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August 20, 2009

Board of Directors
Gary Neighborhood Services, Inc.
300 W. 21st Ave.
Gary, IN 46407

We have reviewed the audit report prepared by Swartz, Retson & Co., P.C., Independent Public Accountants, for the period January 1, 2007 to June 30, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Gary Neighborhood Services, Inc., as of June 30, 2007, and the results of its operations for the six month 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 Independent Auditor's Report makes mention of going concern considerations.

STATE BOARD OF ACCOUNTS

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**GARY NEIGHBORHOOD
SERVICES, INC.**

JUNE 30, 2007

SWARTZ, RETSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
235 E. 86TH AVENUE
MERRILLVILLE, INDIANA 46410

GARY NEIGHBORHOOD SERVICES, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Gary Neighborhood Services, Inc.
300 W. 21st Avenue
Gary, IN 46407

We have audited the accompanying statement of financial position of Gary Neighborhood Services, Inc. as of June 30, 2007, and the related statement of activities, functional expenses, and cash flows for the six-month period 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gary Neighborhood Services, Inc. as of June 30, 2007, and the changes in its net assets and its cash flows for the six-month period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 5 to the financial statements, the Organization has a deficiency in unrestricted net assets that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of the uncertainty.

Swartz, Retson & Co., P.C.

Merrillville, IN
October 19, 2008

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007

ASSETS

ASSETS		
Cash and Cash Equivalents	\$ 46,128	
Accounts Receivable	33,735	
Prepaid Expenses	4,767	
Property and Equipment - Net	<u>23,794</u>	
TOTAL ASSETS		<u>\$108,424</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts Payable	\$ 11,574	
Accrued Payroll	14,828	
Payroll Taxes Withheld and Payable	135,262	
Accrued Liabilities	<u>5,079</u>	
Total Liabilities		\$166,743
NET ASSETS		
Unrestricted	(60,290)	
Temporarily Unrestricted	<u>1,971</u>	
Total Net Assets		<u>(58,319)</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$108,424</u>

The accompanying notes are an integral part of the financial statements.

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF ACTIVITIES
FOR THE SIX MONTHS ENDED JUNE 30, 2007

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2007 <u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Title XX Chore Assistance	\$ 38,371	\$ 00	\$ 38,371
Lake County Voucher	44,866	00	44,866
Daycare Fees	1,795	00	1,795
Child Care Food Program	7,080	00	7,080
Information and Referral Services	2,894	00	2,894
Energy Assistance Program	42,190	00	42,190
Tobacco Prevention - Lake County	10,130	00	10,130
Lake Area United Way	59,518	00	59,518
EDS - Medicare	5,809	00	5,809
Space Rental	28,083	00	28,083
Contributions - Facilities	35,300	00	35,300
Contributions	719	10,000	10,719
Fundraising Dinner Income	9,055	00	9,055
Concession Income	2,274	00	2,274
Miscellaneous	306	00	306
Grants	1,185	00	1,185
Realized Gain	<u>1,189</u>	<u>00</u>	<u>1,189</u>
Total Revenues, Gains and Other Support	290,764	10,000	300,764
Prior to Reclassification of Net Assets:			
Reclassification of Net Assets	<u>8,029</u>	<u>(8,029)</u>	<u>00</u>
Total Revenues, Gains and Other Support	<u>298,793</u>	<u>1,971</u>	<u>300,764</u>
EXPENSES			
Daycare	63,329	00	63,329
Counseling	51,914	00	51,914
Chore Assistance	34,533	00	34,533
Special Services	82,041	00	82,041
Management and General	<u>74,627</u>	<u>00</u>	<u>74,627</u>
Total Expenses	<u>306,444</u>	<u>00</u>	<u>306,444</u>
CHANGE IN NET ASSETS	(7,651)	1,971	(5,680)
NET ASSETS - Beginning of Year	<u>(52,639)</u>	<u>00</u>	<u>(52,639)</u>
NET ASSETS - End of Year	<u>\$ (60,290)</u>	<u>\$ 1,971</u>	<u>\$ (58,319)</u>

The accompanying notes are an integral part of the financial statements.

