



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B35702

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

February 3, 2010

Board of Directors
Lifestream Services, Inc.
1701 Pilgrim Dr.
P.O. Box 308
Yorktown, IN 47396

We have reviewed the audit report prepared by Crowe Chizek and Company, LLC, Independent Public Accountants, for the period July 1, 2005 to June 30, 2007. 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 Lifestream Services, Inc., as of June 30, 2007, 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 findings in the report. Pages 22 through 24 contain three current audit findings.

STATE BOARD OF ACCOUNTS

LIFESTREAM SERVICES, INC.

FINANCIAL STATEMENTS

June 30, 2007 and 2006

LIFESTREAM SERVICES, INC.
Yorktown, Indiana

FINANCIAL STATEMENTS
June 30, 2007 and 2006

CONTENTS

REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION.....	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENTS OF FUNCTIONAL EXPENSES.....	5
STATEMENTS OF CASH FLOWS.....	7
NOTES TO FINANCIAL STATEMENTS.....	8
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	15
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.....	17
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	19
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	21
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS.....	25



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
LifeStream Services, Inc.
Yorktown, Indiana

We have audited the accompanying statements of financial position of LifeStream Services, Inc. as of June 30, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of LifeStream 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 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 LifeStream Services, Inc. as of June 30, 2007 and 2006, 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 our report dated March 27, 2008, on our considerations of LifeStream Services, Inc.'s internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants 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 *Governmental Auditing Standards* and should be considered in assessing results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of LifeStream Services, Inc. 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.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Indianapolis, Indiana
March 27, 2008

LIFESTREAM SERVICES, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 42,616	\$ 246,854
Grant reimbursements receivable (Note 3)	1,435,325	917,061
Accounts receivable	58,049	39,767
Related party receivable (Note 8)	25,379	18,544
Note receivable (Note 9)	3,305	6,960
Prepaid expenses and other assets	1,479	11,414
Investments	<u>7,040</u>	<u>7,177</u>
	<u>\$ 1,573,193</u>	<u>\$ 1,247,777</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 722,168	\$ 718,080
Due to funding source	159,553	-
Accrued payroll and benefit expenses	151,430	126,022
Accrued vacation	133,704	89,969
Deferred revenue	23,300	12,445
Line of credit payable (Note 1)	<u>200,000</u>	<u>-</u>
Total liabilities	1,390,155	946,516
Unrestricted net assets	<u>183,038</u>	<u>301,261</u>
	<u>\$ 1,573,193</u>	<u>\$ 1,247,777</u>

See accompanying notes to financial statements.

LIFESTREAM SERVICES, INC.
 STATEMENTS OF ACTIVITIES
 Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenue and support		
Federal assistance	\$ 2,807,937	\$ 3,104,389
State assistance	2,996,638	3,691,413
Other government grants	447,481	169,376
Project income and service fees	459,825	523,087
Medicaid waiver	754,739	639,781
Contributions	227,584	56,480
Interest income	10,472	11,278
Other	328,294	287,743
In-kind contributions	<u>5,000</u>	<u>16,443</u>
	8,037,970	8,499,990
Expenses		
Program services:		
In-home services	2,219,256	3,080,170
Nutrition	1,561,211	1,400,260
Care management	1,146,855	993,941
Transportation	1,198,068	981,929
Information and referral	159,365	125,061
Other programs (Note 5)	<u>821,625</u>	<u>859,003</u>
Total program services	7,106,380	7,440,364
Administration	878,688	965,502
Fundraising	<u>171,125</u>	<u>174,217</u>
	8,156,193	8,580,083
Change in net assets	(118,223)	(80,093)
Net assets at beginning of year	<u>301,261</u>	<u>381,354</u>
Net assets at end of year	<u>\$ 183,038</u>	<u>\$ 301,261</u>

See accompanying notes to financial statements.

