

**MUSKOGEE ORGANIZATION FOR NARCOTIC AND
ALCOHOL REFERRAL COUNSELING AND HELP, INC.**

(MONARCH, INC.)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2012



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Muskogee Organization for Narcotic and Alcohol
Referral Counseling and Help, Inc.

We have audited the accompanying statement of financial position of The Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc. (MONARCH, INC.) (a nonprofit organization) as of June 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of MONARCH'S management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 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 MONARCH, INC. as of June 30, 2012, and the changes in its net assets and 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 September 12, 2012, on our consideration of MONARCH'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.

The budgetary comparison information on pages 16 and 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of MONARCH, INC. taken as a whole. The accompanying schedule of expenditures of federal and state awards on page 15 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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 and state awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company CPA's
September 12, 2012

Monarch, Inc.

STATEMENT OF FINANCIAL POSITION

For the Year Ending June 30, 2012

ASSETS

Current Assets:

Cash and cash equivalents	\$ 273,556
Accounts receivable (net allowance)	168,080
Prepaid expenses	<u>16,572</u>
Total Current Assets	458,208

Fixed Assets:

Land	61,622
Building and improvements	1,018,250
Furniture and fixtures	320,676
Vehicles	100,980
Loan Costs - LOC	<u>3,660</u>
Total Property and Equipment	1,505,188
Less: Accumulated Depreciation	(855,099)
Accumulated Amortization	<u>(1,373)</u>
Total Fixed Assets	<u>648,716</u>
Total Assets	<u><u>\$ 1,106,924</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 44,810
Accrued salaries and wages	9,360
Accrued vacations	52,000
Accrued expenses	<u>15,599</u>
Total Current Liabilities	121,769

Long Term Liabilities:

Notes Payable	<u>0</u>
Total Liabilities	<u><u>121,769</u></u>

Net Assets:

Unrestricted	985,155
Temporarily restricted	0
Restricted	<u>0</u>
Net Assets	<u>985,155</u>

Total Liabilities and Net Assets	<u><u>\$ 1,106,924</u></u>
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See accompanying notes and independent auditors' report.

Monarch, Inc.
STATEMENT OF ACTIVITIES
For the Year Ending June 30, 2012

SUPPORT AND REVENUE

Support:

Contracts	\$ 1,877,751
Donations	22,934
Food stamp income	131,924
Total Support	<u>2,032,609</u>

Revenue:

Interest income	1,174
Insure Oklahoma	27,325
Employment Services Income	110,572
Other income	10,616
Total Revenue	<u>149,687</u>

Total Revenue and Support	<u>2,182,296</u>
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EXPENSES

Program Services:

Personnel Expense	1,390,426
Direct Program Costs	183,465
Contract Services	55,610
Occupancy & Maintenance	164,095
Administrative & Office Expenses	147,955
Transportation Expense	20,174
Total Program Services	<u>1,961,725</u>

Support Services:

General and administrative	197,584
Total Support Services	<u>197,584</u>

Total Expenses	<u>2,159,309</u>
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Changes in Unrestricted Net Assets	22,987
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Changes in Temporarily Restricted Net Assets	0
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Changes in Restricted Net Assets	0
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Net Assets, Beginning of Year	<u>962,168</u>
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Net Asset, End of Year	<u><u>\$ 985,155</u></u>
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See accompanying notes and independent auditors' report.

Monarch, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ending June 30, 2012

	Program	Gen/Admin	Total
Personell Expenses:			
Salaries & Wages	1,120,336	124,482	1,244,818
Payroll Taxes	102,428	11,381	113,809
Employee Benefits/Insurance	134,811	14,979	149,790
Worker's Comp. Insurance	23,485	2,609	26,094
Staff Development/Training	5,675	631	6,306
Staff Appreciation/Uniforms	3,691	410	4,101
Total Personell Expenses	1,390,426	154,492	1,544,918
Direct Program Costs:			
Direct Client Expense	26,983	0	26,983
Client Medical Expense	0	0	0
Food & Beverage	157,561	0	157,561
Less: Employee Meals	(1,079)	0	(1,079)
Total Direct Program Costs	183,465	0	183,465
Contract Services:			
Auditing Fees	5,795	644	6,439
Accounting/Legal Fees	34,020	3,780	37,800
Clinical - Physicians	10,800	1,200	12,000
Other Contract Services	4,995	555	5,550
Total Contract Services	55,610	6,179	61,789
Occupancy & Maintenance Expenses:			
Kitchen/Housekeeping Expenses	29,380	3,264	32,644
Insurance	26,756	2,973	29,729
Repairs & Maintenance Expense	40,850	4,539	45,389
Security/Exterminating Expense	6,201	689	6,890
Utilities Expense	60,908	6,768	67,676
Total Occupancy/Maintenance Expenses	164,095	18,233	182,328
Administrative & Office Expenses:			
Advertising Expense	6,193	688	6,881
Depreciation/Amortization	72,110	8,012	80,122
Bank Charges/Fees	332	37	369
Dues/Subscriptions/Certifications	12,383	1,376	13,759
Equipment Leases	4,575	508	5,083
Clinical Software Support	7,452	828	8,280
Office Supplies/Postage	13,057	1,451	14,508
Miscellaneous Expenses	1,750	194	1,944
Telephone/Cellular/Internet	30,103	3,345	33,448
Total Administrative/Office Expenses	147,955	16,439	164,394

