

**Financial and Compliance Report**

**Family and Community Services, Inc.**

**June 30, 2006**

A large, stylized, light blue 'BC' logo is positioned in the background, partially obscured by a blue triangular graphic that points from the top left towards the bottom right. The 'B' and 'C' are interconnected and have a rounded, modern font style.

**BRUNER-COX LLP**

Business Consultants & Certified Public Accountants

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**SECTION 1**

**AUDITED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS**

**FAMILY AND COMMUNITY SERVICES, INC.**

**JUNE 30, 2006 AND 2005**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Family and Community Services, Inc.  
Kent, Ohio

We have audited the accompanying statements of financial position of Family and Community Services, Inc. as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended and statement of functional expenses for the year ended June 30, 2006. These financial statements are the responsibility of Family and Community Services, Inc.'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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. 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 Family and Community Services, Inc. as of June 30, 2006 and 2005, 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2006 on our consideration of Family and Community Services, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Bruner • Cox, LLP*

December 21, 2006

**STATEMENTS OF FINANCIAL POSITION**  
**FAMILY AND COMMUNITY SERVICES, INC.**

**June 30, 2006 and 2005**

	<b>2006</b>	<b>Restated 2005</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 323,681	\$ 287,232
Receivables	1,272,740	1,149,966
Investments	112,078	101,701
Deposits	71,856	41,240
<b>Total current assets</b>	<b>1,780,355</b>	<b>1,580,139</b>
<b>Noncurrent Assets</b>		
Assets designated for capital purchases	323,117	321,631
Property and equipment, net of accumulated depreciation	3,999,245	3,419,515
	<b>4,322,362</b>	<b>3,741,146</b>
<b>Total assets</b>	<b>\$ 6,102,717</b>	<b>\$ 5,321,285</b>
<b>LIABILITIES AND NET ASSETS</b>		
Short-term borrowings	\$ 394,889	\$ -
Current maturities of long-term debt	60,667	57,965
Accounts payable and employee withholdings	67,261	178,215
Accrued expenses	140,746	48,846
Deferred revenue	94,943	72,613
<b>Total current liabilities</b>	<b>758,506</b>	<b>357,639</b>
<b>Long-term debt, net of current maturities</b>	<b>1,234,082</b>	<b>1,075,250</b>
<b>Net assets</b>		
Unrestricted	3,508,535	3,352,851
Temporarily restricted	601,594	535,545
	<b>4,110,129</b>	<b>3,888,396</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,102,717</b>	<b>\$ 5,321,285</b>

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

**STATEMENTS OF ACTIVITIES**

**FAMILY AND COMMUNITY SERVICES, INC.**

**For the years ended June 30, 2006 and 2005**

	Unrestricted	Temporarily restricted	Total 2006
<b>SUPPORT AND REVENUE</b>			
United Way	\$ 476,982	\$ -	\$ 476,982
Government/state/local grants	5,373,645	-	5,373,645
Contributions	623,883	122,578	746,461
Program service fees	901,422	-	901,422
Interest income	10,346	1,623	11,969
Investment income	10,377	-	10,377
Gain on sale of asset	-	-	-
Miscellaneous	92,790	-	92,790
	<hr/> 7,489,445	124,201	<hr/> 7,613,646
<b>NET ASSETS RELEASED FROM RESTRICTION</b>			
	58,152	(58,152)	-
	<hr/> 7,547,597	66,049	<hr/> 7,613,646
<b>EXPENSES</b>			
Program Expenses			
Counseling	624,076	-	624,076
Housing and Rental Units	692,728	-	692,728
Consumer Credit Counseling Service	248,103	-	248,103
Hot Meals	534,353	-	534,353
Senior Services	756,835	-	756,835
Americorp	202,428	-	202,428
Vista	35,177	-	35,177
Safer Futures	355,110	-	355,110
Place of Peace	139,362	-	139,362
Clothing Closet	117,062	-	117,062
Emergency Financial Assistance	1,268,342	-	1,268,342
Day Care	168,696	-	168,696
Home Based	320,234	-	320,234
School Based	151,527	-	151,527
Smoking Cessation	453,307	-	453,307
Community Centers	595,388	-	595,388
Miller House	202,810	-	202,810
Freedom House	163,915	-	163,915
	<hr/> 7,029,453	-	<hr/> 7,029,453
Management and General Expenses	362,460	-	362,460
	<hr/> 7,391,913	-	<hr/> 7,391,913
<b>Change in net assets</b>	155,684	66,049	221,733

