FAMILY & CHILDREN'S SERVICES, INC.
D/B/A HEADWATERS COUNSELING

FINANCIAL STATEMENTS

Year Ended June 30, 2015
With Summarized Information for June 30, 2014

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Family & Children's Services, Inc.
d/b/a Headwaters Counseling
Fort Wayne, Indiana

We have audited the accompanying financial statements of Family & Children's Services, Inc. d/b/a Headwaters Counseling (a nonprofit organization) which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 misstatements 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 financial position of Family & Children's Services, Inc. d/b/a Headwaters Counseling as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Family & Children's Services, Inc. d/b/a Headwaters Counseling’s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 26, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dulin, Ward & DeWald, Inc.

Fort Wayne, Indiana
September 21, 2015

FAMILY & CHILDREN'S SERVICES, INC.
D/B/A HEADWATERS COUNSELING
STATEMENT OF FINANCIAL POSITION
June 30, 2015 with Summarized Information for June 30, 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 90,723	$ 43,942
Receivables:		
Pledges	184,000	261,280
Program fees - net of allowance for doubtful accounts of $2,500 (2015) and $2,000 (2014)	33,080	28,671
Other	6,277	8,685
Prepaid expenses	5,036	5,647
Cash restricted for purchase of fixed assets	4,747	9,065
Fixed assets - net	501,506	455,056
Beneficial interest	45,063	46,203
Total Assets	$ 870,432	$ 858,549
LIABILITIES AND NET ASSETS		
Accounts payable and withholdings	$ 16,375	$ 3,464
Accrued expenses	80,142	77,731
Total Liabilities	96,517	81,195
Net Assets:		
Unrestricted net assets	499,179	436,460
Temporarily restricted net assets	263,466	329,624
Permanently restricted net assets	11,270	11,270
Total Net Assets	773,915	777,354
Total Liabilities and Net Assets	$ 870,432	$ 858,549

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

FAMILY & CHILDREN'S SERVICES, INC.
D/B/A HEADWATERS COUNSELING
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015 with Summarized
Information for the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted
CHANGES IN NET ASSETS		
Support, Revenues and Gains:		
Contributions	$ 107,713	$ 173,019
United Way	2,114	150,000
Counseling fees	483,569	-
Special events:		
Proceeds	26,732	-
Less: Cost of direct benefit to donors	(2,722)	-
Contracted service fees	204,862	-
Investment revenue - net of fees of $257 (2015) and $210 (2014)	53	1,074
Gain on beneficial interest	-	-
Miscellaneous	3,361	-
Net Assets Released From Restrictions:		
Satisfaction of program requirements	211,500	(211,500)
Satisfaction of purchase requirements	89,037	(89,037)
Satisfaction of time requirements	87,500	(87,500)
Total Support, Revenues and Gains	1,213,719	(63,944)
Expenses and Losses:		
Counseling	992,485	-
Management and general	142,478	-
Fund raising	13,206	-
Loss on beneficial interest	-	2,214
Loss on disposal of fixed assets	2,831	-
Total Expenses and Losses	1,151,000	2,214
CHANGE IN NET ASSETS	62,719	(66,158)
NET ASSETS - beginning of year	436,460	329,624
NET ASSETS - end of year	$ 499,179	$ 263,466

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

Permanently Restricted	2015	2014
$ -	$ 280,732	$ 165,866
-	152,114	152,634
-	483,569	448,882
-	26,732	23,480
-	(2,722)	(5,238)
-	204,862	203,930
-	1,127	1,540
-	-	4,992
-	3,361	3,174
-	-	-
-	-	-
-	-	-
-	1,149,775	999,260
-	992,485	943,558
-	142,478	155,731
-	13,206	23,880
-	2,214	-
-	2,831	252
-	1,153,214	1,123,421
-	(3,439)	(124,161)
11,270	777,354	901,515
$ 11,270	$ 773,915	$ 777,354

FAMILY & CHILDREN'S SERVICES, INC.
D/B/A HEADWATERS COUNSELING
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015 with Summarized Information
for the Year Ended June 30, 2014

