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AN EQUAL OPPORTUNITY EMPLOYER

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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, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Indiana Communities for Drug-Free Youth, Inc., as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the findings in the report. Pages 21 through 24 contain four current audit findings. Pages 25 through 27 contain the status of four prior audit findings. Management's corrective action plan is on pages 28 and 29.

STATE BOARD OF ACCOUNTS

INDIANA COMMUNITIES
FOR DRUG-FREE YOUTH, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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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, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2007 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2009 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 important for assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Larsson Woodyard + Henson, LLP

Paris, Illinois
February 17, 2009

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2007

ASSETS

Current Assets:

Cash	\$ 83,381
Advances to employees	3,250
Prepaid expenses	2,539
Accounts receivable - grants	<u>315,692</u>
 Total Current Assets	 404,862
 Beneficial interest in assets held by others	 62,179
 Property and equipment, net	 <u>189,440</u>
 Total Assets	 <u><u>\$ 656,481</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable - trade	\$ 57,123
Accounts payable - employee	1,428
Accrued and withheld payroll taxes	18,491
Interest payable	1,196
Line of credit	92,579
Grants payable	216,458
Current portion of long-term debt	<u>3,661</u>
 Total Current Liabilities	 400,936
 LONG-TERM DEBT, net of current portion	 465
 Net Assets:	
Unrestricted	<u>255,080</u>
 Total Liabilities and Net Assets	 <u><u>\$ 656,481</u></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, 2007

Unrestricted Revenues, Gains and Other Support:

Revenues, gains and other support:

Contributions	\$ 7,800
Grant revenues	1,061,146
Rental income	6,700
Investment income	114
Increase in beneficial interest in assets held by others	2,009
Fundraising income	35,207
Other revenue	983

Total unrestricted revenues, gains and other support	1,113,959
--	-----------

Expenses:

Program services

Afternoons R.O.C.K.	631,974
Tobacco Prevention and Cessation	180,844
Mentoring Children of Promise	50,954
Prevention - Moderate Risk Youth	140,707
SAFE Kids	18,050
Teen Court	14,393
Youth as Resources	41,918

Support services

Management and general	54,121
Fundraising	17,040

Total expenses	1,150,001
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Change in Unrestricted Net Assets	(36,042)
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Unrestricted Net Assets at Beginning of Year	291,122
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Unrestricted Net Assets at End of Year	\$ 255,080
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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, 2007

	Program			
	Afternoons R.O.C.K.	Tobacco Prevention and Cessation	Mentoring Children of Promise	SADD
Salaries and wages	\$ 128,313	\$ 75,956	\$ 37,120	\$ 65,000
Payroll taxes	11,177	7,229	2,828	5,756
Employee benefits	8,579	5,858	2,633	5,668
Penalties on payroll taxes	0	0	0	0
Advertising	0	0	0	0
Directors and staff meeting expense	47	668	0	0
Dues and subscriptions	0	190	0	0
Employee training and conferences	17,789	0	0	0
Fundraising supplies	0	0	0	0
Grants to others	0	0	0	0
Insurance	2,439	1,626	1,626	0
Interest expense and finance charges	5,381	2,692	538	0
Leased equipment	3,469	1,733	347	0
Occupancy	3,913	2,227	1,311	0
Office supplies	1,261	630	127	0
Other	137	0	292	0
Postage and delivery	1,577	789	158	0
Printing and reproduction	0	0	53	0
Professional fees	10,628	5,413	1,399	0
Program supplies and expenses	25,369	41,918	1,316	64,283
Rents	0	900	0	0
Repairs and maintenance	1,199	600	120	0
Subcontractor payments	403,350	26,002	0	0
Telephone and communication	2,253	1,128	225	0
Travel and transportation	176	2,828	370	0
Total Expenses before Depreciation	<u>627,057</u>	<u>178,387</u>	<u>50,463</u>	<u>140,707</u>
Depreciation	<u>4,917</u>	<u>2,457</u>	<u>491</u>	<u>0</u>
Total expenses	<u>\$ 631,974</u>	<u>\$ 180,844</u>	<u>\$ 50,954</u>	<u>\$ 140,707</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	
\$ 2,954	\$ 6,454	\$ 15,954	\$ 22,604	\$ 4,500	\$ 358,855
251	715	1,637	1,819	355	31,767
0	0	0	1,576	0	24,314
0	0	0	5,395	0	5,395
0	0	0	349	75	424
0	0	0	500	0	1,215
0	45	0	5,784	0	6,019
0	0	0	5,928	0	23,717
0	0	0	0	7,430	7,430
0	0	20,250	0	0	20,250
813	813	0	2,912	0	10,229
538	538	538	538	0	10,763
347	347	347	347	0	6,937
770	770	229	863	0	10,083
126	126	126	126	0	2,522
0	0	59	442	0	930
158	158	158	158	0	3,156
0	130	130	63	180	556
1,201	1,201	1,004	2,052	4,500	27,398
10,056	2,203	650	0	0	145,795
0	0	0	0	0	900
120	120	120	120	0	2,399
0	0	0	0	0	429,352
225	225	225	225	0	4,506
0	57	0	1,829	0	5,260
17,559	13,902	41,427	53,630	17,040	1,140,172
491	491	491	491	0	9,829
<u>\$ 18,050</u>	<u>\$ 14,393</u>	<u>\$ 41,918</u>	<u>\$ 54,121</u>	<u>\$ 17,040</u>	<u>\$ 1,150,001</u>

