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B35473

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

December 31, 2009

Board of Directors
Indiana Communities for
Drug-Free Youth, Inc.
1101 S. 13th St.
Terre Haute, IN 47802

We have reviewed the audit report prepared by Larsson, Woodyard & Henson, LLP, Independent Public Accountants, for the period January 1, 2006 to December 31, 2006. 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 Indiana Communities for Drug-Free Youth, Inc., as of December 31, 2006, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the findings in the report. Pages 23 through 26 contain four current audit findings. Pages 27 through 30 contain the status of five prior audit findings. Management's corrective action plan is on pages 31 and 32.

STATE BOARD OF ACCOUNTS

INDIANA COMMUNITIES
FOR DRUG-FREE YOUTH, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

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Larsson Woodyard & Henson, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Indiana Communities for Drug-Free Youth, Inc.
Terre Haute, Indiana

We have audited the accompanying statement of financial position of the Indiana Communities for Drug-Free Youth, Inc. (a nonprofit organization) as of December 31, 2006, 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 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 the Indiana Communities for Drug-Free Youth, Inc. as of December 31, 2006 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 February 29, 2008 on our consideration of Indiana Communities for Drug-Free Youth, 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 read in conjunction with this report in considering the results of our audit.

702 East Court Street
PO Box 426
Paris, IL 61944
P: 217-465-6494
T: 800-777-1985
F: 217-465-6499

107 West Alabama Street
PO Box 157
Casey, IL 62420
P: 217-932-5241
T: 866-895-2153
F: 217-932-5243

401 Ohio Street
Suite A1
Terre Haute, IN 47807
P: 812-242-2043
T: 866-883-2043
F: 812-242-2047

www.lwhcpa.com

Our audit was performed 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.

Larsson Woodyard + Henson, LLP

Paris, Illinois
February 29, 2008

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2006

ASSETS

Current Assets:	
Cash	\$ 22,122
Advances to employees	7,000
Accounts receivable - grants	411,782
	<hr/>
Total Current Assets	440,904
Beneficial interest in assets held by others	60,170
Property and equipment, net	199,269
	<hr/>
Total Assets	<u>\$ 700,343</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable - trade	\$ 15,362
Accounts payable - employee	17,231
Accrued and withheld payroll taxes	21,557
Interest payable	564
Accrued expenses	12,000
Line of credit	96,036
Grants payable	239,188
Advances from employees	1,614
Current portion of long-term debt	1,365
	<hr/>
Total Current Liabilities	404,917
LONG-TERM DEBT, net of current portion	4,304
	<hr/>
Net Assets:	
Unrestricted	291,122
	<hr/>
Total Net Assets	291,122
	<hr/>
Total Liabilities and Net Assets	<u>\$ 700,343</u>

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

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

Unrestricted Revenues, Gains and Other Support:

Revenues, gains and other support:

Contributions	\$ 17,110
Grant revenues	1,352,286
Rental income	8,500
Investment income	139
Increase in beneficial interest in assets held by others	1,978
Fundraising income	3,108
Other revenue	663
	1,383,784
Total unrestricted revenues, gains and other support	1,383,784

Expenses:

Program services

Afternoons R.O.C.K.	717,032
Tobacco Prevention and Cessation	125,930
Mentoring Children of Promise	142,545
Prevention - Moderate Risk Youth	146,130
SAFE Kids	13,333
Teen Court	13,005
Youth as Resources	42,154

Support services

Management and general	34,293
Fundraising	0
	0

Total expenses	1,234,422
	1,234,422

Change in Unrestricted Net Assets	149,362
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Unrestricted Net Assets at Beginning of Year	141,760
	141,760

