

CHILDHOOD DEVELOPMENT SERVICES, INC.

**Independent Auditors' Report,
Financial Statements and
Additional Information**

**As of and for the Year Ended
June 30, 2010**

CHILDHOOD DEVELOPMENT SERVICES, INC.

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INDEPENDENT AUDITORS' REPORT

January 12, 2011

To the Board of Directors of
Childhood Development Services, Inc.
Ocala, Florida

We have audited the accompanying statement of financial position of Childhood Development Services, Inc. (a nonprofit organization) as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year 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. The prior year summarized comparative information has been derived from Childhood Development Services, Inc.'s fiscal 2009 financial statements and, in our report dated January 21, 2010, we expressed an unqualified opinion on those statements.

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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Childhood Development Services, Inc. as of June 30, 2010, 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 January 12, 2011 on our consideration of Childhood Development Services, 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

To the Board of Directors of
Childhood Development Services, Inc.
Ocala, Florida

January 12, 2011

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describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Childhood Development Services, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance 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 Rules of the Auditor General, Chapter 10.650 "Florida Single Audit Act Audits, Nonprofit and For-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Duggan, Joiner & Company

STATEMENT OF FINANCIAL POSITION

CHILDHOOD DEVELOPMENT SERVICES, INC.

Statement of Financial Position

June 30, 2010

With Comparative Totals as of June 30, 2009

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 700,562	\$ 813,181
Investments	775,204	760,066
Grants receivable	2,667,718	2,170,132
Accounts receivable, other	124,024	85,331
Inventory	38,146	43,804
Prepaid expenses	<u>59,371</u>	<u>120,689</u>
Total Current Assets	<u>4,365,025</u>	<u>3,993,203</u>
Property and Equipment, net of accumulated depreciation	<u>2,459,486</u>	<u>2,557,073</u>
Property and equipment temporarily restricted for Federal and State programs (Note 3)	<u>2,863,525</u>	<u>2,078,661</u>
Other Assets		
Deposits	11,118	10,580
Loan costs, net of accumulated amortization	<u>14,693</u>	<u>16,573</u>
Total Other Assets	<u>25,811</u>	<u>27,153</u>
Total Assets	<u>\$ 9,713,847</u>	<u>\$ 8,656,090</u>

	<u>2010</u>	<u>2009</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 1,680,873	\$ 1,422,239
Accrued payroll and related expenses	455,195	453,672
Accrued leave	340,104	301,273
Deferred revenue	84,902	77,954
Current portion of long-term debt	<u>88,233</u>	<u>77,246</u>
Total Current Liabilities	<u>2,649,307</u>	<u>2,332,384</u>
Long-Term Liabilities		
Long-term debt, net of current portion	<u>559,861</u>	<u>611,951</u>
Total Long-Term Liabilities	<u>559,861</u>	<u>611,951</u>
Total Liabilities	<u>3,209,168</u>	<u>2,944,335</u>
Net Assets		
Unrestricted		
Net investment in property and equipment	1,811,392	1,867,876
Undesignated net assets	1,768,882	1,704,338
Temporarily restricted, operating	60,880	60,880
Temporarily restricted, property and equipment (Note 3)	<u>2,863,525</u>	<u>2,078,661</u>
Total Net Assets	<u>6,504,679</u>	<u>5,711,755</u>
Total Liabilities and Net Assets	<u>\$ 9,713,847</u>	<u>\$ 8,656,090</u>

**The accompanying notes are an integral
part of these financial statements.**

CHILDHOOD DEVELOPMENT SERVICES, INC.

Statement of Activities

For the Year Ended June 30, 2010

With Comparative Totals for June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted Operating</u>	<u>Property and Equipment</u>	<u>2010 Total</u>	<u>2009 Total</u>
Revenue and Support					
United Way	\$ 12,500	\$ 0	\$ 0	\$ 12,500	\$ 116,504
Federal and State grants and Other Income					
Head Start	8,355,759	0	0	8,355,759	7,952,647
Early Head Start	5,282,973	0	0	5,282,973	3,585,283
USDA	2,492,578	0	0	2,492,578	2,272,339
Teen Parent	44,460	0	0	44,460	30,945
Kids Central, Inc. Programs	84,347	0	0	84,347	302,434
State Mandated and Other Training	117,923	0	0	117,923	117,923
Healthy Families	269,064	0	0	269,064	261,060
Kidcare/Healthy Kids and Refugee	12,000	0	0	12,000	55,852
County and local grants	0	0	0	0	4,750
Genesis House	148,945	0	0	148,945	516,829
Donations	42,867	0	0	42,867	73,621
In-kind contributions	1,130,510	0	0	1,130,510	579,465
Interest income	19,272	0	0	19,272	37,466
Miscellaneous	350,033	0	0	350,033	359,683
	<u>18,350,731</u>	<u>0</u>	<u>0</u>	<u>18,350,731</u>	<u>16,150,297</u>
Office of Early Learning:					
Marion County	15,055,127	0	0	15,055,127	15,271,864
Dixie, Levy and Gilchrist Counties	0	0	0	0	3,076,769
Citrus County	0	0	0	0	3,973,774
Hernando County	0	0	0	0	6,094,862
Pasco County	0	0	0	0	17,858,028
Sumter County	0	0	0	0	2,683,464
Total Office of Early Learning	<u>15,055,127</u>	<u>0</u>	<u>0</u>	<u>15,055,127</u>	<u>48,958,761</u>
Total Revenue and Support	<u>33,418,358</u>	<u>0</u>	<u>0</u>	<u>33,418,358</u>	<u>65,225,562</u>

(Continued)

**The accompanying notes are an integral
part of these financial statements.**

CHILDHOOD DEVELOPMENT SERVICES, INC.

