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STATE OF INDIANA

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February 10, 2010

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

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Life Treatment Centers, Inc., as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the findings in the report. Pages 20 through 22 contain three current audit findings. Page 23 contains the status of two prior audit findings.

STATE BOARD OF ACCOUNTS

LIFE TREATMENT CENTERS, INC.
South Bend, Indiana

FINANCIAL STATEMENTS
June 30, 2008 and 2007

CONTENTS

Crowe Horwath

Crowe Horwath LLP
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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

We have audited the accompanying statements of financial position of Life Treatment Centers, Inc. as of June 30, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Life Treatment Centers, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Life Treatment Centers, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards,* we have also issued our report dated December 22, 2008, on our considerations of the Organization's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing results of our audit.

(Continued)

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

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
December 22, 2008

LIFE TREATMENT CENTERS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	2008	2007
ASSETS		
Cash	$ 254,918	$ 148,658
Accounts receivable	59,687	18,980
Investments (Note 2)	476,046	823,986
Assets available for sale (Note 3)	78,970	78,970
Land and buildings	1,626,676	1,626,676
Furniture and equipment	175,386	175,386
Less accumulated depreciation	(950,696)	(869,201)
	$ 1,720,987	$ 2,003,455
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 32,272	$ 14,516
Accrued payroll and benefits	87,896	75,561
Long-term debt (Note 4)	203,739	216,313
Total liabilities	323,907	306,390
Net assets		
Unrestricted		
Undesignated	1,027,955	1,327,940
	1,027,955	1,327,940
Temporarily restricted (Note 6)	369,125	369,125
Total net assets	1,397,080	1,697,065
	$ 1,720,987	$ 2,003,455

See accompanying notes to financial statements.

LIFE TREATMENT CENTERS, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2008 and 2007

	2008	2007
Changes in unrestricted net assets:		
Support and revenue		
Support		
Contributions	$ 17,875	$ 12,874
United Way	28,356	38,077
Emergency Shelter Grant	42,100 G	40,000
U.S. Department of Housing & Urban Development	52,708 G	46,331
Fund raising events	66,063	3,914
	207,102	141,196
Revenue		
Division of Addiction Services (Note 1)	1,252,332 G	1,196,409
Program service fees	154,429	140,303
Net realized/unrealized gains (losses)	(26,108)	34,354
Interest income, net (Note 2)	24,762	29,883
Other revenue	10,561	11,213
	1,415,976	1,412,162
Total support and revenue	1,623,078	1,553,358
Expenses		
Residential and treatment program	1,544,147	1,689,767
Administrative and supporting services	212,327	192,294
Fund raising	166,589	122,961
Total expenses	1,923,063	2,005,022
Change in unrestricted net assets	(299,985)	(451,664)
Net assets at beginning of year	1,697,065	2,148,729
Net assets at end of year	$ 1,397,080	$ 1,697,065

See accompanying notes to financial statements.

LIFE TREATMENT CENTERS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years ended June 30, 2008 and 2007

	2008	2007
Residential and treatment program		
Salaries and wages	$ 921,013	$ 965,744
Payroll taxes	72,542	81,627
Benefits	180,056	261,908
Contract services	6,456	3,064
Insurance	36,969	20,080
Repairs and maintenance	23,721	13,977
Utilities	56,009	57,904
Telephone	19,415	20,253
Auto expenses	14,341	10,279
Depreciation	81,495	84,354
Food	36,409	54,221
Supplies	13,906	23,818
Medical supplies	1,851	3,550
Medical consultants	13,200	15,150
Educational supplies	-	74
Drug screening	915	1,866
Staff training	3,418	3,541
Interest expense	13,527	15,642
Grants	-	1,225
Subcontracting expense	5,790	2,800
ARNI Administration fee	20,000	21,365
Other costs	23,114	27,325
	$ 1,544,147	$ 1,689,767
Administrative and supporting services		
Salaries and wages	$ 100,171	$ 41,051
Payroll taxes	7,890	3,470
Benefits	19,583	11,133
Insurance	8,659	5,020
Office supplies	11,186	16,408
Professional fees	23,055	68,548
Printing and postage	5,878	7,614
Dues and subscriptions	2,608	2,159
Other costs	33,297	36,891
	$ 212,327	$ 192,294
Fund raising		
Salaries and wages	$ 83,059	$ 85,914
Payroll taxes	6,542	7,262
Benefits	16,238	23,300
Other costs	60,750	6,485
	$ 166,589	$ 122,961

See accompanying notes to financial statements.

