



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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November 24, 2009

Board of Directors
Woodland Child Development
Center, Inc.
3027 J. F. Mahoney Drive
Hammond, IN 46323

We have reviewed the audit report prepared by McMahon & Associates, CPAs, PC, Independent Public Accountants, for the period January 1, 2008 to December 31, 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 Woodland Child Development Center, Inc., as of December 31, 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. The management letter contains seven comments.

STATE BOARD OF ACCOUNTS

WOODLAND CHILD DEVELOPMENT
CENTER, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2008

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INDEPENDENT AUDITORS' REPORT

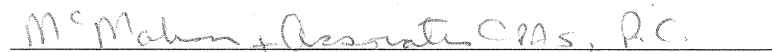
Board of Directors
Woodland Child Development Center, Inc.
Hammond, Indiana

We have audited the accompanying statement of financial position of Woodland Child Development Center, Inc. (a not-for-profit corporation) as of December 31, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Woodland Child Development Center, 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 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 a 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 presents fairly, in all material respects, the financial position of Woodland Child Development Center, Inc., as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2009 on our consideration of Woodland Child Development Center, Inc.'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.


Certified Public Accountants

May 18, 2009

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Woodland Child Development Center, Inc.
Hammond, Indiana

We have audited the financial statements of Woodland Child Development Center, Inc. as of and for the year ended December 31, 2008, and have issued our report thereon dated May 18, 2009. 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 Woodland Child Development Center, Inc.'s internal control over financial reporting 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 their internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

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.

Our consideration of 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 internal control that might be 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 Woodland Child Development Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Woodland Child Development Center, Inc. in a separate letter dated May 29, 2009.

This report is intended solely for the information and use of management, the board of directors, others with the entity and the State Board of Accountants, and is not intended to be and should not be used by anyone other than these specified parties.

McMahon & Associates, P.C.
Certified Public Accountants

May 18, 2009



WOODLAND CHILD DEVELOPMENT CENTER, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008

ASSETS

	<u>2008</u>
<u>CURRENT ASSETS:</u>	
Cash and cash equivalents	\$ 199,886
Child care fees receivable	63,032
Total current assets	<u>262,918</u>
 <u>LAND, BUILDINGS, AND EQUIPMENT (NET)</u>	 <u>1,769,644</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 2,032,562</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>	
Accounts payable	\$ 14,917
Accrued payroll and deductions	39,531
Accrued property taxes	7,185
Current portion of long-term debt	52,191
Line of credit	4,617
Total current liabilities	<u>118,441</u>
 <u>LONG-TERM DEBT</u>	 <u>703,983</u>
 Total liabilities	 <u>822,424</u>
 <u>NET ASSETS:</u>	
Unrestricted	<u>1,210,138</u>
 Total net assets	 <u>1,210,138</u>
 <u>TOTAL LIABILITIES AND NET ASSETS</u>	 <u>\$ 2,032,562</u>

WOODLAND CHILD DEVELOPMENT CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	2008		
	Unrestricted	Temporarily Restricted	Total
<u>REVENUE AND SUPPORT:</u>			
<u>PUBLIC SUPPORT:</u>			
Contributions and grants	\$ 21,263	\$ 0	\$ 21,263
Child care food program grant	92,428	0	92,428
Special events	2,587	0	2,587
Lake Area United Way allocation	50,952	0	50,952
Total public support	<u>167,230</u>	<u>0</u>	<u>167,230</u>
<u>REVENUE:</u>			
Program service fees	1,188,136	0	1,188,136
Interest	1,795	0	1,795
Miscellaneous	531	0	531
Total revenue	<u>1,190,462</u>	<u>0</u>	<u>1,190,462</u>
REVENUE AND SUPPORT	<u>1,357,692</u>	<u>0</u>	<u>1,357,692</u>
<u>EXPENSES:</u>			
Program expenses	1,214,990	10,000	1,224,990
Management and general expenses	138,509	0	138,509
Fundraising	3,777	0	3,777
Total expenses	<u>1,357,276</u>	<u>10,000</u>	<u>1,367,276</u>
Change in net assets	416	(10,000)	(9,584)
NET ASSETS - BEGINNING OF YEAR	<u>1,209,722</u>	<u>10,000</u>	<u>1,219,722</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 1,210,138</u>	<u>\$ 0</u>	<u>\$ 1,210,138</u>

