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February 2, 2010

Board of Directors
Tippecanoe County Child Care, Inc.
100 Saw Mill Rd., #3300
P.O. Box 749
Lafayette, IN 47902

We have reviewed the audit report prepared by Huth Thompson, LLP, Independent Public Accountants, for the period January 1, 2007 to December 31, 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 Tippecanoe County Child Care, Inc., as of December 31, 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. Pages 22 through 25 contain five current audit findings. Pages 28 through 32 contain the status of five prior audit findings. Management's corrective action plan is on pages 33 and 34.

STATE BOARD OF ACCOUNTS



TIPPECANOE COUNTY CHILD CARE, Inc.

Financial Statements

TIPPECANOE COUNTY CHILD CARE, INC.

DECEMBER 31, 2007 AND 2006

TIPPECANOE COUNTY CHILD CARE, INC.

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors
 Tippecanoe County Child Care, Inc.
 Lafayette, Indiana

We have audited the accompanying statements of financial position of Tippecanoe County Child Care, Inc. as of December 31, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 Tippecanoe County Child Care, Inc. as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2008 on our consideration of Tippecanoe County Child Care, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 important for assessing the results of our audits.

Our audits were conducted 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. The accompanying schedule of expenditures of state and local awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

Huth Thompson LLP

June 26, 2008
 Lafayette, Indiana



TIPPECANOE COUNTY CHILD CARE, INC.

STATEMENTS OF FINANCIAL POSITION

As of December 31,

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash, including Interest Bearing Accounts of \$74,031 and \$57,881 in 2007 and 2006, Respectively	\$74,123	\$57,953
Accounts Receivable	8,603	8,055
Grants Receivable	182,012	123,215
Program Accounts Receivable	95,211	78,701
Unconditional Promises to Give-- United Way Funding for Next Fiscal Year	500,000	500,000
Inventory	763	569
Prepaid Expenses	11,286	12,787
TOTAL CURRENT ASSETS	871,998	781,280
PROPERTY, PLANT AND EQUIPMENT		
Building	748,832	750,619
Leasehold Improvements	54,657	63,668
Equipment, Furniture and Fixtures	298,700	432,815
	1,102,189	1,247,102
Accumulated Depreciation	(583,746)	(657,426)
	518,443	589,676
OTHER ASSETS		
Intangible Asset--Condo	2,000	2,000
	\$ 1,392,441	\$ 1,372,956

See Notes to Financial Statements.

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 12,067	\$ 19,352
Accounts Payable--		
Vendors	87,341	92,949
Providers	74,472	35,774
Refundable Advance--IFSSA	-	47,689
Accrued Expenses--		
Salaries and Payroll Taxes	35,887	36,746
Vacation	37,943	50,402
Employee Withholding and Benefits	<u>2,102</u>	<u>812</u>
TOTAL CURRENT LIABILITIES	249,812	283,724
LONG-TERM DEBT, Less Current Portion	<u>58,583</u>	<u>70,542</u>
TOTAL LIABILITIES	308,395	354,266
NET ASSETS		
Unrestricted	567,015	508,853
Temporarily Restricted	<u>517,031</u>	<u>509,837</u>
	<u>1,084,046</u>	<u>1,018,690</u>
	<u>\$ 1,392,441</u>	<u>\$ 1,372,956</u>

TIPPECANOE COUNTY CHILD CARE, INC.

STATEMENTS OF ACTIVITIES

For Years Ended December 31,

2007

2006

	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED
SUPPORT AND REVENUE						
Public Support						
United Way Grants and Allocations	\$ 511,208	\$ 1,715	\$ 509,493	\$ 536,572	\$ 12,279	\$ 524,293
Contributions	25,900	4,410	21,490	20,405	13,445	6,960
Special Events	12,158	12,158	-	17,357	17,357	-
Less: Direct Costs to Donors	(3,260)	(3,260)	-	(5,552)	(5,552)	-
Net Special Events	8,898	8,898	-	11,805	11,805	-
	546,006	15,023	530,983	568,782	37,529	531,253
Program Services						
Grants	1,316,529	1,316,529	-	1,352,604	1,352,604	-
Program Fees	1,872,267	1,872,267	-	1,574,384	1,574,384	-
Miscellaneous	3,966	3,966	-	4,635	4,635	-
	3,192,762	3,192,762	-	2,931,623	2,931,623	-
Other Income						
Interest Income	479	479	-	544	544	-
	479	479	-	544	544	-
	-	523,789	(523,789)	-	545,154	(545,154)
NET ASSETS RELEASED FROM RESTRICTIONS						
TOTAL SUPPORT AND REVENUE	3,739,247	3,732,053	7,194	3,500,949	3,514,850	(13,901)
EXPENSES						
Program Services	3,348,150	3,348,150	-	3,203,592	3,203,592	-
Management and General Fundraising	308,972	308,972	-	325,175	325,175	-
	5,577	5,577	-	4,861	4,861	-
TOTAL EXPENSES	3,662,699	3,662,699	-	3,533,628	3,533,628	-
INCREASE (DECREASE) IN NET ASSETS BEFORE (LOSS) ON DISPOSAL OF ASSETS	76,548	69,354	7,194	(32,679)	(18,778)	(13,901)
(LOSS) ON DISPOSAL OF ASSETS	(11,192)	(11,192)	-	(6,400)	(6,400)	-
INCREASE (DECREASE) IN NET ASSETS	65,356	58,162	7,194	(39,079)	(25,178)	(13,901)
NET ASSETS--Beginning of Year	1,018,690	508,853	509,837	1,057,769	534,031	523,738
NET ASSETS--End of Year	\$ 1,084,046	\$ 567,015	\$ 517,031	\$ 1,018,690	\$ 508,853	\$ 509,837

See Notes to Financial Statements

TIPPECANOE COUNTY CHILD CARE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For Years Ended December 31,

