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January 26, 2018

Board of Directors  
Paul Phillippe Resource Center, Inc.  
401 West Walnut St.  
Frankfort, IN 46041

We have reviewed the report prepared by Paul Phillippe Resource Center, Inc. and opined upon by Cullar & Associates, PC, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Paul Phillippe Resource Center, Inc. as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Cullar & Associates, PC prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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

  
Paul D. Joyce, CPA  
State Examiner

*FINANCIAL REPORT*

**PAUL PHILLIPPE RESOURCE CENTER, INC.**

December 31, 2016 and 2015

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Paul Phillippe Resource Center, Inc.  
Frankfort, Indiana

We have audited the accompanying financial statements of Paul Phillippe Resource Center, Inc., which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net assets – modified cash basis, and statements of functional expenses – modified cash basis for the years then ended, and the related notes to financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1 to financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Paul Phillippe Resource Center, Inc. as of December 31, 2016 and 2015, and its revenues, expenses, and changes in net assets for the years then ended in accordance with the modified cash basis of accounting as described in Note 1 to financial statements.

***Basis of Accounting***

We draw attention to Note 1 to financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

***Other Matter - Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of federal, state, and local awards, as required by *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Cullen & Associates, P.C.*

South Bend, Indiana  
June 20, 2017

**PAUL PHILIPPE RESOURCE CENTER, INC.**  
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS  
December 31, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<b>Assets:</b>		
Current Assets:		
Cash and cash equivalents	\$ 36,958	\$ 49,006
Long-Term Assets:		
Beneficial interest in assets held by others	377,753	354,740
Property and equipment	<u>340,009</u>	<u>414,336</u>
	<u>717,762</u>	<u>769,076</u>
<i>Total assets</i>	<u>\$ 754,720</u>	<u>\$ 818,082</u>
 <b>Liabilities and Net Assets:</b>		
Current Liabilities:		
Payroll withholdings	\$ 3,235	\$ 2,590
Deposits held	<u>800</u>	<u>800</u>
<i>Total current liabilities</i>	<u>4,035</u>	<u>3,390</u>
Net Assets:		
Unrestricted	372,932	459,952
Temporarily restricted	<u>377,753</u>	<u>354,740</u>
<i>Total net assets</i>	<u>750,685</u>	<u>814,692</u>
<i>Total liabilities and net assets</i>	<u>\$ 754,720</u>	<u>\$ 818,082</u>

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

**PAUL PHILLIPPE RESOURCE CENTER, INC.**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -**  
**MODIFIED CASH BASIS**  
**Years Ended December 31, 2016 and 2015**

	2016			2015		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b>Revenues, Gains, and Other Support:</b>						
Transportation grants	\$ 325,011	\$ -	\$ 325,011	\$ 397,470	\$ -	\$ 397,470
Other grants and contributions	12,240	10,141	22,381	13,054	8,956	22,010
United Way of Clinton County	38,985	-	38,985	39,983	-	39,983
Service fees	119,896	-	119,896	128,380	-	128,380
Special events	7,717	-	7,717	7,157	-	7,157
Trip income	17,425	-	17,425	7,739	-	7,739
Advertising	-	-	-	750	-	750
Rental income	4,990	-	4,990	5,953	-	5,953
Gain on disposition of equipment	-	-	-	2,662	-	2,662
Change in beneficial interest in assets held by others	-	23,013	23,013	-	(10,681)	(10,681)
Other	614	-	614	6,105	-	6,105
Net assets released from restrictions	10,141	(10,141)	-	19,878	(19,878)	-
<i>Total revenues, gains, and other support</i>	<u>537,019</u>	<u>23,013</u>	<u>560,032</u>	<u>629,131</u>	<u>(21,603)</u>	<u>607,528</u>
<b>Expenses:</b>						
Transportation	443,221	-	443,221	423,135	-	423,135
Senior Resource Center	64,471	-	64,471	61,211	-	61,211
<i>Total program service expenses</i>	507,692	-	507,692	484,346	-	484,346
Management and general	76,335	-	76,335	79,148	-	79,148
Fund raising	40,012	-	40,012	34,543	-	34,543
<i>Total expenses</i>	<u>624,039</u>	<u>-</u>	<u>624,039</u>	<u>598,037</u>	<u>-</u>	<u>598,037</u>
<b>Change in net assets</b>	(87,020)	23,013	(64,007)	31,094	(21,603)	9,491
Net assets, beginning of year	459,952	354,740	814,692	428,858	376,343	805,201
<i>Net assets, end of year</i>	<u>\$ 372,932</u>	<u>\$ 377,753</u>	<u>\$ 750,685</u>	<u>\$ 459,952</u>	<u>\$ 354,740</u>	<u>\$ 814,692</u>

