

Independent Auditors' Report

Columbus Office To the Board of Trustees
Southeast, Inc.

300 Spruce Street

Suite 250

Columbus, Ohio 43215

(614) 488-3126

fax (614) 488-0095

www.SSandG.com

We have audited the accompanying statement of financial position of Southeast, Inc. (a non-profit corporation) as of June 30, 2006 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 prior year summarized comparative information has been derived from the 2005 financial statements (parent-only report) and, in our report dated October 12, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Southeast, Inc. at June 30, 2006 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 a report dated November 20, 2006 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 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.

*Providing the
services that
bring solutions.*

member of:
OSCPA, PCAOB, the AICPA's
Center for Public Company
Audit Firms, and The Leading
Edge Alliance.

Independent Auditors' Report

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary financial information (pgs. 19-24) 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 the Franklin County Alcohol, Drug Addiction and Mental Health Services Board, 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.

SS&G Financial Services, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Columbus, Ohio
November 20, 2006

SOUTHEAST, INC.
(a non-profit corporation)

AUDITED
FINANCIAL
STATEMENTS

FOR THE
YEAR ENDED
JUNE 30, 2006

SOUTHEAST, INC.

TABLE OF CONTENTS

	<u>Page</u>
SECTION I - FINANCIAL STATEMENTS:	
Independent Auditors' Report	1-2
Statement of Financial Position	3-4
Statement of Activities	5-6
Statement of Functional Expenses	7
Statement of Cash Flows	8-9
Notes to the Financial Statements	10-18
SECTION II - SUPPLEMENTARY FINANCIAL INFORMATION:	
Schedule of Expenditures of Federal Awards	19-20
FCADAMH-FIS-052; "Agency Revenue Report"	21-23
<i>ADAMH Key Performance Indicators</i>	24
SECTION III - PRIOR AUDIT FINDINGS:	
Auditee's Summary Schedule of Prior Audit Findings	25
SECTION IV - AUDITORS' INTERNAL CONTROL STRUCTURE AND COMPLIANCE MATTERS:	
Report Required by the <i>Government Auditing Standards</i> : Independent Auditors' 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>	26-27
Report Required by OMB Circular A-133: Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	28-29
Schedule of Findings and Questioned Costs	30-31
Auditee's Corrective Action Plan	32

SOUTHEAST, INC.

STATEMENT OF FINANCIAL POSITION

(With summarized parent-only financial information for June 30, 2005)

ASSETS	JUNE 30,	
	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,017,981	\$ 7,259,097
Investments	6,250,051	5,023,291
Accounts receivable	4,303,633	3,621,346
Inventory	172,316	172,789
Other current assets	51,538	26,002
TOTAL CURRENT ASSETS	15,795,519	16,102,525
PROPERTY AND EQUIPMENT, net	3,281,943	3,320,439
ARTWORK	75,847	75,847
ASSETS RESTRICTED TO CAPITAL CAMPAIGN:		
Investments	-	147,561
TOTAL ASSETS	\$ 19,153,309	\$ 19,646,372

See accompanying notes to the financial statements.

SOUTHEAST, INC.

STATEMENT OF FINANCIAL POSITION

(With summarized parent-only financial information for June 30, 2005)

	JUNE 30,	
LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES		
Notes payable, current portion	\$ 19,381	\$ 123,755
Capital lease obligation, current portion	19,115	24,838
Accounts payable	134,345	215,070
Amounts held in trust	507,725	294,309
Accrued expenses and taxes	1,527,530	1,319,443
Deferred revenue	8,805	630,526
Estimated Medicaid rate adjustment	4,251	10,346
TOTAL CURRENT LIABILITIES	<u>2,221,152</u>	<u>2,618,287</u>
LONG-TERM NOTES PAYABLE, net of current portion	370,284	1,619,861
LONG-TERM CAPITAL LEASE OBLIGATION, net of current portion	<u>74,498</u>	<u>-</u>
TOTAL LIABILITIES	2,665,934	4,238,148
NET ASSETS		
Unrestricted:		
Undesignated	14,155,456	12,094,565
Board designated	2,297,376	3,166,098
Total unrestricted net assets	<u>16,452,832</u>	<u>15,260,663</u>
Temporarily restricted	<u>34,543</u>	<u>147,561</u>
TOTAL NET ASSETS	<u>16,487,375</u>	<u>15,408,224</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,153,309</u>	<u>\$ 19,646,372</u>

See accompanying notes to the financial statements.

SOUTHEAST, INC.

STATEMENT OF ACTIVITIES

(With summarized parent-only financial information for the year ended June 30, 2005)

	FOR THE YEARS ENDED			
	JUNE 30,			
	2006	%	2005	%
CHANGES IN UNRESTRICTED NET ASSETS:				
OPERATING REVENUES AND SUPPORT:				
ADAMH purchase-of-service	\$ 5,775,716	23.9	\$ 6,464,085	29.2
ADAMH cost reimbursement	1,291,756	5.3	1,068,152	4.8
Medicaid	3,502,753	14.5	2,868,455	13.0
Medicaid match	1,974,964	8.2	1,886,439	8.5
Apothecare pharmacy	7,435,553	30.7	7,120,876	32.1
First and third party fees	255,483	1.1	230,530	1.0
Contracts	2,878,835	11.9	2,192,616	9.9
Medicaid FFP - Out of county	569,500	2.4	142,254	0.6
Medicaid match - Out of county	384,710	1.5	96,595	0.5
Other operating income	120,060	0.5	88,975	0.4
Reduction of advances from ODMH	19,381	-	10,097	-
	<u>24,208,711</u>	<u>100.0</u>	<u>22,169,074</u>	<u>100.0</u>
OPERATING EXPENSES:				
Clinical services	12,149,213	50.2	10,178,202	45.9
Housing	2,187,016	9.0	2,639,874	11.9
Vocational	791,655	3.3	869,831	3.9
Apothecare pharmacy	6,604,538	27.3	6,404,549	28.9
Prevention/education	1,183,493	4.9	679,440	3.1
General and administrative	1,235,879	5.1	1,067,613	4.8
	<u>24,151,794</u>	<u>99.8</u>	<u>21,839,509</u>	<u>98.5</u>
INCREASE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	<u>\$ 56,917</u>	<u>0.2</u>	<u>\$ 329,565</u>	<u>1.5</u>