	TOTAL		PROGRAM SERVICES		MANAGEMENT AND GENERAL		FUNDRAISING	
	2007	2006	2007	2006	2007	2006	2007	2006
Salaries	\$1,859,603	\$1,769,473	\$1,674,105	\$1,602,299	\$185,498	\$167,174	\$	\$
Employee Benefits	194,534	196,960	172,030	169,547	22,504	27,413	-	-
Payroll Taxes	150,088	146,795	134,655	134,096	15,433	12,699	-	-
Professional Fees and Contractual Services	134,731	165,751	84,890	94,982	49,841	70,769	-	-
Supplies	67,085	97,223	60,045	89,593	5,308	6,478	1,732	1,152
Food	280,752	248,268	280,752	248,268	-	-	-	-
Telephone	16,215	16,710	15,825	16,351	390	359	-	-
Postage and Shipping	9,329	8,730	8,171	6,982	1,158	1,737	-	11
Occupancy	192,015	193,514	187,944	192,247	4,071	1,267	-	-
Printing and Publications	15,721	16,347	9,310	8,854	6,411	7,493	-	-
Professional Development	19,413	10,310	18,568	7,266	845	3,044	-	-
Travel and Transportation	39,423	34,474	38,918	30,726	505	3,748	-	-
Equipment	21,198	20,960	20,114	14,217	1,084	6,743	-	-
Insurance	51,285	54,037	49,370	51,863	1,915	2,174	-	-
Dues and Licenses	12,974	6,255	10,410	5,695	2,564	560	-	-
Program Expenses	15,727	13,861	9,242	7,584	2,640	2,579	3,845	3,698
Other Expenses	3,011	6,573	1,031	5,031	1,980	1,542	-	-
Day Care Homes	491,026	440,580	491,026	440,580	-	-	-	-
Bank Charges	355	192	206	156	149	36	-	-
Advertising	11,865	7,511	10,459	7,173	1,406	338	-	-
Bad Debt Expense	11,167	8,677	11,167	8,677	-	-	-	-
Interest	5,141	6,321	4,363	6,266	778	55	-	-
Total Expenses	3,602,658	3,469,522	3,292,601	3,148,453	304,480	316,208	5,577	4,861
Before Depreciation	60,041	64,106	55,549	55,139	4,492	8,967	-	-
Depreciation	\$ 3,662,699	\$ 3,533,628	\$ 3,348,150	\$ 3,203,592	\$ 308,972	\$ 325,175	\$ 5,577	\$ 4,861

See Notes to Financial Statements.

TIPPECANOE COUNTY CHILD CARE, INC.

STATEMENTS OF CASH FLOWS
For Years Ended December 31,

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 65,356	\$ (39,079)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities--		
Depreciation	60,041	64,106
Loss on Disposal of Assets	11,192	6,400
Refundable Advance--IFSSA Allowed Cost	(47,689)	(10,248)
(Increase) Decrease in Current Assets--		
Accounts Receivable	(548)	(1,116)
Grants Receivable	(58,797)	32,622
Program Accounts Receivable	(16,510)	4,319
Prepaid Expenses	1,501	(3,285)
Inventory	(194)	445
Increase in Current Liabilities--		
Accounts Payable and Accrued Expenses	21,062	23,372
NET CASH PROVIDED BY OPERATING ACTIVITIES	35,414	77,536
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	-	(27,716)
NET CASH (USED) BY INVESTING ACTIVITIES	-	(27,716)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Refundable Advance--IFSSA	-	(31,576)
Payments on Long-Term Debt	(19,244)	(18,023)
NET CASH (USED) BY FINANCING ACTIVITIES	(19,244)	(49,599)
INCREASE IN CASH	16,170	221
CASH--Beginning of Year	57,953	57,732
CASH--End of Year	\$ 74,123	\$ 57,953
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year For--		
Interest	\$ 5,141	\$ 7,440

See Notes to Financial Statements.

TIPPECANOE COUNTY CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of Tippecanoe County Child Care, Inc.'s significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

- A) Nature of Operations--Tippecanoe County Child Care, Inc. (the Organization) provides childcare for children of low-income, working parents at five sites in Lafayette and West Lafayette, Indiana. The Organization is supported primarily through grants, program fees and the United Way.
- B) 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.
- C) Cash and Cash Equivalents--For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments with original maturities of three months or less when purchased to be cash equivalents. There were no cash equivalents as of December 31, 2007 and 2006.
- D) Accounts, Grants, and Programs Receivable--Accounts receivable include reimbursements owed to the Organization. Grants receivable include various federal, state, and local claim amounts owed to the Organization for services provided to the public along with additional grants awarded to the Organization from other sources. Programs receivable includes program fees owed to the Organization. Accounts, grants, and programs receivable are charged directly against income when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.
- E) Inventory--Inventory is stated at the lower of cost or market. Inventory consists of office supplies on hand. Cost is determined using the first-in, first-out method.
- F) Property and Equipment--Property and equipment are stated at cost, less accumulated depreciation. If donated, the cost is the fair market value at the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on the straight-line method. Maintenance, repairs, and minor renewals are charged to operations as incurred. Improvements and major renewals are capitalized. Upon the sale or disposition of properties, the asset account is relieved of the cost and

TIPPECANOE COUNTY CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

- F) Property and Equipment (Continued)--the accumulated depreciation account is charged with depreciation taken prior to the sale. Any resultant gain or loss is credited or charged to operations. Depreciation expense was \$60,041 and \$64,106 for the years ended December 31, 2007 and 2006, respectively. The Organization's policy is to capitalize fixed assets additions that exceed \$2,500.
- G) Net Assets--In accordance with the Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-for-Profits*, the Organization records its net assets in each of the following classes:
- (1) *Unrestricted Net Assets*--Net assets that are not subject to donor-imposed stipulations.
 - (2) *Temporarily Restricted Net Assets*--Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.
 - (3) *Permanently Restricted Net Assets*--Net assets subject to donor-imposed restrictions that stipulate the assets be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets, depending on the restriction. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restrictions on gifts of fixed assets or contributions restricted for the purchase of fixed assets expire when the asset is placed in service, unless otherwise stipulated by the donor. This method of accounting is also followed when the restrictions on contributions are met in the same period that the contributions were received.

- H) Promises to Give--Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction

TIPPECANOE COUNTY CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

- H) Promises to Give (Continued)--expires, temporarily restricted net assets are reclassified to unrestricted net assets.
- I) Donated Goods and Services--The Organization records various types of in-kind support including property and equipment, professional services, and materials. Property and equipment donated are capitalized on the basis explained in Note 1F. Contributed professional services are recognized if the services either create or enhance long-lived assets, or require specialized skills that would typically need to be purchased if not provided by the donation. Contributions of supplies and materials are recognized at fair market value when received. For both years ended December 31, 2007 and 2006, in-kind contributions amounted to \$-0-.