Unrestricted Net Assets at End of Year	\$ 291,122
	291,122

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

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2006

	Program			
	Afternoons R.O.C.K.	Tobacco Prevention and Cessation	Mentoring Children of Promise	SADD
Salaries and wages	\$ 107,973	\$ 62,398	\$ 86,803	\$ 65,651
Payroll taxes	10,159	5,871	8,168	6,177
Employee benefits	16,511	2,600	14,880	1,072
Penalties on payroll taxes	0	0	0	0
Advertising	0	0	0	0
Directors and staff meeting expense	2,215	834	518	189
Dues and subscriptions	2,480	1,103	552	276
Employee training and conferences	14,102	1,618	889	430
Grants to others	0	0	0	3,000
Insurance	5,126	2,279	1,139	570
Interest expense and finance charges	3,868	1,720	860	430
Leased equipment	3,161	1,404	702	351
Occupancy	4,359	1,937	969	484
Office supplies	1,755	821	390	195
Other	983	437	218	109
Postage and delivery	1,355	601	301	150
Printing and reproduction	53	24	53	6
Professional fees	6,711	2,983	1,492	746
Program supplies and expenses	28,108	8,133	18,230	65,082
Rents	0	1,800	0	0
Repairs and maintenance	1,424	694	317	159
Subcontractor payments	495,150	20,749	1,000	0
Telephone and communication	5,650	2,875	1,381	428
Travel and transportation	1,020	2,885	2,601	84
Total Expenses before Depreciation	<u>712,163</u>	<u>123,766</u>	<u>141,463</u>	<u>145,589</u>
Depreciation	<u>4,869</u>	<u>2,164</u>	<u>1,082</u>	<u>541</u>
Total expenses	<u>\$ 717,032</u>	<u>\$ 125,930</u>	<u>\$ 142,545</u>	<u>\$ 146,130</u>

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

SAFE Kids	Teen Court	Youth as Resources	Support Services		Total Agency
			Management and General	Fundraising	
\$ 5,027	\$ 5,027	\$ 13,132	\$ 23,252	\$ 0	\$ 369,263
473	473	1,236	2,188	0	34,745
451	451	451	451	0	36,867
0	0	0	2,810	0	2,810
0	0	250	0	0	250
189	189	366	189	0	4,689
276	276	276	276	0	5,515
430	430	430	405	0	18,734
0	0	21,189	0	0	24,189
570	570	570	570	0	11,394
430	430	430	430	0	8,598
351	351	351	351	0	7,022
484	484	484	484	0	9,685
259	220	195	195	0	4,030
109	109	109	109	0	2,183
150	150	150	150	0	3,007
6	167	6	6	0	321
746	1,381	746	746	0	15,551
2,170	785	496	469	0	123,473
0	0	0	0	0	1,800
159	159	159	159	0	3,230
0	0	0	0	0	516,899
428	728	503	428	0	12,421
84	84	84	84	0	6,926
12,792	12,464	41,613	33,752	0	1,223,602
541	541	541	541	0	10,820
<u>\$ 13,333</u>	<u>\$ 13,005</u>	<u>\$ 42,154</u>	<u>\$ 34,293</u>	<u>\$ 0</u>	<u>\$ 1,234,422</u>

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2006

Cash flows from operating activities:	
Increase in net assets	\$ 149,362
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	10,820
Change in beneficial interest	(1,978)
(Increase) decrease in current assets:	
Accounts receivable - grants	(272,665)
Increase (decrease) in current liabilities:	
Accounts payable	20,986
Accrued expenses	(2,872)
Grants payable	135,960
Net cash provided by operating activities	<u>39,613</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(20,432)</u>
Net cash used in investing activities	<u>(20,432)</u>
Cash flows from financing activities:	
Proceeds from line of credit	(100,964)
Repayment of line of credit	98,000
Payments on long-term debt	(5,285)
Advances repaid to employees	(34,172)
Net cash used in financing activities	<u>(42,421)</u>
Net decrease in cash and cash equivalents	(23,240)
Cash and cash equivalents at Beginning of Year	<u>45,362</u>
Cash and cash equivalents at End of Year	<u><u>\$ 22,122</u></u>
Supplemental Information:	
Additional Cash Flows Information:	
Cash paid for interest	<u><u>\$ 8,816</u></u>

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

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note A. Summary of Significant Accounting Policies

Organization

Indiana Communities for Drug-Free Youth, Inc. (the Organization) is a not-for-profit corporation organized for the purpose of establishing and operating a substance abuse prevention service for moderate-risk youth, by promoting awareness of the problem, establishing guidelines for parents and citizens, alerting members of the community to symptoms of alcohol and drug abuse and providing information on alternatives and referrals for professional assistance. It services the entire State of Indiana, with offices in Vigo County.