Statement of Activities

For the Year Ended June 30, 2010

With Comparative Totals for June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted Operating</u>	<u>Property and Equipment</u>	<u>2010 Total</u>	<u>2009 Total</u>
Expenses					
General and administrative-unallocated	\$ 460,609	\$ 0	\$ 0	\$ 460,609	\$ 561,452
Program services:					
Early Head Start	4,709,409	0	0	4,709,409	3,516,070
Head Start	9,054,143	0	0	9,054,143	8,330,476
USDA	2,511,561	0	0	2,511,561	2,272,300
Genesis House	218,180	0	0	218,180	1,069,218
State Mandated and Other Training	214,831	0	0	214,831	203,747
Teen Parent and Refugee	40,881	0	0	40,881	73,690
Healthy Families	358,190	0	0	358,190	269,141
Kidcare/Healthy Kids and Short-term Supervision	<u>2,740</u>	<u>0</u>	<u>0</u>	<u>2,740</u>	<u>23,413</u>
	<u>17,109,935</u>	<u>0</u>	<u>0</u>	<u>17,109,935</u>	<u>15,758,055</u>
Early Learning					
Marion County	15,054,890	0	0	15,054,890	15,268,424
Sumter County	0	0	0	0	2,685,740
Citrus County	0	0	0	0	3,996,853
Dixie, Gilchrist and Levy Counties	0	0	0	0	3,080,390
Hernando County	0	0	0	0	6,102,144
Pasco County	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>17,875,824</u>
Total Early Learning	<u>15,054,890</u>	<u>0</u>	<u>0</u>	<u>15,054,890</u>	<u>49,009,375</u>
Total Program Services	<u>32,164,825</u>	<u>0</u>	<u>0</u>	<u>32,164,825</u>	<u>64,767,430</u>
Total Expenses	<u>32,625,434</u>	<u>0</u>	<u>0</u>	<u>32,625,434</u>	<u>65,328,882</u>
Change in Net Assets Before Property and Equipment Acquisitions and Dispositions	792,924	0	0	792,924	(103,320)
Property and Equipment Acquisitions and Dispositions, Net of Depreciation	<u>(784,864)</u>	<u>0</u>	<u>784,864</u>	<u>0</u>	<u>0</u>
Total Change in Net Assets	8,060	0	784,864	792,924	(103,320)
Net Assets, Beginning of Year	<u>3,572,214</u>	<u>60,880</u>	<u>2,078,661</u>	<u>5,711,755</u>	<u>5,815,075</u>
Net Assets, End of Year	<u>\$ 3,580,274</u>	<u>\$ 60,880</u>	<u>\$ 2,863,525</u>	<u>\$ 6,504,679</u>	<u>\$ 5,711,755</u>

The accompanying notes are an integral
part of these financial statements.

CHILDHOOD DEVELOPMENT SERVICES, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2010
With Comparative Totals for June 30, 2009

	<u>Program Services</u>					
	<u>Early Head Start</u>	<u>Head Start</u>	<u>Healthy Kids and Kidcare</u>	<u>Teen Parent</u>	<u>Shelter</u>	<u>State Mandated and Other Training</u>
Expenditures						
Salaries and benefits	\$ 2,702,097	\$ 4,743,236	\$ 1,206	\$ 419	\$ 109,782	\$ 131,670
Temporary employees	9,505	31,756	0	0	0	0
Travel	21,687	57,212	0	0	2	3,650
Transportation	18,109	96,841	0	0	1,150	0
Insurance	27,083	59,028	0	0	8,801	0
Health care fees-children	12,618	79,250	0	0	2,250	0
Professional fees	46,543	57,328	0	0	370	9,885
Office and copier supplies	16,181	38,527	0	0	882	4,381
Educational supplies	33,900	33,997	0	0	153	38
Building maintenance and supplies	14,210	23,585	0	0	5,186	0
Health supplies	11,843	7,977	0	0	271	0
Uniforms	2,106	2,979	0	0	30	0
Printing	0	0	0	0	0	0
Advertising	6,507	4,316	1,225	0	194	0
Dues and subscriptions	2,741	7,988	0	0	0	75
Postage and delivery	328	3,613	107	0	73	861
Telephone and internet access	23,687	64,248	0	1	1,503	2,170
Occupancy costs	289,578	499,940	0	694	37,350	21,175
Licenses and permits	3,388	4,754	0	0	185	0
Education and training	72,174	103,009	0	0	0	150
Special activities-parents and children	2,834	7,137	0	0	3,786	0
Food, services and supplies	41,583	96,235	0	0	9,798	41
Contracted childcare providers	416,220	1,261,534	0	39,696	0	0
Equipment maintenance and supplies	31,966	76,961	0	0	3,811	5,253
In-kind space	32,968	83,646	0	0	0	0
In-kind skilled volunteer	4,002	302,053	0	0	0	0
In-kind materials, advertising, other	325,167	356,992	0	0	0	0
Other costs	5	338	0	0	21	7,661
Depreciation (direct)	0	0	0	0	0	0
Loss on disposal of assets	0	0	0	0	0	0
Interest and loan expenses	0	0	0	0	0	0
Total Expenses	4,169,030	8,104,480	2,538	40,810	185,598	187,010
Allocation of:						
General and administrative expenditures	<u>540,379</u>	<u>949,663</u>	<u>202</u>	<u>71</u>	<u>32,582</u>	<u>27,821</u>
Total Expenses	<u>\$ 4,709,409</u>	<u>\$ 9,054,143</u>	<u>\$ 2,740</u>	<u>\$ 40,881</u>	<u>\$ 218,180</u>	<u>\$ 214,831</u>
Property and Equipment Acquisitions	<u>\$ 921,424</u>	<u>\$ 70,626</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

(Continued)
The accompanying notes are an integral
part of these financial statements.

