



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B35129

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

November 18, 2009

Board of Directors
IN-PACT, Inc.
12300 Marshall St.
Crown Point, IN 46307

We have reviewed the audit report prepared by Bradley & Associates, Inc., Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the IN-PACT, Inc., as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the finding in the report. The management letter contains one comment.

STATE BOARD OF ACCOUNTS

IN-PACT, INC.

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

YEARS ENDED JUNE 30, 2008 AND 2007

AND

INDEPENDENT AUDITORS' REPORT

IN-PACT, INC.
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
YEARS ENDED JUNE 30, 2008 AND 2007

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Board of Directors
IN-PACT, Inc.
Crown Point, Indiana

Independent Auditors' Report

We have audited the accompanying statements of financial position of IN-PACT, Inc. (a nonprofit organization) as of June 30, 2008 and 2007 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of IN-PACT, 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 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 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 IN-PACT, Inc. as of June 30, 2008 and 2007, 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 *Governmental Auditing Standards*, we have also issued a report dated September 11, 2008, on our consideration of IN-PACT, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of IN-PACT, Inc. taken as a whole. The accompanying schedule of expenditures of state and local awards is presented for purposes of additional analysis as required by the *Indiana State Board of Accounts Guidelines for Examination of Entities receiving Financial Assistance from Governmental Sources* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

Indianapolis, Indiana
September 11, 2008

Randy J. Associates, Inc.

IN-PACT, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 952,892	\$ 773,813
Investments	530,251	951,708
Accounts receivable	25,602	4,732
Capital pledge receivable	19,704	
Medicaid receivable	387,980	374,543
Medicaid waiver receivable net of allowance for doubtful accounts of zero and \$4,127 at June 30, 2008 and 2007, respectively	460,175	401,459
Division of Disability, Aging and Rehabilitative Services receivable	55,197	18,046
Prepaid expenses	135,003	80,695
Total current assets	<u>2,566,804</u>	<u>2,604,996</u>
Property and equipment	7,591,287	6,546,870
Less accumulated depreciation	<u>(2,947,245)</u>	<u>(2,654,662)</u>
	<u>4,644,042</u>	<u>3,892,208</u>
Other assets:		
Deposits	<u>3,229</u>	<u>3,229</u>
	<u>3,229</u>	<u>3,229</u>
Total assets	<u>\$7,214,075</u>	<u>\$6,500,433</u>

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

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current liabilities:		
Current maturities of long-term debt	\$ 67,106	\$ 79,023
Accounts payable	156,263	116,125
Medicaid payable	83,288	
Retirement plan payable	92,388	96,446
Accrued salaries and related liabilities	386,534	410,734
Self insurance payable	331,283	223,223
Accrued vacation	269,330	242,214
	<u>1,386,192</u>	<u>1,167,765</u>
Total current liabilities		
Long-term debt, less current maturities	<u>957,638</u>	<u>1,023,399</u>
Total liabilities	<u>2,343,830</u>	<u>2,191,164</u>
Net assets:		
Unrestricted	<u>4,870,245</u>	<u>4,309,269</u>
Total net assets	<u>4,870,245</u>	<u>4,309,269</u>
Total liabilities and net assets	<u>\$7,214,075</u>	<u>\$6,500,433</u>

IN-PACT, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets from operations:		
Public support:		
HUD funding	\$ 60,000	\$ 307,547
Contributions	312,024	52,519
Special events	22,304	34,828
Total public support	<u>394,328</u>	<u>394,894</u>
Service revenue:		
Group homes	5,415,918	4,978,340
Alternative family program	118,948	138,831
Medicaid waiver revenue	7,170,164	6,649,827
Independent living	2,070	
Vocational rehabilitation	9,725	2,131
Department of Education revenue		26,750
Other service revenue	12,590	14,749
Total service revenue	<u>12,729,415</u>	<u>11,810,628</u>
Other gains:		
Interest income	109,934	88,888
Rental income	56,184	47,010
Total other gains	<u>166,118</u>	<u>135,898</u>
 Total unrestricted support, revenue and gains	 <u>\$13,289,861</u>	 <u>\$12,341,420</u>