The Organization receives grants from various State of Indiana, Federal and local agencies to carry out its purpose and operates under the name, CHANCES for Indiana Youth.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation and Net Assets

The financial statements of the Organization are prepared in conformity with the standards promulgated by the Financial Accounting Standards Board Statement of Accounting Standards (SFAS) No. 116 "Accounting for Contributions Received and Contributions Made" and SFAS No. 117 "Financial Statements of Not-for-Profit Organizations."

The financial statements are prepared in accordance with generally accepted accounting principles promulgated in the United States of America for not-for-profit organizations. The Indiana Communities for Drug-Free Youth, Inc. therefore reports information about its financial position and activities using three classes of net assets that recognize the existence and nature of restrictions on its net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent resources over which the Board of Directors has unlimited discretionary control to carry out the activities of the organization in accordance with the Articles of Incorporation and By-laws.

Temporarily restricted net assets represent resources whose use is limited by donor-imposed restrictions that will be met either by actions of the organization or by the passage of time.

Permanently restricted net assets represent resources whose use is limited by donor-imposed restrictions that require the net assets to be maintained permanently.

The Organization has no temporarily or permanently restricted net assets.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note A. Summary of Significant Accounting Policies, Continued

Restricted and Unrestricted Support

Contributions received are recorded as temporarily restricted, permanently restricted, or unrestricted support, depending on the existence or nature of any donor restriction. Contributions made to Indiana Communities for Drug-Free Youth, Inc. are considered available for unrestricted use unless specifically restricted by the donor.

All restricted support is reported as an increase in temporarily or permanently restricted net assets. However, support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received.

Donations In-Kind

Material donations-in-kind received by the Organization are recorded as income along with a corresponding charge to expense or capitalized cost. There were no material in-kind donations during the year ended December 31, 2006.

Use of Estimates

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment acquisitions are stated at cost, less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of three to fifty years have been used in the determination of depreciation expense. Assets acquired in excess of \$500 per item are carried at cost less accumulated depreciation. Assets acquired at less than \$500 per item are treated as ordinary expenditures.

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note A. Summary of Significant Accounting Policies, Concluded

Property and Equipment, concluded

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Indiana Communities for Drug-Free Youth, Inc. is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During 2006, advertising costs totaled \$250.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the Organization considers all investment instruments purchased with a maturity or three months or less to be cash equivalents. At December 31, 2006, there were none.

Note B. Description of Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note B. Description of Program and Supporting Services, Continued

Afternoons R.O.C.K. in Indiana

Afternoons R.O.C.K. teaches focus and supportive prevention activities that are designed to teach youth about social and media influences, conflict resolution and refusal/resistance skills, gang prevention, and the structuring of leisure time to be free of alcohol, tobacco and other drug use. Afternoons R.O.C.K. in Indiana is designed to be fun and captivating for the youth rather than additional school after school hours. CHANCES for Indiana Youth serves 18 counties for this program.

Tobacco Prevention and Cessation Programs

Tobacco Prevention and Cessation Programs are designed to change the cultural and social acceptability of tobacco use in Indiana, prevent initiation of tobacco use by Indiana Youth, assist tobacco users in cessation, assist in reduction and protection from environmental tobacco smoke, support the enforcement of tobacco laws concerning the sale of tobacco to youth and use of tobacco by youth, eliminate minority health disparities related to tobacco use, and emphasize prevention and reduction of tobacco by at-risk populations.

Mentoring Children of Promise

The Mentoring Children of Promise program services youths with an incarcerated parent. The goal is to provide stabilizing influences in the lives of youth with an incarcerated parent by promoting a trusting, caring relationship with an adult mentor. Each child is paired with a mentor, and some pairs have been together for two years. During 2004, Vigo County was served. Additional counties were served in 2005 and 2006.

SADD

SADD is a program designed to provide students with prevention and intervention tools to deal with issues of underage drinking, other drug use, impaired driving and other destructive decisions.

Vigo County Safe Kids

The Vigo County Safe Kids program helps youth live and play safely through home, playground, pedestrian, and bicycle safety, car seat programs, certified child passenger safety technicians, and bike helmet programs.

CHANCES Teen Court

Teen Court is a program targeted at first-time youth offenders and is designed as an alternative for adolescents meeting certain eligibility requirements. In a real courtroom, a constructive sentence is given to the offending youth through a process utilizing teenage attorneys and jurors, giving a true definition of "jury of your peers."