Transportation Expenses:			
Staff Travel	6,393	710	7,103
Vehicle Operating Expenses	13,781	1,531	15,312
Total Transportation Expenses	<u>20,174</u>	<u>2,241</u>	<u>22,415</u>
Total Expenses	<u><u>1,961,725</u></u>	<u><u>197,584</u></u>	<u><u>2,159,309</u></u>

Monarch, Inc.

STATEMENT OF CASH FLOW

For the Year Ending June 30, 2012

Cash Flows From Operating Activities:

Increase in Net Assets	\$ 22,987
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	80,122
Decrease/(Increase) in:	
Accounts receivable	(362)
Prepaid expense	4,455
Increase/(Decrease) in:	
Accounts payable	14,391
Accrued salaries	(49,009)
Accrued vacation	1,200
Accrued expenses	4,914
Net Cash Provided by Operating Activities	<u>78,698</u>

Cash Flows From Investing Activities:

Fixed asset additions	(69,622)
Sale of fixed assets	1,419
Net Cash Used by Investing Activities	<u>(68,203)</u>

Cash Flows From Financing Activities:

Proceeds from borrowings	0
Payments on borrowings	0
Net Cash Used by Financing Activities	<u>0</u>

Net Increase/(Decrease) in Cash and Cash Equivalents 10,495

Cash Balance, June 30, 2011 263,061

Cash Balance, June 30, 2012 \$ 273,556

Supplemental Disclosure of Cash Flow Information:

Cash paid for interest expense \$ 0

See accompanying notes and independent auditors' report.

Monarch, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ending June 30, 2012

1. SIGNIFICANT ACCOUNTING POLICIES

The Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc. (MONARCH, INC.) is a nonprofit corporation organized December 19, 1983 and existing under the laws of the State of Oklahoma for the purpose of furnishing the necessary facilities, material and qualified personnel to provide alcohol/drug abuse treatment services. MONARCH, INC. began operations February 1, 1984 as an independent contractor operating under an annual fee-for-services contract with the Oklahoma Department of Mental Health and Substance Abuse Services, (the Department). The following is a summary of the more significant accounting policies employed by MONARCH, INC.

Basis of Accounting

The accompanying financial statements of MONARCH, INC. have been prepared on an accrual basis of accounting.

Cash

For the purpose of reporting cash flows, MONARCH, INC. considers all highly liquid instruments with an original maturity of three months or less to be cash.

Fixed Assets

Expenditures for physical properties are stated at cost. Donated assets are recorded at their estimated fair market values at dates of contribution.

Depreciation of physical properties is computed on the straight-line method over the estimated useful lives of the related assets. Expenditures for maintenance and repairs are charged to expenses as incurred. Additions to plant and equipment with a useful life of more than one year and a cost of more than \$500.00 are capitalized.

When assets are retired or otherwise disposed of, the assets and related allowances for depreciation are eliminated from the accounts.

Allocation of Supporting Services Expenditures

Although MONARCH'S present purpose is solely the operation of drug and alcohol abuse programs, for financial statement purposes, it allocates its expenses between those directly attributable to programs and management and general expenses. The allocation of each expense is made on the basis considered most appropriate for that element of cost.

Income Taxes

MONARCH, INC. is a non-profit organization generally exempt from income taxes under Internal Revenue Code Section 501(c)(3).

Monarch, Inc.

Description of Programs

Residential - Services are provided to adult women who are seeking alcohol/drug treatment services and are in need of a more restrictive environment. Services are provided for a minimum of thirty (30) days with an additional fifteen (15) days focused on relapse prevention. Both individual and group therapies address physical, psychological and social aspects of their life style.

Non-Medical Detoxification - These services are provided to those women in need of detoxification and who will enter either the Residential or Community Living programs.

Community Living (HWH) - Services are provided to pregnant/postpartum women and women with children. This program is designed to assist this population in a less restrictive environment than the residential program. It provides not only alcohol/drug treatment but also prenatal services, parenting skills and other services as needed.

