Family Services of Metro Orlando, Inc.

Financial and Compliance Report
June 30, 2010

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
Family Services of Metro Orlando, Inc.
Orlando, Florida

We have audited the accompanying statements of financial position of Family Services of Metro Orlando, Inc. as of June 30, 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 Family Services of Metro Orlando, 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 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 Family Services of Metro Orlando, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 19 to the financial statements, the State of Florida Department of Children and Families has terminated its contract with Family Services of Metro Orlando, Inc. effective March 31, 2011. Management's plans in regard to this matter are also described in Note 19.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 29, 2010 and November 16, 2009 on our consideration of Family Services of Metro Orlando, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards 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 State of Florida Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the basic financial statements is presented for the current period only. 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.

McGladrey & Pullen, LLP

Orlando, Florida
December 29, 2010

Family Services of Metro Orlando, Inc.

Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash	$ 3,966,316	$ 6,402,837
Accounts receivable (Note 3)	36,821	485,031
Current portion of pledges receivable, net (Note 4)	6,180	9,825
Prepaid expenses	307,016	297,300
Total current assets	4,316,333	7,194,993
Pledges Receivable, net of current portion (Note 4)	6,301	16,932
Property and Equipment, net (Note 5)	1,824,154	324,915
Beneficial Interest in Assets Held by Others (Note 6)	49,039	-
Other Assets	86,342	82,578
Total assets	$ 6,282,169	$ 7,619,418
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 3,476,868	$ 3,581,099
Accrued expenses	144,647	147,243
Deferred revenue (Note 8)	81,026	3,251,652
Total current liabilities	3,702,541	6,979,994
Long-Term Liabilities		
Promissory note payable (Note 9)	265,000	265,000
Total liabilities	3,967,541	7,244,994
Net Assets		
Unrestricted	2,252,147	347,667
Temporarily restricted (Note 11)	12,481	26,757
Permanently restricted (Note 12)	50,000	-
Total net assets	2,314,628	374,424
Total liabilities and net assets	$ 6,282,169	$ 7,619,418

See Notes to Financial Statements.

Family Services of Metro Orlando, Inc.

Statements of Activities
Years Ended June 30, 2010 and 2009

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
State of Florida Department of Children and Families	$ 51,608,758	$ -	$ -	$ 51,608,758
In-kind contributions	314,688	-	-	314,688
Grant income	296,194	-	-	296,194
Contributions	124,313	760	-	125,073
Other income	138,683	-	-	138,683
Net assets released from restrictions	21,391	(21,391)	-	-
Total support and revenue	52,504,027	(20,631)	-	52,483,396
Expenses:				
Program services	49,953,258	-	-	49,953,258
Supporting services				
Management and general	2,060,491	-	-	2,060,491
Fundraising	29,596	-	-	29,596
Total supporting services	2,090,087	-	-	2,090,087
Total expenses	52,043,345	-	-	52,043,345
Increase (decrease) in net assets before other changes	460,682	(20,631)	-	440,051
Other changes:				
Contribution from Community Service Center of Central Florida, Inc. (Note 2)	1,443,798	6,355	50,000	1,500,153
Increase (decrease) in net assets	1,904,480	(14,276)	50,000	1,940,204
Net assets:				
Beginning	347,667	26,757	-	374,424
Ending	$ 2,252,147	$ 12,481	$ 50,000	$ 2,314,628

(Continued)

Family Services of Metro Orlando, Inc.

Statements of Activities (Continued)
Years Ended June 30, 2010 and 2009

	2009		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
State of Florida Department of			
Children and Families	$ 47,546,823	$ -	$ 47,546,823
In-kind contributions	358,085	-	358,085
Grant income	107,964	-	107,964
Contributions	102,680	26,757	129,437
Other income	134,043	-	134,043
Total support and revenue	48,249,595	26,757	48,276,352
Expenses:			
Program services	45,375,240	-	45,375,240
Supporting services			
Management and general	2,511,805	-	2,511,805
Fundraising	165,366	-	165,366
Total supporting services	2,677,171	-	2,677,171
Total expenses	48,052,411	-	48,052,411
Increase in net assets	197,184	26,757	223,941
Net assets:			
Beginning	150,483	-	150,483
Ending	$ 347,667	$ 26,757	$ 374,424

See Notes to Financial Statements.

Family Services of Metro Orlando, Inc.

