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STATE OF INDIANA

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November 24, 2009

Board of Directors
Council on Aging of
Elkhart County, Inc.
2555 Oakland Ave.
Elkhart, IN 46517

We have reviewed the audit report prepared by Cullar & Associates, 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 Council on Aging of Elkhart County, Inc., 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. The management letter contains three comments.

STATE BOARD OF ACCOUNTS

FINANCIAL REPORT

COUNCIL ON AGING OF ELKHART COUNTY, INC.

December 31, 2007 and 2006

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
COUNCIL ON AGING OF ELKHART COUNTY, INC.
Elkhart, Indiana

We have audited the accompanying statements of financial position of COUNCIL ON AGING OF ELKHART COUNTY, INC. (the ñOrganizationò) as of December 31, 2007 and 2006, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 COUNCIL ON AGING OF ELKHART COUNTY, INC. as of December 31, 2007 and 2006, 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.

Cullar & Associates, P.C.

August 26, 2008

COUNCIL ON AGING OF ELKHART COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2007 and 2006

	2007	2006
Assets:		
Current Assets:		
Cash and cash equivalents	$ 39,454	$ 27,537
Accounts receivable	14,540	9,234
Contributions and grants receivable	14,959	14,074
Prepaid expenses	924	4,326
Total current assets	69,877	55,171
Long-Term Assets:		
Property and equipment	37,115	52,166
Beneficial interest in assets held by others	64,854	64,405
Total long-term assets	101,969	116,571
Total assets	$ 171,846	$ 171,742
Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable	$ 5,492	$ 9,154
Accrued liabilities	15,592	8,891
Total current liabilities	21,084	18,045
Net Assets:		
Unrestricted	84,158	89,292
Temporarily restricted	1,750	-
Permanently restricted	64,854	64,405
Total net assets	150,762	153,697
Total liabilities and net assets	$ 171,846	$ 171,742

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

COUNCIL ON AGING OF ELKHART COUNTY, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2007 and 2006

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support:								
Contributions and grants	$ 271,266	$ 5,923	$ -	$ 277,189	$ 209,159	$ 1,955	$ -	$ 211,114
United Way of Elkhart County, Inc.	58,375	-	-	58,375	72,979	-	-	72,979
Contributed food product	9,645	-	-	9,645	15,591	-	-	15,591
Contributed facilities	7,200	-	-	7,200	7,200	-	-	7,200
Contributed equipment	-	-	-	-	7,500	-	-	7,500
Special events (net of costs of direct benefits to donors of $4,842 and $2,912)	9,814	-	-	9,814	12,401	-	-	12,401
Fees	12,812	-	-	12,812	6,254	-	-	6,254
Investment income	40	-	449	489	21	-	10,490	10,511
Other	1	-	-	1	2	-	-	2
Net assets released from restrictions	4,173	(4,173)	-	-	1,955	(1,955)	-	-
Total revenues, gains, and other support	373,326	1,750	449	375,525	333,062	-	10,490	343,552
Expenses:								
Transportation	97,036	-	-	97,036	95,184	-	-	95,184
Personal support	42,716	-	-	42,716	70,656	-	-	70,656
In-home services	138,877	-	-	138,877	105,812	-	-	105,812
Management and general	99,831	-	-	99,831	77,341	-	-	77,341
Total expenses	378,460	-	-	378,460	348,993	-	-	348,993
Change in net assets	(5,134)	1,750	449	(2,935)	(15,931)	-	10,490	(5,441)
Net assets, beginning of year (as restated)	89,292	-	64,405	153,697	105,223	-	53,915	159,138
Net assets, end of year	$ 84,158	$ 1,750	$ 64,854	$ 150,762	$ 89,292	$ -	$ 64,405	$ 153,697

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

COUNCIL ON AGING OF ELKHART COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2007 and 2006

