

CHILDREN IN CRISIS, INC.

Financial Statements

December 31, 2010 and 2009

CHILDREN IN CRISIS, INC.

Financial Statements

December 31, 2010 and 2009

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Board of Directors
Children in Crisis, Inc.
Fort Walton Beach, Florida

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of Children in Crisis, Inc., as of December 31, 2010, and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Children in Crisis, Inc.'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 the 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 Children in Crisis, Inc. as of December 31, 2010, and 2009, and the changes in its net assets and 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 14, 2011, on our consideration of Children in Crisis, Inc.'s internal control over financial reporting and on 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 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.

Board of Directors
Children in Crisis, Inc.
Independent Auditor's Report (Continued)

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "O'Sullivan Creel, LLP". The signature is written in black ink on a light-colored background.

June 14, 2011

Children in Crisis, Inc.
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current assets		
Cash	\$ 980,754	\$ 704,013
Certificates of deposit	728,648	1,067,598
Accounts receivable	27,249	23,556
Contributions receivable, current portion	255,727	175,688
Grants receivable, current portion	148,401	125,192
Other current assets	<u>27,965</u>	<u>23,722</u>
Total current assets	<u>2,168,744</u>	<u>2,119,769</u>
Property and equipment, net	<u>3,906,396</u>	<u>3,278,282</u>
Other assets		
Certificates of deposit restricted for construction of capital assets	1,214,075	1,265,566
Contributions receivable, long-term portion	88,180	132,916
Grants receivable, long-term portion	50,000	95,000
Intangible interest in land lease	<u>4,029,663</u>	<u>2,650,922</u>
Total other assets	<u>5,381,918</u>	<u>4,144,404</u>
TOTAL ASSETS	<u>\$ 11,457,058</u>	<u>\$ 9,542,455</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts and contracts payable	\$ 20,195	\$ 121,928
Contract retainage payable	-	19,336
Accrued payroll	13,458	14,600
Other liabilities	<u>1,067</u>	<u>-</u>
Total current liabilities	<u>34,720</u>	<u>155,864</u>
NET ASSETS		
Unrestricted	5,365,127	4,970,469
Temporarily restricted	<u>6,057,211</u>	<u>4,416,122</u>
TOTAL NET ASSETS	<u>11,422,338</u>	<u>9,386,591</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,457,058</u>	<u>\$ 9,542,455</u>

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

Children in Crisis, Inc.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2010 and 2009

	2010		
	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND OTHER REVENUE			
Public support			
Contributions	\$ 506,736	\$ 198,850	\$ 705,586
Less provision for uncollectible pledges	-	(14,260)	(14,260)
Grants	10,900	688,210	699,110
In-kind contributions	8,205	1,474,343	1,482,548
Special events	<u>50,062</u>	<u>-</u>	<u>50,062</u>
Total public support	<u>575,903</u>	<u>2,347,143</u>	<u>2,923,046</u>
Other revenue			
Fees earned - foster and teen transition homes	288,612	-	288,612
Interest income	<u>41,415</u>	<u>-</u>	<u>41,415</u>
Total other revenue	<u>330,027</u>	<u>-</u>	<u>330,027</u>
TOTAL PUBLIC SUPPORT AND OTHER REVENUE	905,930	2,347,143	3,253,073
Net assets released from restrictions			
Satisfaction of program restrictions	<u>706,054</u>	<u>(706,054)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND OTHER REVENUE AFTER NET ASSETS RELEASED FROM RESTRICTIONS	<u>1,611,984</u>	<u>1,641,089</u>	<u>3,253,073</u>
EXPENSES			
Program services			
The Children's Neighborhood	<u>994,268</u>	<u>-</u>	<u>994,268</u>
Support services			
General and administrative	114,902	-	114,902
Fundraising	<u>108,156</u>	<u>-</u>	<u>108,156</u>
Total support services	<u>223,058</u>	<u>-</u>	<u>223,058</u>
TOTAL EXPENSES	<u>1,217,326</u>	<u>-</u>	<u>1,217,326</u>
CHANGE IN NET ASSETS	394,658	1,641,089	2,035,747
NET ASSETS - BEGINNING OF YEAR	<u>4,970,469</u>	<u>4,416,122</u>	<u>9,386,591</u>
NET ASSETS - END OF YEAR	<u>\$ 5,365,127</u>	<u>\$ 6,057,211</u>	<u>\$11,422,338</u>

Continued...