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note B. Description of Program and Supporting Services, Concluded

Youth as Resources

Youth As Resources (YAR) provides young people with the financial means to complete projects that better their classrooms, schools, and communities. Grants are offered monthly and are simple to apply for. Youth groups complete a paper application and then make a presentation describing their project further to a board of volunteers. These volunteers then decide which projects are funded.

Note C. Advances to Employees

Advances to employees represents prepaid wages to the Executive Director.

Note D. Accounts Receivable - Grants

Accounts receivable - grants represent amounts due from various state and local government agencies for services provided. A detail of these unsecured receivables as of December 31, 2006 is presented below:

Indiana Family & Social Services Administration -		
SAPT Block Grant - Afternoons R.O.C.K.	\$	405,950
Youth Services Bureau Grant		5,832
	\$	411,782

All amounts were received subsequent to the year-end.

Note E. Property and Equipment

Property and equipment as of December 31, 2006 consist of the following:

Land	\$	1,000
Building and leasehold improvements		217,595
Equipment		43,522
Vehicles		15,700
Total		277,817
Accumulated depreciation	(78,548)
Property and equipment, net	\$	199,269

Depreciation expense for the year ended December 31, 2006 computed under the straight line method amounted to:

Depreciation expense	\$	10,820
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INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note F. Compensated Absences

Employees of the Organization are entitled to paid vacation leave depending on length of service and other factors. Employees generally use the vacation pay in the year earned. Employees are also entitled to paid sick leave if earned and if they are an employee on December 31. At December 31, 2006, all amounts payable on December 31, 2006 have been paid so there is no accumulated vacation or sick leave.

Note G. Line of Credit

The Organization has a \$100,000 revolving line of credit with First Financial Bank, which requires monthly interest payments at an initial rate of 6.25%, adjusted quarterly to prime plus 1.25%. The note is secured by real estate. The Organization had \$3,964 available under the line of credit at December 31, 2006.

Note H. Grants Payable

Grants payable consist of amounts awarded at December 31, 2006, but not paid, to local groups under the Afternoons R.O.C.K. (\$238,500) and the Tobacco Prevention and Cessation (\$5,488) Programs. All amounts were paid in the subsequent year.

Note I. Advances from Employees

Advances from employees represent the balances owed to an employee for short-term informal loans advanced to the Organization. The amount is non-interest bearing with no formal repayment terms.

Note J. Long-term Debt

Long-term debt represents an auto loan dated February, 2004 with a monthly payment of \$325.02, including interest at 9%, through February, 2009. The note is secured by a vehicle with a cost of \$15,700. Principal maturities on this note payable are as follows for the years ending December 31:

2007	\$	1,365
2008		3,661
2009		643
		<u>643</u>
	\$	<u>5,669</u>

Note K. Economic Dependency

The Indiana Communities for Drug-Free Youth, Inc. depends significantly on funding for services from the following entity to carry out its program activities:

	<u>2006 Revenue</u>	<u>% Total Revenue</u>
Indiana Family and Social Services Administration	\$ 844,350	61.02%

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note L. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of unsecured cash. The Organization's deposits at each financial institution are insured by the Federal Insurance Deposit Insurance Corporation (FDIC) up to \$100,000. From time to time, the Organization's deposits significantly exceed the insured limits.

Note M. Contributed Support

The Organization receives services donated by its members in carrying out the Organization's activities. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under SFAS No. 116, Accounting for Contributions Received and Contributions Made.

Note N. Fundraising Activities

The following is a summary of fundraising activities for the year ended December 31, 2006:

Fundraising income	\$	3,108
Fundraising expenses		<u>0</u>
Net fundraising revenue	\$	<u>3,108</u>

Note O. Beneficial Interest in Assets Held by Others

The Indiana Communities for Drug-Free Youth has established a designated endowment fund with the Wabash Valley Community Foundation. The purpose of the Fund is to provide support to Indiana Communities for Drug-Free Youth, Inc. to carry out its role and mission as described by its governing documents.

Indiana Communities for Drug-Free Youth, Inc. transferred funds irrevocably to the Foundation to establish the Fund. The funds are not held in a separate trust and The Foundation was granted variance power over these funds. The variance power enables the Foundation to modify any restriction or condition on the distribution of funds, if in the Foundation's judgment such a restriction or condition becomes unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community and are served. The annual net earnings allocable to this Fund will eventually be distributed to Indiana Communities for Drug-Free Youth, Inc.

