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# STATE OF INDIANA

**AN EQUAL OPPORTUNITY EMPLOYER**

STATE BOARD OF ACCOUNTS
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November 18, 2009

Board of Directors
Developmental Services, Inc.
2920 10th St., P.O. Box 1023
Columbus, IN 47201

We have reviewed the audit report prepared by McCauley, Nicolas & Company, LLC, 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 Developmental 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.

STATE BOARD OF ACCOUNTS

# DEVELOPMENTAL SERVICES, INC.
## Columbus, Indiana

## REPORT ON AUDITS OF FINANCIAL STATEMENTS

for the years ended
June 30, 2008 and 2007

# CONTENTS

McCauley Nicolas & Company, LLC The Solution Is One Good Move Away
Certified Public Accountants & Advisors

# INDEPENDENT AUDITORS' REPORT

Board of Directors
Developmental Services, Inc.
Columbus, Indiana

We have audited the accompanying statements of financial position of Developmental Services, Inc. (a not-for-profit organization) as of June 30, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Developmental Services, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 11, 2008, on our consideration of the Organization's internal control over financial reporting and 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.

702 North Shore Drive, Suite 500 Jeffersonville, IN 47130-3104 812-288-6621 fax 812-288-2885 www.mnccpa.com

Kenneth N. Nicolas, CPA Ronald F. Barnes, CPA, PFS Lee E. Pieper, CPA J. Patrick Byrne, CPA
John C. Pieper, CPA Daniel K. McCauley, CPA, ABV J. Michael Grinnan, CPA Kenneth W. Coyle, CPA R. Kenneth Adams, CPA

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2008, on page 20, is presented for purposes 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.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
November 11, 2008

# DEVELOPMENTAL SERVICES, INC.

## STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

| ASSETS | 2008 | 2007 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | $ 1,250,596 | $ 837 718 |
| Certificates of deposit | 1,079 640 | 1,248,660 |
| Investments - available for sale | 206,787 | 227,876 |
| Grant reimbursement receivables (net of $25,838 and $16,000 allowance for bad debts for 2008 and 2007) | 189,326 | 226,464 |
| Contract service receivables (net of $432,600 and $549,094 allowance for bad debts for 2007 and 2006) | 1,503,606 | 1,736,058 |
| Other receivables | 59,698 | 20,597 |
| Inventory | 89,066 | 83,971 |
| Prepaid expenses and other current assets | 184,115 | 459,860 |
| **TOTAL CURRENT ASSETS** | 4,562,834 | 4,841,204 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 512,294 | 510,867 |
| Buildings | 5,663,493 | 5,291,071 |
| Furniture and equipment | 3,432,494 | 3,442,253 |
| Leasehold improvements | 280,458 | 234,516 |
| Vehicles | 1,412,836 | 1,639,005 |
| | 11,301,575 | 11,117 712 |
| Less accumulated depreciation | (7,507,838) | (7,369,061) |
| **PROPERTY AND EQUIPMENT, NET** | 3,793,737 | 3,748,651 |
| Endowment interest in assets held by others | 64,119 | 70,794 |
| **TOTAL ASSETS** | $ 8,420,690 | $ 8,660,649 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Line of credit | $ 334,766 | $ 416,002 |
| Accounts payable | 422,028 | 457,008 |
| Employee compensation payable | 593,326 | 581 022 |
| Payroll taxes and withholdings payable | 19,781 | 133,455 |
| Other current liabilities | 230 909 | 267,900 |
| Deferred support | 31,505 | 56,005 |
| **TOTAL CURRENT LIABILITIES** | 1,632,315 | 1,911,392 |
| **TOTAL LIABILITIES** | 1,632,315 | 1,911,392 |
| **NET ASSETS** | | |
| Unrestricted: | | |
| Operating | 5 599,862 | 5,567,863 |
| Board designated plant replacement | 700,000 | 700,000 |
| Board designated for future growth fund | 424,394 | 410,600 |
| Board designated endowment | 64,119 | 70,794 |
| **TOTAL NET ASSETS** | 6,788,375 | 6,749,257 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 8,420,690 | $ 8,660,649 |

See notes to financial statements.