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

IN-PACT, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2008 AND 2007
(Continued)

	<u>2008</u>	<u>2007</u>
Expenses		
Salaries and related expense	\$ 8,900,928	\$ 8,480,092
Operating expense	3,237,072	3,115,067
Fund raising expense	63,597	113,507
Depreciation expense	331,607	311,165
Bad debt expense		(4,127)
Interest expense	81,342	82,353
	<u>12,614,546</u>	<u>12,098,057</u>
Changes in unrestricted net assets from operations	675,315	243,363
Change in net unrealized gains on other than trading securities	<u>(114,339)</u>	<u>58,296</u>
Changes in unrestricted net assets	560,976	301,659
Net assets, beginning of year	<u>4,309,269</u>	<u>4,007,610</u>
Net assets, end of year	<u>\$ 4,870,245</u>	<u>\$ 4,309,269</u>

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

IN-PACT, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Cash received from other public support	\$ 394,328	\$ 394,894
Cash received from client fees	12,583,664	12,040,754
Cash received from miscellaneous sources	56,184	47,010
Interest received	109,934	88,888
Cash paid to suppliers and employees	(12,025,561)	(11,746,122)
Interest paid	(81,342)	(82,353)
	1,037,207	743,071
Cash flows from investing activities:		
Capital expenditures	(1,081,523)	(724,697)
Decrease (increase) in investments	301,072	(58,907)
	(780,451)	(783,604)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt		168,000
Payments of long-term debt	(77,677)	(72,611)
	(77,677)	95,389
Net increase in cash and cash equivalents	179,079	54,856
Cash and cash equivalents at beginning of year	773,813	718,957
Cash and cash equivalents at end of year	\$ 952,892	\$ 773,813

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

IN-PACT, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007
(Continued)

	2008	2007
Reconciliation of change in net assets to cash provided by operating activities:		
Change in net assets	\$ 560,976	\$ 301,659
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	331,607	311,165
Unrealized loss (gain) on investments	114,339	(58,296)
Bad debt expense		(4,127)
(Increase) decrease in accounts receivable	(20,870)	104,881
(Increase) in capital pledge receivable	(19,704)	-
(Increase) in Medicaid receivable	(13,437)	(26,903)
(Increase) decrease in Medicaid waiver receivable	(54,589)	106,054
(Increase) decrease in Division of Disabilities, Aging and Rehabilitative Services receivable	(37,151)	50,221
(Increase) decrease in prepaid expenses	(54,308)	36,833
Increase (decrease) in accounts payable	40,138	(180,612)
Increase in Medicaid payable	83,288	
(Decrease) increase in retirement plan payable	(4,058)	46,411
(Decrease) increase in accrued salaries and related liabilities	(24,200)	58,766
Increase in self insurance payable	108,060	30,000
Increase (decrease) in accrued vacation	27,116	(32,981)
Net cash provided by operating activities	\$ 1,037,207	\$ 743,071

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

IN-PACT, INC.

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies

Organization

IN-PACT, Inc. (the Agency) is incorporated as a not-for-profit organization under the laws of the State of Indiana. The primary purpose of the Agency is to provide a full range of services to the mentally and physically disabled. The Agency provides vocational training, counseling, transportation, and evaluation, residential and infant services to clients in Lake County.

Financial Statement Presentation

The Agency is required to report 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. When a temporary 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. The Agency had no temporarily or permanently restricted net assets.

Public Support

The Agency contracts with various State agencies to provide a wide variety of rehabilitation services to the handicapped. IN-PACT, Inc. vouchers the agencies monthly based on current activity and the authorized amount of the grant. Public support is recognized as services are performed.

The Agency also receives funds from Lake County. These amounts are recognized as revenue on the accrual basis. Pledges received by outside parties that are legally enforceable and deemed collectable are recognized as revenue in the period the pledge is made.