CHILDHOOD DEVELOPMENT SERVICES, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2010
With Comparative Totals for June 30, 2009

Program Services

	<u>Healthy Families</u>	<u>USDA</u>	<u>Early Learning Marion County</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>2010 Totals</u>	<u>2009 Total</u>
Expenditures							
Salaries and benefits	\$ 228,500	\$ 222,190	\$ 586,226	\$ 8,725,326	\$ 1,321,789	\$10,047,115	\$ 10,923,097
Temporary employees	0	0	0	41,261	40,080	81,341	193,962
Travel	25,604	24,606	2,606	135,367	10,686	146,053	165,087
Transportation	0	0	0	116,100	300	116,400	103,631
Insurance	606	0	0	95,518	24,788	120,306	137,729
Health care fees-children	0	0	0	94,118	0	94,118	119,466
Professional fees	138	82	158	114,504	123,676	238,180	250,129
Office and copier supplies	6,183	3,742	10,518	80,414	38,566	118,980	183,783
Educational supplies	4,576	0	7,302	79,966	0	79,966	138,024
Building maintenance and supplies	1,564	0	0	44,545	256	44,801	61,194
Health supplies	0	0	0	20,091	0	20,091	22,574
Uniforms	0	0	0	5,115	0	5,115	714
Printing	0	0	0	0	0	0	985
Advertising	1,461	0	2,818	16,521	4,424	20,945	23,179
Dues and subscriptions	325	0	1,520	12,649	8,550	21,199	24,957
Postage and delivery	527	1,380	5,246	12,135	18,739	30,874	70,935
Telephone and internet access	4,015	7,854	9,072	112,550	18,388	130,938	170,377
Occupancy costs	6,042	20,392	103,588	978,759	168,306	1,147,065	1,477,529
Licenses and permits	1,052	0	0	9,379	2,555	11,934	15,073
Education and training	75	0	0	175,408	4,079	179,487	123,322
Special activities-parents and children	0	0	0	13,757	336	14,093	40,119
Food, services and supplies	53	2,183,436	0	2,331,146	1,676	2,332,822	2,193,711
Contracted childcare providers	0	0	14,171,103	15,888,553	5,060	15,893,613	47,599,027
Equipment maintenance and supplies	5,256	914	28,972	153,133	133,341	286,474	356,834
In-kind space	8,450	0	0	125,064	0	125,064	123,622
In-kind skilled volunteer	0	0	539	306,594	0	306,594	455,728
In-kind materials, advertising, other	15,910	0	783	698,852	0	698,852	115
Other costs	15	0	146	8,186	27,794	35,980	94,108
Depreciation (direct)	0	0	0	0	267,491	267,491	243,473
Loss on disposal of assets	0	0	0	0	1,709	1,709	10,246
Interest and loan expenses	0	0	0	0	7,834	7,834	6,152
Total Expenses	310,352	2,464,596	14,930,597	30,395,011	2,230,423	32,625,434	65,328,882
Allocation of:							
General and administrative expenditures	<u>47,838</u>	<u>46,965</u>	<u>124,293</u>	<u>1,769,814</u>	<u>(1,769,814)</u>	<u>0</u>	<u>0</u>
Total Expenses	<u>\$ 358,190</u>	<u>\$ 2,511,561</u>	<u>\$ 15,054,890</u>	<u>\$ 32,164,825</u>	<u>\$ 460,609</u>	<u>\$32,625,434</u>	<u>\$ 65,328,882</u>
Property and Equipment Acquisitions	<u>\$ 5,488</u>	<u>\$ 1,604</u>	<u>\$ 2,157</u>	<u>\$ 1,001,299</u>	<u>\$ 0</u>	<u>\$ 1,001,299</u>	<u>\$ 283,250</u>

The accompanying notes are an integral part of these financial statements.

CHILDHOOD DEVELOPMENT SERVICES, INC.

Statement of Cash Flows

For the Year Ended June 30, 2010

With Comparative Totals for June 30, 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 792,924	\$ (103,320)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	358,750	359,268
Loss on disposition of assets	909	10,246
Grants restricted for property and equipment acquisitions	(1,001,299)	(283,250)
Changes in assets and liabilities:		
(Increase) decrease in grants receivable	(497,586)	2,966,737
Increase in other assets	(33,035)	(3,767)
(Increase) decrease in prepaid expenses	61,318	(41,955)
Increase (decrease) in accounts payable	152,964	(2,193,822)
Increase (decrease) in accrued payroll	1,523	(71,949)
Increase in accrued leave	38,831	12,053
Increase in deferred revenue	6,948	54,457
Net Cash Provided (Used) by Operating Activities	<u>(117,753)</u>	<u>704,698</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(902,997)	(322,166)
Proceeds, sale of property and equipment	800	0
(Purchase)/redemption of investments, net	(15,138)	179,208
Security deposits	(538)	945
Net Cash Used by Investing Activities	<u>(917,873)</u>	<u>(142,013)</u>
Cash Flows from Financing Activities:		
Proceeds from grants restricted for property and equipment	1,001,299	283,250
Payments on long-term debt and capital leases	(78,292)	(217,331)
Net Cash Provided by Financing Activities	<u>923,007</u>	<u>65,919</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(112,619)	628,604
Cash and cash equivalents, beginning of year	<u>813,181</u>	<u>184,577</u>
Cash and cash equivalents, end of year	<u>\$ 700,562</u>	<u>\$ 813,181</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 45,796</u>	<u>\$ 48,838</u>
Income taxes paid	<u>\$ 7,785</u>	<u>\$ 29,532</u>

Supplemental Schedule of Noncash Investing and Financing Activities:

Noncash activities include in-kind donations of volunteer hours, advertising, materials, space and other items.