Unrestricted	Restated	
	Temporarily restricted	Total 2005
\$ 349,688	\$ -	\$ 349,688
3,806,365	87,727	3,894,092
562,146	3,346	565,492
734,566	-	734,566
5,372	-	5,372
8,452	1,555	10,007
23,048	-	23,048
191,624	26,923	218,547
5,681,261	119,551	5,800,812
143,646	(143,646)	-
5,824,907	(24,095)	5,800,812
548,555	-	548,555
642,605	-	642,605
247,804	-	247,804
506,902	-	506,902
747,200	-	747,200
186,065	-	186,065
33,340	-	33,340
292,909	-	292,909
139,483	-	139,483
102,457	-	102,457
464,099	-	464,099
151,568	-	151,568
286,206	-	286,206
183,760	-	183,760
185,546	-	185,546
474,412	-	474,412
200,042	-	200,042
68,027	-	68,027
5,460,980	-	5,460,980
414,106	-	414,106
5,875,086	-	5,875,086
(50,179)	(24,095)	(74,274)

**STATEMENTS OF ACTIVITIES (CONTINUED)**

**FAMILY AND COMMUNITY SERVICES, INC.**

**For the years ended June 30, 2006 and 2005**

	Unrestricted	Temporarily restricted	<b>Total 2006</b>
<b>NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED</b>	\$ 3,352,851	\$ 535,545	\$ <b>3,888,396</b>
<b>Restatement to reflect merger (Note 2)</b>	-	-	-
<b>Net assets, beginning of year, restated</b>	3,352,851	535,545	<b>3,888,396</b>
<b>NET ASSETS, END OF YEAR</b>	\$ 3,508,535	\$ 601,594	\$ <b>4,110,129</b>

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

Unrestricted	Restated Temporarily restricted	Total 2005
\$ 2,915,359	\$ 533,279	\$ 3,448,638
487,671	26,361	514,032
3,403,030	559,640	3,962,670
\$ 3,352,851	\$ 535,545	\$ 3,888,396

STATEMENT OF FUNCTIONAL EXPENSES

FAMILY AND COMMUNITY SERVICES, INC.

For the year ended June 30, 2006 (with comparative totals for 2005)