See accompanying notes to the financial statements.

SOUTHEAST, INC.

STATEMENT OF ACTIVITIES

(With summarized parent-only financial information for the year ended June 30, 2005)

	FOR THE YEARS ENDED JUNE 30,			
	2006	%	2005	%
INCREASE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	\$ 56,917	0.2	\$ 329,565	1.5
OTHER CHANGES:				
Other income (expense)				
Interest and dividend income	339,536	1.4	190,790	0.9
Unrealized and realized gains on investments	182,350	0.8	149,192	0.7
Contributions	24,607	0.1	6,669	-
Special events, net	19,144	0.1	6,584	-
Other income	662,081	2.7	59,697	0.3
Rental income	63,025	0.3	77,075	0.3
Net assets released from restriction	147,561	0.6	-	-
Rental expenses	(303,052)	(1.3)	(265,753)	(1.2)
	<u>1,135,252</u>	<u>4.7</u>	<u>224,254</u>	<u>1.0</u>
INCREASE IN UNRESTRICTED NET ASSETS	1,192,169	4.9	553,819	2.5
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	34,543	0.2	-	-
Net assets released from restriction	(147,561)	(0.6)	-	-
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(113,018)</u>	<u>(0.4)</u>	<u>-</u>	<u>-</u>
INCREASE IN NET ASSETS	1,079,151	<u>4.5</u>	553,819	<u>2.5</u>
NET ASSETS, beginning of year	<u>15,408,224</u>		<u>14,854,405</u>	
NET ASSETS, end of year	<u>\$ 16,487,375</u>		<u>\$ 15,408,224</u>	

See accompanying notes to the financial statements.

SOUTHEAST, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006

(With summarized parent-only financial information for the year ended June 30, 2005)

	Clinical Services	Housing	Vocational	Pharmacy	Prevention/ Education	Total Program	General and Administrative	Rental Operations	2006 Total Expenses	2005 Total Expenses
Salaries and benefits	\$ 8,598,369	\$ 1,367,010	\$ 525,772	\$ 498,964	\$ 785,634	\$ 11,775,749	\$ 908,946	\$ -	\$ 12,684,695	\$ 11,064,240
Contract services	563,349	200,324	3,091	3,080	175,787	945,631	11,001	-	956,632	973,181
Computer expenses	98,474	17,669	6,813	15,019	2,055	140,030	12,172	-	152,202	143,893
Operating supplies and expenses	1,181,466	332,979	140,614	145,575	132,114	1,932,748	160,641	-	2,093,389	1,720,776
Office expenses	289,207	26,393	11,637	17,153	1,223	345,613	21,739	-	367,352	263,776
Cost of goods sold - Pharmacy	-	-	-	5,901,709	-	5,901,709	-	-	5,901,709	5,779,241
Mileage/transportation	263,511	13,526	18,237	381	28,550	324,205	414	-	324,619	250,250
Building & grounds	635,239	162,711	40,539	9,893	34,454	882,836	13,360	167,445	1,063,641	1,009,300
Interest	40,305	5,045	6,091	700	559	52,700	605	20,206	73,511	112,903
Insurance expense	147,001	22,553	8,674	3,090	12,962	194,280	69,141	55,912	319,333	296,596
Other expenses	83,441	19,068	2,523	30	7,510	112,572	19,464	72	132,108	134,954
Subtotal	11,900,362	2,167,278	763,991	6,595,594	1,180,848	22,608,073	1,217,483	243,635	24,069,191	21,749,110
Depreciation	248,851	19,738	27,664	8,944	2,645	307,842	18,396	59,417	385,655	356,152
Totals	\$ 12,149,213	\$ 2,187,016	\$ 791,655	\$ 6,604,538	\$ 1,183,493	\$ 22,915,915	\$ 1,235,879	\$ 303,052	\$ 24,454,846	\$ 22,105,262

See accompanying notes to the financial statements.

SOUTHEAST, INC.

STATEMENT OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(With summarized parent-only financial information for the year ended June 30, 2005)

	FOR THE YEARS ENDED JUNE 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,079,151	\$ 553,819
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	385,655	356,152
Unrealized and realized gains on investments, net	(182,350)	(149,192)
Forgiveness of advance from State of Ohio	(19,381)	(10,097)
(Increase) decrease in:		
Accounts receivable	(682,287)	(727,605)
Inventory	473	12,158
Other current assets	(25,536)	75,780
Increase (decrease) in:		
Accounts payable	(80,729)	3,220
Accrued expenses and taxes	208,087	149,520
Amounts held in trust	213,420	62,052
Medicaid reconciliation payable	(6,095)	-
Deferred revenue	(621,721)	625,897
NET CASH PROVIDED BY OPERATING ACTIVITIES	268,687	951,704
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(240,227)	(677,342)
Proceeds from sale of investments	4,302,097	345,774
Purchase of artwork	-	(75,847)
Purchase of investments	(5,198,947)	(483,133)
NET CASH USED IN INVESTING ACTIVITIES	\$ (1,137,077)	\$ (890,548)

See accompanying notes to the financial statements.

