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July 7, 2009

Board of Directors
Child Care Resources, Inc.
2621 Stringtown Rd.
Evansville, IN 47711

We have reviewed the audit report prepared by Timothy J. Otte, CPA, PC, Independent Public Accountant, for the period July 1, 2006 to June 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 Child Care Resources, Inc., as of June 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 findings in the report. Page 15 contains one current audit finding. Page 16 contains the status of two prior audit findings. Management's response is on page 17.

STATE BOARD OF ACCOUNTS

Timothy J.  Otte CPA, PC

CHILD CARE RESOURCES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

4266 Bell Road, Suite II • P.O. Box 308 • Newburgh IN. 47629
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Member of American Institute of Certified Public Accountants

Child Care Resources, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Child Care Resources, Inc.
Evansville, IN 47711

We have audited the accompanying statement of financial position of Child Care Resources, Inc. (a nonprofit organization) as of June 30, 2007 and 2006 and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2007, on our consideration of Child Care Resources, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were 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 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 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.

Timothy J. Otte, C.P.A., P.C.

Timothy J. Otte, C.P.A., P.C.

Newburgh, IN
October 16, 2007

Child Care Resources, Inc.
Statements of Financial Position
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Cash & Equivalents	\$ 19,629	\$ 11,633
Grants Receivable	<u>54,159</u>	<u>53,285</u>
Total Current Assets	<u>73,788</u>	<u>64,918</u>
Fixed Assets		
Equipment	11,556	12,632
Less Accumulated Depreciation	<u>(11,321)</u>	<u>(11,517)</u>
Total Fixed Assets	<u>235</u>	<u>1,115</u>
Total Assets	<u><u>\$ 74,023</u></u>	<u><u>\$ 66,033</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable- Providers	\$ 47,393	\$ 46,941
Accounts Payable- related party	100	100
Accrued Professional Fees	7,675	7,775
Accrued Wages	2,095	2,022
Payroll Taxes	914	-
Line of Credit	<u>3,624</u>	<u>1,667</u>
Total Current Liabilities	<u>61,801</u>	<u>58,505</u>
Net Assets- Unrestricted	<u>12,222</u>	<u>7,529</u>
Total Liabilities and Net Assets	<u><u>\$ 74,023</u></u>	<u><u>\$ 66,033</u></u>

See notes to financial statements

Child Care Resources, Inc.
Statements of Activities
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
REVENUES		
Governmental Grants	\$ 628,024	\$ 592,948
Fundraising	5,629	6,704
Other	-	573
Total Revenue	<u>633,654</u>	<u>600,225</u>
EXPENSES		
Provider Reimbursements	<u>547,344</u>	<u>514,758</u>
Total Program Services	<u>547,344</u>	<u>514,758</u>
Fundraising	<u>1,601</u>	<u>4,699</u>
General & Administrative Expenses		
Christmas Party	-	429
Depreciation	522	792
Food Program Reimbursements	541	1,438
Insurance	1,156	1,157
Interest	495	398
Library Supplies	-	72
Miscellaneous	1,102	485
Payroll Taxes	3,927	4,063
Postage	1,441	1,302
Professional Fees	6,024	6,070
Rent	4,920	7,835
Repairs & Maintenance	341	319
Salaries	51,800	53,251
Supplies	2,250	2,479
Telephone	1,377	1,749
Travel & Entertainment	4,118	3,558
Total General and Administrative Expenses	<u>80,015</u>	<u>85,398</u>
Total Expenses	<u>628,960</u>	<u>604,855</u>
CHANGE IN UNRESTRICTED NET ASSETS	4,693	(4,630)
UNRESTRICTED NET ASSETS- beginning of year	<u>7,529</u>	<u>12,159</u>
UNRESTRICTED NET ASSETS- end of year	<u>\$ 12,222</u>	<u>\$ 7,529</u>

