

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)

Financial Statements

June 30, 2010 and 2009

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
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June 30, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Florida Healthy Kids Corporation
Tallahassee, Florida

We have audited the accompanying basic financial statements of Florida Healthy Kids Corporation (a non-profit organization and component unit of the State of Florida) as of and for the years ended June 30, 2010 and 2009. These basic financial statements are the responsibility of Florida Healthy Kids Corporation'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.

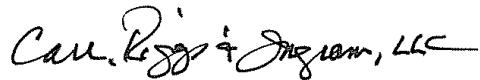
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Healthy Kids Corporation as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2010 on our consideration of Florida Healthy Kids Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
Florida Healthy Kids Corporation
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The Management's Discussion and Analysis on pages 3 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Florida Healthy Kids Corporation 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 Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Tallahassee, Florida
October 21, 2010

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Management's Discussion and Analysis

As management of the Florida Healthy Kids Corporation (the "Corporation" or "Healthy Kids"), we offer readers of the Corporation's financial statements this narrative overview and analysis of the Corporation's financial activities for the year ended June 30, 2010. This overview and analysis is required by accounting principles generally accepted in the United States of America ("GAAP") in Governmental Accounting Standards Board Statement No. 34, *Basis Financial Statements- and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34").

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of two parts: Management's Discussion and Analysis and the Financial Statements. The Corporation is a component unit of the state of Florida and follows enterprise fund reporting. Therefore, the financial statements are presented in a manner similar to that of a private business, using the economic resources measurement focus and the accrual basis of accounting.

The Corporation's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed on a given date. This information is reported on the Statement of Net Assets. The table below shows a summary of the Corporation's financial position at June 30, 2010 and 2009.

FINANCIAL POSITION

<i>Years ended June 30,</i>	2010	2009	Change
Assets			
Current assets	\$ 90,748,481	\$ 68,256,408	32.95%
Equipment	29,989	57,725	-48.06%
Total assets	\$ 90,778,470	\$ 68,314,133	32.88%
Liabilities			
Current liabilities	\$ 77,492,859	\$ 55,864,905	38.72%
Total liabilities	77,492,859	55,864,905	38.72%
Net assets			
Invested in capital assets	29,989	57,725	-48.06%
Unrestricted	13,255,622	12,391,503	6.97%
Total net assets	13,285,611	12,449,228	6.72%
Total liabilities and net assets	\$ 90,778,470	\$ 68,314,133	32.88%

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Management's Discussion and Analysis

Information regarding the results of operations during the current year is reported in the Statement of Revenues, Expenses and Changes in Net Assets. This statement shows the increase or decrease in net assets during the year as a result of the Corporation's revenues and expenses. The table below shows a summary of the Corporation's changes in net assets for the fiscal years ended June 30, 2010 and 2009.

CHANGES IN NET ASSETS

<i>Years ended June 30,</i>	2010	2009	Change
Operating revenues	\$ 319,714,665	\$ 297,476,447	7.48%
Operating expenses	319,853,571	297,841,135	7.39%
Net operating revenues	(138,906)	(364,688)	-61.91%
Non-operating revenues	975,289	165,466	489.42%
Increase (decrease) in net assets	836,383	(199,222)	-519.82%
Net assets, beginning	12,449,228	12,648,450	-1.58%
Net assets, ending	\$ 13,285,611	\$ 12,449,228	6.72%

FINANCIAL HIGHLIGHTS

- Total assets and total liabilities increased from fiscal year ended June 30, 2009 to fiscal year ended June 30, 2010. The primary reason for this increase resulted from the timing of governmental receivables.
- Operating revenues and expenses increased from fiscal year ended June 30, 2009 to fiscal year ended June 30, 2010, primarily as a result of increased enrollment.
- Net assets increased by \$836,383 and decreased by \$199,222 for fiscal years ended June 30, 2010 and 2009, respectively. The increase for fiscal year ended June 30, 2010, resulted primarily from non-operating interest income. The decrease for fiscal year ended June 30, 2009, was the result of business activities.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Statements of Net Assets