Statements of Functional Expenses
Years Ended June 30, 2010 and 2009

	2010				
		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 3,602,416	$ 897,591	$ 5,526	$ 903,117	$ 4,505,533
Salary – related expenses	802,800	192,845	434	193,279	996,079
Total salaries and related expenses	4,405,216	1,090,436	5,960	1,096,396	5,501,612
Client contracted services	28,949,726	-	-	-	28,949,726
Specific assistance to individuals	15,548,089	-	-	-	15,548,089
Professional fees and contracted services	191,974	390,429	-	390,429	582,403
Occupancy	334,109	104,487	-	104,487	438,596
Public relations / advertising	58,444	70,915	-	70,915	129,359
Depreciation	110,317	17,193	-	17,193	127,510
Insurance	107,117	13,029	-	13,029	120,146
Transportation	113,069	5,461	-	5,461	118,530
Miscellaneous	16,797	84,605	11,712	96,317	113,114
Supplies	6,122	86,964	2,467	89,431	95,553
Conferences, conventions, and meetings	58,159	20,285	70	20,355	78,514
Equipment rental and maintenance	1,007	59,247	2,457	61,704	62,711
Telephone	5,076	57,604	-	57,604	62,680
In-kind expenses	39,306	3,186	667	3,853	43,159
Bank fees	-	25,108	1,610	26,718	26,718
Postage and shipping	388	25,083	-	25,083	25,471
Food	8,342	4,526	4,653	9,179	17,521
Loss on disposal of property and equipment	-	1,933	-	1,933	1,933
Total expenses	$ 49,953,258	$ 2,060,491	$ 29,596	$ 2,090,087	$ 52,043,345

(Continued)

Family Services of Metro Orlando, Inc.

Statements of Functional Expenses (Continued)
Years Ended June 30, 2010 and 2009

	2009				
		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 2,934,654	$ 922,127	$ 73,650	$ 995,777	$ 3,930,431
Salary – related expenses	628,286	197,761	8,086	205,847	834,133
Total salaries and related expenses	3,562,940	1,119,888	81,736	1,201,624	4,764,564
Client contracted services	26,560,320	-	-	-	26,560,320
Specific assistance to individuals	14,347,971	-	-	-	14,347,971
Professional fees and contracted services	185,762	396,937	17,632	414,569	600,331
Occupancy	283,257	103,944	7,094	111,038	394,295
In-kind expenses	31,656	283,866	42,563	326,429	358,085
Public relations / advertising	68,253	168,353	2,253	170,606	238,859
Supplies	8,999	115,930	1,295	117,225	126,224
Insurance	90,637	25,989	2,758	28,747	119,384
Transportation	86,536	8,705	90	8,795	95,331
Telephone	5,248	78,703	80	78,783	84,031
Miscellaneous	6,492	64,983	3,734	68,717	75,209
Conferences, conventions, and meetings	33,667	35,014	252	35,266	68,933
Depreciation	61,529	3,408	222	3,630	65,159
Equipment rental and maintenance	10,349	49,842	750	50,592	60,941
Food	29,736	15,943	3,364	19,307	49,043
Postage and shipping	1,888	19,515	-	19,515	21,403
Bank fees	-	19,784	1,543	21,327	21,327
Loss on disposal of property and equipment	-	1,001	-	1,001	1,001
Total expenses	$ 45,375,240	$ 2,511,805	$ 165,366	$ 2,677,171	$ 48,052,411

See Notes to Financial Statements.

Family Services of Metro Orlando, Inc.

Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Increase in net assets	$ 1,940,204	$ 223,941
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	127,510	65,159
Loss on disposal of property and equipment	1,933	1,001
Change in provision for uncollectible pledges	(5,684)	7,160
Contribution from Community Service Center of Central Florida, Inc. (Note 2)	(1,500,153)	-
In-kind contributions of property and equipment	(271,529)	-
Changes in operating assets and liabilities, net of business combination:		
(Increase) decrease in assets:		
Accounts receivable	448,210	164,921
Pledges receivable	26,315	(33,917)
Prepaid expenses	(9,716)	(62,672)
Beneficial interest in assets held by others	2,707	-
Other assets	(3,764)	(717)
Increase (decrease) in liabilities:		
Accounts payable	(106,257)	546,416
Accrued expenses	(2,596)	58,425
Deferred revenue	(3,226,858)	261,933
Net cash (used in) provided by operating activities	(2,579,678)	1,231,650
Cash Flows From Investing Activities		
Purchases of property and equipment	(247,038)	(183,941)
Cash received in connection with Community Service Center of Central Florida, Inc. business combination (Note 2)	390,195	-
Net cash provided by (used in) investing activities	143,157	(183,941)
Net (decrease) increase in cash	(2,436,521)	1,047,709
Cash:		
Beginning	6,402,837	5,355,128
Ending	$ 3,966,316	$ 6,402,837

Supplemental Disclosure of Cash Flow Information
Net assets contributed from Community Service Center of Central Florida, Inc. (see Note 2).