GARY NEIGHBORHOOD SERVICES, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTHS ENDED JUNE 30, 2007**

	PROGRAM SERVICES					SUPPORTING SERVICES	
	Daycare	Neighborhood Self-Help	Chore Assistance	Special Services	Total Program Services	Management & General	Total Expenses
SALARIES AND RELATED EXPENSES							
Salaries	\$ 32,661	\$ 33,410	\$ 26,197	\$ 27,223	\$119,491	\$ 43,325	\$162,815
Employee Health and Retirement Benefits	919	1,927	610	1,000	4,456	1,688	6,144
Payroll Taxes	3,138	3,165	2,720	2,725	11,748	3,388	15,138
Workers' Compensation	274	271	238	238	1,027	296	1,323
Total Salaries and Related Expenses	36,992	38,779	29,765	31,186	136,722	48,697	185,420
Professional Fees and Contract Services	3,721	1,740	368	9,376	15,205	1,302	16,507
Supplies	7,257	2,653	26	3,433	13,369	1,104	14,473
Telephone	568	275	59	1,441	2,343	179	2,522
Postage and Shipping	343	160	34	466	1,003	484	1,489
Occupancy	11,025	5,081	1,100	26,940	44,146	3,477	47,623
Small Equipment Purchase and Rental	2,297	1,624	207	5,506	9,634	691	10,325
Outside Printing and Art Work	191	84	28	267	570	292	860
Local Transportation	645	1,488	2,922	1,760	6,815	3,579	10,394
Conferences and Meetings	280	30	24	00	334	212	546
Interest	00	00	00	00	00	3	3
Fundraising Dinner Expense	00	00	00	00	00	3,850	3,850
Miscellaneous	10	00	00	251	261	211	471
Advertising	00	00	00	00	00	1,276	1,276
Bank Charges	00	00	00	00	00	78	78
Concession Expense	00	00	00	1,415	1,415	00	1,415
Penalties	00	00	00	00	00	6,694	6,694
Total Expenses Before Depreciation	63,329	51,914	34,533	82,041	231,817	72,129	303,946
Depreciation	00	00	00	00	00	2,498	2,498
TOTAL EXPENSES	<u>\$ 63,329</u>	<u>\$ 51,914</u>	<u>\$ 34,533</u>	<u>\$ 82,041</u>	<u>\$231,817</u>	<u>\$ 74,627</u>	<u>\$306,444</u>

The accompanying notes are an integral part of the financial statements.

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (5,680)	
Adjustments to Reconcile Net Assets to Net Cash Provided by Operating Activities		
Depreciation	2,498	
Realized Gain on Investments	(1,189)	
(Increase) Decrease in:		
Accounts Receivable	34,542	
Prepaid Expenses	(625)	
Increase (Decrease) in:		
Accounts Payable	(13,268)	
Accrued Payroll	1,610	
Payroll Taxes Withheld and Payable	1,174	
Accrued Liabilities	<u>990</u>	
NET CASH PROVIDED BY OPERATING ACTIVITIES		\$ 20,052
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Stock		<u>13,352</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		33,404
CASH AND CASH EQUIVALENTS - Beginning of Year		<u>12,724</u>
CASH AND CASH EQUIVALENTS - End of Year		\$ <u>46,128</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Interest		\$ <u>3</u>

The accompanying notes are an integral part of the financial statements.

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Gary Neighborhood Services, Inc. is a not-for-profit corporation organized in the State of Indiana to provide social and educational programs and services to the residents of Gary, Indiana. The Organization is recognized as fully exempt from taxation by the Internal Revenue Code under Section 501(c)(3). The Organization's major sources of funding are from governmental grants and the Lake Area United Way.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions whose restrictions are met in the same period as the recognition of the contributions are considered unrestricted for reporting purposes.

Contributions

The Organization has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Financial Instruments and Credit Risk

The Organization is a not-for-profit corporation operating primarily in Northwest Indiana. As such, the Organization's accounts receivable are from grantors within the same geographic region. The terms of the grants give rise to unsecured accounts receivable, as is common industry practice.

Accounts Receivable

The Organization records bad debts on the direct write-off method when, in management's opinion, an account becomes uncollectible. The direct write-off method is a departure from generally accepted accounting principles. Bad debt expenses calculated using the direct write-off method do not differ materially from those calculated using generally accepted methods.

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management considers receivables to be past due after being outstanding for more than 30 days. Based on management's assessment of the credit history with grantors having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at period-end will be immaterial. The bad debt expense for the six-months ended June 30, 2007 was \$0.

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Investments

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

Property and Equipment

Property and equipment are carried at cost. Depreciation expense is computed using straight-line methods over the estimated useful life of the assets. The fair market value of donated assets are also capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss resulting from the transactions is recognized as income for the period. The cost of repairs and maintenance is charged to income as incurred; significant renewals and betterments are capitalized. The depreciation expense was \$2,498 for the six-months ended June 30, 2007.

