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# STATE OF INDIANA

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June 3, 2009

Board of Directors
Center for Community Justice, Inc.
121 S. 3rd St.
Elkhart, IN 46516

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 Center for Community Justice, 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. The management letter contains five comments.

STATE BOARD OF ACCOUNTS

# CENTER FOR COMMUNITY JUSTICE, INC.

## FINANCIAL STATEMENTS
June 30, 2008 and 2007

CENTER FOR COMMUNITY JUSTICE, INC.
Elkhart, Indiana

FINANCIAL STATEMENTS
June 30, 2008 and 2007

CONTENTS

Crowe Horwath.

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# REPORT OF INDEPENDENT AUDITORS

Board of Directors
Center for Community Justice, Inc.
Elkhart, Indiana

We have audited the accompanying statements of financial position of Center for Community Justice, 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 the Center for Community Justice, 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 *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources* issued by the Indiana State Board of Accounts. 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 Center for Community Justice, 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.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
November 10, 2008

CENTER FOR COMMUNITY JUSTICE, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 260,149 | $ 320,630 |
| Investments | 21,410 | 21,761 |
| Prepaid expenses | 15,506 | 13,506 |
| Grants receivable | 135,040 | 567,101 |
| Other receivables | 123,170 | 46,430 |
| Total current assets | 555,275 | 969,428 |
| Noncurrent assets: | | |
| Property and equipment: | | |
| Land | 31,000 | 31,000 |
| Building and improvements | 224,960 | 224,960 |
| Vehicles | 11,902 | 11,902 |
| Office furniture and equipment | 93,112 | 93,491 |
| | 360,974 | 361,353 |
| Accumulated depreciation | 192,419 | 179,754 |
| Net property and equipment | 168,555 | 181,599 |
| | $ 723,830 | $ 1,151,027 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Current portion of long-term debt (Note 3) | $ 5,758 | $ 5,147 |
| Accounts payable | 25,021 | 16,896 |
| Funds held for others (Note 6) | 180,373 | 4,700 |
| Salaries, wages, and other related payables | 9,171 | 10,550 |
| Total current liabilities | 220,323 | 37,293 |
| Noncurrent liabilities: | | |
| Long-term debt (Note 3) | - | 9,818 |
| Total liabilities | 220,323 | 47,111 |
| Net assets: | | |
| Unrestricted | 425,473 | 511,095 |
| Temporarily restricted (Note 7) | 78,034 | 592,821 |
| Total net assets | 503,507 | 1,103,916 |
| | $ 723,830 | $ 1,151,027 |

See accompanying notes to financial statements.

# CENTER FOR COMMUNITY JUSTICE, INC.
## STATEMENTS OF ACTIVITIES
Years ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **Changes in unrestricted net assets** | | |
| **Support and revenue:** | | |
| Program fees | $ 648,997 | $ 577,769 |
| Elkhart Parks Department | 20,205 | 20,563 |
| Investment income | 7,384 | 9,961 |
| Local contributions | 8,240 | 5,611 |
| Total support and revenue | 684,826 | 613,904 |
| Net assets released from restrictions | 697,522 | 665,340 |
| Total unrestricted support and revenue | 1,382,348 | 1,279,244 |
| **Expenses:** | | |
| Program services | 1,320,393 | 1,015,330 |
| Management and general | 127,317 | 126,388 |
| Fund raising | 20,260 | 26,879 |
| Total expenses | 1,467,970 | 1,168,597 |
| Change in unrestricted net assets | (85,622) | 110,647 |
| **Changes in temporarily restricted net assets** | | |
| **Support and Revenue:** | | |
| Elkhart County | 109,088 | 1,030,677 |
| Indiana Criminal Justice Institute | 30,000 | 27,750 |
| United Way | 26,980 | 28,550 |
| City of Elkhart | 11,667 | 10,000 |
| Other local government | 5,000 | 5,000 |
| Total support and revenue | 182,735 | 1,101,977 |
| Net assets released from restrictions | (697,522) | (665,340) |
| Change in temporarily restricted net assets | (514,787) | 436,637 |
| **Change in net assets** | (600,409) | 547,284 |
| Net assets at beginning of year | 1,103,916 | 556,632 |
| **Net assets at end of year** | $ 503,507 | $ 1,103,916 |

See accompanying notes to financial statements.

