



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

---

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](http://www.in.gov/sboa)

October 17, 2011

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

We have reviewed the audit report prepared by Jurgonski & Fredlake, CPAs, Independent Public Accountants, for the period July 1, 2008 to June 30, 2009. 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, 2009, 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 16 through 18 contain two current audit findings. Page 19 contains the status of three prior audit findings.

STATE BOARD OF ACCOUNTS

**LIFE TREATMENT CENTERS, INC.**

**FINANCIAL AND COMPLIANCE REPORT**

June 30, 2009 and 2008

## CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Statements of financial position	2
Statements of activities	3
Statements of functional expenses	4
Statements of cash flows	5
Notes to financial statements	6-10
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	11
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	12-13
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	14-15
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	16-18
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	19

# Jurgonski & Fredlake CPAs

418 W. Jefferson Blvd., South Bend, Indiana 46601

Office (574) 251-1414

Fax (574) 251-1477

Greg Jurgonski

John A. Fredlake

Joseph T. Barkman

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Life Treatment Centers, Inc. (a not for profit organization) (the Organization) as of June 30, 2009, 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. The financial statements of Life Treatment Centers, Inc. as of June 30, 2008 were audited by other auditors whose report dated December 22, 2008 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Life Treatment Centers, Inc. as of June 30, 2009, 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 April 28, 2009 on our consideration of the Organization's internal control over financial reporting and 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Life Treatment Centers, Inc. 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.

*Jurgonski & Fredlake CPAs*

South Bend, Indiana  
August 28, 2009

**LIFE TREATMENT CENTERS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2009 and 2008

**ASSETS**

	<u>2009</u>	<u>2008</u>
Cash	\$ 181,273	\$ 254,918
Accounts receivable	23,650	59,687
Investments	444,328	476,046
Assets available for sale	78,970	78,970
Land and buildings	1,637,456	1,626,676
Furniture and equipment	101,594	175,386
Less accumulated depreciation	<u>(954,216)</u>	<u>(950,696)</u>
 Total assets	 <u>\$ 1,513,053</u>	 <u>\$ 1,720,987</u>

**LIABILITIES AND NET ASSETS**

Liabilities		
Accounts payable	\$ 20,593	\$ 32,272
Accrued payroll and benefits	85,153	87,896
Long term debt	<u>185,121</u>	<u>203,739</u>
 Total liabilities	 <u>290,867</u>	 <u>323,907</u>
 <b>NET ASSETS</b>		
Unrestricted	853,061	1,027,955
Temporarily restricted	<u>369,125</u>	<u>369,125</u>
 Total net assets	 <u>1,222,186</u>	 <u>1,397,080</u>
 Total liabilities and net assets	 <u>\$ 1,513,053</u>	 <u>\$ 1,720,987</u>

**LIFE TREATMENT CENTERS, INC.**  
**STATEMENTS OF ACTIVITIES**  
For the Years Ended June 30, 2009 and 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Support						
Contributions	\$ 20,756	\$	20,756	\$ 17,875	\$	17,875
United Way	12,261		12,261	28,356		28,356
Emergency Shelter Grant	29,097		29,097	42,100		42,100
U.S. Department of Housing and Urban Development	45,263		45,263	52,708		52,708
Fundraising	13,946		13,946	66,063		66,063
	<u>121,323</u>		<u>121,323</u>	<u>207,102</u>		<u>207,102</u>
Revenue						
Division of Addiction Services	1,256,632		1,256,632	1,252,332		1,252,332
Program service fees	136,172		136,172	154,429		154,429
Net realized/unrealized (losses)	(39,545)		(39,545)	(26,108)		(26,108)
Interest income	14,606		14,606	24,762		24,762
Other	61,027		61,027	10,561		10,561
	<u>1,428,892</u>		<u>1,428,892</u>	<u>1,415,976</u>		<u>1,415,976</u>
<b>Total support and revenue</b>	<u>1,550,215</u>		<u>1,550,215</u>	<u>1,623,078</u>		<u>1,623,078</u>
<b>EXPENSES</b>						
Residential and treatment program	1,353,004		1,353,004	1,544,147		1,544,147
Administrative and supporting services	264,349		264,349	212,327		212,327
Fundraising	107,756		107,756	166,589		166,589
	<u>1,725,109</u>		<u>1,725,109</u>	<u>1,923,063</u>		<u>1,923,063</u>
<b>Total expenses</b>	<u>(174,894)</u>		<u>(174,894)</u>	<u>(299,985)</u>		<u>(299,985)</u>
<b>Change in net assets</b>	<u>1,027,955</u>	<u>369,125</u>	<u>1,397,080</u>	<u>1,327,940</u>	<u>369,125</u>	<u>1,697,065</u>
<b>Net assets at beginning of year</b>						
<b>Net assets at end of year</b>	<u>\$ 853,061</u>	<u>\$ 369,125</u>	<u>\$ 1,222,186</u>	<u>\$ 1,027,955</u>	<u>\$ 369,125</u>	<u>\$ 1,397,080</u>

