

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**GARY NEIGHBORHOOD
SERVICES, INC.**

JUNE 30, 2011 AND 2010

SWARTZ, RETSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
235 E. 86TH AVENUE
MERRILLVILLE, INDIANA 46410

GARY NEIGHBORHOOD SERVICES, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Gary Neighborhood Services, Inc.
300 W. 21st Avenue
Gary, IN 46407

We have audited the accompanying statements of financial position of Gary Neighborhood Services, Inc. as of June 30, 2011 and 2010, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gary Neighborhood Services, Inc. as of June 30, 2011 and 2010, 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.

Swartz Retson & Co., P.C.

Merrillville, IN
January 23, 2012

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 5,535	\$ 6,065
Accounts Receivable	62,691	166,697
Employee Advance - Related Party	1,574	00
Prepaid Expenses	5,919	6,401
Property and Equipment - Net	<u>10,047</u>	<u>10,990</u>
 TOTAL ASSETS	 \$ <u>85,766</u>	 \$ <u>190,153</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts Payable	\$ 18,628	\$ 94,436
Accrued Payroll	15,337	17,824
Payroll Taxes Withheld and Payable	1,291	1,364
Accrued Liabilities	<u>11,413</u>	<u>15,088</u>
Total Liabilities	46,669	128,712
 NET ASSETS		
Unrestricted	<u>39,097</u>	<u>61,441</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u>85,766</u>	 \$ <u>190,153</u>

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2011 <u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Title XX Chore Assistance	\$150,776	\$ 00	\$150,776
Energy Assistance Program	125,414	00	125,414
Attendant Care Program	51,917	00	51,917
ARRA Emergency Grants	54,781	00	54,781
21 st Century Learning Grant	20,272	00	20,272
Partnership, Drug Free - Lake County	4,500	00	4,500
Community Workshop	18,860	00	18,860
Community Organizations for Families and Youth (COFFY)	7,527	00	7,527
Lake Area United Way	107,556	00	107,556
EDS - Medicare	32,187	00	32,187
Space Rental	54,400	00	54,400
Contributions - Facilities	70,600	00	70,600
Contributions	12,102	2,500	14,602
Concession Income	3,103	00	3,103
Miscellaneous	<u>588</u>	<u>00</u>	<u>588</u>
Total Revenues, Gains and Other Support			
Prior to Reclassification of Net Assets:	714,583	2,500	717,083
Net Assets Released from Restrictions	<u>2,500</u>	<u>(2,500)</u>	<u>00</u>
Total Revenues, Gains and Other Support	<u>717,083</u>	<u>00</u>	<u>717,083</u>
EXPENSES			
Health and Counseling	37,042	00	37,042
Chore and Assistance	402,704	00	402,704
Special Services	119,487	00	119,487
Management and General	<u>180,194</u>	<u>00</u>	<u>180,194</u>
Total Expenses	<u>739,427</u>	<u>00</u>	<u>739,427</u>
CHANGE IN NET ASSETS	(22,344)	00	(22,344)
NET ASSETS - Beginning of Year	<u>61,441</u>	<u>00</u>	<u>61,441</u>
NET ASSETS - End of Year	\$ <u>39,097</u>	\$ <u>00</u>	\$ <u>39,097</u>

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2010 <u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Title XX Chore Assistance	\$143,126	\$ 00	\$143,126
Energy Assistance Program	102,379	00	102,379
Attendant Care Program	24,236	00	24,236
ARRA Emergency Grants	109,286	00	109,286
21 st Century Learning Grant	18,522	00	18,522
Community Workshop	16,470	00	16,470
Community Organizations for Families and Youth (COFFY)	3,651	00	3,651
Legacy Foundation - Technology Grant	16,590	00	16,590
Legacy Foundation - COFFY	7,600	00	7,600
Other Grants	6,000	00	6,000
Lake Area United Way	113,974	00	113,974
EDS - Medicare	32,748	00	32,748
Space Rental	55,510	00	55,510
Contributions - Facilities	70,600	00	70,600
Contributions	7,426	00	7,426
Fundraising Dinner Income	100	00	100
Concession Income	2,900	00	2,900
Miscellaneous	<u>4,365</u>	<u>00</u>	<u>4,365</u>
Total Revenues, Gains and Other Support	<u>735,483</u>	<u>00</u>	<u>735,483</u>
EXPENSES			
Health and Counseling	30,902	00	30,902
Chore and Assistance	366,584	00	366,584
Special Services	119,931	00	119,931
Management and General	<u>167,726</u>	<u>00</u>	<u>167,726</u>
Total Expenses	<u>685,143</u>	<u>00</u>	<u>685,143</u>
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS	50,340	00	50,340
DISCONTINUED OPERATIONS			
Loss from Operations of Discontinued Childcare Program	<u>(10,902)</u>	<u>00</u>	<u>(10,902)</u>
CHANGE IN NET ASSETS	39,438	00	39,438
NET ASSETS - Beginning of Year	<u>22,003</u>	<u>00</u>	<u>22,003</u>
NET ASSETS - End of Year	<u>\$ 61,441</u>	<u>\$ 00</u>	<u>\$ 61,441</u>