# DEVELOPMENTAL SERVICES, INC.

## STATEMENTS OF ACTIVITIES

for the years ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **SUPPORT** | | |
| Social Services Block Grant | $ 319,682 | $ 272,773 |
| State residential reimbursement | 183,304 | 160,591 |
| Vocational rehabilitation services | 494,886 | 453,716 |
| United Way allocation | 75,854 | 98,355 |
| Association for Retarded Citizens | 133,184 | 133,184 |
| Medicaid reimbursement | 11,656,151 | 11,349,694 |
| Infant/Toddler Grant | 136,589 | 108,022 |
| UMTA and INDOT Grants | 49,327 | 34,597 |
| County commissioners | 99,500 | 113,000 |
| Other support | 485,324 | 512,161 |
| **TOTAL SUPPORT** | 13,633,801 | 13,236,093 |
| **REVENUE** | | |
| Work contract income (net of cost of goods sold of $2,449,780 and $3,544,694 for 2008 and 2007) | 757,896 | 830,039 |
| Client fees | 448,803 | 434,667 |
| Loss on sale of property and equipment | 6,237 | 7,268 |
| Interest and dividend income | 70,945 | 88,488 |
| Realized/unrealized gain (loss)on investments - available for sale | (24,572) | 29,321 |
| Realized/unrealized gain (loss) on endowments | (7,246) | 9,874 |
| Rental income | 6,683 | 9,545 |
| Vending machine income | 6,328 | 6,156 |
| Other revenue | 94,459 | 245,631 |
| **TOTAL REVENUE** | 1,359,533 | 1,660,989 |
| **TOTAL SUPPORT AND REVENUE** | 14,993,334 | 14,897,082 |
| **EXPENSES** | | |
| Family Support | 1,499,912 | 1,586,823 |
| Supported Living | 3,452,057 | 3,254,643 |
| Residential | 3,222,388 | 3,116,341 |
| Child Services | 113,495 | 101,933 |
| Nursing and Residential Support | 609,846 | 623,114 |
| Business and Industry | 258,062 | 195,124 |
| Contract Services | 182,458 | 240,075 |
| Capital Development | 58,370 | 88,272 |
| County Services | 2,380,059 | 2,470,753 |
| Employment | 450,076 | 435,574 |
| Administrative | 2,727,493 | 2,710,888 |
| **TOTAL EXPENSES** | 14,954,216 | 14,823,540 |
| **CHANGE IN NET ASSETS** | 39,118 | 73,542 |
| **NET ASSETS, BEGINNING OF YEAR** | 6,749,257 | 6,675,715 |
| **NET ASSETS, END OF YEAR** | $ 6,788,375 | $ 6,749,257 |

See notes to financial statements.

**DEVELOPMENTAL SERVICES, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended June 30, 2008

| EXPENSES | Family Support | Supported Living | Resi-dential | Child Services | Nursing and Residential Support | Business and Industry | Contract Services | Capital Develop-ment | County Services | Employ-ment | Admin-istrative | 2008 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Personnel expense | $ 1,373,563 | $ 3,234,743 | $ 2,265,906 | $ 95,175 | $ 542,178 | $ 220,626 | $ 107,748 | $ 34,388 | $ 1,575,896 | $ 360,619 | $ 1,855,608 | $ 11,666,450 |
| Contractual and professional | 2,421 | 7,114 | 104,637 | 131 | 363 | 23 | 2,124 | 768 | 9,282 | 2,975 | 172,880 | 302,718 |
| Supplies | 6,172 | 21,903 | 289,500 | 641 | 2,507 | 747 | 2,607 | 3,881 | 39,325 | 3,630 | 89,083 | 459,996 |
| Telephone | 4,022 | 18,451 | 39,722 | 1,193 | 4,425 | 2,285 | 5,486 | 425 | 50,102 | 17,729 | 40,426 | 184,266 |
| Postage and shipping | - | 16 | 107 | 24 | - | - | - | - | 527 | 275 | 17,370 | 18,319 |
| Occupancy | 4,458 | 22,113 | 266,536 | 921 | 8,641 | 1,972 | 5,938 | 12,307 | 308,895 | 27,071 | 138,988 | 797,840 |
| Equipment | - | - | 3,967 | - | - | - | 606 | - | 1,471 | 32 | 3,098 | 9,174 |
| Printing and publications | 203 | 910 | 1,383 | 161 | - | - | 1,710 | 844 | 963 | 236 | 13,719 | 20,129 |
| Travel | 65,678 | 85,338 | 88,041 | 12,171 | 28,572 | 12,894 | 12,192 | 29 | 111,161 | 17,167 | 62,976 | 496,219 |
| Conterence and meetings | 4,904 | 3,192 | 5,848 | 1,499 | 315 | 3,167 | 5,713 | 765 | 3,149 | 9,895 | 31,093 | 69,540 |
| Client support | 1,351 | 19,386 | 46,162 | - | 6,659 | - | - | | 78,156 | 679 | - | 152,393 |
| Membership dues | - | - | 162 | - | 65 | 10,562 | 375 | 162 | 720 | - | 22,486 | 34,532 |
| Other | 14,117 | 28,283 | 46,814 | 1,324 | 6,785 | 3,062 | 16,419 | 4,315 | 36,345 | 7,773 | 41,335 | 206,572 |
| Depreciation | 23,023 | 10,608 | 63,603 | 255 | 9,336 | 2,724 | 21,540 | 486 | 164,067 | 1,995 | 238,431 | 536,068 |
| **TOTAL EXPENSES** | $ 1,499,912 | $ 3,452,057 | $ 3,222,388 | $ 113,495 | $ 609,846 | $ 258,062 | $ 182,458 | $ 58,370 | $ 2,380,059 | $ 450,076 | $ 2,727,493 | $ 14,954,216 |

