B44387

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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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, 2012 to June 30, 2013. 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, 2013, 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.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

LIFE TREATMENT CENTERS, INC.
FINANCIAL AND COMPLIANCE REPORT

June 30, 2013 and 2012

CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements
We have audited the accompanying financial statements of Life Treatment Centers, Inc. (a nonprofit organization) (the Organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by 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 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 the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2013, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Jurgonski + Friedlade CPAs

South Bend, Indiana
August 30, 2013

LIFE TREATMENT CENTERS, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

ASSETS	2013	2012
Cash	$ 302,248	$ 214,796
Certificates of deposit	25,019	
Grants receivable	120,936	37,663
Investments	193,654	166,329
Asset available for sale, net of valuation allowance of $41,300 in 2013	139,500	180,800
Land and buildings	1,497,107	1,476,426
Furniture and equipment	137,989	108,994
Less accumulated depreciation	(1,055,468)	(1,027,733)
Total assets	$ 1,360,985	$ 1,157,275
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 8,170	$ 11,831
Accrued payroll and benefits	108,512	95,035
Note payable	132,845	142,620
Total liabilities	249,527	249,486
NET ASSETS		
Unrestricted	1,111,458	907,789
Total net assets	1,111,458	907,789
Total liabilities and net assets	$ 1,360,985	$ 1,157,275

See Notes to Financial Statements.

LIFE TREATMENT CENTERS, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Support						
Contributions	$ 1,840	$	$ 1,840	$ 300	$	$ 300
U.S. Department of Housing and Urban Development	190,181		190,181	45,968		45,968
Drug Free Grant	8,500		8,500	10,000		10,000
Emergency Shelter Grant	18,794		18,794			
Fundraising	42,795		42,795	47,328		47,328
Total support	262,110		262,110	103,596		103,596
Revenue						
Division of Addiction Services	1,277,028		1,277,028	1,254,430		1,254,430
Department of Veterans' Affairs	392,280		392,280			
Program service fees	83,780		83,780	112,118		112,118
Net realized gains (losses)	11,281		11,281	(8,565)		(8,565)
Net unrealized losses	(5,329)		(5,329)	(1,093)		(1,093)
Interest income, net of investment expenses	(608)		(608)	4,622		4,622
Rent revenue	25,200		25,200	70,200		70,200
Other	44,746		44,746	44,821		44,821
Net assets release from restrictions				70,000	(70,000)	
Total revenue	1,828,378		1,828,378	1,546,533	(70,000)	1,476,533
Total support and revenue	2,090,488		2,090,488	1,650,129	(70,000)	1,580,129
EXPENSES						
Residential and treatment program	1,513,720		1,513,720	1,402,311		1,402,311
Administrative and supporting services	220,071		220,071	230,045		230,045
Fundraising	153,028		153,028	149,681		149,681
Total expenses	1,886,819		1,886,819	1,782,037		1,782,037
Change in net assets	203,669		203,669	(131,908)	(70,000)	(201,908)
Net assets at beginning of year	907,789		907,789	1,039,697	70,000	1,109,697
Net assets at end of year	$ 1,111,458	$	$ 1,111,458	$ 907,789	$	$ 907,789

See Notes to Financial Statements.

LIFE TREATMENT CENTERS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2013 and 2012

	2013	2012
Residential and treatment program		
Salaries and wages	$ 941,738	$ 874,966
Payroll taxes	75,451	77,487
Benefits	155,942	161,318
Insurance	27,906	22,120
Repairs and maintenance	24,901	18,016
Utilities	63,156	62,211
Telephone	23,166	24,982
Auto	19,941	17,898
Depreciation	27,735	33,654
Food	48,044	36,051
Supplies	22,296	17,774
Educational supplies		349
Medical supplies	1,231	1,631
Medical consultants	12,880	14,352
Drug screening	1,391	450
Staff training	1,489	737
Interest	11,832	9,460
Valuation expense	41,300	
Other costs	13,321	28,855
Total residential and treatment program expenses	$ 1,513,720	$ 1,402,311
Administrative and supporting services		
Salaries and wages	$ 113,664	$ 118,840
Payroll taxes	9,107	10,524
Benefits	18,800	21,910
Insurance	6,977	5,530
Office supplies	9,960	9,372
Dues and subscriptions	722	1,252
Professional fees	13,585	13,800
Postage	813	2,772
ASPIN administration fee	15,000	15,000
Other costs	31,443	31,045
Total administrative and supporting expenses	$ 220,071	$ 230,045
Fundraising		
Salaries and wages	$ 103,896	$ 98,292
Payroll taxes	8,324	8,705
Benefits	17,184	18,122
Other costs	23,624	24,562
Total fundraising expenses	$ 153,028	$ 149,681

LIFE TREATMENT CENTERS, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 203,669	$ (201,908)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	27,735	33,654
Net realized (gain) loss	(11,281)	8,565
Valuation expense	41,300	
Net unrealized loss	5,329	1,093
Change in assets (increase) decrease		
Grants receivable	(83,273)	44,278
Change in liabilities (decrease) increase		
Accounts payable	(3,661)	(11,196)
Accrued payroll and benefits	13,477	(10,391)
Total adjustments	(10,374)	66,003
Net cash provided by (used in) operating activities	193,295	(135,905)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	128,671	270,773
Purchase of certificate of deposit	(25,019)	
Purchase of property and equipment	(49,676)	
Purchase of investments	(150,044)	(75,395)
Net cash (used in) provided by investing activities	(96,068)	195,378
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	137,354	
Principal payments on note payable	(147,129)	(10,978)
Net cash used in financing activities	(9,775)	(10,978)
Net increase in cash	87,452	48,495
Cash at beginning of year	214,796	166,301
Cash at end of year	$ 302,248	$ 214,796
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest:	$ 11,832	$ 9,460

See Notes to Financial Statements.

