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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

May 9, 2008

Board of Directors
Day Care Service, Inc.
29831 Florida Ave.
Elkhart, IN 46516

We have reviewed the audit report prepared by Cullar & Associates, PC, Independent Public Accountants, for the period October 1, 2006 to September 30, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Day Care Service, Inc., as of September 30, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the finding in the report. The management letter contains one comment.

STATE BOARD OF ACCOUNTS

FINANCIAL REPORT

DAY CARE SERVICE, INC.

September 30, 2007 and 2006

CULLAR & ASSOCIATES, PC
CERTIFIED PUBLIC ACCOUNTANTS

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CULLAR & ASSOCIATES, PC
CERTIFIED PUBLIC ACCOUNTANTS

209 N. Main Street, Suite 200
South Bend, Indiana 46601
Ph: 574.288.8320 Fax: 574.288.8328
www.cullar.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
DAY CARE SERVICE, INC.
Elkhart, Indiana

We have audited the accompanying statements of financial position of DAY CARE SERVICE, INC. (the "Organization") as of September 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DAY CARE SERVICE, INC. as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Cullar & Associates, P.C.

December 13, 2007

DAY CARE SERVICE, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2007 and 2006

	2007	2006
Assets:		
Current Assets:		
Cash and cash equivalents	$ 3,570	$ 3,070
Service fees receivable	22,219	21,312
Total current assets	25,789	24,382
Property and Equipment:		
Furniture and equipment	4,484	6,057
Less accumulated depreciation	(4,390)	(5,735)
Net property and equipment	94	322
Total assets	$ 25,883	$ 24,704
Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable	$ 19,212	$ 17,987
Payroll withholdings	602	712
Total current liabilities	19,814	18,699
Net Assets, unrestricted	6,069	6,005
Total liabilities and net assets	$ 25,883	$ 24,704

The accompanying notes are an integral part of these financial statements.

DAY CARE SERVICE, INC.
STATEMENTS OF ACTIVITIES
Years Ended September 30, 2007 and 2006

	2007	2006
Revenues, Gains, and Other Support:		
Child and Adult Care Food Program:		
Provider fees	$ 249,240	$ 236,507
Administrative fees	36,561	36,270
Membership dues and donations	-	25
Total revenues, gains, and other support	285,801	272,802
Expenses:		
Nutrition services	249,240	236,507
Management and general	36,497	34,934
Total expenses	285,737	271,441
Change in net assets	64	1,361
Net assets, unrestricted - beginning of year	6,005	4,644
Net assets, unrestricted - end of year	$ 6,069	$ 6,005

The accompanying notes are an integral part of these financial statements.

DAY CARE SERVICE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended September 30, 2007 and 2006

	2007			2006		
	Nutrition Services	Management and General	Total	Nutrition Services	Management and General	Total
Subcontracted nutrition services	$ 249,240	$ -	$ 249,240	$ 236,507	$ -	$ 236,507
Salaries and wages	-	21,258	21,258	-	21,041	21,041
Payroll-related expenses	-	1,619	1,619	-	1,606	1,606
Legal and accounting	-	2,677	2,677	-	2,681	2,681
Supplies	-	1,616	1,616	-	1,413	1,413
Postage	-	278	278	-	315	315
Telephone	-	1,166	1,166	-	716	716
Insurance	-	3,270	3,270	-	3,756	3,756
Equipment rental and maintenance	-	319	319	-	-	-
Travel	-	3,141	3,141	-	2,377	2,377
Dues and subscriptions	-	75	75	-	90	90
Bank charges	-	610	610	-	711	711
Depreciation	-	228	228	-	228	228
Other	-	240	240	-	-	-
Totals	$ 249,240	$ 36,497	$ 285,737	$ 236,507	$ 34,934	$ 271,441

The accompanying notes are an integral part of these financial statements.

DAY CARE SERVICE, INC.
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2007 and 2006

	2007	2006
Change in Cash and Cash Equivalents:		
Cash Flows from Operating Activities:		
Cash received from grantors and others	$ 284,894	$ 272,212
Cash paid to employees, suppliers, and others	(284,394)	(270,815)
Net cash provided by operating activities	500	1,397
Cash and cash equivalents, beginning of year	3,070	1,673
Cash and cash equivalents, end of year	$ 3,570	$ 3,070

	2007	2006
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in net assets	$ 64	$ 1,361
Add (deduct) items not providing (requiring) cash:		
Depreciation	228	228
(Increase) in service fees receivable	(907)	(590)
Increase in accounts payable	1,225	177
Increase (decrease) in payroll withholdings	(110)	221
Net cash provided by operating activities	$ 500	$ 1,397

The accompanying notes are an integral part of these financial statements.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

DAY CARE SERVICE, INC. (the "Organization") is an Indiana nonprofit corporation organized to provide local access for licensed home day cares to the Child and Adult Care Food Program. Its operations are primarily supported by service fees from contracts with the State of Indiana.