Note P. Operating Leases - Lessors

The Organization leases office space at 444 South 6th Street, Terre Haute, Indiana to High Ground Digital for \$1,100 per month on a month-to-month basis. Rental income for the year ended December 31, 2006 was \$8,500 and no provision has been made for unpaid rents to date of \$10,200 since there is no formal lease agreement.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note Q. Operating Leases - Lessee

The Organization leases office space for its Tobacco Programs for \$150 per month on a month-to month basis. Rental expense for the year ended December 31, 2006 was \$1,800.

Note R. Related Party Transactions

The Organization pays stipends to board members and their family members who are mentors in the Mentoring Children of Promise program. During the year ended December 31, 2006, these program expenses totaled \$1,050.

The board members and their families made unrestricted donations of \$8,250 during the year ended December 31, 2006.

Note S. Subsequent Events

In February 2007, a new line of credit agreement was entered with First Financial Bank. The amount and terms, except for the interest calculation, are the same as described in Note F above. The initial interest rate the new agreement was 9%, which is adjusted daily to prime plus 0.75%.

The Organization is terminating its lease with High Ground Digital as of March 31, 2008.

Beginning on April 8, 2008, the Organization entered into a one year noncancelable real estate lease with the Terre Haute City Parks and Recreation Board to use a multi-purpose community center commonly known as the Booker T. Washington Park Community Center. In exchange for a dollar on commencement of the lease, a monthly utility reimbursement of \$250 and the maintenance of minimum liability insurance coverage as outlined in the agreement, CHANCES has a facility to provide programming consistent with its mission provided that said programming is not denied to any member of the general community on the basis of race, religion, sex, age, national origin or hardship, special needs or living situation. The lease includes an option to renew the lease annually, or prior to the expiration of the initial term, a longer lease term can be negotiated if both parties so desire. To avoid perceived conflicts of interest, the resignations of three board members have been accepted since this agreement was signed.

SINGLE AUDIT SECTION

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Pass-through programs from:			
Indiana Family & Social Services Administration -			
Division of Mental Health and Addiction :			
Primary Prevention - Afternoons R.O.C.K.	93.959	84-05-AP-2065 and 84-06-AP-2065	\$ 844,350
Pass-through programs from:			
C.H.O.I.C.E.S., Inc.			
Mentoring Children of Prisoners	93.616	11466	61,664
Indiana Youth Services Association, Inc.			
Mentoring Children of Prisoners	93.616		36,899
U. S. Department of Transportation:			
Pass-through programs from:			
Vigo County, Indiana:			
Indiana Statewide SADD	20.601	J8 02-03-4-2	<u>136,889</u>
Total expenditures of federal awards			<u><u>\$ 1,079,802</u></u>

See accompanying notes to schedule of expenditures of federal awards.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Indiana Communities for Drug-Free Youth, 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 preparation of, the basic financial statements.

Note B. Risk-Based Audit Approach

The Organization has only one program, which is a Type A program, the dollar threshold of which exceeds \$300,000. The Organization does not qualify as a low-risk auditee.

Note C. Subrecipients

The Organization provided federal awards to subrecipients totaling \$499,950.



Larsson Woodyard & Henson, LLP
Certified Public Accountants

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
Indiana Communities for Drug-Free Youth, Inc.
Terre Haute, Indiana

We have audited the financial statements of Indiana Communities for Drug-Free Youth, Inc. (a nonprofit organization) as of and for the year ended December 31, 2006, and have issued our report thereon dated February 29, 2008. 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 Indiana Communities for Drug-Free Youth, 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 Indiana Communities for Drug-Free Youth, Inc.'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.

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 we consider to be significant deficiencies.

702 East Court Street
PO Box 426
Paris, IL 61944
P: 217-465-6494
T: 800-777-1985
F: 217-465-6499

107 West Alabama Street
PO Box 157
Casey, IL 62420
P: 217-932-5241
T: 866-895-2153
F: 217-932-5243

401 Ohio Street
Suite A1
Terre Haute, IN 47807
P: 812-242-2043
T: 866-883-2043
F: 812-242-2047

www.lwhcpa.com

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 a combination of control deficiencies, that adversely affects the organization'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 organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. 06-1.

