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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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 July 1, 2007 to June 30, 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 Gary Neighborhood Services, Inc., as of June 30, 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.

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, 2008

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

GARY NEIGHBORHOOD SERVICES, INC.

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	3
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF ACTIVITIES	5
STATEMENT OF FUNCTIONAL EXPENSES	6
STATEMENT OF CASH FLOWS	7
NOTES TO THE FINANCIAL STATEMENTS.....	8-11



235 East 86th Avenue • Merrillville, IN 46410 • 219.769.3616 • Fax 219.736.4876 • www.swartz-retson.com

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, 2008, and the related statement of activities, functional expenses, and cash flows for the year 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 audits 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, 2008, 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.

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.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008

ASSETS

ASSETS	
Cash and Cash Equivalents	\$ 36,151
Accounts Receivable	42,918
Prepaid Expenses	4,214
Property and Equipment - Net	<u>13,513</u>
TOTAL ASSETS	\$ <u>96,796</u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts Payable	\$ 14,334
Accrued Payroll	15,305
Payroll Taxes Withheld and Payable	148,712
Accrued Liabilities	<u>10,863</u>
Total Liabilities	\$189,214
NET ASSETS	
Unrestricted	(93,902)
Temporarily Restricted	<u>1,484</u>
Total Net Assets	<u>(92,418)</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>96,796</u>

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Title XX Chore Assistance	\$103,848	\$ 00	\$103,848
Lake County Voucher	50,501	00	50,501
Daycare Fees	12,565	00	12,565
Child Care Food Program	8,743	00	8,743
Information and Referral Services	19,915	00	19,915
Energy Assistance Program	96,336	00	96,336
Parents as Teachers – Lake County	9,505	00	9,505
Partnership, Drug Free – Lake County	1,800	00	1,800
Tobacco Prevention – Lake County	5,319	00	5,319
Lake Area United Way	119,036	00	119,036
EDS – Medicare	11,977	00	11,977
Space Rental	53,898	00	53,898
Contributions – Facilities	70,600	00	70,600
Contributions	1,808	3,180	4,988
Concession Income	4,953	00	4,953
Miscellaneous	<u>2,196</u>	<u>00</u>	<u>2,196</u>
Total Revenues, Gains and Other Support			
Prior to Reclassification of Net Assets:	573,000	3,180	576,180
Reclassification of Net Assets	<u>3,667</u>	<u>(3,667)</u>	<u>00</u>
Total Revenues, Gains and Other Support	<u>576,667</u>	<u>(487)</u>	<u>576,180</u>
EXPENSES			
Daycare	123,801	00	123,801
Counseling	107,006	00	107,006
Chore Assistance	74,156	00	74,156
Special Services	152,629	00	152,629
Management and General	<u>152,687</u>	<u>00</u>	<u>152,687</u>
Total Expenses	<u>610,279</u>	<u>00</u>	<u>610,279</u>
CHANGE IN NET ASSETS	(33,612)	(487)	(34,099)
NET ASSETS – Beginning of Year	<u>(60,290)</u>	<u>1,971</u>	<u>(58,319)</u>
NET ASSETS – End of Year	<u>\$ (93,902)</u>	<u>\$ 1,484</u>	<u>\$ (92,418)</u>