CENTER FOR COMMUNITY JUSTICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2008

| | Program Services | Management and General | Fund Raising | Total |
|---|---|---|---|---|
| Direct program costs: | | | | |
| Home incarceration program | $ 205,135 | $ - | $ - | $ 205,135 |
| Preventive services | 663 | - | - | 663 |
| Community transition program | 12,163 | - | - | 12,163 |
| | 217,961 | - | - | 217,961 |
| Remission of program fees (Note 6) | 264,442 | - | - | 264,442 |
| Salaries and related expenses: | | | | |
| Salaries | 528,256 | 81,862 | 14,903 | 625,021 |
| Payroll taxes | 38,649 | 5,989 | 1,090 | 45,728 |
| Retirement plan (Note 4) | 23,421 | 3,838 | 745 | 28,004 |
| Insurance | 111,328 | 13,830 | 1,844 | 127,002 |
| Staff development | 6,149 | 764 | 102 | 7,015 |
| Temporary help | 2,211 | - | - | 2,211 |
| | 710,014 | 106,283 | 18,684 | 834,981 |
| Occupancy: | | | | |
| Rent (Note 5) | 4,365 | - | - | 4,365 |
| Telephone and utilities | 14,663 | 1,821 | 243 | 16,727 |
| Repairs and maintenance | 2,868 | 356 | 48 | 3,272 |
| | 21,896 | 2,177 | 291 | 24,364 |
| General and administrative: | | | | |
| Travel and meals | 15,642 | 1,943 | 259 | 17,844 |
| Office supplies and postage | 12,609 | 1,566 | 209 | 14,384 |
| Dues and subscriptions | 529 | 66 | 9 | 604 |
| Fundraising | 108 | 13 | 2 | 123 |
| Professional fees | 16,463 | 8,610 | - | 25,073 |
| Printing | 5,809 | 722 | 96 | 6,627 |
| Insurance | 25,087 | 2,750 | 341 | 28,178 |
| Advertising | 3,503 | - | - | 3,503 |
| Processing charges | 3,411 | 417 | - | 3,828 |
| Miscellaneous | 2,075 | 180 | 24 | 2,279 |
| | 85,236 | 16,267 | 940 | 102,443 |
| Depreciation | 20,129 | 2,501 | 333 | 22,963 |
| Interest | 715 | 89 | 12 | 816 |
| Total expenses | $ 1,320,393 | $ 127,317 | $ 20,260 | $ 1,467,970 |

See accompanying notes to financial statements.

CENTER FOR COMMUNITY JUSTICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2007

