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Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://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 Horwath, LLP, 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 Lifestream Services, 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 findings in the report. Pages 22 and 23 contain one current audit finding. Page 24 contains the status of one prior audit finding.

STATE BOARD OF ACCOUNTS

**LIFESTREAM SERVICES, INC.**

**FINANCIAL STATEMENTS**

June 30, 2008 and 2007

LIFESTREAM SERVICES, INC.  
Yorktown, Indiana

FINANCIAL STATEMENTS  
June 30, 2008 and 2007

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Crowe Horwath LLP  
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, 2008 and 2007, 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, 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 our report dated March 24, 2009, 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 Horwath LLP*  
Crowe Horwath LLP

Indianapolis, Indiana  
March 24, 2009

LIFESTREAM SERVICES, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 75,996	\$ 42,616
Grant reimbursements receivable (Note 3)	958,562	1,435,325
Accounts receivable	16,357	58,049
Related party receivable (Note 8)	119,818	25,379
Note receivable (Note 9)	-	3,305
Prepaid expenses and other assets	6,421	1,479
Investments	<u>7,040</u>	<u>7,040</u>
	<u>\$ 1,184,194</u>	<u>\$ 1,573,193</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 804,126	\$ 722,168
Due to funding source	-	159,553
Accrued payroll and benefit expenses	141,451	151,430
Accrued vacation	126,806	133,704
Deferred revenue	10,222	23,300
Line of credit payable (Note 1)	<u>-</u>	<u>200,000</u>
Total liabilities	1,082,605	1,390,155
Unrestricted net assets	<u>101,589</u>	<u>183,038</u>
	<u>\$ 1,184,194</u>	<u>\$ 1,573,193</u>

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See accompanying notes to financial statements.

LIFESTREAM SERVICES, INC.  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Revenue and support</b>		
Federal assistance	\$ 3,124,563	\$ 2,807,937
State assistance	3,007,107	2,996,638
Other government grants	472,100	447,481
Project income and service fees	518,144	459,825
Medicaid waiver	916,376	754,739
Contributions	171,261	227,584
Interest income	5,155	10,472
Other	145,235	328,294
In-kind contributions	<u>-</u>	<u>5,000</u>
	8,359,941	8,037,970
 <b>Expenses</b>		
Program services:		
In-home services	2,107,903	2,219,256
Nutrition	1,627,966	1,561,211
Care management	1,056,516	1,146,855
Transportation	1,267,194	1,198,068
Information and referral	136,805	159,365
Other programs (Note 5)	<u>1,173,922</u>	<u>821,625</u>
Total program services	7,370,306	7,106,380
Administration	947,080	878,688
Fundraising	<u>124,004</u>	<u>171,125</u>
	<u>8,441,390</u>	<u>8,156,193</u>
 Change in net assets	(81,449)	(118,223)
Net assets at beginning of year	<u>183,038</u>	<u>301,261</u>
Net assets at end of year	<u>\$ 101,589</u>	<u>\$ 183,038</u>

See accompanying notes to financial statements.

**LIFESTREAM SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
 Year ended June 30, 2008

	In-Home Services	Nutrition	Care Management	Transportation	Information and Referral	Other Programs (Note 5)	Total Program Services	Administration	Fund- raising	2008 Total Expenses
Salaries and wages	\$ -	\$ 387,024	\$ 616,260	\$ 549,962	\$ 93,468	\$ 798,211	\$ 2,444,925	\$ 497,743	\$ 80,857	\$ 3,023,525
Payroll taxes and employee benefits	-	69,267	238,099	118,967	25,775	183,338	635,446	145,346	19,417	800,209
Total salaries, wages and related expenses	-	456,291	854,359	668,929	119,243	981,549	3,080,371	643,089	100,274	3,823,734
Contract services	2,107,903	966,549	35,060	60,403	3,931	45,065	3,218,911	76,312	9,589	3,304,812
Occupancy	-	28,196	63,590	75,711	3,469	8,769	179,735	18,426	3,308	201,469
Telephone	-	9,942	26,735	18,635	1,180	9,565	66,057	4,455	1,152	71,664
Postage	-	805	3,837	170	1,147	4,768	10,727	7,103	878	18,708
Supplies	-	2,962	6,259	6,381	374	15,791	31,767	26,383	443	58,593
Printing and copying	-	3,763	7,138	2,864	561	13,456	27,782	32,234	571	60,587
Insurance	-	8,800	-	45,261	-	-	54,061	26,937	-	80,998
Equipment	-	19,174	26,986	20,389	3,795	20,289	90,633	26,605	4,203	121,441
Fuel Expense	-	20,914	-	226,443	-	-	247,357	-	-	247,357
Travel	-	79,360	26,018	9,159	2,029	40,790	157,356	9,971	2,662	169,989
Equipment maintenance	-	14,491	-	119,386	-	-	133,877	-	-	133,877
Conferences and training	-	1,496	1,032	1,419	138	12,365	16,450	10,892	298	27,640
Dues and memberships	-	165	539	127	750	5,494	7,075	17,700	6	24,781
Marketing and advertising	-	430	4,431	4,344	-	2,754	11,959	6,587	-	18,546
Interest expense	-	31	-	5	-	-	36	22,674	-	22,710
Miscellaneous	-	14,597	532	7,568	188	13,267	36,152	17,712	620	54,484
	\$ 2,107,903	\$ 1,627,966	\$ 1,056,516	\$ 1,267,194	\$ 136,805	\$ 1,173,922	\$ 7,370,306	\$ 947,080	\$ 124,004	\$ 8,441,390

See accompanying notes to financial statements.