WOODLAND CHILD DEVELOPMENT CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Program Services</u>		Total
	<u>Child Care</u>	Mngt and <u>Genl Expenses</u>	<u>2008</u>
<u>Salaries and Related Expenses:</u>			
Salaries	\$ 670,642	\$ 91,451	\$ 762,093
Employee benefits	62,712	8,552	71,264
Payroll taxes	<u>54,380</u>	<u>7,415</u>	<u>61,795</u>
 Total salaries and related expenses	 787,734	 107,418	 895,152
 Advertising	 13,757	 0	 13,757
Conferences and training	3,399	463	3,862
Contracted services	18,090	2,467	20,557
Equipment expenses	4,830	420	5,250
Interest expense	56,736	4,934	61,670
Local transportation	96	287	383
Miscellaneous	5,536	481	6,017
Occupancy	100,924	8,776	109,700
Postage	116	348	464
Property taxes	9,839	1,342	11,181
Special assistance to individuals	29,401	0	29,401
Supplies for classroom and office	10,705	1,460	12,165
Supplies food	120,623	0	120,623
Telephone	<u>1,730</u>	<u>1,730</u>	<u>3,460</u>
 Total expenses before depreciation	 1,163,516	 130,126	 1,293,642
 Loss on disposal of asset	 666	 91	 757
Depreciation and amortization	<u>60,808</u>	<u>8,292</u>	<u>69,100</u>
 TOTAL EXPENSES	 <u>\$ 1,224,990</u>	 <u>\$ 138,509</u>	 <u>\$ 1,363,499</u>

WOODLAND CHILD DEVELOPMENT CENTER, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>2008</u>
<u>OPERATING ACTIVITIES:</u>	
Contributions received	\$ 21,263
Program revenue	1,195,355
Grant revenue	92,428
Lake Area United Way allocation	50,952
Special events	2,587
Interest income	1,795
Miscellaneous income	531
Cash paid for expenses	<u>(1,297,728)</u>
Net cash provided by operating activities	<u>67,183</u>
<u>INVESTING ACTIVITIES:</u>	
Sale of equipment	5,304
Purchase of equipment	<u>(9,776)</u>
Net cash used by investing activities	<u>(4,472)</u>
<u>CASH FLOWS USED FOR FINANCING ACTIVITIES:</u>	
Mortgage	(47,647)
Line of credit	<u>(1,354)</u>
Net cash used by financing activities	<u>(49,001)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,710
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>186,176</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 199,886</u>
<u>RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
<u>OPERATING ACTIVITIES:</u>	
Change in net assets	\$ 416
Add non-cash items	
Depreciation	69,100
Loss on disposal of asset	(4,547)
Decrease (increase) in assets:	
Child care fees receivable	7,219
Increase (decrease) in liabilities:	
Accounts payable	200
Accrued payroll and deductions	4,965
Accrued property taxes	<u>(170)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>\$ 77,183</u>

WOODLAND CHILD DEVELOPMENT CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Woodland Child Development Center, Inc. is a non-profit agency in Northwest Indiana that provides quality childcare and early learning programs for families with infants through twelve years of age. The program is accredited by the National Association for the Education of Young Children.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting, which is used for both income tax and financial reporting purposes.

Financial Statement Presentation - The Organization has adopted 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. Contributions whose restrictions are met in the same period as the recognition of the contribution are considered unrestricted for reporting purposes. There were no permanently restricted net assets at December 31, 2008.

Contributions - The Organization has also adopted SFAS No. 116 "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Use of Estimates in Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates of revenues and expenses during the reporting period.

Cash and Cash Equivalents - Cash, as presented on the accompanying statement of financial position and statement of cash flows, includes cash on hand and deposits in interest bearing and non-interest bearing accounts in financial institutions. Cash equivalents consist of highly liquid accounts with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments and stated at cost, which approximates market value.

WOODLAND CHILD DEVELOPMENT CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Concentration of Credit Risk - The Organization occasionally has balances in bank accounts that exceed federally insured limits.

Child Care Fees Receivable - The Organization records the child care revenue when it is earned. Reimbursement through the state voucher program is recorded as a receivable when it is earned. Uncollectable receivables are directly written off. These amounts are generally immaterial.

Land, Buildings, and Equipment - The organization capitalizes expenses with an expected useful life of more than one year, as determined by management. The fair market value of donated assets is also capitalized. Depreciation expense is computed using straight-line methods over the estimated useful life of the assets. When assets are retired or otherwise disposed of, the cost of related accumulated depreciation are removed from the accounts and any gain or loss resulting from the transactions is recognized as income for the period. The cost of repairs and maintenance is charged to income as incurred; significant renewals and betterments are capitalized.

Income Taxes - Woodland Child Development Center, Inc. is a not-for-profit corporation organized under the laws of the State of Indiana. The Internal Revenue Service has given the Organization a favorable determination under Section 501 (c) (3) of the Internal Revenue Code, exempting the Organization from taxation.

