

McGladrey & Pullen

Certified Public Accountants

Hephzibah Children's Association

Financial Report

June 30, 2007

Hephzibah Children's Association

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McGladrey & Pullen

Certified Public Accountants

Independent Auditors' Report

Board of Directors of
Hephzibah Children's Association

We have audited the statement of financial position of Hephzibah Children's Association as of June 30, 2007 and the statements of activities, functional expenses and directly related program service revenue and of cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on the financial statements based on our audit. The prior year summarized comparative financial statements of Hephzibah Children's Association for the year ended June 30, 2006 were audited by Altschuler, Melvoin and Glasser LLP, certain of whose partners have become partners of McGladrey & Pullen, LLP. Altschuler, Melvoin and Glasser LLP's report, dated September 21, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hephzibah Children's Association as of June 30, 2007 and the results of its activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Chicago, Illinois
January 31, 2008

Hephzibah Children's Association
Statement of Financial Position
June 30, 2007 (With Comparative Totals for 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	
Assets				
Cash and equivalent	\$ 1,423,659	\$ 120,128	\$ 1,543,787	\$ 1,549,535
Short-term investments	84,955		84,955	-
Certificates of deposit	304,844		304,844	289,527
Accounts receivable	412,279	236,387	648,666	682,328
Prepaid expenses	89,624		89,624	66,215
Investments	878,460		878,460	567,038
Other assets	3,234		3,234	3,234
Property and equipment	1,103,634		1,103,634	1,100,782
	<u>\$ 4,300,689</u>	<u>\$ 356,515</u>	<u>\$ 4,657,204</u>	<u>\$ 4,258,659</u>
Liabilities and Net Assets				
Accounts payable	\$ 358,325	\$ -	\$ 358,325	\$ 350,961
Accrued salaries and wages	240,478		240,478	219,696
Accrued payroll taxes	13,286		13,286	13,056
Deferred revenue			-	10,794
Lease obligation	69,612		69,612	86,493
Due to Illinois Department of Children and Family Services	185,877		185,877	185,877
	<u>867,578</u>	<u>-</u>	<u>867,578</u>	<u>866,877</u>
Net assets				
Unrestricted	3,433,111		3,433,111	3,120,150
Temporarily restricted		356,515	356,515	271,632
	<u>3,433,111</u>	<u>356,515</u>	<u>3,789,626</u>	<u>3,391,782</u>
	<u>\$ 4,300,689</u>	<u>\$ 356,515</u>	<u>\$ 4,657,204</u>	<u>\$ 4,258,659</u>

Hephzibah Children's Association
Statement of Activities

Year Ended June 30, 2007 (With Comparative Totals for 2006)

	2007			2006	
	Unrestricted	Temporarily Restricted	Total		
Revenue					
Individual, corporate and foundation contributions and grants	\$ 912,209	\$ 294,804	\$ 1,207,013	\$	1,113,298
Fundraising organization - United Way of Suburban Chicago	68,500	71,500	140,000		136,737
	<u>980,709</u>	<u>366,304</u>	<u>1,347,013</u>		<u>1,250,035</u>
Fees and grants from government agencies	5,255,596	-	5,255,596		5,318,214
Other revenue					
Program service fees and grants	1,345,594		1,345,594		1,238,517
Interest, dividend and other income	110,443		110,443		72,776
Unrealized gain	48,924		48,924		3,321
Realized gain	23,236		23,236		6,412
	<u>1,528,197</u>	<u>-</u>	<u>1,528,197</u>		<u>1,321,026</u>
Net assets released from restrictions arising from satisfaction of program and time restrictions	281,421	(281,421)	-		-
	<u>8,045,923</u>	<u>84,883</u>	<u>8,130,806</u>		<u>7,889,275</u>
Expenses					
Program expenses	6,350,169		6,350,169		6,082,378
Management and general	945,237		945,237		923,396
Fundraising	437,556		437,556		345,973
	<u>7,732,962</u>	<u>-</u>	<u>7,732,962</u>		<u>7,351,747</u>
Increase in net assets	312,961	84,883	397,844		537,528
Net assets					
Beginning of year	3,120,150	271,632	3,391,782		2,854,254
End of year	<u>\$ 3,433,111</u>	<u>\$ 356,515</u>	<u>\$ 3,789,626</u>		<u>\$ 3,391,782</u>

See accompanying notes.