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

Children in Crisis, Inc.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2010 and 2009

	2009		
	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND OTHER REVENUE			
Public support			
Contributions	\$ 565,437	\$ 106,026	\$ 671,463
Less provision for uncollectible pledges	-	(41,934)	(41,934)
Grants	-	23,490	23,490
In-kind contributions	20,018	14,000	34,018
Special events	<u>66,021</u>	<u>-</u>	<u>66,021</u>
Total public support	<u>651,476</u>	<u>101,582</u>	<u>753,058</u>
Other revenue			
Fees earned - foster home program	223,548	-	223,548
Interest income	<u>120,575</u>	<u>-</u>	<u>120,575</u>
Total other revenue	<u>344,123</u>	<u>-</u>	<u>344,123</u>
TOTAL PUBLIC SUPPORT AND OTHER REVENUE	995,599	101,582	1,097,181
Net assets released from restrictions			
Satisfaction of program restrictions	<u>1,070,057</u>	<u>(1,070,057)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND OTHER REVENUE AFTER NET ASSETS RELEASED FROM RESTRICTIONS	<u>2,065,656</u>	<u>(968,475)</u>	<u>1,097,181</u>
EXPENSES			
Program services			
The Children's Neighborhood	<u>1,072,687</u>	<u>-</u>	<u>1,072,687</u>
Support services			
General and administrative	163,374	-	163,374
Fundraising	<u>173,923</u>	<u>-</u>	<u>173,923</u>
Total support services	<u>337,297</u>	<u>-</u>	<u>337,297</u>
TOTAL EXPENSES	1,409,984	-	1,409,984
Decrease in fair value of asset held for sale	<u>15,165</u>	<u>-</u>	<u>15,165</u>
TOTAL EXPENSES AND LOSSES	<u>1,425,149</u>	<u>-</u>	<u>1,425,149</u>
CHANGE IN NET ASSETS	640,507	(968,475)	(327,968)
NET ASSETS - BEGINNING OF YEAR	3,822,938	5,891,621	9,714,559
Transfers	<u>507,024</u>	<u>(507,024)</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 4,970,469</u>	<u>\$ 4,416,122</u>	<u>\$ 9,386,591</u>

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

Children in Crisis, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2010 and 2009

	2010			
	Program Services	Support Services		Total
	The Children's Neighborhood	Administrative and General	Fundraising	
EXPENSES				
Salaries and related benefits				
Salaries and wages	\$ 485,493	\$ 59,892	\$ 36,298	\$ 581,683
Payroll taxes	56,966	7,285	4,415	68,666
Employee benefits	<u>55,295</u>	<u>5,296</u>	<u>3,211</u>	<u>63,802</u>
Total salaries and related benefits	<u>597,754</u>	<u>72,473</u>	<u>43,924</u>	<u>714,151</u>
Operating expenses				
Auditing and bookkeeping	6,300	5,940	5,760	18,000
Bank charges	-	1,536	512	2,048
Cleaning and maintenance	14,183	582	388	15,153
Computer services	943	151	164	1,258
Depreciation	112,204	8,825	5,043	126,072
Dues and subscriptions	214	428	1,497	2,139
Fuel	6,748	-	-	6,748
Grocery	12,311	-	-	12,311
Grounds maintenance	3,760	418	-	4,178
Insurance	84,477	5,490	5,490	95,457
Land lease	81,424	6,503	3,663	91,590
Marketing expenses	-	-	8,280	8,280
Miscellaneous	4,881	35	17	4,933
Postage, shipping, delivery	1,697	1,600	1,551	4,848
Printing and copying	2,692	2,538	2,461	7,691
Special events	-	-	21,371	21,371
Supplies	18,361	3,717	3,605	25,683
Telephone and telecommunications	1,925	1,815	1,760	5,500
Training	1,093	-	-	1,093
Travel and meetings	905	543	362	1,810
Utilities	40,075	1,148	1,148	42,371
Vehicle expense	<u>2,321</u>	<u>1,160</u>	<u>1,160</u>	<u>4,641</u>
Total operating expenses	<u>396,514</u>	<u>42,429</u>	<u>64,232</u>	<u>503,175</u>
TOTAL EXPENSES	<u>\$ 994,268</u>	<u>\$ 114,902</u>	<u>\$ 108,156</u>	<u>\$ 1,217,326</u>