	2007					2006				
	Transpor-tation	Personal Support	In-Home Services	Management and General	Total	Transpor-tation	Personal Support	In-Home Services	Management and General	Total
Personnel	$ 55,731	$ 26,596	$ 123,957	$ 58,672	$ 264,956	$ 57,670	$ 48,663	$ 93,339	$ 38,141	$ 237,813
Vehicle and travel	13,147	1,024	6,362	854	21,387	10,878	1,462	6,847	511	19,698
Occupancy	1,829	2,546	1,988	7,472	13,835	1,656	2,305	1,800	6,763	12,524
Insurance	3,444	379	5,162	1,607	10,592	8,708	528	2,785	719	12,740
Conferences	150	-	11	591	752	155	22	24	76	277
Repairs and maintenance	6,919	-	-	550	7,469	1,954	-	-	1,360	3,314
Food product	-	9,793	-	-	9,793	-	15,591	-	-	15,591
Supplies	20	2,011	294	2,202	4,527	33	2,064	27	2,628	4,752
Postage	-	-	-	3,379	3,379	5	-	-	1,422	1,427
Printing	74	155	121	2,475	2,825	-	-	-	1,893	1,893
Telephone	1,227	-	-	3,434	4,661	1,060	-	-	4,495	5,555
Dues and subscriptions	40	-	-	1,078	1,118	40	-	-	589	629
Professional fees	-	-	-	4,294	4,294	-	-	-	7,078	7,078
Payroll service	-	-	-	1,736	1,736	-	-	-	1,099	1,099
Volunteer expense	-	15	-	-	15	-	-	-	-	-
Marketing	-	26	49	2,622	2,697	47	6	-	2,125	2,178
Bad debts	-	-	-	1,991	1,991	-	-	-	2,223	2,223
Depreciation	14,130	-	-	5,183	19,313	12,930	-	-	4,605	17,535
Other	325	171	933	1,691	3,120	48	15	990	1,614	2,667
Totals	$ 97,036	$ 42,716	$ 138,877	$ 99,831	$ 378,460	$ 95,184	$ 70,656	$ 105,812	$ 77,341	$ 348,993

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

COUNCIL ON AGING OF ELKHART COUNTY, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities:		
Change in net assets	$ (2,935)	$ (5,441)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debts	1,991	2,223
Depreciation	19,313	17,535
Contributed equipment	-	(7,500)
(Increase) in accounts receivable	(5,306)	(4,740)
(Increase) in contributions and grants receivable	(2,876)	(4,243)
(Increase) decrease in prepaid expenses	3,402	(4,326)
(Increase) in beneficial interest in assets held by others	(449)	(10,490)
Increase in accounts payable and accrued liabilities	3,039	4,298
Net cash provided by (used in) operating activities	16,179	(12,684)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(4,262)	(1,499)
Net change in cash and cash equivalents	11,917	(14,183)
Cash and cash equivalents, beginning of year	27,537	41,720
Cash and cash equivalents, end of year	$ 39,454	$ 27,537

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

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

COUNCIL ON AGING OF ELKHART COUNTY, INC. (the ñOrganization") is an Indiana nonprofit corporation organized to serve older adults in Elkhart County, Indiana. The Organization provides transportation, personal support, and in-home services for older adults. Its operations are supported primarily by grants from other nonprofit organizations and contributions from the public.

Significant Accounting Policies:

Use of estimates:

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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

Net asset classes:

The Organization reports its activities and financial position by the following classes of net assets:

Unrestricted net assets are those currently available for use by the Organization.

Temporarily restricted net assets are those received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets represent interests in assets held by others that are permanently restricted by the donor. Investment earnings available for distribution are recorded in unrestricted net assets.

Cash and cash equivalents:

The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Accounts, contributions, and grants receivable:

Accounts receivable are stated at the outstanding principle balance, net of an allowance for uncollectibles. Contributions and grants receivable are stated at the outstanding principle balance, net of any discount for contributions expected to be collected in more than one year and an allowance for uncollectibles.