Hephzibah Children's Association
Statement of Functional Expenses and Directly Related Program Service Revenue
Year Ended June 30, 2007 (With Comparative Totals for 2006)

	Program Services					Supporting Services						
	Day Care	Family Reunification	Foster Care	Shelter	Residence	All Other	Community Support	Family Assessment	Management and General	Fundraising	2007	2006
Salaries	\$ 1,061,000	\$ 44,846	\$ 652,649	\$ 994,186	\$ 679,771	\$ 16,522	\$ 49,445	\$ 143,942	\$ 682,539	\$ 129,731	\$ 4,450,631	\$ 4,259,666
Employee health benefits	125,224	7,968	90,295	134,510	89,579	4,323	4,091	475,990	59,644	21,305	556,939	525,047
Payroll taxes	102,120	4,299	61,871	95,273	65,208	1,615	4,390	13,752	61,877	12,403	422,808	406,938
Professional fees and contract service payments	1,288,344	57,113	804,815	1,223,969	834,558	18,137	54,158	181,785	804,060	163,439	5,430,378	5,191,651
Supplies	31,145	11,504	76,609	69,106	72,613	39,672	1,307	26,207	31,974	25,307	385,444	418,480
Telephone and telegraph	143,344	1,667	20,784	96,429	71,796	8,423	745	3,100	10,143	3,255	359,686	322,071
Postage and shipping	10,662	1,423	11,283	4,893	3,978		710	2,582	7,902	1,086	44,519	52,566
Occupancy	3,060	381	1,018	1,256	1,030		77	366	4,106	12,780	24,074	27,745
Outside printing and artwork	29,797	5,017	40,207	42,119	34,303	70	2,129	9,350	38,235	5,597	206,824	209,146
Local transportation	5,198	130	3,337	2,029	2,379	135	32	234	13,474	5,351	68,422	54,746
Conferences, meetings and major trips	12,552	4,618	27,161	15,631	15,581	2,444	653	10,752	3,749	742	93,883	84,923
Specific assistance to individuals	16,161	127	3,990	3,142	1,893	113	737	231	14,027	854	17,193	30,388
Membership dues	3,370	3,859	523,509	28,734	17,349	15,305	18,460	5,813	629,190		629,190	620,159
Equipment rental, repairs and maintenance	4,189	336	1,789	2,853	2,017	30	124	393	10,709	800	13,275	13,980
Miscellaneous	26,789	293	61,104	4,837	3,817		6,335	607	17,964	382	24,621	17,667
Special events	420							530	14,681	6,674	125,060	46,780
Depreciation	1,578,825	86,601	1,578,258	1,500,655	1,065,697	84,329	85,607	241,950	930,554	164,103	7,587,092	7,206,567
	12,284	1,992	12,605	55,244	41,795		726	3,710	14,683	2,940	145,870	145,180
Allocation of management and general expenses	1,591,089	88,503	1,590,864	1,555,899	1,107,492	84,329	86,333	245,660	945,237	437,556	7,732,962	7,351,747
Allocation of fundraising expenses	256,837	13,174	236,804	231,599	164,853	12,553	12,851	36,566	945,237			
	109,633	6,098	109,618	107,209	76,311	5,811	5,949	16,927	437,556			
	1,937,559	107,775	1,937,286	1,894,707	1,348,656	102,693	105,133	299,153	7,732,962			
Directly related program service revenue												
Fees and grants from government agencies												
Illinois Department of Children and Family Services	\$ 12,087	\$ 98,851	\$ 1,369,079	\$ 1,605,083	\$ 1,235,260			\$ 275,424	\$ 4,595,784	\$ -	\$ 4,595,784	\$ 4,514,831
Illinois Department of Human Services	160,731		313,505						474,236		474,236	612,687
Local government agencies	1,800		2,250	28,231	21,437	3,210	65,210		122,138		122,138	173,228
Other	15,978								15,978		15,978	17,468
Program service fees and grants	1,345,594								1,345,594		1,345,594	1,238,517
United Way of Suburban Chicago	140,000								140,000		140,000	136,737
Miscellaneous						160			160		160	
	\$ 1,676,190	\$ 98,851	\$ 1,684,834	\$ 1,633,314	\$ 1,256,697	\$ 3,370	\$ 65,210	\$ 275,424	\$ 6,693,890	\$ -	\$ 6,693,890	\$ 6,693,468

See accompanying notes.