LIFESTREAM SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2007

	In-Home Services	Nutrition	Care Management	Transportation	Information and Referral	Other Programs (Note 5)	Total Program Services	Administration	Fund- raising	2007 Total Expenses
Salaries and wages	\$ -	\$ 498,555	\$ 785,372	\$ 588,074	\$ 96,606	\$ 493,064	\$ 2,461,671	\$ 389,595	\$ 117,520	\$ 2,968,786
Payroll taxes and employee benefits	-	89,420	199,365	136,159	41,227	107,703	573,874	165,063	11,201	750,138
Total salaries, wages and related expenses	-	587,975	984,737	724,233	137,833	600,767	3,035,545	554,658	128,721	3,718,924
Contract services	2,219,256	796,079	1,865	118,780	982	1,443	3,138,405	39,856	11,815	3,190,076
Occupancy	-	15,108	46,077	20,060	5,423	4,452	91,120	57,562	9,454	158,136
Telephone	-	4,556	26,065	12,207	1,169	7,260	51,257	25,197	637	77,091
Postage	-	908	4,670	359	1,245	5,598	12,780	15,643	794	29,217
Supplies	-	3,272	7,343	7,501	1,040	5,103	24,259	42,756	3,868	70,883
Printing and copying	-	2,330	6,347	1,525	883	3,649	14,734	22,244	4,971	41,949
Insurance	-	10,505	-	47,299	-	6	57,810	25,777	-	83,587
Equipment	-	9,138	10,677	1,953	652	33,391	55,811	29,475	1,152	86,438
Fuel Expense	-	31,033	-	215,940	-	-	246,973	-	-	246,973
Travel	-	83,110	33,584	2,311	1,070	19,261	139,336	11,249	1,277	151,862
Equipment maintenance	-	2,646	-	4,807	-	102,995	110,448	479	-	110,927
Conferences and training	-	546	2,930	28,580	1,345	4,124	37,525	13,159	475	51,159
Dues and memberships	-	200	615	40	2,140	681	3,676	21,981	-	25,607
Marketing and advertising	-	1,372	11,332	1,820	621	20,333	35,478	13,129	545	49,152
Interest expense	-	3,511	2,997	3,008	1,401	2,136	13,053	1,574	2,094	16,721
Miscellaneous	-	8,922	7,616	7,645	3,561	5,426	33,170	3,999	5,322	42,491
In-kind expenses	-	-	-	-	-	5,000	5,000	-	-	5,000
	\$ 2,219,256	\$ 1,561,211	\$ 1,146,855	\$ 1,198,068	\$ 159,365	\$ 821,625	\$ 7,106,380	\$ 878,688	\$ 171,125	\$ 8,156,193

See accompanying notes to financial statements.

LIFESTREAM SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Years ended June 30, 2006