SOUTHEAST, INC.

STATEMENT OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(With summarized parent-only financial information for the year ended June 30, 2005)

	FOR THE YEARS ENDED JUNE 30,	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	\$ (1,334,571)	\$ (98,382)
Principal payments on capital lease obligations	<u>(38,155)</u>	<u>(24,030)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(1,372,726)</u>	<u>(122,412)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,241,116)	(61,256)
CASH AND CASH EQUIVALENTS, beginning of year	<u>7,259,097</u>	<u>7,320,353</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,017,981</u>	<u>\$ 7,259,097</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest	<u>\$ 73,511</u>	<u>\$ 112,903</u>
----------	------------------	-------------------

SUPPLEMENTAL DISCLOSURES OF NON CASH INVESTING AND FINANCING TRANSACTIONS

During fiscal year 2005, Southeast, Inc. acquired two facilities through the assumption of the remaining mortgage liability of approximately \$281,000 due to the Ohio Department of Mental Health.

During fiscal year 2006, Southeast, Inc. entered into a new capital lease for \$106,930 for office equipment.

See accompanying notes to the financial statements.

SOUTHEAST, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - Summary of significant accounting policies

Organization

Southeast, Inc. is a non-profit Ohio corporation organized to develop and administer a comprehensive mental health and behavioral healthcare recovery service system in Franklin County, Ohio.

In March 2004, Southeast, Inc. received their second accreditation from the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO). The JCAHO accreditation is one way Southeast, Inc. shows its commitment to the quality improvement of its services to the Central Ohio community.

Southeast, Inc. also operates a pharmacy (Apothecare) located in the Southeast, Inc. owned building at 131 N. High Street. Southeast, Inc. operates Apothecare as a specialty pharmacy to serve people with cognitive and/or other mental dysfunctions.

In November 2003, the Organization became the sole member of Cornerstone Support Services, Inc. Cornerstone Support Services, Inc., provided services to mental health consumers located in New Philadelphia and Carrollton, Ohio and was a wholly-owned subsidiary that would normally have been consolidated with Southeast, Inc. in accordance with generally accepted accounting principles. However, the reporting unit for single audit purposes determined by OMB Circular A-133 regulations supersedes the reporting unit determined by generally accepted accounting principles. As a result, Cornerstone Support Services, Inc. operations were not consolidated with Southeast, Inc., and the financial statements for the year ended June 30, 2005 only reported on the operations of the parent corporation.

On April 11, 2005, Southeast, Inc. purchased substantially all the assets and assumed certain liabilities of Cornerstone Support Services, Inc. As a result, the operations of what was formerly Cornerstone Support Services, Inc. are included in these financial statements for the periods after April 11, 2005. As a part of the purchase, Southeast gave up its control of Cornerstone Support Services, Inc. at which time the parent-subsiary relationship of the two corporations ceased.

Net asset categories

Classification of Southeast, Inc.'s net assets, its revenues and expenses, and gains and losses is based on the existence or absence of donor-imposed restrictions. Unrestricted net assets include all resources over which the Board of Trustees has discretionary control to use in carrying on the operations of Southeast, Inc. in accordance with the limitation of its constitution and bylaws, except those required to be accounted for in another fund. Southeast, Inc. reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets.

Support and revenues

The Organization's support is generally derived from Federal, state, county and local sources and is recorded as income when the related services are billed and accepted by the funder. In some cases, because of the billing and adjudication process, revenue may be recognized in a month subsequent to the actual delivery of service. Southeast, Inc. contracts with the Franklin County Alcohol, Drug Addiction and Mental Health Services Board (ADAMH), whereby it receives funds based on hours of mental health and other services and programs provided (purchase-of-service) and also receives various block grants that are passed through the ADAMH Board. Southeast receives Title XIX (Medicaid) funds through ADAMH, which receives the funds from the Ohio Department of Mental Health (ODMH) and the Ohio Department of Alcohol and Drug Addiction Services (ODADAS).

SOUTHEAST, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - Summary of significant accounting policies

Support and revenues

Revenues allocated to and passed through ADAMH represent approximately 49% of the Organization's total operating revenues and support. A significant reduction in the level of this support, if this were to occur, would have a significant effect on Southeast, Inc.'s programs and activities.

Client fees have been recognized, net of contractual allowances, as revenue during the period when the related services are provided, based on billings.

Special events

Special events revenue is shown net of direct fundraising event costs (\$29,836 for the year ended June 30, 2006).

Donor-imposed restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Amounts held in trust

Southeast, Inc. maintains a custodial bank account on behalf of clients who are unable to manage their own funds. This custodial liability, which totaled \$502,096 at June 30, 2006, accounts for cash held on behalf of, and owned by, others, and is included in "Amounts held in trust." The remaining balance of \$5,629 represents tenant deposits.

Income taxes

Southeast, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Rental operations are taxable as unrelated business income. No income tax was due at June 30, 2006.

Statement of functional expenses

Indirect expenses are allocated to the various program services based on full-time equivalents assigned to the programs.