**The accompanying notes are an integral
part of these financial statements.**

CHILDHOOD DEVELOPMENT SERVICES, INC.
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Principles

Organization

Childhood Development Services, Inc. (the Corporation) is a not-for-profit organization organized under the laws of the State of Florida, receiving most of its revenue from State and Federal funds. The Corporation is a helping agency that strives to be an accessible, full-service resource for families with children from age birth through eighteen years old. The Corporation takes a holistic approach toward meeting the needs of families through child-care providers and family support, family education, and the development of quality child care. The Corporation operates in a six county area which includes Marion, Alachua, Citrus, Dixie, Gilchrist, and Levy counties.

Childhood Development Programs Definition

- **Early Learning Program** provides financial assistance for child care costs to families who meet the qualifying guidelines.
- **Voluntary Pre-Kindergarten Program** provides children who reside in Florida and will attain the age of four years on or before September 1 of the school year a voluntary pre-kindergarten education program.
- **State Mandated Training** provides educational training for caregivers such as the mandatory 30 hours training, working with special needs children, and obtaining their CDA.
- **Head Start and Early Head Start**, a Federal program, provides comprehensive services in the areas of health, education, social services, and parent involvement to low-income preschool children and their families.
- **USDA Food Program** provides free well-balanced meals to children in family child care homes and centers licensed by Federal, State or local licensing authorities.
- **Kids Central, Inc.** provides funding to the Corporation for the children and youth in Genesis House.

Smaller, though just as important, are other programs offered that provide education and training, child-care, hearing, speech, eye, and psychological services, such as Teen Parent and Community with a Heart.

The Corporation is governed by a Board of Directors made up of individuals who are nominated by a nominating committee and elected by the Board of Directors.

Basis of Accounting

The Corporation follows standards of accounting and financial reporting prescribed for nonprofit voluntary health and welfare agencies. It uses the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred. Federal, State and local government grants are recorded as support when performance occurs under the terms of the grant agreement.

CHILDHOOD DEVELOPMENT SERVICES, INC.
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Principles, (Continued)

Basis of Accounting, (continued)

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of the Corporation 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.

Financial Statement Presentation

Net assets of the Corporation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Corporation, and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation.

Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Recognition of Donor Restricted Contributions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Allocation of Expenses

The costs of providing the various programs and other activities have been detailed in the Statement of Functional Expenses. Salaries and other expenses which are associated with a specific program are charged directly to that program. Salaries and other expenses which benefit more than one program are allocated to the various programs based on the relative benefit provided. Administrative expenses are allocated to the programs based on various allocation methods which meet Federal and State guidelines for indirect expense allocation.

CHILDHOOD DEVELOPMENT SERVICES, INC.
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Principles, (Continued)

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Corporation considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of a repurchase agreement, money market funds and checking and savings accounts.

The Corporation has a Master Repurchase Agreement with SunTrust Bank. The agreement authorizes the bank to purchase securities to secure funds on deposit which are in excess of the amounts insured by the Federal Deposit Insurance Corporation. These securities are government securities such as Fannie Maes and Ginnie Maes. Funds in excess of predetermined balances are automatically swept on a daily basis between checking/savings accounts and investment accounts. The automatic sweep between accounts occurs at the beginning and end of each banking day.

Inventory

Inventory is stated at actual cost and is requisitioned and priced by the first-in, first-out method and consists of supply stock.

Investments

Investments are recorded and carried at fair value with increases and decreases being charged or credited to the Statement of Activities.

Grants Receivable

Receivables are recorded by the Corporation for funds to be received from various Federal and State grants as revenues are earned. An allowance for uncollectible receivables has not been recorded as all amounts are deemed collectible.

Property and Equipment

The Corporation follows the practice of capitalizing at cost if purchased and fair value if contributed all expenditures for property and equipment in excess of \$500. Acquisitions funded by Federal and State programs are recorded at cost at date of acquisition. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets. (See Notes 2 and 3.)

Donated Space, Supplies and Services

Under the provisions of FASB ASC 958-605-25, contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized. However, entities are encouraged to disclose the fair value of contributed services received, but not recognized as revenues, if that is practicable. (See Note 10.)

CHILDHOOD DEVELOPMENT SERVICES, INC.
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Principles, (Continued)

Donated Space, Supplies and Services, (continued)

All in-kind contributions are considered to be available for unrestricted use, unless specifically restricted by the donor. These contributions have been treated as in-kind contributions for purposes of meeting the Federal or State matching requirements. Donated space is recorded based on an appraised rental value by a real estate agent. Donated supplies are recorded at the estimated market value upon receipt.

Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, unrelated business income is subject to Federal and State income taxes. The print shop is the Corporation's primary source of unrelated business income. Income tax expense for fiscal year ended June 30, 2010 is \$7,785.

The Corporation adopted the provisions FASB ASC 740-10 on July 1, 2009. Interest and penalties charged related to federal income tax positions are included in operating income; no interest and penalties are recorded in the year ended June 30, 2010. The Corporation is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before fiscal year 2007.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, investments, grants receivable and accounts receivable approximate fair value.

Subsequent Events

The Corporation has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were available to be issued, or January 12, 2011.

