STATE OF INDIANA

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AN EQUAL OPPORTUNITY EMPLOYER

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June 3, 2009

Board of Directors
Life Treatment Centers, Inc.
1401 S. Michigan St.
South Bend, IN 46613

We have reviewed the audit report prepared by Crowe Chizek and Company, LLC, Independent Public Accountants, for the period July 1, 2006 to June 30, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Life Treatment Centers, Inc., as of June 30, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the findings in the report. Page 20 and 21 contains two current audit findings.

STATE BOARD OF ACCOUNTS

LIFE TREATMENT CENTERS, INC.

FINANCIAL STATEMENTS

June 30, 2007 and 2006

LIFE TREATMENT CENTERS, INC.
South Bend, Indiana

FINANCIAL STATEMENTS
June 30, 2007 and 2006

CONTENTS

Crowe

Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS
ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Board of Directors
Life Treatment Centers, Inc.
South Bend, Indiana

We have audited the accompanying statements of financial position of Life Treatment Centers, Inc. as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Life Treatment Centers, Inc. 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 Life Treatment Centers, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 31, 2007, on our considerations of the Organization's internal control over financial reporting and our test 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 controls 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 audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis 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 taken as a whole.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

South Bend, Indiana
October 31, 2007

LIFE TREATMENT CENTERS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	2007	2006
ASSETS		
Cash	$ 148,658	$ 424,240
Accounts receivable	18,980	222,332
Investments (Note 2)	823,986	766,066
Assets available for sale (Note 3)	78,970	-
Land and buildings	1,626,676	1,746,801
Furniture and equipment	175,386	173,432
Less accumulated depreciation	(869,201)	(828,877)
	$ 2,003,455	$ 2,503,994
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 14,516	$ 40,922
Accrued payroll and benefits	75,561	87,700
Long-term debt (Note 4)	216,313	226,643
Total liabilities	306,390	355,265
Net assets		
Unrestricted		
Designated (Note 6)	-	500,000
Undesignated	1,327,940	1,279,604
	1,327,940	1,779,604
Temporarily restricted (Note 7)	369,125	369,125
Total net assets	1,697,065	2,148,729
	$ 2,003,455	$ 2,503,994

See accompanying notes to financial statements.

LIFE TREATMENT CENTERS, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2007 and 2006

	2007	2006
Changes in unrestricted net assets:		
Support and revenue		
Support		
Contributions	$ 12,874	$ 61,678
United Way	38,077	41,928
Emergency Shelter Grant	40,000	30,599
U.S. Department of Housing & Urban Development	46,331	80,698
Fund raising events	3,914	111,252
	141,196	326,155
Revenue		
Division of Addiction Services (Note 1)	1,196,409	2,328,149
Program service fees	140,303	128,978
Net realized/unrealized gains (losses)	34,354	(5,921)
Interest income, net (Note 2)	29,883	19,244
Other revenue	11,213	9,721
	1,412,162	2,480,171
Total support and revenue	1,553,358	2,806,326
Expenses		
Residential and treatment program	1,689,767	1,805,229
Administrative and supporting services	192,294	283,368
Fund raising	122,961	244,401
Total expenses	2,005,022	2,332,998
Change in net assets	(451,664)	473,328
Net assets at beginning of year	2,148,729	1,675,401
Net assets at end of year	$ 1,697,065	$ 2,148,729

See accompanying notes to financial statements.

LIFE TREATMENT CENTERS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years ended June 30, 2007 and 2006

	2007	2006
Residential and treatment program		
Salaries and wages	$ 965,744	$ 901,827
Payroll taxes	81,627	76,092
Benefits	261,908	250,172
Contract services	3,064	8,839
Insurance	20,080	48,321
Repairs and maintenance	13,977	21,318
Utilities	57,904	61,971
Telephone	20,253	17,684
Auto expenses	10,279	14,697
Depreciation	84,354	87,147
Food	54,221	84,102
Supplies	23,818	25,294
Medical supplies	3,550	3,131
Medical consultants	15,150	12,100
Educational supplies	74	623
Drug screening	1,866	1,950
Staff training	3,541	1,730
Interest expense	15,642	15,669
Grants	1,225	55
Subcontracting expense	2,800	33,914
Grantor administration fee	21,365	101,406
Other costs	27,325	37,187
	$ 1,689,767	$ 1,805,229
Administrative and supporting services		
Salaries and wages	$ 41,051	$ 88,340
Payroll taxes	3,470	7,493
Benefits	11,133	24,506
Insurance	5,020	11,330
Office supplies	16,408	22,774
Professional fees	68,548	41,714
Printing and postage	7,614	7,372
Dues and subscriptions	2,159	31,486
Other costs	36,891	48,353
	$ 192,294	$ 283,368
Fund raising		
Salaries and wages	$ 85,914	$ 119,148
Payroll taxes	7,262	10,506
Benefits	23,300	33,052
Other costs	6,485	81,695
	$ 122,961	$ 244,401