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

**PAUL PHILLIPPE RESOURCE CENTER, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS**  
Years Ended December 31, 2016 and 2015

	2016					2015				
	<u>Transportation</u>	<u>Senior Resource Center</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Totals</u>	<u>Transportation</u>	<u>Senior Resource Center</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Totals</u>
Personnel	\$ 243,099	\$ 37,984	\$ 55,084	\$ 30,057	\$ 366,224	\$ 243,123	\$ 42,070	\$ 57,305	\$ 25,503	\$ 368,001
Vehicle operating expenses	60,051	2,563	-	-	62,614	47,667	2,491	-	-	50,158
Insurance	26,482	1,582	2,294	1,253	31,611	25,134	2,240	3,051	1,357	31,782
Occupancy	22,176	3,465	5,025	2,742	33,408	23,249	4,023	5,479	2,439	35,190
Supplies and activities	271	753	2,513	4,295	7,832	896	613	2,399	3,817	7,725
Postage	129	20	29	17	195	359	62	85	38	544
Communications	9,880	452	655	357	11,344	8,160	526	717	320	9,723
Professional fees	-	-	7,340	-	7,340	-	-	7,100	-	7,100
Advertising	91	-	820	-	911	-	99	432	192	723
Dues and subscriptions	175	340	180	-	695	195	125	220	-	540
Conferences and training	7,450	-	-	-	7,450	5,116	-	-	-	5,116
Travel	1,806	27	-	-	1,833	1,392	192	-	-	1,584
Trip expenses	-	15,270	-	-	15,270	-	6,965	-	-	6,965
Depreciation	69,035	1,633	2,368	1,291	74,327	67,742	1,445	1,968	877	72,032
Other	2,576	382	27	-	2,985	102	360	392	-	854
<i>Totals</i>	<u>\$ 443,221</u>	<u>\$ 64,471</u>	<u>\$ 76,335</u>	<u>\$ 40,012</u>	<u>\$ 624,039</u>	<u>\$ 423,135</u>	<u>\$ 61,211</u>	<u>\$ 79,148</u>	<u>\$ 34,543</u>	<u>\$ 598,037</u>

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

**PAUL PHILLIPPE RESOURCE CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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**NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Paul Phillippe Resource Center, Inc. (the "Organization") is an Indiana nonprofit corporation organized to fulfill the needs of Clinton County, Indiana residents over age 55. The Organization provides public transportation services and maintains a resource center that serves older adults. The Organization's operations are supported primarily by grants from governmental agencies and other nonprofit organizations and contributions from the public.

Significant Accounting Policies:

*Basis of accounting:*

The Organization's accounts are maintained, and these statements are prepared, on a modified cash basis of accounting, under which only revenues collected, costs and expenses paid, assets and net assets arising from cash transactions, and a provision for depreciation are recognized. Consequently, accounts receivable, prepaid expenses, deferred revenues, accounts payable, and accrued liabilities, which may be material, are not reflected, and the financial statements are not intended to present financial position and activities in conformity with accounting principles generally accepted in the United States of America.

