



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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November 6, 2009

Board of Directors
Future Choices, Inc.
309 N. High Street
Muncie, IN 47305

We have reviewed the audit report prepared by Summers, Carroll, Whisler, LLC, Independent Public Accountants, for the period January 1, 2008 to September 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 Future Choices, Inc., as of September 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 management letter contains nine comments.

STATE BOARD OF ACCOUNTS

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

FUTURE CHOICES, INC.

SEPTEMBER 30, 2008

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

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SPECIAL REPORT

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Summers, Carroll, Whisler *LLC*

Certified Public Accountants

Independent Auditors' Report

Board of Directors Future Choices, Inc.

We have audited the accompanying statement of financial position of Future Choices, Inc. (a nonprofit organization) as of September 30, 2008 and the related statements of activities, cash flow and functional expenses for the nine months 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Future Choices, Inc. as of September 30, 2008, and the changes in its net assets and its cash flow for the nine months 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 February 11, 2009 on our consideration of Future Choices, 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 considered in assessing the results of our audits.

Summers, Carroll, Whisler LLC

Muncie, Indiana
February 11, 2009

Future Choices, Inc.
STATEMENT OF FINANCIAL POSITION
September 30, 2008

ASSETS

CURRENT ASSETS

| | |
|--------------------------------|------------|
| Cash | \$ 138,376 |
| Cash - payee account | 29,227 |
| Accounts receivable | 2,631 |
| Grants receivable | 617 |
| Unconditional promises to give | 27,000 |

Total current assets 197,851

PROPERTY AND EQUIPMENT

| | |
|------------------------|--------|
| Equipment | 39,080 |
| Residential building | 35,401 |
| Leasehold improvements | 5,829 |
| Vehicle | 2,500 |

Less accumulated depreciation 82,810
38,840
43,970

OTHER ASSETS

| | |
|---|---------|
| Due from Daley Apartments, L.P. | 11,850 |
| Consulting fees receivable - Daley Apartments, L.P. | 18,000 |
| Investment in Daley Apartments, L.P. | 41,604 |
| Notes receivable | 425,000 |
| Interest receivable | 252,704 |

749,158

\$ 990,979

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS**CURRENT LIABILITIES**

| | |
|-------------------------|-----------|
| Payable - payee account | \$ 29,227 |
| Accounts payable | 1,058 |
| Accrued liabilities | 1,341 |
| Accrued wages | 8,110 |

Total current liabilities 39,736

Notes payable 239,062

Total liabilities 278,798

NET ASSETS

| | |
|-----------------------------------|---------|
| Unrestricted net assets | 548,343 |
| Temporarily restricted net assets | 163,838 |

712,181

\$ 990,979

Future Choices, Inc.

STATEMENT OF ACTIVITIES

Nine Months Ended September 30, 2008

| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Total |
|--|----------------------------|---|------------|
| Public Support and Revenue | | | |
| Revenue | | | |
| Fees and grants/government agencies | \$ 289,008 | | \$ 289,008 |
| Service fees | 2,430 | | 2,430 |
| Program fees | 4,932 | | 4,932 |
| Forgiveness of debt revenue | 15,938 | | 15,938 |
| Rent income | 3,075 | | 3,075 |
| Interest income | 13,213 | \$ 14,904 | 28,117 |
| Miscellaneous income | 5,607 | | 5,607 |
| Total revenue | 334,203 | 14,904 | 349,107 |
| Net assets released from restrictions | | | |
| Expiration of time and/or purpose restrictions | 13,500 | (13,500) | |
| Total public support and revenue | 347,703 | 1,404 | 349,107 |
| Expenses | | | |
| Program services | | | |
| Independent living | 239,043 | | 239,043 |
| Minority tobacco free coalition | 19,634 | | 19,634 |
| Housing | 3,307 | | 3,307 |
| Project C.A.R.E. | 2,356 | | 2,356 |
| Supporting services | | | |
| Management and general | 12,924 | | 12,924 |
| Total program and supporting services | 277,264 | | 277,264 |
| INCREASE IN NET ASSETS | 70,439 | 1,404 | 71,843 |
| Net assets at beginning of period | 477,904 | 162,434 | 640,338 |
| Net assets at end of period | \$ 548,343 | \$ 163,838 | \$ 712,181 |

The accompanying notes are an integral part of this statement.