| | Program Services | Management and General | Fund Raising | Total |
|---|---|---|---|---|
| Direct program costs: | | | | |
| Home incarceration program | $ 180,542 | $ - | $ - | $ 180,542 |
| Preventive services | 1,163 | - | - | 1,163 |
| Community transition program | 11,530 | - | - | 11,530 |
| | 193,235 | - | - | 193,235 |
| Salaries and related expenses: | | | | |
| Salaries | 529,596 | 84,800 | 20,007 | 634,403 |
| Payroll taxes | 38,976 | 6,247 | 1,474 | 46,697 |
| Retirement plan (Note 4) | 24,968 | 3,148 | 889 | 29,005 |
| Insurance | 102,054 | 13,607 | 2,316 | 117,977 |
| Staff development | 3,431 | 457 | 78 | 3,966 |
| | 699,025 | 108,259 | 24,764 | 832,048 |
| Occupancy: | | | | |
| Rent (Note 5) | 3,840 | - | - | 3,840 |
| Telephone and utilities | 11,928 | 1,590 | 271 | 13,789 |
| Repairs and maintenance | 6,231 | 831 | 141 | 7,203 |
| | 21,999 | 2,421 | 412 | 24,832 |
| General and administrative: | | | | |
| Travel and meals | 15,318 | 2,042 | 348 | 17,708 |
| Office supplies and postage | 12,628 | 1,684 | 287 | 14,599 |
| Dues and subscriptions | 596 | 79 | 14 | 689 |
| Fundraising | 22 | 3 | - | 25 |
| Professional fees | 16,134 | 5,114 | - | 21,248 |
| Printing | 4,672 | 623 | 106 | 5,401 |
| Insurance | 25,949 | 3,046 | 486 | 29,481 |
| Advertising | 1,682 | - | - | 1,682 |
| Processing charges | 3,085 | 402 | - | 3,487 |
| Miscellaneous | 2,060 | 191 | 33 | 2,284 |
| | 82,146 | 13,184 | 1,274 | 96,604 |
| Depreciation | 17,716 | 2,362 | 402 | 20,480 |
| Interest | 1,209 | 162 | 27 | 1,398 |
| Total expenses | $ 1,015,330 | $ 126,388 | $ 26,879 | $ 1,168,597 |

See accompanying notes to financial statements.

CENTER FOR COMMUNITY JUSTICE, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ (600,409) | $ 547,284 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 22,963 | 20,480 |
| Unrealized and realized (gains) losses on investments | 350 | (1,528) |
| Change in assets and liabilities | | |
| Prepaid expenses and other assets | (6,700) | (873) |
| Grants receivable | 432,061 | (431,102) |
| Other receivables | 103,488 | 24,781 |
| Accounts payable | 8,271 | (317) |
| Salaries, wages, and other related payables | (1,380) | 586 |
| Net cash from operating activities | (41,356) | 159,311 |
| **Cash flows from investing activities** | | |
| Purchases of equipment | (9,919) | (17,247) |
| Net cash used in investing activities | (9,919) | (17,247) |
| **Cash flows from financing activities** | | |
| Principal payments on long-term debt | (9,206) | (8,624) |
| Net cash used in financing activities | (9,206) | (8,624) |
| Net change in cash | (60,481) | 133,440 |
| Cash at beginning of year | 320,630 | 187,190 |
| **Cash at end of year** | $ 260,149 | $ 320,630 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | $ 816 | $ 1,398 |

See accompanying notes to financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization: Center for Community Justice, Inc. (Center) was organized in 1984 under the Indiana General Not-For-Profit Corporation Act for the purpose of promoting and operating effective community-based services for victims, offenders and the community. The Center is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Method of Accounting: The Center operations are accounted for on the accrual basis.

Net Assets: The Center reports information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted and permanently restricted, according to donor or grantor imposed restrictions.

The Center's net assets are categorized as follows:

- Unrestricted Net Assets - Represents assets in excess of liabilities presently available for use by the Center at the discretion of the Board of Directors that are neither permanently restricted nor temporarily restricted by donor imposed stipulations.

- Temporarily Restricted Net Assets - Represents assets received by grant or donation whose use is limited by grantor or donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Center pursuant to those stipulations.

- Permanently Restricted Net Assets - Represents assets received by grant or donation whose use by the Center is limited by donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Center. As of June 30, 2008 and 2007, the Center has not received any permanently restricted contributions.

The Center records all restricted grants and contributions as restricted support and reclassifies such support to unrestricted support when restrictions expire by passage of time or are fulfilled by actions of the Center.

Net Assets Released From Restriction: Net assets are released from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events. Net assets released from restriction consist primarily of expenses incurred for grant programs and other restricted purposes, as well as the receipt of grant monies during the fiscal year which were previously recorded on the accrual basis.

Revenue Recognition: Revenue from all sources is recorded as revenue in the period earned.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Contributions: The Center records contributions received and unconditional promises to give as unrestricted, temporarily restricted or permanently restricted support depending on the existence of donor restrictions and the nature of restrictions, if they exist. Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor.

