B35176

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

November 23, 2009

Board of Directors
Family Services, Inc. and Affiliate
615 N. 18th St., Ste. 201
Lafayette, IN 47904

We have reviewed the audit report prepared by Reed & Company, PC, Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Family Services, Inc. and Affiliate, as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. Pages 41 through 43 contain four current audit findings and $1,141 in questioned costs. The management letter contains five comments.

STATE BOARD OF ACCOUNTS

Family Services, Inc.
and Affiliate

Consolidated Audited
Financial Statements
December 31, 2007 and 2006

Family Services, Inc. and Affiliate

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Reed & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Family Services, Inc.
Lafayette, Indiana

We have audited the accompanying consolidated statements of financial position of Family Services, Inc. and its affiliate, Family Asset Management, Inc. (nonprofit organizations) as of December 31, 2007 and 2006, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family Services, Inc. and affiliate as of December 31, 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2009, on our consideration of Family Services, 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 audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Family Services, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards 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*,

672 Main St. • P.O. Box 1128 • Lafayette, Indiana 47902-1128
765-742-4141 • FAX 765-423-2581 • Email: info@reedcpa.com

and the accompanying schedule of expenditures of state and local awards, consolidating statement of financial position, and consolidating statement of activities are also presented for additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Reed + Company, PC

Lafayette, Indiana
January 21, 2009

Family Services, Inc. and Affiliate

Consolidated Statements of Financial Position
December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 1)	$ 42,256	$ 61,700
Certificates of deposit	59,315	57,031
Accounts receivable, unrestricted	109,123	100,084
Accounts receivable, time restriction	286,625	304,167
Prepaid expenses	10,865	10,275
Investments (Note 3)	173,913	240,195
Total Current Assets	682,097	773,452
PROPERTY AND EQUIPMENT (Notes 1, 2, and 4)		
Land	25,000	25,000
Buildings and improvements	302,154	302,154
Furniture and equipment	121,887	199,393
Software	3,500	31,291
	452,541	557,838
Less: accumulated depreciation	(204,276)	(330,489)
Total Property and Equipment	248,265	227,349
OTHER ASSETS		
Beneficial interest in assets held by the Community Foundation (Note 8)	62,882	59,122
Total Other Assets	62,882	59,122
TOTAL ASSETS	$ 993,244	$ 1,059,923

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidated Statements of Financial Position

December 31, 2007 and 2006

	2007	2006
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 4)	$ 40,914	$ 28,668
Note payable, bank (Note 2)	119,505	47,797
Accounts payable	32,665	72,144
Other payables	6,311	22,567
Grants payable	27,784	14,859
Accrued vacation pay	34,487	44,574
Accrued wages	23,295	21,935
Deferred revenue	8,600	0
Total Current Liabilities	293,561	252,544
LONG-TERM DEBT, less current maturities (Note 4)	0	25,050
Total Liabilities	293,561	277,594
NET ASSETS		
Unrestricted	26,601	82,945
Unrestricted, board designated (Note 6)	71,721	66,998
Temporarily restricted (Note 7)	601,361	632,386
Total Net Assets	699,683	782,329
TOTAL LIABILITIES AND NET ASSETS	$ 993,244	$ 1,059,923

Family Services, Inc. and Affiliate

Consolidated Statements of Activities

For the Years Ended December 31, 2007 and 2006

	2007	2006
UNRESTRICTED NET ASSETS		
PUBLIC SUPPORT		
United Way grants and allocations	$ 7,047	$ 235
Contributions	82,448	137,121
In-kind contributions	47,434	52,361
Special events	105,163	102,831
Total Public Support	242,092	292,548
PROGRAM SERVICES		
Grants	833,918	894,802
Medicaid	51,007	37,646
Client fees	101,032	135,795
Debt management fees	30,866	61,336
Total Program Services	1,016,823	1,129,579
OTHER REVENUE		
Employee Assistance Plan	12,189	10,048
Interest and dividends	5,090	4,790
Unrealized loss on investments	(7,643)	(1,010)
Realized gain on investments	7,826	4,028
Loss on disposal of assets	(1,400)	0
Miscellaneous income	951	622
Total Other Revenue	17,013	18,478
Total Public Support, Services, and Other Revenue	1,275,928	1,440,605
NET ASSETS RELEASED FROM RESTRICTIONS		
Restrictions satisfied by payments	332,337	340,517
Total Public Support, Services, Other Revenue and Net Assets Released from Restrictions	1,608,265	1,781,122
EXPENSES		
Program services		
Counseling	185,303	214,147
CCCS	105,131	134,029
FLE	63,858	85,977
Life Skills/FSS	67,476	68,609
Healthy Families	659,816	661,725
Home Services	288,191	324,521
AGAP	47,659	59,198
Total Program Services	$ 1,417,434	$ 1,548,206

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidated Statements of Activities
For the Years Ended December 31, 2007 and 2006

	2007	2006
UNRESTRICTED NET ASSETS, continued		
EXPENSES, continued		
Supportive Services		
Management and general	$ 188,215	$ 216,401
Fund raising	54,237	77,181
Total Supportive Services	242,452	293,582
Total Expenses	1,659,886	1,841,788
DECREASE IN UNRESTRICTED NET ASSETS	(51,621)	(60,666)
TEMPORARILY RESTRICTED NET ASSETS		
United Way grants and allocations	271,625	297,500
Support for various programs	4,916	71,678
Net investment income	14,733	5,358
Unrealized gain (loss) on investments	(18,388)	19,260
Realized gain on investments	28,426	10,440
Net assets released from restrictions		
Restrictions satisfied by payments	(332,337)	(340,517)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(31,025)	63,719
INCREASE (DECREASE) IN NET ASSETS	$ (82,646)	$ 3,053