*Use of estimates:*

The process of preparing financial statements in conformity with the modified cash basis of accounting 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. Significant estimates used in the accompanying financial statements include:

- Revenue earned from cost-reimbursement awards. The majority of the Organization's revenue is earned on such awards from governmental agencies that are governed by federal and state cost principles and other administrative and programmatic regulations and are subject to audit by regulatory authorities. It is at least reasonably possible that revenue earned under such awards will be adjusted upon audit.
- The valuation of the beneficial interest in assets held by others, which is based on the value of the underlying assets in the trust, as provided by the trustee, and which approximates the present value of expected future distributions.
- The allocations of costs among programs and supporting services, which are based on time and facility usage studies and other methods of cost allocation.

*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

**PAUL PHILLIPPE RESOURCE CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2016 and 2015

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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 revenues, expenses, and changes in net assets – modified cash basis as net assets released from restrictions.

- *Permanently restricted net assets* are those received with permanent donor stipulations. Investment income from permanently restricted net assets that is available for distribution is recorded as an increase in temporarily restricted net assets. Historically, the Organization has not received permanently restricted 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.

*Property and equipment:*

Property and equipment is 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:

Building and improvements .....	10-40 years
Vehicles.....	5-7 years
Office equipment.....	5-7 years
Furniture and fixtures.....	5-12 years

All of the Organization’s transportation program vehicles have been purchased with governmental grant funds. Title to these vehicles is held in the funding source’s name for the first five years after acquisition, during which the vehicles must be used in the program for which they were purchased or in other future authorized programs. Disposition of these vehicles, as well as the ownership of any sale proceeds, during this time is subject to funding source and other regulatory directives. Because management expects such vehicles to be used in accordance with the funding source’s directives, the cost of the vehicles is recorded as an asset when they are acquired.

*Beneficial interest in assets held by others:*

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.

The beneficial interest in assets held in trust discussed in Note 2 is stated at fair value, based on the fair value of the assets in the trust, as provided by the trustee, and which approximates the present value of expected future distributions. Changes in the value of the beneficial interest are included in revenues in the statements of revenues, expenses, and changes in net assets – modified cash basis.

**PAUL PHILLIPPE RESOURCE CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2016 and 2015

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*Gifts and grants:*

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

Contributions of property and equipment are recorded at fair value at the date of contribution, and are reported as increases in unrestricted net assets unless the donor has restricted the contributed asset to a specific purpose. Assets contributed with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted contributions. Absent donor stipulations regarding how long such 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.

*Fees for services:*

Fees for services are recognized as revenue when collected.

*Income taxes:*

The Organization is generally 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 generally contain no provision for income taxes. The Organization is classified by the Internal Revenue Service as other than a private foundation under Internal Revenue Code Section 509(a)(1).

The Organization recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Examples of tax positions include the tax-exempt status of the Organization and positions related to the potential sources of unrelated business taxable income. Management has not identified any uncertain tax positions taken or expected to be taken in a tax return, and there are no unrecognized tax benefits recorded as liabilities in the accompanying financial statements.

The Organization classifies interest and penalties, if any, associated with uncertain tax positions as a component of income tax expense. There was no accrued interest or any penalties related to unrecognized tax benefits at either December 31, 2016 or 2015, or any interest or penalties expense related to unrecognized tax benefits for the years then ended. The Organization is no longer subject to examination by the Internal Revenue Service or the State of Indiana for years prior to 2013.

**PAUL PHILLIPPE RESOURCE CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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**NOTE 2. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS**

The beneficial interest in assets held by others with a value of \$377,753 and \$354,740 at December 31, 2016 and 2015, respectively, consists of an interest in a trust of which the Organization is the sole beneficiary. There are no restrictions on the use of income from the trust. Principal may be distributed to the Organization upon showing of good cause and approval of the court of jurisdiction.