The Organization also receives donations of time from volunteers that do not meet the two recognized criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the financial statements.

- J) Income Taxes--The Organization is a not-for-profit voluntary health and welfare organization incorporated under the laws of the State of Indiana and as such is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a)(1) of the code.
- K) Advertising--Advertising costs are expensed as incurred. During 2007 and 2006, advertising costs totaled \$11,865 and \$7,511, respectively.
- L) Functional Allocation of Expenses--The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

TIPPECANOE COUNTY CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 2: GRANT REVENUE

For the years ended December 31, grant revenue consisted of the following:

	2007	2006
Child Care and Development Fund--Intake Fees*	\$ 110,814	\$ 90,404
Child Care and Development Fund--Administrative*, **	47,689	-
Child Care and Development Fund--Child Care Contract*	-	216,482
Child and Adult Care Food Program	754,031	683,787
Community Development Block Grants	42,535	43,955
Latch Key*	32,859	30,700
CCDF Resource and Referral*	314,351	264,391
Other Grants	14,250	22,885
	<u>\$ 1,316,529</u>	<u>\$ 1,352,604</u>

*The funding from these grants is received directly and indirectly from the State of Indiana Family Social Services Administration (IFSSA). For the years ended December 31, 2007 and 2006, approximately 16% and 20%, respectively, of the total revenue is funded through IFSSA in the form of grants.

**For explanation regarding these funds see Note 10.

NOTE 3: LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	2007	2006
Note Payable to Bank--		
Monthly payments of \$2,032, including interest at 6.25%. Due March 2008. Subsequent to year end, the Organization refinanced the note payable. Beginning April 2008, monthly payments of \$1,328 including interest at 6.75%. Due March 2013. Note is unsecured.	\$ 70,650	\$ 89,894
Less Current Maturities	(12,067)	(19,352)
	<u>\$ 58,583</u>	<u>\$ 70,542</u>

TIPPECANOE COUNTY CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 3: LONG-TERM DEBT (Continued)

Aggregate maturities of long-term debt consist of the following at December 31:

2008	\$	12,067
2009		12,363
2010		13,223
2011		14,145
2012		15,132
Thereafter		<u>3,720</u>
	\$	<u>70,650</u>

NOTE 4: LEASES

The Organization leases space for its Centers and its administrative office under leases expiring at various dates through July 2009. Expense for these leases for the years ended December 31, 2007 and 2006 was \$109,373 and \$99,583, respectively. Options to extend various leases beyond the lease term exist. However, the Organization has not exercised these options. The Organization leases the land for the Dennis Burton Center. The cost of this lease is \$1 for a 25-year lease ending in 2013. The Organization may then extend its lease for an additional 25 years at that time at the cost of \$1. The facility will revert to the lessor at the completion of the lease term.

The Organization also leases copiers under a lease expiring in March 2013. Monthly lease payments total \$1,100. Expense for office equipment leases for the years ended December 31, 2007 and 2006 was \$13,200 and \$12,556, respectively.

TIPPECANOE COUNTY CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 4: LEASES (Continued)

The total annual lease obligations for the facilities and equipment under operating leases as of December 31 are as follows:

2008	\$	68,130
2009		34,277
2010		9,540
2011		9,540
2012		9,540

NOTE 5: CONCENTRATION OF CREDIT RISK AND MAJOR SOURCES OF REVENUE

The Organization's major source of receivables and revenue is federal awards, passed through from state and local agencies. The agreements with these agencies specify that funding is conditional upon the availability of funds from federal sources.

During 2007 and 2006, the Organization received 42% and 39%, respectively, in grants and program fees of its total revenue directly and indirectly from the State of Indiana Family Social Services Administration (IFSSA) in each year. For both years ended December 31, 2007 and 2006, the Organization received grants totaling 20% of its total revenue from the U.S. Department of Agriculture via the State of Indiana, Department of Education. Additionally, one non-governmental grantor accounted for 14% and 15% of the total support and revenue for the years ended December 31, 2007 and 2006, respectively.

The Organization places its cash in accounts with a local financial institution. At times such accounts may be in excess of FDIC insured limits. As of December 31, 2007 and 2006 the Organization had deposits in excess of FDIC insured limits by \$-0- and \$11,282, respectively.

NOTE 6: PENSION PLAN

The Organization may make a matching contribution equal to a discretionary percentage of the participants' elected deferrals. For the years ended December 31, 2007 and 2006, the Organization matched fifty cents on every dollar of elected deferrals up to 2% of an employee's wages after one year of service. Pension expense for the years ended December 31, 2007 and 2006 was \$13,662 and \$13,692, respectively.

TIPPECANOE COUNTY CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 7: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31:

	2007	2006
Purpose Restrictions--		
Infant and Toddler Program at Durgan	\$ 137	\$ 1,601
Outdoor Play Equipment	6,857	857
Bowling Trip	-	35
Purpose and Time Restrictions--		
Capital Grants	10,037	7,344
Time Restriction--		
United Way Funding for Next Fiscal Year	500,000	500,000
	\$ 517,031	\$ 509,837

Included in cash as of December 31, 2007 and 2006, respectively is \$6,994 and \$2,493 of temporarily restricted funds.

NOTE 8: ACCUMULATED VACATION

Employees of the Organization are entitled to paid vacation depending on length of service and other factors. As of December 31, 2007 and 2006, accumulated vacation leave is estimated at \$37,943 and \$50,402, respectively, and has been accrued.

NOTE 9: COLLABORATION AGREEMENT

The Organization enters into yearly collaboration agreements with another not-for-profit organization. This allows for both organizations to share personnel and operating costs and minimize overhead costs. Reimbursed costs of personnel and other operating costs utilized in this collaboration agreement from the other organization and as such not recorded as Organizational expenses amounted to \$26,946 and \$30,377, respectively for the years ended December 31, 2007 and 2006.

The Organization incurred expenses for personnel, rent, and overhead costs totaling \$89,204 and \$174,029, respectively, for the years ended December 31, 2007 and 2006 in connection with the collaboration agreements. The Organization also has a yearly contract to provide services to the non-profit collaborator and generated revenue totaling \$233,504 and \$232,047 for the years ended December 31, 2007 and 2006, respectively.