Cash: Cash is held at a local bank of which $100,000 is FDIC insured.

Investments: Investments consist of a certificate of deposit with an original maturity of 14 months and funds held by the Elkhart County Community Foundation as an endowment on behalf of the Center.

Grants Receivable: The Center receives some grants for reimbursement of expenses incurred. A receivable for the reimbursement of allowable program expenditures due from grantors has been recorded at June 30, 2008 and 2007. In addition, grants awarded that are unconditional non-reciprocal promises to transfer assets over a specified period have been recorded as revenue and grants receivable on the date of award. No allowance for uncollectible grants has been recorded since management believes all amounts are collectible.

Other Receivables: The other receivables balance is made up of receivables related to the Home Incarceration Program (HIP), the Victims Offender Reconciliation Program (VORP), the Community Transition Program (CTP), and other miscellaneous contracts. The Center periodically reviews receivables for collectibility. Management believes all receivables are collectible therefore no allowance was deemed necessary.

Property and Equipment and Depreciation: Land, building and improvements, and furniture and equipment acquired by purchase are recorded at cost at the date of the purchase. Land, building, and improvements acquired by donation are recorded at fair value at the date of the gift. Major additions and improvements greater than $1,000 are capitalized, while maintenance and repairs are expensed as incurred. The Center computes depreciation using the straight-line method over the expected useful life of each asset.

Functional Expenses: Functional expenses of the Center are allocated among program services, management and general, and fund raising. The allocation is based upon either specific identifiable costs or an analysis of personnel time for the related activities.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Management Estimates: Management must make estimates and assumptions in preparing financial statements that affect the amounts reported therein and the disclosures provided. These estimates and assumptions may change in the future and future results could differ. Significant estimates include the allocation of expenses described above.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. There was no impact on the net assets of the Center.

**NOTE 2 - LINE OF CREDIT**

The Center has a 1.0% over prime rate $50,000 line of credit agreement with a bank at June 30, 2008 and 2007. There were no activities or outstanding balances on this line at June 30, 2008 or 2007. The Center has provided its receivables, equipment and general assets as collateral.

**NOTE 3 - LONG-TERM DEBT**

Long-term debt consists of a 7.55% mortgage payable to JPMorgan Chase Bank, N.A., due in monthly installments of $444 including interest through August 2010 at which time all remaining unpaid principal and interest is due. The mortgage is collateralized by land and building. As of June 30, 2008 and 2007, the total outstanding balance was $5,758 and $14,965, respectively.

**NOTE 4 - RETIREMENT PLAN**

The Center has a defined contribution retirement plan covering substantially all eligible employees. The Center's retirement plan contribution is based on the employees' annual compensation. Total contributions to the plan were $28,004 and $29,006 for the years ended June 30, 2008 and 2007, respectively.

**NOTE 5 - LEASE COMMITMENTS**

The Center leases office space in Goshen, Indiana under an operating lease. The lease is renewable annually every May 1 with an adjusted rent based on consumer price index. Rent expense, excluding real estate taxes, insurance and repair costs, was $4,365 and $3,840 annually for 2008 and 2007.

(Continued)

**NOTE 5 - LEASE COMMITMENTS** (Continued)

In addition, the Center leases electronic tracking devices and service on these devices for its Home Incarceration Program. The terms of the operating lease are month-to-month and the Center only pays for the devices in use. Rent expense for these devices was $194,103 for 2008 and $174,187 for 2007.

**NOTE 6 - FUNDS HELD FOR OTHERS AND REMISSION OF PROGRAM FEES**

Pursuant to a contractual agreement with the Board of Commissioners of Elkhart County, for and on behalf of the Community Corrections Advisory Board (CCAB), the CCAB reserves the right to request a return of user fees collected by the Center to be used to fund additional community corrective action programs in Elkhart County. During 2008, the Center was required to return user fees previously collected in the amount of $164,442 to the CCAB. In addition, user fees previously collected were identified to be retained for future use at the discretion of the CCAB. These amounts totaled $176,156 and are included in funds held for others at June 30, 2008.