CHILDHOOD DEVELOPMENT SERVICES, INC.
Notes to Financial Statements
June 30, 2010

Note 2 - Property and Equipment

The following is a schedule of property and equipment owned by the Corporation at June 30, 2010:

Land	\$ 671,878
Buildings and Improvements	2,357,933
Equipment	<u>817,885</u>
Total Property and Equipment	3,847,696
Accumulated Depreciation	<u>(1,388,210)</u>
Property and Equipment, Net of Accumulated Depreciation	<u>\$ 2,459,486</u>

Note 3 - Property and Equipment Temporarily Restricted for Federal and State Programs

The Corporation owns property and equipment whose acquisition has been funded by various Federal and State programs. The use, removal, or replacement of this property and equipment is controlled by the granting agency and title may revert back to the agency in the event the activities of the program are prematurely terminated. The Corporation, as custodian of the property and equipment, maintains a physical inventory of the property and equipment as a temporarily restricted net asset for which it was acquired. The following is a schedule of property and equipment temporarily restricted by program at June 30, 2010:

<u>Program</u>	
Head Start	\$ 2,910,513
Early Head Start	1,549,292
School Readiness	202,496
Resource and Referral	21,093
Voluntary Pre-Kindergarten	15,015
Shelter	570,008
State Mandated Training	29,829
USDA	9,992
Healthy Families	<u>11,321</u>
Total Property and Equipment	5,319,559
Accumulated Depreciation	<u>(2,456,034)</u>
Total Temporarily Restricted Property and Equipment, Net of Accumulated Depreciation	<u>\$ 2,863,525</u>

During the current year, the Corporation acquired a building in Alachua County, Florida which was being renovated at June 30, 2010. The building's cost was \$636,811 and renovations in progress are \$13,967 at June 30, 2010. In addition, the Corporation began construction of a second building which is located on existing land owned by the Corporation in Marion County, Florida. The construction in progress was \$147,706 at June 30, 2010. The buildings are funded with federal grants under The American Recovery and Reinvestment Act of 2009 (ARRA). When completed, both buildings will be used for the Early Head Start program.

CHILDHOOD DEVELOPMENT SERVICES, INC.
Notes to Financial Statements
June 30, 2010

Note 4 - Investments

The Corporation has the following investments as of June 30, 2010:

<u>Description</u>	<u>Fair Value</u>
Certificates of Deposit	<u>\$ 775,204</u>

The certificates of deposit include various maturities, with interest rates ranging from 0.4% to 2.6%. Each certificate of deposit is federally-insured by the Federal Deposit Insurance Corporation (FDIC). All components of investment return are included in interest income from operations in the Statement of Activities.

Note 5 - Obligations under Capital Leases

The Corporation leases equipment under eight capital leases which expire in years 2011 through 2014. Each asset and liability under the capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the asset. The gross cost and accumulated depreciation of the assets held under the capital leases is \$70,251 and \$19,816, respectively at June 30, 2010. The assets are being depreciated over the term of the leases. Depreciation of assets held under the capital leases is included in depreciation expense. The liability is included with long-term debt. (See Note 6.)

Minimum future lease payments under the capital leases as of June 30, 2010 for each of the next five years and in the aggregate are:

<u>June 30:</u>		
2011		\$23,116
2012		19,390
2013		13,922
2014		7,241
2015		<u>0</u>
Total Future Minimum Lease Payments		63,669
Less: Amount Representing Interest		<u>(11,329)</u>
Present Value of Net Minimum Lease Payments		<u>\$ 52,340</u>

The interest rates included on the capitalized leases range from 8.0% to 40.16%.

CHILDHOOD DEVELOPMENT SERVICES, INC.
Notes to Financial Statements
June 30, 2010

Note 6 - Long-Term Debt

Bond payable to an industrial development authority at 6%, secured by real estate, with monthly principal payments of \$5,625 plus interest, due in May, 2019. See paragraph below.	\$ 590,026
Note payable to a bank at 5.5%, secured by computer equipment, with monthly payments of \$173, due in April, 2013.	5,728
Various capital leases, secured by equipment, with various monthly payments ranging from \$87 to \$614 per month, with varying terms ranging from thirty-six to sixty months.	<u>52,340</u>
Total	648,094
Current Portion	<u>88,233</u>
Long-Term Debt, Net of Current Portion	<u>\$ 559,861</u>

The bond payable is secured by the Skylark building which was partially financed with Federal funds through the Head Start Program. The Federal Government has an interest in the real property financed with these federal funds.

Current maturities of long-term debt for each of the next five years, thereafter, and in aggregate are as follows:

<u>June 30:</u>	
2011	\$ 88,233
2012	86,062
2013	81,563
2014	72,210
2015	67,500
Thereafter	<u>252,526</u>
	<u>\$ 648,094</u>

The Corporation follows the policy of capitalizing interest as a component of the cost of property constructed for its own use. In fiscal year 2010, total interest incurred was \$45,796, of which none was capitalized.

Note 7 - Temporary Restricted Net Assets, Operating

As of June 30, 2010, the Corporation has \$60,880 of funding that is temporary restricted by donors and organizations for a specific purpose or program.

CHILDHOOD DEVELOPMENT SERVICES, INC.
Notes to Financial Statements
June 30, 2010

Note 8 - Operating Leases

The Corporation leases office space to the Florida Department of Children and Families under an operating lease expiring September 2010 (with renewal options through September 2011) and minimum annual rentals of \$21,436.