	Counseling	Management and General	Fund Raising
Salaries	$ 685,238	$ 104,474	$ 8,268
Employee health and retirement benefits	89,273	11,034	1,060
Payroll taxes	46,829	7,171	558
Total Salaries and Related Expenses	821,340	122,679	9,886
Professional fees	16,817	9,387	4
Building maintenance	18,758	1,772	82
Supplies	17,409	854	404
Insurance	14,997	1,550	125
Publicity and promotions	16,296	98	54
Utilities	12,661	1,137	53
Equipment rental and maintenance	12,198	1,276	202
Telephone	6,333	598	28
Dues and fees	6,341	338	132
Bad debts	5,441	-	-
Miscellaneous	4,003	197	90
Postage and shipping	4,012	130	72
Travel	1,984	131	29
Fund raising	-	-	1,919
Conferences and conventions	1,769	115	19
Printing and publications	153	7	4
Total Expenses Before Depreciation	960,512	140,269	13,103
Depreciation	31,973	2,209	103
Total Expenses	$ 992,485	$ 142,478	$ 13,206

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

2015	2014
$ 797,980	$ 773,003
101,367	106,283
54,558	51,455
953,905	930,741
26,208	22,682
20,612	37,781
18,667	14,839
16,672	14,835
16,448	14,841
13,851	13,734
13,676	10,646
6,959	7,579
6,811	7,774
5,441	872
4,290	5,358
4,214	4,688
2,144	2,093
1,919	2,959
1,903	1,936
164	122
1,113,884	1,093,480
34,285	29,689
$ 1,148,169	$ 1,123,169

FAMILY & CHILDREN'S SERVICES, INC.
D/B/A HEADWATERS COUNSELING
STATEMENT OF CASH FLOWS
Year Ended June 30, 2015 with Summarized
Information for the Year Ended June 30, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (3,439)	$ (124,161)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	34,285	29,689
Provision for bad debts	5,441	872
(Gain) loss on beneficial interest	2,214	(4,992)
(Gain) loss on disposal of fixed assets	2,831	252
Contributions restricted to long-term purposes	(74,719)	-
Reinvested interest in beneficial interest - net of fees	(1,074)	(1,509)
Change in assets and liabilities:		
(Increase) decrease in:		
Receivables	69,838	182,430
Prepaid expenses	611	1,217
Increase (decrease) in:		
Accounts payable and withholdings	12,911	116
Accrued expenses	2,411	8,853
Cash Flows From Operating Activities	51,310	92,767
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(83,566)	(53,739)
Change in cash restricted to purchase of fixed assets	4,318	(6,967)
Cash Flows From Investing Activities	(79,248)	(60,706)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted to long-term purposes	74,719	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	46,781	32,061
CASH AND CASH EQUIVALENTS - beginning of year	43,942	11,881
CASH AND CASH EQUIVALENTS - end of year	$ 90,723	$ 43,942

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Family & Children's Services, Inc. d/b/a Headwaters Counseling (Organization) is a nonprofit voluntary health and welfare organization which provides addiction, sexual abuse, employee assistance and other counseling services to low-income adults, children and families in the community.

Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies for the 50% charitable contributions deduction limitation. The Organization has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code. The Organization's income tax filings are subject to audit by various taxing authorities. The Organization is no longer subject to income tax examinations by taxing authorities for tax years ending on or before June 30, 2011.

Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Revenue Recognition

The Organization bills Medicaid, Medicare and other third-party payers for clinical services rendered. Revenue is recorded for the full value of services provided with a related discount based upon historical collection experience.

(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

The Organization provides an allowance for doubtful accounts which is based on historical collection experience and management's estimate of losses that will be incurred in the collection of all receivables.

Long term pledges receivable are valued at the present value of estimated future cash flow determined by applying the long term Applicable Federal Rate (AFR) as published by the Internal Revenue Service.

Fixed Assets

Land, buildings and equipment are stated at cost or, if donated, at fair value at the date received. The cost of the buildings and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method for financial reporting purposes. It is not the Organization’s policy to imply time restrictions expiring over the useful life of donated assets. Fixed assets with an item cost or donated value of $500 or more and an estimated useful life of one year or more are capitalized when acquired.