A material weakness is a significant deficiency, or a 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 organization'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 would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Indiana Communities for Drug-Free Youth, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

However, we noted certain immaterial instances of noncompliance that we have reported to management of Indiana Communities for Drug-Free Youth, Inc. in a separate letter dated February 29, 2008.

Indiana Communities for Drug-Free Youth, Inc.'s response to the findings identified in our audit is described in the accompany schedule of findings and questioned costs. We did not audit Indiana Communities for Drug-Free Youth, Inc.'s response and, accordingly, we express no opinion on them.

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

Larsson Woodyard + Henson, LLP

Paris, Illinois

February 29, 2008



Larsson Woodyard & Henson, LLP
Certified Public Accountants

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
Indiana Communities for Drug-Free Youth, Inc.
Terre Haute, Indiana.

Compliance

We have audited the compliance of Indiana Communities for Drug-Free Youth, 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 December 31, 2006. Indiana Communities for Drug-Free Youth, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Indiana Communities for Drug-Free Youth, Inc.'s management. Our responsibility is to express an opinion on Indiana Communities for Drug-Free Youth, 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 standard 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 State, 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 Indiana Communities for Drug-Free Youth, 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 of Indiana Communities for Drug-Free Youth, Inc.'s compliance with those requirements.

In our opinion, Indiana Communities for Drug-Free Youth, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06-1, 06-2, 06-3 and 06-4.

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Internal Control Over Compliance

The management of Indiana Communities for Drug-Free Youth, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Indiana Communities for Drug-Free Youth, Inc.'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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Indiana Communities for Drug-Free Youth, Inc.'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 internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 06-01 to be a significant deficiency.

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

Indiana Communities for Drug-Free Youth, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Indiana Communities for Drug-Free Youth, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, audit committee, others within the entity, Board of Director's, 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.

Larson Woodyard + Henson, LLP

Paris, Illinois

February 29, 2008

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2006

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Indiana Communities for Drug-Free Youth, Inc.
2. Three reportable conditions disclosed during the audit of the financial statements are reported in the Report of Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Indiana Communities for Drug-Free Youth, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There was one reportable condition disclosed during the audit of internal control over major federal award programs. This reportable condition is considered to be a significant deficiency.
5. The auditors' report on compliance for the major federal award programs for Indiana Communities for Drug-Free Youth, Inc. expresses an unqualified opinion on the Organization's major program.
6. Audit findings relative to the major federal award program for Indiana Communities for Drug-Free Youth, Inc. are reported in this schedule.
7. The program tested as a major program was "Afternoons R.O.C.K."(CFDA #93.959).
8. The Organization has only one major program; threshold for Type A program is \$300,000.
9. Indiana Communities for Drug-Free Youth, Inc. does not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

Reportable Conditions

06-1 Establish Criteria to Safeguard Assets (Considered a Significant Deficiency)

Condition:

Transactions are not adequately supported by proper documentation.

Criteria:

Adequate documentation of each transactions is essential to substantiate the business purpose of the transaction and detect misappropriation of assets on a timely basis if they occur.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2006

FINDINGS – FINANCIAL STATEMENT AUDIT, Continued

06-1 Establish Criteria to Safeguard Assets (Considered a Significant Deficiency), Concluded

Effect:

Transaction cannot be properly classified and recorded in the general ledger at the time of payment, which may cause amounts on monthly grant reimbursement reports to be incorrectly stated.

Cause:

The bill is paid from a memo or a monthly statement without adequate supporting documentation.

Recommendation:

It is recommended that every check written be evidenced by support before the bill is paid and appropriately filed in a timely manner. Since the accounting department uses a the account payable function, references to the bill, such as the invoice number, should also be entered to ensure that vendors payments are not inadvertently duplicated. For employee credit cards, it is recommended that that specific procedures, such as formal weekly expense reports, be required so that when the bill arrives, the liability is already recorded in the records and statement can be reconciled at that time. It is also recommended that the function be monitored by the executive director, with adequate board oversight.

06-2 Board of Directors Oversight

Condition:

The minutes of the Board of Directors' meetings do not always clearly indicate what the Board approves. For instance, if a bill is approved, the amount or a copy of the bill should be included in the minutes

Criteria:

The Board of Directors oversight is critical due to the small size of the staff and the inability to completely segregate duties.