Future Choices, Inc.
STATEMENT OF CASH FLOW
Nine Months Ended September 30, 2008

| | |
|--|--------------------------|
| Cash flow from operating activities: | |
| Increase in net assets | \$ 71,843 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | |
| Depreciation | 3,789 |
| (Increase) decrease in assets: | |
| Payee account | (29,227) |
| Accounts receivable | 1,999 |
| Grants receivable | 32,651 |
| Unconditional promises to give | 13,500 |
| Consulting fees | (3,000) |
| Interest receivable | (27,865) |
| Increase (decrease) in liabilities: | |
| Payee account | 29,227 |
| Accounts payable | 1,058 |
| Accrued liabilities | 1,336 |
| Accrued wages | 2,377 |
| | <hr/> |
| Net cash provided by operating activities | 97,688 |
| Cash flow from investing activities: | |
| Purchase of property and equipment | (12,570) |
| | <hr/> |
| Net cash used in investing activities | (12,570) |
| Cash flow from financing activities: | |
| Net borrowings on line of credit | (5,000) |
| Reduction of contingent notes payable | (15,938) |
| | <hr/> |
| Net cash used in financing activities | (20,938) |
| | <hr/> |
| Net increase in cash | 64,180 |
| Cash at beginning of period | 74,196 |
| | <hr/> |
| Cash at end of period | <u><u>\$ 138,376</u></u> |
| | |
| Interest | <u><u>\$ 354</u></u> |

The accompanying notes are an integral part of this statement.

Future Choices, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Nine Months Ended September 30, 2008

| | Independent Living | Minority Tobacco Free Coalition | Housing | Project C.A.R.E | Total Program Services |
|-------------------------------------|-----------------------|---------------------------------------|----------|--------------------|------------------------------|
| Grants and donations | | \$ 2,375 | | | \$ 2,375 |
| Salaries and wages | \$ 156,224 | | \$ 1,800 | \$ 2,168 | 160,192 |
| Employee benefits | 1,803 | | | | 1,803 |
| Payroll tax expense | 12,468 | | 7 | 188 | 12,663 |
| Professional fees | 7,731 | 7,787 | | | 15,518 |
| Supplies | 3,054 | 2,626 | | | 5,680 |
| Telephone | 5,889 | | | | 5,889 |
| Postage and shipping | 549 | 42 | | | 591 |
| Rent | 10,000 | | 1,500 | | 11,500 |
| Repairs and maintenance | 4,185 | | | | 4,185 |
| Printing and publications | 525 | | | | 525 |
| Travel | 6,940 | 893 | | | 7,833 |
| Conferences, workshops and meetings | 1,330 | 1,556 | | | 2,886 |
| Program expenses | 3,807 | 4,341 | | | 8,148 |
| Bad debt | | | | | |
| Dues and subscriptions | 1,672 | | | | 1,672 |
| Office expenses | 3,981 | 8 | | | 3,989 |
| Interest | | | | | |
| Insurance | 2,135 | | | | 2,135 |
| Utilities | 7,998 | | | | 7,998 |
| Miscellaneous | 4,963 | 6 | | | 4,969 |
| | 235,254 | 19,634 | 3,307 | 2,356 | 260,551 |
| Total expenses before depreciation | | | | | |
| Depreciation | 3,789 | | | | 3,789 |
| | \$ 239,043 | \$ 19,634 | \$ 3,307 | \$ 2,356 | \$ 264,340 |
| Total expenses | | | | | |

The accompanying notes are an integral part of this statement.

| <u>Management & General</u> | <u>Total</u> |
|-------------------------------------|-------------------|
| | \$ 2,375 |
| \$ 6,352 | 166,544 |
| 200 | 2,003 |
| 837 | 13,500 |
| 862 | 16,380 |
| | 5,680 |
| | 5,889 |
| | 591 |
| | 11,500 |
| | 4,185 |
| | 525 |
| | 7,833 |
| | 2,886 |
| | 8,148 |
| 3,618 | 3,618 |
| | 1,672 |
| | 3,989 |
| 354 | 354 |
| | 2,135 |
| | 7,998 |
| 701 | 5,670 |
| 12,924 | 273,475 |
| | 3,789 |
| <u>\$ 12,924</u> | <u>\$ 277,264</u> |