Concentration of credit risk

Southeast, Inc.'s financial instruments that are exposed to concentrations of credit risk consist primarily of uninsured money market and mutual fund investments (See Note B), accounts receivable (Note C), and its cash in bank. Southeast, Inc.'s cash is deposited in large FDIC insured banks. This limits Southeast, Inc.'s exposure to concentrations of credit risk in relation to cash; however, from time to time deposits do exceed the FDIC insured limit of \$100,000.

Cash and cash equivalents

For purposes of the statement of cash flows, Southeast, Inc. considers cash and cash equivalents to be financial institution checking, savings and overnight sweep concentration accounts.

SOUTHEAST, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - Summary of significant accounting policies

Allowance for doubtful accounts

Southeast, Inc. reports receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to not be collectible, they are written off through a charge against an existing allowance account or against earnings.

Inventory

Inventory consists of medications recorded at the lower of cost or market using the first-in, first-out method.

Property and equipment

Property and equipment is recorded at cost if purchased or fair value if contributed. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets ranging from three to thirty years with a pro-rata partial year of depreciation being recorded in the year of acquisition. Southeast, Inc. does not assign time restrictions on the use of donated property and equipment unless a donor stipulates how long a contributed asset must be used.

The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized. Deductions are made for retirements resulting from renewals or betterments.

Artwork

Southeast, Inc. capitalizes its collectible artwork in conformity with Statement of Financial Accounting Standards No. 116. If purchased, artwork is recorded at cost. If donated, artwork is capitalized at its fair value at time of donation. Gains or losses on the disposal of artwork items is classified on Statement of Activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at time of donation.

Comparative amounts

The parent-only report amounts shown for 2005 in the accompanying financial statements are included to provide a basis for comparison with 2006 and are not intended to present all information necessary for a fair presentation of the 2005 financial statements in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Southeast, Inc.'s audited financial statements (parent-only report) for the year ended June 30, 2005, from which the summarized information was derived.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

SOUTHEAST, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE B - Investments

Southeast, Inc. has monies invested in various money market and uninsured mutual funds which are stated at market in accordance with Statement of Financial Accounting Standards No. 124. Investment income and realized and unrealized gains and losses on investments are recorded as increases or decreases in unrestricted net assets. Investments are composed of the following at their fair values at June 30, 2006:

Money market	\$ 2,031,454
Equity mutual funds	3,639,806
Bond mutual funds	<u>578,791</u>
	\$ <u>6,250,051</u>

NOTE C - Accounts receivable

Accounts receivable consists of the following at June 30, 2006:

Franklin County ADAMH Board	\$ 2,655,265
Apothecare (predominately Medicaid)	992,660
Other grants and contracts	385,982
ODMH Out of County	184,470
Client and third party fees	25,266
Other, employees	6,646
Other	<u>53,344</u>
	\$ <u>4,303,633</u>

Accounts receivable for client fees, third party and Medicaid are recorded as the portion of actual billings expected to be realized. Therefore, no separate allowance for uncollectible accounts has been recorded as it is considered immaterial to the financial statements.

NOTE D - Property and equipment

Property and equipment consists of the following at June 30, 2006:

Land	\$ 10,000
Depreciable assets:	
Buildings and improvements	5,431,020
Vehicles	205,164
Software	380,457
Furniture	120,028
Leased equipment	217,181
Equipment	<u>466,136</u>
	6,829,986
Less: accumulated depreciation	<u>3,548,043</u>
	\$ <u>3,281,943</u>

One of the buildings that Southeast, Inc. owns is a 66,000 square foot building located at 131 North High Street in Columbus. Southeast, Inc. occupies approximately 69% of this building and the remainder is leased or available for lease.

SOUTHEAST, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE D - Property and equipment

Minimum future rentals to be received on non-cancelable leases having terms in excess of one year as of June 30, 2006 for the remainder of the lease terms are as follows:

<u>Fiscal Year Ending June 30,</u>	
2007	\$ 47,509
2008	52,957
2009	54,497
2010	4,235
	<u>\$ 159,198</u>

Capital leases

The Organization is the lessee of office equipment under capital leases expiring in 2011. The assets and liabilities under these capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over their estimated useful lives. Depreciation of assets held under capital leases is included in depreciation expense.

Following is a summary of office equipment held under the capital leases which are included in "Property and equipment" on the balance sheet:

Equipment cost	\$ 106,930
Less: accumulated depreciation	<u>16,040</u>
	<u>\$ 90,890</u>

Minimum future lease payments under these capital leases as of June 30, 2006 for the remainder of the lease terms are as follows:

<u>Fiscal Year Ending June 30,</u>	
2007	\$ 26,292
2008	26,292
2009	26,292
2010	26,292
2011	6,573
Total minimum lease payments	<u>111,741</u>
Less: amount representing interest (8.44%)	<u>18,128</u>
Present value of net minimum lease payments	93,613
Less: current portion	<u>19,115</u>
Long-term portion	<u>\$ 74,498</u>

SOUTHEAST, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE E - Notes payable

Notes payable consisted of the following as of June 30, 2006:

Mortgage loan from a bank with interest at 7.65%, original amount \$1,790,575, maturing September 30, 2014. The loan was payable in monthly installments of \$16,865 including interest. This loan was collateralized by a first mortgage and assignment of rents on property located at 131 North High Street in Columbus. This loan was paid off in February of 2006.	\$ -
Advances from State of Ohio (ODMH)(Note G)	<u>389,665</u>
	<u>389,665</u>
Less: current portion	<u>19,381</u>
Long-term portion	<u>\$ 370,284</u>

The aggregate maturities of long-term debt through maturity are as follows:

<u>Fiscal years ending June 30,</u>	
2007	\$ 19,381
2008	19,381
2009	19,381
2010	19,381
2011	19,381
Thereafter	<u>292,760</u>
	<u>\$ 389,665</u>

NOTE F - Commitments

Southeast, Inc. leased office space under operating leases expiring in 2006. Parking space is rented on a month-to-month basis. Expenses related to those leases consist of the following for the year ended June 30, 2006:

Office space	\$ 135,790
Parking space	<u>254,165</u>
	<u>\$ 389,955</u>

In addition, Southeast, Inc. leases four parcels of land at its 131 North High Street location. These leases have ninety-nine year lease terms and are renewable indefinitely. Land lease expense associated with these leases was \$49,900 for the year ended June 30, 2006.