Contributed (In-Kind) Services, Materials, and Facilities - Certain contributed services, food, household supplies and facilities are recorded support and expensed at fair market value when determinable, otherwise at values indicated by the donor. Volunteer services neither create nor enhance non-financial assets and do not require specialized skills, and thus are not recognized as support in the accompanying Statement of Activities. Nevertheless, a substantial number of volunteers donated significant amounts of their time in the Organizations' program services.

Compensated Absences - It is impracticable to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The association's policy is to recognize the costs of compensated absences when actually paid to employees.

Advertising - Advertising costs are included in operating expenses and are expensed as incurred. Advertising expense was \$13,757 for the year ended December 31, 2008.

WOODLAND CHILD DEVELOPMENT CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 2 - LAND, BUILDINGS, AND EQUIPMENT

Depreciation expense was \$69,100 for the year ended December 31, 2008.

Land, buildings and equipment consist of the following at December 31, 2008:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 120,205	\$ 0	\$ 120,205
Buildings	1,889,212	280,577	1,608,635
Equipment	<u>189,988</u>	<u>149,184</u>	<u>40,804</u>
Total property and equipment - net	<u>\$ 2,199,405</u>	<u>\$ 429,761</u>	<u>\$ 1,769,644</u>

NOTE 3 - PROFIT SHARING PLAN

The Organization has a profit sharing plan effective January 1, 1993. Employees must meet age and service requirements to be eligible for the profit sharing plan. At December 31, 2008, there are no un-funded retirement plan costs. The Organization made no discretionary contributions during 2008.

NOTE 4 - LEASES

The Organization leases the land on which they are located from the Parks District of the City of Hammond for \$10 per year.

The Organization leases an office copier for \$284 each month, \$3,408 each year through 2011.

NOTE 5 - LINE OF CREDIT

The Organization has an available line of credit for \$25,000 with Peoples Bank obtained on January 16, 2008 for a period of one year. The line of credit expires January 16, 2009 and has an interest rate of 4.5% that can vary by 0.5% greater than the Wall Street Journal Prime Variable. At December 31, 2008 the loan balance was \$4,617.

WOODLAND CHILD DEVELOPMENT CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 6 - NOTE PAYABLE

The Organization had the following debt outstanding at December 31, 2008:

Mortgage Loan

Payable to Peoples Bank, bearing interest at 7.75%, due in monthly payments of \$9,081 and one final payment of \$594,232 due January 16, 2012, secured by the building, all the equipment, fixtures, and other property in the building and the leasehold with the Parks Department of the City of Hammond. \$ 756,174

Total notes payable	756,174
Less: current portion	<u>52,191</u>
Long - term debt	<u>\$ 703,983</u>

The following are maturities of debt over the next four years:

2009	\$ 52,191
2010	56,383
2011	60,911
2012	<u>586,689</u>
Total	<u>\$ 756,174</u>

NOTE 7 - GOVERNMENT FUNDS RECEIVED

The Organization is a contracted provider with the Indiana Family and Social Services Administration to provide day care to eligible participants through the Lake County Child Care Voucher Program. The total funds received for day care were \$588,205. Also, under a contract with the Indiana Family and Social Services Administration, Title XX funds were received for day care in the amount of \$76,861 for 2008.

The Organization provided meals to participants on a paid, reduced, or free basis as part of the U.S. Department of Agriculture through the Indiana Department of Education Child and Adult Food Program. The total funds received under this program were \$86,370 for 2008.

NOTE 8 - TEMPORARILY RESTRICTED GRANT FUNDS

During 2007 the Organization received a grant from the Anderson Foundation for \$10,000 for technology media and communication equipment. As of December 31, 2008 these funds have been expended.

May 12, 2009

To the Board of Directors
Woodland Child Development Center, Inc.

We have audited the financial statements of Woodland Child Development Center, Inc. for the year ended December 31, 2008, and have issued our report thereon dated May 18, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 5, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Woodland Child Development Center, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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:

Management's estimate of the useful life of the fixed assets is based on the client's estimate using Generally Accepted Accounting Standards. We evaluated the key factors and assumptions used to develop the useful life of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure in Note 7 regarding the concentration of the organization's revenue. This revenue source requires additional testing during the audit.

Difficulties Encountered in Performing the Audit

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



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or 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 financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 18, 2009.

Management 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.

Other Audit Findings or Issues

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.

This information is intended solely for the use of board of directors and management of Woodland Child Development Center, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

McMahon and Associates Certified Public Accountants, P.C.

McMahon and Associates Certified Public Accountants, P.C.

To the Board of Directors
and Management of Woodland Child Development Center, Inc.

In planning and performing our audit of the financial statements of Woodland Child Development Center, Inc. as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Woodland Child Development Center, Inc.'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.

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 a 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.

A material weakness is a significant deficiency, or a 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 organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we do offer the following recommendations that we believe will improve the efficiency and operating effectiveness of Woodland Child Development Center, Inc.