TIPPECANOE COUNTY CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 10: REFUNDABLE ADVANCE--IFSSA

In prior years, due to questioned costs, IFSSA conducted an audit on the 2002 and 2001 CCDF grant. As a result of their findings, IFSSA disallowed additional costs charged to CCDF in the amount of \$47,689. This amount was included in the refundable advance--IFSSA on the statements of financial position as of December 31, 2006. During 2007, the balance of \$47,689 was deemed to be allowable by IFSSA through the appeal process.

NOTE 11: PROGRAM SERVICE EXPENSES

Program service expenses consisted of the following at December 31:

	2007	2006
Tippecanoe County Childcare East	\$ 469,584	\$ 376,224
Dennis Burton Childcare	617,541	712,712
Sunrise Childcare	205,454	195,203
Tippecanoe County Childcare Downtown	466,863	449,945
Tippecanoe County Childcare Wabash Landing	542,084	529,676
Before and After School Program	87,070	92,576
Child Care and Development Fund	74,401	74,324
Child and Adult Care Food Program	563,825	501,641
Resource and Referral	182,323	232,436
Better Baby Care	52,690	38,855
Inclusive Childcare	20,913	-
Eligibility Standards	21,441	-
Mentors as Partners	43,858	-
IAEYC	103	-
	\$ 3,348,150	\$ 3,203,592

The major programs the Organization is providing are child-care for the community, administering food programs for providers and centers, monitoring child care providers, and providing resources and referrals to providers and families.

NOTE 12: CONTINGENCY

As of December 31, 2006 the Organization was involved in a lawsuit. If the Organization were to incur a loss from this lawsuit, the insurance company would cover a loss up to the specified policy amount. In 2007, a settlement was reached by the insurance company and the Organization was released from the litigation.

SUPPLEMENTARY INFORMATION

TIPPECANOE COUNTY CHILD CARE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended December 31, 2007

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through from Indiana State Department of Education:			
Child and Adult Care Food Program	10.558		
10/1/06-9/30/07		1-79-0155	\$ 570,557
10/1/07-9/30/08		1-79-0155	<u>183,474</u>
Total Department of Agriculture			<u>754,031</u>
U.S. Department of Housing and Urban Development Development:			
Community Development Block Grant			
Pass-Through from City of Lafayette	14.218		
7/1/06-6/30/07		NA	11,148
7/1/07-6/30/08		NA	11,152
Pass-Through from City of West Lafayette	14.218		
7/1/06-6/30/07		NA	10,175
7/1/07-6/30/08		NA	<u>10,060</u>
Total Department of Housing and Urban Development			<u>42,535</u>
U.S. Department of Health & Human Services:			
Pass-Through from Indiana Family and Social Services Administration--Division of Family and Children:			
Pass-Through from Area V Agency:			
Child Care and Development Fund (CCDF)	93.596		
10/1/06-9/30/07--Intake		79-05-34-0343	58,782
10/1/07-9/30/08--Intake		79-05-34-0343	21,004
Pass-Through from Indiana Association for Child Care Resource and Referral:			
Resource and Referral	93.596		
10/1/06-9/30/07		49-05-87-0491-17	233,294
10/1/07-9/30/08		49-06-87-0491-25	<u>81,057</u>
Total Department of Health & Human Services			<u>394,137</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ 1,190,703</u>

CFDA = Catalog of Federal Domestic Assistance
NA = Not applicable

See Note to Schedule of Expenditures of Federal Awards.

TIPPECANOE COUNTY CHILD CARE, INC.

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Year Ended December 31, 2007**

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Tippecanoe County Child Care, 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 Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

TIPPECANOE COUNTY CHILD CARE, INC.

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS

For Year Ended December 31, 2007

GRANTOR	AGREEMENT NUMBER	STATE EXPENDITURES
Indiana Family and Social Services Administration-- Division of Family and Children		
State School Age Child Care--Latch Key		
7/1/06-6/30/07	79-05-03-0343	\$ 15,532
7/1/07-6/30/08	79-06-03-0343	17,327
Child Care and Development Fund--Child Care		
10/1/06-9/30/07	79-05-1A-0343	22,860
10/1/07-9/30/08	79-05-1A-0343	<u>8,168</u>
		<u>\$ 63,887</u>

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**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**

**Board of Directors
Tippecanoe County Child Care, Inc.
Lafayette, Indiana**

We have audited the financial statements of Tippecanoe County Child Care, Inc. as of and for the year ended December 31, 2007, and have issued our report thereon dated June 26, 2008. 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 Tippecanoe County Child Care, 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 the Tippecanoe County Child Care, 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.

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.

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 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 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.

**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**

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tippecanoe County Child Care, 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 other matters that we reported to management of Tippecanoe County Child Care, Inc. in a separate letter dated June 26, 2008.

This report is intended solely for the information and use of the Board of Directors, Audit/Finance Committee, Management, 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.

Huth Thompson LLP

June 26, 2008
Lafayette, Indiana

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

Board of Directors
 Tippecanoe County Child Care, Inc.
 Lafayette, Indiana

Compliance

We have audited the compliance of Tippecanoe County Child Care, Inc. 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 year ended December 31, 2007. Tippecanoe County Child Care, 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 Tippecanoe County Child Care, Inc.'s management. Our responsibility is to express an opinion on Tippecanoe County Child Care, 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 Tippecanoe County Child Care, 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 Tippecanoe County Child Care, Inc.'s compliance with those requirements.

As described in items FA 07-1, FA 07-2, and FA 07-3 in the accompanying schedule of findings and questioned costs, Tippecanoe County Child Care, Inc. did not comply with requirements regarding allowable costs/cost principles and special tests and provisions that are applicable to its CCDF and CACFP Federal Programs. Compliance with such requirements is necessary, in our opinion, for Tippecanoe County Child Care, Inc. to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Tippecanoe County Child Care, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

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

Page 2

Internal Control Over Compliance

The management of Tippecanoe County Child Care, 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 Tippecanoe County Child Care, Inc.'s internal control over compliance with the 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 the Tippecanoe County Child Care, Inc.'s internal control over compliance.

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

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 consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items CF 07-1 and CF 07-2 to be significant deficiencies.

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. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Tippecanoe County Child Care, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Tippecanoe County Child Care, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, Audit/Finance Committee, Management, 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.