See Notes to Financial Statements.

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Family Services of Metro Orlando, Inc. (Family Services), is a not-for-profit corporation organized primarily to serve as the "lead agency" for providing child-welfare related services in Orange and Osceola counties, including procuring or providing all necessary services to meet the mandates of state and federal law for provision of services to abused and neglected children and children at risk of abuse and neglect.

On July 1, 2003, the Boards of Central Baptist Children's Home (including its wholly owned subsidiary, Lake-Cook Behavioral), Hudelson Baptist Children's Home, Family Services of Central Florida and Family Services of Metro Orlando, Inc. combined into a federated model called Kids Hope America, Inc. Kids Hope America, Inc. was created to maximize economies of scale and minimize the use of resources for centralized administrative functions. In July 2004, Kids Hope America, Inc. officially changed its name to Kids Hope United, Inc. All other aspects of the federated model remained the same. On May 1, 2007, Family Services of Metro Orlando, Inc. legally separated from Kids Hope United, Inc. Kids Hope United, Inc. and Family Services determined that it was best to have Kids Hope United, Inc. to withdraw as a sole corporate member of Family Services to foster an environment that would better ensure that Family Services' contract with the State of Florida Department of Children and Families would be renewed. In January 2010, Kids Hope United, Inc. officially changed its name to One Hope United.

Family Services is now governed by a board of directors with residency in Orange and Osceola counties. As part of the separation, Family Services developed its own financial and accounting infrastructure.

A summary of Family Services significant accounting policies follows:

Basis of presentation: A not-for-profit organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, net assets of Family Services and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations, but may be designated for specific purposes by action of the Board of Directors.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of Family Services and/or the passage of time. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be permanently maintained by Family Services.

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounts receivable: Accounts receivable are stated at net realizable value. In the opinion of management, no allowance for uncollectible accounts receivable was considered necessary at June 30, 2010 and 2009.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment are capitalized at cost when purchased, or at fair value at the date of gift, if contributed. Depreciation of property and equipment is provided for using the straight-line method of accounting over the estimated useful lives of the assets ranging from 3 to 37 years. Property and equipment purchased with grant awards are considered to be owned by Family Services while used in the program or future authorized programs. However, certain awarding agencies, primarily state agencies, retain a reversionary interest in the property and equipment for specified time periods, requiring the return of the assets or proceeds of sale of the assets in proportion to the percentage of grant funds used upon termination of the grant contract.

Impairment of long-lived assets: The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate such value may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Beneficial interest in assets held by others: In accordance with guidance related to accounting for contributions held by an organization for the benefit of another organization which states that organizations that transfer assets to other not-for-profit agencies who specify themselves or their affiliates as the beneficiaries, and has not granted variance power, are not considered expenses and are recorded as a beneficial interest in assets held by others in the statements of financial position at fair value.

Family Services follows accounting standards relating to fair value measurements which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset and paid to transfer a liability in an orderly transaction between market participants at the measurement date. Family Services utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. The beneficial interest in assets held by others recorded at fair value in the statements of financial positions are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by this guidance, are as follows: Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date; Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date; Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Family Services' beneficial interest in assets held by others is a level 3 fair value.

Support and revenue: Family Services is principally funded by grants from governmental agencies. Grants generally provide reimbursement for allowable costs incurred. Revenue from cost reimbursement grants is recognized as eligible costs are incurred. Receivables are recorded to the extent costs have been incurred but not reimbursed by the granting agencies. Conversely, deferred revenue is recorded when grant advances exceed eligible costs incurred. Deferred revenue will either be offset against subsequent allowable costs incurred or refunded to the granting agencies upon grant termination.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Contributions and pledges receivable: Contributions received are recorded at fair value as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give (pledges) are recognized as support in the period received at fair value. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Family Services uses the allowance method to determine uncollectible pledges receivable. The allowance is based upon management estimates of current economic factors and analysis of specific pledges.