Outpatient - This component has the least restrictive environment. It provides a variety of individual and group processes for clients.

For the fiscal year ended June 30, 2012, the following services were provided under the contract with the State of Oklahoma Department of Mental Health and Substance Abuse Services:

Federal Substance Abuse	323,433
Federal Women W/Children	515,117
State Women W/Children	683,292
State Substance Abuse	233,193
Drug Court - Residential	<u>122,716</u>
Total	<u><u>1,877,751</u></u>

2. SERVICE CONTRACTS

For the fiscal year ended June 30, 2012, MONARCH INC. entered the fee-for-service contracts that are set out in the accompanying Schedule of federal and state financial assistance.

3. ACCOUNTS RECEIVABLE

Accounts receivable balance at June 30, 2012 consists of the following:

	<u>Current</u>	<u>31-60 Days</u>	<u>61-90 Days</u>	<u>91+ Days</u>	<u>TOTAL</u>
Dept. of Mental Health & Substance Abuse					
Services	158,054	0	0	0	158,054
Insure Oklahoma	0	0	0	0	0
Employment Services	10,026	0	0	0	10,026
	<u>168,080</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>168,080</u>

Monarch, Inc.

MONARCH, Inc. doesn't record an allowance for doubtful accounts because their main source of income is from state and federal grants. All receivables as of June 30, 2012 were collected within 60 days of the year end.

4. FURNITURE AND EQUIPMENT

Both the autos and fixtures are depreciated on a 5 year life, while the buildings are on a 20 year life. The following is a summary of the property, plant and equipment accounts at June 30, 2012:

	Cost Basis	Additions/ Deletions	Accumulated Depreciation/	Book Value
Land	\$61,622	\$0	\$0	\$61,622
Building & Improvements	989,174	29,076	(507,868)	510,382
Furniture & Fixtures	409,075	(88,399)	(266,995)	53,681
Vehicles	100,980	0	(80,236)	20,744
Loan Organizational Fees	3,660	0	(1,373)	2,287
	<u>\$1,564,511</u>	<u>(\$59,323)</u>	<u>(\$856,472)</u>	<u>\$648,716</u>

5. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. CASH

At June 30, 2012, the cash balance of \$273,556 of which \$250,000 is insured by the Federal Deposit Insurance Corporation and \$15,193 was covered by the Frank Dodd Act. MONARCH, Inc. had \$8,363 in uninsured funds at June 30, 2012.

7. CONCENTRATION OF REVENUE

Virtually all MONARCH, INC. revenues result directly or indirectly from its annual contract with the State of Oklahoma Department of Mental Health and Substance Abuse Services. While these funds are expected to be available in future years, the State has no obligation to fund these programs beyond June 30, 2012.

SUPPLEMENTAL INFORMATION

Monarch, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ending June 30, 2012

Federal Awards:

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Award Amount	Revenue Recognized	Expenditures
U. S. Department of Health and Human Services				
Department of Mental Health & Substance Abuse Services				
Substance Abuse Block Grant	93.959	838,550	838,550	
System of Care	93.104	0	0	
TANF	93.558	0	0	
Access To Recovery	93.275	0	0	
Total Federal Awards		838,550	838,550	

State Awards:

State Grantor/Program Title

Department of Mental Health & Substance Abuse Services				
Drug Court		122,716	122,716	
Prevention		0	0	
Probation and Parole		0	0	
RSAT		0	0	
Substance Abuse		916,485	916,485	
Systems of Care		0	0	
Total State Awards		1,039,201	1,039,201	
Totals		1,877,751	1,877,751	2,159,309

See accompanying notes and independent auditors' report.

