See Independent Auditor's Report.

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.
NOTES TO FINANCIAL STATEMENTS CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 3 – Leases:

The Association leases various properties from FSA Asset Management, Inc. The aggregate monthly lease payment is \$7,750.

The Association is leasing various office equipment which requires monthly lease payments totaling \$203.

Future minimum lease payments are as follows:

2008	\$	23,264
2009		3,014
2010		3,014
2011		2,440
2012		407

Total rent expense for the year ended December 31, 2007 was \$95,863.

NOTE 4 – Mortgage Payables:

In August, 2006, FSA Asset Management, Inc. refinanced its mortgages. Their obligation under mortgages payable consists of the following:

Interest rate will be based on the weekly average yield on United States Treasury securities adjusted to a constant maturity of five years plus 4%.	\$ 236,653
7.25% mortgage payable, interest only for six months, then \$4,806 due in monthly installments including interest through January, 2017, secured by the property. Interest rate will be based on the weekly average yield on United States Treasury securities adjusted to a constant maturity of five years plus 3%.	<u>381,798</u>
	<u>\$ 618,451</u>

Future minimum principal payments under the note are as follows:

2008	\$	36,637
2009		40,539
2010		43,851
2011		47,435
2012		51,313
Thereafter		<u>398,676</u>
Total	\$	<u>618,451</u>

Interest expense paid for the year ended December 31, 2007 by FSA Asset Management, Inc. was \$52,144.

See Independent Auditor's Report.

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.
NOTES TO FINANCIAL STATEMENTS CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 5 – Tax Deferred Annuity Plan:

The Association has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees of the Association. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Association provided no matching contribution.

NOTE 6 – Temporarily Restricted Net Assets:

Includes the following:

Domestic Violence Shelter	\$ 932
Indiana Tobacco Prevention Cessation Grant	10,900
Gear up for Safety	29,997
Mayor's Substance Abuse	2,500
Child Abuse Prevention Program	<u>7,102</u>
Total	<u>\$ 51,431</u>

NOTE 7 – Grants:

The agency received funds from the following government agencies for the year ended December 31, 2007:

Howard County Department of Family and Children	\$ 75,553
Porter County Department of Family and Children	423
Indiana Family & Social Services	
Administration - Title IVB Part II	36,214
State Social Services Block Grant	19,760
Emergency Shelter Grant	22,579
Indiana Division of Family & Children	83,020
Indiana Criminal Justice Institute	38,213
Indiana CHOICE Funds	29,296
Older American's Act Title III & Title III E Funds	12,594
Indiana Tobacco Prevention & Cessation	16,078
Social Service Block Grant - Title XX Funds	15,007
Healthy Families Indiana - TANF Grant	<u>806,919</u>
Total	<u>\$ 1,155,656</u>

NOTE 8 – Advertising Expense:

The Association's policy is to expense advertising costs as the costs are incurred. Advertising for 2007 was \$9,307.

See Independent Auditor's Report.

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.
NOTES TO FINANCIAL STATEMENTS CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2007

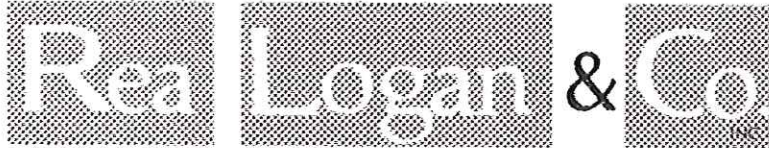
NOTE 9 – Retirement Plan:

Family Service Association of Howard County, Inc. maintains a defined contribution pension plan. One year of service is required to be eligible for participation. The plan is funded at a percent of salary for the year. For the year ended December 31, 2007, management has decided no plan contribution will be made.

NOTE 10 – Non Cash Transaction:

FSA Asset Management, Inc. had an inter-company payable of \$10,000 during 2007. In 2007, this amount was donated to Family Service Association of Howard County, Inc.

See Independent Auditor's Report.



Member of American Institute and Indiana CPA Society

**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**

TO THE BOARD OF DIRECTORS
FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
Kokomo, Indiana

We have audited the financial statements of Family Service Association of Howard County, Inc. (a nonprofit organization) as of and for the year ended December 31, 2007 and have issued our report thereon dated September 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Family Service Association of Howard County, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Family Service Association of Howard County, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization'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 organization's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in 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 Family Service Association of Howard County, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

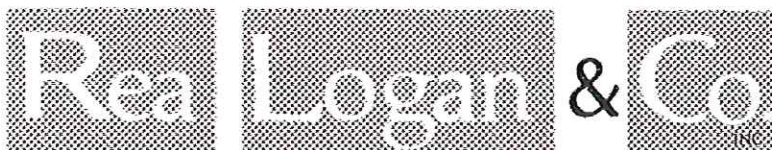
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONT'D)**

We noted certain other matters that we have reported to management of Family Service Association of Howard County, Inc. in a separate letter dated September 4, 2008.