See notes to financial statements.

**DEVELOPMENTAL SERVICES, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended June 30, 2007

| EXPENSES | Family Support and Respite | Supported Living | Resi-dential | Child Services | Nursing and Residential Support | Business and Industry | Contract Services | Capital Develop-ment | County Services | Employ-ment | Admin-istrative | 2007 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Personnel expense | $ 1,433,260 | $ 2,991,438 | $ 2,139,149 | $ 82,563 | $ 552,761 | $ 168,780 | $ 132,494 | $ 40,103 | $ 1,567,386 | $ 341,478 | $ 1,755,865 | $ 11,205,277 |
| Contractual and professional | 3,171 | 9,006 | 91,973 | 664 | 459 | 1,020 | 2,532 | 6 | 8,162 | 746 | 241,345 | 359,084 |
| Supplies | 7,074 | 16,085 | 273,881 | 1,214 | 3,178 | 811 | 7,890 | 4,260 | 49,341 | 3,719 | 95,693 | 463,146 |
| Telephone | 6,096 | 13,743 | 35,464 | 1,073 | 5,308 | 3,653 | 7,594 | 1,056 | 45,362 | 16,337 | 47,520 | 183,206 |
| Postage and shipping | 85 | 17 | 63 | 24 | - | - | - | - | 703 | 342 | 18,882 | 20,116 |
| Occupancy | 4,442 | 18,213 | 269,521 | 2,049 | 7,421 | 1,912 | 20,106 | 11,526 | 307,792 | 24,939 | 162,029 | 829,950 |
| Equipment | - | 17 | 3,847 | - | - | - | 240 | - | 1,092 | 58 | 6,289 | 11,543 |
| Printing and publications | 179 | - | 975 | 630 | 130 | 87 | 404 | 4,712 | 638 | 12 | 21,135 | 28,902 |
| Travel | 58,828 | 81,595 | 85,733 | 10,420 | 26,229 | 8,086 | 17,065 | - | 120,190 | 16,484 | 59,319 | 483,949 |
| Conference and meetings | 5,652 | 5,971 | 6,271 | 3,041 | 694 | 1,843 | 13,101 | 311 | 725 | 12,554 | 29,444 | 79,607 |
| Client support | 9,294 | 12,686 | 51,552 | - | 6,421 | - | - | - | 74,999 | 1,000 | - | 155,952 |
| Membership dues | 110 | - | 162 | - | - | 5,281 | 120 | 585 | 850 | - | 26,770 | 33,878 |
| Other | 37,889 | 83,135 | 100,581 | - | 17,414 | 872 | 23,672 | 25,713 | 79,390 | 17,024 | 43,532 | 429,222 |
| Depreciation | 20,743 | 22,737 | 57,169 | 255 | 3,099 | 2,779 | 14,857 | - | 214,123 | 881 | 203,065 | 539,708 |
| **TOTAL EXPENSES** | $ 1,586,823 | $ 3,254,643 | $ 3,116,341 | $ 101,933 | $ 623,114 | $ 195,124 | $ 240,075 | $ 88,272 | $ 2,470,753 | $ 435,574 | $ 2,710,888 | $ 14,823,540 |

See notes to financial statements.