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 Accounting Standards Codification (ASC) 958, Financial Statements of Not for Profit Organizations. Under ASC 958, 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.

Certificates of Deposit - Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as short term. Certificates of deposit with remaining maturities greater than one year are classified as long term.

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.

LIFE TREATMENT CENTERS, INC.

NOTES TO FINANCIAL STATEMENTS

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 of experience and management's analysis of specific promises made.

Asset Held for Resale - The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to future net undiscounted cash flow expected to be generated by the property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property.

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 is 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.

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

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. Management believes the tax years that remain subject to examination by the federal and Indiana tax jurisdictions date back to the year ending June 30, 2010.

Subsequent Events – The Organization has evaluated subsequent events for recognition and disclosure through August 30, 2013, 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

ASC 360, Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed, requires impairment losses to be recorded on long lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The real estate held for resale is recorded at cost net of valuation allowance. The eventual sales proceeds from these properties may be less than the carrying value of the property.

	2013	2012
1322 West Indiana Avenue	$ 180,800	$ 180,800
Valuation allowance	(41,300)	
	$ 139,500	$ 180,800

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.

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

	Fair Value Measurements at June 30, 2013			
	Level 1	Level 2	Level 3	Total
Cash	$ 118,204	$	$	$ 118,204
Mutual funds	11,358			11,358
Consumer discretionary	5,460			5,460
Consumer supplies	2,098			2,098
Energy	7,130			7,130
Financials	7,171			7,171
Healthcare	14,245			14,245
Industrials	6,400			6,400
Information technology	12,576			12,576
Materials	7,106			7,106
Telecom	1,906			1,906
	$ 193,654	$	$	$ 193,654

Note 5. Fair Value Measurements (continued)

	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 bond	7,871			7,871
A bond	7,831			7,831
Consumer discretionary	5,538			5,538
Consumer supplies	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

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 $132,845 and $142,620 at June 30, 2013 and 2012, respectively. The note is collateralized by the Elkhart land and the building. A balloon payment was due in March 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 note was replaced with a new note in January 2013. The Organization makes monthly payments of $1,934, including interest at 9.8%, with a balloon payment due in January 2014.

The Organization had various covenants relating to the above debt, none of which were violated at June 30, 2013. The fair value of long term debt approximates the carrying value due to the relevant market information.

Note 7. 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 $22,282 and $21,497 for the years ended June 30, 2013 and 2012, 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 8. 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 $11,819 and $13,412 each for the years ending June 30, 2013 and 2012, respectively. The following schedule presents, by year, the approximate future minimum lease payments under the leases as of June 30:

2014	$ 8,100
2015	675
Total	$ 8,775

Note 9. 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 10. Contingencies

Under the terms of federal, state and local grants, periodic audits are required and certain costs may be challenged as to allow ability 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, 2013

Federal Grantor / Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	2013 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		$ 915,629
Passed through InteCare, Inc.			
Prevention and Treatment of Substance Abuse	93.959		93,892
Passed through Indiana Family and Social Services Administration, Division of Family and Children			
Access to Recovery	93.275		34,528
Passed through Healthy Communities Initiative of St. Joseph County, Inc.			
Drug Free Community Fund	93.252		8,500
U.S. Department of Housing and Urban Development (HUD)			
Supportive Housing Program-Transitional Housing	14.235	IN0008B5H001104	45,967
Supportive Housing Program-Transitional Housing	14.235	IN0145B5H001100	144,214
Subtotal Supportive Housing Program			190,181
Passed-through City of South Bend			
Emergency Shelter Grant (ESG)	14.231	12-JE-03	18,794
U.S. Department of Veterans Affairs			
Homeless Veteran Housing for NIHCS		VA251-12-D-0126	392,280
Total federal awards			$ 1,653,804

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*

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the 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, the financial statements of Life Treatment Centers, Inc. (a nonprofit organization) (the Organization), which comprise the statement of financial position as of June 30, 2013, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2013.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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.*

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jurgonski + Fredlake CPAs

South Bend, Indiana
August 30, 2013

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program
We have audited Life Treatment Centers, Inc.'s 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 each of Life Treatment Centers, Inc.'s major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of Life Treatment Centers, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Life Treatment Centers, Inc.'s compliance.

Opinion on Each Major Federal Program
In our opinion, Life Treatment Centers, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance
Management of Life Treatment Centers, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Life Treatment Centers, Inc.'s internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Life Treatment Centers, Inc.'s internal control over compliance.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Life Treatment Centers, Inc. as of and the year ended June 30, 2013, and have issued our report thereon dated August 30, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Jurgonski + Friedlake CPAs

South Bend, Indiana
August 30, 2013

LIFE TREATMENT CENTERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

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, 2013.

b. No significant deficiencies relating to the audit of the financial statements are reported in this schedule.

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. No significant deficiencies in internal control over major federal award programs were disclosed during the audit and reported in this schedule.

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 programs tested as a major program: – Prevention and Treatment of Substance Abuse cluster (CFDA #93.959) and Homeless Veteran Housing for NIHCS (CFDA #64.008)

g. The threshold used for distinguishing between Type 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:

None.

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, 2013

Finding #2013-1 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: Management has upgraded their understanding of GAAP and implemented an adequate accounting policy.

Finding #2013-2: 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 are as follows:

- Having check signing ability;
- Entering and posting journal entries into the general ledger without consistent written review and approval.

Current Status: Management has properly arranged duties to effectively segregate responsibilities.