	In-Home Services	Nutrition	Care Management	Transportation	Information and Referral	Other Programs (Note 5)	Total Program Services	Administration	Fund- raising	2006 Total Expenses
Salaries and wages	\$ -	\$ 403,616	\$ 660,385	\$ 470,381	\$ 59,120	\$ 585,143	\$ 2,178,645	\$ 453,289	\$ 107,340	\$ 2,739,274
Payroll taxes and employee benefits	-	57,630	202,716	109,012	20,903	117,816	508,077	174,531	20,230	702,838
Total salaries, wages and related expenses	-	461,246	863,101	579,393	80,023	702,959	2,686,722	627,820	127,570	3,442,112
Contract services	3,080,170	791,016	11,187	1,607	1,469	5,283	3,890,732	40,539	19,611	3,950,882
Occupancy	-	15,197	44,195	28,755	5,416	56,805	150,368	48,110	7,222	205,700
Telephone	-	4,123	18,571	13,956	747	4,785	42,182	25,624	979	68,785
Postage	-	922	2,397	550	1,619	11,269	16,757	10,728	2,391	29,876
Supplies	-	3,659	5,892	3,409	1,406	11,130	25,496	33,458	6,006	64,960
Printing and copying	-	2,312	2,894	334	454	9,634	15,628	21,856	3,644	41,128
Insurance	-	9,395	-	43,569	-	-	52,964	24,961	-	77,925
Equipment	-	11,210	3,169	16,887	26,740	4,037	62,043	6,530	552	69,125
Fuel expense	-	10,864	-	168,558	-	-	179,422	-	-	179,422
Travel	-	80,288	27,011	5,571	1,225	22,622	136,717	6,569	3,176	146,462
Equipment maintenance	-	4,331	-	110,583	196	278	115,388	338	137	115,863
Conferences and training	-	608	4,544	3,255	1,469	4,595	14,471	15,902	2,501	32,874
Dues and memberships	-	350	682	390	1,650	446	3,518	18,635	25	22,178
Marketing and advertising	-	227	1,082	984	1,660	8,717	12,670	16,340	403	29,413
Interest expense	-	144	293	131	31	-	599	468	-	1,067
Miscellaneous	-	4,368	8,923	3,997	956	-	18,244	14,235	-	32,479
In-kind expenses	-	-	-	-	-	16,443	16,443	-	-	16,443
Bad debt expense	-	-	-	-	-	-	-	53,389	-	53,389
	\$ 3,080,170	\$ 1,400,260	\$ 993,941	\$ 981,929	\$ 125,061	\$ 859,003	\$ 7,440,364	\$ 965,502	\$ 174,217	\$ 8,580,083

See accompanying notes to financial statements.

LIFESTREAM SERVICES, INC.
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Change in net assets	\$ (118,223)	\$ (80,093)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Bad debt	-	53,389
Changes in assets and liabilities:		
Accounts receivable	(18,282)	(68,656)
Grant reimbursements receivable	(518,264)	92,654
Related party receivable	(6,835)	38,651
Prepaid expenses and other assets	9,935	5,029
Accounts payable	4,088	(225,887)
Accrued payroll and benefit expenses	25,408	6,099
Accrued vacation	43,735	3,778
Deferred revenue	10,855	10,230
Due to funding source	<u>159,553</u>	<u>(13,021)</u>
Net cash from operating activities	(408,030)	(177,827)
 Cash flows from investing activities		
Principal payments received on note receivable	3,655	7,959
Increase in investments	<u>137</u>	<u>-</u>
Net cash from investing activities	3,792	7,959
 Cash flows from financing activities		
Borrowings on line of credit	750,000	250,000
Principal payments on line of credit	<u>(550,000)</u>	<u>(250,000)</u>
Net cash from financing activities	<u>200,000</u>	<u>-</u>
 Net change in cash and cash equivalents	(204,238)	(169,868)
 Cash and cash equivalents at beginning of year	<u>246,854</u>	<u>416,722</u>
 Cash and cash equivalents at end of year	<u>\$ 42,616</u>	<u>\$ 246,854</u>
 Supplemental disclosure of cash flow information		
Interest paid	\$ 16,721	\$ 1,067

See accompanying notes to financial statements.

LIFESTREAM SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: LifeStream Services, Inc. (LifeStream) is a designated Area Agency on Aging for Blackford, Delaware, Grant, Henry, Jay, Madison and Randolph counties in the State of Indiana. The Agency's primary purpose is to plan, develop, coordinate and provide services, which enable persons age 60+ and disabled of any age to remain independent. Other Fund-raising services are provided to low or moderate income persons as appropriate.

LifeStream's primary program services are in-home services, nutrition, care management, transportation, information and referral. Additional program services provided by LifeStream are included in Note 5.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Income Taxes: LifeStream is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, LifeStream has been determined not to be a private foundation under Section 509(a) of the Internal Revenue Code.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$100,000 per financial institution. Additionally, for purposes of the statement of cash flows, LifeStream considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments: Investments are carried at fair value. Any realized and unrealized gains and losses are included in the statements of activities.