# DEVELOPMENTAL SERVICES, INC.

## STATEMENTS OF CASH FLOWS

for the years ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 39,118 | $ 73,542 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Depreciation | 536,065 | 539,708 |
| Provision for bad debt | 114,815 | 334,804 |
| Gain on sale of property and equipment | (6,237) | (7,268) |
| Unrealized (gain) loss on investments - available for sale | 24,572 | (29,321) |
| Unrealized (gain) loss on endowments | 7,246 | (9,874) |
| (Increase) decrease in: | | |
| Grant, contract, and other receivables | 230,489 | 104,992 |
| Inventory | (5,095) | (11,880) |
| Prepaid expenses and other current assets | 275,745 | (326,839) |
| Increase (decrease) in: | | |
| Accounts payable | (34,980) | 148,509 |
| Employee compensation payable | 12,304 | (282,640) |
| Payroll taxes and withholdings payable | (113,674) | 98,609 |
| Other current liabilities | (36,991) | (17,411) |
| Deferred support | (24,500) | 13,005 |
| Net cash provided by operating activities | 1,018,877 | 627,936 |
| **INVESTING ACTIVITIES** | | |
| Redemption (purchase) of certificates of deposit, net | 169,020 | (171,504) |
| Acquisition of property and equipment | (666,019) | (588,958) |
| Proceeds from sale of property and equipment | - | 56,927 |
| Changes in investments - available for sale, net | (21,089) | (3,067) |
| Changes in endowments, net | (6,675) | (868) |
| Net cash (used) by investing activities | (524,763) | (707,470) |
| **FINANCING ACTIVITIES** | | |
| Payments on short-term bank borrowings | (81,236) | (27,660) |
| Payments on long-term debt | - | (3,441) |
| Net cash (used) by financing activities | (81,236) | (31,101) |
| **NET INCREASE (DECREASE) IN CASH** | 412,878 | (110,635) |
| **CASH** | | |
| Beginning of year | 837,718 | 948,353 |
| End of year | $ 1,250,596 | $ 837,718 |
| **SUPPLEMENTAL DISCLOSURES** | | |
| Interest paid | $ 25,601 | $ 32,568 |

See notes to financial statements

**DEVELOPMENTAL SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

## NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Developmental Services, Inc. (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

The more significant accounting policies of the Organization are as follows:

Organization

The Organization is a not-for-profit agency incorporated in 1960 under the laws of the State of Indiana, whose purpose is to provide developmentally disabled individuals (clients) with training opportunities, supervised housing, education, transportation, and recreational activities. Services are provided in the Indiana counties of Bartholomew, Brown, Decatur, Jackson, Jefferson, Jennings, Switzerland, and other various surrounding counties.

Additionally, the Organization operates various industrial activities including the assembly of automotive products, lawn services, maintenance and janitorial services, and other various sheltered workshop services. These activities provide job opportunities to clients, and the net revenue and expenses related to these services have been included in "Work contract income" on the Statement of Activities.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. Additionally, the Organization has reported 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, when applicable.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities, if any) 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.

## NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Sources of Revenue
The Organization receives revenue from state and county governments, public campaigns, direct contributions, and work contract services. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Cash Equivalents
The Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Receivables
The Organization uses the allowance for bad debts method of valuing doubtful grant reimbursement, contract service, and other receivables which is based on historical experience, coupled with a review of the current status of existing receivables.

Investments – Available for Sale
Investments, which are classified as available for sale, are recorded at fair market value in accordance with FAS 124, *"Accounting for Certain Investments Held by Not-For-Profit Organizations."* Gains and losses on market value adjustments are recognized as the market fluctuates. See Note 2 for additional information

Inventory
Inventory consists of various raw materials, office supplies, and maintenance supplies. Inventory is recorded at the lower of cost (FIFO) or market.

Property and Equipment
Property and equipment are recorded at cost, or if donated, at fair market value at the date of donation. Maintenance and repairs are charged to expense when incurred. Major expenditures and those which substantially increase useful lives are capitalized. Gain or loss on the retirement or disposition of assets is credited or charged to operations and the respective costs and accumulated depreciation are eliminated from the accounts.

The cost of property and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method. For purposes of computing depreciation, the estimated useful lives are 25 to 50 years for buildings, 3 to 10 years for furniture and equipment, 5 to 10 years for leasehold improvements, and 3 to 6 years for vehicles.