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2008

	PROGRAM SERVICES						SUPPORTING SERVICES	
	Daycare	Neighborhood Self-Help	Chore Assistance	Special Services	Total Program Services		Management & General	Total Expenses
SALARIES AND RELATED EXPENSES								
Salaries	\$ 72,018	\$ 73,669	\$ 57,765	\$ 60,027	\$263,479		\$ 95,533	\$359,012
Employee Health and Retirement Benefits	2,059	4,317	1,367	2,239	9,982		3,781	13,763
Payroll Taxes	6,712	6,771	5,819	5,828	25,130		7,250	32,380
Workers' Compensation	<u>870</u>	<u>878</u>	<u>754</u>	<u>756</u>	<u>3,258</u>		<u>940</u>	<u>4,198</u>
Total Salaries and Related Expenses	81,659	85,635	65,705	68,850	301,849		107,504	409,353
Professional Fees and Contract Services	5,594	2,616	553	14,098	22,861		1,959	24,820
Supplies	11,205	4,096	40	5,301	20,642		1,706	22,348
Telephone	1,198	581	124	3,041	4,944		377	5,321
Postage and Shipping	460	214	46	624	1,344		650	1,994
Occupancy	18,726	8,631	1,869	45,760	74,986		5,905	80,891
Small Equipment Purchase and Rental	3,330	2,354	299	7,982	13,965		1,003	14,968
Outside Printing and Art Work	141	62	20	197	420		215	635
Local Transportation	1,210	2,791	5,479	3,300	12,780		6,710	19,490
Conferences and Meetings	241	26	21	00	288		182	470
Interest	00	00	00	00	00		70	70
Miscellaneous	37	00	00	942	979		788	1,767
Advertising	00	00	00	00	00		100	100
Bank Charges	00	00	00	00	00		492	492
Concession Expense	00	00	00	00	00		00	00
Bad Debts	00	00	00	2,534	2,534		00	2,534
Other Operating Expenses	00	00	00	00	00		643	643
Food and Nutrition	00	00	00	00	00		305	305
Loss on Disposal of Assets	00	00	00	00	00		384	384
Penalties	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>		<u>6,427</u>	<u>6,427</u>
Total Expenses Before Depreciation	123,801	107,006	74,156	152,629	457,592		148,833	606,425
Depreciation	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>		<u>3,854</u>	<u>3,854</u>
TOTAL EXPENSES	<u>\$123,801</u>	<u>\$107,006</u>	<u>\$ 74,156</u>	<u>\$152,629</u>	<u>\$457,592</u>		<u>\$152,687</u>	<u>\$610,279</u>

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (34,099)
Adjustments to Reconcile Net Assets to Net Cash Provided by Operating Activities	
Depreciation	3,854
Loss on Disposal of Equipment	6,427
(Increase) Decrease in:	
Accounts Receivable	(9,183)
Prepaid Expenses	553
Increase (Decrease) in:	
Accounts Payable	2,760
Accrued Payroll	477
Payroll Taxes Withheld and Payable	13,450
Accrued Liabilities	<u>5,784</u>
NET CASH (USED) BY OPERATING ACTIVITIES	\$ (9,977)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>46,128</u>
CASH AND CASH EQUIVALENTS - End of Year	\$ <u>36,151</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION	
CASH PAID DURING THE YEAR FOR:	
Interest	\$ <u>70</u>

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

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

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 year-end will be immaterial. The bad debt expense for the year ended June 30, 2008 was \$643.

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 \$3,854 for the year ended June 30, 2008.

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	\$ 49,374	\$ 38,266	\$ 11,108
Vehicles	15,900	15,900	00
Leasehold Improvements	<u>4,171</u>	<u>1,766</u>	<u>2,405</u>
Totals	<u>\$ 69,445</u>	<u>\$ 55,932</u>	<u>\$ 13,513</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 year ended June 30, 2008 was \$100.

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

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 year ended June 30, 2008, the Organization recorded \$70,600 as contributed facility usage.

NOTE 4 - EQUIPMENT LEASE AGREEMENTS

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 year ended June 30, 2008 was \$6,990.

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

<u>Year Ending</u>	<u>Amount</u>
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, 2008

NOTE 4 - EQUIPMENT LEASE AGREEMENT CONTINUED

The Organization has a postage meter that it leased through June 2008 at the rate of \$166 per month. The lease expense for the six months ended June 30, 2008 was \$1,992.

After June 30, 2008, the Organization continued to lease the postage meter on a month-to-month basis. Management anticipates leasing the equipment for one year at the same rate.

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

<u>Year Ending</u>	<u>Amount</u>
June 30, 2009	\$ 1,992

NOTE 5 - GOING CONCERN

The Organization has a net asset deficit of \$92,418, which is related to \$147,541 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

At the beginning of fiscal 2008, the Organization had \$1,971 in temporarily restricted net assets. Of this amount, \$400 was designated for payroll tax liabilities and \$1,571 for building improvements. In fiscal 2008, the Organization received \$3,180 in temporarily restricted contributions designated for bathroom improvements. During the year, \$3,667 of temporarily restricted net assets were spent on their designated purposes. Of this amount, \$3,180 was for bathroom improvements and \$487 was for building improvements. On June 30, 2008, \$1,484 remained in temporarily restricted net assets.