Continued...

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

Children in Crisis, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2010 and 2009

	2009			Total
	Program Services	Support Services		
	The Children's Neighborhood	Administrative and General	Fundraising	
EXPENSES				
Salaries and related benefits				
Salaries and wages	\$ 434,232	\$ 85,746	\$ 53,842	\$ 573,820
Payroll taxes	41,915	8,316	5,197	55,428
Employee benefits	<u>32,129</u>	<u>6,374</u>	<u>3,984</u>	<u>42,487</u>
Total salaries and related benefits	<u>508,276</u>	<u>100,436</u>	<u>63,023</u>	<u>671,735</u>
Operating expenses				
Auditing and bookkeeping	7,735	7,293	7,072	22,100
Bank charges	-	2,059	686	2,745
Cleaning and maintenance	8,863	583	194	9,640
Contract services - UMCH	81,257	-	-	81,257
Depreciation	91,320	8,107	4,864	104,291
Dues and subscriptions	190	381	1,332	1,903
Fuel	5,475	-	-	5,475
Grocery	10,680	-	-	10,680
Insurance	48,800	6,343	3,172	58,315
Landscape maintenance	2,378	-	-	2,378
Land lease	265,336	20,637	8,844	294,817
Marketing	-	-	11,682	11,682
Miscellaneous	3,627	-	-	3,627
Postage, shipping, delivery	1,536	2,303	4,642	8,481
Printing and copying	3,626	5,802	4,352	13,780
Special events	-	-	56,125	56,125
Supplies	9,850	5,214	4,171	19,235
Telephone and telecommunications	1,917	1,807	1,752	5,476
Travel and meetings	574	492	574	1,640
Utilities	<u>21,247</u>	<u>1,917</u>	<u>1,438</u>	<u>24,602</u>
Total operating expenses	<u>564,411</u>	<u>62,938</u>	<u>110,900</u>	<u>738,249</u>
TOTAL EXPENSES	<u>\$ 1,072,687</u>	<u>\$ 163,374</u>	<u>\$ 173,923</u>	<u>\$ 1,409,984</u>

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

Children in Crisis, Inc.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,035,747	\$ (327,968)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	126,072	104,291
Bad debt expense	14,260	-
Decrease in fair value of asset held for sale	-	15,165
Contributed property and equipment	(4,012)	(20,000)
Net contribution of intangible land lease	(1,378,741)	-
(Increase) decrease in		
Accounts receivable	(3,693)	(23,556)
Contributions receivable	(49,563)	49,747
Grants receivable	21,791	79,808
Intangible interest in land lease	-	294,817
Other current assets	(4,243)	18,991
Increase (decrease) in		
Accounts and contracts payable	(101,733)	13,115
Contract retainage payable	(19,336)	(39,134)
Accrued payroll	(1,142)	14,600
Other liabilities	1,067	-
Net cash flows from operating activities	<u>636,474</u>	<u>179,876</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(77,451)	(74,988)
Payments on construction in progress	(672,723)	(746,041)
Purchases of certificates of deposit	(385,235)	(593,255)
Proceeds from sale or maturity of certificates of deposit	<u>775,676</u>	<u>1,680,129</u>
Net cash flows from investing activities	<u>(359,733)</u>	<u>265,845</u>
NET CHANGE IN CASH	276,741	445,721
CASH AT BEGINNING OF YEAR	<u>704,013</u>	<u>258,292</u>
CASH AT END OF YEAR	<u>\$ 980,754</u>	<u>\$ 704,013</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