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidated Statements of Net Assets
For the Years Ended December 31, 2007 and 2006

		2007		2006
UNRESTRICTED UNDESIGNATED NET ASSETS				
Net Assets At The Beginning Of The Year	$	82,945	$	149,883
Decrease In Unrestricted Net Assets		(56,344)		(66,938)
Net Assets At The End Of The Year	$	26,601	$	82,945
UNRESTRICTED BOARD DESIGNATED NET ASSETS				
Net Assets At The Beginning Of The Year	$	66,998	$	60,726
Increase In Unrestricted Net Assets		4,723		6,272
Net Assets At The End Of The Year	$	71,721	$	66,998
TEMPORARILY RESTRICTED NET ASSETS				
Net Assets At The Beginning Of The Year, as Previously Reported	$	632,386	$	568,667
Increase (Decrease) In Temporarily Restricted Net Assets		(31,025)		63,719
Net Assets At The End Of The Year	$	601,361	$	632,386

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2007

	Total Expenses	Program Services Total	Management and General Total	Fund Raising Total
Salaries	$ 1,083,978	$ 978,545	$ 93,918	$ 11,515
Payroll taxes and benefits	171,575	152,522	15,740	3,313
Contracted services	7,307	82	7,225	0
Professional fees	58,471	26,862	30,838	771
Supplies and copies	32,027	27,092	4,442	493
Telecommunications	21,088	20,411	611	66
Occupancy	73,320	64,036	9,070	214
Printing and postage	8,224	7,198	0	1,026
Conferences and travel	47,055	42,920	947	3,188
Business expenses	43,814	40,198	3,616	0
Interest	9,184	5,445	3,536	203
Depreciation	21,938	12,847	8,612	479
Insurance	20,260	14,859	5,401	0
Dues	12,906	12,906	0	0
Miscellaneous	7,642	3,267	4,259	116
Advertising	41,097	8,244	0	32,853
Total Expenses	$ 1,659,886	$ 1,417,434	$ 188,215	$ 54,237

Family Services, Inc. and Affiliate

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2006

	Total Expenses	Program Services Total	Management and General Total	Fund Raising Total
Salaries	$ 1,234,392	$ 1,135,735	$ 86,886	$ 11,771
Payroll taxes and benefits	198,166	185,241	11,999	926
Contracted services	20,301	19,075	731	495
Professional fees	50,557	21,583	28,974	0
Supplies and copies	87,785	37,617	22,391	27,777
Telecommunications	31,037	28,515	2,489	33
Occupancy	19,848	5,803	14,045	0
Printing and postage	16,361	8,295	6,306	1,760
Conferences and travel	58,477	51,130	4,663	2,684
Business expenses	2,932	0	2,932	0
Interest	8,236	4,096	4,140	0
Depreciation	20,978	0	20,978	0
Insurance	18,066	11,075	6,991	0
Dues	12,081	12,041	40	0
Miscellaneous	9,136	5,604	2,834	698
Advertising	53,435	22,396	2	31,037
Total Expenses	$ 1,841,788	$ 1,548,206	$ 216,401	$ 77,181

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidated Statement of Functional Expenses
Detail of Program Services
For the Year Ended December 31, 2007

	Total Expenses	Counseling	CCCS	FLE
Salaries	$ 978,545	$ 101,764	$ 64,984	$ 46,794
Payroll taxes and benefits	152,522	15,649	10,822	6,807
Contracted services	82	41	41	0
Professional fees	26,862	7,398	7,173	1,606
Supplies and copies	27,092	2,799	1,596	1,567
Telecommunications	20,411	1,250	713	696
Occupancy	64,036	10,071	5,696	2,992
Printing and postage	7,198	969	1,145	705
Conferences and travel	42,920	465	170	437
Business expenses	40,198	36,286	0	0
Interest	5,445	711	402	247
Depreciation	12,847	1,678	949	583
Insurance	14,859	2,562	2,047	712
Dues	12,906	984	4,719	705
Miscellaneous	3,267	466	1,528	(32)
Advertising	8,244	2,210	3,146	39
Total Expenses	$ 1,417,434	$ 185,303	$ 105,131	$ 63,858

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidated Statement of Functional Expenses
Detail of Program Services
For the Year Ended December 31, 2007

Life Skills/ FSS	Healthy Families	Home Services	AGAP
$ 48,842	$ 473,802	$ 205,204	$ 37,155
7,180	72,878	33,621	5,565
0	0	0	0
882	6,504	2,855	444
3,278	12,142	4,955	755
408	12,958	4,046	340
3,012	31,060	9,902	1,303
724	2,117	1,366	172
1,098	25,570	14,819	361
0	0	3,912	0
258	2,534	1,109	184
611	5,976	2,614	436
712	7,118	1,423	285
463	3,800	1,587	648
(37)	1,351	9	(18)
45	2,006	769	29
$ 67,476	$ 659,816	$ 288,191	$ 47,659

Family Services, Inc. and Affiliate

Consolidated Statement of Functional Expenses
Detail of Program Services
For the Year Ended December 31, 2006