Funds held for others also include certain transactions that are considered to be agency transactions and are not included in the Statement of Activities of the Center. As of June 30, 2008 and 2007 the balances of the funds held for others also includes $4,217 and $4,700, respectively, for restitution payments from offenders to victims which pass through the Center in order to maintain a record for the Victim Offender Restitution Contract (VORP) program in Elkhart County.

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

All of the temporarily restricted net assets are restricted for the purpose of operating community-based services for victims, offenders and the community. Additionally, the net assets are restricted due to time restrictions (receipt of grant funds). At June 30, 2008, temporarily restricted net assets consist of the following:

| Funding Source | Amount | End of Restriction Period |
|---|---|---|
| Elkhart County | $ 47,500 | December 31, 2008 |
| Elkhart County - Victim Impact | 7,044 | December 31, 2008 |
| United Way | 13,490 | December 31, 2008 |
| IN- Comm. Justice Grant: GFIP | 10,000 | September 30, 2008 |
| | $ 78,034 | |

(Continued)

## NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

At June 30, 2007, temporarily restricted net assets consisted of the following:

| Funding Source | Amount | End of Restriction Period |
|---|---|---|
| Elkhart County – Adult Correction | $ 467,207 | June 30, 2008 |
| Elkhart County – Juvenile Corrections | 65,589 | June 30, 2008 |
| Elkhart County | 37,500 | December 31, 2007 |
| Elkhart County – Victim Impact | 8,250 | December 31, 2007 |
| United Way | 14,275 | December 31, 2007 |
| | $ 592,821 | |

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Board of Directors
Center for Community Justice, Inc.
Elkhart, Indiana

In planning and performing our audit of the financial statements of Center for Community Justice, Inc. (the "Company") for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Company'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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 matters that we are required to or wish to communicate to you. Matters communicated in this letter may be classified as follows.

- Best Practice – A matter which you may find of interest.

- Deficiency – 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 Deficiency – 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.

- Material Weakness – 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.

| ACCRUAL BASIS FINANCIAL STATEMENTS | | Significant Deficiency |
|---|---|---|
| **Observation:** | Statement on Auditing Standards (SAS) No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*", clarifies management's responsibility to have internal controls in place to apply appropriate accounting principles and provide information to produce the year-end financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). While management is not required to prepare the financial statements, management does need to demonstrate the level of qualifications and controls to prepare and review the report without significant deficiencies or material weaknesses in these controls.<br><br>While management has made significant progress during 2008 to prepare financial statements internally on the accrual basis and compute grants receivable and the related revenue on the accrual basis, consistent with prior years, year-end journal entries were recorded in connection with the audit to adjust the financial statements to the accrual basis. | |
| **Business Risk:** | The potential still exists for internal financial reporting to be inaccurate and not materially consistent with GAAP. | |
| **Recommendation:** | With the adoption of new auditing standards and increased scrutiny on financial reporting, it is important that management continue to improve their current practice. We encourage management to prepare and post all year end adjusting entries prior to providing us with the trial balance in the future, which will improve the internal controls over financial reporting. | |