SOUTHEAST, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE F - Commitments

Minimum future rental payments under non-cancelable operating leases for office space and equipment with terms in excess of one year as of June 30, 2005 for each of the next five years are as follows:

<u>Fiscal Years Ending June 30,</u>	
2007	\$ 134,593
2008	134,222
2009	130,142
2010	130,142
2011	49,900
	<u>\$ 578,999</u>

NOTE G - Advances from State of Ohio (ODMH)

In order to finance the purchase of operating facilities located at 1455 South Fourth Street in 1986, Southeast, Inc. received advances from ODMH totaling \$251,510.

Southeast, Inc.'s liability for these advances is being forgiven in 480 equal monthly amounts as long as the facilities are used to provide mental health care services, pursuant to the contract. As a result, Southeast, Inc. recognized \$6,288 as support in the year ending June 30, 2006. The remaining liability is included in notes payable (See Note E).

In March 2005, when Southeast, Inc. purchased a facility located at 1989 West Broad Street, Southeast, Inc. also assumed the related mortgage from ODMH. The remaining balance as of March 2005 was \$96,693. The remaining balance is being forgiven in equal monthly amounts through April 2019 as long as the facilities are used to provide mental health care services, pursuant to the contract. As a result, Southeast, Inc. recognized \$6,358 as support in the year ending June 30, 2006, the remaining liability is included in notes payable (see Note E).

In April 2005, when Southeast, Inc. purchased the assets of Cornerstone Support Services, Inc., Southeast, Inc. also assumed the related mortgage from ODMH for the facility located at 344 West High Avenue, New Philadelphia, Ohio. The remaining balance as of April 2005 was \$184,648. The remaining balance is being forgiven in 329 equal monthly amounts through September 1, 2032 as long as the facilities are used to provide mental health care services, pursuant to the contract. As a result, Southeast, Inc. recognized \$6,735 as support for the three months ending June 30, 2006, the remaining liability is included in notes payable (see Note E).

NOTE H - Retirement plan

Southeast, Inc. has a 401(k) defined contribution retirement plan for substantially all employees. Retirement plan expenses included in the statement of activities were \$139,872 for the year ended June 30, 2006.

In fiscal year 2003, Southeast, Inc. established a 457 (b) top hat plan. The purpose of the plan is to provide deferred compensation payments for a select group of management. Southeast, Inc. has not made contributions to this plan through June 30, 2006.

SOUTHEAST, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE I - Net assets

Designated net assets

The Board of Trustees has designated certain net assets to be used for employee scholarships, the "Capital Campaign" and risk management. The "Scholarship Fund" represents resources that are to be used for scholarships to employees taking accredited courses directly applicable to their professional employment or development plans at Southeast, Inc. The "Capital Campaign Fund" represents resources that are to be used towards reducing/eliminating the mortgage debt on the property at 131 North High Street, this fund was eliminated in 2006 when the mortgage loan on the property at 131 North High Street was paid off. The "Risk Management Fund" represents resources that are reserved to manage the risk associated with providing services funded by multiple revenue streams, which may prove to be inadequate to cover the cost associated with uncompensated care. In addition, funds are set aside to allow for successful transitions to newly mandated funding mechanisms.

Activity in designated net assets for the year ending June 30, 2006 is summarized as follows:

	Scholarship Fund	Capital Campaign	Risk Management Fund	Total Designated Net Assets
Balances, June 30, 2005	\$ 257,225	\$ 875,700	\$2,033,173	\$3,166,098
2006 Payoff mortgage	-	(899,585)	-	(899,585)
2006 Scholarship expenditures	(23,923)	-	-	(23,923)
2006 Contributions	1,000	-	-	1,000
2006 Board designation	25,000	-	-	25,000
2006 Investment income	<u>4,901</u>	<u>23,885</u>	<u>-</u>	<u>28,786</u>
Balances, June 30, 2006	<u>\$ 264,203</u>	<u>\$ -</u>	<u>\$2,033,173</u>	<u>\$2,297,376</u>

Temporarily restricted net assets

Temporarily restricted net assets at the beginning of the fiscal year were all restricted to the Capital Campaign. These restrictions were released in the current year when the funds were used to retire mortgage debt. All temporarily restricted net assets at June 30, 2006 are restricted to funding the Fresh A.I.R. Gallery and homeless populations.

NOTE J - Contingent liabilities

Southeast, Inc. is subject to several claims and lawsuits arising out of the provision of its services. In the opinion of management, all matters are adequately covered by insurance or, if not covered, are without merit and/or involve such amounts as would not have a material effect on the financial position of Southeast, Inc. if disposed of unfavorably.