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2011

	<u>PROGRAM SERVICES</u>				<u>SUPPORTING SERVICES</u>	
	<u>Health & Counseling</u>	<u>Chore & Assistance</u>	<u>Special Services</u>	<u>Total Program Services</u>	<u>Management & General</u>	<u>Total Expenses</u>
SALARIES AND RELATED EXPENSES						
Salaries	\$ 20,179	\$226,101	\$ 49,531	\$295,811	\$121,118	\$416,929
Employee Health and Retirement Benefits	719	18,441	746	19,906	14,025	33,931
Payroll Taxes	2,052	23,015	5,041	30,108	11,012	41,120
Workers' Compensation	<u>299</u>	<u>3,242</u>	<u>729</u>	<u>4,270</u>	<u>1,749</u>	<u>6,019</u>
Total Salaries and Related Expenses	23,249	270,799	56,047	350,095	147,904	497,999
Professional Fees and Contract Services	3,223	7,622	8,559	19,404	2,391	21,795
Supplies	3,558	4,978	6,133	14,669	668	15,337
Telephone	284	2,302	2,552	5,138	744	5,882
Postage and Shipping	28	243	161	432	163	595
Occupancy	3,798	33,083	36,357	73,238	11,157	84,395
Small Equipment Purchase and Rental	882	8,205	4,771	13,858	504	14,362
Local Transportation	1,749	14,612	2,531	18,892	4,306	23,198
Conferences and Meetings	00	00	00	00	235	235
Interest	00	00	00	00	264	264
Miscellaneous	00	00	10	10	1,480	1,490
Advertising	271	155	00	426	124	550
Bank Charges	00	00	00	00	14	14
Concession Expense	00	00	2,366	2,366	00	2,366
Food and Nutrition	00	00	00	00	355	355
COFFY Expense	00	00	00	00	5,673	5,673
Client Assistance - ARRA	<u>00</u>	<u>60,705</u>	<u>00</u>	<u>60,705</u>	<u>00</u>	<u>60,705</u>
Total Expenses before Depreciation	37,042	402,704	119,487	559,233	175,982	735,215
Depreciation	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>4,212</u>	<u>4,212</u>
TOTAL EXPENSES	\$ <u>37,042</u>	\$ <u>402,704</u>	\$ <u>119,487</u>	\$ <u>559,233</u>	\$ <u>180,194</u>	\$ <u>739,427</u>

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2010

	PROGRAM SERVICES				SUPPORTING SERVICES	
	Health & Counseling	Chore & Assistance	Special Services	Total Program Services	Management & General	Total Expenses
SALARIES AND RELATED EXPENSES						
Salaries	\$ 13,824	\$190,790	\$ 40,026	\$244,640	\$114,815	\$359,454
Employee Health and Retirement Benefits	487	12,710	463	13,660	12,492	26,152
Payroll Taxes	1,231	16,967	3,557	21,755	9,286	31,043
Workers' Compensation	<u>189</u>	<u>2,441</u>	<u>533</u>	<u>3,163</u>	<u>1,844</u>	<u>5,007</u>
Total Salaries and Related Expenses	15,731	222,908	44,579	283,218	138,437	421,656
Professional Fees and Contract Services	5,442	9,969	15,250	30,661	3,919	34,579
Supplies	3,800	1,629	7,409	12,838	285	13,124
Telephone	259	1,636	2,382	4,277	561	4,836
Postage and Shipping	25	159	165	349	134	484
Occupancy	3,807	22,560	41,265	67,632	7,370	75,003
Small Equipment Purchase and Rental	831	7,487	4,722	13,040	692	13,731
Outside Printing and Art Work	00	00	00	00	437	437
Local Transportation	986	11,791	1,689	14,466	5,857	20,323
Conferences and Meetings	21	00	00	21	425	446
Fundraising Dinner Expense	00	00	00	00	289	289
Miscellaneous	00	00	27	27	1,119	1,146
Advertising	00	00	00	00	395	395
Bank Charges	00	00	00	00	154	154
Concession Expense	00	00	2,443	2,443	00	2,443
Coffee Expense	00	00	00	00	3,142	3,142
Client Assistance – ARRA	00	88,445	00	88,445	00	88,445
Loss on Disposal of Assets	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>615</u>	<u>615</u>
Total Expenses before Depreciation	30,902	366,584	119,931	517,417	163,831	681,248
Depreciation	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>3,895</u>	<u>3,895</u>
TOTAL EXPENSES	<u>\$ 30,902</u>	<u>\$366,584</u>	<u>\$119,931</u>	<u>\$517,417</u>	<u>\$167,726</u>	<u>\$685,143</u>