	Counseling	Housing and Rental Units	Consumer Credit Counseling Service	Hot Meals	Senior Services	Americorp	Vista	Safer Futures	Place of Peace	Clothing Closet	Emergency Financial Assistance	Day Care	Home Based	School Based	Smoking Cessation	Community Centers	Miller House	Freedom House	Total Program Services	Management and General	Total Program and Management Expenses 2006	Restated 2005
Salaries	\$ 436,153	\$ 291,899	\$ 120,088	\$ 211,525	\$ 302,041	\$ 159,791	\$ 20,425	\$ 230,968	\$ 63,979	\$ 26,047	\$ 161,560	\$ 119,580	\$ 245,860	\$ 110,753	\$ 127,417	\$ 271,204	\$ 121,135	\$ 115,563	\$ 3,135,988	\$ 74,781	\$ 3,210,769	\$ 2,803,261
Payroll taxes	35,078	22,988	12,108	18,688	22,792	15,096	1,761	17,573	5,580	2,471	13,236	11,542	20,642	10,050	6,528	23,635	11,639	11,019	262,426	33,582	296,008	249,199
Employee benefits	36,673	23,089	21,113	13,294	16,620	5,320	2,190	13,380	3,558	2,351	12,490	6,472	20,460	8,718	9,376	10,364	6,706	7,888	220,062	36,046	256,108	217,054
<b>Total salaries and related expense</b>	<b>507,904</b>	<b>337,976</b>	<b>153,309</b>	<b>243,507</b>	<b>341,453</b>	<b>180,207</b>	<b>24,376</b>	<b>261,921</b>	<b>73,117</b>	<b>30,869</b>	<b>187,286</b>	<b>137,594</b>	<b>286,962</b>	<b>129,521</b>	<b>143,321</b>	<b>305,203</b>	<b>139,480</b>	<b>134,470</b>	<b>3,618,476</b>	<b>144,409</b>	<b>3,762,885</b>	<b>3,269,514</b>
Professional fees	18,656	15,799	2,131	25,703	2,851	2,602	16	2,434	14,841	4,129	395	437	385	3,576	270,488	36,423	562	728	402,156	30,596	432,752	331,518
Supplies	15,348	4,771	4,823	109,093	10,276	1,364	1,139	8,264	199	1,692	4,188	4,947	1,384	2,306	9,395	26,702	8,377	3,101	217,369	15,071	232,440	242,450
Telephone	6,918	15,359	7,740	5,705	13,665	3,279	278	12,076	3,151	1,374	6,449	1,692	6,002	3,234	1,565	9,595	5,853	2,529	106,464	8,733	115,197	96,644
Postage	1,692	458	7,768	1,114	2,682	195	146	1,034	28	132	1,161	25	37	124	568	769	217	181	18,331	5,595	23,926	24,735
Conferences and conventions	944	1,958	4,805	-	2,206	930	100	1,709	-	15	460	365	860	174	2,075	1,517	997	604	19,719	2,067	21,786	22,344
Occupancy costs	16,522	67,334	23,262	61,984	17,530	3,452	215	16,467	41,948	31,956	11,314	13,739	3,193	2,306	108	72,864	19,546	8,892	412,632	32,234	444,866	401,445
Equipment maintenance	23,931	47,030	11,659	1,395	2,733	67	-	12,389	202	4,823	1,918	669	621	405	84	11,136	2,760	659	122,481	7,141	129,622	97,178
Journals and publications	5,353	161	2,298	116	1,916	885	-	699	-	142	119	645	-	-	11,051	2,075	112	100	25,672	2,228	27,900	21,032
Advertising	4,695	1,059	9,678	2,538	6,123	147	33	9,018	234	1,992	848	3,609	1,801	930	7,385	2,542	1,394	585	54,611	12,909	67,520	56,683
Dues	420	544	6,326	1,515	442	-	-	513	13	-	21	384	270	-	-	1,097	198	18	11,761	9,242	21,003	21,082
Transportation and travel	4,599	12,975	4,854	16,743	17,164	6,714	1,090	7,809	3,736	115	2,624	299	17,127	6,092	6,280	7,982	1,623	572	118,398	14,385	132,783	101,234
Bad debt	-	-	-	-	-	-	-	5,250	-	-	-	-	-	-	-	-	-	-	5,250	-	5,250	10,400
Specific assistance to individuals	5	79,115	-	1,200	2,301	-	7,492	405	150	-	1,046,901	-	-	335	-	-	1,710	660	1,140,274	2,034	1,142,308	435,762
Interest	5,004	32,986	7,474	8,881	526	-	-	80	-	21,453	1,138	-	918	-	222	24,903	6	-	103,591	9,821	113,412	78,111
Volunteer	-	-	-	139	325,483	-	-	-	-	-	-	-	-	-	-	21	-	-	325,643	12,765	338,408	349,074
Miscellaneous	4,791	1,177	652	10,147	1,086	1,450	292	6,008	-	206	3,299	3,727	134	201	765	13,736	47	9,267	56,985	35,101	92,086	49,498
	616,782	618,702	246,779	489,780	748,437	201,292	35,177	346,076	137,619	98,898	1,268,121	168,132	319,694	149,204	453,307	516,565	182,882	162,366	6,759,813	344,331	7,104,144	5,608,704
Depreciation	7,294	74,026	1,324	44,573	8,398	1,136	-	9,034	1,743	18,164	221	564	540	2,323	-	78,823	19,928	1,549	269,640	18,129	287,769	266,382
<b>Total expenses</b>	<b>\$ 624,076</b>	<b>\$ 692,728</b>	<b>\$ 248,103</b>	<b>\$ 534,353</b>	<b>\$ 756,835</b>	<b>\$ 202,428</b>	<b>\$ 35,177</b>	<b>\$ 355,110</b>	<b>\$ 139,362</b>	<b>\$ 117,062</b>	<b>\$ 1,268,342</b>	<b>\$ 168,696</b>	<b>\$ 320,234</b>	<b>\$ 151,527</b>	<b>\$ 453,307</b>	<b>\$ 595,388</b>	<b>\$ 202,810</b>	<b>\$ 163,915</b>	<b>\$ 7,029,453</b>	<b>\$ 362,460</b>	<b>\$ 7,391,913</b>	<b>\$ 5,875,086</b>