| SEGREGATION OF DUTIES | | Deficiency |
|---|---|---|
| **Observation:** | The segregation of duties of major functions related to operations is important to the system of internal accounting control. The conceptual basis for segregation of duties is that different employees handle different parts of the same transaction and the work done by each acts as a check on the others. We noted the following instances during our audit in which a lack of segregation of duties exists:<br><br>• Cash and receivables – A single individual (Assistant Director) reconciles cash balances, posts the cash journal entries to the general ledger, and can transfer funds between bank accounts. This individual also can collect cash at the front counter, prepares the accounts receivable aging summary and reconciles accounts receivable to the general ledger.<br><br>• Payables – A single individual (Finance Manager) purchases office supplies, receives delivery of the supplies, prepares checks to pay for these purchases, is responsible for tracking the sequence of blank checks kept locked up in the office, mails the checks, and enters the invoices into the Account Payable system. | |
| **Business Risk:** | Errors or fraudulent activity could occur and not be timely caught. | |
| **Recommendation:** | Four general categories of duties or responsibilities that should be segregated are authorization, custody, recordkeeping, and reconciliation. In an ideal system, different employees would perform each of these four major functions. In other words, no one person should have control of two or more of these responsibilities.<br><br>We understand that due to the small size of the Company's staff, complete segregation of duties is not feasible. We also understand and acknowledge that certain compensating controls have been implemented - dual signatures on checks by individuals other than the check preparer and bank statements are sent directly to the Executive Director and reviewed prior to the reconciliation process. At the same time, we strongly encourage management and the Board to review current procedures and explore ways in which responsibilities may be reassigned to ensure a crosscheck of duties. | |

| ACCOUNTING FOR IN-KIND CONTRIBUTIONS | Deficiency |
|---|---|
| **Observation:** | During our audit, we noted that an in-kind contribution of approximately $2,775 was not recognized in the financial statements for the rent paid for the Goshen office space that has been deemed to be below market rent. GAAP requires donated facilities and certain services be recorded as in-kind contributions at their fair value in the financial statements. |
| **Business Risk:** | Financial statements may not be prepared in accordance with GAAP. |
| **Recommendation:** | While these "in-kind" contributions are not currently material to the financial statements taken as a whole, we suggest that management record these donations and the related expenses in the future.<br><br>In instances in which the fair value is unknown, the Company should contact the donor and specifically ask for an estimate to be provided in writing. |

| FORMALIZED FRAUD RISK ASSESSMENT | Deficiency |
|---|---|
| **Observation:** | The Auditing Standards Board (ASB) has issued a series of new audit standards which are collectively referred to as the "Risk Assessment Standards" (Standards) and these standards represent the ASB's ongoing efforts to develop stronger and more definitive auditing standards that are intended to enhance auditor performance and thereby improve audit effectiveness in regards to financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The new Standards require auditors to more fully understand the risks associated with the Company's business, and perform more detailed testing and corroboration of the controls to address areas of more significant risk to ensure the financial statements are not materially misstated. In connection with the implementation of these Standards for the June 30, 2008 audit, we noted that while management has represented that fraud risks have been adequately considered, there is no formal documentation supporting management and the Board's consideration and approach to mitigating fraud risk. |
| **Business Risk:** | Many organizations count on their auditors to uncover any internal fraud, but audits, even those of the highest quality, provide limited protection against fraud. Boards and Audit Committees of not-for-profit organizations should take responsibility for protecting their organizations from fraud, particularly those leaders with a fiduciary duty to act as a steward of the organization's resources. Failure to formally consider, discuss and document all risks associated with fraud, increases the susceptibility of fraud, and also increases the likelihood that the financial statements may not be prepared in accordance with GAAP. |

| | |
|---|---|
| **Recommendation:** | Management and the Board should actively discuss fraud risks of the Company, as well as the procedures and controls that should be in place adequately mitigating these risks. These discussions should be documented formally in writing and updated at least once on an annual basis. |

| **SAS 70 Review** | **Deficiency** |
|---|---|
| **Observation:** | The Company utilizes the services of a third party vendor (ADP) to perform payroll processing functions. Most contractual arrangements like this reference the vendor's responsibility for establishing and maintaining adequate internal control systems to perform these functions. However, to protect your assets and the integrity of your data, it is important to perform ongoing due diligence of the adequacy of the vendor's controls. This due diligence process could include obtaining and reviewing a Statement on Auditing Standards 70 report (SAS 70), which is a report on their internal controls prepared by an independent auditor. The SAS 70 report is typically made available to customers of the vendor to assist them in this due diligence process, and to clarify user controls which should be coordinated with the vendor controls to establish an effective control system. During our audit, we noted that management had not received a SAS 70 report for ADP since 2006. |
| **Recommendation:** | We recommend management request yearly SAS 70 reports and review them to make sure third party service providers utilized by the Company have appropriate controls in place. |