## LIFE TREATMENT CENTERS, INC.

### STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Residential and treatment program</b>		
Salaries and wages	\$ 836,726	\$ 921,013
Payroll taxes	63,752	72,542
Benefits	94,709	180,056
Contractual labor	1,690	6,456
Insurance	29,506	36,969
Repairs and maintenance	32,300	23,721
Utilities	63,267	56,009
Telephone expense	17,809	19,415
Auto expenses	15,579	14,341
Depreciation	78,449	81,495
Food	35,890	36,409
Supplies	14,931	13,906
Medical supplies	1,760	1,851
Medical consultants	14,905	13,200
Drug screening	1,060	915
Staff training	1,675	3,418
Interest expense	7,219	13,527
Subcontracting expense		5,790
ASPIN administration fee	20,000	20,000
Other costs	21,777	23,114
	<u>\$ 1,353,004</u>	<u>\$ 1,544,147</u>
<b>Administrative and supporting services</b>		
Salaries and wages	\$ 145,933	\$ 100,171
Payroll taxes	11,119	7,890
Benefits	16,518	19,583
Insurance	6,767	8,659
Office supplies	9,658	11,186
Dues and subscriptions	2,149	2,608
Professional fees	26,406	23,055
Printing and postage	4,165	5,878
Other costs	41,634	33,297
	<u>\$ 264,349</u>	<u>\$ 212,327</u>
<b>Fundraising</b>		
Salaries and wages	\$ 90,547	\$ 83,059
Payroll taxes	6,899	6,542
Benefits	10,249	16,238
Other costs	61	60,750
	<u>\$ 107,756</u>	<u>\$ 166,589</u>

**LIFE TREATMENT CENTERS, INC.**

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2009 and 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	<u>\$ (174,894)</u>	<u>\$ (299,985)</u>
<b>ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Depreciation	78,449	81,495
Net realized and unrealized losses	39,545	26,108
<b>CHANGE IN ASSETS (INCREASE) DECREASE:</b>		
Accounts receivable	36,037	(40,707)
<b>CHANGE IN LIABILITIES INCREASE (DECREASE):</b>		
Accounts payable	(11,679)	17,756
Accrued payroll, and benefits	<u>(2,743)</u>	<u>12,335</u>
Total adjustments	<u>139,609</u>	<u>96,987</u>
Net cash used in operating activities	<u>(35,285)</u>	<u>(202,998)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	389,732	1,447,305
Purchase of investments	(397,557)	(1,125,473)
Purchase of property and equipment	<u>(11,917)</u>	<u></u>
Net cash provided by (used in) investing activities	<u>(19,742)</u>	<u>321,832</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments of long term debt	<u>(18,618)</u>	<u>(12,574)</u>
Net cash provided used in financing activities	<u>(18,618)</u>	<u>(12,574)</u>
Net (decrease) increase in cash	(73,645)	106,260
Cash at beginning of year	<u>254,918</u>	<u>148,658</u>
<b>Cash at end of year</b>	<u><u>\$ 181,273</u></u>	<u><u>\$ 254,918</u></u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest:	\$ 7,219	\$ 13,527

# LIFE TREATMENT CENTERS, INC.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activities and Significant Accounting Policies

#### Nature of Activities

Life Treatment Centers, Inc. (the Organization) is a not for profit organization providing treatment and rehabilitation to 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 re-socialization. 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. Funding is provided primarily by government grants, fees for service and contributions.

#### Significant Accounting Policies

**Basis of 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.

**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.

**Recently Issued Accounting Pronouncements** - Effective July 1, 2008, the Organization adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" (SFAS 157). In February 2008, the FASB issued Staff Position No. 157-2, "Effective Date of FASB Statement No. 157", which provides a one year deferral of the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Organization has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only and the adoption did not materially impact the financial statements. Management believes the adoption of SFAS 157 for nonfinancial assets and liabilities also will not have a material impact on the financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events", which establishes standards of accounting for the disclosure of events that occur after the Statement of Financial Position date but before financial statements are issued. We have evaluated subsequent events for recognition or disclosure through the date of the financial statements were available for issuance on August 28, 2009.