	Total Expenses	Counseling	CCCS	FLE
Salaries	$ 1,135,735	$ 158,135	$ 86,198	$ 64,237
Payroll taxes and benefits	185,241	21,880	11,045	12,214
Contracted services	19,075	12,319	555	424
Professional fees	21,583	2,391	8,797	726
Supplies and copies	37,617	3,183	4,866	2,551
Telecommunications	28,515	2,812	1,310	1,208
Occupancy	5,803	5	508	2
Printing and postage	8,295	948	2,256	1,472
Conferences and travel	51,130	1,873	418	1,783
Business expenses	0	0	0	0
Interest	4,096	562	423	221
Insurance	11,075	1,471	1,444	592
Dues	12,041	916	5,840	456
Miscellaneous	5,604	1,007	2,567	31
Advertising	22,396	6,645	7,802	60
Total Expenses	$ 1,548,206	$ 214,147	$ 134,029	$ 85,977

Family Services, Inc. and Affiliate

Consolidated Statement of Functional Expenses
Detail of Program Services
For the Year Ended December 31, 2006

Life Skills/ FSS	Healthy Families	Home Services	AGAP
$ 54,790	$ 489,550	$ 237,491	$ 45,334
7,878	85,003	38,779	8,442
343	3,151	1,987	296
670	5,347	2,979	673
1,080	18,569	4,829	2,539
851	16,488	5,533	313
2	1,460	3,824	2
544	1,456	1,463	156
1,362	29,235	15,966	493
0	0	0	0
200	1,674	873	143
495	4,417	2,174	482
313	2,850	1,377	289
24	786	1,166	23
57	1,739	6,080	13
$ 68,609	$ 661,725	$ 324,521	$ 59,198

Family Services, Inc. and Affiliate

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors and grants	$ 1,517,895	$ 1,718,354
Cash received from interest	19,823	10,148
Cash paid to employees and suppliers	(1,649,958)	(1,722,234)
Cash paid for interest	(9,184)	(8,524)
Net Cash Used in Operating Activities	(121,424)	(2,256)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for purchase of fixed assets	(27,753)	(9,375)
Proceeds from the sale of fixed assets	0	200
Proceeds from sale of investments	90,139	1,531
Net redemption of certificates of deposit	(2,284)	(1,874)
Reinvested earnings on investments	(17,026)	(5,902)
Net Cash Provided by (Used in) Investing Activities	43,076	(15,420)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on note payable, bank	71,708	47,797
Principal payments on long-term borrowings	(12,804)	(24,420)
Net Cash Provided by Financing Activities	58,904	23,377
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,444)	5,701
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	61,700	55,999
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 42,256	$ 61,700

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2007 and 2006

	2007	2006
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
INCREASE (DECREASE) IN NET ASSETS	$ (82,646)	$ 3,053
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Depreciation	21,938	20,978
Realized and unrealized gain on investments	(10,221)	(32,718)
(Gain) loss on disposal of assets	1,400	(200)
In-kind contribution of assets	(16,501)	(360)
Donation of stock	(370)	0
(Incresase) decrease in:		
Accounts receivable, unrestricted	(9,039)	1,175
Accounts receivable, time restriction	17,542	(34,167)
Prepaid expenses	(590)	3,047
Increase (decrease) in:		
Accounts payable	(39,479)	46,070
Other payables	(16,256)	(18,082)
Grants payable	12,925	1,932
Accrued vacation pay	(10,087)	8,368
Accrued wages	1,360	(1,352)
Deferred revenue	8,600	0
TOTAL ADJUSTMENTS	(38,778)	(5,309)
NET CASH USED IN OPERATING ACTIVITIES	$ (121,424)	$ (2,256)

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities

Family Services, Inc. (an Indiana nonprofit) provides counseling, home care and other services for the benefit of families in Greater Lafayette, Indiana and the surrounding area. The Organization is supported primarily through third-party reimbursements, federal awards, program fees, and the United Way.

Family Services, Inc. provides services to families through the following programs:

- Counseling programs include marriage, family and individual counseling, personal and financial counseling services for employees of area businesses, and in home financial and personal counseling for homebound disabled and elderly individuals.
- Consumer Credit Counseling Service (CCCS) provides financial counseling and debt management services to families and individuals who are experiencing financial difficulties.
- Family Life Education (FLE) includes programs such as child abuse prevention, Insight for youth, Dads Make a Difference, and parenting classes.
- Life Skills and Family Self-Sufficiency (FSS) assist low income families with children to gain the skills necessary to become financially self-sufficient.
- Healthy Families provides support to parents struggling with the challenges of becoming a new parent.
- Home Services provide assistance with household management and meal preparation to frail elderly and disabled persons as part of a care plan to enable clients to remain in their homes and avoid premature institutionalization.
- Adult Guardianship and Advocacy Program (AGAP) provides guardianship and advocacy for at-risk adults by ensuring they receive appropriate care, health care, social service and legal representation.

Family Asset Management, Inc.'s primary purpose is to own and maintain property and equipment needed to fulfill the charitable mission of Family Services, Inc. Substantially all of the assets of the Organization are leased under operating leases to Family Services, Inc. Rental income is recognized when earned and not when received.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Following SFAS No. 117, the Organization has reported information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Basis of Consolidation

The consolidated financial statements include the accounts of Family Asset Management, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements of Family Services, Inc. and Family Asset Management, Inc. have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor 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.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Concentrations of Risk

The Organization's major source of accounts receivable is federal awards, passed through from state and local agencies. The agreements with these agencies specify that funding is conditioned upon the availability of funds from federal sources.