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

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
November 10, 2008

Crowe Horwath

Crowe Horwath LLP
Member Horwath International

Audit Committee of the Board of Directors
Center for Community Justice, Inc.
Elkhart, Indiana

Professional standards require that we communicate matters related to our audit of the financial statements of Center for Community Justice ("the Company") that we consider significant and relevant to the responsibilities of the Audit Committee in overseeing the financial reporting process. The Audit Committee includes the person(s) with responsibility for overseeing the strategic direction of and obligations related to the accountability of the Company. We cover such matters below.

## AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The Audit Committee should understand that the auditor is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America and that the audit of the financial statements does not relieve management or the Audit Committee of their responsibilities. Refer to our engagement letter with the Company for further information on the responsibilities of management and Crowe Horwath LLP

## PLANNED SCOPE AND TIMING OF THE AUDIT

We are to communicate with the Audit Committee an overview of the planned scope and timing of the audit. Accordingly, we communicated the following matters regarding the planned scope and timing of the audit with the Audit Committee on September 9, 2008.

- How we proposed to address the significant risks of material misstatement, whether due to fraud or error.
- Our approach to internal control relevant to the audit.
- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.
- The views and knowledge of the Audit Committee about matters they consider warrant our attention during the audit, as well as their views on:
  - The allocation of responsibilities between the Audit Committee and management.
  - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
  - Significant communications with regulators.

- Other matters the Audit Committee believes are relevant to the audit of the financial statements.

## SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Significant Accounting Policies: The Audit Committee should be informed of the initial selection of and changes in significant accounting policies or their application. Also, the Audit Committee should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform the Audit Committee about such matters. To assist the Audit Committee in its oversight role, we direct your attention to Note 1 of the financial statements where significant accounting policies are disclosed.

There were no such accounting changes or significant policies requiring communication.

Management Judgments And Accounting Estimates: Further, accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. These judgments are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management's current judgments and may be subject to significant change in the near term.

The process used by management in formulating particularly sensitive accounting estimates and the primary basis for our conclusions regarding the reasonableness of those estimates primarily involved the following areas for this year:

| Area / Accounting Policy | Judgments and Estimates |
|---|---|
| Allowance For Doubtful Accounts And Bad Debt Expense | Management reviews receivables periodically for collectibility and has determined that no allowance for doubtful accounts related to grants receivable or other receivables was necessary at June 30, 2008. All amounts have been deemed to be collectible based upon subsequent cash receipts as well as historical experience with the agencies providing the grants. We have reviewed management estimates as well as the information utilized by management in developing this estimate. |
| Useful Lives Of Fixed Assets | Management has determined the economic useful lives of fixed assets based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to the entity. We have tested management's estimate of the economic useful lives based on past asset acquisitions and other factors that impact their economic value to the entity. |

| Area / Accounting Policy | Judgments and Estimates |
|---|---|
| Funds Held for Others | Pursuant to a contractual agreement with the Board of Commissioners of Elkhart County, for and on behalf of the Community Corrections Advisory Board (CCAB), the CCAB reserves the right to request a return of user fees collected by the Center to be used to fund additional community corrective action programs in Elkhart County. During 2008, the Center was required to return user fees previously collected and additional monies have been collected and retained for future use at the discretion of the CCAB, which represents an estimate. These amounts totaled $176,156 and are included in funds held for others at June 30, 2008. We have reviewed management's estimate based on the actual facts and circumstances for the 2008 year, as well as the terms of the related grant contracts. |
| Expense Allocations | Management has determined allocations for presentation of certain expenses (depreciation, maintenance and repairs, payroll expenses, and interest) among program services, management and general and fundraising development activities. The allocation is based upon either specific identifiable costs or an analysis of personnel time for the related activities. We tested these allocations for reasonableness. |

## AUDITOR'S JUDGMENTS ABOUT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

We are to discuss with the Audit Committee our comments about the following matters related to the Company's accounting policies and financial statement disclosures. Accordingly, these matters will be discussed during our meeting with the Audit Committee.