Future Choices, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Future Choices, Inc. was organized in 1994 as a nonprofit corporation for the purpose of providing access to services and to conduct activities to ensure that people in Delaware County, Indiana with special needs and their families are empowered to make personal choices from a wide range of acceptable options, which lead to the greatest level of independence. Funding for this Independent Living program consists primarily of government grants in the form of program reimbursement and monthly service fees.

Another program provided by Future Choices, Inc. is its Tobacco Prevention and Cessation program (Minority Tobacco Free Coalition). The funding for this Delaware County, Indiana program consists primarily of government grants.

Future Choices, Inc. is a nonprofit organization qualifying under Section 501(c)(3) of the Internal Revenue Code. As such, the Organization is not liable for federal and state income taxes and no liability for such taxes appears in these statements.

2. Basis of Presentation

The financial statements of the Organization are presented on the accrual basis of accounting in accordance with generally accepted accounting principles and, accordingly, reflect all significant receivables, payables, and other liabilities.

3. Financial Statement Presentation

In accordance with *Statement of Financial Accounting Standards No. 117*, "Financial Statements of Not-For-Profit Organizations," the Organization reports 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. In addition, the Organization presents a statement of cash flow.

4. Cash and Cash Equivalents

The Organization maintains cash in accounts at local financial institutions which are insured by agencies of the U.S. Government. As required by the grant agreement, funds received from the Tobacco Use and Prevention Cessation Fund are maintained in a separate bank account. For purposes of the statement of cash flow, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

5. Accounts and Grants Receivable

The Organization considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. Should management deem any accounts receivable to be uncollectible, the outstanding balance is written off to bad debts. Amounts written off to bad debts have been immaterial to the financial statements.

Future Choices, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the financial year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

7. Property and Equipment

Property and equipment are valued at cost for items purchased and at the approximate fair market value at the date acquired for items donated. The Organization's policy is to capitalize assets valued at \$500 or greater. It provides for depreciation using the straight-line method based upon the estimated useful lives of the assets. Upon retirement or sale of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss, if applicable, is recorded.

8. Compensated Absences

Future Choices, Inc. offers a "Paid Time Off" (PTO) program whereby vacation, sick and personal time are combined. The objective of the PTO is to give staff total control over their earned days without having to account for the specific type of time off. Twelve PTO days are made available for full-time staff to use at the beginning of a calendar year, earned one day for each calendar month worked during the calendar year. Untaken earned PTO will be paid upon termination at the same rate as base wage/salary for a regularly scheduled workday. An accrual for PTO has not been made as an amount cannot be easily estimated.

9. Public Support and Revenue

In accordance with *Statement of Financial Accounting Standards 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 and/or nature of any donor restrictions.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

11. Functional Allocation of Expenses

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

Future Choices, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE B - PAYEE ACCOUNTS

The Organization serves as the representative payee, approved by the Social Security Administration (SSA), for various consumers who require assistance with their financial responsibilities. The SSA requires the Organization to maintain a separate bank account into which the SSA makes direct deposits for each consumer to be used for the benefit of said consumer. While the SSA required the Organization to set up this payee bank account in the Organization's name, these monies do not belong to the Organization. Therefore, the Organization has recorded a current asset and an off-setting current liability presented on the statement of financial position for these two payee accounts. At September 30, 2008, the balance in each of these accounts was \$29,227.

NOTE C - UNCONDITIONAL PROMISES TO GIVE

For the nine months ended September 30, 2008, the amount due from funding sources consisted of a Delaware County Minority Tobacco grant from the Tobacco Use and Prevention Cessation Fund in the amount of \$27,000, which was contracted in the year 2007. This amount is due within one year.