**STATEMENTS OF CASH FLOWS**  
**FAMILY AND COMMUNITY SERVICES, INC.**

**For the years ended June 30, 2006 and 2005**

	<b>2006</b>	<b>Restated 2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 221,733	\$ (74,274)
Noncash items included in change in net assets		
Interest and dividends reinvested	-	(250)
Net realized and unrealized gains on investments	(10,377)	(10,007)
Pledges restricted for capital campaign	(122,578)	(22,053)
Gain on sale of asset	-	(13,449)
Depreciation	287,769	266,382
Changes in assets and liabilities		
Receivables	(122,774)	(73,035)
Assets designated for investment in property and equipment	(1,486)	(98,216)
Other assets	(30,616)	12,161
Accounts payable	(110,954)	61,894
Accrued expenses	91,900	(26,598)
Deferred revenue	22,330	(19,799)
	<b>224,947</b>	<b>2,756</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale and maturity of investments	-	2,817
Proceeds from sale of assets	-	14,868
Purchase of property and equipment	(867,499)	(110,232)
	<b>(867,499)</b>	<b>(92,547)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net short-term borrowings	394,889	-
Proceeds from long-term debt	932,909	-
Repayment of long-term debt	(771,375)	(65,408)
Pledges restricted for capital campaign	122,578	48,414
	<b>679,001</b>	<b>(16,994)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>36,449</b>	<b>(106,785)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>287,232</b>	<b>394,017</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 323,681</b>	<b>\$ 287,232</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash payments for interest	<b>\$ 113,412</b>	<b>\$ 78,111</b>

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

**NOTES TO FINANCIAL STATEMENTS**  
**FAMILY AND COMMUNITY SERVICES INC.**

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**Note 1. Nature of Business and Significant Accounting Policies**

**Nature of Business**

Family and Community Services, Inc. (Agency) is a not-for-profit organization. The Agency's mission is to marshal community resources to support, strengthen and empower individuals and families through a broad continuum of community-based services that meet the needs and values of the community. This mission is to be achieved through service, advocacy, and broad community volunteerism.

The financial statements reflect the application of certain accounting policies described in this note.

**Concentration of Credit Risk**

The Agency maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Agency has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash.

**Use of Estimates**

The preparation of financial statements 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.

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Agency that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets, if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of property and equipment are recorded as support at their estimated fair value. Such contributions are reported as unrestricted support 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 support. Absent donor stipulations regarding how long those contributed assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Agency reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**NOTES TO FINANCIAL STATEMENTS**  
**FAMILY AND COMMUNITY SERVICES INC.**

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Revenue Recognition**

Revenue from grants representing exchange transactions and reimbursement contracts is recognized to the extent that expenses eligible under the grant agreements or for reimbursements have been incurred during the period. Revenue from fees is recognized in the period when the services are provided. Income from grants and contracts received but unearned in the current year are deferred to the subsequent year. All gains and losses arising from the sale or other disposition of investments are accounted for as changes in unrestricted net assets absent any donor-imposed restrictions.

**Cash and Cash Equivalents**

The Agency considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

**Receivables and Allowance for Doubtful Accounts**

Receivables for counseling fees and grants are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by identifying delinquent accounts and by using historical experience. These receivables are written off when deemed uncollectible. Recoveries of receivables for amounts previously written off are recorded when received. Contributions receivable are recorded at net realizable value (see note 6).

**Investments**

The Agency carries investments in marketable equity securities with readily determinable fair values and all investments in debt securities at their fair value in the statement of financial position. Unrealized gains and losses are included in the change of net assets in the accompanying statements of activities. Investment income includes interest, dividends and realized gains and losses as described further in Note 4.

**Property and Equipment**

Property and equipment are stated at cost, or if donated, at estimated fair value at the date of donation, less accumulated depreciation. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are generally capitalized. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets.

**NOTES TO FINANCIAL STATEMENTS**  
**FAMILY AND COMMUNITY SERVICES INC.**

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Income Taxes**

The Agency is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes pursuant to Section 509(a) of the Code.