Service Revenue

The Agency contracts with various State agencies to provide a wide variety of services to persons with disabilities. The Agency vouchers the agencies monthly based on current activity and the original amount of the grant or contract. Revenue is recognized as services are performed. These vouchers and grants are subject to periodic audit by the State. No estimated settlements have been recorded for periods not audited by the State as such adjustments, if any, cannot reasonably be determined.

Residential services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. The Agency submits annual cost reports to determine its Medicaid rates for group homes. These reports are subject to periodic audit by the Medicaid Audit Contractor. At June 30, 2008, Medicaid reports have been audited through fiscal 2006. The Agency has recorded an estimated reserve of \$83,288 at June 30, 2008, to cover any potential liability associated with these Medicaid audits.

IN-PACT, INC.

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies (Continued)

Service Revenue (Continued)

Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Agency. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Agency's liquidity, financial condition and results of operations.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted. The Agency had no permanently or temporarily restricted net assets as of June 30, 2008 and 2007.

Long-lived assets acquired with gifts of cash restricted for those acquisitions are reported as unrestricted or as temporarily restricted depending on whether there is an explicit, donor-imposed time requirement as to how long the assets must be maintained. Long-lived assets are reported as permanently restricted only if the Agency must maintain the assets in perpetuity or if the donor explicitly restricted the proceeds from any future disposition of the assets to reinvestment in long-lived assets.

Cash and Cash Equivalents

Cash and cash equivalents include monies held in various checking, savings, and money market accounts. The Agency maintains these deposits with banks which, at times, may exceed federally insured limits. The Agency has not experienced any loss in these accounts. The Agency believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments are measured at fair value on the balance sheet at June 30, 2008 and June 30, 2007. Investment income or loss (including realized gains and losses on investments, and dividends) is included in the change in unrestricted net assets from operations unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the change in unrestricted net assets from operations. Given the current economic environment and the volatility of the financial markets, it is possible there could be material differences in the value of these investments subsequent to the year ended June 30, 2008.

IN-PACT, INC.

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies (Continued)

Trade Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivables. Changes in the valuation allowance have not been material to the financial statements.

Property and Equipment

Property and equipment are stated at cost, or for donations, at fair market value at the date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Governmental units funding property and equipment through grants retain a security interest over various periods. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to or charged against income for the period.

Depreciation, computed using the straight-line method, is provided by annual charges to expense over estimated useful lives as follows:

Furniture and equipment	5 – 10 years
Building improvements	5 – 25 years
Buildings	25 years

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Federal and State Income Taxes

IN-PACT, Inc. has been granted exemption from taxation as a not-for-profit organization under Section 501(c)(3) of the U.S. Internal Revenue Code. Accordingly, no expense has been recognized for income taxes in the accompanying financial statements.

Reclassification

Certain 2007 balances were reclassified to agree with the 2008 presentation.

IN-PACT, INC.

NOTES TO FINANCIAL STATEMENTS

2 - Marketable Securities

The cost and fair market value of marketable securities recorded as investments on the statements of financial position is as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>June 30, 2008</u>				
Available for sale:				
Cash	\$ 67,333	\$	\$	\$ 67,333
Fixed Income Taxable	134,325		(16,165)	118,160
Equity Securities	348,434		(3,676)	344,758
	<u>\$ 550,092</u>	<u>\$</u>	<u>\$(19,841)</u>	<u>\$ 530,251</u>
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>June 30, 2007</u>				
Available for sale:				
Cash	\$ 18,494	\$	\$	\$ 18,494
Fixed Income Taxable	174,442		(12,146)	162,296
Equity Securities	664,274	106,644		770,918
	<u>\$ 857,210</u>	<u>\$ 106,644</u>	<u>\$(12,146)</u>	<u>\$ 951,708</u>

3 - Property and Equipment

Property and equipment consisted of the following at June 30:

	2008		2007	
	Cost	Accum. Depr.	Cost	Accum. Depr.
Land	\$ 635,000	\$	\$ 635,000	\$
Group Homes	3,471,395	921,586	2,453,338	774,109
Administration	1,510,550	851,247	1,471,335	808,601
Construction in progress			23,507	
Other	1,974,342	1,174,412	1,963,690	1,071,952
	<u>\$7,591,287</u>	<u>\$2,947,245</u>	<u>\$6,546,870</u>	<u>\$2,654,662</u>

IN-PACT, INC.