No distributions were received from the trust in either 2016 or 2015. The change in the value of the trust of \$23,013 and \$(10,681) for the years ended December 31, 2016 and 2015, respectively, is reported in revenues the accompanying statements of revenues, expenditures, and changes in net assets – modified cash basis.

**NOTE 3. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at December 31, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 297,221	\$ 297,221
Land	30,410	30,410
Vehicles	460,484	460,484
Office equipment	127,253	127,253
Furniture and fixtures	<u>25,137</u>	<u>25,137</u>
	940,505	940,505
Less accumulated depreciation	<u>(600,496)</u>	<u>(526,169)</u>
<i>Net property and equipment</i>	<u>\$ 340,009</u>	<u>\$ 414,336</u>

**NOTE 4. NET ASSETS INFORMATION**

Temporarily restricted net assets at both December 31, 2016 and 2015 are the beneficial interest in assets held in trust discussed in Note 2, which are time restricted. Net assets were released from restrictions for the years ended December 31, 2016 and 2015, respectively, by satisfying purpose restrictions as follows:

	<u>2016</u>	<u>2015</u>
Transportation operating expenses	\$ 10,141	\$ 18,258
IT upgrades	-	320
Building improvements	<u>-</u>	<u>1,300</u>
<i>Total net assets released from restrictions</i>	<u>\$ 10,141</u>	<u>\$ 19,878</u>

**NOTE 5. COMMUNITY FOUNDATION ENDOWMENT**

The Organization is the beneficiary of an endowment fund held by Community Foundation of Howard County, Inc. (“Community Foundation”) to which others have contributed. The amount of income distributed is based upon Community Foundation's current spending policy and the amount of funds designated for the Organization. Because the donations were from

**PAUL PHILLIPPE RESOURCE CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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third-party donors who granted Community Foundation granted variance power over the assets, such assets are not reported in the accompanying statements of assets, liabilities, and net assets – modified cash basis. The value of the fund at December 31, 2016 and 2015 is \$7,268 and \$6,807, respectively. The Organization received distributions from the fund of \$232 and \$248 for the years ended December 31, 2016 and 2015, respectively, which are included in contributions revenue in accompanying statements of revenues, expenses, and changes in net assets – modified cash basis.

**NOTE 6. FAIR VALUE MEASUREMENTS**

U.S. generally accepted accounting principles defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an entity's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Such principles establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of assets measured on a recurring basis at December 31, 2016 and 2015, respectively is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial interest in assets held by others:				
At December 31, 2016	\$ 377,753	\$ -	\$ -	\$ 377,753
At December 31, 2015	\$ 354,740	\$ -	\$ -	\$ 354,740

Fair value for the beneficial interest in assets held by others (the trust discussed in Note 2) is based on the fair value of the assets held by the trust, as provided by the trustee and which approximates the present value of expected future distributions.

The following is a reconciliation of beginning and ending balance of the fair value of assets measured by Level 3 inputs for the years ended December 31, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Beneficial interest in assets held by others:		
Beginning fair value	\$ 354,740	\$ 365,421
Change in value	<u>23,013</u>	<u>(10,681)</u>
Ending fair value	<u>\$ 377,753</u>	<u>\$ 354,740</u>

**PAUL PHILLIPPE RESOURCE CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

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**NOTE 7. CONCENTRATIONS**

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

For the years ended December 31, 2016 and 2015, approximately 53% and 60%, respectively, of total revenues were from Clinton County for programs funded by the Indiana Department of Transportation.

**NOTE 8. SUBSEQUENT EVENTS INFORMATION**

The date through which events occurring subsequent to December 31, 2016 have been evaluated for possible adjustment to the financial statements or disclosure is June 20, 2017, the date on which the financial statements were available to be issued. Management identified no such events.