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

Children in Crisis, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose

Children in Crisis, Inc. (the Organization) is a not-for-profit corporation incorporated under the Laws of Florida in May 2003, to raise and manage the funds to build, staff, and operate The Children's Neighborhood, a residential-style foster care neighborhood. Funding for operations is provided through contributions from individuals, churches, other organizations, and the State of Florida. The Children's Neighborhood provides services to abused and neglected children in the four-county area of Northwest Florida (Escambia, Santa Rosa, Okaloosa, and Walton Counties).

B. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges for contributions are recorded as received and allowances are provided for amounts if determined to be uncollectible.

The costs of providing the various programs and other activities are summarized on a functional basis in the Statements of Activities.

Expenses which are associated with a specific program are charged directly to that program. Expenses which benefit more than one program are allocated to the various programs based on the relative benefit provided.

C. Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Codification Standards for not-for-profit entities. Under the Codification Standards, the Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets - net assets not restricted by donors, or donor-imposed restrictions have expired.

Temporarily restricted net assets - net assets which contain donor-imposed restrictions that require the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Organization.

Permanently restricted net assets - net assets which contain donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. Children in Crisis, Inc. did not have any permanently restricted net assets as of December 31, 2010, and 2009.

Children in Crisis, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers cash and certificates of deposit with original maturities less than three months to be cash equivalents.

E. Investments

Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as "current assets". Investments in certificates of deposit restricted for construction of capital assets are classified as "other assets".

F. Contributions Receivable

Contributions receivable consist primarily of contributions received from a broad base of Northwest Florida contributors, as a result of specific fundraising campaigns. Management determines a provision on promises-to-give based on the review of each individual account, current economic conditions, and an overall percentage provision on all capital campaign receivables. After all attempts to collect on a promise-to-give have been exhausted, the receivable is written off against the provision.

G. Property and Equipment

Property and equipment are recorded at cost or, if donated, at their estimated fair value at the date of the gift. The Organization follows the practice of capitalizing all expenditures for equipment in excess of \$1,000. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Construction in progress consists of buildings which comprise The Children's Neighborhood. Following are the estimated useful lives of the major property and equipment depreciable categories:

<u>Asset Class</u>	<u>Useful Lives</u>
Infrastructure	40 Years
Buildings	40 Years
Improvements other than buildings	15 Years
Furniture and equipment	5 Years
Automobiles	5 Years

H. Contributions

Contributions are recognized as revenues in the period in which they are received. Donor restricted contributions are classified as unrestricted revenues if the restrictions are met in the same reporting period in which the contributions are received.

Children in Crisis, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Contributions (Continued)

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. 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 (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 asset released from restrictions.

I. Program Service Revenues

Program service revenue is primarily derived from two different sources: a contract with the Florida Department of Children and Families for foster care provision and fees received from residents of the teen transition homes. Children in Crisis, Inc. provides residential care and supervision for dependent children until permanency plans are implemented; in return, a State of Florida third-party vendor pays Children in Crisis, Inc. a standard fee per day per child. Monthly program service revenues vary, depending on the needs of the children within the four-county area that the Organization serves. Children in Crisis, Inc. also derives program service revenue from clients residing in the teen transition homes, which opened in June 2010. The State of Florida provides a stipend to the young adults residing in the transition homes, and the clients use a portion of this stipend to pay monthly program fees to Children in Crisis, Inc.

J. 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 amounts reported in the financial statements and accompanying notes; actual results could differ from those estimates.

K. Income Taxes

The Organization has been granted an exemption from income taxes under Internal Revenue Code, Section 501(c)(3), as a not-for-profit corporation. The Organization is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with generally accepted accounting principles. With few exceptions, the Organization is no longer subject to federal, state, or local income tax examinations by tax authorities for years before 2007.