NOTES TO FINANCIAL STATEMENTS

3 - Property and Equipment (Continued)

Property and equipment at June 30, 2007 includes Construction in Progress in the amount of \$23,507, which consists of fees to design and build a recreation/day service facility next to the four-unit quadplex constructed during fiscal year 2006. The total cost of the project was \$955,996 and was completed in May 2008. Funds for the project were partly raised through a capital campaign match along with funds from the Agency.

4 - Retirement Plan

The Agency has a defined contribution profit sharing plan covering substantially all of its employees. Contributions are determined by the Board of Directors on an annual basis. The Agency's contribution for the years ended June 30, 2008 and 2007 were \$92,388 and \$96,446, respectively, which is included in salaries and related expenses on the Statements of Activities.

5 - Self-Insured Health Plan

The Agency provides self-insured health benefits to its employees. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment on a weekly basis. The plan purchased individual excess risk insurance to cover individual health claims in excess of a predetermined amount. In addition, the Plan has an aggregate stop loss policy for a predetermined amount. If claims exceed this amount, then an insurance company pays the claims. The Agency has estimated and recorded a liability of \$381,283 and \$223,223 as of June 30, 2008 and 2007, respectively.

6 - Long-Term Debt

Long-term debt consisted of the following at June 30:

	2008	2007
7.07% fixed rate note payable to bank due March 2010, payable in monthly installments of \$558 including interest, mortgaged by land and building.	\$ 10,770	\$ 16,482
5.385% fixed rate mortgage note payable to bank due March 2008, payable in monthly installments of \$1,076 including interest, collateralized by Agency equipment.		10,993
6.75% fixed rate mortgage note payable to a bank due December 2016, payable in monthly installments of \$1,100 including interest, collateralized by land and building.	85,828	92,218

IN-PACT, INC.

NOTES TO FINANCIAL STATEMENTS

6 - Long-Term Debt (Continued)

8.00% fixed mortgage note payable to bank due September 2008, payable in monthly installments of \$670 including interest, collateralized by land and building.	1,983	9,530
7.50% fixed rate mortgage note payable to a bank due May 2018, payable in monthly installments of \$7,141 including interest, mortgaged by land and building.	591,859	630,809
7.40% fixed rate mortgage note payable to a bank due February 2013, payable in monthly installments of \$1,453 including interest, collateralized by assets in the custody of the bank. Any unpaid principal balance at maturity date will be due immediately	171,856	176,193
7.70% fixed rate mortgage note payable to a bank due October 2013, payable in monthly installments of \$1,386 including interest, mortgaged by land and building.	162,448	166,197
Total	1,024,744	1,102,422
Current portion	67,106	79,023
	<u>\$ 957,638</u>	<u>\$ 1,023,399</u>

Maturities of long-term debt are as follows for the year ending June 30:

2009	\$ 67,106
2010	68,241
2011	68,508
2012	73,815
2013	222,533
Thereafter	524,541
	<u>\$1,024,744</u>

7 - Line of Credit

The Agency has an approved line-of-credit of \$1,000,000 with a bank. The line-of-credit is secured by all investments in the custody of the bank and the Agency's accounts receivable and bears interest at the bank's prime rate. The outstanding balance June 30, 2008 and 2007 was \$-0-. Given the current economic situation and changes in the banking environment, there can be no assurances the line of credit will continue to be available to the Agency. If this occurs, there could be a material adverse effect on the Agency's liquidity, financial condition and results of operations.

