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February 4, 2010

Board of Directors
Parents as Teachers of
Hammond/Lake County, Inc.
6530 New Hampshire
Hammond, IN 46323

We have reviewed the audit report prepared by McMahon & Associates, CPAs, PC, Independent Public Accountants, for the period August 1, 2007 to July 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Parents as Teachers of Hammond/Lake County, Inc., as of July 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the findings in the report. The management letter contains three comments.

STATE BOARD OF ACCOUNTS

PARENTS AS TEACHERS OF
HAMMOND / LAKE COUNTY, INC.
(A NOT-FOR-PROFIT CORPORATION)

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JULY 31, 2008

PARENTS AS TEACHERS OF HAMMOND / LAKE COUNTY, INC.

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Your Partner for Growth

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Parents as Teachers of Hammond / Lake County, Inc.
Hammond, Indiana

We have audited the accompanying statement of financial position of Parents as Teachers of Hammond / Lake County, Inc. (a not-for-profit organization) as of July 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

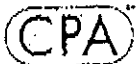
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Parents as Teachers of Hammond / Lake County, Inc. as of July 31, 2008 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McMahon & Associates CPAs, P.C.

Certified Public Accountants

November 3, 2008



America Counts on CPAs®

PARENTS AS TEACHERS OF HAMMOND / LAKE COUNTY, INC.

STATEMENT OF FINANCIAL POSITION
JULY 31, 2008
(WITH COMPARATIVE TOTALS FOR JULY 31, 2007)

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
<u>CURRENT ASSET:</u>		
Cash	\$ 86,907	\$ 67,463
Grants receivable	56,667	70,000
Prepaid insurance	968	934
Total current assets	<u>144,542</u>	<u>138,397</u>
<u>FURNITURE, FIXTURES AND EQUIPMENT - NET</u>	<u>8,528</u>	<u>9,191</u>
<u>TOTAL ASSETS</u>	<u>\$ 153,070</u>	<u>\$ 147,588</u>

<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES:</u>		
Accounts payable	\$ 1,491	\$ 5,302
Accrued payroll	26,308	21,758
Accrued vacation	10,443	7,285
Payroll taxes payable	5,332	1,923
Total current liabilities	<u>43,574</u>	<u>36,268</u>
<u>NET ASSETS:</u>		
Unrestricted	31,033	5,489
Temporarily restricted	78,463	105,831
Total net assets	<u>109,496</u>	<u>111,320</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 153,070</u>	<u>\$ 147,588</u>