See accompanying notes to financial statements.

LIFE TREATMENT CENTERS, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Change in net assets	$ (451,664)	$ 473,328
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	84,354	87,147
Net realized and unrealized (gains) losses	(34,354)	5,921
Change in assets and liabilities		
Accounts receivable	203,352	(222,332)
Accounts payable	(26,406)	15,976
Accrued payroll and benefits	(12,139)	(33,737)
Other liabilities	-	(4,738)
Net cash from operating activities	(236,857)	321,565
Cash flows from investing activities		
Proceeds from sale of investments	856,572	1,103,794
Purchase of investments	(880,138)	(1,055,625)
Purchase of property and equipment	(4,829)	(92,005)
Net cash from investing activities	(28,395)	(43,836)
Cash flows from financing activities		
Payments on long-term debt	(10,330)	(10,305)
Net cash from financing activities	(10,330)	(10,305)
Change in cash	(275,582)	267,424
Cash at beginning of year	424,240	156,816
Cash at end of year	$ 148,658	$ 424,240
Supplemental schedule of cash flow information		
Interest paid	$ 15,642	$ 15,669
Supplemental disclosures of non-cash flow activity		
Reclassification of fixed assets to assets available for sale	$ 78,970	$ -

See accompanying notes to financial statements.

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

Nature of Activities: Life Treatment Centers, Inc. (the Organization) is a not-for-profit corporation organized under the laws of the State of Indiana.

The Organization's purpose is the treatment and rehabilitation of persons affected by substance abuse who otherwise could not afford treatment. It accomplishes this objective by creating a total program for the substance abuser to enhance spiritual growth and provide intervention, education, treatment and resocialization. Programs include detoxification, residential treatment, transitional residential services, intensive outpatient treatment, gambling addiction, and drug and alcohol education. These programs provide services primarily in St. Joseph and Elkhart Counties in Indiana.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable: Accounts receivable for the year ended June 30, 2007 represents reimbursement for disbursements of funds for the HUD program. Accounts receivable for the year ended June 30, 2006 represented the final payment from the Addiction Resource Network of Indiana for the 2006 contract revenue which was received in July 2006.

Financial Statement Presentation: 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 net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

> Unrestricted net assets represent the part of the net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

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

Temporarily restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization.

Permanently restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

As of June 30, 2007 and 2006, the Organization does not have any permanently restricted net assets.

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

Investments: The Organization has adopted Statement of Financial Accounting Standard (SFAS) No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value based on quoted market prices or dealer quotes in the statements of financial position. These investments are initially recorded at cost if they were purchased or at their fair market value on the date of the gift if they were received as a donation. Unrealized gains and losses resulting from year-end adjustments are included in the statements of activities.

Property and Equipment: Property and equipment are stated at cost or, if donated to the Organization, at fair market value on the date of acquisition. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method. The estimated useful lives are as follows:

Buildings	15 to 40 Years
Furniture and equipment	5 to 15 Years

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

Third Party Reimbursement: Certain revenues are obtained under governmental programs based upon units of service rendered. Amounts claimed are recorded as revenue; however, final determination may vary because of the regulations pertaining to reimbursement. Differences in estimated amounts and actual settlements are reflected as charges and credits upon settlement or payment.

Concentration of Credit Risk: The Organization has received a substantial amount of federal grant revenue from the Division of Addiction Services which has been passed through the Affiliated Service Providers of Indiana, Inc. (ASPIN), for the year ended June 30, 2007. For the year ended June 30, 2006, the Organization had received its federal grant revenue through the Addiction Resource Network of Indiana (ARNI). The Organization is financially dependent on these federal grant revenues and management does not anticipate significant changes in the level of funding in 2008.

