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November 23, 2009

Board of Directors  
Joyce Network, Inc.  
9474 N. 400 W., P.O. Box 170  
Fountaintown, IN 46130

We have reviewed the audit report prepared by Kelley Hardesty Smith and Co., Independent Public Accountants, for the period October 1, 2006 to September 30, 2008. 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 Joyce Network, Inc., as of September 30, 2008, 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 17 contains one current audit finding. Page 19 contains the status of one prior audit finding.

STATE BOARD OF ACCOUNTS

**JOYCE NETWORK, INC.**  
**(A NON PROFIT ORGANIZATION)**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

**JOYCE NETWORK, INC.**  
(A NON PROFIT ORGANIZATION)

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Joyce Network, Inc.

We have audited the accompanying statements of financial position of Joyce Network, Inc. (a non profit organization) as of September 30, 2008 and 2007, and the related statements of activities and net assets, and cash flows for the years then ended. These financial statements are the responsibility of Joyce Network, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and *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 Joyce Network, Inc. as of September 30, 2008 and 2007, and the results of its operations, and cash flows for the years then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Audit Standards*, we have also issued a report dated December 16, 2008 on our consideration of Joyce Network, Inc.'s internal control over financial reporting and 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of expenditures of federal awards are presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Kelley Hardesty Smith and Co.*

Kelley Hardesty Smith and Co.  
Indianapolis, IN  
Employer Federal ID # 35-1427175  
Auditor: Bryan Whisler, CPA  
December 16, 2008

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
<b>CURRENT ASSETS</b>		
Cash	\$ 31,733	\$ 24,018
Accounts receivable - trade	178,697	144,310
Prepaid Lease Payments	397	-
	<hr/>	<hr/>
<b>TOTAL CURRENT ASSETS</b>	<b>210,827</b>	<b>168,328</b>
	<hr/>	<hr/>
Property and equipment, net of accumulated depreciation of \$5,898 and \$3,600, respectively	6,134	-
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 216,961</b>	<b>\$ 168,328</b>
	<hr/>	<hr/>
<u>LIABILITIES AND NET ASSETS</u>		
<b>CURRENT LIABILITIES</b>		
Accounts payable - providers	\$ 160,297	\$ 126,133
Payroll taxes payable	4,632	5,378
Current Portion of Capital Lease Obligation	2,416	-
	<hr/>	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>	<b>167,345</b>	<b>131,511</b>
	<hr/>	<hr/>
<b>LONG-TERM LIABILITIES</b>		
Capital lease obligation	7,317	-
Less Current Portion	(2,416)	-
	<hr/>	<hr/>
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>4,901</b>	<b>-</b>
	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>172,246</b>	<b>131,511</b>
	<hr/>	<hr/>
<b>NET ASSETS</b>		
Unrestricted	44,715	36,817
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 216,961</b>	<b>\$ 168,328</b>
	<hr/>	<hr/>

The accompanying notes are an integral part  
of the financial statements

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

STATEMENTS OF ACTIVITIES AND NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Unrestricted Revenues		
Child care food program	\$ 2,066,707	\$ 1,905,940
Interest income	<u>1</u>	<u>81</u>
Total unrestricted revenue	<u>2,066,708</u>	<u>1,906,021</u>
Less expenses		
Program costs - CACFP provider payments	1,859,123	1,694,284
Wages	153,622	159,609
Payroll taxes	11,752	12,212
Office expense and training	2,018	3,416
Printing	200	753
Telephone	2,142	1,701
Bank charges	1,012	304
Insurance	595	583
Travel - mileage	16,638	14,135
Postage	2,016	873
Professional fees	3,744	15,562
Consulting services	2,086	270
Dues	180	220
Interest expense	1,384	-
Depreciation	<u>2,298</u>	<u>10</u>
Total expenses	<u>2,058,810</u>	<u>1,903,932</u>
Increase in unrestricted net assets	7,898	2,089
Net assets beginning	<u>36,817</u>	<u>34,728</u>
Net assets ending	<u>\$ 44,715</u>	<u>\$ 36,817</u>

The accompanying notes are an integral part  
of the financial statements

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 7,898	\$ 2,089
Adjustments to reconcile net assets to net cash provided (used) by operating activities:		
Depreciation	2,298	10
Decrease (increase) in assets:		
Accounts receivable - trade	(34,387)	2,938
Prepaid lease payments	(397)	-
Increase (decrease) in liabilities:		
Accounts payable - providers	34,164	(4,542)
Payroll taxes payable	(746)	363
Total adjustments	932	(1,231)
Net cash provided by operating activities	<u>8,830</u>	<u>858</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Debt reduction, capital lease	<u>(1,115)</u>	<u>-</u>
Net cash provided by financing activities	<u>(1,115)</u>	<u>-</u>
Increase in cash	7,715	858
Cash - beginning of year	<u>24,018</u>	<u>23,160</u>
Cash - end of year	<u>\$ 31,733</u>	<u>\$ 24,018</u>
Non cash investing and financing activity	<u>\$ 8,432</u>	<u>\$ -</u>