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements.
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- The effect of the timing of transactions in relation to the period in which they are recorded.
- The potential effect on the financial statements of significant risks and exposures, and uncertainties that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures.
- The factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to tangible and intangible assets.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

## CORRECTED AND UNCORRECTED MISSTATEMENTS

Corrected Misstatements: We are to inform the Audit Committee of material corrected misstatements that were brought to the attention of management as a result of our audit procedures.

Material adjustments identified during our audit were as follows:

1. A $10,000 entry to record grant revenue and a grant receivable related to a contract signed with the Indiana Criminal Justice Institute in June 2008.

Uncorrected Misstatements: We are to inform the Audit Committee of uncorrected misstatements that were aggregated by us during the current engagement and pertaining to the latest and prior period(s) presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For your consideration, we have distinguished misstatements between known misstatements and likely misstatements.

Likely, uncorrected misstatements identified during our audit were as follows:

1. A $2,775 entry to record in-kind gift revenue stemming from a below market lease rate charged to rent office space in Goshen.

## COMMUNICATIONS REGARDING OUR INDEPENDENCE FROM THE COMPANY

Auditing standards generally accepted in the United States of America require independence for all audits and we confirm that we are independent auditors with respect to the Company under the independence requirements established by the American Institute of Certified Public Accountants.

Additionally, we wish to communicate that we have the following relationships with the Company that do not impair our independence but which, in our professional judgment, may reasonably be thought to bear on our independence and that we gave significant consideration to in reaching the conclusion that our independence has not been impaired.

| Relationship | Safeguards |
| --- | --- |
| **Non-Audit Services**: We have been engaged to perform the following non-audit services:<br><br>Provide assistance to management with the preparation of the required federal and state information tax returns. | We believe your management is capable to evaluate and take responsibility for their management decisions regarding our services and we did not assume the role of an employee or of management of the Company in performing and reporting on our services. |

## OTHER COMMUNICATIONS

| Communication Item | Results |
|---|---|
| **Other Information In Documents Containing Audited Financial Statements**<br>The Audit Committee often considers information prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter. | We understand that management has not prepared such information to accompany the audited financial statements. |
| **Significant Difficulties Encountered During the Audit**<br>We are to inform the Audit Committee of any significant difficulties encountered in dealing with management related to the performance of the audit. | There were no significant difficulties encountered in dealing with management related to the performance of the audit. |
| **Disagreements With Management**<br>We are to discuss with the Audit Committee any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the Company's financial statements or the auditor's report. | During our audit, there were no such disagreements with management. |
| **Consultations With Other Accountants**<br>If management consulted with other accountants about auditing and accounting matters, we are to inform the Audit Committee of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation. | We are not aware of any instances where management consulted with other accountants about auditing or accounting matters since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice. |
| **Representations The Auditor Is Requesting From Management**<br>We are to provide the Audit Committee with a copy of management's requested written representations to us. | We direct your attention to a copy of the letter of management's representation to us provided separately. |

| Communication Item | Results |
|---|---|
| **Significant Issues Discussed, or Subject to Correspondence, With Management**<br>We are to communicate with the Audit Committee any significant issues that were discussed or were the subject of correspondence with management. | There were no such significant issues discussed, or subject to correspondence, with management. |
| **Other Findings or Issues We Find Relevant or Significant**<br>We are to communicate to the Audit Committee other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to the Audit Committee regarding their oversight of the financial reporting process. | There were no such other findings or issues that are, in our judgment, significant and relevant to the Audit Committee regarding their oversight of the financial reporting process. |

We were pleased to serve your Company as its independent auditors and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities, and would be pleased to discuss this letter or any matters further, should you desire. This letter is intended solely for the information and use of the Audit Committee and, if appropriate, management and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
November 10, 2008