The Corporation leases office equipment, vehicles and space under various leases. Several of the leases provide for annual rentals and contain options for renewal and cancellation. Total rent expense for fiscal year ended June 30, 2010 was \$163,353 for space and \$137,009 for office equipment and vehicles. Minimum future lease payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2010 and for each of the next five years and in aggregate are as follows:

<u>June 30:</u>	
2011	\$ 60,263
2012	37,939
2013	25,367
2014	22,200
2015	<u>20,350</u>
Total Future Minimum Lease Payments	<u>\$ 166,119</u>

Note 9 - Retirement Plan

The Corporation maintains a voluntary retirement annuity plan for its employees. All employees are eligible for participation in the plan after a probationary period not to exceed one year. Contributions to the plan are based on a percentage of employees' salaries. During the year ended June 30, 2010, the Corporation contributed \$353,328 to this plan for covered employees.

Note 10 - Non-Federal Share Head Start and Early Head Start Programs

The Corporation was awarded three federal grants for the Head Start and Early Head Start programs. Two of the grants are funded under ARRA. The first ARRA grant budget period is July 1, 2009 to September 30, 2010 and the second ARRA grant budget period is December 1, 2009 to September 29, 2010. These ARRA grants were not completed as of June 30, 2010 and based on the Corporation's need for additional time to spend the remaining funds under both ARRA grants, a ninety-day extension was requested.

In accordance with the Head Start and Early Head Start grants and regulations, the Corporation must provide a 20% cash or in-kind match of the total expenditures, including the federal share. Under the third grant, the Corporation has been granted a reduction in the match required for Award No. 04CH0170/27 from 20% to 14.50%.

CHILDHOOD DEVELOPMENT SERVICES, INC.
Notes to Financial Statements
June 30, 2010

Note 10 - Non-Federal Share Head Start and Early Head Start Programs, (Continued)

By definition, most parent involvement/volunteer services (unskilled) do not meet the criteria under FASB ASC 958-605-25 as a "specialized skill" and, therefore, the value of these services has not been included in the financial statements. (See Note 1.) Parent involvement/volunteer services are an integral and necessary part of the Head Start and Early Head Start programs in order to maintain an effective program at the grantee level. The Corporation maintains documentation of the parent involvement/volunteer services (unskilled) in detailed reports and summaries. A reconciliation of the required match with the recorded match is summarized below:

	<u>Head Start and Early Head Start 04CH0170/27</u>
Federal Share of Award	\$11,475,415
Non-federal Share of Award (Match)	1,946,000
Percentage of Federal Share Recognized	99.089%
Required Amount of Non-federal Share	1,928,272
 Match Earned:	
Space, Supplies, Advertising, Other Miscellaneous	\$ 672,883
Skilled Volunteer Services	306,055
Parent Involvement/Unskilled Volunteer Services	<u>949,334</u>
Total Match Earned	<u>\$ 1,928,272</u>

Note 11 - Concentrations

The Corporation receives a substantial amount of its support from Federal and State grants. A significant reduction in the level of this support, if this were to occur, may have an effect on the Corporation's programs and activities.

Note 12 - Contingencies and Commitments

Contingencies

Grants require the fulfillment of certain conditions set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to grantors. Although this is a possibility, the Board deems the contingency remote, since by accepting the grants and their terms, it has accommodated the objectives of the Corporation to the provisions of the grants.

In a previous year, the Corporation received a SHIP grant/loan from the Marion County Board of County Commissioners and the Local Housing Assistance Trust Fund for renovations to the Skylark building. The building renovations, known as Genesis House, provides temporary foster care shelter. The funding is evidenced by a promissory note/mortgage loan agreement which is deferred, interest free and payable only upon sale, transfer, refinance or if the renovated space is used for another purpose. (See Note 14.) The renovations, net of accumulated depreciation, are classified as "Temporarily Restricted Property and Equipment". (See Note 3.)

CHILDHOOD DEVELOPMENT SERVICES, INC.
Notes to Financial Statements
June 30, 2010

Note 12 - Contingencies and Commitments, (Continued)

Contingencies, (continued)

In recent years, the Corporation has experienced significant growth in the federally-funded Head Start and Early Head Start programs. These programs require a non-federal share of 20% of total expenditures. Management continually evaluates strategies for growing the non-federal share to sustain the funded enrollment. In the future, if sufficient non-federal share is not available, the Corporation may need to reduce the federal expenditures or request approval for a reduction in the non-federal share required to avoid the risk of overspending federal dollars.

Commitments

On June 30, 2010 the Corporation had open purchase orders totaling \$1,090,256.

Effective July 20, 1999, the Corporation has \$500,000 of an unused revolving line of credit with a bank to be drawn upon as needed. The line of credit includes a variable interest rate based on 2.25% over the 30 day London Interbank Offered Rate (LIBOR). As of June 30, 2010, the balance owed on the line of credit was \$0.

Note 13 - Changes to Operations

The Corporation's funding from Early Learning Coalition of Marion County, Inc. (Marion Coalition) ceased July 31, 2010; funding for fiscal year ended June 30, 2010 was in excess of fifteen million. Fixed assets purchased with program dollars reverted back to Marion Coalition in June and July 2010.

Note 14 - Subsequent Events

The Corporation ceased operating Genesis House which provided temporary foster care for youth; the shelter was closed September 30, 2009. Subsequent to June 30, 2010, the Corporation received approval from the Marion County Board of County Commissioners to repurpose the space to be used as a shelter for homeless mothers with children between the ages of birth and five years and also for young pregnant women.