Contributions
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

## NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Contributions—Continued
All donor-restricted contributions are reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets would be reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. There were no temporarily or permanently restricted contributions during the years ended June 30, 2008 and 2007.

Should the Organization receive any gifts of long-lived assets such as land, buildings, or equipment, such amounts would be reported as unrestricted support unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the donated assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. If explicit donor stipulations are absent about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of donated noncash assets are recorded at their fair market value in the period received. In accordance with SFAS No. 116, contributions of donated services that create or enhance non-financial assets or that require specialized skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Many individuals volunteer time and perform a variety of tasks that assist the Organization with specific assistance programs and various committee assignments. However, donated services have not been valued and are not reflected in this report because the criteria for recognition of such volunteer effort under SFAS No. 116 have not been satisfied.

Expense Allocation
The Organization reports expenditures that can be specifically identified with a particular program objective to the appropriate funding source and cost category. The Organization's indirect functional expenses are allocated monthly to the various programs/grants based on a cost allocation plan

Advertising
The Organization expenses advertising costs as incurred. The total amount of advertising expense charged to operations was $2,791 and $3,491 during the years ended June 30, 2008 and 2007, respectively.

## NOTE 2—INVESTMENTS – AVAILABLE FOR SALE

The Organization's investments in available for sale securities consisted of equity securities with a fair market value of $206,787 and $227,876 at June 30, 2008 and 2007, respectively (cost value of approximately $200,000 at June 30, 2008).

The following schedule summarizes the investment activity for the years ended June 30, 2008 and 2007:

| | 2008 Unrestricted | 2007 Unrestricted |
|---|---|---|
| Interest and dividend income | $ 5,803 | $ 5,130 |
| Unrealized gain (loss) on investments, net | (25,610) | 18,022 |
| Realized gain | 1,038 | 11,299 |
| Administrative fees | (2,320) | (2,063) |
| | $(21,089) | $32,388 |

Investments are subject to market volatility. The volatile market subsequent to June 30, 2008, may have resulted in additional unrealized investment gains or losses not reflected in these financial statements.

Interest and dividend income reflected in the Statements of Activities includes interest and dividends earned from investments, endowment interest in assets held by others, and certificates of deposit.

## NOTE 3—ENDOWMENT INTEREST IN ASSETS HELD BY OTHERS

In a prior year, the Organization transferred assets to various community foundations (the Foundations) to establish endowment funds in which the Organization is the sole beneficiary. The irrevocable transfer gives ownership of the assets to the Foundations. The Organization receives distributions based on an annual gifting policy determined by the respective Foundations' board of directors. The funds shall continue so long as assets are available in the funds and the purposes of the funds can be served by their continuation. If the funds are terminated, the Foundations shall devote any remaining assets in the funds exclusively for charitable purposes that are within the scope of the charitable purposes of the Foundation and most nearly approximate the original purpose of the funds.

In accordance with the Statement of Financial Accounting Standards No. 136, "*Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others,*" the value of the endowment funds has been included as "Endowment interest in assets held by others" in the Statements of Financial Position

## NOTE 3—ENDOWMENT INTEREST IN ASSETS HELD BY OTHERS—Continued

The fair market value of the Organization's endowment interest in assets held by others was $64,119 and $70,794 at June 30, 2008 and 2007, respectively (cost value of approximately $54,000 at June 30, 2008).

The following schedule summarizes the endowment activity for the years ended June 30, 2008 and 2007:

| | 2008 Unrestricted | 2007 Unrestricted |
|---|---|---|
| Interest and dividend income | $ 3,012 | $ 1,967 |
| County matching contributions | 310 | - |
| Unrealized gain (loss) on endowments, net | (7,696) | 8,187 |
| Realized gain on endowments | 450 | 1,687 |
| Administrative fees | (2,751) | (1,099) |
| | $ (6,675) | $ 10,742 |

## NOTE 4—EMPLOYEE COMPENSATION PAYABLE

The components of employee compensation payable to June 30, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---|---|---|
| Accrued salaries and wages | $ 245,446 | $ 217,164 |
| Accrued paid time off | 347,880 | 363,858 |
| | $ 593,326 | $ 581,022 |

## NOTE 5—LINE OF CREDIT

The Organization has established a $1,000,000 revolving line of credit with Irwin Union Bank under a promissory note which expires in December 2008. Interest is charged at prime less ½% or 5% minimum. The line of credit is secured by grant and contract receivables. There was $334,766 and $416,002 outstanding on this line of credit at June 30, 2008 and 2007, respectively

Interest expense was $25,601 and $32,568 for the years ended June 30, 2008 and 2007, respectively.