Budgetary Comparison

For the Year Ending June 30, 2012

	Original Budget	Final Budget	Actual	Variance
Revenues:				
DMHSAS - Fed General Detox (02)	\$326,700	\$326,700	323,433	\$3,267
DMHSAS - Fed WWC Detox (23)	520,320	520,320	515,117	5,203
DMHSAS - State WWC Detox (23)	690,192	690,192	683,292	6,900
DMHSAS - State Gen Detox (02)	235,548	235,548	233,193	2,355
DMHSAS - Resident. Trt. Drug Ct	123,960	123,960	122,716	1,244
Food Stamp	150,000	150,000	131,924	18,076
Donations	3,000	3,000	22,934	(19,934)
Interest Income	1,200	1,200	1,174	26
Insure Oklahoma	48,000	48,000	27,325	20,675
Grant Income	31,250	31,250	9,375	21,875
Employment Services Income	94,110	94,110	110,572	(16,462)
Miscellaneous	300	300	1,241	(941)
Total Revenue	\$2,224,580	\$2,224,580	2,182,296	\$42,284
Expenses:				
Program Cost Expenses:	\$0	0	-	\$0
Direct Client Expense	24,500	24,500	20,759	3,741
Medical Expenses	3,000	3,000	6,224	(3,224)
Food and Beverage Expense	156,000	156,000	157,561	(1,561)
Less: Employee Meals	(900)	(900)	(1,079)	179
Total Program Costs	182,600	182,600	183,465	(865)
Contract Services				
Auditing Fees	7,250	7,250	6,439	811
Accounting Fees	36,000	36,000	37,800	(1,800)
Legal Fees	0	0	0	0
Clinical Cont. Serv.-Physicians	12,000	12,000	12,000	0
Contract Services	0	0	5,550	(5,550)
Total Contract Services	55,250	55,250	61,789	(6,539)
Occupancy & Maintenance Expenses:				
Housekeeping & Kitchen Supplies	25,200	25,200	32,644	(7,444)
Insurance - Building	14,640	14,640	29,729	(15,089)
Maintenance & Repairs	31,200	31,200	45,389	(14,189)
Security/Exterminating Services	5,833	5,833	6,890	(1,057)
Utilities	65,800	65,800	67,676	(1,876)
Total Occupancy & Maintenance	142,673	142,673	182,328	(39,655)

Administrative & Office Expenses:

Advertising & Promotional	4,800	4,800	6,881	(2,081)
Bank Service Charges & Fees	500	500	369	131
Dues & Membership Expense	2,600	2,600	3,802	(1,202)
Equipment Lease	4,560	4,560	5,083	(523)
Depreciation/Amortization Expense	0	0	80,122	(80,122)
Interest -Line of Credit	0	0	0	0
Insurance	9,114	9,114	0	9,114
Library & Books	120	120	(298)	418
CARF Certification	15,000	15,000	9,957	5,043
Clinical Cont. Serv.-Physicians	7,680	7,680	8,280	(600)
Miscellaneous Expense	1,500	1,500	2,242	(742)
Office Supplies	15,000	15,000	12,234	2,766
Postage & Freight	1,310	1,310	2,274	(964)
Telephone & Cellular Expense	32,000	32,000	33,448	(1,448)
Total Administrative & Office	94,184	94,184	164,394	(70,210)

Personnel Expenses:

Insurance/Employee Benefits	266,758	266,758	149,789	116,969
Insurance-Workers Comp	18,000	18,000	26,095	(8,095)
Salaries & Wages	1,254,500	1,254,500	1,244,818	9,682
Staff Development/Training/Other	7,200	7,200	6,306	894
Employee Appreciation	2,400	2,400	4,101	(1,701)
Uniforms	0	0	0	0
Payroll Tax Expense	119,969	119,969	113,809	6,160
Total Personnel Expenses	1,668,827	1,668,827	1,544,918	123,909

Transportation Expenses:

Staff Travel	6,000	6,000	7,103	(1,103)
Vehicle Expenses	27,436	27,436	15,312	12,124
Total Transportation	33,436	33,436	22,415	11,021

Total Expenses

2,176,970	2,176,970	2,159,309	17,661
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Net Revenue Over (Under)

Expenses	\$47,610	\$47,610	\$22,987	(\$24,623)
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Directors of
Muskogee Organization for Narcotic and Alcohol
Referral Counseling and Help, Inc.
Muskogee, Oklahoma

We have audited the financial statements of Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc. (MONARCH, Inc.) (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of MONARCH, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered MONARCH'S internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of MONARCH'S internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MONARCH'S internal control over financial reporting.

A deficiency in internal controls 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 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.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Executive Director, Board of Directors, others within the entity, and 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.

A handwritten signature in black ink that reads "Clothier & Company CPA's". The signature is written in a cursive, flowing style.

Clothier & Company CPA's
September 12, 2012



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REPORT ON COMPLIANCE WITH REQUIRMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditors' Report

To the Board of Directors of
Muskogee Organization for Narcotic and Alcohol
Referral Counseling and Help, Inc.
Muskogee, Oklahoma

Compliance

We have audited the Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc.'s (MONARCH) (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Circular a-133 Compliance Supplement* that could have a direct and material effect on each of MONARCH'S major federal programs for the year ended June 30, 2012. MONARCH'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 MONARCH'S management. Our responsibility is to express an opinion on MONARCH'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 material 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 MONARCH'S compliance with those requirements and performing such other procedures as we consider 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 MONARCH'S compliance with those requirements.

In our opinion, MONARCH complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of MONARCH 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 MONARCH'S internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MONARCH's internal control over compliance.

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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of MONARCH, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated September 12, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken 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 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.

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



Clothier & Company CPA's
September 12, 2012