The Organization places its cash in accounts with local financial institutions. At times such accounts may be in excess of FDIC insurance limits.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Property and Equipment

Property and equipment are stated at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Depreciation has been provided for both financial reporting and tax purposes using the straight-line method over the estimated useful lives of the assets, with estimated lives ranging from three to fifty years.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves and its special events to the general public. Production costs of advertising are expensed as incurred. During the years ended December 31, 2007 and 2006, advertising costs totaled $41,097 and $53,435 respectively. These amounts included $29,956 and $23,570, respectively, recorded as in-kind support and expense.

Amounts paid to advertise for employment positions are included in miscellaneous expense in the statements of functional expenses.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Income Taxes

Family Services, Inc. is a not-for-profit organization incorporated under the laws of the State of Indiana and is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509 (a) of the Code.

Family Asset Management, Inc. is a not-for-profit organization incorporated under the laws of the state of Indiana and is exempt from income taxes under Section 501 (c) (2) of the Internal Revenue Code.

Bad Debts

Bad debts are recognized using the direct write-off method, which does not differ materially from the allowance method.

Donated Goods and Services

The Organization records various types of in-kind support including property and equipment, professional services, and materials. Property and equipment donated is capitalized on the basis explained above. Contributed professional services are recognized if the services either create or enhance long-lived assets, or require specialized skills and would typically need to be purchased if not provided by the donation. Contributions of supplies and material are recognized at fair market value when received. The Organization received $47,434 and $52,361 of in-kind supplies and professional fees for the years ended December 31, 2007 and 2006, respectively.

The Organization also receives significant donations of time from volunteers that do not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the financial statements.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Note 2. Note Payable, Bank

The Organization had a line of credit due on demand of $200,000 in 2007 and $50,000 in 2006. Interest rate on December 31, 2007 and 2006 was 6.5% and 10%, respectively. The outstanding balance at December 31, 2007 and 2006 was $119,505 and $47,797, respectively. The note is secured by business assets.

Note 3. Investments

Investments are stated at fair value and are summarized as follows:

	Cost	Fair Value
As of December 31, 2007:		
Mutual funds	$ 94,589	$ 173,913
As of December 31, 2006:		
Mutual funds	$ 154,325	$ 238,575
Corporate stocks	1,509	1,620
	$ 155,834	$ 240,195

Note 4. Long-Term Debt

Long-term debt at December 31, 2007 and 2006 consists of the following:

	2007	2006
First real estate mortgage on the land and building in the amount of $161,729, due in monthly payments of $2,389, including interest at 6.25%. Final payment due July 14, 2008.	$ 40,914	$ 53,718
Less current maturities	40,914	28,668
	$ 0	$ 25,050

Aggregate maturities required on long-term debt at December 31, 2007 are as follows:

Year Ending December 31, 2008	$ 40,914

Note 5. Employee Pension Plan

The Organization maintains a profit sharing plan for its eligible employees. Employer contributions are based on a percentage of the participant's compensation. This contribution is subject to the approval of the Board of Directors. The expense for the years ended December 31, 2007 and 2006 was $0.

Note 6. Board Designated Net Assets

The board designated net assets as of December 31, 2007 and 2006 funds that the board has designated. Those designations are considered to expire when payments are made or the board has released the designation.

Board designated net assets are as follows:

	2007	2006
White County Community Foundation	$ 62,882	$ 59,122
Memorial Funds	8,839	7,876
	$ 71,721	$ 66,998

Note 7. Temporarily Restricted Net Assets

The restrictions on assets as of December 31, 2007 and 2006 primarily relate to contributions for specific assistance to program participants and for special events expenses, as specified by the donors. Those restrictions are considered to expire when payments are made.

Temporarily restricted net assets are available for the following purposes or periods:

	2007	2006
Assistance to program participants	$ 28,468	$ 27,978
Capital assets or improvements	1,000	1,000
Special events expenses	244	560
Purposes other than general operations	1,596	1,475
Time restriction	286,625	304,167
Long-term purposes other than operations	283,428	297,206
	$ 601,361	$ 632,386

Assets restricted for long-term purposes are composed of investments in mutual funds and corporate stocks, certificates of deposit, and certain cash balances.

Note 8. Family Services, Inc. Endowment Fund Agreement

On September 27, 2000, the Organization entered into a charitable Designated Endowment Fund Agreement with the White County Community Foundation (an affiliate of the Greater Lafayette Community Foundation). Family Services, Inc. established the endowment to secure resources that will help to fund the future goals and needs of the Organization.

The Foundation accepts contributions directly from donors on behalf of Family Services, Inc. or receives transfers of assets from the Organization. Contributions that are received with restrictions or conditions will be honored by the Foundation; however, provisions in the agreement allow the Foundation variance power over donors' direction.

The annual earnings allocable to the fund, net of the fees, expenses, and funds set aside for principal appreciation, are available to the Organization. Distributions of the earnings are subject to authorization by the Community Foundation's Board of Directors.

The balance of $62,882 and $59,122 as of December 31, 2007 and 2006, respectively, reflected in the statements of financial position as a beneficial interest in assets held by the Community Foundation, consists of $50,356 principal and an accumulated net gain on investment of $12,526 as of December 31, 2007 and $8,766 as of December 31, 2006.

Note 9. Leases

The Organization leases office space and some equipment from a related not-for-profit organization under a lease which expires in December 2007. The monthly rental rate was $5,100 until July 1, 2007, when it was reduced to $1,185. Rental expense under this lease for the years ended December 31, 2007 and 2006 was $37,710 and $61,200, respectively. This expense is eliminated in the consolidation of the financial statements.