Effect:

Even though the Board is meeting more frequently, its oversight function is not well documented.

Cause:

The financial information in the minutes is not supported by specific references or copies of approved transactions.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2006

FINDINGS - FINANCIAL STATEMENT AUDIT, Continued

06-2 Board of Directors Oversight, Concluded

Recommendation:

The Board of Directors constitutes a critical component of the Organization. It is imperative that their oversight is well documented to ensure that the internal control functions are effective. We recommend regular attendance and participation at board meetings, familiarity with the Organization's goals and mission, and adequate review of financial and operational activities of the Organization. Written minutes should be prepared for each meeting and should include detail about discussions, decisions, and authorizations of the Board and should be made available to Board members prior to each meeting.

06-3 Segregation of Duties

Condition:

Management should be mindful of areas that can easily be improved.

Criteria:

Adequate segregation of accounting duties is needed to reduce the risk that errors will go unnoticed and uncorrected.

Effect:

Misappropriation of assets or coding errors in the accounting records could go unnoticed and not be corrected in a timely manner.

Cause:

Due to the small staff size, management has to perform duties in the accounting process in addition to their regular duties.

Recommendation:

Vendor invoices should be timely processed and approved by the Executive Director with a description for the accounting department to ensure that transactions are entered as they occur.

FINDINGS - FINANCIAL STATEMENT AUDIT - FEDERAL AWARDS

06-4 Annual Audit

Condition:

Annual audits are not current.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2006

FINDINGS - FINANCIAL STATEMENT AUDIT - FEDERAL AWARDS, Concluded

06-4 Annual Audit, Concluded

Criteria:

An annual audit is required by an independent certified audit firm within six months following the close of the Organization's fiscal year for many of the grant contracts.

Effect:

Without adequate financial records, excessive time is spent at year end in preparing and auditing the statements.

Cause:

Undue pressure was created on the both the new executive director and the new bookkeeper to recreate past accounting records and locate the supporting documentation while keeping up with the current accounting needs.

Recommendation:

All past due independent audits should be completed no later than June 30, 2008.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2006

PRIOR FINDINGS - FINANCIAL STATEMENT AUDIT

Reportable Conditions

05-1 Segregation of Duties (Considered a Material Weakness)

Condition:

The Organization does not have an adequate segregation of accounting duties.

Criteria:

Adequate segregation of accounting duties is needed to reduce the risk that errors will go unnoticed and uncorrected.

Effect:

Numerous errors in recording transactions have occurred during the year, and were not corrected.

Cause:

The small size of the staff limits its ability to segregate duties among employees, and board oversight has not mitigated this condition.

Recommendation:

It is recommended that the Board of Directors direct its oversight to a regular review of the accounting functions through monthly meetings at which internally prepared financial statements are presented.

05-2 Board of Directors Oversight (Considered a Material Weakness)

Condition:

Adequate procedures are not in place with respect to the Board of Directors' oversight of internal control functions. The Board of Directors does not meet regularly and the Board's responsibilities are not clearly identified.

Criteria:

Procedures and responsibilities should be in place to provide assurance that the Organization's internal control functions are effective. This is crucial due to the lack of segregation of duties and limited personnel.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2006

PRIOR FINDINGS - FINANCIAL STATEMENT AUDIT, Continued

05-2 Board of Directors Oversight (Considered a Material Weakness), Concluded

Effect:

During the year, formal minutes could only be located for two months. The board meetings are not held on a regular basis; consequently, topics and issues that require board action are not being made on a timely basis and sometimes not at all.

Cause:

The Board of Directors consists of individuals who volunteer their time to serve on the Board. Lack of attendance and participation are problems with several board members.

Recommendation:

The Board of Directors constitutes a critical component of the Organization. It is imperative that the members of the Board accept the responsibilities and commitment to ensure that the personnel have adequate oversight and that the internal control functions are effective.

We recommend regular attendance and participation at board meetings, familiarity with the Organization's goals and mission, and adequate review of financial and operational activities of the Organization. Written minutes should be prepared for each meeting and should include detail about discussions, decisions, and authorizations of the Board and should be made available to Board members prior to each meeting.

05-3 General Ledger Function

Condition:

Adequate procedures are not in place with respect to the maintenance of a general ledger.