NOTE D - OTHER ASSETS**DALEY APARTMENTS, L.P.**

During the year ended December 31, 1998, Daley Apartments, L.P. was formed. The primary source of financing for the construction of the apartments for low-income and disabled persons was in the form of low-income housing tax credits. Future Choices, Inc., as a project developer, was responsible for the receipt of those tax credits. At September 30, 2008, Future Choices, Inc. was due \$11,850 in deferred development fees, which are to be paid to Future Choices, Inc. from Daley Apartments, L.P.'s available cash flow, as defined by the agreement.

During the year ended December 31, 2000, Future Choices, Inc. entered into an agreement with Daley Apartments, L.P. whereby Future Choices, Inc. will provide social services consulting for a fee of \$6,000 per year. At September 30, 2008, Future Choices, Inc. was due \$18,000 for these consulting fees. As per an agreement with Daley Apartments, L.P., upon receipt of these consulting fees, Future Choices, Inc. is to pay a like amount to Daley Apartments, L.P. for the social services consultant's apartment rent. As stipulated by the agreement, this rent is not due until the consulting fees have been received. Therefore, rent expense has been recorded only for the \$1,500 received during the nine month period ending September 30, 2008.

During the year ended December 31, 2001, Future Choices, Inc. paid to Daley Apartments, L.P. a capital contribution of \$41,604 for a minority ownership in the limited partnership. As Future Choices, Inc. has no significant influence over Daley Apartments, L.P.'s operating or financial policies, this investment is recorded in the financial statements of Future Choices, Inc. using the cost method.

NOTE E - NOTES AND INTEREST RECEIVABLES

Notes receivable consist of two promissory notes to Daley Apartments, L.P. (the Partnership) as broken out below. Both notes are collateralized by mortgages on the Partnership's real property.

Promissory note related to:

| | |
|----------------------------|------------------|
| HOME grant/forgivable loan | \$250,000 |
| Affordable Housing Program | <u>175,000</u> |
| Total | <u>\$425,000</u> |

Future Choices, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE E - NOTES AND INTEREST RECEIVABLES - Continued

During 1998, Future Choices, Inc. received a \$250,000 HOME grant/forgivable loan from the City of Muncie, Indiana which they in turn loaned to the Partnership, as allowable by the HOME grant/forgivable loan, to contribute to the cost of construction of HOME-assisted rental units. The promissory note provides that principal along with interest is to be repaid from available cash flow, as defined. Interest is computed at the rate of 5.25%, compounded annually. The note matures May 16, 2020. After the Maturity Date or upon an Event of Default, the promissory note provides for a change in the interest rate to 8% per annum until paid in full. A requirement of the HOME grant/forgivable loan from the City of Muncie, Indiana, provides that the proceeds from the repayment of the loan and the interest received on said loan shall be reserved for use to maintain, renovate, operate, or obtain future ownership of this project. As of September 30, 2008, no payments had been received.

During 1999, Future Choices, Inc. received a \$175,000 grant from the Affordable Housing Program of the Federal Home Loan Bank of Indianapolis, which they in turn loaned to the Partnership, as allowable by the grant, for the purpose of providing funding for the construction of low-income housing. The promissory note provides that principal along with interest is to be repaid from available cash flow, as defined, subordinate to the HOME grant/forgivable loan. Interest is computed at the rate of 6.1% with all payments made being applied first to accrued interest with the balance, if any, applied to the outstanding principal balance. The note matures May 16, 2030, upon which date all outstanding principal and interest is due. As of September 30, 2008, no payments had been received.

Interest receivable is broken out below as it relates to:

| | |
|----------------------------|------------------|
| HOME grant/forgivable loan | \$136,838 |
| Affordable Housing Program | <u>115,866</u> |
| Total | <u>\$252,704</u> |

NOTE F - NOTES PAYABLE

As described in Note E, Future Choices, Inc. received a HOME grant/forgivable loan from the City of Muncie, Indiana. The term of the HOME grant/forgivable loan is twenty years, which began on December 10, 1999, the date of the final disbursement of loan proceeds. As per the HOME grant/forgivable loan agreement, these funds need not be paid back provided there is no default of any of the provisions of said agreement. As allowable by said agreement, the loan is forgiven at the rate of 5% on each anniversary date of the final disbursement of the loan proceeds and shall be forgiven in its entirety on the 20th anniversary date of such disbursement.