**Contributed Services and Facilities**

During the years ended June 30, 2006 and 2005, the value of contributed services meeting the requirements for recognition in the financial statements was \$29,048 and \$44,706, respectively. The Agency pays for most services requiring specific expertise. However, individuals volunteer their time and perform certain services in the Emergency Financial Assistance, Kent Hot Meals, Clothing Closet, Housing, Safer Futures and Senior Services Programs. The Agency received approximately 321,550 and 283,058 volunteer hours during the years ended June 30, 2006 and 2005, respectively.

Contributed facilities include the difference between the amount of rent paid at various locations and the approximate fair value of such rentals. Donated rents amounted to \$29,013 for 2006 and \$48,618 for 2005.

**Functional Allocation of Expenses**

Costs of providing various programs have been summarized on a functional basis. The amounts shown for 2005 are included to provide a basis for comparison with 2006 and are not intended to present all information necessary for a fair presentation of the 2005 statement of functional expenses in conformity with accounting principles generally accepted in the United States of America.

**Advertising**

Advertising costs are generally charged to operations in the year incurred and totaled \$67,250 in 2006 and \$56,683 in 2005.

**Reclassifications**

Certain information previously reported has been reclassified to conform to the current year presentation.

**Note 2. Merger**

On January 1, 2006, Chagrin Falls Park Community Center, Inc was merged into the operations of the Agency in a business combination accounted for similar to a pooling of interests. The accompanying financial statements for June 30, 2006 reflect a full year of combined operations, and the financial statements of June 30, 2005 have been restated to reflect the activities of the combined organizations. As a result the change in net assets for 2005 was decreased by \$18,661 and net assets as of the beginning of 2005 have been increased by \$514,032.

**NOTES TO FINANCIAL STATEMENTS**  
**FAMILY AND COMMUNITY SERVICES INC.**

**Note 3. Receivables**

Receivables as of June 30 are as follows:

	2006	Restated 2005
Grants receivable, net of allowance for doubtful accounts of \$5,250 in 2006 and \$10,400 in 2005	\$ 47,253	\$ 429,072
Pledges receivable (see Note 6)	329,240	226,436
Program fees, net of allowance for doubtful accounts of \$4,400 in 2006 and \$8,936 in 2005	896,247	494,458
	<u>\$ 1,272,740</u>	<u>\$ 1,149,966</u>

**Note 4. Investments**

Investment income relating to unrestricted and temporarily restricted investments is summarized as follows at June 30:

	2006	Restated 2005
Interest and dividends	\$ 11,969	\$ 5,372
Net unrealized gains	10,377	10,007
	<u>\$ 22,346</u>	<u>\$ 15,379</u>

The Agency's investment portfolio at June 30 consists of the following:

	2006		2005	
	Cost	Market value	Cost	Market value
Debt securities				
Certificates of deposit	\$ 16,125	\$ 16,125	\$ 15,834	\$ 15,834
Equity securities				
Common stocks	12,207	20,174	12,249	19,566
Mutual Funds	74,014	75,779	69,889	66,301
	<u>\$ 102,346</u>	<u>\$ 112,078</u>	<u>\$ 97,972</u>	<u>\$ 101,701</u>

**NOTES TO FINANCIAL STATEMENTS**  
**FAMILY AND COMMUNITY SERVICES INC.**

**Note 5. Property and Equipment**

Property and equipment as of June 30 are summarized as follows:

	2006	Restated 2005
Land and land improvements	\$ 551,729	\$ 508,305
Building	3,657,902	3,084,903
Equipment	238,105	227,975
Furniture and fixtures	291,050	281,141
Leasehold improvements	958,543	731,107
Vehicles	60,193	46,388
Construction in progress	12,395	22,602
	<u>5,769,917</u>	<u>4,902,421</u>
Less accumulated depreciation	1,770,672	1,482,906
	<u>\$ 3,999,245</u>	<u>\$ 3,419,515</u>

Depreciation expense amounted to \$287,769 and \$266,382 for the years ended June 30, 2006 and 2005, respectively.

