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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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January 20, 2010

Board of Directors
Fairlawn Children's Center Program of
Fairlawn United Methodist Church
2000 S. Alvord Blvd.
Evansville, IN 47714

We have reviewed the audit report prepared by Kemper CPA Group, LLP, Independent Public Accountants, for the period January 1, 2007 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 Fairlawn Children's Center Program of Fairlawn United Methodist Church, as of December 31, 2008, and the results of its operations for the two-year 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 two comments.

STATE BOARD OF ACCOUNTS

FAIRLAWN CHILDREN'S CENTER
PROGRAM OF
FAIRLAWN UNITED METHODIST CHURCH
EVANSVILLE, INDIANA

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

Two-Year Period Ended December 31, 2008

FAIRLAWN CHILDREN'S CENTER
PROGRAM OF FAIRLAWN UNITED METHODIST CHURCH

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fairlawn United Methodist Church
Evansville, Indiana

We have audited the accompanying statement of financial position of Fairlawn Children's Center Program of Fairlawn United Methodist Church (a nonprofit organization) as of December 31, 2008, and the related statements of activities and cash flows for the two-year period 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements being presented are only for the Fairlawn Children's Center (Center) which is a program of Fairlawn United Methodist Church (Church). Our audit was only of the Center and not of the Church as a whole. Accordingly, the accompanying financial statements are not intended to present the financial position of Fairlawn United Methodist Church as of December 31, 2008, or its results of operations for the two-year period then ended in conformity with generally accepted accounting principles.

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To the Board of Directors
Fairlawn United Methodist Church

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fairlawn Children's Center as of December 31, 2008 and the changes in its net assets and cash flows for the two-year period then ended in conformity with accounting principles generally accepted in the United States of America.

Kemper CPA Group LLP

July 23, 2009

Certified Public Accountants and Consultants

FAIRLAWN CHILDREN'S CENTER
PROGRAM OF FAIRLAWN UNITED METHODIST CHURCH

STATEMENT OF FINANCIAL POSITION

ASSETS	December 31, 2008
Current Assets	
Cash	$ 64,741
Accounts receivable	11,394
Total Current Assets	76,135
Property and Equipment	
Day care equipment and furniture	49,276
Playground equipment	25,868
Improvements	86,902
Total	162,046
Less accumulated depreciation	37,552
Net Property and Equipment	124,494
	$200,629

LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	$ 1,828
Payroll withholdings – pension	245
Accrued salaries	8,368
Total Current Liabilities	10,441
Net Assets, unrestricted	190,188
	$200,629

See accompanying notes.

FAIRLAWN CHILDREN'S CENTER
PROGRAM OF FAIRLAWN UNITED METHODIST CHURCH

STATEMENT OF ACTIVITIES

	Two-Year Period Ended December 31, 2008
Changes in unrestricted net assets:	
Revenues and Support	
Day Care Service Fees	
Family Social Service Administration – CCDF	$485,872
Other	166,682
Total Day Care Service Fees	652,554
Division of School Food and Nutrition	94,679
Interest income	655
Miscellaneous	3,758
Total Revenues and Support	751,646
Expenses	
Salaries	456,153
Payroll taxes	34,167
Advertising	3,812
Care of building and grounds	25,933
Depreciation	19,846
Fees and bank charges	685
Food costs and related products	65,070
Occupancy cost	70,185
Professional fees	5,650
Supplies, printing costs, and postage	13,707
Telephone	1,474
Travel and conferences	14,116
Total Expenses	710,798
INCREASE IN UNRESTRICTED NET ASSETS	40,848
Net Assets at Beginning of Period	149,340
NET ASSETS AT END OF PERIOD	$190,188

See accompanying notes.

FAIRLAWN CHILDREN'S CENTER
PROGRAM OF FAIRLAWN UNITED METHODIST CHURCH

STATEMENT OF CASH FLOWS

	Two-Year Period Ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in unrestricted net assets	$40,848
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	19,846
(Increase) decrease in:	
Accounts receivable	7,126
Increase (decrease) in:	
Accounts payable – trade	(1,601)
Accrued salaries	4,196
NET CASH PROVIDED BY OPERATING ACTIVITIES	70,415
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(97,829)
NET CASH USED IN INVESTING ACTIVITIES	(97,829)
DECREASE IN CASH	(27,414)
CASH AT BEGINNING OF PERIOD	92,155
CASH AT END OF PERIOD	$64,741

See accompanying notes.