# LIFE TREATMENT CENTERS, INC.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Activities and Significant Accounting Policies (continued)

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the program, administrative and supporting services and fundraising.

**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 and disclosures. Accordingly, actual results could differ from those estimates.

**Accounts Receivable** - Management closely monitors outstanding balances and writes off, as of year end, all uncollectible balances. Accordingly, no allowance for doubtful accounts has been recorded.

**Contributions** - Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions. The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

**Property and Equipment** - Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Purchased property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred while major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. Depreciation is computed on the straight line method over the estimated useful lives of the assets as follows:

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

# **LIFE TREATMENT CENTERS, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 2. Support from Major Funding Sources/Concentrations of Credit Risk**

The Organization receives a substantial amount of its support from federal, state and local agencies. A significant reduction in the level of support, if this were to occur, may have a significant effect on the Organization's programs and activities.

The Organization also places its cash with a high credit quality financial institution. However, the amount of credit exposure to a financial institution occasionally is in excess of the insurance limits established by law.

### **Note 3. Income Tax Status**

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 a similar section of the Indiana tax law. Accordingly, no provision has been made for federal or state income taxes.

### **Note 4. Fair Value Measurements**

Statement of Financial Accounting Standards No. 157 (SFAS 157) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standards describe three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Organization utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

# LIFE TREATMENT CENTERS, INC.

## NOTES TO FINANCIAL STATEMENTS

**Note 4. Fair Value Measurements (continued)**

Assets measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at June 30, 2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 174,215	\$	\$	\$ 174,215
Fixed income	77,635			77,635
Equity securities	<u>192,476</u>	<u>          </u>	<u>          </u>	<u>192,476</u>
	<u>\$ 444,326</u>	<u>\$</u>	<u>\$</u>	<u>\$ 444,326</u>

Unrealized gains or losses on investments are recorded in the Statement of Activities. The adoption of this statement did not have a material impact on the Organization's results of operations or financial position.

**Note 5. Assets Held for Sale**

In 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) No. 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 their estimated sales price less estimated costs to sell. The Organization has actively pursued a buyer for the properties.

**Note 6. Long Term Debt**

Long term debt at June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Note payable, bank, collateralized by land and building, payable in monthly installments of \$2,164, including interest at prime minus .25%. A balloon payment is due March 2010.	<u>\$ 185,121</u>	<u>\$ 203,739</u>

Estimated annual maturities are as follows for the year ended June 30:

2010	\$ 185,121
------	------------

The Organization had various covenants relating to the above debt, none of which were violated at June 30, 2009.

The fair value of long term debt approximates the carrying value due to the relevant market information.

# LIFE TREATMENT CENTERS, INC.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Temporarily Restricted Net Assets

At June 30, 2009 and 2008 temporarily restricted net assets consist of contributions which were received in prior years that are restricted by time. The specific amounts and periods of restrictions are as follows:

St. Joseph Housing Consortium (November 1, 2009)	\$ 299,125
St. Joseph Housing Consortium (December 31, 2011)	<u>70,000</u>
Total	<u>\$ 369,125</u>

### Note 8. 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 \$26,520 and \$29,502 for the years ended June 30, 2009 and 2008, respectively.

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

### Note 9. Lease Commitments

The Organization has entered into various operating leases primarily for office equipment, with monthly payments ranging from \$140 to \$872 per month with initial lease terms ranging 36 to 60 months. The lease expense for these leases was \$23,915 for each of the years ending June 30, 2009 and 2008. The following schedule presents, by year, the approximate future minimum lease payments under the leases as of June 30:

2010	\$ 13,836
2011	8,264
2012	8,100
2013	8,100
2014	8,100
Thereafter	<u>675</u>
Total	<u>\$ 47,075</u>

**LIFE TREATMENT CENTERS, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2009

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>2009 Disbursements/ Expenditures</u>
Substance Abuse and Mental Health Services Administration, Department of Health and Human Services		
Prevention and Treatment of Substance Abuse	93.959	\$ 972,508
Access to Recovery	93.275	38,639
Community Planning and Development, Department of Housing and Urban Development		
Emergency Shelter Grant	14.231	29,097
Supportive Housing Program	14.235	<u>68,972</u>
Total federal awards		<u>\$ 1,109,216</u>

The above schedule of expenditures of federal awards includes the federal grant activity of the Organization 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*.