## NOTE 6—GUARANTEED INDEBTEDNESS OF RELATED PARTY

As of June 30, 2008, DSI is contingently liable as guarantor on a note between The Association of Retarded Citizens of Decatur County, Inc and First Federal Savings and Loan in the amount of approximately $50,000. Management believes no loss is anticipated by reason of such guarantee.

## NOTE 7—OPERATING LEASES

The Organization has various operating leases for various facilities including residences to provide supervised housing for clients which expire at various dates through June 2026. The lease expense related to these operating leases for the years ended June 30, 2008 and 2007 was $280,320 and $291,358, respectively.

Additionally, the Organization has various operating leases for office equipment and vehicles which expire at various dates through September 2011. The lease expense related to these operating leases for the years ended June 30, 2008 and 2007 was approximately $27,800 and $31,300, respectively.

Future minimum lease payments under the above operating leases are as follows:

| | |
|---|---|
| 2009 | $ 182,599 |
| 2010 | $ 97,623 |
| 2011 | $ 89,485 |
| 2012 | $ 76,819 |
| 2013 | $ 72,697 |

## NOTE 8—COUNTY AFFILIATION ACTIVITIES

The Organization provides all program services for the affiliated County Associations for Retarded Citizens (Associations) of Bartholomew, Brown, Decatur, Jackson, and Jennings Counties. Agreements with these Associations generally require the Organization to provide services, perform administrative functions, and receive and disburse funds Each Association reimburses the Organization for the cost of program services and for a portion of administrative expenses.

## NOTE 9—RETIREMENT PLAN

The Organization has a 403(b) retirement plan for employees who meet certain eligibility requirements as to age and length of service. The Organization may make a contribution at management's discretion. The Organization made no contributions to the plan for the years ended June 30, 2008 and 2007.

## NOTE 10—BOARD DESIGNATED PLANT REPLACEMENT NET ASSET

In a prior year, the Board of Directors of the Organization authorized the establishment of a Plant Replacement Fund to finance capital repairs, improvements, and replacements at which time $700,000 was designated for this purpose. Interest earned on these funds is credited and utilized by the general operating fund.

## NOTE 11—BOARD DESIGNATED FUTURE GROWTH FUND

In 2006, the Board of Directors of the Organization authorized the establishment of a Future Growth Fund to finance future employee benefits. Interest earned is currently being reinvested in this fund. The balance at June 30, 2008 and 2007 was $424,394 and $410,600, respectively, and is included in cash in the Statements of Financial Position

## NOTE 12—CONTINGENCY/SELF-FUNDED INSURANCE PROGRAM

The Organization utilizes a self-funded medical insurance program. As such, assets necessary to provide benefits are derived from a combination of accumulated employer and employee contributions and through the purchase of stop loss insurance contracts. Although stop loss insurance contracts are in effect, such contracts are subject to loss claim limitations per individual. At June 30, 2008, the annual individual amount was approximately $40,000. Thus, the stop loss insurance contracts are only effective once the annual medical health claims per individual exceed $40,000. The group aggregate stop loss claim limitation at June 30, 2008 was approximately $2,558,500. These amounts are subject to periodic adjustments. The Organization is therefore contingently liable on an annual basis for all covered medical health claims incurred up to the individual or group aggregate stop loss claim limitations. The Organization has accrued a liability for actual submitted claims of approximately $117,900 and $149,800 at June 30, 2008 and 2007, respectively, which is included within "Other current liabilities" on the Statements of Financial Position.

## NOTE 13—RECLASSIFICATION

Certain items have been reclassified for 2007 to conform to the classifications in 2008. Such reclassifications had no effect on net income or equity as previously reported.

## NOTE 14 —CONCENTRATION OF RISK

Cash Concentration Risk
The Organization's cash, as well as its certificates of deposit, are maintained with various financial institutions. Management has taken certain actions with the financial institution to provide additional security collateral for the cash balances in excess of the federally insured amounts. However, the Organization still had uninsured cash balances which totaled approximately $171,000 at June 30, 2008.