<i>June 30,</i>	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 47,081,168	\$ 46,957,121
Government grants receivable	36,526,399	13,935,749
Security deposits and advances	114,728	114,310
Contract receivable (Note 12)	500,000	3,950,000
Interest and other receivables	6,526,186	3,299,228
Total current assets	90,748,481	68,256,408
Capital assets, net	29,989	57,725
Total assets	\$ 90,778,470	\$ 68,314,133
Liabilities and Net Assets		
Current liabilities		
Insurance premiums collected in advance	\$ 13,028,167	\$ 13,328,498
Refundable advances	47,823,093	19,046,600
Accounts payable and accrued liabilities	7,934,321	15,786,968
Liability for compensated absences	218,646	205,754
Other Liability (Note 12)	8,450,000	5,975,000
Due to AHCA - CMS/MediKids transfers of premiums	38,632	1,522,085
Total current liabilities	77,492,859	55,864,905
Net assets		
Invested in capital assets	29,989	57,725
Unrestricted	13,255,622	12,391,503
Total net assets	13,285,611	12,449,228
Total liabilities and net assets	\$ 90,778,470	\$ 68,314,133

See accompanying notes to financial statements.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Statements of Revenues, Expenses, and Changes in Net Assets

<i>Years ended June 30,</i>	2010	2009
Operating revenues		
Participant insurance premiums	\$ 53,053,314	\$ 51,821,746
KidCare Administration contract revenue	5,704,312	4,814,837
Program specific operating grants:		
State of Florida	82,000,702	74,058,012
Federal	178,859,602	164,867,379
Local match	96,735	584,157
Miscellaneous income	-	1,330,316
Total operating revenues	319,714,665	297,476,447
Operating expenses		
Insurance premiums	293,938,532	272,495,032
Contractual services	20,477,379	20,210,252
Salaries, taxes and benefits	2,446,496	2,529,430
Printing and marketing	1,369,998	1,435,679
Office expenses	658,642	761,744
Professional services	667,040	195,721
Meetings and travel	83,734	81,043
Bank charges	102,355	37,954
Training and licensing	63,529	51,102
Depreciation expense	27,736	27,031
Insurance and other expenses	18,130	16,147
Total operating expenses	319,853,571	297,841,135
Operating loss	(138,906)	(364,688)
Non-operating revenues		
Interest income	975,289	165,466
Change in net assets	836,383	(199,222)
Net assets, beginning of year	12,449,228	12,648,450
Net assets, end of year	\$ 13,285,611	\$ 12,449,228

See accompanying notes to financial statements.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Statements of Cash Flows

<i>Years ended June 30,</i>	2010	2009
Cash flows from operating activities		
Receipts from participants	\$ 52,752,983	\$ 53,405,971
Receipts from program specific operating grants	267,015,425	244,744,092
Other receipts	5,704,312	6,145,153
Payments to insurers	(293,938,532)	(272,495,032)
Payments to employees	(1,749,359)	(1,854,640)
Other payments	(29,149,893)	(11,680,210)
Net cash provided by operating activities	634,936	18,265,334
Cash flows from noncapital and related financing activities		
CMS/MediKids transfers of premiums	(1,483,453)	774,922
Net cash (used in) provided by noncapital and related financing activities	(1,483,453)	774,922
Cash flows from investing activities		
Interest earnings	972,564	142,971
Net cash provided by investing activities	972,564	142,971
Cash flows from capital and related financing activities		
Purchase of property and equipment	-	(48,815)
Net cash used in capital and related financing activities	-	(48,815)
Net increase in cash and cash equivalents	124,047	19,134,412
Cash and cash equivalents, beginning of year	46,957,121	27,822,709
Cash and cash equivalents, end of year	\$ 47,081,168	\$ 46,957,121