LIFE TREATMENT CENTERS, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	$ (299,985)	$ (451,664)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	81,495	84,354
Net realized and unrealized (gains) losses	26,108	(34,354)
Change in assets and liabilities		
Accounts receivable	(40,707)	203,352
Accounts payable	17,756	(26,406)
Accrued payroll and benefits	12,335	(12,139)
Net cash from operating activities	(202,998)	(236,857)
Cash flows from investing activities		
Proceeds from sale of investments	1,447,305	856,572
Purchase of investments	(1,125,473)	(880,138)
Purchase of property and equipment	-	(4,829)
Net cash from investing activities	321,832	(28,395)
Cash flows from financing activities		
Payments on long-term debt	(12,574)	(10,330)
Net cash from financing activities	(12,574)	(10,330)
Change in cash	106,260	(275,582)
Cash at beginning of year	148,658	424,240
Cash at end of year	$ 254,918	$ 148,658
Supplemental schedule of cash flow information		
Interest paid	$ 13,527	$ 15,642
Supplemental disclosures of non-cash flow activity		
Reclassification of fixed assets to assets available for sale	$ -	$ 78,970

See accompanying notes to financial statements.

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

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

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

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

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable: Accounts receivable for the year ended June 30, 2008 represents reimbursement for disbursements of funds for the HUD program, in addition to two quarters of Intecare revenue. Accounts receivable for the year ended June 30, 2007 represented reimbursement for disbursements of funds for the HUD program.

Financial Statement Presentation: The financial statements have been prepared in accordance with Statement of Financial Accounting Standard (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". SFAS No. 117 requires, among other things, that the financial statements report the changes in, and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

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

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

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

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

As of June 30, 2008 and 2007, the Organization does not have any permanently restricted net assets.

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

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

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

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

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

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

Concentration of Credit Risk: The Organization has received a substantial amount of federal grant revenue from the Division of Addiction Services which has been passed through the Affiliated Service Providers of Indiana, Inc. (ASPIN), for the year ended June 30, 2008 and 2007. The Organization is financially dependent on these federal grant revenues and management does not anticipate significant changes in the level of funding in 2009.

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

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

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

Income Taxes: The Organization is exempt from income taxes on income from related activities under Section 501(c) (3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

NOTE 2 - INVESTMENTS

The following are the major types of investments held by the Organization at June 30, 2008 and 2007:

	2008	2007
Money market funds	$ 47,274	$ 145,732
Certificates of deposit	55,797	203,647
U.S. Treasury note	60,326	257,430
Stocks and mutual funds	286,241	217,177
Taxable bonds	26,408	-
	$ 476,046	$ 823,986

Interest income in the Statements of Activities is reported net of investment fees of $2,875 and $8,165 for June 30, 2008 and 2007, respectively.

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Organization.

NOTE 3 - ASSETS HELD FOR SALE

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

NOTE 4 - LONG-TERM DEBT

A summary of long-term debt at June 30, 2008 and 2007 is as follows:

	2008	2007
Note payable to Old National Bank; due in monthly installments of $993 plus variable interest based on 0.25% below the prime of Old National Bank through March 2010. The interest rate was 4.75% at year end. There is a balloon payment of approximately $175,000 at the maturity date.	$ 203,739	$ 216,313

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

2009	$ 16,655
2010	187,084

The note is subject to one covenant requiring the issuance of audited financial statements to the Bank within 120 days after year end. The Organization was not in compliance with this covenant for year ended June 30, 2008 but obtained a waiver dated December 9, 2008.

NOTE 5 - EMPLOYEE RETIREMENT PLAN

The Organization contributes to a simplified employee pension plan for substantially all employees. The amount of the contribution to the plan is at the discretion of the Board of Directors of the Organization and is a percentage of employee salaries. The Organization contributed $29,502 and $24,607 for the years ended June 30, 2008 and 2007.

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

SUPPLEMENTARY INFORMATION

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

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

We have audited the financial statements of Life Treatment Centers, Inc. (the Organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 22, 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 the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

(Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses in internal control over financial reporting. Please see Section #2 of the Schedule of Findings and Questioned Costs.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the Organization in a separate letter dated December 22, 2008.