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

GARY NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (22,344)	\$ 39,438
Adjustments to Reconcile Net Assets to Net Cash Provided by Operating Activities		
Depreciation	4,212	3,895
Loss on Disposal of Property and Equipment	00	615
(Increase) Decrease in:		
Accounts Receivable	104,006	(125,041)
Employee Advance - Related Party	(1,574)	00
Prepaid Expenses	482	(3,037)
Increase (Decrease) in:		
Accounts Payable	(75,808)	69,590
Accrued Payroll	(2,487)	3,240
Payroll Taxes Withheld and Payable	(73)	272
Accrued Liabilities	<u>(3,675)</u>	<u>(1,455)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>2,739</u>	<u>(12,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	<u>(3,269)</u>	<u>(5,438)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional Borrowing on Line of Credit	27,000	00
Repayment of Line of Credit	<u>(27,000)</u>	<u>00</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>00</u>	<u>00</u>
(DECREASE) IN CASH	(530)	(17,921)
CASH - Beginning of Year	<u>6,065</u>	<u>23,986</u>
CASH - End of Year	\$ <u>5,535</u>	\$ <u>6,065</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Interest	\$ <u>264</u>	\$ <u>00</u>

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

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Gary Neighborhood Services, Inc. is a not-for-profit corporation organized in the State of Indiana to provide social and educational programs and services to the residents of Gary, Indiana. The Organization is recognized as fully exempt from taxation by the Internal Revenue Code under Section 501(c)(3). The Organization's major sources of funding are from governmental grants and the Lake Area United Way.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions whose restrictions are met in the same period as the recognition of the contributions are considered unrestricted for reporting purposes.

Contributions

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

Financial Instruments and Credit Risk

The Organization is a not-for-profit corporation operating primarily in Northwest Indiana. As such, the Organization's accounts receivable are from grantors within the same geographic region. The terms of the grants give rise to unsecured accounts receivable, as is common industry practice. Unsecured accounts receivable total \$62,691 and \$166,697 for the years ended June 30, 2011 and 2010, respectively.

Accounts Receivable

The Organization records bad debts on the direct write-off method when, in management's opinion, an account becomes uncollectible. The direct write-off method is a departure from generally accepted accounting principles. Bad debt expenses calculated using the direct write-off method do not differ materially from those calculated using generally accepted methods.

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management considers receivables to be past due after being outstanding for more than 30 days. Based on management's assessment of the credit history with grantors having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial. The bad debt expense for the years ended June 30, 2011 and 2010 was \$0 and \$0, respectively.

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Property and Equipment

Property and equipment are carried at cost. Depreciation expense is computed using straight-line methods over the estimated useful life of the assets. The fair market value of donated assets are also capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss resulting from the transactions is recognized as income for the period. The cost of repairs and maintenance is charged to income as incurred; significant renewals and betterments are capitalized. The depreciation expense was \$4,212 and \$3,895 for the years ended June 30, 2011 and 2010, respectively.

The details of these accounts and their related accumulated depreciation are as follows:

	Cost or Appraised Value	Accumulated Depreciation	Net Book Value
<u>2011</u>			
Program and Office Equipment	\$ 39,807	\$ 34,403	\$ 5,404
Vehicles	15,900	15,900	00
Leasehold Improvements	<u>6,768</u>	<u>2,125</u>	<u>4,643</u>
Totals	<u>\$ 62,475</u>	<u>\$ 52,428</u>	<u>\$ 10,047</u>
	Cost or Appraised Value	Accumulated Depreciation	Net Book Value
<u>2010</u>			
Program and Office Equipment	\$ 39,807	\$ 30,574	\$ 9,233
Vehicles	15,900	15,900	00
Leasehold Improvements	<u>3,500</u>	<u>1,743</u>	<u>1,757</u>
Totals	<u>\$ 59,207</u>	<u>\$ 48,217</u>	<u>\$ 10,990</u>

Cash

Cash, as presented on the accompanying statements of financial position and statements of cash flows, includes cash on hand and deposits in interest bearing and non-interest bearing accounts in financial institutions.

Income Tax Status

The Internal Revenue Service has ruled that the Organization qualifies under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to tax under the present income tax laws. The Organization is not considered to be a private foundation.

Advertising Costs

The Organization uses advertising to promote its programs among the audience it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2011 and 2010 was \$550 and \$395, respectively.