Accounts and Grant Receivable: LifeStream's accounts receivable and grants receivable balances consists of amounts billed or billable for services provided, net of an allowance for doubtful accounts, as applicable. Interest is not charged on outstanding receivables.

LIFESTREAM SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts: An allowance for doubtful accounts is considered by management based upon LifeStream's historical losses, specific circumstances and general economic conditions. Periodically, management reviews receivables and records an allowance based on current circumstances, and charges off the receivable against the allowance when attempts to collect the receivable are deemed to have failed in accordance with the Organization's collection policy. At June 30, 2007 and 2006, management estimated that no allowance was needed for outstanding receivables.

Property and Equipment: Property and equipment are recorded at cost, except for donated items, which are recorded at fair market value at its donation date. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Property and equipment acquired with government grant funds have been expensed as purchased, due to the reversionary interest that is maintained by the grantor. If applicable, upon expiration of the grantor's reversionary interest period, property and equipment are recorded at fair value as of the expiration date and depreciated.

Net Asset Classifications: The financial statements have been prepared in accordance with Statement of Financial Accounting Standard (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 requires, among other things, that the financial statements report the changes in and totals of each of the net asset classes based on the donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted.

The following classes of net assets are maintained, if applicable, as follows:

Unrestricted Net Assets - The unrestricted net asset class includes general and board designated assets and liabilities of LifeStream. The unrestricted net assets of LifeStream may be used at the discretion of management to support LifeStream's purposes and operations.

Temporarily Restricted Net Assets - The temporarily restricted net asset class includes assets of LifeStream related to gifts with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. At June 30, 2007 and 2006, LifeStream did not have any temporarily restricted net assets.

LIFESTREAM SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently Restricted Net Assets - The permanently restricted net asset class includes assets of LifeStream for which the donor has stipulated that the contribution be maintained in perpetuity. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose. At June 30, 2007 and 2006, LifeStream did not have any permanently restricted net assets.

Functional Expenses: Expenses are allocated directly or indirectly to various program and supporting services in the statement of functional expenses. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural classification. All remaining indirect costs are allocated using both statistical and non-statistical allocation methodologies.

Support and Revenue: LifeStream reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a 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 changes in net asset as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, LifeStream reports the support as unrestricted.

Government Grants: Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

In-Kind Contributions: Contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services of \$5,000 and \$16,443 were recorded as in-kind revenue for the year-ended June 30, 2007 and 2006.

In addition, a substantial number of volunteers have donated significant amounts of their time in relation to the organization's program services. However, these services did not meet the criteria for reporting in the accompanying financial statements. Management tracks this volunteer time, as it may be allowable for matching purposes on LifeStream's grants.

LIFESTREAM SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 2 - GOVERNMENT GRANT ACTIVITIES

LifeStream receives a majority of its funding from the Indiana Family and Social Services Administration (FSSA), by submitting claims to the third party for approval and payment. LifeStream depends significantly on this third party for funding to carry out its program activities.

The grant amounts are appropriated each year by federal and state agencies. If significant budget cuts are made at the federal and state level, the amount of funds that LifeStream receives could be reduced significantly and have an adverse impact on its operations.

LifeStream uses certain grant funds to issue its own contracts to area agency subgrantees and service providers. Although the expenditures made and units of service performed by these subgrantees and service providers are certified as bona fide, documentation of the purpose of such expenditures and units of service performed are subject to audit and review by funding sources. LifeStream may become liable for the funds required to be returned to the federal agency issuing the contract if a subgrantee or service provider is unable to adequately document expenditures, substantiate its local cost sharing requirement, document the units of services performed, if they are unable to refund any unearned federal funds.