Criteria:

Procedures should be in place to provide assurance that subsidiary account totals are balanced and posted to a general ledger in a timely manner.

Effect:

During the year, numerous bookkeeping errors were made in the recording of transactions, particularly in the cash account. The maintenance of a general ledger, with balances reconciled to subsidiary accounts, would provide a means of identifying the errors.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2006

PRIOR FINDINGS - FINANCIAL STATEMENT AUDIT, Concluded

05-3 General Ledger Function, Concluded

Cause:

The bookkeeping function and qualification of the personnel has not kept up with the rapid growth of the Organization.

Recommendation:

Every effort should be made to monitor transactions, particularly disbursements, for recording errors and omissions. The Organization should arrange for training in general ledger bookkeeping for its clerical staff, or engage outside assistance for its monthly bookkeeping services.

05-4 Filing System

Condition:

The filing system as presently maintained is inadequate to readily support cash receipts and disbursements.

Criteria:

Sound accounting practices dictate that an adequate filing system be maintained so that support for receipts and expenditures can be readily referenced.

Effect:

Difficulty in locating support for both receipts and expenditures resulted in delays and time-consuming searches for documents.

Cause:

Personnel turnover in the accounting area was partially responsible. Additionally, it appears that this function has not been given priority.

Recommendation:

It is recommended that every check written, every payable, and all cash receipts be evidenced by support which is properly cancelled and appropriately filed in a timely manner. It is also recommended that function be monitored by the executive director, with adequate board oversight.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2006

PRIOR FINDINGS - FINANCIAL STATEMENT AUDIT - FEDERAL AWARDS

05-5 Annual Audit

Condition:

Annual audits are not current.

Criteria:

An annual audit is required by an independent certified audit firm within six months following the close of the Organization's fiscal year for many of the grant contracts.

Effect:

Without adequate financial records, excessive time is spent at year end in preparing and auditing the statements.

Cause:

During the planning phase of the Organization's rapid growth, attention was not given to the needs of the accounting department. Although a qualified bookkeeper was subsequently hired, the past books and records were unauditible. Undue pressure, therefore, was created on the both the new executive director and the new bookkeeper to recreate past accounting records and locate the supporting documentation while keeping up with the current accounting needs.

Recommendation:

All past due independent audits should be completed no later than June 30, 2008.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2006

CONTACT PERSONS RESPONSIBLE FOR CORRECTIVE
ACTION PLAN: BRANDON HALLECK

Finding 06-1

Comment:

Indiana Communities for Drug-Free Youth, Inc. agrees with the finding that certain payments have been made from memos or monthly statements, without actual invoices for supporting documentation.

Corrective Action Planned:

The organization will work with our vendors and service providers to strengthen documentation requirements, before payments are issued to them. The Executive Director will continue to review all supporting documents and sign all checks, which require a second signature of an Officer. Employees will receive refresher training on the importance of providing receipts and adequately documenting the business purpose of each credit card transaction. Monthly reports will continue to be available to all members of the Board of Directors.

Anticipated Completion Date: March 2008.

Finding 06-2

Comment:

Indiana Communities for Drug-Free Youth, Inc. agrees with the finding that formal meeting minutes have not always been detailed and have not always attached reports, proposals and agreements, which have been referenced in the minutes.

Corrective Action Planned:

The organization will begin preparing more detailed minutes for its board meetings, with pertinent reports becoming a part of the formal minutes.

Anticipated Completion Date: March 2008.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2006

Finding 06-3

Comment:

Indiana Communities for Drug-Free Youth, Inc. agrees with the finding that management should be mindful of areas that can easily be improved concerning segregation of duties.

Finding 06-3, Concluded

Corrective Action Planned:

The organization will increase its efforts to utilize its employees. For example, the Board has created an Assistant Director position. The Assistant Director will assist with the initial verification of credit card records, prior to their submission to the Executive Director and bookkeeper.

Anticipated Completion Date: March 2008.

Finding 06-4

Comment:

Indiana Communities for Drug-Free Youth, Inc. agrees with the finding that annual audits have not been current.

Corrective Action Planned:

The organization has responded to all requests for information on its past due audits, and has begun preparation of information for its December 31, 2007 audit. It is committed to having the audit completed by June 30, 2008.

Anticipated Completion Date: June 2008.