**PAUL PHILLIPPE RESOURCE CENTER, INC.**  
**SCHEDULE OF FEDERAL, STATE, AND LOCAL AWARDS**  
Year Ended December 31, 2016

<u>Grantor/Pass-Through Grantor/Program/Title</u>	<u>Identifying Number</u>	<u>Beginning Balance</u>	<u>Award Received</u>	<u>Award Expended</u>	<u>Ending Balance</u>
<b>FEDERAL AWARDS</b>					
<i>United States Department of Transportation:</i>					
Passed Through State of Indiana Department of Transportation:					
Passed through Clinton County Commissioners:					
Formula Grants for Other Than Urbanized Areas	EDS #A249-15-320465	\$ 51,054	\$ -	\$ 51,054	\$ -
Formula Grants for Other Than Urbanized Areas	18035530	-	191,780	143,835	47,945
<i>Total grant project</i>		<u>51,054</u>	<u>191,780</u>	<u>194,889</u>	<u>47,945</u>
<i>United States Department of Health and Human Services:</i>					
Passed Through State of Indiana Family and Social Services Administration:					
Passed through Area IV Agency on Aging and Community Action Programs, Inc.:					
Special Programs for the Aging - Title IIIB -					
Grants for Supportive Services and Senior Centers	AAA-4-125:16	11,617	-	11,617	-
Grants for Supportive Services and Senior Centers	AAA-4-125:17	-	15,445	2,574	12,871
<i>Total grant project</i>		<u>11,617</u>	<u>15,445</u>	<u>14,191</u>	<u>12,871</u>
<i>Total federal awards</i>		<u>62,671</u>	<u>207,225</u>	<u>209,080</u>	<u>60,816</u>
<b>STATE AWARDS</b>					
<i>Indiana State Department of Transportation:</i>					
Section 5311 PMTF Allocation	EDS #A249-15-320465	20,976	-	20,976	-
Section 5311 PMTF Allocation	18035530	-	89,527	67,146	22,381
<i>Total state awards</i>		<u>20,976</u>	<u>89,527</u>	<u>88,122</u>	<u>22,381</u>
<b>LOCAL AWARDS</b>					
Clinton County Commissioners	N/A	-	15,000	15,000	-
City of Frankfort	N/A	-	25,000	25,000	-
<i>Total local awards</i>		<u>-</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
<i>Total federal, state, and local awards</i>		<u>\$ 83,647</u>	<u>\$ 336,752</u>	<u>\$ 337,202</u>	<u>\$ 83,197</u>

# PAUL PHILLIPPE RESOURCE CENTER, INC.

## *ADDITIONAL 2016 AUDIT COMMUNICATIONS*



This communication was prepared as part our audit of the Organization's 2016 financial statements. It is intended solely for the information and use of those charged with governance and, where appropriate, management and is not intended for, and should not be used by, anyone other than these specified parties.



**ULLAR & ASSOCIATES, PC**

**CERTIFIED PUBLIC ACCOUNTANTS**



# CULLAR & ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Directors  
Paul Phillippe Resource Center, Inc.  
Frankfort, Indiana

We have audited the financial statements of Paul Phillippe Resource Center, Inc. (the “Organization”) as of and for the year ended December 31, 2016 and have issued our report dated June 20, 2017. As part of our audit, we are also required to communicate certain matters to you that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This communication provides you with that information and it also provides you with a summary of the Organization’s financial report and taxes.

Our communication is organized as follows-

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We hope you find this communication useful. Please feel free to contact us if you have any questions or need additional information.

This communication is intended solely for the information and use of those charged with governance (the Board of Directors and Audit Committee, or their equivalents), and, where appropriate, management. Consequently, it is not intended for, and should not be used by, anyone other than these specified parties.

*Cullar & Associates, P.C.*

South Bend, Indiana  
June 20, 2017

## ***SUMMARY***

### **OVERVIEW**

- Please note that the Organization prepares its financial statements on the modified cash basis of accounting, and so the statements do not reflect any accrued revenues or expenses.
- The Organization incurred a deficit of \$64,000 in 2016 and has a little less than one month of expenses in cash.
- We proposed one material audit adjustment and have one related internal control finding.
- The Organization's federal tax return discloses no issues that, in our opinion, would raise concerns with taxing authorities.