Collection of Accounts Receivable

During our analysis of accounts receivable, we noted Woodland Child Development Center, Inc. continues to have a problem collecting certain outstanding balances. Although steps have been taken to improve collections, such as using a collections agency, collections on past due balances remain lower than would be expected. We suggest that you continue to enforce your payment policy and review the process for turning over customers to collections. In reviewing the list of customers that have been turned over to collections, it appears that very little has been collected on balances. The board and management may want to investigate a different collection agency or other options to collecting these balances.



The year-end accounts receivable aged trial balance that was presented to us for audit purposes indicates that a large percentage of receivables are over 120 days old, and several accounts are as much as several years old. We believe that some of these accounts are not collectable at this point in time. We suggest that management review the accounts receivable listing from their billing system, determine what is collectible, and write-off balances that are determined to be uncollectible. This will allow for a more accurate accounts receivable listing that can be reviewed on a monthly basis.

Accounts Payable

During our analysis of accounts payable we noted that the client does not enter invoices into the system until they are paid. In essence, the Center operates on a cash basis, and all reports from the system are produced on a cash basis. Generally accepted accounting principles state that financial information should be presented on the accrual basis. The advantage of the accrual basis for internal reporting purposes is that the agency can print a report of bills at any time that have been received and are due. Although an open invoice file is maintained for all open invoices that remain to be paid, it does not maintain the books on an accrual basis. Also, it can be inefficient and more cumbersome and error prone as the transaction volume grows. A practical alternative would be the use of the accounts payable system that is a component of the computer accounting package currently in use. Under this method, a vendor's invoice is recorded in an accounts payable journal upon receipt and approval. At any given point in time, a listing of open/unpaid invoices can be produced from the system. This listing should match all items in the open invoice file at all times. This procedure would make available on a virtually automatic basis a monthly list of unpaid invoices. This practice would allow for a much stronger control over the accounts payable and the amounts reflected in the financial statements.

Bank Reconciliations

Our audit revealed that the Center does not produce monthly bank reconciliations that agree to the general ledger. We believe that the Center should prepare monthly bank reconciliations that include the reconciliation of the bank balance and the balance per the general ledger. It is important to reconcile that bank statement and agree it to the general ledger on a monthly basis. Also, a correct bank reconciliation would produce a visible monthly summary of activity. If differences are investigated each month, they will also be easier to detect and correct.

Software Usage

We noted during our audit that the staff is not particularly versatile in their use of the current software system. The staff appears to rely on the outside accounting consultant to produce needed reports. We believe that the staff should receive additional training on the software so that management can use the program to its maximum potential. The staff and management could greatly be served if their ability to produce financial and operating reports was improved. We strongly recommend that management and staff become more proficient in the software and its capabilities

Board Review of the Tax Return

The revised 990 tax return for nonprofits has expanded the reporting requirements regarding board activities and policies. We are recommending to all our nonprofit boards that the board review the 990 before it is filed with the IRS. This will insure that all board questions are answered correctly. Also, with greater accountability and transparency for nonprofits, the board needs to be aware of what is required of them. We can help you with any formal Board Code of Conduct or other documents that you may need to become compliant.

Disaster Recovery Plan

The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing EDP facilities. We suggest that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Location of, and access to, off-site storage
- A listing of all data files that would have to be obtained from the off-site storage location
- Identification of a back-up location (name and telephone number) with similar or compatible equipment for emergency processing (Management should make arrangements for such back-up with another company, a computer vendor, or a service center. The agreement should be in writing.)
- Responsibilities of various personnel in an emergency
- Priority of critical applications and reporting requirements during the emergency period

Corporate Policy on Misconduct

An effective method of communicating and reinforcing an antifraud culture within an organization is through the development of a policy on misconduct. A misconduct policy communicates to all employees the organizational position and policy on matters such as the following:

- Risks that the organization faces from fraud, abuse, and other forms of misconduct
- Effect of the Code of Conduct
- Definitions of misconduct including fraud and abuse
- Employee's responsibility to report suspected misconduct (including an established reporting mechanism, such as a member of the Board, a consultant or advisor, hotline service, etc.)

- Organizational responsibility to investigate
- Disciplinary action for violations

We further suggest that the policy on misconduct be acknowledged and signed by each employee on an annual basis as evidence of their reaffirmation that they understand the policy and have complied with its provisions. An effective organizational practice that implements a misconduct policy and the annual reaffirmation will greatly strengthen its internal policies to prevent the occurrence of fraud and abuse.

We are appreciative of the cooperation and assistance we received during our audit process from the Center, management and staff. This cooperation allows the audit to be performed in an efficient and organized manner, which in turn makes the process less stressful for all.

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

McMahon and Associates Certified Public Accountants, P.C.

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May 18, 2009