The Organization provides allowances for uncollectibles based upon the specific identification of receivables where collection is no longer deemed probable and allowances based upon the level of total receivable balances. In determining the allowances, management evaluates the payment history and other known information for individual accounts or pledges, historical losses, and current economic conditions. Individual accounts are charged-off against the allowance in the period that the receivable is deemed uncollectible. Recoveries of receivables previously charged-off are recorded as income in the period received. The Organization does not generally charge interest on its receivables.

Property and equipment:

Property and equipment is generally stated at cost, if acquired, or at fair value at the date of receipt, if donated, less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which are generally as follows:

Leasehold improvements	7-15 years
Vehicles	5 years
Office equipment	3-5 years

Investments and beneficial interest in assets held by others:

Investments and the beneficial interest in assets held by others are stated at fair value, and realized and unrealized gains and losses are included in investment income in the statements of activities. Fair value is estimated using quoted market prices. The specific identification method is used to determine the cost basis for realized gains and losses.

The Organization recognizes its beneficial rights in assets held by others unless the donor has granted the recipient organization variance power. However, if the Organization is both the donor and the beneficiary of the assets, those rights are recognized even if the recipient organization has been granted variance power.

Gifts and grants:

The Organization reports gifts and grants of cash and other assets as revenue when unconditionally promised, and considers such gifts to be available for unrestricted use unless specifically restricted by donor. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions revenue. Conditional promises to give are not recognized as revenue until the conditions are substantially met.

Contributed food products, facilities, and property and equipment are recorded at their estimated fair values.

Contributed services are recognized if the services create or enhance non-financial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such services are recorded at their estimated fair value. The Organization receives a substantial amount of donated services from volunteers in carrying out its program and supporting services that have not have been recorded in the accompanying financial statements because the criteria for recognition have not been met.

Fees for services:

Fees for services are recognized as revenue when the services are substantially performed. Fees received in advance of substantial performance are reported as liabilities.

Income taxes:

The Organization is exempt from income tax under Internal Revenue Code Section 501(c)(3) and a similar section of the Indiana Code. Consequently, the accompanying financial statements contain no provision for income taxes. The Internal Revenue Service classifies the Organization as a public charity.

NOTE 2. PRIOR PERIOD ADJUSTMENT AND RECLASSIFICATION

The accompanying 2006 financial statements have been restated to correct an error made in 2005 in not recording the value of a contributed vehicle. The effect of the restatement on the 2006 financial statements was to increase beginning net assets by $20,740, increase ending property and equipment and unrestricted net assets by $15,555, and decrease the change in net assets for the year by $5,185. Had the error not been made, the change in net assets for the year ended December 31, 2005 would have been increased by $20,740.

In addition, the 2006 statement of financial position has been restated to reclassify $9,234 of accounts receivable that had been included with contributions and grants receivable so as to conform to their presentation in the 2007 statement of financial position.

NOTE 3. ACCOUNTS, CONTRIBUTIONS, AND GRANTS RECEIVABLE

Accounts receivable at both December 31, 2007 and 2006 consist of outstanding fees for services. No allowance for uncollectibles is considered necessary. Contributions and grants receivable at both December 31, 2007 and 2006 consist of costs and services billed under various grant agreements. All amounts are expected to be collected within one year, and no allowance for uncollectibles is considered necessary.

At December 31, 2007, the Organization has conditionally been promised approximately $40,000 under cost-reimbursement grants. Such promises will be recognized as revenue if and when allowable costs are incurred.

NOTE 4. PROPERTY AND EQUIPMENT

The cost of property and equipment and the related accumulated depreciation are as follows at December 31, 2007 and 2006, respectively:

	2007	2006
Leasehold improvements	$ 50,040	$ 50,040
Vehicles	89,649	83,648
Office equipment and software	47,383	48,996
Assets not yet in service	-	6,000
	187,072	188,684
Less accumulated depreciation	(149,957)	(136,518)
Net property and equipment	$ 37,115	$ 52,166

Most of the Organizationôs vehicles and office equipment have been purchased with governmental grant funds. Such assets are owned jointly by the Organization and the funding source while used in the program for which they were purchased or in other future authorized programs. The disposition of these assets, as well as the ownership of any sale proceeds, is subject to funding source and other regulatory directives.