NOTE 3 - GRANT REIMBURSEMENTS RECEIVABLE

LifeStream's grant reimbursements receivable, which are primarily due from FSSA, consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
CHOICE	\$ 582,060	\$ 320,871
Title III	417,730	175,334
INDOT	155,528	156,347
Medicaid Waiver	64,588	27,151
Medicaid PAS	70,488	26,472
Title V	-	18,435
Social Services Block Grant	-	123,828
CHSP Housing	10,196	19,385
Older Hoosier	12,971	15,686
Other	<u>121,764</u>	<u>33,552</u>
	<u>\$ 1,435,325</u>	<u>\$ 917,061</u>

LIFESTREAM SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 4 - OPERATING LEASES

LifeStream leases office and garage space for their administrative office and transportation garage in Yorktown, Indiana. The office lease runs through September 30, 2012, with rent payments negotiated annually. The garage lease runs through July 31, 2019, with the monthly payments negotiated annually. The current monthly payments total \$11,350 per month. These leases are with Yorktown Properties, Inc., which is a related party. LifeStream also leases office space for remote site offices and various equipment. Rental expense of \$120,475 and \$178,852 related to these leases is included in the statement of changes in net assets for the years ended June 30, 2007 and 2006. Of that amount, \$96,200 is expense paid to Yorktown Properties, Inc for office and garage rental. The 2007 amount is net of a \$40,000 credit that was provided to LifeStream by Yorktown Properties, Inc.

As of June 30, 2007, minimum annual rental payments required under operating leases are as follows at June 30:

2008	\$ 26,194
2009	<u>2,383</u>
	<u>\$ 28,577</u>

NOTE 5 - OTHER PROGRAM EXPENSES

Other program service expenses relate to the following activities:

	<u>2007</u>	<u>2006</u>
Caregiver	\$ 140,927	\$ 163,604
Pre-Admission Screening	246,309	258,327
Senior Works	60,735	164,647
Housing	239,533	157,672
Adult Guardianship	58,336	64,749
Other	<u>75,785</u>	<u>50,004</u>
	<u>\$ 821,625</u>	<u>\$ 859,003</u>

LIFESTREAM SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 6 - LINE OF CREDIT

LifeStream has an unsecured line of credit of \$500,000 as of June 30, 2007 and 2006. The interest rate on the line of credit is the bank's prime rate at the time of the draw down. The prime rate at June 30, 2007 was 8.25%. As of June 30, 2007 and 2006, the balance was \$200,000 and \$0, respectively. Interest expense incurred totaled \$16,721 and \$1,067 for the years ending June 30, 2007 and 2006.

NOTE 7 - EMPLOYEE BENEFITS

LifeStream has a Section 403(b) employees' savings plan that is available to employees who work 20 hours or more a week. The employer matches twice what the employee contributes up to a maximum of 6% of employees' annual salary. The expense for year ended June 30, 2007 and 2006 was \$79,664 and \$76,019.

LifeStream also has a Section 125 Cafeteria Plan for their health insurance in which employees who are full-time participate. The employee's share of the health insurance premium, which is 30% of the total premium, is included in the plan.

NOTE 8 - RELATED PARTY OPERATING RECEIVABLE

LifeStream's related party receivable is due from Quality Housing Development, Inc., for the provision of management and accounting services. The related party reimburses LifeStream for their actual cost of services used. As of June 30, 2007 and 2006, Quality Housing Development, Inc. owed \$25,379 and \$18,544 to LifeStream for these costs.

NOTE 9 - RELATED PARTY NOTE RECEIVABLE

On November 7, 1995, LifeStream entered into a promissory note with Woods Edge Apartments, L.P. (Woods Edge), a related party, in which Woods Edge borrowed \$442,400 from LifeStream. The loan matures on November 7, 2010, at which time any remaining principal and interest is due. The note bears interest at a rate of 8.625% per annum and is secured by property. No principal or interest payments have been received in relation to this note since its inception, and interest continues to accrue. Accrued interest totaled \$438,806 and \$400,649 at June 30, 2007 and 2006. Management has recorded an allowance for uncollectible receivables to fully reserve this note receivable and the related accrued interest.