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2007

Cash flows from operating activities:	
Change in net assets	(\$ 36,042)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	9,829
Change in beneficial interest	(2,009)
(Increase) decrease in current assets:	
Prepaid expenses	(2,539)
Accounts receivable - grants	96,090
Increase (decrease) in current liabilities:	
Accounts payable	25,958
Accrued expenses	(684)
Grants payable	(22,730)
Net cash provided by operating activities	<u>67,873</u>
Cash flows from financing activities:	
Proceeds from line of credit	95,123
Repayment of line of credit	(98,580)
Payments on long-term debt	(1,543)
Advances repaid to employees	(1,614)
Net cash used in financing activities	<u>(6,614)</u>
Net increase in cash and cash equivalents	61,259
Cash and cash equivalents at Beginning of Year	<u>22,122</u>
Cash and cash equivalents at End of Year	<u>\$ 83,381</u>
Supplemental Information:	
Additional Cash Flows Information:	
Cash paid for interest	<u>\$ 10,131</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, 2007.

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.

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.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note A. Summary of Significant Accounting Policies, Concluded

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 2007, advertising costs totaled \$349.

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, 2007, there were none.

Note B. Description of Program and Supporting Services

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

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.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note B. Description of Program and Supporting Services, Concluded

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 four years.

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".

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 represent 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, 2007 is presented below:

Indiana Family & Social Services Administration -	
SAPT Block Grant - Afternoons R.O.C.K.	\$ 270,800
Indiana SADD Grant	37,612
Youth Services Bureau Grant	3,333
Other receivables	<u>3,947</u>
Total	<u>\$ 315,692</u>

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note E. Property and Equipment

Property and equipment as of December 31, 2007 consist of the following:

Land	\$ 1,000
Building and leasehold improvements	217,595
Equipment	43,522
Vehicles	<u>15,700</u>
Total	277,817
Accumulated depreciation	<u>(88,377)</u>
Property and equipment, net	<u>\$ 189,440</u>

Depreciation expense for the year ended December 31, 2007 computed under the straight line method amounted to \$9,829.

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, 2007, all amounts payable on December 31, 2007 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 prime plus .75%. The interest rate may be changed as often as daily. The note is secured by real estate. The Organization had \$7,421 available under the line of credit at December 31, 2007.