The accompanying notes are an integral part  
of the financial statements

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Joyce Network, Inc. is a non profit corporation assisting family day care homes in the state of Indiana that participates in the Federal Child Care Food Program of the U.S. Department of Agriculture. Funds are passed through the Indiana Department of Education for eligible children under agreement 1730570.

Property and Equipment

Property and Equipment are stated at cost and depreciated over their individual useful lives at straight-line and accelerated rates. Routine maintenance and repairs are expensed as incurred. For the years ended September 30, 2008 and 2007, property and equipment with a cost of \$12,032 and \$3,600, respectively is being depreciated over a 3 to 7 year period. Depreciation expense for the years ended September 30, 2008 and 2007 is \$2,298 and \$10, respectively.

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

Income Tax Status

Joyce Network, Inc. qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, the financial statements contain no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with U. S. generally accepted accounting principles 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.

Allowance for Bad Debts

The company uses the allowance for doubtful accounts method to record uncollected receivables. The allowance for doubtful accounts at September 30,

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS

2008 and 2007 was \$-0- and \$-0-, respectively. The company incurred bad debts of \$-0- and \$-0- for 2008 and 2007, respectively.

NOTE 2 – RELATED PARTY TRANSACTIONS

The Executive Director of the Corporation owns the Corporation's office. The Executive Director donates the rent to the corporation. The amount of the donation is undeterminable.

NOTE 3 – ECONOMIC DEPENDENCY

Joyce Network, Inc. receives 100% of its revenue from the Indiana Department of Education (IDOE) who, in turn, receives funding from the U.S. Department of Agriculture (USDA). Should funding of the Child Care Food Program cease; Joyce Network, Inc. would not be able to generate sufficient revenue to continue the Child Care Food Program. As of September 30, 2008 and 2007, \$178,697, and \$144,310, respectively are due from the IDOE.

NOTE 4 – CONCENTRATION OF CREDIT RISK

The Corporation maintains cash balances at a bank. Effective October 3, 2008 accounts at the bank are insured by the Federal Deposit Insurance Corporation up to \$250,000.

NOTE 5 – CAPITAL LEASE OBLIGATION

The Corporation is the lessee of Minute Menu equipment and licensing under a capital lease expiring in 2011. The assets and liabilities under capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital lease is included in depreciation expenses for the year ending September 30, 2008.

Minimum future lease payments under capital leases as of September 30, 2008 for each of the next five years and in the aggregate are as follows:

Year Ended September 30,	Amount
2009	\$ 4,283
2010	4,283
2011	<u>1,784</u>
Total minimum lease payments	10,350
Less: Amount representing interest	<u>(3,033)</u>
Present value of net minimum lease payment	<u>\$ 7,317</u>

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

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*

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  
Joyce Network, Inc.

We have audited the financial statements of Joyce Network, Inc. (a non profit organization) as of and for the years ended September 30, 2008 and 2007 and have issued our report thereon dated December 16, 2008.

We conducted our audit in accordance with U. S. generally accepted auditing standards 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 Joyce Network, Inc.'s (a non profit organization) 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Joyce Network, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as item 08-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The item described as 08-1 above is considered to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Joyce Network, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as item 08-1.

This report is intended solely for the information and use of the Board of Directors, management, the Indiana Department of Education, the Indiana State Board of Accounts and the U.S. Department of Agriculture, and is not intended to be and should not be used by anyone other than these specified parties.

*Kelley Hardesty Smith and Co.*

Kelley Hardesty Smith and Co.  
Indianapolis, IN  
December 16, 2008

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

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  
Joyce Network, Inc.

Compliance

We have audited the compliance of Joyce Network, Inc. (a non profit 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 each of its major federal programs for the years ended September 30, 2008 and 2007. Joyce Network, Inc.'s major federal programs are 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 each of its major federal programs is the responsibility of Joyce Network, Inc.'s management. Our responsibility is to express an opinion on Joyce Network, 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 Joyce Network, 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 Joyce Network, Inc.'s compliance with those requirements.

In our opinion, Joyce Network, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended September 30, 2008 and 2007. However, the results of our auditing procedures disclosed one instance of noncompliance with these requirements, which is required to be reported in accordance with OMB A-133 and which is described in the accompanying schedule of findings and questioned costs as item 08-1.