L. Subsequent Events

Children in Crisis, Inc. has evaluated events and transactions that occurred between December 31, 2010, and June 14, 2011, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Children in Crisis, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist primarily of pledges restricted by contributors for construction of the Children's Neighborhood, as well as other pledges received during fundraising campaigns for unrestricted purposes. Contributions receivable at December 31, 2010, and 2009, are to be received chronologically as follows:

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 426,977	\$ 335,938
Receivable in one to five years	73,000	104,750
Receivable in more than five years	<u>28,000</u>	<u>46,000</u>
	527,977	486,688
Less allowance for uncollectible pledges	<u>(171,250)</u>	<u>(160,250)</u>
	356,727	326,438
Less discounts to net present value	<u>(12,820)</u>	<u>(17,834)</u>
Net contributions receivable	<u>\$ 343,907</u>	<u>\$ 308,604</u>

The interest rate used to discount future receivables to their present value was 3.25%, for both years ending December 31, 2010, and 2009.

NOTE 3 - GRANTS RECEIVABLE

Grants receivable consist of three grants, all of which are restricted in use to fund staff positions. The staffing-related grants are scheduled to be paid out through the year ending December 31, 2012. Grants receivable at December 31, 2010, and 2009, are to be received chronologically as follows:

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 148,401	\$ 125,192
Receivable in one to five years	<u>50,000</u>	<u>95,000</u>
	<u>\$ 198,401</u>	<u>\$ 220,192</u>

Children in Crisis, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010, and 2009, is summarized as follows:

	<u>2010</u>	<u>2009</u>
Buildings	\$ 3,225,378	\$ 2,125,242
Improvements other than buildings	725,789	397,827
Furniture and equipment	272,491	195,455
Automobiles	29,910	29,910
Construction in progress	-	750,948
	<u>4,253,568</u>	<u>3,499,382</u>
Less accumulated depreciation	<u>(347,172)</u>	<u>(221,100)</u>
Property and equipment, net	<u>\$ 3,906,396</u>	<u>\$ 3,278,282</u>

Depreciation expense for the year ended December 31, 2010, and 2009, was \$126,072 and \$104,291 respectively.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at December 31, 2010, and 2009, respectively:

	<u>2010</u>	<u>2009</u>
Construction of The Children's Neighborhood	\$ 1,320,578	\$ 1,570,200
Security interest in Teen Transition Home	510,270	-
Staff salaries - funded by grants	196,700	195,000
Land lease	<u>4,029,663</u>	<u>2,650,922</u>
Total temporarily restricted net assets	<u>\$ 6,057,211</u>	<u>\$ 4,416,122</u>

Transfer of Net Assets

In August 2009, the Board obtained approval from donors who had contributed funds towards a capital campaign for construction of foster homes. Since the construction of the homes was completed in 2009, the Board sought permission from donors to release the excess funds from their restricted purpose in order for them to be utilized in the operations of The Children's Neighborhood. The total amount of funds reclassified from temporarily restricted net assets to unrestricted net assets was \$507,024.

Children in Crisis, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Florida Department of Children and Family Services Security Interest in Opportunity Home

During the year ending December 31, 2010, Children in Crisis, Inc. completed construction on Opportunity Home, a transition home for foster children aging out of foster care. As a condition of the Homelessness Housing Assistance Grant (the Grant) obtained via the Okaloosa Walton Homeless Continuum of Care/Opportunity, Inc. and the Florida Department of Children and Family Services (the Department), Children in Crisis, Inc. has granted to the Department a security interest in Opportunity Home. The terms of the security agreement state that the Department's interest is equal to the grant proceeds disbursed, or \$559,200, and that its interest shall be proportionately reduced and subsequently vacated over a 10-year period of amortization. The Department's interest in the lien has been reduced \$48,930 during the year ending December 31, 2010, resulting in a temporarily restricted balance of \$510,270 at December 31, 2010.