Contributions: Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist. If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as unrestricted.

Donated Materials and Service: In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair market value of certain in-kind contributions as both revenue and expense for the programs or activities benefited. The value of donated services of volunteer workers is not reflected in the accompanying financial statements since there are no objective basis available by which to measure the value of such services.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized based on program and administrative and supporting service and fund raising costs in the statements of functional expenses. The allocations are based on the programs and supporting services benefited and management's time and service estimates.

Income Taxes: The Organization 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. Contributions to the Organization are tax deductible to the donor.

NOTE 2 - INVESTMENTS

The following are the major types of investments held by the Organization at June 30, 2007 and 2006:

	2007	2006
Money market funds	$ 145,732	$ 90,978
Certificates of deposit	203,647	250,865
U.S. Treasury note	257,430	147,298
Stocks and mutual funds	217,177	184,530
Short term bonds	-	92,395
	$ 823,986	$ 766,066

Interest income in the Statements of Activities is reported net of investment fees of $8,165 and $3,946 for June 30, 2007 and 2006, respectively.

NOTE 3 - ASSETS HELD FOR SALE

During August 2006, the Organization's Board of Directors approved two halfway houses to be placed for sale. Pursuant to Statement of Financial Accounting Standard (SFAS) 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Organization ceased depreciating the aforementioned assets. The assets are reported separately as assets held for sale in the statements of financial position. Additionally, the assets are being valued at $78,970, which is the lower of their carrying value or estimated sales price less estimated costs to sell. The Organization has actively pursued a buyer for the properties.

NOTE 4 - LONG-TERM DEBT

A summary of long-term debt at June 30, 2007 and 2006 is as follows:

	2007	2006
Note payable to Old National Bank; due in monthly installments of $993 plus variable interest based on 0.25% below the prime of Old National Bank through March 2010. The interest rate was at 6.95% at year end. There is a balloon payment of approximately $180,000 at the maturity date.	$ 216,313	$ 226,643

Scheduled principal repayments over the next three years are as follows:

2008	$ 11,273
2009	12,082
2010	192,958

The note is subject to one covenant requiring the issuance of audited financial statements to the Bank within 120 days after year end. The Organization was not in compliance with this covenant for year ended June 30, 2007 but obtained a waiver dated October 31, 2007.

NOTE 5 - EMPLOYEE RETIREMENT PLAN

The Organization contributes to a simplified employee pension plan for substantially all employees. The amount of the contribution to the plan is at the discretion of the Board of Directors of the Organization and is a percentage of employee salaries. The Organization contributed $24,607 and $27,073 for the years ended June 30, 2007 and 2006.

The Organization also established an Employee Tax Deferred Savings Plan under Internal Revenue Code Section 403(b). Employees may choose to contribute to the plan at their discretion through pre-tax payroll deductions.

NOTE 6 - DESIGNATED UNRESTRICTED NET ASSETS

In April 2002, the Board of Directors designated a reserve to provide funds for future operating needs. The amount designated was to provide coverage to protect against any future unforeseen changes in the Organization's level of funding and support. During 2007, the Organization used these designated funds to support operations due to a decrease in funding.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2007 and 2006, temporarily restricted net assets consist of contributions which were received in prior years that are restricted by time. The specific amounts and periods of restriction are as follows:

Funding Source	Amount	End of Restriction Period
St. Joseph Housing Consortium	$ 299,125	November 1, 2009
St. Joseph Housing Consortium	70,000	December 31, 2011
	$ 369,125	

NOTE 8 - OPERATING LEASE COMMITMENTS

The Organization entered into a 36 month operating lease for a copier on August 29, 2007. Terms of the lease provide for monthly payments of $872. The following schedule presents, by year, the approximate future minimum lease payments.

2008	$ 8,722
2009	10,466
2010	10,466
2011	1,744
	$ 31,398

SUPPLEMENTARY INFORMATION

LIFE TREATMENT CENTERS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2007

Federal/Pass Through Grantor Program Title	Federal CFDA Number	Expenditures
Substance Abuse and Mental Health Services Administration, Department of Health and Human Services		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	$ 900,890
Community Planning and Development, Department of Housing and Urban Development		
Emergency Shelter Grants Program	14.231	40,000
Supportive Housing Program	14.235	46,331
		$ 987,221

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization for the year ended June 30, 2007 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 financial statements.