**Note 6. Pledges Receivable**

Pledges receivable represent unconditional promises to give by donors for the “Guardians of Hope” capital campaign and the Chagrin Falls Park pledge drive. Pledges expected to be collected during the next year are recorded at net realizable value. Pledges expected to be collected in greater than one year have been discounted at 8.00% for 2006 and 2005 and are reflected in the financial statements at their net present value. Pledges receivable are due as follows:

	2006	2005
Less than one year	\$ 67,360	\$ 78,820
One to five years	324,902	210,638
	<u>392,262</u>	<u>289,458</u>
Less allowance for doubtful accounts	63,022	63,022
	<u>\$ 329,240</u>	<u>\$ 226,436</u>

**Note 7. Short-Term Borrowings**

The Agency has available a \$200,000 line of credit with a bank. Interest is payable monthly at the bank’s prime lending rate and was collateralized by substantially all assets of the Agency. At June 30, 2006 and 2005, there were no amounts drawn against the line of credit.

Subsequent to year end, the Agency increased their line of credit to \$500,000. The Agency used the increased line to pay off the commercial equity line of credit acquired with the Chagrin Falls Park merger in the amount of \$394,889.

**NOTES TO FINANCIAL STATEMENTS**  
**FAMILY AND COMMUNITY SERVICES INC.**

**Note 8. Long-Term Debt**

The Agency was obligated on the following notes as of June 30:

	2006	Restated 2005
<u>Development Corporation</u>		
Note dated 9-00; due 9-2010; payable in monthly installments of \$777 including interest at 8.25%; collateralized by certain real estate	\$ 34,898	\$ 41,849
<u>Bank</u>		
Note dated 7-00; due 8-2020; payable in monthly installments of \$1,196 including interest at 8.25%; collateralized by certain real estate	-	123,417
Note dated 12-01; due 11-2021; payable in monthly installments of \$1,877 including interest at 6.50%; collateralized by certain real estate	-	223,222
Note dated 9-02; due 2-2014; payable in monthly installments of \$1,286 including interest at 7.63%; collateralized by certain real estate	88,125	95,146
Note dated 1-03; due 1-2022; payable in monthly installments of \$866 including interest at 6.0%; collateralized by certain real estate	107,992	111,287
Note dated 9-05; due 8-2025; payable in monthly installments of \$952 including interest at 6.75%; collateralized by certain real estate	122,701	-
Note dated 1-06; due 12-2025; payable in monthly installments of \$2,349 including interest at 7.125%; collateralized by certain real estate	295,434	-
Note dated 9-05; due 8-2025; payable in monthly payments of \$949 including interest of 6.75%; collateralized by certain real estate	122,226	-
Note dated 6-06; due 6-2026; payable in monthly installments of \$1,720 including interest of 7.13%; collateralized by certain real estate	217,443	-
Commercial equity line of credit note for \$500,000; interest at prime plus .25%; collateralized by certain real estate (see Note 7)	-	389,064

**NOTES TO FINANCIAL STATEMENTS**  
**FAMILY AND COMMUNITY SERVICES INC.**

**Note 8. Long-Term Debt (Continued)**

	2006	Restated 2005
<u>Meduri Brothers</u>		
Note dated 6-06; due 6-2026; payable in monthly installments of \$1,311 including interest of 7.125%; collateralized by certain real estate	\$ 165,824	\$ -
 <u>Portage County Commissioners</u>		
Note dated 12-00; due 12-2007; 0.0% interest rate; collateralized by certain real estate	6,000	6,000
 <u>City of Kent</u>		
Note date 5-01; due 5-2012; interest free; payable in 10 annual principle payments of \$2,500, balloon payment of \$10,000; collateralized by certain real estate	22,500	25,000
 <u>Portage Foundation</u>		
Note dated 7-02; due 7-2012; payable in monthly installments of \$750 including interest at 5.0%; collateralized by certain real estate	111,606	118,230
	1,294,749	1,133,215
Less current maturities	60,667	57,965
	\$ 1,234,082	\$ 1,075,250

Maturities of the notes payable for the years subsequent to 2006 are as follows:

2007	\$	60,667
2008		54,646
2009		58,299
2010		62,093
2011		59,264
Thereafter		999,780
		\$ 1,294,749

**NOTES TO FINANCIAL STATEMENTS**  
**FAMILY AND COMMUNITY SERVICES INC.**

**Note 9. Temporarily Restricted Net Assets**

	2006	Restated 2005
Temporarily restricted net assets were available for the following purposes:		
"Guardians of Hope" capital campaign	\$ 478,528	\$ 535,545
Chagrin Falls Park debt repayment	123,066	-
	\$ 601,594	\$ 535,545

Temporarily restricted assets at June 30, 2005 have been restated to properly reflect the amounts available at that time.