Significant Accounting Policies:

Use of estimates:

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited based on management's estimates.

Net asset classes:

The Organization reports its activities and financial position by the following classes of net assets:

Unrestricted net assets are those currently available for use by the Organization.

Temporarily restricted net assets are those received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Cash and cash equivalents:

The Organization considers all time deposits, certificates of deposits, and highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Property and equipment:

Property and equipment is stated at cost if purchased, or at fair market value at the date of receipt if donated. Depreciation is recorded by the straight-line method over the estimated useful lives of the assets, which are generally from three to seven years.

Service fees:

The Organization receives fees for administration and subcontracted childcare services on a cost-reimbursement basis. Revenue is recognized in the period in which reimbursable costs are incurred. Costs incurred prior to reimbursement are reported as service fees receivable in the statements of financial position.

Contributions:

The Organization reports gifts and grants of cash and other assets as income when unconditionally promised and are considered to be available for unrestricted use unless specifically restricted by donor. When a donor 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 and reported in the statements 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.

Advertising costs:

Advertising costs, except for costs associated with direct-response advertising, are charged to expense when incurred. There were no advertising costs charged to expense for either year ended September 30, 2007 or 2006, and there were no direct-response advertising costs reported as assets at either September 30, 2007 or 2006.

Income taxes:

The Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Indiana Code. Consequently, no provision is made for income taxes. The Internal Revenue Service classifies the Organization as other than a private foundation.

NOTE 2. SERVICE FEES AND SUBCONTRACTED SERVICES

The Organization contracts with the Indiana Department of Education to coordinate and administer the Child and Adult Care Food Program. These services are provided by other entities under subcontract agreements with the Organization. The Organization earns administrative fees under this contract. Administrative fees earned for the years ended September 30, 2007 and 2006, respectively, were $36,561 and $36,270. Amounts received to reimburse subcontractors for the years ended September 30, 2007 and 2006, respectively, were $249,240 and $236,507.

NOTE 3. CONCENTRATIONS

The Organization's contributors and program recipients are concentrated in the Elkhart County Indiana area. Accordingly, its contributions, grants, and service fees may be affected by conditions in that area.

For both years ended September 30, 2007 and 2006, approximately 100% of total revenues were received from the Indiana Department of Education for the Child and Adult Care Food Program.

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To the Board of Directors
DAY CARE SERVICE, INC.
Elkhart, Indiana

We have audited the financial statements of DAY CARE SERVICE, INC. (the "Organization") for the year ended September 30, 2007, and have issued our report thereon dated December 13, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Professional Standards

As stated in our engagement letter dated October 23, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the Organization's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization are described in Note 1 to the financial statements.

We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the allocation of expenses between the program and supporting service.

Management's estimate of the allocations is based upon cost studies. We evaluated the assumptions used to develop the allocations in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Organization that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no material audit adjustments.

We also one uncorrected misstatement - a $61 understatement of cash for three checks that should be voided - that, when aggregated, were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Board of Directors and management of DAY CARE SERVICE, INC. and should not be used by anyone other than these specified parties.

Cullen & Associates, P.C.

December 13, 2007

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South Bend, Indiana 46601
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AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors and Management
DAY CARE SERVICE, INC.
Elkhart, Indiana

In planning and performing our audit of the financial statements of DAY CARE SERVICE, INC. (the "Organization") as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency that we consider to be a material weakness.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We believe that the following control deficiency constitutes a material weakness:

Segregation of Duties

The Organization does not have a segregation of accounting duties. Segregating accounting duties prevents any one person from being in a position to both perpetrate and conceal an error. While we realize that the Organization is not large enough to justify hiring additional personnel to further segregate duties, and while we are certainly not questioning the integrity of any employee, we are required by our professional standards to bring this to your attention.

This communication is intended solely for the information and use of the Board of Directors and management of DAY CARE SERVICE, INC., others within the organization, the Indiana State Board of Accounts, and the Indiana Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Cullen & Associates, P.C.

December 13, 2007