IN-PACT, INC.

NOTES TO FINANCIAL STATEMENTS

8 - Commitments & Contingencies

The Agency leases two apartment residences and ten vehicles under long-term lease agreements. Such leases are classified as operating leases and expire in various years through 2012.

The following is a schedule of minimum lease payments for the years ending June 30:

	<u>Operating Leases</u>
2009	\$ 92,223
2010	51,928
2011	16,596
2012	<u>2,200</u>
	<u>\$162,947</u>

Total expense for all operating leases during the years ended June 30, 2008 and 2007 was \$128,457 and \$122,229, respectively, which is included in operating expense on the Statements of Activities.

9 - Legal Contingencies

The Agency provides long-term support to individuals with various disabilities. Over time, the industry has seen an increase in litigation related to patient care issues. The Agency carries professional liability insurance on all of its facilities to cover potential losses resulting from litigation.

In May 2005, a lawsuit was brought against the Agency for injuries sustained by a group home client. In June 2007, the plaintiff offered to accept \$2,000,000 to settle all claims, which was the maximum coverage of the Agency's Commercial General Liability Policy in place at the time of the incident. The Agency does have a \$10,000 deductible on the policy. The insurance company failed to tender the \$2,000,000 limit and instead offered only \$1,000,000. The plaintiff refused the offer and the Company believes that the plaintiff is most likely taking the case to trial. The Plaintiffs are pursuing claims in excess of \$10,000,000. Counsel retained by the insurance company initially valued the case between \$1,000,000 and \$1,500,000, but has now taken the position that the case has a value of at least \$2,000,000. While an estimate of potential liability to the Agency cannot be estimated, it is possible that the final settlement will exceed the policy limit. The Agency's attorney has indicated that the Agency will look to the Insurer for any judgment in excess of the policy limit due to the Agency's belief the case was mishandled by their Insurer. However, as any potential amount awarded in excess of the coverage is not estimable, no accrual has been established at year-end.

IN-PACT, INC.

NOTES TO FINANCIAL STATEMENTS

10 - Concentration of Credit Risk

The Agency is located in Crown Point, Indiana. The Agency grants credit without collateral to its clients, (most of whom are local residents who are insured under third-party payor agreements). Significant balances of accounts receivable were as follows at June 30:

	<u>2008</u>	<u>2007</u>
Medicaid (including waiver)	89%	97%
Division of Disability, Aging and Rehabilitative Services	6	2
Capital Pledge Receivable	2	
Other	3	1
	<u>100%</u>	<u>100%</u>

11 - Rental Income

The Agency leases properties to Agency clients under short-term lease arrangements. These leases are cancelable by the tenant by giving a thirty-day notice. As these leases are financed by HUD, certain restrictions are placed on the monthly rent charged and the type of individual eligible for the housing. Rental income for the years ended June 30, 2008 and 2007, was \$56,184 and \$47,010, respectively.

12 - Functional Expenses

The Agency provides a full range of services to mentally and physically disabled individuals within its geographic location. Expenses related to providing these services are as follows:

	<u>For the Year Ended June 30 2008</u>	<u>2007</u>
Program Services	\$11,028,511	\$10,759,097
General & Administrative	1,522,438	1,225,453
Fund raising	63,597	113,507
	<u>\$12,614,546</u>	<u>\$12,098,057</u>

IN-PACT, INC.

NOTES TO FINANCIAL STATEMENTS

13 - U.S. Housing and Urban Development

The Agency received \$60,000 and \$212,455 of HUD monies through the HOME program from the Lake County Community Economic Development Department during 2008 and 2007, respectively, for the development and construction of a four-unit quadplex. The project will produce four two-bedroom HOME assisted units intended for use by eight HOME eligible participants. The funds have been reported as revenue in the respective fiscal year. Rents charged on these apartments are required to meet HUD standards for twenty years. All property, real or personal, cannot be disposed of without written permission of the Lake County Community Economic Development Department for twenty years.