**ADDITIONAL INFORMATION REQUIRED BY
OMB CIRCULAR A-133, GOVERNMENT AUDITING
STANDARDS AND RULES OF THE AUDITOR GENERAL**

CHILDHOOD DEVELOPMENT SERVICES, INC.
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 2010

<u>Grantor/Pass-Through Agency/Program Title</u>	<u>CFDA or CSFA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
Federal Awards			
U.S. Department of Health and Human Services			
Direct Program			
Head Start (2008-2009)	93.600	04CH0170/26	\$ 57,301
Head Start (2009-2010)	93.600	04CH0170/27	7,841,304
ARRA - Head Start (2009-2010)	93.708	04-SE0170/01	314,309
Early Head Start (2008-2009)	93.600	04CH0170/26	25,905
Early Head Start (2009-2010)	93.600	04CH0170/27	3,541,265
ARRA - Early Head Start (2009-2010)	93.708	04-SE0170/01	167,167
ARRA - Early Head Start (2009-2010)	93.709	04-SA0170/01	1,525,151
Passed through the Office of Early Learning (State of Florida Agency for Workforce Innovation) passed through to:			
Early Learning Coalition of Marion County, Inc.			
Child Care and Development Block Grant	93.575		3,294,255
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		2,329,580
Temporary Assistance for Needy Families (TANF)	93.558		3,241,933
Social Services Block Grant	93.667		9,876
ARRA-Child Care and Development Block Grant	93.713		624,235
Passed through Florida Department of Children and Families			
Social Services Block Grant	93.667	LC811	30,212
Child Care and Development Block Grant	93.575	LC811	87,711
Passed through to The Ounce of Prevention Fund of Florida and Healthy Families Florida			
Temporary Assistance for Needy Families (TANF)	93.558	HF-09-10-41	262,189
Community-based Family & Resource Support	93.590	HF-09-10-41	6,875
Passed through to Kids Central, Inc.			
Promoting Safe and Stable Families	93.556	P0910P-HFC033	367
Temporary Assistance for Needy Families (TANF)	93.558	P0910P-HFC033	18,995
Child Welfare Services_State Grants	93.645	P0910P-HFC033	2,413
Foster Care_Title IV-E	93.658	P0910P-HFC033	20,189
Adoption Assistance	93.659	P0910P-HFC033	7,382
Foster Care_Title IV-E	93.658	RO7S-D033/R0910S-D033	5,850
Social Services Block Grant	93.667	RO7S-D033/R0910S-D033	4,658

(Continued)

CHILDHOOD DEVELOPMENT SERVICES, INC.
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 2010

<u>Grantor/Pass-Through Agency/Program Title</u>	<u>CFDA or CSFA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>Federal Awards, continued</u>			
Passed through to United for Families, Inc.			
Foster Care_Title IV-E	93.658	UA568	\$ 7,721
Social Services Block Grant	93.667	UA568	6,797
Passed through to Partnership for Strong Families			
Foster Care_Title IV-E	93.658		1,327
Social Services Block Grant	93.667		1,028
Passed through to Lakeview Center			
Foster Care_Title IV-E	93.658		606
Social Services Block Grant	93.667		470
Passed through to Child and Family Connections, Inc.			
Foster Care_Title IV-E	93.658	UA513-OHC	45,220
Social Services Block Grant	93.667	UA513-OHC	30,840
Passed through to Devereux Families, Inc., d/b/a Heartland for Children			
Foster Care_Title IV-E	93.658	RA-FGE01	4,632
Social Services Block Grant	93.667	RA-FGE01	3,447
Passed through Florida Healthy Kids Corporation			
KidCare Administration	93.767		<u>12,000</u>
Total U.S. Department of Health and Human Services			<u>23,533,210</u>
U.S. Department of Agriculture			
Passed through State of Florida Department of Health			
Child and Adult Care Food Program	10.558	D-712	1,033,326
Child and Adult Care Food Program	10.558	S-625	474,835
Child and Adult Care Food Program	10.558	U-1882	<u>984,417</u>
Total U.S. Department of Agriculture			<u>2,492,578</u>
U.S. Department of Education			
Passed through the Office of Early Learning (State of Florida Agency for Workforce Innovation) passed through to:			
Early Learning Coalition of Marion County, Inc.			
State Fiscal Stabilization Fund(SFSF)-Government Services, Recovery Act	84.397		<u>525,775</u>
Total U.S. Department of Education			<u>525,775</u>
Total Federal Awards			<u>\$ 26,551,563</u>
<u>State Financial Assistance</u>			
Office of Early Learning (State of Florida Agency for Workforce Innovation) passed through to:			
Early Learning Coalition of Marion County, Inc.			
School Readiness Services	75.005		\$ 57,212
Voluntary Pre-Kindergarten Education Program	75.007		4,778,599

(Continued)

CHILDHOOD DEVELOPMENT SERVICES, INC.
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 2010

<u>Grantor/Pass-Through Agency/Program Title</u>	<u>CFDA or CSFA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>State Financial Assistance, continued</u>			
Florida Department of Children and Families passed through to:			
Kids Central, Inc.			
Community Based Care Supports	60.094	P0910P-HFC033	17,920
Community Based Care Supports	60.094	RO7S-D033/R0910S-D033	6,573
United for Families, Inc.			
Community Based Care Supports	60.094	UA568	4,785
Partnership for Strong Families			
Community Based Care Supports	60.094		1,086
Child and Family Connections, Inc.			
Community Based Care Supports	60.094	UA513-OHC	36,990
Lakeview Center			
Community Based Care Supports	60.094		496
Devereux Families, Inc., d/b/a Heartland for Children			
Community Based Care Supports	60.094	RA-FGE01	<u>3,500</u>
Total State Financial Assistance			<u>\$ 4,907,161</u>

Other Information:

Significant accounting policies used in preparing the schedule of expenditures of federal awards and state financial assistance are disclosed in Note 1 beginning on Page 9.

The amount of federally-supported insurance in effect during the year, non-cash assistance and loans or loan guarantees outstanding at year-end is \$0.