### **FINANCIAL REPORT**

#### *Pages 1-2 – Independent Auditor's Report*

Our report on the financial statements is an unmodified or “clean” opinion - we believe the statements are fairly presented in accordance with the Organization's cash basis of accounting.

#### *Page 3 - Statements of Assets, Liabilities, and Net Assets*



These statements report the Organization's assets, liabilities, and net assets.

- Cash decreased approximately \$13,000 in 2016. The cash balance represents about 25 days of operating expenses, excluding depreciation.
- Total net assets of \$750,685 is the excess of assets over liabilities. Of this, \$377,753 is tied-up in the Jane Phillippe Trust, and \$340,009 is invested in property and equipment.

#### *Page 4 and 5 - Statements of Revenues, Expenses, and Changes in Net Assets and Functional Expenses*

These statements report the Organization's revenues and expenses.

- Total 2016 revenues of \$560,032 were down about \$47,000, or about 8%, from 2015. The decrease is mainly due to INDOT capital grant in 2015 that did not recur in 2016.
- Total 2016 expenses of \$624,039 were up about \$26,000, or 4%, from 2015, mainly due to increases in vehicle and trip expenses.
- The net result was a decrease in net assets (i.e. a deficit) of \$64,007. Excluding depreciation, there was a surplus of approximately \$10,300.
- The ratio of program expenses to total expenses for 2016 was 81.4% compared to 81.0% for 2015. Many donors look at this ratio for evidence of efficiency.

#### *Pages 6-11 – Notes to Financial Statements*

The notes describe the Organization's accounting policies and provide additional information about items in the statements.

- Note 1 describes the Organization's accounting principles, including its cash method of accounting.
- Note 2 explains the beneficial interest on the Jane Phillippe Trust.

- Note 3 provides detail of property and equipment accounts.
- Note 5 provides information about the Community Foundation fund, which is not on the books because it was derived from contributions from third-party donors who granted the Community Foundation variance power over the assets.
- Note 7 discloses concentrations, including that the Organization derived 53% of its gross revenues in 2016 from Clinton County.

*Page 12 – Schedule of Federal, State, and Local Awards*

This schedule is a new requirement of the Indiana State Board of Accounts and presents information on grant awards from all governmental sources.

## ***COMMUNICATION OF AUDIT MATTERS***

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We communicated such matters to you in our letter of engagement dated January 10, 2017. Professional standards require that we also communicate to you the following information related to our audit.

### **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

Management is responsible for the selection and use of appropriate accounting policies. The Organization's significant accounting policies are described in Note 1 to financial statements. In our opinion, those policies are appropriate, comply with the Organization's modified cash basis of accounting, and industry practices, were consistently applied, and are adequately described in Note 1 to financial statements. No new accounting policies were adopted, and the application of existing policies was not changed, during the year.

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 following describes the significant accounting estimates affecting the Organization's financial statements, the process used by management in determining those estimates, and the primary basis for our conclusions regarding the reasonableness of those estimates-

<b>Significant Estimate</b>	<b>Process Used by Management</b>	<b>Basis for Our Conclusions</b>
Revenue earned by cost-reimbursement awards, which are governed by federal and state cost principles and other administrative and programmatic regulations and are subject to audit by regulatory authorities.	Management monitors allowability of such costs and monitors its compliance with other programmatic regulations.	We reviewed and tested individual transactions and costs submitted for reimbursement under such awards.
Allocation of expenses among programs and supporting services.	Estimates of employee time spent on functions, space used by function, and other factors driving costs.	We reviewed the underlying assumptions used in determining these estimates. We also made inquiries of personnel.
The valuation of beneficial interest in assets held by others.	Valuations are provided by the trustee who holds the assets, and which approximates the present value of expected future distributions.	We reviewed the underlying support for the assets held by the trustee.