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Uncertain Income Tax Positions

The Organization adopted the provisions of standards relating to uncertain tax positions. When applicable, changes in benefits arising from current and prior tax positions taken by the Organization are recognized in the period in which the change occurs. Changes resulting from settlements with taxing authorities are recognized in the period that settlement occurs. Reductions in unrecognized tax benefits as a result of a lapse of the applicable statute of limitations are recognized in the period the statute lapses. Projected penalties and interest recognized on tax positions where it is reasonably possible that the Organization's tax position will not prevail in a review by taxing authorities is recognized as part of current period income tax expense. Management believes that fiscal tax periods 2008, 2009, 2010, and 2011 remain subject to examination by taxing jurisdictions.

NOTE 2 - PROGRAM SERVICES

The Childcare Program provides daycare and educational programs for children ages 3-6. This program was discontinued on October 1, 2009.

Health and Counseling are programs designed to provide individuals with a variety of group activities and with the primary objective of promoting sound personality and social development of the participants.

Chore and Assistance Programs assign staff members who perform household services for clients who are handicapped or unable to care for themselves and provides assistance to persons in need.

Special Services is a program whereby Gary Neighborhood Services, Inc. receives rent as well as maintains buildings for Social Service Agencies and other organizations.

NOTE 3 - CONTRIBUTED FACILITIES - FACILITY LEASE AGREEMENT

Certain contributed facility use is recorded as support and expense at fair market value when determinable, otherwise at values indicated by the donor. Gary Neighborhood Services, Inc. entered into a 10 year, below market lease with the City of Gary Parks Department. The lease was effective January 1, 1990 for the Barbara Wesson Center. The payment required was \$1.00 per year, to be paid in full in 1990. During January 2010, the lease was renewed for a third 10-year period with the same terms. The Organization records an in-kind contribution and occupancy expense based on the estimated fair market value. During the years ended June 30, 2011 and 2010, the Organization recorded \$70,600 and \$70,600, respectively, as contributed facility usage.

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 4 - LINE OF CREDIT

The Organization has a \$35,000 revolving line of credit with Centier Bank. It accrues interest at the prime rate plus 1.5% (floor rate of 5%). The line of credit matures on November 10, 2012 and is secured by all assets owned by the Organization. At June 30, 2011 and 2010 the line of credit had a balance of \$0 and \$0, respectively.

NOTE 5 - EQUIPMENT LEASE AGREEMENTS

Beginning in March 2007, the Organization received a new copier which is being leased for five years. The copier requires monthly lease payments of \$675. The lease expense for the years ended June 30, 2011 and 2010 was \$8,100 and \$8,100, respectively. The lease is included in the account Small Equipment Purchase and Rental on the statement of functional expenses.

Future minimum payments expected under the above leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2012	\$ 6,075

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

At the beginning of fiscal 2010, the Organization had \$0 in temporarily restricted net assets. No additional temporarily restricted net assets were added in fiscal year 2010. In fiscal 2011, the Organization received \$2,500 in temporarily restricted net assets and the entire amount was expended in the fiscal year. The balance in temporarily restricted net assets was \$0 and \$0 at June 30, 2011 and 2010, respectively.

NOTE 7 - RELATED PARTY TRANSACTIONS

At June 30, 2011 and 2010, the Organization has the following related party through the ability to exercise significant influence over management of the Organization:

Jerome Flagg (Executive Director)

Transactions between the Organization and the related party are as follows:

Reflected as		<u>2011</u>	<u>2010</u>
<u>Assets</u>	<u>Related Party</u>		
Employee Advance	Jerome Flagg	\$ 1,574	\$ 00

GARY NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 8 - DISCONTINUED OPERATIONS - CHILDCARE PROGRAM

The Organization's Board of Directors voted in July 2009 to phase out the childcare program being offered at the Wesson Center by October 1, 2009. The childcare program has incurred large losses in recent years as the program has experienced lower enrollment figures. Local competition has been the main reason for the change in program participation.

A summary of the results of operations of the discontinued childcare program is as follows:

	For the Year Ended <u>June 30, 2011</u>	For the Year Ended <u>June 30, 2010</u>
<u>Revenues</u>		
Lake County Voucher	\$ 00	\$ 10,059
Daycare Fees	00	664
Childcare Food Program	<u>00</u>	<u>1,858</u>
Total Revenues	00	12,581
 <u>Expenses</u>	 <u>00</u>	 <u>23,483</u>
(Loss) from Discontinued Operations	<u>\$ 00</u>	<u>\$ (10,902)</u>

Assets for the childcare program consist of playground equipment and furniture. These items are expected to have continued use for the Organization which operates various social programs out of the Barbara Wesson Community Center. The childcare program has no liabilities.

NOTE 9 - CONCENTRATION OF REVENUE

During the years ending June 30, 2011 and 2010, the Organization received 71% and 69%, respectively, of its revenues from two funding agencies. No determination has been made as to the effect on financial statements should funding cease.

NOTE 10 - SUBSEQUENT EVENT

The Organization has evaluated subsequent events through January 23, 2012, the date which the financial statements were available for issuance.