B33866

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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May 7, 2008

Board of Directors
1st Kids, Inc.
11045 Broadway, Ste. F
Crown Point, IN 46307

We have reviewed the audit report prepared by Clifton Gunderson, LLP, Independent Public Accountants, for the period April 1, 2006 to March 31, 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 1st Kids, Inc., as of March 31, 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. The management letter contains two comments.

STATE BOARD OF ACCOUNTS

1ST KIDS, INC.

FINANCIAL STATEMENTS AND

SUPPLEMENTARY INFORMATION

MARCH 31, 2007

Clifton Gunderson LLP
Certified Public Accountants & Consultants

1ST KIDS, INC.

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
1st Kids, Inc.
Crown Point, Indiana

We have audited the accompanying statement of financial position of 1st Kids, Inc. (a nonprofit organization) as of March 31, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 1st Kids, Inc. as of March 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2007, on our consideration of 1st Kids, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements 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 audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Clifton Gunderson LLP
Schererville, Indiana

December 18, 2007

1ST KIDS, INC.
STATEMENT OF FINANCIAL POSITION
March 31, 2007

ASSETS

Cash and cash equivalents	$	26,623
Grants receivable		145,776
Prepaid expenses and other assets		40,120
Property and equipment, net		64,370
TOTAL ASSETS	$	276,889

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	$	61,513
Accrued expenses and other liabilities		72,540
Total liabilities		134,053
NET ASSETS		
Unrestricted		142,836
TOTAL LIABILITIES AND NET ASSETS	$	276,889

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

1ST KIDS, INC.
STATEMENT OF ACTIVITIES
Year Ended March 31, 2007

REVENUES, GAINS, AND PUBLIC SUPPORT	
System Point of Entry Grant	$ 1,014,768
First Steps System Development Grant	96,493
Quality Assurance Review and Monitoring Contract	27,066
Northwest Indiana Early Childhood conference	25,860
Other revenue	3,252
Total revenues, gains, and public support	1,167,439
EXPENSES	
Program services	1,156,952
Management and general	532
Total expenses	1,157,484
CHANGE IN NET ASSETS	9,955
NET ASSETS, BEGINNING OF YEAR	132,881
NET ASSETS, END OF YEAR	$ 142,836

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

1ST KIDS, INC.
STATEMENT OF CASH FLOWS
Year Ended March 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 9,955
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	15,425
Effects of changes in operating assets and liabilities:	
Grants receivable	(12,433)
Prepaid expenses and other assets	(10,720)
Accounts payable	(319)
Accrued expenses and other liabilities	28,504
Net cash provided by operating activities	30,412
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(16,603)
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,809
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,814
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 26,623
SUPPLEMENTAL DATA - CASH PAID FOR INTEREST	$ 422

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

1ST KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2007

	Program Services						
	System Point of Entry Program	First Steps System Development Program	Quality Assurance Review and Monitoring	Northwest Indiana Early Childhood Conference	Total Program Services	Management and General	Total Functional Expenses
EXPENSES							
Salaries	$ 667,892	$ 47,908	$ 14,200	$ -	$ 730,000	$ -	$ 730,000
Payroll taxes and fringe benefits	106,556	11,489	97	-	118,142	-	118,142
Professional fees and contract services	52,214	13,248	6,425	9,500	81,387	-	81,387
Supplies	56,848	10,253	1,500	21,144	89,745	-	89,745
Postage, shipping, and delivery	8,570	1,130	-	-	9,700	-	9,700
Telephone	12,523	1,388	1,300	-	15,211	-	15,211
Occupancy	40,361	6,009	-	-	46,370	-	46,370
Insurance	7,008	1,112	-	-	8,120	-	8,120
Travel	37,132	1,224	2,545	951	41,852	-	41,852
Interest expense	-	-	-	-	-	422	422
Depreciation and amortization	12,387	3,038	-	-	15,425	-	15,425
Miscellaneous	-	-	1,000	-	1,000	110	1,110
TOTAL EXPENSES	$ 1,001,491	$ 96,799	$ 27,067	$ 31,595	$ 1,156,952	$ 532	$ 1,157,484

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

1st KIDS, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
MARCH 31, 2007

1st Kids, Inc. (the Organization) is the point of entry for the State of Indiana's First Steps program for the five county area of Northwest Indiana. During 2005, the Organization changed its name from Beyond Play Incorporated to 1st Kids, Inc. The program is designed to provide needed early intervention services to infants and toddlers, ages birth to three years and their families. The Organization informs individuals of the appropriate programs available. The referred services include occupational, physical and speech therapy, social services, health services, home visits and transportation. The State of Indiana, through funding provided by the Federal Government, is the principal funding source of the Organization.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Donated Services and Equipment

The contribution of services is recognized if the services received would typically need to be purchased if not provided by donation. The Organization had no contributed services for the year ended March 31, 2007.