The Organization leases office equipment under an agreement which expires May 2012. Rental expense under these leases for the years ended December 31, 2007 and 2006 was $4,823 and $5,526, respectively.

The Organization leases office space in Crawfordsville, Indiana under a lease which expires in December 2010. The monthly rental rate was $180 in 2007 and 2006. Rental expense under this lease for the years ended December 31, 2007 and 2006 was $2,160 per year.

The Organization leases office space in Delphi, Indiana for $120 per month under a month-to-month lease. Rental expense under this lease for the years ended December 31, 2007 and 2006 was $1,440 per year.

Note 9. Leases (continued)

The Organization leases office space in Monticello, Indiana for $100 per month under a month-to-month lease. Rental expense under this lease for the years ended December 31, 2007 and 2006 was $1,200 and $1,100, respectively.

The Organization began leasing their current office space at the Howarth Center on May 1, 2007, for $6,462 per month. This lease expires on April 30, 2012, but will automatically renew for successive two years unless notice is given. The rental expense for the year ended December 31, 2007 was $45,234.

The following is a schedule by year of minimum rental payments under these leases:

Year Ending December 31,	
2008	$ 79,704
2009	79,704
2010	79,944
2011	77,544
2012	25,848
	$ 342,744

Note 10. Functional Allocation

The Organization allocates management and general expenses (indirect costs to programs) to the programs operated based on their cost allocation plan methodology. For the purposes of the statements of functional expenses, management and general expenses are presented prior to allocations. Program service expenses are presented prior to additional indirect allocation of management and general expenses.

Note 11. Related Party Transactions

Family Services, Inc. leased its main office and certain equipment from Family Asset Management, Inc. See Note 8.

Family Services, Inc. provides administrative services to Family Asset Management, Inc. The monthly fee is $1,167. Management fee income to Family Services, Inc. under this agreement for the years ended December 31, 2007 and 2006 was $14,000 per year.

These intercompany transactions have been eliminated in the consolidated financial statements.

Note 12. Liquidity

The temporarily restricted net assets available as of December 31, 2007 total $601,361, of which $286,625 is a time restriction. Therefore, as of December 31, 2007, the temporarily restricted net assets that the Organization has received as of December 31, 2007 is $314,736. The cash, certificate of deposits and investment balance as of December 31, 2007 was $275,484. There is a shortage of $39,252. This results in the Organization being unable to comply with all donor restrictions until liquidity improves.

Note 13. Subsequent Events

The land and building owned by Family Asset Management, Inc. was sold on June 24, 2008. It is the intention of the Organization to file a final tax return for 2008 and cease operations of Family Asset Management, Inc.

Family Services, Inc. and Affiliate

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007

AGENCY/PROGRAM	CFDA NUMBER	AGREEMENT NUMBER	EXPENDITURES
U.S. Department of Health and Human Services			
Pass-through from Indiana Department of Child Services:			
Healthy Families Indiana Project - TANF	93.558	79-05-60-0174	$ 572,711
IN Fathers & Families	93.597	79-07-1C-0174	
		79-08-1C-0174	28,895
Total U.S. Department of Health and Human Services			601,606
U.S. Department of Housing and Urban Development			
Pass-through from City of Lafayette:			
Community Development Block Grant	14.218	B-06-MC-180008	
		B-07-MC-180008	9,684
Pass-through from City of West Lafayette:			
Community Development Block Grant	14.218	2007 Grant	7,500
Pass-through from Lafayette Housing Authority:			
Family Self Sufficiency Action Plan	14.218	N/A	29,010
Total U.S. Department of Housing and Urban Development			46,194
Total Federal Awards			$ 647,800

See Notes to Schedule of Expenditures of Federal Awards

Family Services, Inc. and Affiliate

Notes to Schedule of Expenditures of Federal Awards
December 31, 2007

Note 1. Significant Accounting Policies

Basis of Accounting

The amounts of revenue recognized and expenditures shown on the Schedule of Expenditures of Federal Awards are presented in accordance with U.S. generally accepted accounting principles.

Major Program Determination

Major programs are determined in accordance with OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." A risk-based approach is used to make this determination, and Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding $300,000.

Family Services, Inc. and Affiliate

Schedule of Expenditures of State and Local Awards
For the Year Ended December 31, 2007

GRANTOR	AGREEMENT NUMBER	EXPENDITURES
STATE		
Indiana Department of Child Services		
Healthy Families Indiana	79-05-60-0174	$ 698,428
IN Fathers & Families	79-07-1C-0174	
	79-08-1C-0174	32,065
Total State and Local Awards		$ 730,493

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidating Statement of Financial Position
December 31, 2007

	Family Services, Inc.	Family Asset Management, Inc.
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 1)	$ 41,467	$ 789
Certificates of deposit	59,315	0
Accounts receivable, unrestricted	113,576	0
Accounts receivable, time restriction	286,625	0
Prepaid expenses	10,865	0
Investments (Note 3)	173,913	0
Total Current Assets	685,761	789
PROPERTY AND EQUIPMENT (Notes 1, 2, and 4)		
Land	0	25,000
Buildings and improvements	0	302,154
Furniture and equipment	110,021	11,866
Software	3,500	0
	113,521	339,020
Less: accumulated depreciation	(61,716)	(142,560)
Total Property and Equipment	51,805	196,460
OTHER ASSETS		
Beneficial interest in assets held by the Community Foundation (Note 8)	62,882	0
Total Other Assets	62,882	0
TOTAL ASSETS	$ 800,448	$ 197,249