Contributed services are recognized if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. The estimated fair value of contributed materials, facilities, and services is reflected as support and expenses in the accompanying statements of activities and statements of functional expenses in the period in which the materials, facilities, and services are utilized. Contributed materials, facilities, and services amounted to $314,688 and $358,085 for the years ended June 30, 2010 and 2009, respectively.

Income taxes: Family Services is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Statutes. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying financial statements.

Family Services adopted accounting standards relating to accounting for uncertainty in income taxes for the year ended June 30, 2010. As a result of this adoption, Family Services assessed whether there were any uncertain tax positions which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying financial statements. Family Services files income tax returns in the U.S. federal jurisdiction. With few exceptions, Family Services is no longer subject to U.S. federal income tax examinations by tax authorities for years before June 30, 2007.

Functional expenses: The cost of providing program and supporting services have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited, in accordance with Family Services' cost allocation plan which was approved by the State of Florida Department of Children and Families.

Use of 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 the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and revenue, and expenses during the reporting period. Actual results could differ from those estimates.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Concentrations of credit risk: Family Services' financial instruments that are exposed to concentrations of credit risk consist of cash placed with federally insured financial institutions. Such accounts may at times exceed federally insured limits. Family Services has not experienced any losses on such accounts.

Concentration: Family Services received approximately $51,600,000 and $47,500,000 of its support and revenue from the State of Florida Department of Children and Families during the years ended June 30, 2010 and 2009, respectively. A significant reduction in the level of this support and revenue, if it were to occur, could have a significant effect on Family Services' programs and activities.

Recently adopted accounting pronouncements: In June 2009, the FASB issued authoritative guidance which established the FASB Standards Accounting Codification (the Codification). The Codification replaced all existing accounting and reporting standards by the FASB as authoritative U.S. generally accepted accounting principles (U.S. GAAP). The guidance is effective for annual periods ending after September 15, 2009. The guidance did not have a material effect on the accompanying financial statements.

Subsequent events: Management has assessed subsequent events through December 29, 2010, the date the financial statements were available to be issued.

Note 2. Business Combination, Community Service Center of Central Florida, Inc.

On November 30, 2009, Family Services completed a business combination with the Community Service Center of Central Florida, Inc. (CSC). CSC was a Florida not-for-profit corporation established to provide assistance to disadvantaged individuals and families in Central Florida. CSC provided rent, mortgage payments, clothing, utilities and other costs for persons who are in financial crisis. CSC also provided parenting classes, support groups, food and clothes to families in need. CSC furthermore provided youth programs focusing on literacy, academics and employability skills. In accordance with an agreement, CSC contributed all of its assets and liabilities to Family Services. The business combination was accounted for as a transfer of net assets, similar to the accounting for the "purchase method." The net assets transferred to Family Services were recorded at fair value on November 30, 2009, the effective date of the business combination. The CSC support and revenue and expense activity incorporated into the June 30, 2010 financial statements covers the seven month period from December 1, 2009 through June 30, 2010. The following table summarizes the estimated fair values of the net assets contributed by CSC:

Cash	$ 390,195
Pledges receivable	6,355
Property and equipment	1,110,115
Beneficial interest in assets held by others	51,746
Total assets acquired	**1,558,411**
Accounts payable	2,026
Deferred revenue	56,232
Total liabilities assumed	**58,258**
Net assets contributed (contribution from Community Service Center of Central Florida, Inc.)	**$ 1,500,153**

Family Services of Metro Orlando, Inc.

Notes to Financial Statements

Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2010 and 2009:

	2010	2009
State of Florida Department of Children and Families	$ -	$ 474,544
Other	36,821	10,487
	$ 36,821	$ 485,031

Note 4. Pledges Receivable

Included in pledges receivable at June 30, 2010 and 2009 are the following unconditional promises to give:

	2010	2009
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges	$ 14,755	$ 35,800
Less unamortized discount	(798)	(1,883)
	13,957	33,917
Less allowance for uncollectible pledges	(1,476)	(7,160)
	$ 12,481	$ 26,757
Amounts due in:		
Less than one year	$ 6,180	$ 9,825
One to five years	6,301	16,932
	$ 12,481	$ 26,757

Unconditional promises to give, receivable in more than one year, are discounted to net present value.

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2010 and 2009:

	2010	2009
Land	$ 364,000	$ -
Buildings	736,000	-
Furniture and equipment	648,113	330,118
Software	305,153	100,364
Leasehold improvements	2,452	2,452
	2,055,718	432,934
Less accumulated depreciation	(231,564)	(108,019)
	$ 1,824,154	$ 324,915

Depreciation expense for the years ended June 30, 2010 and 2009 was $127,510 and $65,159, respectively.