Donations of equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increase in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are place in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets at that time.

1st KIDS, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
MARCH 31, 2007

Income Taxes

The Organization is a non-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Agency qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Cash and Cash Equivalents

Cash and cash equivalents, as presented on the statement of financial position and statement of cash flows, includes cash on hand and deposits in interest bearing and non-interest bearing accounts in financial institutions with a maturity of three months or less.

Furniture and Equipment

Furniture, equipment and improvements are carried at cost. Depreciation expense is computed using straight-line methods over the estimated useful life of the assets, which range from 5 to 7 years.

Long-lived assets held and used by the Organization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-related support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Presently, the Organization has no temporary or permanently restricted net assets.

Estimates

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

1st KIDS, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
MARCH 31, 2007

Grants Receivable

Management considers all grants receivable as of March 31, 2007 to be fully collectible. Accordingly, an allowance for doubtful accounts was not necessary at March 31, 2007.

Functional Allocation of Expenses

Certain costs have been summarized on a functional basis in the statement of functional expenses. Accordingly, these costs have been allocated between the various programs and supporting services benefited.

1st KIDS, INC.
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 GRANTS RECEIVABLE

A major funding source for the Organization is the Indiana Family and Social Services Administration (FSSA). For the year ended March 31, 2007, over ninety-four percent of its revenues were received from the FSSA. At March 31, 2007, the grant receivable consists of:

System Point of Entry Grant	$ 128,897
First Steps System Development Grant	11,087
Quality Assurance Review and Monitoring Contract	5,792
	$ 145,776

NOTE 2 OPERATING LEASE COMMITMENT

The Organization leases office space and a copier from two unrelated parties. The lease terms are for ten years from February 15, 2004 to March 31, 2014 and sixty-two months from April 24, 2004 to May 24, 2009. The office space lease provides for a fixed rental which includes a pro-rata share of the operating expenses of the facility. Rent expense for both operating leases for the year ended March 31, 2007 totaled $58,210.

The total future minimum rental payments (including prepaid rent of $40,120) for non-cancelable operating leases for the years ending March 31 are as follows:

2008	$ 52,000
2009	52,840
2010	42,240
2011	40,120
2012	40,120
2013 and thereafter	80,240
	$ 307,560

NOTE 3 LINE OF CREDIT

The Organization has available a line of credit in the amount of $50,000, that expires in December 2007. Interest accrues on the outstanding balance at prime (8.25% at March 31, 2007) plus 1%. The line of credit is secured by all of the Organization's assets. Interest expense for 2007 was $422. There was no balance outstanding on the line of credit at March 31, 2007.

NOTE 4 CONTINGENCIES

The Organization is subject to many levels of audit and investigation. The Organization cannot at this time predict whether it will be audited by an oversight agency. Further, any loss resulting from such audit, if any, cannot be estimated. Accordingly, no provision for any estimated loss is reflected in the accompanying financial statements.

NOTE 5 SIGNIFICANT FUNDING SOURCE

The Organization received approximately 98% of its revenue from Federally funded programs.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S 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*

To the Board of Directors
1st Kids, Inc.

We have audited the financial statements of 1st Kids, Inc. as of and for the year ended March 31, 2007, and have issued our report thereon dated December 18, 2007. 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 1st Kids, 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.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 1st Kids, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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*.

This report is intended solely for the information and use of the audit committee, 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.

Clifton Gunderson LLP

Clifton Gunderson LLP
Schererville, Indiana

December 18, 2007

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

To the Board of Directors
1st Kids, Inc.

Compliance

We have audited the compliance of 1st Kids, Inc. 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 March 31, 2007. 1st Kids, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings, questioned costs and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of 1st Kids, Inc.'s management. Our responsibility is to express an opinion on 1st Kids, Inc.'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 1st Kids, Inc.'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 1st Kids, Inc.'s compliance with those requirements.

In our opinion, 1st Kids, 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 March 31, 2007.

Internal Control Over Compliance

The management of 1st Kids, Inc. 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 1st Kids, Inc.'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 the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined below.

A *control deficiency* in an 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 that inconsequential will not be prevented or detected by the entity's internal control.

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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the 1st Kids, Inc. as of and for the year ended March 31, 2007, and have issued our report thereon dated December 18, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise 1st Kids, Inc.'s basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, 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.