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

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

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
December 22, 2008

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

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

Compliance

We have audited the compliance of Life Treatment Centers, Inc. (the Organization) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Life Treatment Centers, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

(Continued)

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
December 22, 2008

Section I—Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

	Yes	No
• Material weakness(es) identified?	X	

	Yes	None reported
• Significant deficiencies identified that are not considered to be material weaknesses?		X

	Yes	No
Noncompliance material to financial statements noted?		X

Federal Awards:

Internal control over major programs:

	Yes	No
• Material weakness(es) identified?		X

	Yes	None reported
• Significant deficiencies identified that are not considered to be material weaknesses?		X

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

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

Identification of major programs:

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

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

	Yes	No
Auditee qualified as low-risk auditee?	X	

(Continued)

Section II—Financial Statement Findings

Finding #2008-1: Preparation of GAAP Basis Financial Statements

Statement of Condition: Statement on Auditing Standards (SAS) No. 112 "Communicating Internal Control Related Matters Identified in an Audit", clarified management's responsibility to have internal controls in place to apply appropriate accounting principles and provide information to produce the year-end financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). During our audit, we noted instances in which adjusting entries were required to correct misstatements that were deemed to be material to the financial statements as a whole.

Criteria: While management is not required to prepare the financial statements, management does need to demonstrate the level of qualifications and controls to prepare and review the report without significant deficiencies or material weaknesses in these controls.

Effect: Internal financial statements may not be prepared in accordance with GAAP.

Cause: New accounting and auditing literature continues to be added at an astonishing pace. Many business transactions have complex accounting rules and guidance is being produced from various authoritative sources. Each of these elements add a significant financial cost to the internal control process, a pressure that small and mid-size companies alike have been facing for years. It simply is very difficult, and in many cases, not feasible for smaller companies to react.

Questioned Cost: Not applicable.

Recommendation: To improve the internal control system over the preparation of financial reports and the selection and application of accounting principles, management should enhance its knowledge of accounting standards that are released and apply to the Organization's business. This may be accomplished by attending seminars, review of professional standards, and possibly the utilization of other tools provided by the AICPA and others that summarizes accounting and reporting requirements applicable for the Organization.

We would be happy to provide management with a copy of a "GAAP Checklist" to assist with this process. In addition, if management would like to discuss various options) to help improve the Organization's internal controls over the annual financial reporting process, we are prepared to assist you in preparing a viable plan moving forward.

Management Response: We agree with the auditors recommendation, and will work with them in the future to ensure financial statements are internally prepared in accordance with GAAP.

(Continued)

Finding #2008-2: Inadequate Segregation of Duties

Statement of Condition: A strong system of internal control over financial reporting requires the segregation of incompatible accounting functions, timely reconciliation of accounts, and maintaining all supporting documentation. During our audit we noted situations where incompatible duties were being performed by employees. Current instances of incompatible duties performed by the same individual is as follows:

- Having check signing ability;
- Having full access to accounts payable system;
- Entering and posting journal entries into the general ledger without written review and approval.

Criteria: Management is responsible for establishing and maintaining internal controls over financial reporting.

Effect: Lack of segregation of duties increases the risk of inaccurate financial reporting or misappropriate of assets, either caused by error or fraud.

Cause: Current budgetary and financial constraints hamper the Organization's ability to hire additional staff to further segregate duties.

Questioned Cost: Not applicable.

Recommendation: We understand with the limited number of employees at the Organization, lack of segregation of duties is simply unavoidable. Where segregation is not feasible, we suggest that management remain aware of these control weaknesses and attempt to mitigate them by applying increased management supervision. We encourage management to continually review opportunities for segregation of duties to enhance internal controls over financial reporting areas, which could include implementing the following control procedures:

- Independent reviews of all journal entries entered in the general ledger system;
- Independent reviews of month end account reconciliations;
- Dual signature requirements on checks over certain dollar limits or other secondary reviews over cash disbursements;
- Secondary approval for the addition of new vendors to the accounts payable system;
- Review of monthly internal financial statements by the CEO

In instances in which secondary reviews or approvals are implemented, it is important that these reviews/approvals be formally documented in writing, to leave a clear audit trail.

Management Response: We agree with the auditors recommendation, and will look for ways to more fully segregate duties in the future.

(Continued)