LIFESTREAM SERVICES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Years 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
Confferences 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	21,931	-	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.  
 STATEMENTS OF CASH FLOWS  
 Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (81,449)	\$ (118,223)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Changes in assets and liabilities:		
Accounts receivable	41,692	(18,282)
Grant reimbursements receivable	476,763	(518,264)
Related party receivable	(94,439)	(6,835)
Prepaid expenses and other assets	(4,942)	9,935
Accounts payable	81,958	4,088
Accrued payroll and benefit expenses	(9,979)	25,408
Accrued vacation	(6,898)	43,735
Deferred revenue	(13,078)	10,855
Due to funding source	<u>(159,553)</u>	<u>159,553</u>
Net cash from operating activities	230,075	(408,030)
 <b>Cash flows from investing activities</b>		
Principal payments received on note receivable	3,305	3,655
Increase in investments	<u>-</u>	<u>137</u>
Net cash from investing activities	3,305	3,792
 <b>Cash flows from financing activities</b>		
Borrowings on line of credit	1,240,049	750,000
Principal payments on line of credit	<u>(1,440,049)</u>	<u>(550,000)</u>
Net cash from financing activities	<u>(200,000)</u>	<u>200,000</u>
 Net change in cash and cash equivalents	33,380	(204,238)
 Cash and cash equivalents at beginning of year	<u>42,616</u>	<u>246,854</u>
 Cash and cash equivalents at end of year	<u>\$ 75,996</u>	<u>\$ 42,616</u>
 Supplemental disclosure of cash flow information		
Interest paid	\$ 19,102	\$ 16,721

See accompanying notes to financial statements.

LIFESTREAM SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

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**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 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 \$250,000 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, 2008 and 2007

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**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, 2008 and 2007, 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, 2008 and 2007, LifeStream did not have any temporarily restricted net assets.

LIFESTREAM SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

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**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, 2008 and 2007, 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 \$0 and \$5,000 were recorded as in-kind revenue for the year-ended June 30, 2008 and 2007.

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, 2008 and 2007

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**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, 2008 and 2007:

	<u>2008</u>		<u>2007</u>
CHOICE	\$ 178,302	\$	582,060
Title III	174,049		417,730
INDOT	180,100		155,528
Medicaid Waiver	115,933		64,588
Medicaid PAS	25,803		70,488
USDA	14,000		-
Social Services Block Grant	96,819		-
CHSP Housing	8,913		10,196
Older Hoosier	37,961		12,971
Other	<u>126,682</u>		<u>121,764</u>
	<u>\$ 958,562</u>	\$	<u>1,435,325</u>

LIFESTREAM SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

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**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 \$140,800 and \$120,475 related to these leases is included in the statement of changes in net assets for the years ended June 30, 2008 and 2007. Of that amount, \$136,200 is expense paid to Yorktown Properties, Inc for office and garage rental. The 2008 amount is net of a \$20,000 credit, and the 2007 amount is net of a \$40,000 credit. These credits were provided to LifeStream by Yorktown Properties, Inc.

As of June 30, 2008, minimum annual rental payments required under operating leases are as follows at June 30:

2009	\$	35,144
2010		32,011
2011		23,842
2012		<u>9,747</u>
	\$	<u>100,744</u>

**NOTE 5 - OTHER PROGRAM EXPENSES**

Other program service expenses relate to the following activities:

	<u>2008</u>	<u>2007</u>
Caregiver	\$ 272,029	\$ 140,927
Pre-Admission Screening	252,451	246,309
Senior Works	105,522	60,735
Housing	270,930	239,533
Adult Guardianship	83,698	58,336
Other	<u>189,292</u>	<u>75,785</u>
	\$ <u>1,173,922</u>	\$ <u>821,625</u>

LIFESTREAM SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

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**NOTE 6 - LINE OF CREDIT**

LifeStream has an unsecured line of credit of \$500,000 as of June 30, 2008 and 2007. 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, 2008 was 5%. As of June 30, 2008 and 2007, the balance was \$0 and \$200,000, respectively. Interest expense incurred totaled \$19,102 and \$16,721 for the years ending June 30, 2008 and 2007.

**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, 2008 and 2007 was \$88,076 and \$79,664.

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, 2008 and 2007, Quality Housing Development, Inc. owed \$119,818 and \$25,379 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 \$476,963 and \$438,806 at June 30, 2008 and 2007. Management has recorded an allowance for uncollectible receivables to fully reserve this note receivable and the related accrued interest.

