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October 29, 2014

Board of Directors
Life Treatment Centers, Inc.
1402 S. Michigan Street
South Bend, IN 46613

We have reviewed the audit report prepared by Jurgonski & Fredlake CPA's, for the period July 1, 2011 to June 30, 2012. 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 Life Treatment Centers, Inc., as of June 30, 2012, 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. The audit report contains two financial statement findings. Please refer to the Schedule of Findings and Questioned Costs for complete details of the findings.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

LIFE TREATMENT CENTERS, INC.

FINANCIAL AND COMPLIANCE REPORT

June 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Life Treatment Centers, Inc. (a not for profit Organization) (the Organization) as of June 30, 2012 and 2011 and the related statements of activities, functional expenses and cash flows for the years 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 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 the Organization as of June 30, 2012 and 2011 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 *Government Auditing Standards*, we have also issued a report dated August 31, 2012 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 should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Jurgonski & Fredlake CPAs

South Bend, Indiana
August 31, 2012

LIFE TREATMENT CENTERS, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

ASSETS	2012	2011
Cash	$ 214,796	$ 166,301
Grants receivable	37,663	81,941
Investments	166,329	371,365
Asset available for sale	180,800	
Land and buildings	1,476,426	1,716,426
Furniture and equipment	108,994	108,994
Less accumulated depreciation	(1,027,733)	(1,053,279)
Total assets	$ 1,157,275	$ 1,391,748
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 11,831	$ 23,027
Accrued payroll and benefits	95,035	105,426
Note payable	142,620	153,598
Total liabilities	249,486	282,051
NET ASSETS		
Unrestricted	907,789	1,039,697
Temporarily restricted		70,000
Total net assets	907,789	1,109,697
Total liabilities and net assets	$ 1,157,275	$ 1,391,748

See Notes to Financial Statements.

LIFE TREATMENT CENTERS, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Support						
Contributions	$ 300	$	$ 300	$ 2,170	$	$ 2,170
U.S. Department of Housing and Urban Development	45,968		45,968	37,935		37,935
Drug Free Grant	10,000		10,000	10,000		10,000
Fundraising	47,328		47,328	41,898		41,898
Total support	103,596		103,596	92,003		92,003
Revenue						
Division of Addiction Services	1,254,430		1,254,430	1,270,634		1,270,634
Program service fees	112,118		112,118	116,177		116,177
Net realized losses	(8,565)		(8,565)	(1,447)		(1,447)
Net unrealized gains (losses)	(1,093)		(1,093)	19,037		19,037
Interest income	4,622		4,622	11,815		11,815
Rent revenue	70,200		70,200	53,640		53,640
Other	44,821		44,821	34,614		34,614
Net assets release from restrictions	70,000	(70,000)		4,010	(4,010)	
Total revenue	1,546,533	(70,000)	1,476,533	1,508,480	(4,010)	1,504,470
Total support and revenue	1,650,129	(70,000)	1,580,129	1,600,483	(4,010)	1,596,473
EXPENSES						
Residential and treatment program	1,402,311		1,402,311	1,406,439		1,406,439
Administrative and supporting services	230,045		230,045	188,912		188,912
Fundraising	149,681		149,681	134,769		134,769
Total expenses	1,782,037		1,782,037	1,730,120		1,730,120
Change in net assets	(131,908)	(70,000)	(201,908)	(129,637)	(4,010)	(133,647)
Net assets at beginning of year	1,039,697	70,000	1,109,697	1,169,334	74,010	1,243,344
Net assets at end of year	$ 907,789	$	$ 907,789	$ 1,039,697	$ 70,000	$ 1,109,697

See Notes to Financial Statements.

LIFE TREATMENT CENTERS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2012 and 2011

	2012	2011
Residential and treatment program		
Salaries and wages	$ 874,966	$ 876,205
Payroll taxes	77,487	72,192
Benefits	161,318	142,127
Insurance	22,120	22,870
Repairs and maintenance	18,016	26,729
Utilities	62,211	63,636
Telephone	24,982	28,263
Auto	17,898	14,522
Depreciation	33,654	44,436
Food	36,051	36,178
Supplies	17,774	22,725
Educational supplies	349	
Medical supplies	1,631	1,811
Medical consultants	14,352	13,385
Drug screening	450	1,080
Staff training	737	2,556
Interest	9,460	8,466
Other costs	28,855	29,258
Total residential and treatment program expenses	$ 1,402,311	$ 1,406,439
Administrative and supporting services		
Salaries and wages	$ 118,840	$ 84,904
Payroll taxes	10,524	7,080
Benefits	21,910	14,070
Insurance	5,530	5,717
Office supplies	9,372	14,413
Dues and subscriptions	1,252	1,135
Professional fees	13,800	16,542
Postage	2,772	1,112
ASPIN administration fee	15,000	15,000
Other costs	31,045	28,939
Total administrative and supporting expenses	$ 230,045	$ 188,912
Fundraising		
Salaries and wages	$ 98,292	$ 91,484
Payroll taxes	8,705	7,629
Benefits	18,122	15,161
Other costs	24,562	20,495
Total fundraising expenses	$ 149,681	$ 134,769

See Notes to Financial Statements.