#### Internal Control Over Compliance

The management of Joyce Network, 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 Joyce Network 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Joyce Network, Inc.'s ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 08-1.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 08-1 to be a material weakness.

This report is intended for the information of the Board of Directors, management, the Indiana Department of Education, the Indiana State Board of Accounts and the U.S. Department of Agriculture and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

*Kelley Hardesty Smith and Co.*

Kelley Hardesty Smith and Co.  
Indianapolis, IN  
December 16, 2008

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

SCHEDULES OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

SCHEDULES OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

A. Summary of the auditors' results.

*Financial Statements*

Type of auditor's report issued: Unqualified opinion

Internal control over financial reporting:

- |   |              |                        |
|---|--------------|------------------------|
| ■ Material weakness(es) identified?   | <u>X</u> yes | __ no                  |
| ■ Reportable condition(s) identified that are not considered to be material weaknesses? | __ yes       | <u>X</u> none reported |
| Noncompliance material to financial statements noted?                                   | __ yes       | <u>X</u> no            |

*Federal Awards*

Internal control over major programs:

- |   |              |                        |
|---|--------------|------------------------|
| ■ Material weakness(es) identified?   | <u>X</u> yes | __ no                  |
| ■ Reportable condition(s) identified that are not considered to be material weaknesses? | __ yes       | <u>X</u> none reported |

Type of auditor's report issued on compliance for major programs: Unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	__ yes	<u>X</u> no
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U.S. Department of Agriculture

Pass-through from Indiana Department of Education - Child Nutrition Program Sponsor - Child Care - CFDA No. 10.558; Grant No. 1730570, Grant periods - 10/1/06 - 9/30/07 and 10/1/07 - 9/30/08.

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 500,000</u>
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Auditee qualified as low-risk auditee?	__ yes	<u>X</u> no
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JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

SCHEDULES OF FINDINGS AND QUESTIONED COSTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

B. Findings and Questioned Costs - Major Federal Award Programs and Financial Statement Findings

08-1

Statement of Condition: In order to comply with U. S. generally accepted accounting principles (GAAP) and *Government Auditing Standards* certain accounting and administrative responsibilities must be performed by one of two persons. One person has access to all books and records. Due to the size of the company, proper segregation of duties cannot be achieved without the cost exceeding any benefit.

Criteria: U. S. generally accepted accounting principles (GAAP), and *Government Auditing Standards* requires management of Joyce Network, Inc. to establish policies to safeguard assets.

Questioned Costs: None

Context: None

Effect of Condition: Because of inherent limitations in any internal controls, errors, irregularities or instances of non-compliance may nevertheless occur and not be detected. Also, projection of any evaluation to future periods is subject to risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Cause of Condition: Joyce Network, Inc. lacks the size to adequately segregate duties.

Recommendation: Due to the size of the company, proper segregation of duties cannot be achieved without the cost exceeding the benefit.

Management Response: Joyce Network, Inc. cannot segregate duties as outlined in this finding due to restrictions of funding. There are insufficient administrative funds to hire additional employees.

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

AUDITORS' COMMENTS ON THE AUDIT RESOLUTION MATTERS  
RELATING TO THE FOOD PROGRAM

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

AUDITORS' COMMENTS ON THE AUDIT RESOLUTION MATTERS  
RELATING TO THE FOOD PROGRAM

The corrective actions taken by Joyce Network, Inc. on the findings from the prior audit report dated December 7, 2006.

Finding Number 06-1

Joyce Network, Inc. was not segregating duties of accounting and administrative responsibilities for internal control purposes.

Status – Joyce Network, Inc., due to lack of funding, has not implemented any control procedures to segregate duties. See finding 08-1.

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

JOYCE NETWORK, INC.  
(A NON PROFIT ORGANIZATION)

SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

Note A - Basis of Accountings

The accompanying Schedules of Expenditures of Federal Awards are a summary of the cash activity of the Organization's Federal awards program and do not present transactions to be included in the financial statements of the Organization presented on the accrual basis of accounting, as contemplated by U. S. generally accepted accounting principles.

Note B - Risk-Based Audit Approach

The dollar threshold used to distinguish between Type A and Type B programs is \$500,000. The organization does not qualify as a low-risk auditee.

2008

<u>Federal Grantor/Pass- Through Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture</u>			
Indiana Department of Education: Child Care Food Program	10.558	1730570	\$ 2,024,646

2007

<u>Department of Agriculture</u>			
Indiana Department of Education: Child Care Food Program	10.558	1730570	\$ 1,908,474