Note 6. Beneficial Interest in Assets Held by Others

During 2010, Family Services received a beneficial interest in assets held by the Community Foundation of Central Florida, Inc. (the Foundation) through the transaction with CSC (see Note 2). In 1996, CSC established the Community Service Center of Orange County Fund, a permanent Agency Endowment Fund. The Foundation was granted no variance power to redirect the use of the assets to another beneficiary. On an annual basis, the Foundation distributes net income from this fund to Family Services as determined by the Foundation's spending policy. As of June 30, 2010, the endowment fund has a fair value of $49,039, which is included in the accompanying statements of financial position as beneficial interest in assets held by others.

Note 7. Fair Value Measurements

The following table summarizes fair value measurements by level at June 30, 2010 for financial assets and liabilities measured at fair value on a recurring basis. Family Services had no financial assets or liabilities at June 30, 2009 measured at fair value on a recurring basis.

	2010		
	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in assets held by others	$ -	$ -	$ 49,039
	$ -	$ -	$ 49,039

The fair value of Family Services' beneficial interest in assets held by others is reported at net present value of expected future cash flows which approximates the fair value of the underlying assets.

The table below sets forth a summary of the changes in the fair value of Family Services' Level 3 financial assets during the year ended June 30, 2010.

	2010 Beneficial Interest in Assets Held by Others
Balance, beginning of year	$ -
Contribution from CSC (Note 2)	51,746
Net realized and unrealized losses	(682)
Interest and dividend income	383
Investment manager and administrative fees	(220)
Proceeds - distributions	(2,188)
Balance, end of year	$ 49,039

Note 8. Deferred Revenue

Deferred revenue consisted of the following at June 30, 2010 and 2009:

		2010		2009
2009 State of Florida Department of Children and Families roll forward funds	$	**81,026**	$	1,472,831
2008 State of Florida Department of Children and Families roll forward funds		-		1,778,821
	$	**81,026**	$	3,251,652

Note 9. Promissory Note Payable

On May 1, 2007, Family Services entered into a promissory note for $265,000 with One Hope United as a part of the separation between the two entities (see Note 1). The promissory note matures on the earlier of May 1, 2012, the date of a sale or transfer of all or substantially all of the assets of Family Services to any party, or the date Family Services amends its articles of incorporation and bylaws so as to admit a member to Family Services. Family Services is required to make payments on the promissory note only if certain triggering events, as defined in the separation and promissory note agreement are met.

Interest is at the prime rate plus 1% (4.25% at June 30, 2010). Interest is only to be paid if the State of Florida Department of Children and Families (DCF) changes its currently existing rules and permits interest expense on promissory notes to be an allowable cost, or Family Services sells or transfers all or substantially all of its assets to another party, or Family Services amends its articles of incorporation and bylaws so as to admit a member to Family Services, or if Family Services were to breach any provision, covenant, representation or warranty under the Family Services Separation Agreement. No amount has been accrued in the financial statements, as management is of the opinion that the likelihood of payment is remote. However, if paid, interest would be approximately $49,000 at June 30, 2010.

Note 10. Line of Credit

Family Services has a $1,200,000 unsecured revolving bank line of credit with interest paid monthly at the one-month LIBOR interest rate plus 2.25% (2.60 at June 30, 2010). The line of credit matures on May 10, 2011. There was no outstanding balance on the line of credit at June 30, 2010 and 2009.

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2010 and 2009 are restricted for the following purpose:

		2010		2009
Restricted for time	$	**12,481**	$	26,757

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets of $50,000 as of June 30, 2010 are restricted to investment in perpetuity, the income from which is expendable to support Family Services' operations. There were no permanently restricted net assets at June 30, 2009.

Note 13. Commitments

Leases: Family Services leases office space and office equipment under non-cancelable operating leases which expire at various times through April 2013. At June 30, 2010, future minimum lease payments under non-cancelable operating leases with initial or remaining lease terms in excess of one year were as follows:

Years Ending June 30,		Amount
2011	$	421,406
2012		106,062
2013		26,053
	$	553,521

Total lease expense for the above operating leases was approximately $413,000 and $402,000 for the years ended June 30, 2010 and 2009, respectively.

Software contract: During May 2009, Family Services entered into a $327,268 software design and implementation contract to develop and install computer software. As of June 30, 2010, Family Services expended $305,153, which is included in property and equipment in the accompanying statements of financial position. The commitment remaining at June 30, 2010 is $22,115. Full software installation was completed during August 2010.