Family Services, Inc. and Affiliate

Consolidating Statement of Financial Position

December 31, 2007

Eliminations	2007
$ 0	$ 42,256
0	59,315
(4,453)	109,123
0	286,625
0	10,865
0	173,913
(4,453)	682,097
0	25,000
0	302,154
0	121,887
0	3,500
0	452,541
0	(204,276)
0	248,265
0	62,882
0	62,882
$ (4,453)	$ 993,244

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidating Statement of Financial Position

December 31, 2007

		Family Services, Inc.		Family Asset Management, Inc.
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current maturities of long-term debt (Note 4)	$	0	$	40,914
Note payable, bank (Note 2)		119,505		0
Accounts payable		32,665		4,453
Other payables		6,254		57
Grants payable		27,784		0
Accrued vacation pay		34,487		0
Accrued wages		23,295		0
Deferred revenue		8,600		0
Total Current Liabilities		252,590		45,424
LONG-TERM DEBT, less current maturities (Note 4)		0		0
Total Liabilities		252,590		45,424
NET ASSETS				
Unrestricted		(125,224)		151,825
Unrestricted, board designated (Note 6)		71,721		0
Temporarily restricted (Note 7)		601,361		0
Total Net Assets		547,858		151,825
TOTAL LIABILITIES AND NET ASSETS	$	800,448	$	197,249

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidating Statement of Financial Position

December 31, 2007

Eliminations	2007
$ 0	$ 40,914
0	119,505
(4,453)	32,665
0	6,311
0	27,784
0	34,487
0	23,295
0	8,600
(4,453)	293,561
0	0
(4,453)	293,561
0	26,601
0	71,721
0	601,361
0	699,683
$ (4,453)	$ 993,244

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidating Statement of Activities
For the Year Ended December 31, 2007

	Family Services, Inc.	Family Asset Management, Inc.
UNRESTRICTED NET ASSETS		
PUBLIC SUPPORT		
United Way grants and allocations	$ 7,047	$ 0
Contributions	82,448	0
In-kind contributions	47,434	0
Special events	105,163	0
Total Public Support	242,092	0
PROGRAM SERVICES		
Grants	833,918	0
Medicaid	51,007	0
Client fees	101,032	0
Debt management fees	30,866	0
Total Program Services	1,016,823	0
OTHER REVENUE		
Family Asset Management, Inc.	0	37,710
Employee Assistance Plan	12,189	0
Interest and dividends	5,085	5
Unrealized loss on investments	(7,643)	0
Realized gain on investments	7,826	0
Loss on disposal of assets	(1,400)	0
Miscellaneous income	14,951	0
Total Other Revenue	31,008	37,715
Total Public Support, Services, and Other Revenu(	1,289,923	37,715
NET ASSETS RELEASED FROM RESTRICTIONS		
Restrictions satisfied by payments	332,337	0
Total Public Support, Services, Other Revenue and Net Assets Released from Restrictions	1,622,260	37,715
EXPENSES		
Program services		
Counseling	190,052	0
CCCS	107,474	0
FLE	66,009	0
Life Skills/FSS	69,173	0
Healthy Families	676,795	0
Home Services	296,057	0
AGAP	49,357	0
Total Program Services	$ 1,454,917	$ 0

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidating Statement of Activities
For the Year Ended December 31, 2007

Eliminations	2007
$ 0	$ 7,047
0	82,448
0	47,434
0	105,163
0	242,092
0	833,918
0	51,007
0	101,032
0	30,866
0	1,016,823
(37,710)	0
0	12,189
0	5,090
0	(7,643)
0	7,826
0	(1,400)
(14,000)	951
(51,710)	17,013
(51,710)	1,275,928
	332,337
(51,710)	1,608,265
(4,749)	185,303
(2,343)	105,131
(2,151)	63,858
(1,697)	67,476
(16,979)	659,816
(7,866)	288,191
(1,698)	47,659
$ (37,483)	$ 1,417,434

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidating Statement of Activities
For the Year Ended December 31, 2007

	Family Services, Inc.	Family Asset Management, Inc.
UNRESTRICTED NET ASSETS, continued		
EXPENSES, continued		
Supportive Services		
Management and general	$ 166,223	$ 36,219
Fund raising	54,237	0
Total Supportive Services	220,460	36,219
Total Expenses	1,675,377	36,219
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(53,117)	1,496
TEMPORARILY RESTRICTED NET ASSETS		
United Way grants and allocations	271,625	0
Support for various programs	4,916	0
Net investment income	14,733	0
Unrealized loss on investments	(18,388)	0
Realized gain on investments	28,426	0
Net assets released from restrictions		
Restrictions satisfied by payments	(332,337)	0
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(31,025)	0
INCREASE (DECREASE) IN NET ASSETS	$ (84,142)	$ 1,496

See Accompanying Notes to Financial Statements

Family Services, Inc. and Affiliate

Consolidating Statement of Activities
For the Year Ended December 31, 2007

Eliminations	2007
$ (14,227)	$ 188,215
0	54,237
(14,227)	242,452
(51,710)	1,659,886
0	(51,621)
0	271,625
0	4,916
0	14,733
0	(18,388)
0	28,426
0	(332,337)
0	(31,025)
$ 0	$ (82,646)

See Accompanying Notes to Financial Statements

Reed & Company, P.C.
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*

To the Board of Directors
Family Services, Inc.
Lafayette, Indiana

We have audited the consolidated financial statements of Family Services, Inc. (an Indiana nonprofit organization) and its affiliate, Family Asset Management, Inc. (an Indiana nonprofit organization) as of and for the year ended December 31, 2007, and have issued our report thereon dated January 21, 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; and *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Family 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Family Services, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting 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 combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record,

672 Main St. • P.O. Box 1128 • Lafayette, Indiana 47902-1128
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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 deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. See items 07-01, 07-02, 07-03 and 07-04.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. Of the significant deficiencies described above, we consider item 07-03 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Services, Inc.'s consolidated 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 consolidated 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 instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 07-01, 07-02, 07-03 and 07-04.