Clifton Gunderson LLP

Clifton Gunderson LLP
Schererville, Indiana

December 18, 2007

1st KIDS, INC.
SCHEDULE OF FINDINGS, QUESTIONED COSTS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified opinion

• Material weakness(es) identified?		yes	X	no
• Significant deficiencies identified that are 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?		yes	X	no
• Reportable condition(s) identified that are not considered to be material weaknesses?		yes	X	none reported

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

CFDA Number 84.181 - Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?		yes	X	no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.181	Department of Education
	Special Education
	Grants for Infants and Families with Disabilities

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualified as low-risk auditee?	X	yes		no

1ST KIDS, INC.
SCHEDULE OF FINDINGS, QUESTIONED COSTS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2007

Section I - Financial Statement Findings
None

Section II - Federal Award Findings and Questioned Costs
None

1ST KIDS, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED MARCH 31, 2006

Section I - Financial Statement Findings
None

Section II - Federal Award Findings and Questioned Costs
None

1st KIDS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Identifying Disbursement/ Number	Federal CFDA Number	Expenditure
Special Education			
Department of Education			
Pass-Through State Family and Social Services Administration			
Grants for Infants and Families with Disabilities (Indiana)	45-06-FS-1153	84.181	
System Point of Entry (SPOE)			$1,014,768
First Steps System Development			96,493
			$ 1,111,261
Total Federal Awards			$ 1,111,261

See notes to this schedule

1st KIDS, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
MARCH 31, 2007

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the 1st Kids, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – SUBRECIPIENT PAYMENTS

There were no amounts provided to subrecipients for the year ended March 31, 2007.

NOTE C – NONCASH ASSISTANCE, INSURANCE, LOANS OR LOAN GUARANTEES

There were no noncash assistance, insurance, loans, or loan guarantees outstanding as of and for the year ended March 31, 2007.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

To the Board of Directors
1st Kids, Inc.
Crown Point, Indiana

In planning and performing our audit of the financial statements of 1st Kids, Inc. as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered 1st Kids, Inc.'s internal control over financial reporting (internal control) 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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.

Significant Deficiencies

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 following deficiencies to be significant deficiencies in internal control.

Preparation of Financial Statements

The Organization has historically engaged Clifton Gunderson to assist it in preparing its financial statements and accompanying disclosures. This has been done both as a matter of convenience for management in completing the year-end financial work as well as to ensure that the reports are presented in compliance with current reporting standards and that all disclosures are complete and accurate.

Recommendation

We suggest that the Organization use their outsourced accounting firm to prepare the financial statements and footnotes and incorporate this process into their internal controls over financial reporting.

Audit Adjustments

During the course of our audit, we noted that the Organization did not have in effect controls that would detect, prevent, or correct misstatements in the financial statements. At present the Organization does not have staff with sufficient expertise to properly analyze accounts and record adjusting entries. Clifton Gunderson has generally recorded these adjustments for management in past years.

Recommendation

We suggest that the Organization consult with their outsourced accounting firm for guidance on accounting for these transactions before recording them and closing out the year

Other Matters

In addition to the significant deficiency and material weakness discussed above, we noted the following matter which we would like to bring to your attention.

New Risk Assessment Standards

Four years ago, in the wake of the Enron scandal and other business failures, Congress enacted the Sarbanes-Oxley Act. This legislation had a profound effect on both company management and the audit profession; however, the law was applicable only to publicly traded companies and thus did not have a direct impact on most of our firm's clients.

In 2006, the standards-setting body that governs auditors of non-public entities (which include not-for-profit organizations and state and local governments) passed a sweeping set of new standards that rewrite many of the fundamental principles of a financial statement audit. Though less in scope than the rules for public companies, these new standards advance many of the key themes of Sarbanes-Oxley, including new requirements that—

- Auditors gain a more thorough understanding of their client's internal control,
- Auditors obtain more detailed information about their clients' operations, their business objectives and strategies, and risks to achieving these objectives, and
- Client management clearly accepts responsibility for preparing all financial information and the organization's financial statements.

The main objective of the new auditing standards is to strengthen and maintain the integrity of the independent financial statement audit. We support this objective. We also believe that the new standards will benefit all stakeholders in the financial reporting process—those who prepare financial information, those of us who provide assurance on the reliability of that information, and those who use the information to make decisions about your organization.

Because of the comprehensive nature of these standards, there will be changes to the way Clifton Gunderson—and all audit firms—perform audits and what they ask of their clients. The new standards require auditors to perform more extensive procedures, and in many cases this will result in higher audit fees.

The good news is that the new rules do not go into effect until the fiscal year ending December 31, 2007. Between now and then, our firm will be investing significant resources to re-design our audit process and train our engagement teams so they are able to perform their audits as effectively and efficiently as possible.

Over the coming months, as we develop our new audit approach, we will have more details about how that approach will affect our audit clients. We will be working with you directly to communicate these changes and pave the way for a smooth implementation.

This communication is intended solely for the information and use of management, board of directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

December 18, 2007