See notes to financial statements

Child Care Resources, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Change in Net Assets	\$ 4,694	\$ (4,630)
Adjustments for Noncash Transactions		
Depreciation	522	792
Changes in Operating Assets and Liabilities		
Accounts Receivable	(874)	(3,105)
Inventory	-	974
Other Assets	-	-
Accounts Payable	452	3,037
(Gain) or Loss on Sale of Assets	359	(562)
Other Liabilities	887	152
	<u>6,039</u>	<u>(3,341)</u>
Net Cash Provided by (used in) Operating Activities		
INVESTING ACTIVITIES		
Purchases of Property and Equipment	-	-
Proceeds From Disposition of Property	-	850
	<u>-</u>	<u>850</u>
Net Cash Provided by (used in) Investing Activities		
FINANCING ACTIVITIES		
Net Change in Line of Credit	1,957	1,666
	<u>1,957</u>	<u>1,666</u>
Net Cash Provided by (used in) Financing Activities		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,996	(825)
CASH AND CASH EQUIVALENTS- beginning of year	<u>11,633</u>	<u>12,458</u>
CASH AND CASH EQUIVALENTS- end of year	<u>\$ 19,629</u>	<u>\$ 11,633</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 495	\$ 398

See notes to financial statements

**Child Care Resources, Inc.
Notes to Financial Statements
June 30, 2007 and 2006**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Child Care Resources, Inc. is a nonprofit organization which operates a day care referral service and is a sponsor of the Child and Adult Care Food Program, a government reimbursement program for day care providers.

Basis of Accounting

The financial statements of Child Care Resources, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The organization complies with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2007 and 2006 the organization had no restricted net assets.

Income Taxes

Child Care Resources, Inc. is a non-profit organization exempt from federal, state, and local income taxes under section 501(c)(3) of the United States Internal Revenue Code.

Cash and Cash Equivalents

Child Care Resources, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Equipment

Equipment is recorded at cost. Repairs and maintenance costs are charged to expense. The organization follows the practice of capitalizing all expenditures for fixed assets in excess of \$500. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Depreciated is computed on the straight-line method based on the estimated useful lives of the assets.

Advertising

The organization follows the policy of charging the costs of advertising to expense.

Use of Estimates

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

Child Care Resources, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 2- CONTINGENCY

Child Care Resources, Inc. is substantially funded by a grant awarded indirectly by the federal government and the State of Indiana. The grant contains provisions which permit the arrangement to be terminated or the funds provided to be reduced if the unit of government does not appropriate any or an adequate amount of funds to maintain the current funding levels. Any deferred revenue or excess funds on hand at the termination date would be subject to refund if such funds exceeded the accrued expenditures allowable under the grants and contracts at that date.

NOTE 3- PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Equipment	\$11,556	\$11,321	\$12,632	\$11,517

Depreciation for the years ending June 30, 2007 and 2006 was \$522 and \$792, respectively.

NOTE 4- LINE OF CREDIT

Child Care Resources, Inc. has a \$10,000 line of credit with Integra Bank. The line of credit bears interest at the bank's prime rate plus 2% and expires on August 8, 2007. Borrowing under the line is collateralized by all business assets. As of June 30, 2007, the outstanding balance on the line of credit was \$3,624.

NOTE 5- RELATED PARTY TRANSACTIONS

The organization has a payable due to an officer in the amount of \$100 at June 30, 2007 and 2006.

NOTE 6- LEASE COMMITMENTS

The organization leases office and storage space under a lease agreement. The lease requires a total monthly payment of \$410 and runs for a term of one year commencing on October 1, 2006. Future required lease payments are as follows:

2007/2008
\$4,920

The total monthly lease payments made during the years ended June 30, 2007 and 2006, were \$4,920 and \$7,835, respectively.

NOTE 7- CONCENTRATIONS

Child Care Resources, Inc. conducts business from a single location in Evansville, Indiana, and performs services to child day care homes located primarily in Southwestern Indiana.

Child Care Resources, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 8- RECLASSIFICATIONS

Certain amounts from the June 30, 2006 financial statements have been reclassified to conform to the June 30, 2007 financial statement presentation.

SUPPLEMENTARY INFORMATION

**Child Care Resources, Inc.
Schedule of Federal Awards
For the Year Ended June 30, 2007**

<u>Federal Agency</u>	<u>Federal Program</u>	<u>CFDA Number</u>	<u>Pass-through Entity</u>	<u>Grant Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture	Child and Adult Care Food Program	10.558	IN Depart. of Education Division of School Nutritional Programs	82-0210	\$ 628,024

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Child Care Resources, 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 Government, and Non-Profit Organizations.