Future Choices, Inc. also received a grant from the Affordable Housing Program of the Federal Home Loan Bank of Indianapolis, as described in Note E. The term of the grant is fifteen years, which began on July 6, 1999, the date of the agreement. As per the grant agreement, these funds need not be paid back provided there is no default of any of the provisions of said agreement. As allowable by said agreement, the grant is forgiven at the rate of 5% each year.

The amount of the grant/loan that is forgiven each year is recognized as unrestricted income. The carrying values of the notes payable are computed as follows.

Future Choices, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE F - NOTES PAYABLE - Continued

| | |
|--|------------------|
| HOME grant/forgivable loan | |
| Received 1999 | \$250,000 |
| Allowable annual 5% for years 2000 - 2006 | 87,500 |
| Allowable annual 5% for year 2007 | 12,500 |
| Allowable annual 5% for nine months of year 2008 | <u>9,375</u> |
| Carrying value at September 30, 2008 | <u>\$140,625</u> |
| Affordable Housing Program grant | |
| Received 1999 | \$175,000 |
| Allowable annual 5% for years 2000 - 2006 | 61,250 |
| Allowable annual 5% for year 2007 | 8,750 |
| Allowable annual 5% for nine months of year 2008 | <u>6,563</u> |
| Carrying value at September 30, 2008 | <u>\$ 98,437</u> |

NOTE G - RESTRICTIONS ON ASSETS

Temporarily restricted net assets consist of unconditional promises to give, payable to Future Choices, Inc. in the following year, and accrued interest income on the promissory note from Daley Apartments, L.P. relating to the HOME grant/forgivable loan.

Temporarily restricted net assets at September 30, 2008 are available as follows.

| | |
|--|------------------|
| Delaware County Minority Tobacco grant, promise to give in the next year | \$ 27,000 |
| Daley Apartments, L.P. accrued interest income on promissory note receivable related to HOME grant/forgivable loan available for specific uses as stipulated in Note E | <u>136,838</u> |
| | <u>\$163,838</u> |

The following assets are temporarily restricted for the purpose of satisfying the HOME grant/forgivable loan requirements for proceeds and interest received from Daley Apartments, L.P.

| | |
|---------------------|------------------|
| Notes receivable | \$250,000 |
| Interest receivable | <u>136,838</u> |
| | <u>\$386,838</u> |

These restrictions have no effect on temporarily restricted net assets at September 30, 2008.

Future Choices, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE H - LINE OF CREDIT

At September 30, 2008, the Organization had an \$80,000 line of credit with a bank to be drawn down as needed with a variable interest rate of 0.5% over the prime rate as published in the Wall Street Journal. The interest rate at September 30, 2008 was 5.5%. This agreement is secured with, whether now existing or hereafter or later, all assets of the Organization and proceeds from disposition of any such property. At September 30, 2008, the Organization had no outstanding balance owing.

NOTE I - RENTAL INCOME

The Organization collects rents from the other tenants in the building in which it is headquartered. These rents are not remitted to the owner of the facility; these revenues are used to pay for facility expenses and to provide the Organization with management fees. Included in accounts receivable at September 30, 2008 is \$1,200 for rental income due.

NOTE J - RELATED PARTIES

Future Choices, Inc. has common board members with Daley, Inc., which is the for-profit entity which acts as an intermediary between Future Choices, Inc. and Daley Apartments, L.P. Future Choices, Inc. owns 0.1% in Daley Apartments, L.P.

Cash transactions during the nine months ending September 30, 2008 between these entities include the following.

| | |
|---|---------|
| Receipt by Future Choices, Inc. of consulting fees for Housing Program Income | \$1,500 |
| Disbursement by Future Choices, Inc. for Housing Program Expense | \$1,500 |

Assets carried on the statement of financial position at September 30, 2008 derived from transactions between these entities include the following.

| | |
|--|-----------|
| Consulting fees receivable as detailed in Note D | \$18,000 |
| Notes receivable as detailed in Note E | \$425,000 |
| Interest receivable as detailed in Note E | \$252,704 |
| Investment in Daley Apartments, L.P. as detailed in Note D | \$41,604 |
| Due from Daley Apartments, L.P. as detailed in Note D | \$11,850 |

NOTE K - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Organization has concentrated its credit risk for cash by maintaining deposits in banks located within the same geographic region. The maximum loss that would have resulted from that risk totaled \$57,192 at September 30, 2008 for the excess of the balances over the amounts that would have been covered by federal insurance.