NOTE 5. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Organization is the beneficiary of a fund held by Elkhart County Community Foundation, Inc. (the ñFoundationò), for which the Organization was the donor. The Organization has granted the Foundation variance power in the determination of annual distributions and transfer of the fund to other community organizations in certain circumstances. The value of the fund was $64,854 and $64,405 at December 31, 2007 and 2006, respectively. Total accumulated contributions by the Organization to the fund were $49,496, all of which were made in 1999. The change in the value of the fund for the years ended December 31, 2007 and 2006 was $449 and $10,490, respectively, which is included in investment income. The Organization received no distributions from the fund during years ended December 31, 2007 and 2006.

The Organization is also the beneficiary of another fund held by the Foundation that was created by other donors, which is not recorded as an asset because it was established by other donors and because the Foundation was granted variance power. The Organization periodically receives distributions in the form of grants from this fund. The value of the fund at December 31, 2007 and 2006 was $87,003 and $89,263, respectively. Distributions of $6,731 and $6,350 were received from the fund during the years ended December 31, 2007 and 2006, respectively, which are included in contributions and grants revenue.

NOTE 6. RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2007 are restricted for the purchase of a telephone system. Permanently restricted net assets at both December 31, 2007 and 2006 represent the Organizationǒs beneficial interest in assets held by Elkhart County Community Foundation, Inc. in funds created by the Organization, as discussed in Note 5.

Net assets were released from restrictions by incurring expenses satisfying restricted purposes as follows for the years ended December 31, 2007 and 2006, respectively:

	2007	2006
Needs assessment	$ 3,500	$ -
Copy machine	-	1,500
Personal support	373	395
Food pantry	300	-
Other	-	60
Total net assets released from restrictions	$ 4,173	$ 1,955

NOTE 7. INVESTMENT INCOME

Investment income is as follows for the years ended December 31, 2007 and 2006, respectively:

	2007	2006
Interest on cash and cash equivalents	$ 40	$ 21
Change in beneficial interest in assets held by others	449	10,490
Total investment income	$ 489	$ 10,511

NOTE 8. LEASE INFORMATION

The Organization leases its facilities under an agreement requiring annual payments of $1 through December 2010. The annual fair value for use of the facilities is estimated at $7,200, which is reported as contributed facilities revenue in the statements of activities and included in occupancy expense in the statements of functional expenses for both years ended December 31, 2007 and 2006.

NOTE 9. RETIREMENT PLAN

The Organization maintains a defined-contribution retirement plan covering substantially all of its full-time employees. Retirement plan expense was none and $540 for the years ended December 31, 2007 and 2006, respectively.

NOTE 10. CONCENTRATIONS

The Organization's activities and contributors are concentrated in Elkhart County, Indiana. Accordingly, its membership, gifts, and other sources of support and revenue may be affected by conditions in that area.

For the years ended December 31, 2007 and 2006, approximately 41% and 44%, respectively, of total revenues were earned under grant agreements with REAL Services, Inc. for programs funded by the Indiana Family and Social Services Administration; 23% and 9%, respectively, of total revenues were received from the State of Indiana for Medicaid services; and 16% and 21% of total revenues, respectively, were received from United Way of Elkhart County, Inc.

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and accounts and contributions and grants receivable. The Organization has cash on deposit with financial institutions that, at times, may exceed the insurance limit of the Federal Deposit Insurance Corporation. Cash and cash equivalents are maintained at high-quality financial institutions, and the Organization has not experienced any losses on such deposits. Accounts receivable are due primarily from the State of Indiana, and contributions and grants receivable are due primarily from REAL Services, Inc., under contracts and cost-reimbursement grants, which represents concentrations of credit risk.