LIFE TREATMENT CENTERS, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (201,908)	$ (133,647)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	33,654	44,436
Net realized losses	8,565	1,447
Net unrealized (gains) losses	1,093	(19,037)
Change in assets (increase) decrease		
Grants receivable	44,278	(18,269)
Change in liabilities increase (decrease)		
Accounts payable	(11,196)	(10,544)
Accrued payroll and benefits	(10,391)	20,336
Total adjustments	66,003	18,369
Net cash used in operating activities	(135,905)	(115,278)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	270,773	455,999
Purchase of investments	(75,395)	(442,814)
Net cash provided by investing activities	195,378	13,185
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(10,978)	(14,187)
Net cash used in financing activities	(10,978)	(14,187)
Net increase (decrease) in cash	48,495	(116,280)
Cash at beginning of year	166,301	282,581
Cash at end of year	$ 214,796	$ 166,301
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest:	$ 9,460	$ 8,466

See 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 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.

Basis of Presentation - Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Codification of Financial Accounting Standards (ASC) 958-205, Financial Statements of Not for Profit Organizations. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – Reflect assets which have not been restricted as to use by donors. A designation within this asset group represents assets restricted by the board of directors.

Temporarily Restricted Net Assets – Reflect contributed assets whose use by the Organization has been limited by donors for a specific time period or purpose.

Permanently Restricted Net Assets – Reflect contributions with donor imposed restrictions which do not expire and which allow, in certain cases, only the income earned thereon to be expended by the Organization.

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.

Grants Receivable – Support received under governmental grants is recorded based on expenses incurred or based on a fixed rate. Grants receivable represents amounts due for expenses incurred or units serviced prior to year end, and are considered fully collectible by Management.

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

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 – Property and equipment received as a donation is recorded at fair market value as of the date received. 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	10 to 40 years
Furniture and equipment	5 to 15 years

Volunteer Services – The Organization has a number of unpaid volunteers that have made significant contributions of their time to the Organization. The value of the contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the requirements for recognition under ASC 958.

Income Taxes – The Organization's policy is to record an unrecognized tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the tax authorities. Interest and penalties related to gross unrecognized tax benefits would be included within the provision for income taxes. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued would be reduced in the period that such determination is made and reflected as a reduction of the overall income tax provision. The Organization files a federal and an Indiana state tax return. The tax years that remain subject to examination by the federal and Indiana tax jurisdictions date back to the year ending June 30, 2009.

Subsequent Events – The Organization has evaluated subsequent events for recognition and disclosure through August 31, 2012, which is the date the Organization's financial statements were available to be issued.

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 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. **Asset Held for Sale**

During the year ended June 30, 2012, the Organization's Board of Directors made the decision to sell the Elkhart facility. 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 asset. The asset is reported separately as asset held for sale in the statements of financial position. Additionally, the asset is being valued at $180,800 which is the lower of the carrying value or the estimated sales price less estimated costs to sell. The Organization is actively pursuing a buyer for the property.

Note 5. **Fair Value Measurements**

ASC 820 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. ASC 820 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.

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.

Note 5. **Fair Value Measurements (continued)**

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

	Fair Value Measurements at June 30, 2012			
	Level 1	Level 2	Level 3	Total
Cash	$ 86,145	$	$	$ 86,145
Mutual Funds	15,690			15,690
AA bonds	7,871			7,871
A bond	7,831			7,831
Consumer Discretionary	5,538			5,538
Consumer Staples	8,001			8,001
Energy	5,317			5,317
Financials	4,499			4,499
Healthcare	6,544			6,544
Information Technology	7,149			7,149
Materials	2,037			2,037
Real Estate	5,292			5,292
Telecom	4,415			4,415
	$ 166,329	$	$	$ 166,329

	Fair Value Measurements at June 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash	$ 54,593	$	$	$ 54,593
AA bonds	1,463			1,463
A bonds	1,462			1,462
Consumer Discretion	30,443			30,443
Consumer Staples	67,791			67,791
Energy	36,092			36,092
Financials	31,071			31,071
Healthcare	51,157			51,157
Information Technology	79,717			79,717
Telecom	17,576			17,576
	$ 371,365	$	$	$ 371,365

Unrealized gains or losses on investments are recorded in the statement of activities.