The details of these accounts and their related accumulated depreciation are as follows:

	Cost or Appraised Value	Accumulated Depreciation	Net Book Value
Program and Office Equipment	\$127,189	\$111,061	\$ 16,128
Vehicles	15,900	15,900	00
Leasehold Improvements	<u>24,302</u>	<u>16,636</u>	<u>7,666</u>
Totals	<u>\$167,391</u>	<u>\$143,597</u>	<u>\$ 23,794</u>

Cash and Cash Equivalents

Cash, as presented on the accompanying statements of financial position and statements of cash flows, includes cash on hand and deposits in interest bearing and non-interest bearing accounts in financial institutions. Cash equivalents consist of highly liquid accounts with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments and stated at cost, which approximates market value.

Income Tax Status

The Internal Revenue Service has ruled that the Organization qualifies under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to tax under the present income tax laws. The Organization is not considered to be a private foundation.

Advertising Costs

The Organization uses advertising to promote its programs among the audience it serves. Advertising costs are expensed as incurred. Advertising expense for the six-months ended June 30, 2007 was \$1,276.

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 - PROGRAM SERVICES

The Daycare Program provides daycare and educational programs for children ages 3-6. Title XX and Child Care Development Fund (CCDF) reimbursements are provided for clients with salaries below the Title XX maximum salary. A sliding fee scale was established for clients with income in excess of the maximum. After September 2006, all reimbursements are provided by CCDF.

Health and Counseling are programs designed to provide individuals with a variety of group activities and with the primary objective of promoting sound personality and social development of the participants.

The Chore Assistance Program assigns staff members who perform household services for clients who are handicapped or unable to care for themselves. Reimbursement of expense through Title XX is applicable.

Special Services is a program whereby Gary Neighborhood Services, Inc. receives rent as well as maintains buildings for Social Service Agencies and other organizations.

NOTE 3 - CONTRIBUTED FACILITIES - FACILITY LEASE AGREEMENT

Certain contributed facility use is recorded as support and expense at fair market value when determinable, otherwise at values indicated by the donor. Gary Neighborhood Services, Inc. entered into a 10 year, below market lease with the City of Gary Parks Department. The lease was effective January 1, 1990 for the Barbara Wesson Center. The payment required was \$1.00 per year, to be paid in full in 1990. During January 2000, the lease was renewed for another 10-year period with the same terms. The Organization records an in-kind contribution and occupancy expense based on the estimated fair market value. During the six-months ended June 30, 2007, the Organization recorded \$35,300 as contributed facility usage.

NOTE 4 - EQUIPMENT LEASE AGREEMENTS

The Organization has a copier that it leased through March 2007 at the rate of \$583 per month. Beginning in March 2007, it received a new copier which is being leased for five years. The new copier requires monthly lease payments of \$675. The lease expense for the six-months ended June 30, 2007 was \$3,436.

Future minimum payments expected under the above leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2008	\$ 8,100
June 30, 2009	\$ 8,100
June 30, 2010	\$ 8,100
June 30, 2011	\$ 8,100
June 30, 2012	\$ 6,075

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4 - EQUIPMENT LEASE AGREEMENTS CONTINUED

The Organization has a postage meter that is leased through June 2008 at the rate of \$133 per month. The lease expense for the six months ended June 30, 2007 was \$996.

Future minimum payments expected under the above leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2008	\$ 1,596

NOTE 5 - GOING CONCERN

The Organization has a net asset deficit of \$58,319, which is related to \$134,129 in back taxes, interest and penalties owed to the Internal Revenue Service (IRS). The Organization's continued existence is dependent upon its ability to pay back or settle this liability with the IRS. Management has represented that they are in negotiation with the IRS to settle this liability.

Management has been in negotiation with the IRS and has presented an offer in compromise to resolve the tax liability. Although this discussion has been ongoing for some time, management feels confident that the liability situation should be resolved shortly.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

During the six-month period ended June 30, 2007, the Organization received \$6,000 in restricted contributions designated for payroll tax liabilities and \$4,000 in restricted contributions designated for building improvements. During the period, \$8,029 of these restrictions were released by payments and \$1,971 remained as temporarily restricted net assets at June 30, 2007.

NOTE 7 - CHANGE IN FISCAL YEAR

The Organization changed its fiscal year from a calendar year-end to a fiscal year ending on June 30, 2007. The Organization made this change to match its fiscal year more closely to its funding agencies.