Hephzibah Children's Association
Statement of Cash Flows
Year Ended June 30, 2007 (With Comparative Totals for 2006)

	<u>2007</u>	<u>2006</u>
Operating activities		
Increase in net assets	\$ 397,844	\$ 537,528
Depreciation	145,870	145,180
Unrealized gains on investments	(48,924)	(3,321)
Realized gains on investments	(23,236)	(6,412)
Changes in		
Accounts receivable	33,661	(104,354)
Prepaid expenses	(23,409)	(16,188)
Accounts payable	7,364	(12,540)
Accrued salaries and wages	20,782	44,392
Accrued payroll taxes	230	2,566
Deferred revenue	(10,794)	10,794
Net cash provided by operating activities	<u>499,388</u>	<u>597,645</u>
Investing activities		
Net additions to property and equipment	(148,721)	(63,613)
Dividends reinvested	(10,191)	(3,443)
Purchases of short-term investments	(496,101)	(643,182)
Proceeds from sales of investments	166,758	507,324
Net cash used in investing activities	<u>(488,255)</u>	<u>(202,914)</u>
Financing activities		
Principal payments on lease obligations	(16,881)	(14,707)
Net cash used in financing activities	<u>(16,881)</u>	<u>(14,707)</u>
Increase (decrease) in cash and equivalent	(5,748)	380,024
Cash and equivalent		
Beginning of year	<u>1,549,535</u>	<u>1,169,511</u>
End of year	<u>\$ 1,543,787</u>	<u>\$ 1,549,535</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 11,044</u>	<u>\$ 10,890</u>
Supplemental schedule of noncash investing and financing activities		
Acquisition of equipment through lease obligation	<u>\$ -</u>	<u>\$ 101,200</u>

Hephzibah Children's Association

Notes to the Financial Statements

Year Ended June 30, 2007 (With Comparative Information for 2006)

Note 1 Nature of Activities and Significant Accounting Policies

Hephzibah Children's Association (the "Association") is a nonprofit comprehensive social service agency which provides services to children and families without regard to race, color, religion, sex or national origin. The Association's goals are to strengthen and reunite families by offering the following array of services: before and after-school child care; intensive outreach and child welfare assessment services; emergency care services and coordination of service providers for child abuse prevention; short-term foster care; short-term and long-term group homes for children whose physical and emotional needs exceed the services of foster homes and intensive in-home services to families actively involved with the Illinois Department of Children and Family Services because of abuse or neglect.

The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

General—The financial statements have been prepared in conformity with accounting principles applicable to nonprofit organizations.

Net Asset Accounting—In accordance with limitations and restrictions placed on the use of resources available to the Association, the following classifications are utilized according to the nature and purpose of the resources.

- **Unrestricted**—includes resources with no legal or donor imposed restrictions.
- **Temporarily Restricted**—includes resources with legal or donor imposed restrictions, including restrictions as to time of utilization of the resources and resources for which use is restricted to specified programs.

Cash and Equivalent—The Association considers all highly liquid debt instruments acquired with a maturity of three months or less to be cash equivalents. The Association's cash balance may, at times, exceed the federal insured limit of \$100,000. The Association has not experienced any losses and management believes the Association is not exposed to any significant credit risk on cash.

Accounts Receivable—Accounts receivable represent amounts due from various government agencies for reimbursement of program expenses. The amount is stated net of an allowance for doubtful accounts, determined based on historical experience and analysis of specific accounts. Uncollectible accounts are written off in the year they are deemed to be worthless.

Investments—Investments consist of corporate bond funds, equity funds and index funds. All funds are reflected at fair value.

Depreciation—Property and equipment are stated at cost. Depreciation is being computed using the straight-line method over the following estimated useful lives:

Land improvements	5 years
Buildings and improvements	31.5 years
Furniture, fixtures and equipment	5 - 10 years
Vehicles	5 years

Contributions and Grants—All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or funding agency. At its discretion, the Association's Board of Directors may designate funds for specific purposes.

Hephzibah Children's Association

Notes to the Financial Statements

Year Ended June 30, 2007 (With Comparative Information for 2006)

Note 1 Nature of Activities and Significant Accounting Policies, *Continued*

Functional Expenses—Operating expenses directly identified with a functional area are charged to that area and, where those expenses affect more than one area, they are allocated on the basis of ratios estimated by management.

Estimates—In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications—Certain amounts from the 2006 financial statements have been reclassified to conform to the 2007 presentation without affecting previously reported net assets.