The Agency received \$95,092 of HUD monies through the HOME program from the Lake County Community Economic Development Department during 2007 for the development of a six person group home located at 1487 W. 4th St. in Hobart, Indiana. The Agency agrees to provide housing for mentally handicapped persons in a home-type atmosphere. The funds have been reported as revenue in fiscal year 2007. Rents charged on the facility are required to meet HUD standards for fifteen years. All property, real or personal, cannot be disposed of without written permission of the Lake County Community Economic Development Department for fifteen years.

The Agency received HUD monies through the HOME program from the Lake County Community Economic Development Department during prior years for additional qualifying projects. The Agency agrees to provide housing for mentally handicapped persons in a home-type atmosphere. The funds have been reported as revenue in the respective fiscal year. Rents charged on the facility are required to meet HUD standards for fifteen years. All property, real or personal, cannot be disposed of without written permission of the Lake County Community Economic Development Department for fifteen years.

14 - Schedules of Expenditures of State and Local Awards

The accompanying schedule of expenditures of state and local awards is presented on the cash 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 the amounts presented in, or used in the preparation of, the basic financial statements.

ACCOMPANYING INFORMATION

IN-PACT, INC.

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS

YEAR ENDED JUNE 30, 2008

<u>Grantor</u>	<u>Revenues</u>	<u>Expenditures</u>
Alternative family and independent living funds passed through the Indiana Division of Disability, Aging, and Rehabilitative Services	<u>\$ 85,095</u>	<u>\$ 85,095</u>
State funds included in service revenue	<u>85,095</u>	<u>85,095</u>
Alternative family and independent living funds passed through the Indiana Division of Disability, Aging, and Rehabilitative Services	<u>30,093</u>	<u>30,093</u>
State funds included in rental income	<u>30,093</u>	<u>30,093</u>
Total State and Local Awards	<u><u>\$ 115,188</u></u>	<u><u>\$ 115,188</u></u>

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

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
IN-PACT, Inc.
Crown Point, Indiana

We have audited the financial statements of IN-PACT, Inc. (a nonprofit organization) as of and for the year ended June 30, 2008 and June 30, 2007, and have issued our report thereon dated September 11, 2008. 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 IN-PACT, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the IN-PACT, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether IN-PACT, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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*.

Board of Directors
IN-PACT, Inc.
Crown Point, Indiana
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This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Randall & Associates, Inc.

Certified Public Accountants

Indianapolis, Indiana
September 11, 2008

**Bradley &
Associates, Inc.**

Certified Public Accountants

September 11, 2008

Board of Directors
IN-PACT, Inc.
Crown Point, Indiana

Ladies & Gentlemen:

We have audited the financial statements of IN-PACT, Inc. for the years ended June 30, 2008 and 2007, and have issued our report thereon dated September 11, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 30, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our conference call about planning matters dated September 5, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by IN-PACT, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the self insurance payable is based on historical benefit claims paid and an analysis of the benefit claims prepared by a third party administrator. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of a pending lawsuit in Note 9 to the financial statements where said lawsuit was brought against the Agency for injuries sustained by one of their group home clients.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no such misstatements during the course of our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 11, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We would like to communicate the following findings noted during the audit:

Per our review of the internal control questionnaire completed by management, we noted certain potential weaknesses in internal control in the current policies and procedures in place. These potential weaknesses have been periodically addressed by management and deemed to either be immaterial or to have compensating controls in place. While we determined that there are no significant weaknesses in internal control, there are some areas that could be further strengthened to minimize any unnecessary risks.

This information is intended solely for the use of the Board of Directors, management, and employees of IN-PACT, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to present these comments and would be pleased to discuss them with you further at any time. We would also like to express our thanks to the Organization's administration and staff for the cooperation and assistance during the audit. We have enjoyed working with IN-PACT, Inc. and look forward to being of further assistance in the future.

Randy J. Associates, Inc.