LIFESTREAM SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

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**NOTE 9 - RELATED PARTY NOTE RECEIVABLE (Continued)**

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. The balance of the note was fully paid at June 30, 2008 and was \$3,305 at June 30, 2007.

**NOTE 10 - CONTINGENCIES AND GUARANTEES**

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.

LifeStream has guaranteed a note payable on behalf of Yorktown Properties, Inc. The note is payable to Mutual Federal Savings Bank, and matures on July 15, 2022. At June 30, 2008, the note payable balance on Yorktown Properties' financial statements is \$491,121.

**SUPPLEMENTARY INFORMATION**

LIFESTREAM SERVICES, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2008

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures	Amounts Awarded to Subrecipients
<b>U.S. Department of Health and Human Services</b>				
Pass-through programs:				
Indiana Family and Social Services Administration:				
Aging Cluster:				
Title III-A Administration	93.044	18-08-0V-1561-01	\$ 107,051	\$ -
Title III-B Supportive Services	93.044	18-08-0V-1561-03	497,562	18,859
Title III-C Nutrition	93.045	18-08-0V-1561-05	439,450	-
		18-08-0V-1561-07	466,297	-
Nutrition Services Incentive Program	93.053	18-08-02-1561-02	<u>111,819</u>	<u>-</u>
Total Aging Cluster			1,622,179	18,859
Title III-D Preventive Health	93.043	18-08-0V-1561-09	42,285	-
Title III-E Family Caregiver	93.052	18-08-0V-1561-11	260,097	-
Title VII Ombudsman	93.042	18-08-2V-1561-03	22,875	22,875
Title VII Ombudsman Medical Assistance Program	93.778	18-08-70-1561-01	198,104	-
Social Services Block Grant	93.667	18-08-0G-1561-01	<u>571,482</u>	<u>-</u>
			2,723,410	48,122
<b>U.S. Department of Transportation</b>				
Pass-through program:				
Jay County Commissioners Federal Transit Formula Grants	20.507	18025440	527,708	-
<b>U.S. Department of Housing and Urban Development</b>				
Pass-through program:				
Housing Authority of the City of Muncie Supportive Housing - Elderly	14.157		<u>8,987</u>	<u>-</u>
			<u>\$ 3,260,105</u>	<u>\$ 48,122</u>

LIFESTREAM SERVICES, INC.  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2008

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**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, 2008 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 Horwath LLP  
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, 2008, and have issued our report thereon dated March 24, 2009, 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.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 08-01 to be a significant deficiency 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 deficiency described above is a material weakness.

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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 24, 2009.

Lifestream's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Lifestream's response and accordingly 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 Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana  
March 24, 2009



Crowe Horwath LLP  
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, 2008. 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, 2008.

## 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 a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-01 to be a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 08-01 to be a material weakness.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

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 Horwath LLP*

Crowe Horwath LLP

Indianapolis, Indiana  
March 24, 2009

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LIFESTREAM SERVICES, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2008

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**SECTION I - SUMMARY OF AUDITORS' RESULTS:**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?   x   Yes        No

Significant deficiencies identified not considered to be material weaknesses?        Yes   x   None Reported

Noncompliance material to financial statements noted?        Yes   x   No

*Federal Awards*

Internal Control over major programs:

Material Weakness(es) identified?   x   Yes        No

Significant deficiencies identified not considered to be material weaknesses?        Yes   x   None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?   x   Yes        No

Identification of major programs:

CFDA Number(s)  
93.667

Name of Federal Program or Cluster

Dept. of Health and Human Services: Pass through State of Indiana Family and Social Services Administration: Social Services Block Grant

93.044, 93.045, 93.053

Dept. of Health and Human Services: Pass through State of Indiana Family and Social Services Administration: Aging Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?        Yes   x   No

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LIFESTREAM SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2008

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**Section II - Findings Related to the Financial Statements Reported in Accordance With  
Government Auditing Standards:**

**Finding 08-01 - Internal Control Over General Ledger Journal Entries**

This finding is applicable to all grants listed on the Schedule of Federal Expenditures.

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 in relation to segregation of duties due to its small staff size. This finding is considered to be a material weakness based on the significance of financial reporting to the grant claiming process.

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.

Recommendations: 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.

LIFESTREAM SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2008

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Corrective actions taken or to be taken: The President/CEO will review each month's general journal entries, make inquiries concerning the accuracy of the entries, and sign off to the fact that the review has been conducted by the President/CEO. This process will begin with the March 2009 financial statements.

**Section III - Findings and Questioned Costs for Federal Awards Including Audit Findings as Defined in OMB Circular A-133 Section 510 (a).**

See Finding 08-01.

LIFESTREAM SERVICES, INC.  
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS  
June 30, 2008

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**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.

Status: Resolved

**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.

Status: Repeated as Finding 08-01.

**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.

Status: Resolved.