See accompanying notes to financial statements.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Statements of Cash Flows (Continued)

	2010	2009
Reconciliation of operating loss		
to net cash provided by operating activities:		
Operating loss	\$ (138,906)	\$ (364,688)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	27,736	27,031
Change in assets and liabilities:		
Government grants receivable	(22,590,650)	(10,902,896)
Other receivables	(3,224,232)	(2,908,002)
Security deposits and advances	(419)	(20,590)
Contract receivable	3,450,000	(3,950,000)
Refundable advances	28,776,493	15,972,305
Accounts payable and accrued liabilities	(7,852,647)	12,797,193
Insurance premiums collected in advance	(300,331)	1,584,225
Liability for compensated absences	12,892	55,756
Other liability	2,475,000	5,975,000
Net cash provided by operating activities	\$ 634,936	\$ 18,265,334

See accompanying notes to financial statements.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 1 – NATURE OF BUSINESS

In 1990, the Florida Legislature passed the Florida Healthy Kids Corporation Act establishing Florida Healthy Kids Corporation (the “Corporation”) and directing it to create a comprehensive insurance product for school children and to facilitate the provision of preventive care for children. The Corporation is a component unit of the State of Florida and, as such, its financial information is included in the State of Florida’s financial statements.

The Corporation operates in all 67 Florida counties and insures over 220,000 children. The Corporation contracts with health maintenance organizations and other licensed insurers to provide health and dental insurance to school-aged children who are not covered under Medicaid or private insurance. Premiums may be subsidized depending on family size and income.

The United States Congress enacted Title XXI of the Social Security Act in 1997, which created the Children’s Health Insurance Program for uninsured children under age 19. The State of Florida’s plan was implemented on April 1, 1998 under the Florida Kidcare Act. In addition to providing insurance for children under their Title XXI program, the Corporation performs administrative functions for the State of Florida’s other Title XXI programs (Children’s Medical Services and MediKids). These administrative duties include Medicaid screening, application processing, and record keeping functions for approximately 50,000 additional children.

Funding for the programs is provided through appropriations from the Federal Government under Title XXI, the State of Florida, local funds, and family paid premiums.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Corporation are described below:

Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Florida Healthy Kids Corporation
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Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Corporation follows all pronouncements of the GASB, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989, unless so directed by the GASB.

Reporting Entity

No component units were identified for the years ended June 30, 2010 and 2009.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments with an initial maturity of three months or less, including cash on hand, demand deposits and cash with fiscal agent to be cash equivalents. Additionally, the Corporation's accounts in the State of Florida Treasurer's Pooled Funds Accounts are considered to be cash equivalents. The accounts are stated at cost, and accrued interest is recorded separately on the statements of net assets.

Restricted Cash and Cash Equivalents

The Corporation considers the balance in the Insurance Premiums Collected in Advance account to be restricted cash and cash equivalents. This balance represents funds paid to the Corporation by families for future months of insurance coverage. The restricted cash and cash equivalent balances at June 30, 2010 and 2009, were \$13,028,167 and \$13,328,498, respectively.

Contract Receivable

This account represents funds due to the Corporation from the third party administrator as a result of contract performance. The offset to this account is Other Liability.

Capital Assets, Net

Capital assets are reported at cost less accumulated depreciation. Additions, improvements, and other capital outlays that are \$5,000 or more and significantly extend the useful life of the asset are capitalized. All capital assets are depreciated using the straight-line method over their estimated useful lives, which range from three to seven years.

Insurance Premiums Collected in Advance

Insurance premiums collected in advance represent the balance of family premium payments received by the Corporation in advance of their use for the family's insurance coverage.

Refundable Advances

Refundable advances represent the liability for funds received from funding agencies but not yet earned as of the end of the reporting period.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due to AHCA – CMS/MediKids Transfers of Premiums

Due to AHCA-CMS/MediKids transfers of premiums represent the premiums collected from the Children's Medical Services and MediKids families and due to be transferred to the Agency for Health Care Administration (AHCA).