Huth Thompson LLP

June 26, 2008
Lafayette, Indiana

TIPPECANOE COUNTY CHILD CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For Year Ended December 31, 2007

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

	YES	NONE REPORTED
<i>Financial Statements</i>		
Type of auditor's report issued: Unqualified		
Internal control over financial reporting:		
Material weakness(es) identified?	_____	X
Significant Deficiency(s) identified that are not considered to be material weaknesses?	_____	X
Noncompliance material to financial statements noted?	_____	X
<i>Federal Awards</i>		
Internal control over major programs:		
Material weakness(es) identified?	_____	X
Significant Deficiency(s) identified that are not considered to be material weaknesses?	X	_____
Type of auditor's report issued on compliance for major programs: Qualified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	X	_____
Identification of major programs:		
<u>CFDA Numbers - Name of Federal Program or Cluster</u>		
10.558--Child and Adult Care Food Program		
93.596--Child Care and Development Fund		
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000	
Auditee qualified as low-risk auditee?	_____	X - NO

TIPPECANOE COUNTY CHILD CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For Year Ended December 31, 2007

II. FINANCIAL STATEMENT FINDINGS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

U.S. Department of Agriculture, Pass-Through from the Indiana State Department of Education--

Child and Adult Care Food Program (CACFP) CFDA # 10.558

10/1/06-9/30/07--Award # 1-79-0155

10/1/07-9/30/08--Award # 1-79-0155

U.S. Department of Health and Human Services, Pass-Through from Indiana Family and Social Services Administration--Division of Family and Children, Indiana Association for Child Care Resources and Referral (IACCRR)--

Child Care and Development Fund (CCDF) CFDA # 93.596

10/1/06-9/30/07--Award # 49-05-87-0491-17: IACCRR

10/1/07-9/30/08--Award # 49-05-87-0491-25: IACCRR

U.S. Department of Health and Human Services, Pass-Through from Indiana Family and Social Services Administration--Division of Family and Children, Area V Agency--

Child Care and Development Fund (CCDF) CFDA # 93.596

10/1/06-9/30/07--Award # 79-05-34-0343: Intake

10/1/07-9/30/08--Award # 79-05-34-0343: Intake

Findings CF 07-1 and FA 07-1, noted below, relate to all major federal award programs (CACFP and all CCDF) noted above. Findings CF 07-2, FA 07-2, and FA 07-3, noted below, relates only to the CCDF federal award program.

CF 07-1 The lack of internal controls over personnel files created a lack of internal control at the compliance level with compliance requirements applicable to special tests and provisions. This compliance requirement relies on the controls over the Human Resource function to assure that proper forms are maintained for each employee. Human Resource/Personnel controls are relied upon to ensure the required documentation for employees is in accordance with grant requirements. See FA 07-1 for details of this finding.

TIPPECANOE COUNTY CHILD CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For Year Ended December 31, 2007

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

CF 07-2 The lack of internal controls over the payroll function created a lack of internal control at the compliance level with compliance requirements applicable to allowable costs/cost principles. This compliance requirement relies on the controls over the payroll process to assure that costs are properly allocated to grants. Payroll processing controls are relied upon to ensure the allowable costs are charged to grants in accordance with grant requirements. See FA 07-2 for details of this finding.

FA 07-1 Criteria--Effective internal controls over Human Resource/Personnel functions must be designed to provide sufficient controls to ensure appropriate special tests and compliance requirements are followed. As per grant requirements (special tests and provisions compliance requirement) and Organizational policies, drug free policy statement and/or personnel policy sign off indicating drug-free and non-discrimination policies need to be maintained in personnel files. In addition, drug testing of employees should be administered.

*Condition and Context--*In testing internal controls over Human Resource/Personnel functions, dual tests of internal controls and compliance requirements were performed. Our sample was a representative sample of thirty-eight employees, twelve of which whose time was charged to major federal programs (CCDF and CACFP). We tested the employees' personnel files for required documentation and in testing employee personnel files we noted the following:

- In one out of thirty-eight employee files, a signed non-discrimination policy statement was not obtained.
- In one out of thirty-eight files an employee tested positive for THC and remains an employee. Ten days after the employee was notified of the drug test results, the employee was tested again with negative results.

Due to the items noted above, our testing revealed a lack in the Organization's internal controls over the Human Resource/Personnel functions and noncompliance with special tests and provisions. We believe the lack of internal controls over Human Resource/Personnel functions at the compliance level relating to special tests and provisions to be a significant deficiency.

TIPPECANOE COUNTY CHILD CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For Year Ended December 31, 2007

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FA 07-1 (Continued)--

*Effect--*With the lack of internal controls over Human Resource/Personnel functions, the Organization is not complying with grant or internal requirements concerning required forms and documentation.

*Questioned Costs--*None noted related to the personnel file testing performed. However, there is a lack of evidence through the testing conducted as noted above to conclude that the special tests and provisions related to personnel files was not adequately achieved. Based upon our sample selection, compliance requirements are not met for special tests and provisions for CCDF and CACFP grant awards. The lack of adhering to these compliance requirements could put at risk total grant awards expended for the year ended December 31, 2007.

*Cause--*The cause of the lack of internal controls over Human Resource/Personnel functions and corresponding compliance issues caused by the lack of controls as noted above appears to be due to lack of continued training on personnel and compliance policies.

*Recommendations--*We recommend the Organization continue training programs for all payroll and human resource personnel on grant compliance requirements and on internal control personnel processes. We also recommend the Organization create and implement an effective internal control monitoring system around human resources to ensure personnel files comply with all special tests compliance requirements.

*Views of Responsible Officials and Planned Correction--*See Corrective Action Plan as noted in the last page of this financial statement.

FA 07-2 *Criteria--*Effective internal controls over payroll processing function must be designed to provide sufficient controls to ensure appropriate costs are charged to grants. As per grant requirements (allowable costs/costs principles) and Organizational policies, payroll costs charged to grants should be supported by approved timesheet.

TIPPECANOE COUNTY CHILD CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For Year Ended December 31, 2007

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FA 07-2 (Continued)--

Condition and Context--In testing internal controls over the payroll processing functions, dual tests of internal controls and compliance requirements were performed. Our sample was a representative sample of thirty-eight employees over three random pay periods. Twelve of these employees had time charged to major federal programs (CCDF and CACFP). We tested the employees' approved timesheet for identification of time spent per each program/grant and compared it to actual time charged to each grant per payroll registers. In testing these payroll records we noted the following:

- In one out of thirty-eight employees, time was not properly allocated to the CCDF-IACCRR grant. The approved timesheet identified 14.75 hours to be charged to the R&R budget line of this grant, and 71.75 hours to be charged to the Minimum Standards budget line of this grant. The 14.75 hours was improperly charged and reimbursed as Minimum Standards.
- In one out of thirty-eight employees, 1.5 hours was overcharged the CCDF-IACCRR grant (Minimum Standards budget line). These hours were not worked by the employee and were overpaid in total, improperly charged to the grant, and reimbursed.