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INDEPENDENT AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Directors
COUNCIL ON AGING OF ELKHART COUNTY, INC.
Elkhart, Indiana

We have audited the financial statements of COUNCIL ON AGING OF ELKHART COUNTY, INC. (the ñOrganizationò) for the year ended December 31, 2007, and have issued our report thereon dated August 26, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 25, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free or material misstatement.

As part of our audit, we considered the Organizationôs internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

1. *Qualitative Aspects of Accounting Practices*

   Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on managementøs knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the financial statements was the allocation of expenses between program and supporting services. Management allocated expenses based primarily on estimates of employee time spent on functions and on space used by function. We evaluated the key factors and assumptions used to develop the allocation of expenses between program and supporting services in determining that they are reasonable in relation to the financial statements taken as a whole.

2. *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures were corrected by management:

- Record value of donated food product of approximately $9,600
- Restate prior periods for donated vehicle not recorded in 2005 of approximately $15,600
- Record accrued compensated absences of approximately $5,000.

In addition, management has determined that the effects of the following uncorrected misstatement detected as a result of our audit procedures are immaterial to the financial statements as a whole:

- Under-statement of accrued retirement plan contribution by approximately $2,800.

4. *Disagreements with Management*

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditorøs report. We are pleased to report that no such disagreements arose during the course of our audit.

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated July 26, 2008.

6. *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a ñsecond opinionò on certain situations. If a consultation involves application of an accounting principle to the Organizationøs financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and the Organization's management, is not intended to be, and should not be used by anyone other than these specified parties.

Cullen & Associates, P.C.

August 26, 2008

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AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors and Management
COUNCIL ON AGING OF ELKHART COUNTY, INC.
Elkhart, Indiana

In planning and performing our audit of the financial statements of COUNCIL ON AGING OF ELKHART COUNTY, INC. (the ñOrganizationò) as of and for the year ended December 31, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Organizationõs internal control over financial reporting (ñinternal controlò) 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 Organizationõs internal control. Accordingly, we do not express an opinion on the effectiveness of the Organizationõs internal control.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entityõs ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entityõs financial statements that is more than inconsequential will not be prevented or detected by the entityõs 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 entityõs internal control. We believe that the following control deficiencies constitute material weaknesses:

Complex Accounting Issues and Preparation of Financial Statements

As part of our audit, we proposed adjustments relating to complex accounting standards and drafted the Organizationõs financial statements and related notes, which were reviewed and approved by management. This service is necessary, in our opinion, because management would be unable to completely comply with such standards or to prepare financial statements and related disclosures in accordance with U.S. generally accepted accounting principles because of limited resources (i.e., time and accounting reporting services). Although this service has historically been part of our audit function, new professional standards require that we now communicate this to you because, as the independent auditor, we are not considered to be part of the Companyøs internal control.

<u>Prior Period Adjustment for In-Kind Vehicle Contributiton</u>

It took two years for management to identify that a portion of a vehicle purchased in 2005 had been donated. The error was discovered when the Fiscal Manager reviewed vehicle records and compared them to the property and equipment list. We recommend that such a review be done periodically to ensure that the property and equipment schedules are complete and accurate.

In addition to the above control deficiencies, we also noted the following matter that we want to bring to your attention:

<u>SEP Plan</u>

The terms of the Organizationøs SEP plan and the description in the Organizationøs employee handbook do not agree with each other. The employee handbook states that ñé after 24 consecutive months of employment, regular full-time employees are entitled to retirement benefits, In addition, employees must be at least 21 years of age and must earn at least $450 per year.ö The SEP document states, and IRS rules are, that <u>all</u> employees are eligible regardless of employment status if they earned above a threshold amount ($500 in 2008) and had performed <u>any</u> amount of services in at least three of the preceding five years. Consequently, by possibly not covering employees who are eligible under IRS rules, the Organization is risking its qualified plan status.

We recommend that the Organization determine if eligible employees have been excluded from coverage. If they have, determine the correct course of action to bring the plan back into compliance based on IRS guidelines. We also recommend that the Organization research other retirement plan options that may be more congruent with its intent.

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

Cullen & Associates, P.C.

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