We noted certain other matters that we reported to management of Family Services, Inc. in a separate letter dated January 21, 2009.

Family Services, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Family Services, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, others within the Organization, 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.

Reed + Company, PC

Lafayette, Indiana
January 21, 2009

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

To the Board of Directors
Family Services, Inc.
Lafayette, Indiana

Compliance

We have audited the compliance of Family Services, Inc. (an Indiana nonprofit organization) and its affiliate, Family Asset Management, Inc. (an Indiana nonprofit organization), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Family Services, Inc.'s major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Family Services, Inc.'s management. Our responsibility is to express an opinion on Family 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 Family 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 Family Services, Inc.'s compliance with those requirements.

In our opinion, Family Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for year ended December 31, 2007.

Internal Control Over Compliance

The management of Family Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Family Services,

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Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Family 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-04 to be a significant deficiency.

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. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Family Services, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Family Services, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the Organization 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.

Reed + Company, PC

Lafayette, Indiana
January 21, 2009

Family Services, Inc. and Affiliate

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2007

Section I – Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the consolidated financial statements of Family Services, Inc. and its affiliate, Family Asset Management, Inc.

2. Three significant deficiencies disclosed during the audit of the consolidated financial statements are reported in the Schedule of Findings and Questioned Costs. One deficiency is reported as a material weakness.

3. No instances of noncompliance material to the consolidated financial statements of Family Services, Inc., which would be required to be reported in accordance with *Government Auditing Standards,* were disclosed during the audit.

4. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in the Schedule of Findings and Questioned Costs. The deficiency is not reported as a material weakness.

5. The auditor's report on compliance for the major federal award programs for Family Services, Inc. expresses an unqualified opinion on all major federal programs.

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

7. The programs tested as major programs included: Indiana Department of Child Services /Healthy Families Indiana Project - TANF - CFDA Number 93.558.

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

9. Family Services, Inc. was determined to be a low-risk auditee.

Family Services, Inc. and Affiliate

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2007

Section II - Findings-Financial Statements Audit

SIGNIFICANT DEFICIENCIES

07-01 Account Reconciliation

Condition: Family Services, Inc. did not reconcile the CCCS Trust Account or the Edward Jones investment account on a timely basis.

Criteria: Internal controls should be in place to provide reasonable assurance that reconciliations are completed monthly.

Effect: Because the accounts are not being reconciled on a timely basis, client account balances may not be accurately reflected.

Auditors' Recommendation: Procedures should be implemented to assure that reconciliations are completed on a monthly basis.

Response: Management of Family Services, Inc. concurs with this recommendation.

07-02 Internal Controls

Condition: Family Services, Inc. did not comply with internal controls that were in place.

Criteria: There has been turn over in staff and internal control procedures have been disregarded and/or not communicated to new staff.

Effect: Errors may have occurred that would have been detected by internal controls if they were in place and being followed.

Auditors' Recommendation: All controls and procedures should be evaluated and updated. Top management of the Organization should be responsible for seeing that controls are being followed.

Response: Management of Family Services, Inc. concurs with this recommendation. Internal control procedures have been updated and communicated to current staff.

Family Services, Inc. and Affiliate

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2007

Section II - Findings-Financial Statements Audit (continued)

MATERIAL WEAKNESS

07-03 Consolidated Financial Statement Preparation

Condition: Reed & Company, P.C. drafted the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

Criteria: Family Services, Inc. does not have the expertise to prepare the consolidated financial statements and disclosures in accordance with accounting principles generally accepted in the United States of America.

Effect: The consolidated financial statements were drafted by Reed & Company, P.C. and reviewed by management prior to their issuance.

Auditors' Recommendation: Management should continue to review the draft of the consolidated financial statements prior to their issuance and discuss any concerns with Reed & Company, P.C.

Response: Management of Family Services, Inc. concurs with this recommendation and has reviewed and approved a draft of the consolidated financial statements prior to their issuance.

Family Services, Inc. and Affiliate

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2007

Section III - Findings and Questioned Costs-Major Federal Award Programs Audit

	Questioned Costs
INDIANA DEPARTMENT OF CHILD SERVICES Healthy Families Indiana-TANF CFDA Number 93.558	
07-04 Grant #: 79-05-60-0174 - Year ended December 31, 2007	
Statement of Condition: Family Services, Inc. did not have appropriate supporting documentation for all services billed to the Healthy Families Program.	
Criteria: Internal controls should be in place to provide reasonable assurance that all services with appropriate supporting documentation are billed to Healthy Families.	
Effect of Condition: The difference between what was billed to Healthy Families and what should have been billed to Healthy Families is considered a questioned cost.	
Cause of Condition: Procedures to ensure that employee time sheets agreed with the supporting documentation for services provided were not in place.	
Population and Items Tested: A sample of 122 billings totaling $35,405 was selected for audit from a population of total revenue of $698,428. Four billings with questioned costs totaling $1,141 were found in noncompliance.	$ 1,141
Auditors' Recommendation: Procedures should be implemented to assure time sheets prepared by employees for payroll purposes agree with the time on the supporting documentation for services provided.	
Grantee Response: Family Services, Inc. concurs with this recommendation. The procedures have already been implemented. Family Services, Inc. has recorded a liability for all services billed for which the employees' time sheet does not reflect time billed for the year ended December 31, 2007.	