On April 23, 1997, LifeStream entered into a promissory note with Yorktown Properties, Inc. (a related party) in which Yorktown Properties, Inc. borrowed \$50,000 from LifeStream. The note was scheduled to mature on April 23, 2007 with an interest rate of 8% per annum, and the scheduled payments are \$1,828 per quarter. Payments were in arrears at June 30, 2007, and are due to be paid during 2008. The balance of the note as of June 30, 2007 and 2006 was \$3,305 and \$6,960.

LIFESTREAM SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 10 - CONTINGENCIES

LifeStream's primary grantor, Indiana Family and Social Services Administration (FSSA), conducted a compliance review on the 2004-2005 grant period. FSSA's report indicated amounts due to be paid back in relation to the grants. The findings and related payback were appealed by LifeStream. The appeal process has not yet been resolved, and accordingly, LifeStream is not able to estimate an amount due, if any, to FSSA from the compliance review.

LifeStream has provided loans to an outside organization, Woods Edge Apartments, L.P., for senior housing. Loan funds were made available through the Home Investment Partnership Program and the Affordable Housing Program, and are subject to continuing affordability guidelines. Failure of the housing organization to maintain affordability compliance could result in LifeStream recapturing all or part of the loan amounts, requiring repayment to the funding governmental agency.

NOTE 11 - RELATED PARTY TRANSACTIONS

LifeStream occasionally enters into business transactions with companies that are related to members of the Board of Directors. Under Lifestream's conflict of interest policy, the Board of Directors monitors these transactions, and steps are taken to ensure that the transactions are appropriate. For the year ended June 30, 2007 and 2006, the primary nature of these activities was architectural services, with payments totaling approximately \$9,900 and \$900.

SUPPLEMENTARY INFORMATION

LIFESTREAM SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2007

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures	Amounts Awarded to Subrecipients
U.S. Department of Health and Human Services				
Pass-through programs:				
Indiana Family and Social Services Administration:				
Social Services Block Grant				
	93.667	18-06-0C-1561-02	\$ 300,615	\$ -
Aging Cluster:				
Title III-A Administration				
	93.unk	18-06-0V-1561-02	141,397	-
Title III-B Supportive Services				
	93.044	18-06-0V-1561-04	448,468	122,426
Title III-C Nutrition				
	93.045	18-06-0V-1561-06 18-06-0V-1561-08	883,839	-
Nutrition Services Incentive Program				
	93.053	18-06-02-1561-02	94,830	-
Total Aging Cluster				
			<u>1,568,534</u>	<u>122,426</u>
Title III-D Preventive Health				
	93.043	18-06-0V-1561-10	38,018	-
Title III-E Family Caregiver				
	93.052	18-06-0V-1561-12	227,731	-
Title VII Ombudsman Medical Assistance Program				
	93.042	18-06-0V-1561-14	8,159	8,159
	93.778	18-06-70-1561-02	<u>210,203</u>	<u>-</u>
			<u>2,353,260</u>	<u>130,585</u>
U.S. Department of Labor				
Pass-through program:				
Indiana Family and Social Services Administration:				
Title V Senior Employment				
	17.235	18-06-0K-1561-02	55,591	-
U.S. Department of Transportation				
Pass-through program:				
Jay County Commissioners Federal Transit Formula Grants				
	20.507	18025440	465,782	-
U.S. Department of Housing and Urban Development				
Pass-through program:				
Housing Authority of the City of Muncie Supportive Housing - Elderly				
	14.157		<u>33,101</u>	<u>-</u>
			<u>\$ 2,907,734</u>	<u>\$ 130,585</u>

LIFESTREAM SERVICES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of LifeStream Services, Inc. for the year ended June 30, 2007 is presented in conformity with accounting principles generally accepted in the United States of America. 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 financial statements.



Crowe Chizek and Company LLC
Member Horwath International

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
LifeStream Services, Inc.
Yorktown, Indiana

We have audited the financial statements of LifeStream Services, Inc. (LifeStream) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 27, 2008, the same date as this report. 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 LifeStream Services, 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 Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 07-01 and 07-02 to be

significant deficiencies in internal control over financial reporting.