### **QUALITY OF THE ORGANIZATION'S FINANCIAL REPORTING**

We believe that the presentation of the financial statements, including their overall neutrality, consistency, and clarity of the disclosures, are appropriate and in conformity with the Organization's modified cash basis

of accounting. We considered the form, arrangement, and content of the financial statements and notes, including such matters as the terminology, amount of detail, classification, and the basis of amounts reported.

We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

There were no significant alternative accounting treatments or controversial or emerging areas that affected the financial statements. Also, there were no situations involving the adoption of, or a change in, accounting principles where the application of an alternative method of applying an accounting principle would have a material effect on the Organization's financial statements.

#### **CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

The following material misstatement detected as a result of audit procedures was corrected by management:

- Understatement of beneficial interest in assets held by others by approximately \$23,000.

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:

- Understatement of beneficial interest in assets held by others by approximately \$1,400 for not recording the Organization's share of its Community Foundation fund as an asset.

#### **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

#### **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 June 20, 2017.

#### **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.

## **NEW ACCOUNTING PRONOUNCEMENTS**

The following is a list of significant recent accounting pronouncements that may affect the Organization's future financial reporting.

- Accounting Standards Update "ASU" 2016-14, *Not-for-Profit Entities*, will be effective for your fiscal year beginning January 1, 2018. It changes nonprofit financial reporting to require-
  - Reporting balances and operating results by two net asset classes – net assets without donor restrictions, and net assets with donor restrictions – instead of the current three classes.
  - Enhanced disclosures regarding governing board designations of resources; the composition of donor restricted net assets; management of liquidity; the method to allocate costs by function; and "under-water" endowment funds.

The biggest effect of this pronouncement on the Organization's financial statements will likely be the need to provide additional disclosures on how the Organization manages its liquid resources to meet cash needs and quantitative disclosures about the availability of financial assets to meet such needs.

We have sent more detailed information and examples to management about this new standard, along with suggestions to prepare for its implementation.

- ASU Update 2014-09, *Revenue from Contracts with Customers*, will be effective for your fiscal year beginning January 1, 2019. The standard requires a five-step process to determine when revenues from contracts are to be recognized and increases related disclosures. Because it does not apply to contributions, and because you report on a cash basis of accounting, we don't think it will materially affect how you recognize revenue. However, there is a FASB task force currently developing nonprofit implementation guidance for this standard, and we will let management know what that guidance says.
- ASU 2016-02, *Leases*, will be effective for your fiscal year beginning January 1, 2020. It will require all leases with more than a one-year term to be recorded as both an asset and a liability. Since the Organization only has minimal leasing activities, we don't expect this standard to have a material impact on its statements.
- ASU 2016-13, *Financial Instruments – Credit Losses*, will be effective for your fiscal year beginning January 1, 2021. It changes the current model of recognizing credit losses when *incurred* to a model of recognizing losses when *expected*, which will cause such losses to be recognized earlier. It applies to receivables from revenue transactions but not to promises to give to nonprofit entities. This standard will probably have little, if any, effect on your accounting.

## ***REPORT ON INTERNAL CONTROL AND OTHER MATTERS***

### **OUR CONSIDERATION OF INTERNAL CONTROL**

In planning and performing our audit, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

### **LIMITATIONS OF 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 first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

### **DEFINITIONS**

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Organization's internal control to be a material weakness.

### **MATERIAL WEAKNESS**

#### **Preparation of Financial Statements**

As part of our audit, we proposed a material adjusting journal entry regarding the Organization's beneficial interest in a trust, and we drafted the Organization's 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 GAAP because of limited resources. Although this service historically was often part of the auditor's function, professional standards require that we communicate this to you as a weakness because, as the independent auditor, we are not part of the Organization's internal control.