This report is intended solely for the information and use of management, Board of Directors, 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.

Rea Logan & Co., Inc.

Marion, Indiana
September 4, 2008



Member of American Institute and Indiana CPA Society

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

TO THE BOARD OF DIRECTORS
FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
Kokomo, Indiana

Compliance

We have audited the compliance of Family Service Association of Howard County, Inc. (a nonprofit 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. Family Service Association of Howard County, Inc.'s major federal programs are identified in the summary of auditor's 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 Family Service Association of Howard County, Inc.'s management. Our responsibility is to express an opinion on Family Service Association of Howard County, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Family Service Association of Howard County, 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 Family Service Association of Howard County, Inc.'s compliance with those requirements.

In our opinion, Family Service Association of Howard County, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Family Service Association of Howard County, 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 Family Service Association of Howard County, Inc.'s internal control over compliance with the 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 Family Service Association of Howard County, Inc.'s internal control over compliance.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONT'D)

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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, 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.

Rea Logan & Co., Inc.

Marion, Indiana
September 4, 2007

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
 <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
Passed through from Indiana Family and Social Services Administration, Division of Family and Children:		
Family Violence Prevention & Service Grant	93.671	\$ 41,968
Sexual Offense Service	93.991	8,453
Title Twenty	93.667	36,214
Title IV-B Part II	93.556	<u>34,767</u>
Total U.S. Dept of Health and Human Services		<u>121,402</u>
 <u>U.S. DEPARTMENT OF JUSTICE</u>		
Passed through from U.S. Department of Justice, Office of Justice Programs: Criminal Justice-Victims of Crime Act Victim Assistance Grant Division of Family and Children:		
	16.575	38,213
Passed through from Indiana Family and Social Services Administration, Division of Family and Children:		
Healthy Families	16.540	<u>801,720</u>
Total U.S. Department of Justice		<u>839,933</u>
 <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
Passed through from Indiana Family and Social Services Administration, Division of Family and Children:		
Emergency Shelter Grant Program	14.231	<u>22,579</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 983,914</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Family Service Association of Howard County, Inc. and is presented on the accrual basis of accounting. The information in the 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 basic financial statements.

FAMILY SERVICE ASSOCIATION OF HOWARD COUNTY, INC.
AND FSA ASSET MANAGEMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Family Service Association of Howard County, Inc. and FSA Asset Management, Inc.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report of 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*
3. No instances of noncompliance material to the financial statements of Family Service Association of Howard County, Inc and FSA Asset Management, Inc. were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Family Service Association of Howard County, Inc. expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs for Family Service Association of Howard County, Inc.
7. The program tested as major program was Healthy Families Fund - CFDA No. 16.540.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Family Service Association of Howard County, Inc. qualified as a low-risk auditee.

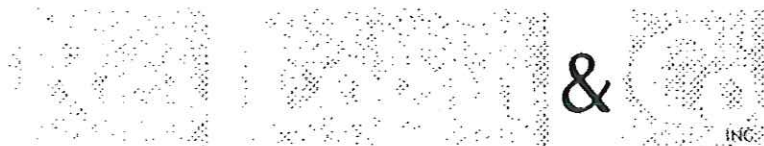
FINDINGS - FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

CERTIFIED PUBLIC ACCOUNTANTS



Member of American Institute and Indiana CPA Society

September 4, 2008

To the Board of Directors
Family Service Association of Howard County, Inc.
618 S. Main St.
Kokomo, IN 46901-5462

COPY

In planning and performing our audit of the financial statements of Family Service Association of Howard County, Inc. as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Family Service Association of Howard County, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 4, 2008, on the financial statements of Family Service Association of Howard County, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Company personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

ACTIVITY OF CONSUMER CREDIT COUNSELING SERVICES:

The activity of Consumer Credit Counseling Services is not currently being recorded on the Association's general ledger. We recommend that at least annually, the asset and liability assets related to Consumer Credit Counseling Services be adjusted to actual.

APPROVE BANK RECONCILIATIONS:

We noted that the bank statements are reviewed and initialed when received. Although we were advised that all bank reconciliations are approved by a responsible employee, no indication of such review was evident on the reconciliations selected for review. We recommend that the reconciliations be signed as an indication of approval. Doing so would take little additional time and might even prevent time from being wasted by an inadvertent review of reconciliations that had already been reviewed.

Family Service Association of Howard County, Inc.
September 4, 2008
Page 2

The management of Family Service Association of Howard County, Inc. is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Company personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended for the sole use of management and should not be used for any other purpose.

We wish to express our appreciation for the courtesy extended to us by your employees. We will be pleased to discuss any questions you may have regarding our comments and suggestions.

Sincerely,

Rea Lagan & Co., Inc.