SOUTHEAST, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE K - Subsequent acquisition

Effective June 20, 2006, the Organization entered into a Membership Acquisition Agreement with Friends of the Homeless, Inc., a multi-service agency serving homeless individuals and families in Central Ohio. In the agreement, upon closing, in addition to becoming the sole member of the corporation, Southeast, Inc. obtains the right to transfer facilities, contracts, and accounts receivable to Southeast, Inc. at closing or anytime thereafter. The agreement states Southeast, Inc. has the choice to assume some of the liabilities of Friends of the Homeless, Inc. and any liabilities not assumed will remain obligations of Friends of the Homeless, Inc. The membership acquisition closed subsequent to June 30, 2006, and no assets or liabilities of Friends of the Homeless, Inc. were transferred to Southeast, Inc. through that date.

The summarized June 30, 2006 financial position of Friends of the Homeless, Inc., derived from its own June 30, 2006 financial statements is as follows:

<u>Assets</u>		<u>Liabilities and Net Assets</u>	
Current assets	\$ 99,918	Current liabilities	\$ 377,757
Property and equipment, net	797,571	Long-term liabilities	248,534
Other assets	1,200	Net assets	272,398
	<u>\$ 898,689</u>		<u>\$ 898,689</u>

SOUTHEAST, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services: Passed through the Ohio Department of Mental Health and the Franklin County ADAMH Services Board: Medical Assistance Program (Medicaid; Title XIX)	93.778	\$ 3,062,236
Passed through the Ohio Department of Alcohol and Drug Addiction Services and the Franklin County ADAMH Services Board: Medical Assistance Program (Medicaid; Title XIX)	93.778	85,267
Passed through various – Out of County Medicaid: Medical Assistance Program (Medicaid; Title XIX)	93.778	<u>577,264</u>
Subtotal Medical Assistance Program		3,724,767
Passed through the Ohio Department of Mental Health and the Franklin County ADAMH Services Board: Children’s Insurance Program	93.767	22,080
Passed through the Ohio Department of Mental Health and the Franklin County ADAMH Services Board: Project for Assistance in Transition from Homeless (PATH)	93.150	307,790
Passed through the Ohio Department of Health: Ryan White Federal HIV Care	93.917	122,990
Passed through the City of Columbus Health Department Healthy Relationships	93.914	34,125
Passed through Columbus Children's Hospital Coordinated HIV Care (FACES)	93.153	9,237
Passed through the Ohio Development Disabilities Council Portfolio Project	93.630	5,000
Passed through the Ohio Department of Mental Health and the Lorain County Board of Mental Health: Wellness Management and Recovery	93.958	\$ 346,200

See accompanying independent auditors' report.

SOUTHEAST, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Passed through the Franklin County Job and Family Services: TANF (Prevention, Retention, Contingency Services)	93.558	\$ 435,020
Passed through the Ohio Department of Alcohol and Drug Addiction Services and the Franklin County ADAMH Services Board: Block Grant for Prevention and Treatment of Substance Abuse	93.959	30,562
Substance Abuse and Mental Health Services Administration (SAMHSA) Rebuilding Lives	93.230	737,235
Act Outreach	93.243	<u>317,159</u>
Total U.S. Department of Health and Human Services		<u>6,092,165</u>
U.S. Department of Justice: Passed through the Franklin County Commissioners: Violence Against Women Formula Grant (Stalking Victims Grant)	16.588	<u>32,911</u>
Total U.S. Department of Justice		<u>32,911</u>
U.S. Department of Housing and Urban Development: Passed through City of Columbus Department of Development: Home Assistance Funds	14.239	<u>151,975</u>
Total U.S. Department of Housing and Urban Development		<u>151,975</u>
Total Expenditures of Federal Awards		<u>\$ 6,277,051</u>

Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southeast, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. Medicaid expenditures reflect net Medicaid revenues, also accounted for on an accrual basis. Medicaid payments of \$5,697,303 to Southeast, Inc. for filling pharmacy subscriptions to Medicaid eligible individuals are not considered Federal awards, therefore, these payments have been excluded from the schedule of expenditures of federal awards.

See accompanying independent auditors' report.

AGENCY REVENUE (All Services)