Due to the items noted above, our testing revealed a lack in the Organization's internal controls over cross checking approved timesheets to actual time charged to the payroll registers and grants. We believe the lack of internal controls over Human Resource/Personnel functions at the compliance level relating to allowable costs to be a significant deficiency.

Effect--With the lack of internal controls over the payroll processing functions, the Organization is not charging allowable costs to grants and paying excess amounts of wages.

Questioned Costs--The amount of wages improperly charged between budget line items (Minimum Standards versus R&R) and the amount of wages overpaid and improperly charged to the grant were immaterial. Both amounts did not meet the required reporting threshold for disclosure of questioned costs. Based upon our sample selection, it is our opinion compliance requirements are not met for allowable costs for CCDF-IACCRR grant awards.

Cause--The cause of the improperly allocated payroll costs is due to data input errors with no compensating controls to identify the incorrect entries.

TIPPECANOE COUNTY CHILD CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For Year Ended December 31, 2007

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FA 07-2 (Continued)--

Recommendations--We recommend the Organization implement controls to verify hours worked per approved timesheets are properly entered into the payroll system, properly paid, and properly charged to federal grant awards. These findings related to payroll transactions occurred in January 2007. No additional findings as they relate to FA 07-2 were noted regarding subsequent 2007 monthly payrolls.

Views of Responsible Officials and Planned Correction--See Corrective Action Plan as noted in the last page of this financial statement.

FA 07-3 Criteria--Proper documentation should be maintained for all costs charged to federal grant awards in accordance with OMB Circular A-122 cost principles.

Condition and Context--In testing personnel files and payroll costs, we identified incentives that were charged to the CCDF-IACCRR grant (Minimum Standards budget line). These incentives were received by only six employees. In accordance with Circular A-122 cost principles, allowable costs must be:

- Adequately documented
- Reasonable costs; "conforms to the established policy of the Organization consistently applied to both Federal and non-Federal activities"
- Incentive compensation; "costs are paid or accrued pursuant to an agreement entered into in good faith between the Organization and the employees before services are rendered, or pursuant to an established plan followed by the Organization so consistently as to imply, in effect, an agreement to make such a payment"

Our testing determined there was a lack of proper documentation as to how the Organization:

- Determined the total amount of the incentive
- Determined it was a reasonable cost to Federal activities
- Substantiated the incentive (criteria for earning a incentive within the Organization or had an established and documented plan)
- Allocated the incentive among specific employees

Effect--Without proper support of the above items, the Organization is not complying with the requirements under OMB Circular A-122 cost principles.

TIPPECANOE COUNTY CHILD CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For Year Ended December 31, 2007

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FA 07-3 (Continued)--

Questioned Costs--The amount of incentives charged totaled \$15,000. Based upon our testing, compliance requirements are not met for allowable costs for CCDF-IACCRR grant awards.

Cause--The cause of the questioned costs is due to the oversight of documentation requirements under OMB Circular A-122 cost principles.

Recommendations--We recommend the Organization continue training and education in the documentation requirements under OMB Circular A-122 cost principles.

Views of Responsible Officials and Planned Correction--See Corrective Action Plan as noted in the last page of this financial statement.

TIPPECANOE COUNTY CHILD CARE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For Year Ended December 31, 2006

FINANCIAL STATEMENT FINDINGS

IC 06-1 Internal Control Over Claim Process for Daycare Homes

A low level of control risk was not achieved in the course of testing internal controls over the claim process for provider daycare homes which directly impacts amounts reported as grants revenue and receivable in the general ledger. The Organization lacks controls to verify that the appropriate meals times rate formula was correctly calculated when preparing claims for the Organization's provider daycare homes. The risk exists that the Organization could potentially have a loss of funding due to noncompliance with respect to activities allowed or unallowed, allowable costs/cost principles or ineligible claims for reimbursement which would directly impact the Organization at the financial statement level. See Part III, Finding FA 06-1 for details of this finding.

Current Status: The Organization has implemented the procedures as described in the 2006 Corrective Action Plan. No findings were noted regarding the claim process for daycare homes in 2007.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

CF 06-1 The lack of internal controls over the claim process for provider daycare homes created a lack of internal control at the compliance level with compliance requirements applicable to activities allowed or unallowed, allowable costs/cost principles and eligibility. These compliance requirements rely on the controls over the claiming process to assure that the appropriate meals times rate formula is used and that all eligibility standards have been met. The lack of controls at the financial statement level directly correlates to a lack of controls at the compliance level since the amounts claimed for provider daycare reimbursement have to meet the above requirements. See Part III, Finding FA 06-1 for details of this finding.

Current Status: The Organization has implemented the procedures as described in the 2006 Corrective Action Plan. No findings were noted regarding the claim process for daycare homes in 2007.

TIPPECANOE COUNTY CHILD CARE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For Year Ended December 31, 2006

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

CF 06-2 The lack of internal controls over personnel files created a lack of internal control at the compliance level with compliance requirements applicable to special tests and provisions. This compliance requirement relies on the controls over the Human Resource function to assure that proper forms are maintained for each employee. Human Resource/Personnel controls are relied upon to ensure the required documentation for employees is in accordance with grant requirements. See FA 06-2 for details of this finding.

Current Status: The Organization has improved procedures to correct the controls over special tests and provisions. However, a similar finding was identified in the current year. See FA 07-1 for the 2007 finding over Special Tests and Provisions.

FA 06-1 *Criteria*--Effective internal controls over the provider daycare home claim process must be designed to provide sufficient controls to prevent noncompliance with activities allowed or unallowed, allowable costs/cost principles and eligibility. In accordance with compliance regulations, the appropriate meals times rate formula must be used to calculate claims using the correct reimbursement rate based on each provider daycare home's eligibility.