Note H. Grants Payable

Grants payable consist of amounts awarded at December 31, 2007, but not paid, to local groups under the Afternoons R.O.C.K. (\$204,700), the Tobacco Prevention and Cessation (\$7,859) and the Youth as Resources (\$3,899) Programs. All amounts were paid in the subsequent year.

Note I. 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:

2008	\$ 3,661
2009	<u>465</u>
	<u>\$ 4,126</u>

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note J. Economic Dependency

Indiana Communities for Drug-Free Youth, Inc. depends significantly on funding for services from federal pass through grants originating from the U.S. Department of Health and Human Services and grants received from the State of Indiana's Youth Services Association.

Note K. 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 L. 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 M. 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 N. 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, 2007 was \$6,700 and no provision has been made for unpaid rents to date of \$16,700 since there is no formal lease agreement.

Note O. 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, 2007 was \$900.

The Organization leases a copier for \$327 per month. The contract began August 1, 2006 and is for a term of 60 months.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

NOTES TO FINANCIAL STATEMENTS

Note P. Subsequent Events

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, 2007

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	84-08-GB-2065 84-07-AP-2065 and 84-08-AP-2065	\$ 590,400
Pass-through programs from:			
C.H.O.I.C.E.S., Inc.			
Mentoring Children of Prisoners	93.616		50,557
U. S. Department of Transportation:			
Pass-through programs from:			
Vigo County, Indiana:			
Indiana Statewide SADD	20.601	154 AL 07-02-08-01 and K4-08-02-07-01	<u>153,131</u>
Total expenditures of federal awards			<u><u>\$ 794,088</u></u>

See accompanying notes to schedule of expenditures of federal awards.

INDIANA CHANCES 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 \$429,352.



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, 2007, and have issued our report thereon dated February 17, 2009. 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.

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 or 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 findings 07-1 and 07-2 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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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, of the significant deficiencies described above, we consider item 07-1 to be 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 17, 2009.

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 17, 2009



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, 2007. 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, 2007. 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 07-1, 07-2, 07-3 and 07-4.

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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 and others that we consider to be material weaknesses.

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 07-1 and 07-2 to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 07-1 to be a material weakness.

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.

Larsson Woodyard + Henson, LLP

Paris, Illinois
February 17, 2009

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2007

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. Four significant deficiencies disclosed during the audit of the financial statements (of which one is a material weakness) 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. Four significant deficiencies were disclosed during the audit of internal control over major federal award programs. One of the significant deficiencies is considered to be a material weakness.
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 that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 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

Significant Deficiencies

07-1 Segregation of Duties over Journal Entries (Considered a Material Weakness)

Condition:

At present, the Organization's controller is responsible for all accounting functions. The Organization needs to limit the number of transactions entered as journal entries and improve segregation of duties over journal entries posted.

Criteria:

QuickBooks is user friendly and meets the Organization's need to keep the accounting system simple; however, transactions can be entered without authorization and be backdated to a prior month.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2007

FINDINGS - FINANCIAL STATEMENT AUDIT, Continued

07-1 Segregation of Duties over Journal Entries (Considered a Material Weakness), Concluded

Effect:

Adjustments can be made to prior periods negating the validity of historical information. In addition, journal entries can be posted without management's knowledge.

Cause:

All journal entries and monthly financial statement balances should be reviewed by someone who can determine whether entries are appropriate and balances are reasonable.

Recommendation:

Journal entries should be sequentially numbered and approved by someone other than the one who prepared the entry. Also, the Organization could implement QuickBooks' close feature monthly, including restricting access to prior-period data.

07-2 Establish Criteria to Safeguard Assets (Considered a Significant Deficiency)

Condition:

Transactions are not timely entered throughout the year in compliance with Generally Accepted Accounting Principles (GAAP).

Criteria:

The Organization needs consistent and timely accounting information. Management oversight is limited because interim financial reports did not report all of the transactions that had occurred for the period under review.

Effect:

The Board cannot effectively function in its capacity as part of the internal control monitoring process.

Cause:

The Board is only able to provide oversight relative to bills that are actually paid.