Note 14. Department of Children and Families Florida Contract

On March 1, 2004, Family Services, when it was part of One Hope United, entered into a contract with the State of Florida Department of Children and Families (DCF) to deliver a comprehensive array of foster care, prevention services and related services to eligible children and families in the State of Florida's Orange and Osceola counties. These services are to be delivered through community-based partnerships while ensuring the safety, well-being and permanency of children and families.

The contract covered a 40-month period from March 1, 2004 through June 30, 2007, and was extended through December 31, 2010 (see Note 19). This is an advance cost reimbursement contract. Under the contract, DCF agrees to reimburse Family Services for allowable expenditures incurred in the delivery of services that are provided in accordance with the terms and conditions of the contract, not to exceed a predetermined maximum amount.

The annual amounts in the contract are subject to increases and decreases according to specific renegotiation terms; however, the total amount of the contract is capped and may not be increased without a signed amendment. Therefore, any total costs in excess of funding provided must be paid from either other state funds, other outside funding sources, budget reductions or absorbed by Family Services of Metro Orlando, Inc.

Note 15. Contract Matching Contributions

Under the contract with the State of Florida Department of Children and Families, Family Services is required to obtain matching revenue from the local community ranging from 10% to 25% of funds expended under certain programs. The primary source of this match is cash donations and in-kind contributions. The required matching revenue is obtained by Family Services and through its subrecipients. Family Services and their subrecipients obtained the required matching revenue for the State of Florida Department of Children and Families grant for the grant period ended June 30, 2010 and 2009.

Note 16. Retirement Plan

Family Services has a defined contribution 403(b) Thrift Plan (the Plan). The Plan covers substantially all Family Services employees who meet certain age and service requirements and will provide participating employees with employer match contributions. Employer matching contributions were equal the lesser of: (a) 50% of an employees' contribution, or (b) 4% of an employees' compensation through June 30, 2009. Effective July 1, 2009, Family Services amended their employer matching contribution to equal $1 for every $1 of an employee contribution up to 4% of an employees' compensation. Employees are 100% vested in their employee contribution and are vested ratably over a three-year period for employer contributions. Contributions to the Plan for the years ended June 30, 2010 and 2009 were $80,831 and $48,933, respectively.

Note 17. Related Party Transactions

Family Services was admitted as a limited partner (approximately 3.85% interest) into a limited partnership, The Community Based Care Partnership, Ltd. (the Partnership), for the purpose of operating a child welfare prepaid mental health plan for a subpopulation of children involved in the child welfare system through a prepaid arrangement. In accordance with the limited partnership agreement, the Community Based Care of Seminole, Inc. (CBC General Partner) and Magellan Behavioral Health of Florida, Inc. are general partners, and the limited partners (collectively the Members) are community based care organizations.

In addition, Family Services entered into a service agreement (Service Agreement) with the CBC General Partner where Family Services is to perform certain services, which are defined in the Service Agreement. The purpose of the Service Agreement is to promote and achieve the effective implementation of the child welfare prepaid mental health program, through the performance of community based care services in its respective community based care district, including but not limited to the coordination of care among multiple providers and the Partnership. Family Services received $127,855 during the years ended June 30, 2010 and 2009, for these services, which is included in other income in the accompanying statements of activities.

In April 2009, Family Services and the other limited partners entered into a Contribution, Indemnity, and Pledge Agreement (Contribution Agreement). The limited partners acknowledged and agreed that they became obligated in connection with any obligation under the Service Agreement or debt of the CBC General Partner with respect to risk sharing as described in the First Amendment of the Service Agreement (First Amendment) and with respect to the renewal, extension or refinancing of such indebtedness, contract or obligation. In all such instances, the Members have agreed that the liability among themselves for such indebtedness shall be determined by their respective percentage interests by which they share the Partnership's revenue. Management believes the likelihood of having to pay on this obligation is remote.

Note 17. Related Party Transactions (Continued)

With this Contribution Agreement, the Members have formed the Child Welfare Trust (the Trust). The Members will be initially contributing to the Trust $1,000,000. Each Member shall make a contribution to the Trust of $45,000. The CBC General Partner shall also, make a quarterly determination as to whether the assets held in the Trust are sufficient to meet the obligations under the Service Agreement. If the CBC General Partner determines that the amount is insufficient, then it shall send notice to all the Members of any additional contributions that must be made to the Trust. Each Member's contribution shall be calculated in proportion to the amount of revenue or profits the Member is entitled to under the First Amendment. As of June 30, 2010 and 2009, $45,000 is held by the Trust and is included in other assets in the accompanying statements of financial position.