FAIRLAWN CHILDREN'S CENTER
PROGRAM OF FAIRLAWN UNITED METHODIST CHURCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

Note 1 – Summary of Significant Accounting Policies

Nature of Activities

Fairlawn Children's Center, located in Evansville, Indiana, is a program of Fairlawn United Methodist Church. The Center provides child care for children and helps them to develop socially, emotionally, intellectually, physically, and spiritually while enrolled at the Children's Center. The Center is supported primarily through grants and day care service fees. The Church's administrative council is the governing board of the Children's Center. The accompanying financial statements represent only the Children's Center Program and not the Church as a whole.

Basis of Accounting

The financial statements of Fairlawn Children's Center Program of Fairlawn United Methodist Church have been prepared on the accrual basis of accounting. This method of accounting recognizes revenue when earned and expenses when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Center is required to report information regarding this financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Center has only unrestricted net assets at December 31, 2008.

Cash

Cash consists of demand deposit accounts with one local financial institution. The accounts are insured by the Federal Deposit Insurance Company (FDIC) up to $250,000. At December 31, 2008, the Center had no amounts in excess of the FDIC insurance.

Note 1 – Summary of Significant Accounting Policies (Concluded)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. The Center had no allowance for doubtful accounts at December 31, 2008.

Property, Equipment, and Depreciation

The Center operates in facilities owned by the Fairlawn United Methodist Church. Expenditures for equipment are carried at cost or if donated, at the approximate fair market value at the date of donation. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from five to fifteen years.

Use of Estimates

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

Income Tax Status

Fairlawn United Methodist Church qualifies as a not-for-profit organization under Internal Revenue Code Section 501(c)(3) and is exempt from federal income tax. The Church has been determined to not be a private foundation.

Note 2 – Accounts Receivable

Accounts receivable at December 31, 2008 consisted of the following:

State of Indiana:	
Division of School Food and Nutrition	$ 2,651
Indiana Family and Social Services Administration	7,512
Day Care Service Fees	1,231
	$11,394

Note 3 – Retirement Benefits

The Center participates in a contributory retirement plan administered by the General Board of Pensions of the United Methodist Church. All full-time employees who are 21 years of age and have been employed by the Center for at least one year are eligible to participate on dates beginning January 1 or July 1. The Center does not provide matching contributions to the plan.

Note 4 – Related Party Transactions

Occupancy expense is paid to the operating fund of Fairlawn United Methodist Church. The amount to be paid is determined annually by the Administrative Council and not by a cost allocation plan. Total occupancy expense paid to the operating fund of Fairlawn United Methodist Church for the two-year period ended December 31, 2008 was $70,185.

Note 5 - Concentration

The Center derived 79% of its revenue from State sources for the two years ended December 31, 2008.

To the Administrative Council
Fairlawn United Methodist Church
5401 Vogel Road, Ste. 410
Evansville, Indiana 47715

In planning and performing our audit of the financial statements of Fairlawn Children's Center (Center) Program of Fairlawn United Methodist Church as of and for the two years ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Center'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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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 certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses. 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 entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Preparation of Financial Statements

The Center has inadequate control over its financial reporting process. The Center lacks the necessary personnel with expertise in preparing financial statements in accordance with generally accepted accounting principles. During the audit two material adjusting entries had to be made so that the financial statements would be presented accurately. These entries were to record accounts receivable at year end and to reclassify equipment from repair and maintenance expense to the appropriate asset account.

Segregation of Duties

There is a lack of segregation of duties in the accounting process. The Director receives payments from parents and also prepares and takes the deposits to the bank. The Office Manager is responsible for issuing checks for disbursements and is also the authorized signer on all checks.

There are not adequate controls over cash receipts. There is no independent verification of the amount of checks and cash that is received and recorded on the deposit slips for co-pays.

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

Kemper CPA Group LLP
Certified Public Accountants and Consultants
Evansville, Indiana

July 23, 2009