**Note 10. Pension Plan**

The Agency maintains a Section 403(b) flexible annuity program that covers employees who meet certain age and length-of-service requirements. The Agency's contribution level for the years ended June 30, 2006 and 2005 was 3.5% of participating employees' salaries. Pension expense for the years ended June 30, 2006 and 2005 amounted to \$27,182 and \$27,074, respectively.

**Note 11. Government Funding**

The Agency received approximately 71% of its funding for 2006 and 68% for 2005 through government grants and purchase of service agreements. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Agency's activities.

**Note 12. Funds Held for Others**

The Agency is custodian for funds used for various expenditures of certain individuals in its consumer credit counseling and payee program. Because these funds do not belong to the Agency, they are not included in the accompanying financial statements. At June 30, 2006 and 2005, the consumer credit counseling program maintained funds totaling \$28,923 and \$27,909, respectively, and the payee program, started in 2004, maintained funds as of June 30, 2006 and 2005 in the amounts of \$1,641 and \$6,450, respectively.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FAMILY AND COMMUNITY SERVICES, INC.**

**For the year ended June 30, 2006**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA number	Pass-through/ entity ID number	Federal expenditures
<b>U.S. Department of Housing and Urban Development</b>			
Direct Program			
Supportive Housing	14.235	OH16B10-7001	\$ 26,678
	14.235	OH16B00-7003	178,177
	14.235	OH16B20-7002	106,673
	14.235	OH16B40-7019	28,253
			<hr/> 339,781
Pass-Through State Department of Development and City of Kent and Portage County Commissioners Community Development Block Grant			
	14.219	PO128445	13,750
	14.219	N/A	11,875
	14.219	N/A	40,800
	14.219	PO128425	25,000
	14.219	N/A	50,000
	14.219	N/A	70,000
	14.219	N/A	60,000
			<hr/> 271,425
<b>Total U.S. Department of Housing and Urban Development</b>			611,206
<b>U.S. Department of Justice</b>			
Pass-Through Ohio Office of Criminal Justice Services Safe Havens for Children			
	16.527	2003CWBX0035	99,704
Pass-Through State Department of Attorney General VOCA			
	16.575	2004VADOME052	16,250
	16.575	2005VADOME052	54,672
			<hr/> 70,922
Byrne Grant			
	16.579	2004-DG-D027349	14,250
	16.579	2005-DG-D027349	19,060
			<hr/> 33,310
Pass-Through Ohio Office of Criminal Justice Services Violence Against Women			
	16.588	2004-WF-VA2-8222	15,750
	16.588	2005-WF-VA2-8222	11,698
			<hr/> 27,448
<b>Total U.S. Department of Justice</b>			231,384

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**FAMILY AND COMMUNITY SERVICES, INC.**

**For the year ended June 30, 2006**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA number	Pass-through/ entity ID number	Federal expenditures
<b>Federal Emergency Management Agency</b>			
Direct Program: Emergency Shelter	83.523	N/A	\$ 82,793
<b>U.S. Department of Health and Human Services</b>			
Pass-Through Ohio Department of Aging and Area Agency on Aging, 10B, Inc., Senior Nutrition Program	93.044	N/A	177,401
Pass-Through The Ohio Department of Jobs and Family Services, The Family and Children's First Council of Portage County, Temporary Assistance for Needy Families	93.558	2050291	185,000
Pass-Through State Department of Development and the Office of Housing and Community Partnership Temporary Assistance for Needy Families	93.558	20050233	20,000
	93.558	20050234	404,879
	93.558	20050235	466,667
	93.558	20050237	22,888
	93.558	20050238	42,300
	93.558	20050239	76,000
	93.558	20050242	20,000
	93.558	20050236	12,819
	93.558	N/A	736
	93.558	N/A	33,800
			<hr/> 1,100,089
Pass-Through The Ohio Office of Criminal Justice Family Violence Program	93.671	2005-VP-001-4005	<hr/> 50,000
<b>Total U.S. Department of Health and Human Services</b>			1,512,490
<b>U.S. Department of Agriculture</b>			
Pass-Through Ohio Department of Aging and Area Agency on Aging, 10B, Inc. Food Donation Program	93.053	N/A	32,998
<b>U.S. Department of Labor</b>			
Pass-Through Ohio Department of Jobs and Family Services WIA Youth Services	17.259	N/A	120,484