NOTE 6 - UNRESTRICTED IN-KIND CONTRIBUTIONS

The Organization received contributed goods and services from various donors for use in both program and support services. Total in-kind contributions, which are included as unrestricted contributions for the years ended December 31, 2010, and 2009, are as follows:

	2010	2009
Supplies	\$ 8,205	\$ -
Special events	-	12,380
Professional services	-	7,638
Total unrestricted in-kind contributions	\$ 8,205	\$ 20,018

For the year ended December 31, 2010, the contributions were allocated to the following functions: \$2,872 to program expense, \$2,708 to general and administrative, and \$2,626 to fundraising.

For the year ended December 31, 2009, the contributions were allocated to the following functions: \$2,673 to program expense, \$2,521 to general and administrative, and \$14,824 to fundraising.

Children in Crisis, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 7 - TEMPORARILY RESTRICTED IN-KIND CONTRIBUTIONS

Intangible Interest in Land Lease

During 2005, the Organization entered into a 20-year land lease with Northwest Florida State College (the College). The leased land included 20 acres in south Okaloosa County, near the City of Fort Walton Beach, Florida. Rent due to the College for the land is \$1, annually. The land is used to house The Children's Neighborhood (the Neighborhood), including the Organization's program and administrative buildings. The lease stipulates that any building constructed on the leased land will become the property of the College upon the expiration or termination of the lease. The lease was amended in March 2010, to add 30 years to the original lease term, resulting in a lease term ending January 23, 2055.

The value of the extension of the lease was recognized as an in-kind contribution in the year ending December 31, 2010, at the present value of the contribution, or \$1,470,331. The contribution is considered temporarily restricted due to the restriction of recognizing the lease expense as the land is "used," throughout the lease term.

In periods prior to 2010, the Organization recognized the estimated value of the land lease on an annual basis at fair value using discounts rates utilized in the independent appraisal. Effective January 1, 2010, the value of the interest in the land lease will be amortized on a straight-line method over the remaining 45-year lease term resulting in amortization expense of \$91,590 for the year ended December 31, 2010, and future periods.

The change in estimate had a net impact to the financial statements of increasing the change in net assets by approximately \$250,000 for the year ended December 31, 2010.

The Organization recognized land lease (amortization) expense of \$91,590 and \$294,817 for the years ended December 31, 2010, and December 31, 2009, respectively. The lease expense was allocated among program services, general and administrative, and fundraising functions based on the estimate of the activities related to those functions performed in the buildings on the leased property. Allocations are provided on the statement of functional expenses.

Other In-Kind Contributions

The Organization also received in-kind goods and services of \$4,012 and \$14,000 during the years ended December 31, 2010, and 2009, respectively. These contributions were construction-oriented and have been capitalized as part of the Neighborhood; the in-kind contributions have been included as temporarily restricted contributions.

Children in Crisis, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - COMMITMENTS

Foster Care Contracts

In December 2009, the Organization entered into two contracts with Lakeview Center, Inc. (LCI). The first contract is a three-year contract in which the Organization will provide residential care and supervision for dependent children (ages 6-14), until permanency plans are implemented; care of these children occurred in Blessings House until April 2010, when they were moved to Sue Sue's Cottage. The potential revenues related to the contract for this program are not to exceed \$128,000 per year. The second contract is also a three-year contract in which the Organization will provide residential care and supervision for dependent children, including children pending court action on a dependency petition, until the child is placed in his/her own home, with a legal guardian, under Protective Services supervision, or in LCI's foster care program; care of these children will take place in the Emergency Shelter. The potential revenues related to the contract for the Emergency Shelter are not to exceed \$190,000 per year. The effective dates of both contracts are January 1, 2010, through December 31, 2012.

Total revenue related to the contract for children placed in Sue Sue's Cottage was \$128,000 for the year ended December 31, 2010. Total revenue related to the contract for children placed in the Emergency Shelter was \$151,812 for the year ended December 31, 2010.