Public Support

All contributions are considered to be available for the general programs of the Organization unless specifically restricted by the donor. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated asset. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions are recorded in the temporarily restricted class for restrictions expiring during the fiscal year, and then reclassified to the unrestricted class. By definition, permanently restricted support must be maintained in perpetuity. Restrictions on these net assets do not expire and no assets are reclassified in the statement of activities.

In-kind Contributions

In-kind contributions of services, which meet the criteria for recognition, equipment and supplies are recorded at their fair market value and are recognized as support and expense or capital assets at the date received.

Unemployment Compensation

For unemployment compensation purposes, the Organization has elected to reimburse the State of Indiana for claims made. Such reimbursements are charged to expense as they are paid.

(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification

Certain reclassifications have been made to conform prior years' financial statements to the current presentation. These reclassifications have no effect on previously reported operating results.

Financial Statement Presentation

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through September 21, 2015, the date which the financial statements were available for issue.

2. PLEDGES RECEIVABLE

Pledges receivable as of June 30 consist of the following:

	2015	2014
Pledges receivable	$ 184,000	$ 271,000
Less unamortized present value discount (2.7%)	-	9,720
Net pledges receivable	$ 184,000	$ 261,280
Amounts due in:		
Less than one year	$ 184,000	$ 91,000
One to five years	-	180,000
More than five years	-	-
	$ 184,000	$ 271,000

The Organization has received notification of an intention to give from the United Way of Allen County in the amount of $150,000 for fiscal year 2016 to be used for programs. The expected funding has not been recorded as an asset of the Organization as of June 30, 2015.

3. BENEFICIAL INTEREST

The beneficial interest in the amount of $45,063 at June 30, 2015 and $46,203 at June 30, 2014 consists of funds held by the Community Foundation of Greater Fort Wayne (Foundation) which are the result of an agreement whereby the Organization has transferred assets to the Foundation and has specified itself as the beneficiary of the assets. The Organization may draw up to a certain percent of the value of the assets each year, but may only obtain a return of the full value of the assets upon consent of the Foundation.

Additionally, the Foundation holds other investment assets, with a value of $23,454 at June 30, 2015 and $19,657 at June 30, 2014, for the benefit of the Organization for which it has retained variance power. These assets are not recorded as assets of the Organization.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1. Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2. Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets or quoted market prices for identical assets or liabilities in inactive markets.

Level 3. Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Beneficial Interest. Value based upon the Organization's proportionate share of the Community Foundation of Greater Fort Wayne's pooled investment portfolio.

(continued)

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value of assets and liabilities measured on a recurring basis at June 30 are as follows:

	Level 3	
	2015	**2014**
Beneficial interest	$ 45,063	$ 46,203

Following is a reconciliation of activity for assets measured at fair value based on significant unobservable inputs for the year ending June 30.

	Beneficial Interest	
	2015	**2014**
Balance – beginning of year	$ 46,203	$ 39,702
Total gains and losses included in change in net assets:		
Investment revenue	1,331	1,719
Gain on beneficial interest:		
Unrealized gain (loss)	(2,566)	4,696
Realized gain	352	296
Investment fees	(257)	(210)
Balance – end of year	$ 45,063	$ 46,203

5. FIXED ASSETS

The components of fixed assets as of June 30 are as follows:

	2015	**2014**
Land	$ 46,800	$ 46,800
Buildings	723,346	710,636
Equipment	232,981	170,710
	1,003,127	928,146
Accumulated depreciation	501,621	473,090
	$ 501,506	$ 455,056

6. LINE OF CREDIT

The Organization has available as of June 30, 2015 a $135,000 line of credit with Old National Bank. Interest, which is computed monthly on the unpaid balance, is determined using the prime rate (3.25% at June 30, 2015). The note, which is secured by all assets, expires October 25, 2015. There was no outstanding amount on the line at June 30, 2015.

7. NET ASSETS

Temporarily restricted net assets as of June 30 are restricted for the following purposes:

	2015	2014
Program requirements	$ 39,820	$ 7,320
Endowment – unappropriated earnings	33,793	34,933
Time requirements	184,000	267,500
Purchase requirements	5,853	19,871
	$ 263,466	$ 329,624

Permanently restricted net assets are restricted for endowment purposes. Income from the endowment can be used for operations.