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 entity's internal control. We believe that the significant deficiencies described above are material weaknesses.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LifeStream'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 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 or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of LifeStream in a separate letter dated March 27, 2008.

LifeStream's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit LifeStream's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Board of Directors, management 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.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Indianapolis, Indiana
March 27, 2008



Crowe Chizek and Company LLC
Member Horwath International

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
LifeStream Services, Inc.
Yorktown, Indiana

Compliance

We have audited the compliance of LifeStream Services, Inc. (LifeStream) 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 each of its major federal programs for the year ended June 30, 2007. LifeStream's major federal programs are identified in the summary of auditor's 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 LifeStream's management. Our responsibility is to express an opinion on LifeStream'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 LifeStream'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 on LifeStream's compliance with those requirements.

In our opinion, LifeStream 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, 2007.

Internal Control Over Compliance

The management of LifeStream 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 LifeStream'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LifeStream's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and a material weakness.

A control deficiency in a entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-02 and 07-03 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies described in the accompanying schedule of findings and questioned costs, we consider items 07-02 and 07-03 to be material weakness.

LifeStream's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit LifeStream's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Board of Directors, management 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.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Indianapolis, Indiana
March 27, 2008

LIFESTREAM SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2007

1. Summary of Auditors' Results:

- a. An unqualified opinion was issued on the financial statements of LifeStream Services, Inc. for the year ended June 30, 2007.
- b. The audit disclosed significant deficiencies in internal controls over financial reporting that are considered to be material weaknesses.
- c. The audit did not disclose any noncompliance which is material to the financial statements.
- d. An unqualified opinion was issued to LifeStream Services, Inc. on their compliance for major programs.
- e. There were audit findings required to be disclosed under OMB Circular A-133 Section 510(a).

f. Major programs identified:

Department of Health and Human Services - Pass through State of Indiana Family and Social Services Administration: Social Services Block Grant (93.667)

Department of Transportation - Federal Transit Formula Grants (20.507)

- g. Type A Programs are defined as Federal programs with Federal Awards expended during the audit period exceeding \$300,000.
 - h. LifeStream Services, Inc. qualified as a low-risk auditee for the year ended June 30, 2007.
2. Finding related to the financial statements which are required to be reported in accordance with GAGAS:

Finding 07-01 Internal Controls Over Financial Reporting

Criteria: *Statement on Auditing Standards No. 112, Communication of Internal Control Related Matters Identified in an Audit ("SAS 112")*, clarifies management's responsibility to have internal controls in place to provide appropriate and reliable financial reports and to select and apply appropriate accounting principles. Management is not required to prepare their financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their financial reports without significant deficiencies in these controls. SAS 112 indicates that the "identification by the auditor of a material misstatement in the financial statements for the period under audit that was not initially identified by the entity's internal controls" should be regarded as at least a significant deficiency or material weakness.

LIFESTREAM SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2007

Condition: During the current year, adjustments were posted during the audit which changed LifeStream's financial results by a material amount.

Context: The large volume of entries was the result of the several causes, including the following:

- Turnover in the Finance Department.
- Lack of consistent review process related to general ledger journal entries.
- Errors in grant claiming processes not detected in a timely manner.
- Lack of documented review of grant claims.

Recommendation: We recommend that management conduct an inventory of all written policies and procedures related to the processing of financial information. Management should update/create outdated or missing policies and procedures. Management should then update these policies and procedures on a continuous basis in order to minimize disruption to business processes should unexpected turnover occur. If you would like to discuss various options (staff training, tools, restructuring) to help improve the LifeStream's internal controls over the financial reporting process, we are prepared to assist you in preparing a viable plan.

Management's response: We concur with this finding.