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**FAMILY AND COMMUNITY SERVICES, INC.**

**For the year ended June 30, 2006**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA number	Pass-through/ entity ID number	Federal expenditures
<b>Corporation for National and Community Service</b>			
Pass-Through State Department of Aging			
RSVP - Regional	94.002	06SRNOH001	\$ 142,850
	94.002	03SRNOH001	23,763
	94.002	N/A	100,123
			<u>266,736</u>
Americorps	94.006	N/A	26,082
	94.006	N/A	99,354
			<u>125,436</u>
Foster Grandparent Program	94.011	02SFNOH071	39,295
	94.011	N/A	153,243
			<u>192,538</u>
Volunteers in Services to America	94.013	N/A	4,646
	94.013	N/A	20,142
			<u>24,788</u>
Senior Companion Program	94.016	04SCNOH002	164,692
	94.016	05SCOH002	55,284
			<u>219,976</u>
<b>Total Corporation for National and Community Service</b>			829,474
<b>Medicaid</b>	93.778	20050274	113,338
<b>U.S. Department of Education</b>			
Pass-Through The Ohio Department of Education	10.559	N/A	7,868
			<u>7,868</u>
			<u><u>\$ 3,542,035</u></u>

N/A = Not Available

CFDA = Catalog of Federal Domestic Assistance

The accompanying note is an integral part of this schedule.

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FAMILY AND COMMUNITY SERVICES, INC.**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of Family and Community Services, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**SECTION 2**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Family and Community Services, Inc.  
Kent, Ohio

We have audited the financial statements of Family and Community Services, Inc. as of and for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Family and Community Services, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Family and Community Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, management, Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*Bruner-Cox, LLP*

December 21, 2006

**SECTION 3**

**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR PROGRAMS AND  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR PROGRAMS AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Family and Community Services, Inc.  
Kent, Ohio

**Compliance**

We have audited the compliance of Family and Community Services, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major Federal programs for the year ended June 30, 2006. Family and Community Services, Inc.'s major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal programs is the responsibility of Family and Community Services, Inc.'s management. Our responsibility is to express an opinion on Family and Community Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Family and Community Services, Inc.'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Family and Community Services, Inc.'s compliance with those requirements.

In our opinion, Family and Community Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of Family and Community Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Family and Community Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

Bruner. Cox, LLP

December 21, 2006

**SECTION 4**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### FAMILY AND COMMUNITY SERVICES, INC.

For the year ended June 30, 2006

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#### I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

##### Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?

\_\_\_ Yes X No

• Reportable condition(s) identified that are not considered to be material weaknesses?

\_\_\_ Yes X reported  
None

Noncompliance material to financial statements noted?

\_\_\_ Yes X No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?

\_\_\_ Yes X No

• Reportable condition(s) identified that are not considered to be material weakness(es)?

\_\_\_ Yes X reported  
None

Type of auditors' report issued on compliance for major program:

Unqualified

• Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

\_\_\_ Yes X No

Identification of major programs:

CFDA Number

Name of Federal Program

93.558 Temporary Assistance for Needy Families

14.235 Supportive Housing

93.778 Medicaid

14.129 Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_ Yes X No

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FAMILY AND COMMUNITY SERVICES, INC.**

**For the year ended June 30, 2006**

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**II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

**A. Reportable Conditions in Internal Control**

None reported.

**B. Compliance Findings**

None reported.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**A. Internal Control Over Major Programs**

None reported.

**B. Compliance Findings Required to be Reported in Accordance with Section 510(a) of Circular A-133**

None reported.

**SECTION 5**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FAMILY AND COMMUNITY SERVICES, INC.**

**For the year ended June 30, 2006**

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There were no findings that were required to be reported in accordance with section 510(a) of OMB Circular A-133 for the year ended June 30, 2005.