Group Concentration Risk
The Organization is substantially funded by grants and contracts awarded directly and indirectly by the federal government and the State of Indiana. The majority of the agreements contain provisions which permit the arrangement to be terminated or the funds provided to be reduced if the unit of government does not appropriate adequate funds to maintain the current funding levels.

The Organization received approximately 67% and 65% of their total support and revenue from the Indiana Department for Medicaid Services for the years ended June 30, 2008 and 2007, respectively.

Additionally, the Organization received 8% and 16% of their total support and revenue from one work contract service customer for the years ended June 30, 2008 and 2007. The contract provides that the Organization assemble automotive products in accordance with the customer's specifications under a three-year term expiring in September 2004. However, either party has the right to terminate the contract prior to the expiration upon giving a 180-day written notice. Although the contract originally expired in September 2004, management believes the contract will continue.

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of grant reimbursement receivables and contract service receivables. The Organization does not require collateral to support receivables. Consequently, an adverse change in those factors could affect the Organization's estimate of its allowance for doubtful accounts. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change.

## NOTE 15—INCOME TAXES

The Organization is organized as a not-for-profit corporation under the laws of the State of Indiana and is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code.

McCauley Nicolas & Company, 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
Developmental Services, Inc.
Columbus, Indiana

We have audited the financial statements of Developmental Services, Inc. (a nonprofit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 11, 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 Developmental Services, 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 organization'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 a 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 Developmental Services, 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*.

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

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
November 11, 2008

McCauley Nicolas & Company, LLC
Certified Public Accountants

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

Board of Directors
Developmental Services, Inc.
Columbus, Indiana

Compliance
We have audited the compliance of Developmental Services, 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 June 30, 2008. Developmental Services, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Developmental Services, Inc.'s management. Our responsibility is to express an opinion on Developmental Services, 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 Developmental Services, 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 Developmental Services, Inc.'s compliance with those requirements.

In our opinion, Developmental Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance
The management of Developmental Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Developmental Services, 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 Developmental Services, Inc.'s internal control over compliance.

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 the Board of Directors, management, 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.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
November 11, 2008

**DEVELOPMENTAL SERVICES, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2008

| Federal Grantor/Pass Through Grantor/Project Title/Grant | CFDA Number | Expenditures |
|---|---|---|
| U.S Department of Education: | | |
| Passed through Indiana Family and Social Services Administration | | |
| Vocational Rehabilitation | 84.126 | $ 494,886 |
| U.S. Department of Health and Human Services: | | |
| Passed through Indiana Family and Social Services Administration | | |
| Title XX | 93 667 | 319,682 |
| Total expenditures of federal awards | | $ 814,568 |

**Basis of Presentation**

The above schedule of expenditures of federal awards includes the federal grant activity of Developmental Services, Inc. and is presented on the accrual basis of accounting. The information in this 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 basis financial statements.

**DEVELOPMENTAL SERVICES, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

for the year ended June 30, 2008

## A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Developmental Services, Inc.

2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.

3. No instances of noncompliance material to the financial statements of Developmental Services, Inc. were disclosed during the audit.

4. No significant deficiencies 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 auditors' report on compliance for the major federal award programs for Developmental Services, Inc. expresses an unqualified opinion.

6. There are no audit findings that were required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The program tested as a major program was:

| Program Title | CFDA Number |
|---|---|
| Title XX | 93.667 |
| Vocational Rehabilitation | 84.126 |

8. The threshold used for distinguishing between Type A and B programs was $300,000.

9. Developmental Services, Inc. qualified as a low-risk auditee.

## B. FINDINGS—FINANCIAL STATEMENTS AUDIT

None

## C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

| Findings | Questioned Costs |
|---|---|
| None | None |

**DEVELOPMENTAL SERVICES, INC.**

SCHEDULE OF PRIOR AUDIT FINDINGS
for the year ended June 30, 2007

There were no prior audit findings.

## DEVELOPMENTAL SERVICES, INC.

EXIT CONFERENCE

Subsequent to the conclusion of the audit, an exit conference was held with representatives of the Organization. Those in attendance, along with those associated with the audit report from McCauley, Nicolas & Company, LLC, are as follows:

<u>Representatives of the Organization</u>:

Bill Hadar, Executive Director

Gary Neville, Deputy Director

Darryl Myers, Fiscal Director

<u>Representative of McCauley, Nicolas & Company, LLC</u>:

John C. Pieper, Member

Karen Y. Basham, Manager

The following matter was discussed at the exit conference:

A. The format and content of the audit report draft.