Budget Actual

Agency Name: SOUTHEAST, INC

Executive Director: SANDY STEPHENSON

Agency UPI#: 06723

Agency Phone #: 614-225-0980

Reporting Period:
From: July 1, 2005
To: June 30, 2006

1. Revenue Source	H0001 AD Assessment	H0006 AD Case Mgt.	H0007 AD Crisis Intervention	H0005 AD Grp Counseling	H0004 AD Ind Counseling	H0016 AD Medical Somatic	A0520 AD Education	A0621 AD TANF	90862 MH Pharm. Mgt.	H0031 MH Mental Health Assessment	90801 MH Psychiatric Diag. Interview
ADAMH Non-Medicaid Claims	54,528	29,467	685	155,968	21,291	2,990			869,158	151,761	30,541
ADAMH Block Grants (Identify by program):											
(1) AD PREVENTION CBA							30,562				
(2) MH PREVENTION - ADULT											
(3) MH SMD (CNTY LVS SP)											
(4) MH SMD (Briggsdale)											
(5) MH Tx SMD (Act)											
(6) MH FLEX FUND (T3 SMD)											
(7) AD Adult (T6-TANF)								171,210			
Other ADAMH Funds (Identify):											
Incentive Funds											
ADAMH/ODMH - Central Pharmacy											
Other (1) Other ADAMH											
Other (2)											
Total Federal Medicaid FFP											
Total Franklin County ADAMH -- Allocation Contract Amount	54,528	29,467	685	155,968	21,291	2,990	30,562	171,210	869,158	151,761	30,541
Medicaid - MH											
Medicaid - AD	17,419	30,045	76	82,672	12,305	664			1,390,167	229,327	34,639
Total Franklin County Medicaid	17,419	30,045	76	82,672	12,305	664			1,390,167	229,327	34,639
Other Provider Funding											
General Assistance	8,950			4,072	215				164,550	36,894	8,150
1st/3rd Party Fees	1,974			1,000					12,266	30,439	
Other - External Revenue (list):											
(1) FCCS Revenue										12,992	
(2) United Way Revenue					6,850		6,334	436,250	57,580	20,235	
(3) Contracts											
(4) Pharmacy Sales											
(5) SAMHSA									202,500	82,500	
Other Provider Funding											
<i>Out of County Medicaid</i>	108			447	895				180,662	14,806	3,193
Total Other Provider Funding	11,032			5,519	7,960		6,334	436,250	612,558	197,866	11,343
GRAND TOTAL REVENUES	82,979	59,512	761	244,159	41,556	3,654	36,896	607,460	2,871,883	578,954	76,523
TOTAL EXPENSES from UCR-047(s)	96,707	60,704	1,286	246,743	48,090	4,025	39,895	757,090	2,887,655	584,993	79,834
Operating Profit/Loss	-13,728	-1,192	-525	-2,584	-6,534	-371	-1,999	-149,630	-15,772	-6,039	-2,311

See accompanying independent auditors' report.

AGENCY REVENUE (All Services) [FCADAMH-FIS-052AS
 Agency Name: SOUTHEAST, INC Reporting Period: July 1, 2005
 Agency UPL#: 06723 From: June 30, 2006
 Address: 16 W. LONG ST. COL, OH 43215 To:

1. Revenue Source	H0004 MH BH Couns. & Therapy (Ind.)	H0004 MH BH Couns. & Therapy (Grp.)	S9484 MH Crisis Intervention	H0036 MH Comm Psych Spgt.Tx (Ind.)	H0036 MH Comm Psych Spgt.Tx (Grp.)	M4120 MH Consultation	M1620 MH Employment	M1621 MH Employment CLS	M4140 MH Education	M3140 MH Other Serv NON_HC	M4141 MH Education Health Relations
ADAMH Non-Medicaid Claims	130,957	262,684	5,880	1,284,343	23,811		533,219			760,281	
ADAMH Block Grants (Identify by program):											
(1) AD PREVENTION C&A									19,837		
(2) MH PREVENTION - ADULT								144,640			
(3) MH SMD (CHTY LVS SP)				218,769							
(4) MH SMD (Briggsdale)											
(5) MH TX SMD (Act)											
(6) MH FLEX FUND (T3 SMD)											
(7) AD Adult (T6-TANF)											
Other ADAMH Funds (Identify):											
Incentive Funds											
ADAMH/ODMH Central Pharmacy											
Other (1) Other ADAMH											
Other (2)											
Total Federal Medicaid FFP											
Total Franklin County ADAMH -- Allocation Contract Amount	130,957	262,684	5,880	1,503,112	23,811		533,219	144,640	19,837	760,281	
Medicaid - MH	329,244	232,215	4,197	2,698,791	82,787						
Medicaid - AD	329,244	232,215	4,197	2,698,791	82,787						
Total Franklin County Medicaid											
Other Provider Funding											
General Assistance	47,998	14,761		71,651							
1st/3rd Party Fees	6,450	20,115									
Other External Revenue (list):											
(1) FCCS Revenue		32,625									
(2) United Way Revenue	2,850	45,608		115,894	5,100		153,592				32,040
(3) Contracts											
(4) Pharmacy Sales	36,220	35,180		617,994							
(5) SAMHSA											
Other Provider Funding											
Out of County Medicaid	91,461	1,194		661,444							
Total Other Provider Funding	184,979	149,483		1,465,963	5,100		153,592				32,040
GRAND TOTAL REVENUES	645,180	644,392	10,077	5,668,886	111,698		686,811	144,640	19,837	760,281	32,040
TOTAL EXPENSES from UCR-047(S)	649,184	647,559	11,458	5,673,478	113,836	537	676,501	115,154	22,436	884,948	56,087
Operating Profit/Loss	-4,004	-3,177	-1,381	-4,592	-2,138	-537	10,310	29,486	-2,599	-124,667	-24,047

See accompanying independent auditors' report.

AGENCY REVENUE (All Services)

Agency Name: SOUTHEAST, INC
 Agency UPI#: 06723
 Address: 16 W. LONG ST. COL, OH 43215