Note 18. Contingencies

By terms of Family Services' grants, certain funding agencies reserve the right to examine records relating to cost reimbursements. In the event there is a determination of non-qualifying expenditures for which a reimbursement has been made, the funding agency may demand a refund. Management of Family Services does not anticipate adjustments should an examination occur. Accordingly, no provision for liability has been made in the accompanying financial statements.

Family Services is subject to lawsuits that arise in the ordinary course of its business. In the opinion of management, based in part upon consultation with its legal counsel, a loss, if any, arising from these lawsuits would not have a material adverse effect on Family Services' financial position or results of activities. As such, no amounts have been recognized in the accompanying financial statements.

Note 19. Subsequent Event and Management Plans

As described in Note 14 to the financial statements, Family Services has a contract with the State of Florida Department of Children and Families (DCF) to deliver a comprehensive array of foster care, prevention services and related services to eligible children and families in the State of Florida's Orange and Osceola counties. The contract covered a 40-month period from March 1, 2004 through June 30, 2007, and was extended through December 31, 2010. In October 2010, Family Services was notified by DCF that effective December 31, 2010 that they would no longer be administering this contract. In December 2010, DCF extended the contract to March 31, 2011. Family Services is assisting with the transition of the contract to the new provider. The DCF contract was the primary revenue source of the Organization. The loss of the DCF contract will result in a significant reduction of workforce and restructuring the mission of the Organization. Management and the Board believes there will be adequate resources after the contract close out and are assessing alternative charitable missions in which they can continue to serve the Orlando community.

Family Services of Metro Orlando, Inc.

Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2010

Grantor/Pass-Through/Program Title	Contract Number	Federal CFDA Number	Grant Period	Federal Expenditures
Federal Awards:				
U.S. Department of Health and Human Services passed through the following:				
State of Florida, Department of Children and Families:				
Promoting Safe and Stable Families	GJ160	93.556	7/1/09-6/30/10	$ 991,898
Temporary Assistance for Needy Families	GJ160	93.558	7/1/09-6/30/10	4,837,427
Grants to States for Access and Visitation Programs	GJ160	93.597	7/1/09-6/30/10	24,098
Chafee Education and Training Vouchers Program	GJ160	93.599	7/1/09-6/30/10	21,123
Adoption Incentive Payments	GJ160	93.603	7/1/09-6/30/10	227,710
Child Welfare Services – State Grants	GJ160	93.645	7/1/09-6/30/10	721,389
Foster Care – Title IV-E	GJ160	93.658	7/1/09-6/30/10	9,343,041
ARRA – Foster Care – Title IV-E	GJ160	93.658	7/1/09-6/30/10	453,346
Adoption Assistance	GJ160	93.659	7/1/09-6/30/10	3,853,267
ARRA - Adoption Assistance	GJ160	93.659	7/1/09-6/30/10	364,356
Social Services Block Grant	GJ160	93.667	7/1/09-6/30/10	2,691,888
Child Abuse and Neglect State Grants	GJ160	93.669	7/1/09-6/30/10	138,321
Chafee Foster Care Independence Program	GJ160	93.674	7/1/09-6/30/10	207,336
Medical Assistance Program	GJ160	93.778	7/1/09-6/30/10	128,053
Total expenditures of federal awards				24,003,253

Grantor/Pass-Through/Program Title	Contract Number	State CSFA Number	Grant Period	State Expenditures
State Financial Assistance:				
State of Florida, Department of Children and Families – Community Based Care Supports	GJ160	60.094	7/1/09-6/30/10	20,400,582
Total expenditures of state financial assistance				20,400,582
Total expenditures of federal awards and state financial assistance				$ 44,403,835

See Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.

Family Services of Metro Orlando, Inc.

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the Schedule) includes the federal grant activity and state financial assistance project contracts of Family Services of Metro Orlando, Inc. and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the State of Florida 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 basis financial statements. Family Services of Metro Orlando, Inc. receives all of its federal awards through pass-through entities. There were no federal awards expended for non-cash assistance, insurance or any loans or loan guarantees outstanding at year-end.