This is a repeat finding from the previous year.

## *Federal Tax Return*



The Internal Revenue Service strongly encourages nonprofit boards to receive a copy of the Organization's federal tax return, Form 990, before it is filed. We also recommend that the Board review and approve the return and to document this in the minutes. Nonprofits must provide a copy of their federal tax return to anyone who requests it (except Schedule B, which lists large donors), along with certain other documents; in addition, the return is available on-line at [guidestar.org](http://guidestar.org) and other locations. Consequently it is an important that it be accurately and completely prepared since it communicates much information to donors and others that may influence their decisions about donations and other matters.

The return is a combination of financial, legal compliance, and governance information, and it contains many terms that are not self-explanatory, factors that make reviewing it a challenge. The following summary of the return is to assist you in your review.

- Pages 1 and 2 are a snapshot of the Organization's mission, accomplishments, and finances. It is important to provide as much information as possible about program service accomplishments on page 2 so that donors and regulators understand all the Organization's accomplishments.
- Pages 3-5 provide a series questions about the Organization's activities, some of which may require supporting schedules, and some of which are areas of potential abuse (see below).
- Page 6 covers governance practices. Although such practices are not required, the IRS believes they reflect the quality of the organization's governance, management, and compliance. These questions may also affect how donors view the Organization. You would like to answer "yes" to as many of questions 11a through 15 as possible. Detail about some of these answers is provided in Schedule O.
- Pages 7-8 provide information on officers and directors. Please note that the IRS requires this schedule to include anyone who was on the Board during the tax year and that they consider the CEO-equivalent and CFO-equivalent to be officers. Also please note that the term "highest compensated employee" does not literally mean that, but rather denotes the five highest compensated employees other than officers who make more than \$100,000.
- Pages 9-12 report financial information, which contain differences with the financial report. Tax return revenues do not include unrealized investment gains and losses or donated services and facilities, and special event expenses are netted against revenues rather than being reported as fund raising expenses. If the Organization has had an audit, Parts XI and XII of Schedule D reconcile the financial statements to Form 990.
- Schedule A provides information about the Organization's classification as a public charity.
- Schedule B lists large donors. This schedule is not open to public inspection and should not be provided to those who request your tax return. Members should exercise control over this schedule.
- Schedules D and O provide additional detail about finances and governance practices. Schedule O should be reviewed carefully both for accuracy and for the members' knowledge of the Organization's governance policies.

The following questions are potential "hot-button" issues. Any that are answered "yes" should be carefully considered for any possible tax law violations or public image problems.

- Page 3, questions 3 and 4 about political activities and lobbying (generally prohibited).
- Page 3, question 6 about donor-advised funds (funds where the donor retains some control over the donation and which may call into question whether they have made a genuine donation).

- Page 3, question 7 about conservation easements (subject to inflated values).
- Page 3, question 9 about credit counseling and debt management services (subject to fraud) and holding custodian funds (using one organization's tax-exempt status to collect donations for non-exempt entities).
- Page 3, questions 14-16 about activities outside the U.S. (terrorism).
- Page 3, question 17 about professional fund raising expenses (may be excessive or indicate private inurement).
- Page 3, question 19 about gaming activities (compliance with local licensing laws).
- Page 4, questions 25-28 about transactions with insiders (private inurement). Please let us know if you aware of any such transactions so that they may be properly reported.
- Page 4, questions 33-37 about activities with non-charitable organizations (private inurement).
- Page 5, question 7 about *quid pro quo* donations, donations of property, payment of premiums on personal benefit contracts, and donations of vehicles (using charitable status to provide excessive tax deductions).

In our opinion, there are no hot-button issues reported in the Organization's return.

Indiana does not require exempt organizations to file an income tax return unless they have unrelated business income. However, they must file a one-page annual report (Form NP-20) to renew their sales tax exemption, which we have prepared.