Section IV - Summary of Prior Audit Findings

None

Reed & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

January 21, 2009

To the Management and
Board of Directors of
Family Services, Inc.

In planning and performing our audit of the consolidated financial statements of Family Services, Inc. and its affiliate, Family Asset Management, Inc. for the year ended December 31, 2007, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated January 21, 2009, on the consolidated financial statements of Family Services, 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 will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Internal Controls

Internal controls consist of the system of checks and balances within an organization that assist in the prevention of misstatements, whether intentional or unintentional. Controls should be in place to protect the employees as well as the assets of Family Services, Inc. Some basic examples of internal controls include: the separation of duties, two signatures on checks, the person signing checks should not be the person preparing the check, and the bank reconciliation should be reviewed by the executive director or board treasurer prior to being reconciled by the accounting department. There should be checks and balances in place over grant compliance, billing, and payroll as well as cash disbursements and cash receipts.

It became evident during our field work that there were breakdowns in the internal controls for the year being audited. During 2007, there was a great deal of turnover at Family Services. This turnover has led to changes in job responsibilities; therefore, the controls that were in place a year ago may need to be adjusted for current staffing.

We recommend that all of the procedures and internal controls be reevaluated at Family Services, Inc. The employees need to understand the procedures and be aware that the checks

672 Main St. • P.O. Box 1128 • Lafayette, Indiana 47902-1128
765-742-4141 • FAX 765-423-2581 • Email: info@reedcpa.com

and balances are in place for their protection as well as the protection of the Organization. Override of internal controls should not be tolerated. The management of the Organization is ultimately responsible for seeing that these controls are in place and being followed.

Healthy Families

We drew a random sample of 72 items billed in order to test that the supporting documentation agreed with the amount billed. As part of our test, we looked at whether the employee providing the service to the Healthy Families client had been on the clock and paid for the time that they completed the client's home visit records. We came across nine families whose home visit records did not match the employee's time sheet for payroll purposes. We recommended that a 100% audit be done of the program. The Healthy Families supervisors were to review the employees' time cards with the home visit records. If there was a difference between the home visit records and the time card, the staff was given the opportunity to review their calendar and determine if there was an error in the time that the home visit occurred or an error in the time sheet. The employees and supervisors made corrections where it was possible. If the home visit could not be supported by the time sheet and calendar, the amount originally billed to the Healthy Families program was paid back to the State.

After Family Services had completed their internal audit of the program, we drew an additional sample to verify that corrections had been made. There were still some differences between time sheets and home visit records, so it appeared that the supervisors did not have a clear understanding of the purpose of their internal audit of the records, so they performed an additional internal audit. After the second internal audit, we were able to assure ourselves that the home visit records were supported by the time sheets used for payroll or the billing was included in the liability to be paid back to the State.

We recommend that time sheets be compared to home visit records to ensure that employees are providing the services that were intended and that employees are completing both their timesheets and their home visit records accurately. Employees should not have any differences in these two records. We also recommend that the supervisors conduct an internal audit of the Healthy Families program prior to the next external audit in order to correct problems in an attempt to avoid future findings reported in the consolidated financial statements.

Payroll

During our testing of the payroll function, we noted that some employees were being paid as exempt from overtime who did not meet the definitions of being exempt from overtime. We also noted that the information in the personnel files was not always consistent with what was occurring for payroll. We recommend that the personnel files, payroll system and employees' actual job duties be reviewed with the Department of Labor rules for exempt vs. non-exempt employees.

CCCS Disbursements

During our testing of disbursements from the CCCS Trust account, we selected checks and electronic transfers from the CCCS account in order to verify that the payments had been correctly allocated to the clients' accounts, that the payment matched what was stated on the client and creditor agreement and that the client was making their payment to Family Services. We discussed the specific results of our testing with management. All of the payments that we tested appeared to be recorded correctly to the individual client's activity. The main shortfall was in the completeness of the client files. When changes were made to the payments to creditors or to the clients' deposits to Family Services, this was not being reflected in the client files.

Restricted Funds

We recommend that a system be developed and maintained for tracking the restricted income and satisfaction of restrictions in order to be able to monitor the available balances of temporarily restricted net assets. As we have noted in the previous audit, this may be accomplished by use of an Excel spreadsheet. The spreadsheet would reflect the transactions recorded in QuickBooks for the current fiscal, but would also provide the balances available to be carried forward to the next year.

To further facilitate this tracking process, it is extremely important that communication is forwarded to the accounting manager when expenses are incurred or paid for the specified purpose from temporarily restricted grants or contributions. This allows for proper allocation of expenses and assists with properly accounting for the use of restricted funds, thereby allowing the remaining balance of the restricted funds to be accurately stated at any given time.

The preceding comments and recommendations are intended solely for the information of and use of the Board of Directors, management and others within the Organization and are not intended to be and should not be used by anyone other than these specified parties.

Reed + Company, PC

Lafayette, Indiana