Note 2. Subrecipients

Of the federal and state expenditures presented in the Schedule, Family Services provided federal awards and state financial assistance to subrecipients as follows:

Program Title	Federal CFDA #	Amount Provided to Subrecipients	State CSFA #	Amount Provided to Subrecipients
Promoting Safe and Stable Families	93.556	$ 341,966		$ -
Temporary Assistance for Needy Families	93.558	1,795,320		-
Foster Care – Title IV-E	93.658	3,761,623		-
Adoption Assistance	93.659	1,624,337		-
Social Services Block Grant	93.667	1,025,898		-
Community Based Care Supports		-	60.094	20,400,582
		$ 8,549,144		$ 20,400,582

McGladrey

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*

To the Board of Directors
Family Services of Metro Orlando, Inc.
Orlando, Florida

We have audited the financial statements of Family Services of Metro Orlando, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated December 29, 2010. 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 Family Services of Metro Orlando, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Family Services of Metro Orlando, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Family Services of Metro Orlando, 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Services of Metro Orlando, 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 the Board of Directors, management, the State of Florida Auditor General, federal 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.

McGladrey & Pullen, LLP

Orlando, Florida
December 29, 2010

McGladrey

Independent Auditor's Report
on Compliance with Requirements that Could have a Direct and Material Effect
on Each Major Federal Program and State Financial Assistance Project
and Internal Control Over Compliance in Accordance with OMB Circular A-133
and State of Florida Chapter 10.650, *Rules of the Auditor General*

To the Board of Directors
Family Services of Metro Orlando, Inc.
Orlando, Florida

Compliance

We have audited the compliance of Family Services of Metro Orlando, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* and the requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the year ended June 30, 2009. Family Services of Metro Orlando, Inc.'s major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of Family Services of Metro Orlando, Inc.'s management. Our responsibility is to express an opinion on Family Services of Metro Orlando, 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 the State of Florida 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 or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about Family Services of Metro Orlando, 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 Family Services of Metro Orlando, Inc.'s compliance with those requirements.

In our opinion, Family Services of Metro Orlando, 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 financial assistance projects for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Family Services of Metro Orlando, 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 financial assistance projects. In planning and performing our audit, we considered Family Services of Metro Orlando, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program or state financial assistance project in order to determine our 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 Family Services of Metro Orlando, 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 or state financial assistance 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 or state financial assistance 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 the Board of Directors, management, the State of Florida Auditor General, federal 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.

McGladrey & Pullen, LLP

Orlando, Florida
December 29, 2010

Family Services of Metro Orlando, Inc.

Schedule of Findings and Questioned Costs – Federal Awards and State Financial Assistance Projects
Year Ended June 30, 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 weakness(es)?	____ Yes	X None Reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards and State Financial Assistance

Internal control over major programs:		
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 section 510(a) of Circular A-133?	____ Yes	X No
Any audit findings disclosed that are required to be reported in accordance with 10.654(1)(h)(1)(f), *Rules of the Auditor General*?	____ Yes	X No

(Continued)

Schedule of Findings and Questioned Costs – Federal Awards and State Financial Assistance Projects (Continued)
Year Ended June 30, 2010

I. Summary of Auditor's Results (Continued)

Identification of major programs:

Federal Awards:

CFDA Number(s)	Name of Federal Program or Cluster
93.645	Child Welfare Services – State Grants
93.658	Foster Care - Title IV-E
93.658	ARRA - Foster Care – Title IV-E
93.659	Adoption Assistance
93.659	ARRA – Adoption Assistance
93.667	Social Services Block Grant

Dollar threshold used to distinguish between Type A and Type B Federal programs: $ 720,098

Auditee qualified as low-risk auditee? __X__ Yes _____ No

State Financial Assistance:

CSFA Number(s)	Name of State Project
60.094	Community Based Care Supports

Dollar threshold used to distinguish between Type A and Type B State projects: $ 612,017

II. Financial Statement Findings

No matters were reported.

III. Findings and Questioned Costs for Federal Awards and State Financial Assistance

No matters were reported.

Family Services of Metro Orlando, Inc.

Schedule of Findings and Questioned Costs – Federal Awards and State Financial Assistance Projects (Continued)
Year Ended June 30, 2010

IV. Other Issues

1. No Summary Schedule of Prior Audit Findings is presented because there were no prior audit findings related to federal awards and state financial assistance projects.
2. No Corrective Action Plan is presented because there were no findings required to be reported under the Federal Single Audit Act or the Florida Single Audit Act.
3. There was no management letter or control deficiency letter issued for the year ended June 30, 2010 and there were no findings required to be reported in these letters.