Corrective actions taken or to be taken: A consulting agreement has been signed with a CPA with significant experience serving nonprofit organizations. The consultant will review existing policies and make recommendations for changes or additional policies necessary to ensure accurate financial statements. Then, the consultant will provide any staff training necessary to implement the policies. In addition, the consultant will provide ongoing monthly review of adherence to policies and procedures. This will be completed by May 30, 2008.

Finding 07-02 Internal Control Over General Ledger Journal Entries

Criteria: *Statement on Auditing Standards No. 112, Communication of Internal Control Related Matters Identified in an Audit ("SAS 112")*, clarifies management's responsibility to have internal controls in place to provide appropriate and reliable financial reports. SAS 112 indicates that deficiencies related to "controls over the period-end financial reporting process, including controls over procedures used to enter transactions totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger" should be regarded as at least a significant deficiency or material weakness.

Condition: LifeStream has limitations when it comes to segregation of duties due to its small staff size.

LIFESTREAM SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2007

Context: Currently, the Vice President of Fiscal Services has the ability to prepare and record journal entries into the accounting system without an independent review. Journal entries posted by the staff accountants are required to be reviewed and approved by the Vice President of Fiscal Services. However, we noted exceptions to this procedure during our testing.

In addition, during our testing of journal entries, it was also noted that while the system records the user entering the journal voucher, the current control structure requires the user to print and physically initial the entry. We noted exceptions to this procedure. We also noted posted entries that had no source documentation attached and were not filed in a monthly folder in an organized manner. It was noted that several journal entries had no review and subsequently needed to be reversed or corrected.

Recommendation: We recommend that a periodic independent review be performed for all journal entries. This process should include a review of journal entries posted by the Vice President of Fiscal Services. The appropriate person to conduct such a review would be someone with knowledge of LifeStream's financial operations such as the President or a Board member. A listing of each month's general journal entries should be provided to the designated reviewer, and the reviewer should look through the listing and make inquiries about transactions. The independent review should be documented by having the reviewer sign-off on the monthly listing of journal entries.

Management's response: We concur with this finding.

Corrective actions taken or to be taken: The consultant will have, as a part of his monthly duties, the responsibility of reviewing the general ledger each month including journal entries and supporting documentation prior to closing, to ensure that entries are reflective of business purposes. This process will also entail reviewing key account reconciliations. This process will be effective with the March 2008 financial statements.

3. Findings and questioned costs for federal awards including audit findings as defined in OMB Circular A-133 Section 510(a):

Finding 07-03 Internal Controls Over Grant Claiming Processes

Federal program information: Social Services Block Grant (93.667)

Criteria: Cash management requirements over federal funds require that grant recipients have internal controls in place to monitor the claims process and drawdown of funds.

LIFESTREAM SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2007

Condition: LifeStream does not have a consistent process for documenting the review of grant claims and the related supporting documentation. In addition, LifeStream does not appear to be reconciling their grants receivable balance on a regular basis. In one instance, it was noted that LifeStream had misclassified some non-grant revenue, which resulted in available grant funds being underspent.

Context: We noted that payments received from grant funding sources were not regularly reconciled with the related receivables amounts claimed.

As a result, it was noted that the Social Services Block Grant, which had unused funds available, was not fully utilized to the extent that eligible expenses had been incurred. After year end, there were numerous entries made to reconcile federal grant funds to the annual close out reports.

Recommendation: We recommend that LifeStream develop a consistent process to accurately measure funds expended for eligible federal grant purposes, and track the receipt of these funds to ensure proper valuation of revenue and receivables. This process should include more than one person, in order to incorporate an independent review of the accuracy and availability of the claims documentation and funds requested.

Management's response: We concur with this finding.

Corrective actions taken or to be taken: The consultant will develop procedures to ensure that expenses, claims, and receivables by grant are tracked and reconciled to the general ledger. On a monthly basis the consultant will provide an oversight role for this process.

LIFESTREAM SERVICES, INC.
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
June 30, 2007

There were no audit findings or questioned costs reported in the prior year.