Recommendation:

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.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT, Continued

07-3 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 bills are approved to be paid, the listing of bills should be included in the minutes retained.

Criteria:

The board is ultimately responsible for the activities of the organization. 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.

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. Questions raised by the board, as well as related findings, should be made part of the board minutes.

FINDINGS – FINANCIAL STATEMENT AUDIT - FEDERAL AWARDS

07-4 Annual Audit

Condition:

Annual audits cannot be timely scheduled because financial records are not current.

Criteria:

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

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT - FEDERAL AWARDS, Concluded

07-4 Annual Audit, Concluded

Effect:

Without adequate up-to-date financial records, management is basing its decision on incomplete and/or inaccurate information during the year and excessive time is spent at year end in preparing the financial statements and the audit cannot be timely scheduled. Also, the Organization incurred additional audit fees because our auditors had to prepare entries that personnel could have prepared.

Cause:

It takes a long time for the Organization's staff to prepare Financial Statements and supporting reconciliations sufficient to perform an annual audit.

Recommendation:

We believe that the year-end closing could proceed more quickly by developing a closing schedule checklist that indicates who will perform each procedure and when completion is due and accomplished. The due dates could be monitored to determine that they are being met. The timing should be coordinated with the auditor's need for information so that the audit can be completed no later than September 30 of the following year. Extensions should only be necessary due to unforeseeable circumstances.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2007

PRIOR 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.

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,

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.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2007

PRIOR FINDINGS - FINANCIAL STATEMENT AUDIT, Continued

06-2 Board of Directors Oversight, Concluded

Cause:

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

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

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.

PRIOR 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 PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2007

PRIOR 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.

CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2007

CONTACT PERSONS RESPONSIBLE FOR CORRECTIVE
ACTION PLAN: BRANDON HALLECK

Finding 07-1

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, especially journal entries and adjustment to previous periods.

Corrective Action Planned:

During 2008, some accounting duties were segregated, in that the Assistant Director became responsible for non-EFT bank deposits. Beginning now, the Executive Director will maintain copies of all journal entries and the related support. On a monthly basis, the Finance Committee will receive the year-to-date general journal and can evaluate the appropriateness of all general journal entries that have been made to the ledger. In addition, the Executive Director and the Board of Directors have decided to employ an independent accounting firm.

Anticipated Completion Date: February 2009.

Finding 07-2

Comment:

Indiana Communities for Drug-Free Youth, Inc. agrees with the finding that transactions are not timely entered throughout the year in compliance with Generally Accepted Accounting Principles (GAAP) and that accurate financial data is necessary for tighter oversight and control by the Board.

Corrective Action Planned:

During 2008, procedures related to processing credit cards were modified. Employees will receive additional training on the importance of providing receipts and adequately documenting the business purpose of each credit card transaction. Credit card transactions will be recorded on a monthly, rather than infrequent basis. A credit card liability account will be established in the chart of accounts for each credit card being used and the general ledger balances will be reconciled monthly with the credit card statements. We will maintain binders for the credit card statements and the required supporting documentation. As always, these documents will be made available to all directors to review. In addition, the Executive Director and the Board of Directors have decided to employ an independent accounting firm.

Anticipated Completion Date: February 2009.

INDIANA COMMUNITIES FOR DRUG-FREE YOUTH, INC.

CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2007

Finding 07-3

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:

At the suggestion of the auditing firm in 2008, the Board of Directors became more conscience of the need to record more detailed meeting minutes. We will continue to strive to detail discussions, decisions and authorizations, and to attach reports, proposals and agreements that have been referenced in the minutes.

Anticipated Completion Date: February 2009.

Finding 07-4

Comment:

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

Corrective Action Planned:

The organization was granted an audit extension by FSSA. Although we anticipate some reclassifications of 2008 expenditures, primarily related to our relocation, account balances for December 31, 2008 have been reconciled. We are eager to schedule the 2008 audit and are hopeful that fieldwork will commence, this Spring.

Anticipated Completion Date: June 2009.