PARENTS AS TEACHERS OF HAMMOND / LAKE COUNTY, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JULY 31, 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
<u>REVENUE AND SUPPORT:</u>				
Contributions	\$ 36,423	\$ 4,052	\$ 40,475	\$ 31,471
Fundraising events	19,004	1,735	20,739	17,451
Grants	214,142	237,824	451,966	330,768
Lake Area United Way	29,167	0	29,167	50,000
Interest income	1,348	0	1,348	1,354
In-kind contributions	86,445	0	86,445	62,184
Agencies and organizations	3,000	1,080	4,080	2,274
Miscellaneous income	2,723	0	2,723	712
Total revenue and support	<u>392,252</u>	<u>244,691</u>	<u>636,943</u>	<u>496,214</u>
<u>EXPENSES:</u>				
Program Services				
Bank charges	171	0	171	124
Fringe benefits	20,979	0	20,979	28,605
Affiliate allocations	0	124,806	124,806	0
Professional fees	9,684	1,785	11,469	6,209
DCS project	0	0	0	15,302
Depreciation	3,952	0	3,952	3,746
Dues / staff development	1,309	15	1,324	1,802
Evaluation tools	297	8,181	8,478	1,468
Insurance	4,383	0	4,383	2,443
Mileage reimbursment	18,674	1,132	19,806	9,581
Miscellaneous	807	84	891	10,369
Office expense and postage	27,304	3,224	30,528	11,423
Printing	2,789	698	3,487	997
Public relations / advertising	3,091	8,296	11,387	3,581
Rent	29,747	2,479	32,226	23,680
Repairs and maintenance	400	0	400	697
Salary reimbursement	33,387	0	33,387	46,516
Seminars and training	10,421	2,839	13,260	7,652
Supplies	10,243	12,300	22,543	6,083
Wages	161,453	0	161,453	175,568
Taxes - payroll	13,239	0	13,239	19,254
Telephone	6,042	243	6,285	5,447
Travel and entertainment	0	0	0	1,441
Total program services expense	<u>358,372</u>	<u>166,082</u>	<u>524,454</u>	<u>381,988</u>
Fundraising - Purchasing	<u>6,229</u>	<u>2,000</u>	<u>8,229</u>	<u>12,012</u>
Supporting Activities				
Rent	6,610	826	7,436	7,894
Telephone	1,369	81	1,450	1,684
Taxes - payroll	2,875	2,350	5,225	7,291
Salary reimbursement	37,027	0	37,027	49,135
Wages	24,226	30,720	54,946	21,230
Total supporting activities expense	<u>72,107</u>	<u>33,977</u>	<u>106,084</u>	<u>87,234</u>
Total expenses	<u>436,708</u>	<u>202,059</u>	<u>638,767</u>	<u>481,234</u>
INCREASE (DECREASE) IN NET ASSETS	(44,456)	42,632	(1,824)	14,980
NET ASSETS RELEASED FROM RESTRICTIONS	70,000	(70,000)	0	0
NET ASSETS - BEGINNING OF YEAR	<u>5,489</u>	<u>105,831</u>	<u>111,320</u>	<u>96,340</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 31,033</u>	<u>\$ 78,463</u>	<u>\$ 109,496</u>	<u>\$ 111,320</u>

See notes to financial statements.

PARENTS AS TEACHERS OF HAMMOND / LAKE COUNTY, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JULY 31, 2008
(WITH COMPARATIVE TOTALS FOR JULY 31, 2007)

	<u>2008</u>	<u>2007</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Revenues collected	\$ 648,928	\$ 435,888
Payments for expenses	(627,543)	(450,072)
Interest	<u>1,348</u>	<u>1,354</u>
Net cash provided (used) by operating activities	22,733	(12,830)
 <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Payments for furniture, fixtures and equipment	<u>(3,289)</u>	<u>(1,403)</u>
 NET INCREASE (DECREASE) IN CASH	19,444	(14,233)
 CASH - BEGINNING OF THE YEAR	<u>67,463</u>	<u>81,696</u>
 <u>CASH - END OF YEAR</u>	<u>\$ 86,907</u>	<u>\$ 67,463</u>
 <u>RECONCILIATION OF NET ASSETS TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Increase (decrease) in net assets	\$ (1,824)	\$ 14,980
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Add: Non-cash items -		
Depreciation	3,952	3,746
(Increase) decrease in assets -		
Grants receivable	13,333	(58,972)
Prepaid insurance	(34)	1,092
Increase (decrease) in liabilities -		
Accounts payable	(3,811)	2,427
Accrued payroll	4,550	17,468
Accrued vacation	3,158	5,891
Payroll taxes payable	<u>3,409</u>	<u>538</u>
 <u>NET CASH PROVEDED (USED) BY OPERATING ACTIVITIES</u>	<u>\$ 22,733</u>	<u>\$ (12,830)</u>

PARENTS AS TEACHERS OF HAMMOND / LAKE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS
JULY 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Parents as Teachers of Hammond / Lake County, Inc. is a not-for-profit corporation formed to offer early childhood education to Hammond families of all income levels. Parents as Teachers of Hammond / Lake County, Inc. is governed by a 12-member board of directors.

Basis of Accounting - The Organization's financial statements have been prepared on the accrual basis of accounting.

Concentration of Credit Risk - The Organization occasionally has balances in bank accounts that exceed federally insured limits.