From: July 1, 2005
 To: June 30, 2006

1. Revenue Source	M2200 MH Residential Care	M2201 MH Residential Care	M2202 MH Residential Care	MH CCOE	M3142 MH OTHER Briggsdale	M3143 MH OTHER Supported Services	MH OTHER CP	M3145 MH Other Serv FLEX FUNDS	NON ODMH/ODADAS Services	3. TOTAL
ADAMH Non-Medicaid Claims	868,595	266,310	323,247							5,775,716
ADAMH Block Grants (Identify by program):										
(1) AD PREVENTION C&A										30,562
(2) MH PREVENTION - ADULT										19,874
(3) MH SMD (CMTY LVG SP)										144,640
(4) MH SMD (Briggsdale)					50,541					50,541
(5) MH Tx SMD (AET)								88,241		88,241
(6) MH FLEX FUND (T3 SMD)										171,210
(7) AD Adult (TG-TANF)										
Other ADAMH Funds (Identify):										
Incentive Funds										
ADAMH/ODMH Central Pharmacy							532,771			532,771
Other (1) Other ADAMH		35,148								35,148
Other (2)										
Total Federal Medicaid FFF										
Total Franklin County ADAMH -- Allocation Contract Amount	868,595	301,458	323,247		50,541		532,771	88,241		7,067,472
Medicaid - MH										5,001,367
Medicaid - AD										143,181
Total Franklin County Medicaid										5,144,548
Other Provider Funding										
General Assistance								100,228		457,469
1st/3rd Party Fees	28,347	8,515	22,078							131,184
Other External Revenue (list):										
(1) FCCS Revenue								34,569		80,186
(2) United Way Revenue										
(3) Contracts					346,200					1,723,025
(4) Pharmacy Sales										7,435,553
(5) SAMHSA										1,074,495
Other Provider Funding										1,465,855
Out of County Medicaid										954,210
Total Other Provider Funding	28,347	8,515	22,078	346,200				9,635,798		13,321,977
GRAND TOTAL REVENUES	896,942	309,973	345,325	346,200	50,541		532,771	88,241	9,635,798	25,533,997
TOTAL EXPENSES from UCR-047(s)	1,047,790	459,951	338,469	392,699	50,541		532,771	88,241	7,853,655	24,454,846
Operating Profit/Loss	-150,848	-149,978	6,856	-46,499			-34,529		1,782,143	1,079,151

See accompanying independent auditors' report.

SOUTHEAST, INC.

ADAMH KEY PERFORMANCE INDICATORS

FOR THE YEAR ENDED JUNE 30, 2006

(With Comparative Parent-Only Totals for the Year Ended June 30, 2005)

			<u>2006</u>	<u>2005</u>
1. <u>Current Ratio:</u>				
	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{15,795,519}{2,221,152}$	= 7.11	6.15
2. <u>Debt to Equity Ratio:</u>				
	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	$\frac{2,665,934}{16,487,375}$	= 0.16	0.28
3. <u>Administrative Costs to Expense:</u>				
	$\frac{\text{Total Administrative Costs}}{\text{Total Expenses}}$	$\frac{1,235,879}{24,454,846}$	= 0.05	0.05
4. <u>Total Revenue to Total Expenses:</u>				
	$\frac{\text{Total Revenue}}{\text{Total Expenses}}$	$\frac{25,533,997}{24,454,846}$	= 1.04	1.03
5. <u>Fund Balance Reserve Ratio:</u>				
	$\frac{\text{Total Fund Balance}}{\text{Total Expenses / 12}}$	$\frac{16,487,375}{2,037,904}$	= 8.09	8.36
6. <u>Percent of ADAMH Funding:</u>				
	$\frac{\text{Total Revenue from ADAMH (including Medicaid)}}{\text{Total Revenue}}$	$\frac{12,545,189}{25,533,997}$	= 0.49	0.54

See accompanying independent auditor's report.

SOUTHEAST, INC.

**AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

The prior year audit disclosed no findings and questioned costs relative to the federal awards, and no uncorrected or unresolved findings exist from the prior audit's Summary Schedule of Prior Audit Findings.

Columbus Office

300 Spruce Street
Suite 250

Columbus, Ohio 43215

(614) 488-3126

fax (614) 488-0095

www.SSandG.com

**INDEPENDENT AUDITORS' 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***

The Board of Trustees
Southeast, Inc.

We have audited the financial statements of Southeast, Inc. as of and for the year ended June 30, 2006, and have issued our report thereon dated November 20, 2006. 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 Southeast, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast, Inc.'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*.

*Providing the
services that
bring solutions.*

member of:
OSCPA, PCAOB, the AICPA's
Center for Public Company
Audit Firms, and The Leading
Edge Alliance.

INDEPENDENT AUDITORS' 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*

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, 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.

SS&G Financial Services, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Columbus, Ohio
November 20, 2006

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

Columbus Office

300 Spruce Street

Suite 250

Columbus, Ohio 43215

(614) 488-3126

fax (614) 488-0095

www.SSandG.com

The Board of Trustees
Southeast, Inc.

Compliance

We have audited the compliance of Southeast, 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, 2006. Southeast, Inc.'s major federal programs are identified in the summary of auditors' 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 Southeast, Inc.'s management. Our responsibility is to express an opinion on Southeast, 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 Southeast, 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 Southeast, Inc.'s compliance with those requirements.

In our opinion, Southeast, 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, 2006.

*Providing the
services that
bring solutions.*

member of:
OSCPA, PCAOB, the AICPA's
Center for Public Company
Audit Firms, and The Leading
Edge Alliance.

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

Internal Control Over Compliance

The management of Southeast, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Southeast, Inc.'s internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, 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.

SS&G Financial Services, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Columbus, Ohio
November 20, 2006

SS&G *Financial Services*
Certified Public Accountants & Advisers

www.SSandG.com

SOUTHEAST, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2006

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Reportable conditions identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Reportable conditions identified that are not considered to be material weaknesses? Yes None Reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.778	Medical Assistance Program (Medicaid; Title XIX)
93.243	Substance Abuse and Mental Health Services Administration - ACT Outreach
93.958	Wellness Management and Recovery

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

Auditee qualified as low-risk auditee? Yes No

SOUTHEAST, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2006

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS:

There were no findings required to be reported in accordance with generally accepted *Government Auditing Standards*.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

There were no findings or questioned costs for Federal awards for the year ended June 30, 2006.

SOUTHEAST, INC.

AUDITEE'S CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2006

No corrective action plan is required as there are no current year audit findings or questioned costs.