Crowe
Crowe Chizek and Company LLC
Member Horwath International

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Life Treatment Centers, Inc.
South Bend, Indiana

We have audited the financial statements of Life Treatment Centers, Inc. (the Organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 31, 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 the Organization'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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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 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 or material weaknesses. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses in internal control over financial reporting. Please see Section #2 of the Schedule of Findings and Questioned Costs.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 the Organization in a separate letter dated October 31, 2007.

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

This report is intended solely for the information and use of the Board of Directors and management of the Organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

South Bend, Indiana
October 31, 2007

Crowe

Crowe Chizek and Company LLC
Member Horwath International

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

Board of Directors
Life Treatment Centers, Inc.
South Bend, Indiana

Compliance

We have audited the compliance of Life Treatment Centers, Inc. (the Organization) 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 its major federal program for the year ended June 30, 2007. The Organization's major federal program is 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 program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization'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 Life Treatment Centers, 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 the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Organization 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 the Organization's internal control over compliance with the 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 the Organization's internal control over compliance.

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 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the 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 solely for the information and use of management, the Board of Directors others within the Organization, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

South Bend, Indiana
October 31, 2007

Section I—Summary of Auditor's 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 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
• Significant deficiencies identified that are 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?	Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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

Auditee qualified as low-risk auditee?	X Yes	No

Section II—Financial Statement Findings

Finding #2007-1: Internal Controls Over Financial Reporting - Segregation of Duties

- *Criteria or specific requirement*: Management is responsible for establishing and maintaining internal controls over financial reporting.

- *Condition*: A strong system of internal control over financial reporting requires the segregation of incompatible accounting functions, timely reconciliation of accounts, controls over the inventory of check stock, and maintaining all supporting documentation. During our audit we noted situations where incompatible duties were being performed by employees, weaknesses relative to the control of check stock, including missing voided checks, and missing documentation that supported the general ledger balances.

- *Effect*: Employees that record payments in the general ledger, prepare month end reconciliation of accounts, and add new vendors have the ability to misappropriate assets from the organization. The misappropriation of assets could also be concealed by the employee, making this type of fraud hard to detect. In addition, the lack of controls over supporting documentation and missing check stock creates the ability to misappropriate assets of the Organization.

- *Cause*: The size of the Organization makes segregation of certain accounting functions difficult, and the lack of formal policies requiring documentation of approvals and reviews.

- *Recommendation*: Our recommendation is that incompatible accounting functions be segregated between employees, implementation of secondary review of source documents and documented approvals be required and a formal policy for tracking and maintaining the check stock be implemented.

- *Views of responsible officials and planned corrective actions*: We agree with the auditors recommendation, and have already begun to take the necessary steps to further segregate duties, as well as implement secondary checks over areas of greatest concern.

Finding #2007-2: Internal Controls Over Financial Reporting - Reconciliation of Investment Assets

- *Criteria or specific requirement*: A new auditing standard, 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 annual report in accordance with accounting principles generally accepted in the United States of America (GAAP). While management is not required to prepare the annual report, 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. During our audit, we noted that an adjusting journal entry was required to correct a material misstatement relating to investments.

- *Condition*: During the course of our 2007 audit, it came to our attention that management does not reconcile the investment accounts during the year. We also noted that many of the monthly or quarterly investment statements were missing when we arrived for the audit.

- *Effect*: The investment accounts are not properly stated at market value, and the related income components of the investment accounts are not being recorded. This could lead management and the Board of Directors to rely on incorrect information when reviewing monthly internal financial statements.

- *Cause*: Management did not devote time during the year to reconcile the investment accounts on a monthly basis. At year end, management did not have time to reconcile all the investment activity throughout the year.

- *Recommendation*: We recommend management reconcile each investment account and record the investment activity on a monthly basis. We also recommend that management track and file all investment statements received to ensure that all investments are included in the general ledger.

- *Views of responsible officials and planned corrective actions*: We agree with the auditors recommendations, and have begun to process of reconciling and adjusting all investment accounts on a monthly basis.

Section III—Federal Award Findings and Questioned Costs

- None

Section IV—Prior Year Findings and Questioned Costs

- None