Condition and Context--In testing internal controls over CACFP compliance requirements, dual tests of internal controls and compliance requirements were performed over multiple compliance requirements. Our sample was a representative sample of twelve centers and providers. We performed multiple tests as follows:

- Eligibility documentation was adequate and accurately maintained.
- Claims were calculated using the appropriate meals time rate formulas based on eligibility of the children.
- The number of meals was properly claimed and in the correct period.
- Providers were reimbursed within five business days from the receipt of federal dollars.
- Licensing was current and properly documented.
- Administrative, food and supplies costs were adequate to support the claim.

Our testing revealed a lack in the Organization's internal controls over compliance requirements of activities allowed or unallowed, allowable costs/cost principles and eligibility in which the Organization does not have procedures to verify that a daycare home provider's certification is accurate and correctly claimed based on eligibility for Tier I or Tier II reimbursement levels.

TIPPECANOE COUNTY CHILD CARE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For Year Ended December 31, 2006

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FA 06-1 (Continued)--

*Effect--*With the lack of internal controls over the provider daycare home claim process, the Organization is not complying with grant compliance or internal control requirements and may allow ineligible providers to be reimbursed at the incorrect reimbursement rate potentially affecting financial statement reporting. We believe the lack of controls to be a material weakness as it relates to both financial statement assertions and compliance requirements as this significant deficiency results in more than a remote likelihood that a material misstatement of the financial statements and compliance violations will not be prevented or detected.

*Questioned Costs--*Questioned costs not determined. One out of twelve CACFP provider and center claims did not comply with activities allowed or unallowed, allowable costs/cost principles and eligibility requirements. Total population of CACFP providers and centers was eighty-one.

*Cause--*The cause of the lack of internal controls over the provider daycare home claim process is due to the fact the one employee is responsible to certify providers, prepare the claim, and submit the claim to the Indiana State Department of Education.

*Recommendations--*We recommend the Organization implement policies and procedures in which a second employee verifies provider certifications, have all required documentation, eligibility was correctly determined and each monthly claim was submitted in accordance with the eligibility determination and calculated using the appropriate rate for reimbursement.

Current Status: The Organization has implemented the procedures as described in the 2006 Corrective Action Plan. No findings were noted regarding the claim process for daycare homes in 2007.

FA 06-2 *Criteria--*Effective internal controls over Human Resource/Personnel functions must be designed to provide sufficient controls to ensure appropriate special tests and compliance requirements are followed. As per grant requirements (special tests and provisions compliance requirement) and Organizational policies, valid TB tests and First Aid/CPR training for child care workers, drug free policy statement and/or personnel policy sign off indicating drug-free policies need to be maintained in personnel files.

TIPPECANOE COUNTY CHILD CARE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For Year Ended December 31, 2006

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FA 06-2 (Continued)--

Condition and Context--In testing internal controls over Human Resource/Personnel functions, dual tests of internal controls and compliance requirements were performed. Our sample was a representative sample of twenty-nine employees, eleven of which whose time was charged to major federal (CCDF and CACFP). We tested the employees' personnel files for required documentation and in testing employee personnel files we noted the following:

- In two out of twenty-nine employee files, there was not a valid TB test conducted.
- In three out of twenty-nine files a signed drug-free policy statement was not obtained and signed.
- In two out of twenty-nine employee files, there was not evidence of a drug test performed.
- In three out of twenty-nine files no personnel policy signoff was noted which indicated the drug free policy, pre 2005 was obtained.
- In two out of twenty-nine employee files, there was not a valid certification of First Aid/CPR training.

Due to the items noted above, our testing revealed a lack in the Organization's internal controls over the Human Resource/Personnel functions and noncompliance with special tests and provisions by which personnel files do not contain the required documentation. We believe the lack of internal controls over Human Resource/Personnel functions at the compliance level relating to special tests and provisions to be a significant deficiency.

Effect--With the lack of internal controls over Human Resource/Personnel functions, the Organization is not complying with grant or internal requirements concerning required forms and documentation.

Questioned Costs--None noted related to the personnel file testing performed. However, there is a lack of evidence through the testing conducted as noted above to conclude that the special tests provisions related to personnel files were adequately achieved. Based upon our sample selection, compliance requirements are not met for special tests and provisions for CCDF and CACFP grant awards. The lack of adhering to these compliance requirements could jeopardize total grant awards expended for the year ended December 31, 2006 totaling \$1,255,064.

TIPPECANOE COUNTY CHILD CARE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For Year Ended December 31, 2006

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FA 06-2 (Continued)--

*Cause--*The cause of the lack of internal controls over Human Resource/Personnel functions and corresponding compliance issues caused by the lack of controls as noted above appears to be due to lack of training on personnel policies and multiple personnel files being maintained for each employee, employee turnover, and the lack of review of payroll and human resource department processes.

*Recommendations--*We recommend the Organization implement training programs for all payroll and human resource personnel on grant compliance requirements and on internal control personnel processes. We also recommend the Organization create and implement an effective internal control monitoring system around human resources to ensure personnel files comply with all special tests compliance requirements.

Current Status: The Organization has improved procedures to correct the controls over special tests and provisions. However, a similar finding was identified in the current year. See FA 07-1 for the 2007 finding over Special Tests and Provisions.

TIPPECANOE COUNTY CHILD CARE, INC.

**CORRECTIVE ACTION PLAN
For Year Ended December 31, 2007**

Identifying Number: CF 07-1, FA 07-1, CF 07-2, FA 07-2, and FA 07-3

Finding: See Schedule of Findings and Questioned Costs; Finding CF 07-1, FA 07-1, CF 07-2, FA 07-2, and FA 07-3.

Corrective Action Taken or Planned:

In response to Findings CF 07-1, FA 07-1, CF 07-2, FA 07-2, and FA 07-3, Marilyn Redmon, Executive Director of Tippecanoe County Child Care, Inc. (765-742-4033), has prepared the following corrective action plan:

In response to Findings CF 07-1, FA 07-1, CF 07-2, FA 07-1 and FA 07-3

FA 07-1 A checklist for all necessary documentation for all employees has been developed by the Human Resource Specialist. Procedures have also been developed and implemented to ensure that an employee does not start work until all documentation, including drug screening, are completed with all test results, and on file with Human Resources. Further, a new Employee Handbook, which became effective 5/1/08, details all personnel policies of the organization has been adopted by the Board of Directors and has been distributed to all employees. Included in the orientation is an overview of the agency's policies and procedures and the importance of their adherence due to grant requirements. This training will continue as will periodic training during regular meetings of the organization's personnel.