Credit risk for receivables and other assets is concentrated because substantially all of the balances due result from arms-length transactions with Daley Apartments, L.P.

Future Choices, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE L - COMMITMENTS AND CONTINGENCIES

The Organization is subject to laws and regulations relating to the protection of the environment. The Organization's policy is to accrue environmental and cleanup-related costs of a noncapital nature when it is both probable that a liability has been incurred and when the amount can be reasonably estimated. Although it is not possible to quantify with any degree of certainty the potential financial impact of the Organization's continuing compliance efforts, management believes any future remediation or other compliance-related costs will not have a material adverse effect on the financial condition or reported results of operations of the Organization.

SPECIAL REPORT



Summers, Carroll, Whisler *LLC*

Certified Public Accountants

**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***

**Board of Directors
Future Choices, Inc.**

We have audited the financial statements of Future Choices, Inc. (a nonprofit organization) as of and for the nine months ended September 30, 2008, and have issued our report thereon dated February 11, 2009. 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 Future Choices, 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 Future Choices, 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

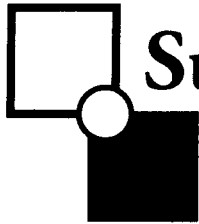
As part of obtaining reasonable assurance about whether Future Choices, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

We noted certain other matters that we reported to management of Future Choices, Inc. in separate letters dated February 12, 2009.

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

Summers, Carroll, Whisler LLC

Muncie, Indiana
February 11, 2009



Summers, Carroll, Whisler *LLC*

Certified Public Accountants

February 12, 2009

To the Board of Directors and Beth Quarles, Executive Director
of Future Choices, Inc.

In planning and performing our audit of the financial statements of Future Choices, Inc. as of and for the nine months ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Future Choices, 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 Organization's internal control.

However, during our audit we became aware of a few 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. A separate report dated February 12, 2009 contains our report on significant deficiencies in the Organization's internal control. This letter does not affect our report dated February 11, 2009 on the financial statements of Future Choices, 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 Organization 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.

Sincerely,

Summers, Carroll, Whisler LLC

Management Letter Points

Bookkeeping

Following the issuance of our report letter regarding the audit we performed for the year ending December 31, 2007, we issued our management point letter detailing our concerns regarding entries into the software package QuickBooks; especially the fact that our prior years' audits' adjusting entries had not been made. While these audits' adjusting entries were made in QuickBooks following the December 31, 2007 audit, there remain some areas where we believe improvement can be made in the recording of information into and the use of QuickBooks.

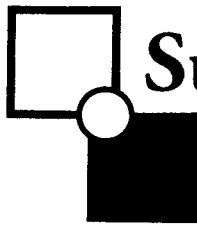
1. Accounts receivable detail does not match the amounts owing for each individual/entity. It appears that some of this is due to the fact that very old receivables were never/have not been cleared, and some of this is due to the invoicing process not being utilized correctly. We have discussed with you the amounts determined to be owing to the Organization at September 30, 2008 and from whom each amount belongs. We recommend the accounts receivable detail be cleaned up to match the control account.
2. We noted receipts that were recorded through the "receive payment" process in QuickBooks, which relieves invoices recorded through the accounts receivable subsidiary ledger and income, and puts the amount received into the undeposited funds account. However, at the time the receipts were deposited, the entry into QuickBooks recorded income a second time rather than to relieve the undeposited funds account. This required an adjusting entry to remove these double-booked items. We recommend the detail in each balance sheet and profit and loss account be reviewed periodically for completeness and correctness.
3. In prior years, an Excel spreadsheet had been maintained whereby ICOIL expenses were tracked for each month for the period under audit. This, and the use of "Classes" in QuickBooks, assisted in the preparation of the Statement of Functional Expenses. This spreadsheet was not available for the period under audit ending September 30, 2008. Should QuickBooks be utilized to its potential, and each disbursement correctly recorded into the appropriate class, the aforementioned spreadsheet is not needed. However, the classes are not being utilized effectively, which creates additional work in preparing the Statement of Functional Expenses. We recommend that the QuickBooks' classes be used for each disbursement made in order to assist in the tracing of disbursements to the appropriate program.
4. The payroll module in QuickBooks is also not being used to its potential. We believe this is due, in part, to information in each employees set up not being accurate. The payroll expense calculated by QuickBooks for SUTA tax does not agree to the related payroll tax forms filed. Additionally, payroll expense