Note 2 Accounts Receivable

Accounts receivable at June 30, 2007 and 2006 consist of:

	<u>2007</u>	<u>2006</u>
Illinois Department of Children and Family Services	\$ 276,721	\$ 177,445
Pledges (due within one year)	166,887	81,000
Mental Health and Youth Services	13,451	113,839
Illinois Department of Human Services	67,619	155,521
United Way of Suburban Chicago	71,500	68,500
Parent fees	49,044	72,584
Other	14,844	24,839
	<u>660,066</u>	<u>693,728</u>
Allowance for doubtful accounts	<u>(11,400)</u>	<u>(11,400)</u>
	<u>\$ 648,666</u>	<u>\$ 682,328</u>

Note 3 Property and Equipment

Property and equipment at June 30, 2007 and 2006 consist of:

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 66,087	\$ 66,087
Buildings and improvements	1,709,211	1,645,851
Furniture and equipment	571,360	540,310
Telecommunications equipment	105,781	104,849
Playground equipment	192,906	192,906
Computer equipment	373,322	370,987
Vehicles	126,275	98,342
Construction in progress	<u>16,480</u>	<u>16,480</u>
	3,144,942	3,035,812
Accumulated depreciation	<u>(2,041,308)</u>	<u>(1,935,030)</u>
	<u>\$ 1,103,634</u>	<u>\$ 1,100,782</u>

Hephzibah Children's Association
Notes to the Financial Statements
Year Ended June 30, 2007 (With Comparative Information for 2006)

Note 4 Investments

Investments at June 30, 2007 and 2006 consist of:

	2007		2006	
	Market	Cost	Market	Cost
Equities	\$ 365,646	\$ 309,321	\$ 185,740	\$ 174,725
Fixed income	512,814	516,042	381,298	387,789
	<u>\$ 878,460</u>	<u>\$ 825,363</u>	<u>\$ 567,038</u>	<u>\$ 562,514</u>

Note 5 Obligations Under Capital Leases

In August 2005, the Agency acquired office equipment with a value of \$101,220 under capital leases. As of June 30, 2007, cost and accumulated depreciation of office equipment under capital leases is as follows:

Cost	\$ 101,200
Accumulated depreciation	<u>(38,793)</u>
	<u>\$ 62,407</u>

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2007.

2008	\$ 27,924
2009	27,924
2010	27,924
2011	<u>2,327</u>
	86,099
Imputed interest	<u>(16,487)</u>
Present value of minimum lease payments	<u>\$ 69,612</u>

Note 6 Temporarily Restricted Net Assets

The Association's temporarily restricted net assets at June 30, 2007 includes \$73,500 which is restricted as to time and \$283,015 which is restricted for use in specific programs. In fiscal 2007, \$281,421 was released from restrictions resulting from the Association's satisfaction of donor imposed time and program restrictions (2006 - \$205,301).

Note 7 Retirement Plan

The Association maintains a retirement plan covering all employees who have met eligibility requirements. The Association's \$221,749 contribution to the plan for fiscal year 2007 was 5 percent of gross salaries for eligible employees (2006 - \$212,482). Contributions to the plan are made at the discretion of the Association. The retirement contribution is included in employee health benefits on the statement of functional expenses and directly related program service revenue.

Hephzibah Children's Association

Notes to the Financial Statements

Year Ended June 30, 2007 (With Comparative Information for 2006)

Note 8 Leases

The Association rents its office facilities at 811 South Boulevard in Oak Park, Illinois under a lease expiring in 2008 and at 115 North Marion Street in Oak Park under a lease expiring in 2007. The Association also utilizes certain items of office equipment under various operating lease agreements which expire in February 2009. Future minimum annual commitments under noncancelable operating leases are approximately as follows:

2008	\$	187,949
2009		<u>18,169</u>
	\$	<u>206,118</u>

Rent expense during fiscal 2007 was \$92,592 (2006 - \$89,977).

Note 9 Due to Illinois Department of Children and Family Services

This amount is payable to the Department if or when the Association ceases to contract with the Department.

Note 10 Comparative Totals for Prior Year

The financial statements include certain prior year summarized comparative information which does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America because it does not present changes in net assets by class of net assets or the full details of functional expenses. Accordingly, the fiscal year 2006 information, which was audited by other auditors, should be read in conjunction with the Association's financial statements for 2006 from which the summarized information was derived.