See notes to financial statements

**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
Child Care Resources, Inc.

We have audited the financial statements of Child Care Resources, Inc. (a nonprofit organization) as of and for the year ended June 30, 2007 and 2006, and have issued our report thereon dated October 16, 2007. 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 Child Care Resources, Inc.'s internal control over financial reporting as a basis for designing our audit 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 Child Care Resources, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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 organization'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 organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We considered the deficiency as described in the accompanying schedule of findings and questioned costs as item B1 to be a significant deficiency in internal control over financial reporting.

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 detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we considered the significant deficiency identified as item B1 in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Child Care Resources, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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*.

We noted certain matters that we reported to management of Child Care Resources, Inc. in a separate letter dated October 16, 2007.

This report is intended solely for the information and use of the board of directors and management of Child Care Resources, Inc. 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.

Timothy J. Otte, C.P.A., P.C.

Timothy J. Otte, C.P.A., P.C.

Newburgh, IN
October 16, 2007

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

To the Board of Directors
Child Care Resources, Inc.

Compliance

We have audited the compliance of Child Care Resources, Inc. (a nonprofit organization) 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 its major federal program for the year ended June 30, 2007. Child Care Resources, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Child Care Resources, Inc.'s management. Our responsibility is to express an opinion on Child Care Resources, 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 of a major federal program occurred. An audit includes examining, on a test basis, evidence about Child Care Resources, 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 Child Care Resources, Inc.'s compliance with those requirements.

In our opinion, Child Care Resources, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Child Care Resources, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Child Care Resources, 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, 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 Child Care Resources, Inc.'s internal control over compliance

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item C1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we considered item C1 to be a material weakness.

This report is intended for the information of the board of directors and management of Child Care Resources, Inc. and federal awarding agencies and pass-through entities and is intended to be and should not be used by anyone else other than the specified parties.

Timothy J. Otte, C.P.A., P.C.



Newburgh, IN
October 16, 2007

CHILD CARE RESOURCES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Child Care Resources, Inc.
2. The control deficiency disclosed during the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance *Government Auditing Standards*. The condition is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of Child Care Resources, Inc. were disclosed during the audit.
4. One significant deficiency disclosed during the audit of the major federal award program is reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance Required By OMB Circular A-133. The condition is reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for Child Care Resources, Inc. expresses an unqualified opinion on the major federal program.
6. Audit findings relative to the major federal award programs for Child Care Resources, Inc. are reported in this schedule.
7. The program tested as a major program included:

Child and Adult Care Food Program- CFDA# 10.558
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Child Care Resources, Inc. was not determined to be a low risk auditee.

B. FINDINGS- FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES- MATERIAL WEAKNESS

B1. Condition: The size of the organization precludes the implementation of an effective internal control system due to the lack of segregation of duties.

Criteria: Segregation of duties is a vital part of an effective internal control structure.

Effect of condition: The internal control system is weak.

Cause of condition: The small size of the organization.

Recommendation: Continued involvement of the board of directors in reviewing records.

**C. FINDINGS AND QUESTIONED COSTS- MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

C1. The finding from the financial statements audit listed in section B of this report also is considered a finding related to the audit of the major federal award program.

CHILD CARE RESOURCES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

U.S. DEPARTMENT OF AGRICULTURE
CHILD AND ADULT CARE FOOD PROGRAM
CFDA # 10.558

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Comments</u>
2007	B1	The size of the organization precludes the implementation of an effective internal control system due to the lack of segregation of duties.	N/A	Continue to involve the Board of Directors
	C1	Ineffective monitoring of subrecipients	N/A	Implement of procedures to ensure three monitoring visits per year.

**CHILD CARE RESOURCES, INC.
2621 STRINGTOWN ROAD
EVANSVILLE, IN 47711-3378
812-423-6813**

Timothy J. Otte, C.P.A., P.C.
P.O. Box 308
Newburgh, IN 47629

To whom it may concern:

Re: Corrective actions pursuant to fiscal year 2007 audit

Finding 1 (Page 15 of the report) Corrective Action

Considering the size of our staff and available resources, it is not possible to segregate duties and have a more effective internal control system. We do believe that we are utilizing the best internal control system possible.

Sincerely,

Laurie Coleman- Director
Child Care Resources, Inc.