8. ENDOWMENT

Family & Children's Services, Inc. d/b/a Headwaters Counseling has currently invested its donor-restricted endowment funds with the Community Foundation of Greater Fort Wayne. The endowment has been established to promote the mission of the agency. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(continued)

8. ENDOWMENT (continued)

Interpretation of Relevant Law

The Board of Directors of Family & Children's Services, Inc. d/b/a Headwaters Counseling has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies of the Organization.

Endowment Net Asset Composition by Type of Fund as of June 30

	Donor Restricted	
	2015	**2014**
Endowment		
Unrestricted	$ -	$ -
Temporarily restricted	33,793	34,933
Permanently restricted	11,270	11,270
Total funds	$ 45,063	$ 46,203

(continued)

8. ENDOWMENT (continued)

Changes in Endowment Net Assets for the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - July 1, 2014	$ -	$ 34,933	$ 11,270	$ 46,203
Investment return:				
Investment income	-	1,331	-	1,331
Net appreciation (depreciation) (realized and unrealized)	-	(2,214)	-	(2,214)
Fees	-	(257)	-	(257)
Total investment return	-	(1,140)	-	(1,140)
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets - June 30, 2015	$ -	$ 33,793	$ 11,270	$ 45,063

Changes in Endowment Net Assets for the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - July 1, 2014	$ -	$ 28,432	$ 11,270	$ 39,702
Investment return:				
Investment income	-	1,719	-	1,719
Net appreciation (realized and unrealized)	-	4,992	-	4,992
Fees	-	(210)	-	(210)
Total investment return	-	6,501	-	6,501
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets - June 30, 2015	$ -	$ 34,933	$ 11,270	$ 46,203

(continued)

8. **ENDOWMENT** (continued)

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)

	2015	2014
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 11,270	$ 11,270
Temporarily Restricted Net Assets		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions	$ 33,793	$ 34,933

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to preserve the principal in terms of its purchasing power so the fund will be able to serve the Organization's needs over the long term; produce sufficient income to meet the needs of the Organization; and provide long-term growth in assets as may be fairly balanced by the need for reasonable income and investment risk. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to achieve satisfactory investment returns while gaining the risk control of diversification.

Strategies Employed for Achieving Objectives

Endowment funds have currently been transferred to the Community Foundation of Greater Fort Wayne for investment and management. All future endowment gifts or board designated endowment funds will be presented to the Finance Committee and then to the Board of Directors for final approval of investment strategy.

Spending Policy and How the Investment Objectives Relate to Spending Policy

In accordance with the agreement with the Community Foundation of Greater Fort Wayne, the Organization may draw up to 6% of the value of the assets each year.

9. RETIREMENT PLAN

The Organization sponsors an employee savings plan under Section 401(k) of the Internal Revenue Code. The plan covers all employees who are at least 21 years of age and have completed one year of employment. Contributions to the plan by the Organization are at the discretion of the board of directors up to the maximum allowable by the Internal Revenue Service. Expense charged to operations for the plan was $15,000 in 2015 and 2014.

10. CONCENTRATIONS AND CREDIT RISK

Family & Children's Services, Inc. d/b/a Headwaters Counseling receives a significant amount of its support from United Way of Allen County. A significant reduction in the level of this support, if it were to occur, may have an effect on the Organization’s programs and activities.

The Organization’s pledges receivable from one funding source was 98% at June 30, 2015 and 99% at June 30, 2014. A significant reduction in the level of this support may have an effect on the Organization’s programs and activities.

The Organization grants credit for its services to individuals and employers in the Fort Wayne, Indiana area and to third-party payors.

11. LEASES

The Organization leases equipment under an operating lease expiring in fiscal year ending 2018. Total rental expense was $420 in 2015 and 2014.

Minimum future rental payments under noncancelable operating leases as of June 30, 2015 for each of the next five years and in the aggregate are:

2016	$ 420
2017	420
2018	420
2019 and thereafter	-
	$ 1,260