is being calculated by QuickBooks for FUTA tax, and FUTA is not applicable to nonprofit entities. We recommend each employee's set up be reviewed for accuracy relating to SUTA and FUTA taxes.

5. Lastly, payroll tax liabilities are not being made timely and in the amounts due for each liability period. This makes it difficult to track payroll tax payments to specific payroll tax liabilities to determine if, where, and when an error may have occurred. We recommend the pay-liabilities process in QuickBooks be more accurately utilized.

Control over Documentation

1. We noticed during our audit that the gross wages for the three quarters' Forms 941 filed for the nine months ending September 30, 2008 do not agree to the Payroll Summary report in QuickBooks and that the second quarter SUTA tax form has a completely different tax rate from the first and third quarters' SUTA tax form filed. We recommend that all payroll tax forms be more carefully reviewed before filed.
2. We noted that the lease for the residential house indicates that a security deposit was received from the lessee at the time the lease was signed. Inspection of QuickBooks and the bank statements did not find such a deposit. A discussion with the Executive Director confirmed that a security deposit was not ever received. If something written in a legal document does not occur as presented in the legal document, we recommend a notation be made to that effect on the document and initialed by both parties.
3. In reviewing the E-1 form prepared for the nine months ended September 30, 2008, the disbursements erroneously indicate that all government monies received for the period under audit have been expended. We reviewed the calculations necessary for the preparation of the E-1 form with the Executive Director during the prior year audit, and we recommend that more attention to the instructions be adhered.
4. Lastly, we believe the copies of the Board Minutes we received for the period under audit do not note enough detail regarding the meetings. As the Board of Directors of a nonprofit entity is charged with the governance of said entity, several events that happened during the period under audit we believe should have been voted on by the Board. While it appears the Board was aware that these events took place and may have informally approved them, we recommend that the minutes of each meeting indicate each motion that was made, by whom, which motions were seconded, by whom, and whether or not the motion was passed for events such as the opening of the new bank account for the Payee Account, the renewal of the line of credit, and the draw of \$20,000 against the line of credit.



Summers, Carroll, Whisler *LLC*

Certified Public Accountants

To the Board of Directors and Beth Quarles, Executive Director
of Future Choices, Inc.

In planning and performing our audit of the financial statements of Future Choices, Inc. as of and for the nine months ended September 30, 2008, in accordance with U.S. generally accepted auditing standards, we considered Future Choices, 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 a 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. We consider the following deficiencies to be significant deficiencies in internal control.

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flow, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). As part of the audit, management requested us to prepare a draft of your financial statements, including the related footnote disclosures. The outsourcing of these services is not unusual in organizations of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management does not have the ability to evaluate the completeness of financial statement disclosures. The absence of this control procedure is considered a significant deficiency because the potential exists that a more than inconsequential but less than material misstatement of the financial statements could occur and not be prevented or detected by the Organization's internal control.

The internal control structure of the Organization has focused primarily on the objective of compliance with grant requirements. However, as a result of our audit, we have identified that the system of internal control contains certain significant deficiencies regarding the utilization of the software program's (QuickBooks) accounting and reporting features and management oversight of the accounting information presented therein.

In addition, we noted other matters involving the internal control and its operation that we have reported to management of Future Choices, Inc. in a separate letter dated February 12, 2009.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Summus, Carroll, Whisler LLC

Muncie, Indiana
February 12, 2009