Cash and Cash Equivalents - Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Public Support and Revenue - Contributions are generally available for unrestricted use in the related fiscal year unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 statement of activities as net assets released from restrictions.

Contributions of donated non-cash items are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are not reflected in these financial statements since it is not susceptible to objective measurement of valuation.

Furniture, Fixtures and Equipment - Furniture, fixtures and equipment are carried at cost and are depreciated over their useful lives using straight-line and accelerated cost recovery methods. Equipment is capitalized if over \$200.

PARENTS AS TEACHERS OF HAMMOND / LAKE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS
JULY 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Income Taxes - Increases in net assets are not subject to federal or state income taxes as the Organization is qualified with the Internal Revenue Service as a tax exempt organization under Section 501(c) (3) of the Internal Revenue Code.

Use of Estimates - The process of preparing financial statements in conformity with generally accepted accounting principles 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.

Reclassification - 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 - FURNITURE, FIXTURES AND EQUIPMENT

The cost of furniture, fixtures and equipment and the accumulated depreciation and book value as of July 31, 2008 is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Furniture and fixtures	\$ 7,929	\$ 5,832	\$ 2,097
Equipment	<u>20,711</u>	<u>14,280</u>	<u>6,431</u>
Total	<u>\$ 28,640</u>	<u>\$ 20,112</u>	<u>\$ 8,528</u>

Depreciation expense at July 31, 2008 and 2007 was \$3,952 and \$3,746, respectively.

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

At July 31, 2008, temporarily restricted net assets consisted of funds to be used for the following purpose:

Lake County Project	\$ 47,288
DCS Special Projects	(82)
Flow Thru Funding to Other Sites	<u>(4,574)</u>
	<u>\$ 42,632</u>

PARENTS AS TEACHERS OF HAMMOND / LAKE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS
JULY 31, 2008

NOTE 4 - LEASING ARRANGEMENTS

The Organization moved during the fiscal year ending the lease at their prior building. They moved to some office rooms inside of Miller School in Hammond, Indiana. They do not pay rent; they receive this space in-kind from Dr. Watkins at School City of Hammond.

Rental expense amounted to \$39,662 in fiscal 2008 and \$31,574 in fiscal 2007. Base rent is adjusted annually by two percent under the previous lease. Under the current lease all rent expense is an in-kind donation.

February 26, 2009

To the Board of Directors
Parents as Teachers of Hammond / Lake County, Inc.

We have audited the financial statements of Parents as Teachers of Hammond / Lake County, Inc. for the year ended July 31, 2008, and have issued our report thereon dated November 3, 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 September 2, 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 3, 2008.

Significant Audit Findings

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 Parents at Teachers of Hammond / Lake County, Inc. 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 the fiscal year ended July 31, 2008. 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 management's 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:

Management's estimate of depreciation expense is based on useful lives. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of furniture, fixtures and equipment in Note 2 to the financial statements includes the estimates previously described.

The disclosure of restriction on net assets in Note 3 to the financial statements documents how much of the organization's net assets must be used on specific programs.

The disclosure of leasing arrangements in Note 4 to the financial statements includes the financial changes the organization will experience from their move.

Difficulties Encountered in Performing the Audit

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

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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For 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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 3, 2008.

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 "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's 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.

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 auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Signatories

During the course of our audit it came to our attention that John (the previous treasurer), and Ron Millies (the previous president) are still signatories on your bank accounts. If you have not already done so, we suggest you update this immediately.

Paid Time Off

Your paid time off accrual has gotten much larger. Putting a smaller maximum cap on rolled over hours could lessen this accrual. It is also important for employees to take a break from time to time, so encouraging using vacation time each year would be wise, and is a good internal control measure.

Federal Form 990

The federal form 990 has undergone significant changes for your next filing year. Attached is a checklist of information necessary to complete and should be used as a guideline for policies and appropriate reportable events.

This information is intended solely for the use of the Board of Directors and management of Parents as Teachers of Hammond / Lake County, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

McMahon & Associates CPAs, P.C.