Note 6. **Note Payable**

The Organization has a note payable to a bank with an outstanding balance of $142,620 and $153,598 at June 30, 2012 and 2011, respectively. The note is collateralized by the Elkhart land and the building. A balloon payment was due in March of 2012 at which time a verbal agreement was made to continue making the monthly installment payment of $1,846, including interest at 8%, with a balloon payment due in January, 2013.

The Organization had various covenants relating to the above debt, none of which were violated at June 30, 2012. The fair value of long term debt approximates the carrying value due to the relevant market information.

Note 7. Temporarily Restricted Net Assets

At June 30, 2012 and 2011 temporarily restricted net assets are as follows:

	2012	2011
St. Joseph Housing Consortium (December 31, 2011)	$	$ 70,000

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 $21,497 and $21,121 for the years ended June 30, 2012 and 2011, 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 $124 to $535 per month with initial lease terms ranging from 36 to 60 months. The lease expense for these leases was $13,412 each for the years ending June 30, 2012 and 2011. The following schedule presents, by year, the approximate future minimum lease payments under the leases as of June 30:

2013	$ 11,819
2014	8,100
2015	675
Total	$ 20,594

Note 10. Schedule of Expenditures of Federal Awards

The accompanying 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.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 11. Contingencies

Under the terms of federal, state and local grants, periodic audits are required and certain costs may be challenged as to allowability under the terms of the grants. Grant resources are expendable only for operating purposes specified by the grant. Such audits could lead to reimbursement of the grantor agencies. However, management is of the opinion that the risk of material disallowance is remote. Therefore, no provision for contingencies has been reflected in the financial statements.

LIFE TREATMENT CENTERS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	2012 Disbursements/ Expenditures
U.S. Department of Health and Human Services		
Passed through Affiliated Service Providers of Indiana, Inc. (ASPIN)		
Prevention and Treatment of Substance Abuse	93.959	$ 883,598
Passed through InteCare,Inc.		
Prevention and Treatment of Substance Abuse	93.959	112,683
Passed through Indiana Family and Social Services Administration, Division of Family and Children		
Access to Recovery	93.275	44,140
Passed through Healthy Communities Initiative of St Joseph County, Inc.		
Drug Free Community Fund	93.252	10,000
U.S. Department of Housing and Urban Development (HUD)		
Supportive Housing Program-Transitional Housing	14.235	45,968
Total federal awards		$ 1,096,389

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.*

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, 2012, and have issued our report thereon dated August 31, 2012. 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 *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 #2012-1 and #2012-2).

Life Treatment Center, Inc.'s responses to the findings identified in out audit are described in the accompanying schedule of findings and questioned costs. We did not audit Life Treatment Center, Inc.'s responses and, accordingly, we express no opinion on the responses.

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.*

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.

Jungwirth & Freeblade CPAs

South Bend, Indiana
August 31, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Life Treatment Centers, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2012. 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 the Organization'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 the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration on internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and question costs as items #2012-1 and #2012-2 to be material weaknesses.

Life Treatment Center, Inc.'s responses to the findings identified in out audit are described in the accompanying schedule of findings and questioned costs. We did not audit Life Treatment Center, Inc.'s responses and, accordingly, we express no opinion on the responses.

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.

Jungowski & Freddeke LLP

South Bend, Indiana
August 31, 2012

LIFE TREATMENT CENTERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

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, 2012.

   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., which would be required to be reported in accordance with Government Auditing Standards, 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 program for Life Treatment Centers, Inc. expresses an unqualified opinion on the major federal program.

   f. The program tested as a major program: – Prevention and Treatment of Substance Abuse cluster (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 #2012-1 Preparation of Generally Accepted Accounting Principles (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. 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 organizations alike have been facing for years. It simply is very difficult, and in many cases, not feasible for smaller organizations 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:

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 #2012-2: 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;
- Entering and posting journal entries into the general ledger without consistent 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 may be 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 and all cash reconciliations.
- Dual signature requirements on checks over certain dollar limits or other secondary reviews over cash disbursements;

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. Effective January 1, 2012, the independent reviews and approval of all journal entries was implemented. 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 OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2012

Finding #2011-1 Preparation of Generally Accepted Accounting Principles (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. 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.

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 #2011-2: 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;
- Entering and posting journal entries into the general ledger without consistent 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. However, effective January 1, 2012, the Organization implemented a review and approval of all journal entries.