Teen Transition Home

Clients of the teen transition home (Opportunity Home) sign a Transitional Living Program Agreement (the Agreement) in which the residents agree to provide a \$500 cash deposit, a \$314 monthly program fee and \$100 utility payment in return for housing at the Opportunity Home. The clients are allowed to remain in the Opportunity Home as long as they are attending school and are under twenty-three years old. Children in Crisis, Inc. agrees to provide housing for the clients as long as the students abide by the terms of the Agreement. As of December 31, 2010, the Organization has contracts with six clients.

NOTE 9 - CONCENTRATIONS

Concentration of Credit Risk

Children in Crisis, Inc. maintains cash accounts in a local financial institution, the balances of which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization exceeded the FDIC coverage for the year ended December 31, 2010, by \$3,249. The Organization did not exceed FDIC coverage for the year ended December 31, 2009.

Children in Crisis, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - CONCENTRATIONS (CONTINUED)

Concentration of Receivables

As of December 31, 2010, and 2009, approximately 79% and 80%, respectively, of the Organization's gross contributions receivable were from five contributors.

Program Service Revenues

The majority of program service revenues are generated through contracts with Lakeview Center, Inc., with funding provided by the Florida Department of Families and Children.

State Funding

In addition to state funds for program service revenues, Children in Crisis, Inc. also received funding from the State through Opportunity, Inc. over the past two years in the amount of \$559,200 for the construction of a new teen transition home. The use and disbursement of funds received under these programs is subject to review and audit by grantor agencies. Any disbursements disallowed by these agencies could become a liability of Children in Crisis, Inc.

NOTE 10 - RECLASSIFICATIONS

Certain amounts for the year ended December 31, 2009, have been reclassified for comparative purposes to conform to the presentation used in the December 31, 2010 financial statements. The reclassifications have no effect on net assets for the year ended December 31, 2009.

NOTE 11 - SUBSEQUENT EVENTS

Donation Software

In April 2011, Children in Crisis, Inc. launched a new donor database called Blackbaud Raisers Edge. The acquisition cost was \$21,341, of which \$18,022 was paid in 2010.

Vehicle Donations

In March 2011, Children in Crisis, Inc. received a donated 2008 Chrysler Town and Country. The estimated value per Kelly Blue Book is \$20,633. Also in March, restricted funds were donated in order to purchase a vehicle, and a 2011 Ford Flex was purchased for \$27,500.

COMPLIANCE SECTION

Children in Crisis, Inc.
SCHEDULE OF EXPENDITURES OF STATE
FINANCIAL ASSISTANCE
Years Ended December 31, 2010

<u>State Agency Pass-Through Entity State Project</u>	<u>CSFA Number</u>	<u>Contract/ Grant Number</u>	<u>Expenditures</u>	<u>Transfer to Subrecipients</u>
Florida Department of Children and Families Indirect Program Pass-through from Opportunity, Inc. Homeless Housing Assistance Grant	60.015	10296	\$ <u>535,710</u>	\$ <u>-</u>
<i>Total Florida Department of Children and Families</i>			<u>535,710</u>	<u>-</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 535,710</u>	<u>\$ -</u>

Children in Crisis, Inc.
NOTES TO SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
Years Ended December 31, 2010

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of State Projects includes the state grant activity of Children in Crisis, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



Board of Directors
Children in Crisis, Inc.
Fort Walton Beach, Florida

**INDEPENDENT AUDITOR'S 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***

We have audited the financial statements of Children in Crisis, Inc., as of and for the year ended December 31, 2010, and have issued our report thereon dated June 14, 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 Children in Crisis, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Children in Crisis, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Children in Crisis, Inc.'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 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 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 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.

Board of Directors
Children in Crisis, Inc.
Independent Auditor's 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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Children in Crisis, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Children in Crisis, Inc. in a separate letter dated June 14, 2011.

This report is intended solely for the information and use of management, the Board of Directors, the State of Florida Office of the Auditor General, state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "O'Sullivan Creel, LLP". The signature is written in a cursive style and is positioned above a light gray rectangular background.