# Jurgonski & Fredlake CPAs

418 W. Jefferson Blvd., South Bend, Indiana 46601

Office (574) 251-1414

Fax (574) 251-1477

Greg Jurgonski  
John A. Fredlake  
Joseph T. Barkman

## **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  
Life Treatment Centers, Inc.  
South Bend, Indiana

We have audited the financial statements of Life Treatment Centers, Inc. (a not for profit organization) (the Organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated August 28, 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

*A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (see #2009-1 and #2009-2).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

Page 2

The Organization's response to the findings identified in our audit is 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 management, the Board of Directors, others within the entity, 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.

*Jugowski + Frecklake CPAs*

South Bend, Indiana  
August 28, 2009

**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  
Life Treatment Centers, Inc.  
South Bend, Indiana

**Compliance**

We have audited the compliance of Life Treatment Centers, 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 June 30, 2009. Life Treatment Centers, 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 Life Treatment Centers Inc.'s management. Our responsibility is to express an opinion on Life Treatment Centers, 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 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 of Life Treatment Centers, Inc.'s compliance with those requirements.

In our opinion, Life Treatment Centers, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

**Internal Control Over Compliance**

The management of Life Treatment Centers, 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 Life Treatment Centers, 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 Life Treatment Centers, Inc.'s internal control over compliance.

Our consideration on 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 identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and question costs to be material weaknesses (see #2009-1 and #2009-2).

The Organization's response to the findings identified in our audit is 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 Management, the Board of Directors, others within the entity, 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.

*Jugmohi & Friedlake CPAs*

South Bend, Indiana  
August 28, 2009

# LIFE TREATMENT CENTERS, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2009

### 1. SUMMARY OF AUDITOR'S RESULTS:

- a. The auditor's report expresses an unqualified opinion on the financial statements of Life Treatment Centers, Inc. for the year ended June 30, 2009.
- b. Two significant deficiencies disclosed during the audit of the financial statements are reported in this schedule. Both of the deficiencies are reported as material weaknesses.
- c. No instances of noncompliance material to the financial statements of Life Treatment Centers, Inc. were disclosed during the audit.
- d. Two significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in this schedule. Both of the deficiencies are reported as material weaknesses.
- e. The auditor's report on compliance for the major federal award programs for Life Treatment Centers, Inc. expresses an unqualified opinion on the major federal programs.
- f. The program tested as a major program: – Prevention and Treatment of Substance Abuse CFDA #93.959.
- g. The threshold used for distinguishing between Types A and B programs was \$300,000.
- h. Life Treatment Centers, Inc. was determined not to be a low risk auditee.
- i. There were no audit findings required to be disclosed under OMB Circular A-133 Section 510(a).

### 2. Findings related to the financial statements which are required to be reported in accordance with GAGAS:

#### **Finding #2009-1 Preparation of GAAP Basis Financial Statements**

**Statement of Condition:** Statement on Auditing Standards (SAS No. 115 "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 at year end to adjust the financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

**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

# LIFE TREATMENT CENTERS, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2009

**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:**

Management agrees with the finding and will improve the application and understanding of GAAP by working to get a professional with the knowledge of the principles to serve on the board of directors. Additionally, management will begin to utilize a GAAP checklist so that management can better understand the principles and their application.

### **Finding #2009-2: 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 performed by the same individual is as follows:

- Having check signing ability;
- Having full access to the 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 proper segregation of duties increases the risk of inaccurate financial reporting or misappropriation 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.

# LIFE TREATMENT CENTERS, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2009

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

### Management Response:

Management agrees with the finding and the specific control procedures will be addressed with current personnel. Future improvement of controls may be accomplished with the addition of personnel to put these controls in place. The plan would be to not increase cost but instead rearrange full time and part time responsibilities.

3. Findings and questioned costs for federal awards including audit findings as defined in OMB Circular A-133 Section 510(a):

None

# LIFE TREATMENT CENTERS, INC.

## SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2009

### 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.

**Current Status:** As noted on the current year Schedule of Findings and Questioned Costs, there are still weaknesses related to the preparation of GAAP basis financial statements.

### 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 performed by the same individual is as follows:

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

**Current Status:** As noted on the current year Schedule of Findings and Questioned Costs, there are still weaknesses related to a lack of segregation of duties.

### Finding # 2008-3: Investment Account Reconciliations

**Statement of Condition:** We have noted that management does not reconcile the balances of various investment accounts during the year. We also noted that some of the monthly investment statements were missing when we arrived for the audit.

**Current Status:** This has been corrected.