Periodically, a person independent of the human resource function is performing a review of the files to ensure that all documentation is complete. Results of this review are maintained in a separate file in the accounting department and communicated to the Executive Director, Controller and Human Resource Specialist when each review is completed.

FA 07-2 An independent review of the payroll function was started in 2007 and has been refined and continues. A person independent of the payroll function performs this review. A sampling of employees from each department is taken from each pay. In this sample the timecard is reviewed and traced to its posting in the payroll system to ensure accuracy. Results of these reviews are maintained in a file and communicated to the Executive Director, Controller and Payroll Specialist.

FA 07-3 The incentives paid to personnel were discussed with the personnel at length at the beginning of the new grant in the fall of 2006. During these discussions payment points as outlined in our IACCRR contract were discussed at length with all program personnel. The division of duties and responsibilities of the employees, as well as performance expectations were outlined during these meetings.

TIPPECANOE COUNTY CHILD CARE, INC.

CORRECTIVE ACTION PLAN
For Year Ended December 31, 2007

Corrective Action Taken or Planned (Continued):

FA 07-3 (Continued)--

During the meetings the incentives that were to be paid for the achievement of these goals was also discussed. Payment point progress was tracked by the Program Director throughout the grant cycle to ensure that goals and payment points were met during the grant cycle. Meetings are held on a regular basis by the Program Director and employees of this program to discuss all aspects of their program goals and progress and all employee activity. Regular meetings are also held between the Executive Director and the IACCRR grant Program Director that include progress updates on the achievement of goals and progress on payments points as outlined in the grant. Prior to the payment of the incentive, during these meetings the Executive Director and Program Director discussed the incentive payment at length to ensure that the payment plan for the employees involved was understood. Documentation was maintained by the Program Director and provided to audit personnel as well as discussed at length during the audit.

It is the belief of this agency that incentives paid were done in conformance with agency policy and procedures. The goals, payment points and incentive plan was discussed with agency personnel beforehand; goals, payment points and the payment of the incentives were done within grant terms; grant progress and payment points was tracked by the program director and communicated to the Executive Director, who reports to the Board of Directors; communication with the state IACCRR office who administers the local IACCRR grant was held during the compliance audit and no problems were noted as a result of the incentive payment.

Now included in the 2008 Board packets is a written overview of the IACCRR program and its monthly activities. In the monthly Finance Committee meeting different reports have been developed for their review as well as an analysis of various line items, such as employee expense, therefore it is felt that appropriate review and control of line item fluctuations is maintained by Agency governing committees.

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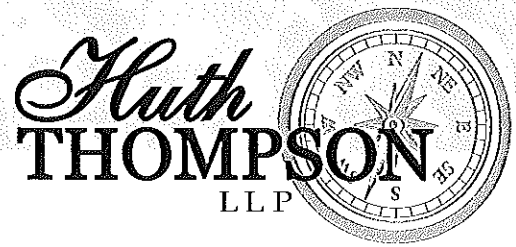
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June 26, 2008

To the Board of Directors of
 Tippecanoe County Child Care, Inc.
 Lafayette, Indiana

In planning and performing our audit of the financial statements of Tippecanoe County Child Care, Inc. (the Organization) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 control deficiencies and significant deficiencies.

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 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. We did not identify any deficiencies considered to be material weaknesses.

Over the last year, we have seen improvement in the operations and controls of the Organization. We commend the Organization for the progress achieved.

Significant Control Deficiencies--Compliance

We consider the following deficiencies to be significant deficiencies in internal controls:

Internal Control and Compliance Findings

Deficiencies deemed to be significant deficiencies are identified in the "Schedule of Findings and Questioned Costs" in the 2007 audit report.

Business Advice Comments

We also have the following comments and suggestions which are deemed as business advice to help strengthen internal controls.

Controls over Payroll Transactions

Activity level payroll controls, meaning internal controls at management's level and below exist. With the exception of comparison of budget to actual costs, there are no additional entity level (board governance level) controls over payroll transactions. With the incentives issued to employees with grant funds occurring in 2007 and the related finding as noted in the audit report as FA 07-3, we recommend the Organization implement procedures whereby additional entity level controls exist to review and approve large payroll transactions.

CACFP Tier Determination

A process was implemented in 2007 to ensure independent approval of Tier I rates of reimbursement that are based on income guidelines. However, to further strengthen controls over rates of reimbursement and ensure that the Department of Agriculture is not over-charged, we recommend that the Organization should consider implementing a process in which all Tier I rates, whether by income guidelines, school or census date, and mixed tier, be independently approved.

Restaurant Receipts

In reviewing credit card transactions we noted for several restaurant transactions an itemized receipt was not retained as support. We recommend itemized receipts be included as support for all restaurant purchases to support the allowable and business purpose of the expense.

Deposits

During the course of our testing, we noted deposits were not entered into Visual AccountMate on a timely basis. (As of 11/26/07, no November deposits were entered into the general ledger) While the Organization tracks the cash balance on an ongoing basis outside of the accounting system, we recommend, deposits be recorded into the accounting system in a timely fashion to ensure accurate balances are maintained in the general ledger.

Collaboration – Shared Employees

It is the Organization's policy to properly segregate expenses over shared employees in to separate accounts. During 2007, not all expenses billed for shared employees were properly posted to these separate accounts. We recommend the Organization follow established policies.

Restricted Net Assets

The Organization properly accumulates donor restricted contributions and the release of these contributions throughout the year. As a reminder, we recommend at a minimum, the Organization properly record restricted net assets at year end.

Enrollment Statistics

The Organization accumulates monthly enrollment statistics by location and funding source for all locations except Earhart, Miller, and Glen Acres. We recommend the same data is accumulated for these locations to provide completeness over statistical data for internal analysis of revenue fluctuations.

Administrative Cost Allocations

In 2007, the Organization began a monthly administrative cost allocation amongst departments. The Organization was not following a documented cost allocation plan. As discussed with management, these

allocations were not included in the functional expense allocation as they did not follow documented cost allocation plan methodology. Subsequent to year end, the Organization developed a revised cost allocation plan. We recommend the Organization follow their revised allocation plan for all allocated costs.

We wish to thank the Executive Director, Controller and their staff for their support and assistance during our audit.

This communication is intended solely for the information and use of the Board of Directors, Finance/Audit Committee, management and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties. We appreciate serving the Organization.

Sincerely,

Huth Thompson LLP

HUTH THOMPSON LLP