June 14, 2011



Board of Directors
Children in Crisis, Inc.
Fort Walton Beach, Florida

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

Compliance

We have audited the compliance of Children in Crisis, Inc. with the types of compliance requirements described in the *Florida Department of Financial Services' State Projects and Compliance Supplement* that could have a direct and material effect on each of its state projects for the year ended December 31, 2010. Children in Crisis, Inc.'s major state project is 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 its major state project is the responsibility of Children in Crisis, Inc.'s management. Our responsibility is to express an opinion on Children in Crisis, 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 Chapter 10.650, *Rules of the Auditor General*. Those standards 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 state project occurred. An audit includes examining, on a test basis, evidence about Children in Crisis, 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 on Children in Crisis, Inc.'s compliance with those requirements.

In our opinion, Children in Crisis, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major state project for the year ended December 31, 2010.

Board of Directors
Children in Crisis, Inc.
Independent Auditor's Report on Compliance with Requirements
that Could Have a Direct and Material Effect on Each Major
State Project and on Internal Control over Compliance in
Accordance with Chapter 10.650, *Rules of the Auditor General*

Internal Control over Compliance

The management of Children in Crisis, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to state projects. In planning and performing our audit, we considered Children in Crisis, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major state project 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 Children in Crisis, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exist 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 noncompliance with a type of compliance requirement of a state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected and corrected on a timely basis.

Our consideration of the 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, the State of Florida Office of the Auditor General, and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



June 14, 2011

Children in Crisis, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Years Ended December 31, 2010

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None Reported
- Noncompliance material to financial statements noted? _____ Yes X No

State Financial Assistance

Internal control over major projects:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None Reported

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

- Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650, *Rules of the Auditor General*? _____ Yes X No

Identification of major programs:

CSFA Number	Name of State Project
60.015	Homeless Housing Assistance Grant

Dollar threshold used to distinguish between type A and type B programs: \$167,760

II. FINANCIAL STATEMENT FINDINGS

The results of our audit of Children in Crisis, Inc. did not disclose any findings required to be reported under Chapter 10.650, *Rules of the Auditor General*.

Children in Crisis, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Years Ended December 31, 2010

III. FINDINGS AND QUESTIONED COSTS FOR STATE PROJECTS

We noted no matters involving noncompliance that are required to be reported in accordance with the Chapter 10.650, *Rules of the Auditor General*.

IV. SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

There was no state single audit in the prior year.

MANAGEMENT LETTER



Board of Directors
Children in Crisis, Inc.
Fort Walton Beach, Florida

MANAGEMENT LETTER

We have audited the financial statements of Children in Crisis, Inc. as of and for the fiscal year ended December 31, 2010, and have issued our report thereon dated June 14, 2011.

We conducted our audit 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. We have issued our Independent Auditor's 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*, Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10.650, *Rules of the Auditor General*, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 14, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, *Rules of the Auditor General*, which requires disclosure in the management letter of violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements or state project amounts that is less than material but more than inconsequential. In addition, for matters that have an inconsequential effect on the financial statements or state project amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not note any such matters.

CURRENT YEAR COMMENT

YEAR-END ENTRIES

Observation

During the audit, journal entries were proposed to correct beginning net assets, accrue payroll and to adjust prepaid insurance. The entries proposed were not material individually or in aggregate to the financial statements.

Board of Directors
Children in Crisis, Inc.
Management Letter (Continued)

CURRENT YEAR COMMENT (CONTINUED)

YEAR-END ENTRIES (CONTINUED)

Recommendation

While the entries proposed were not material we would recommend the accrual of payroll and adjustment of prepaid insurance be added to the year-end closing checklist. Also it is important that beginning net assets reconcile to the last audited financial statement to ensure the financial statements used by management reflect all current year activity.

Management Response

We agree with the recommendation and will add the accrual entities to our year-end checklist. We will also add the process of posting all adjustments and agreeing the audited trial balance, as provided by the auditors, to our general ledger.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

We greatly appreciate the assistance and cooperation extended us during our audit.

O'Sullivan Creel, LLP

June 14, 2011