**DUGGAN, JOINER
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**INDEPENDENT AUDITORS' 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***

January 12, 2011

To the Board of Directors of
Childhood Development Services, Inc
Ocala, Florida

We have audited the financial statements of Childhood Development Services, Inc. (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated January 12, 2011. 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 Childhood Development Services, 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 Childhood Development Services, 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 deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

To the Board of Directors of
Childhood Development Services, Inc.
Ocala, Florida

January 12, 2011

Page 2 of 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Childhood Development Services, 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.

Duggan, Joiner & Company



**DUGGAN, JOINER
& COMPANY**

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

January 12, 2011

To the Board of Directors of
Childhood Development Services, Inc.
Ocala, Florida

Compliance

We have audited Childhood Development Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the Governor's State Projects Compliance Supplement that could have a direct and material effect on each of Childhood Development Services, Inc.'s major federal programs and state projects for the year ended June 30, 2010. Childhood Development Services, Inc.'s major federal programs and state projects are identified in the summary of auditors' 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 and state projects is the responsibility of Childhood Development Services, Inc.'s management. Our responsibility is to express an opinion on Childhood Development Services, 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.650, Rules of the Auditor General, 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 and state project occurred. An audit includes examining, on a test basis, evidence about Childhood Development Services, 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 Childhood Development Services, Inc.'s compliance with those requirements.

To the Board of Directors of
Childhood Development Services, Inc.
Ocala, Florida

January 12, 2011

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In our opinion, Childhood Development Services, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Childhood Development Services, 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 and state projects. In planning and performing our audit, we considered Childhood Development Services, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, 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 Childhood Development Services, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program and state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program and state project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.

Duggan, Joiner & Company

CHILDHOOD DEVELOPMENT SERVICES, INC.
Schedule of Findings and Questioned Costs
Federal Programs and State Projects
For the Year Ended June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

- Type of Auditors' Report Issued

Unqualified opinion.

- Internal Control over Financial Reporting

No deficiencies in internal control over financial reporting and its operation were noted. No material weaknesses were identified.

- Noncompliance Material to Financial Statements

Results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Federal Programs and State Projects

- Internal Control over Major Federal Programs and State Projects

No deficiencies in internal control over major federal programs or state projects were noted. No material weaknesses were identified.

- Type of Auditors' Report Issued on Compliance for Major Programs and Projects

Unqualified opinion.

- Audit Findings Disclosed that are Required to be Reported in Accordance with Section .510(a) of OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General

No findings required to be reported under Section .510(a) of OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General were noted.

- Identification of Major Programs/Projects

Federal Programs

U.S. Department of Health and Human Services:

Head Start CFDA #93.600

Early Head Start CFDA #93.600

ARRA – Head Start CFDA #93.708

ARRA – Early Head Start CFDA #93.709

ARRA – Child Care and Development Block Grant CFDA #93.713

U.S. Department of Education:

State Fiscal Stabilization Fund(SFSF), Recovery Act CFDA #84.397

State Projects

Office of Early Learning – Agency for Workforce Innovation:

Voluntary Pre-Kindergarten Education Program CSFA #75.007

CHILDHOOD DEVELOPMENT SERVICES, INC.
Schedule of Findings and Questioned Costs
Federal Programs and State Projects
For the Year Ended June 30, 2010

Section I - Summary of Auditors' Results, (Continued)

- Dollar Threshold Used to Distinguish Between Type A and Type B Programs/Projects
\$796,547 for major federal programs and \$300,000 for major state projects
- Auditee Does Not Qualify as Low-Risk Auditee

The auditee does not qualify as a low-risk auditee for the year ended June 30, 2010, in accordance with Section .530 of OMB Circular A-133.

Section II - Financial Statement Findings

No findings required to be reported in accordance with GAGAS and Rules of the Auditor General were noted.

No management letter is required in accordance with Rule 10.656(3)(e) of the Rules of the Auditor General because there were no findings required to be reported in the management letter.

Section III - Findings and Questioned Costs

No audit findings as defined in Section .510(a) of OMB Circular A-133 and Rule 10.654 (1)(h) of Rules of the Auditor General were noted.

Section IV - Other Issues

A Summary Schedule of Prior Audit Findings is required for the federal programs. Refer to page 28.

A Summary Schedule of Prior Audit Findings is not required for the state projects. There were no prior audit findings related to the state projects.

No Corrective Action Plan is required because there were no findings required to be reported under the Federal Single Audit Act or the Florida Single Audit Act.

CHILDHOOD DEVELOPMENT SERVICES, INC.
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2010

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING 09-1: Capturing and Recording Fair Value of In-Kind Donations

Condition: This finding was a significant deficiency stating that some of the in-kind amounts recorded were overstated and had to be re-calculated. Use of space was also not recorded properly or not recorded at all on the books.

Recommendation: The auditor recommended that a thorough review of in-kind donations received be performed prior to amounts being recorded on the books to ensure the amounts have been captured, properly valued and calculated correctly. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: During the current audit it was noted that in-kind donations were captured, valued properly and calculated correctly.

FINDING 09-2: Tangible Personal Property Acquisitions and Capitalization

Condition: This finding was a significant deficiency stating that in some instances evidence of the three written bids was not available and written evidence of the Board of Directors approval in meeting minutes was not available for all items tested. Several items of tangible personal property with an acquisition cost greater than \$500 had been expensed.

Recommendation: The auditor recommended that policies be followed with respect to purchases of non-expendable goods of \$3,000 or greater and to capitalize/tag tangible personal property with a cost greater than \$500. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: The recommendation was adopted in fiscal year 2010.