Operating Revenues

Operating revenues are those grants and other revenue sources used to finance the annual operating activities of the Corporation.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Government Grants Receivable

No allowance for doubtful accounts has been established, as management believes these amounts to be fully collectible.

Reclassification

Certain 2009 amounts have been reclassified to conform to the 2010 presentation. Such reclassifications had no effect on the previously reported results of operations or total net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the auditors' report.

NOTE 3 – DEPOSITS

As of June 30, 2010, the carrying amount of the Corporation's deposits, including restricted amounts, was \$8,563,695 and bank balances on deposit totaled \$10,249,203. Demand deposits totaling \$250,000 were covered by federal deposit insurance; demand deposits

Florida Healthy Kids Corporation
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Notes to Financial Statements

NOTE 3 – DEPOSITS (CONTINUED)

totaling \$7,293,799 were collateralized in accordance with 280.04 Florida Statutes, while those totaling \$128,404 were uninsured and uncollateralized.

As of June 30, 2009, the carrying amount of the Corporation's deposits, including restricted amounts, was \$5,419,917 and bank balances on deposit totaled \$6,466,342. Demand deposits totaling \$100,000 were covered by federal deposit insurance; demand deposits totaling \$4,327,789 were collateralized in accordance with 280.04 Florida Statutes, while those totaling \$101,552 were uninsured and uncollateralized.

The Corporation utilizes investment sweep accounts to invest excess funds on a daily basis. The repurchase agreements in the sweep accounts are uninsured and uncollateralized. The balances of the repurchase agreements totaled \$2,577,000 and \$1,837,000 as of June 30, 2010 and 2009, respectively.

NOTE 4 – INVESTMENT IN FLORIDA STATE TREASURY INVESTMENT POOL

Account balances with the Florida State Treasury Investment Pool, were held in Special Purpose Investment Accounts (SPIA). The accounts totaled \$38,517,474 and \$41,537,204 at June 30, 2010 and 2009, respectively. As a SPIA participant, the Corporation owns a share in the Florida Treasury Investment Pool, not the underlying securities. The Corporation has immediate access to their funds in the SPIA account provided the liquidation is less than \$15 million. As of June 30, 2010 the Corporation's pro rata share in the Florida State Treasury's Investment Pool was 1.0116 %.

At June 30, The Corporation's investment balances in the Florida State Treasury Investment Pool were as follows:

<i>June 30,</i>	2010			2009
	Fair Value	Maturity	Rating	Fair Value
SPIA Accounts	<u>\$ 38,517,474</u>	1.81	Af	<u>\$ 41,537,204</u>

Interest Rate Risk

The Corporation invests in short term instruments as a means of managing its exposure to fair value losses arising from increasing interest rates. The effective duration of the Florida State Treasury Investment Pool at June 30, 2010 is 1.81 years.

Credit Risk

The Corporation's policy is to invest in high quality instruments with the lowest level of risk. The investment in the Florida State Treasury Investment Pool is rated Af by Standard and Poor's.

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Notes to Financial Statements

**NOTE 4 – INVESTMENT IN FLORIDA STATE TREASURY INVESTMENT POOL
(CONTINUED)**

Credit Risk (Continued)

Additional disclosure for the Florida State Treasury Investment Pool may be found in the State of Florida's Comprehensive Annual Financial Report at Note 2.

NOTE 5 – CAPITAL ASSETS, NET

Capital asset activity for the years ended June 30, 2010 and 2009 was as follows:

	July 1, 2009	Additions	Deletions	June 30, 2010
Depreciable assets:				
Furniture	\$ 142,245	\$ -	\$ (4,921)	\$ 137,324
Equipment	5,676	-	-	5,676
Computers and software	183,791	-	-	183,791
Leasehold improvements	7,766	-	-	7,766
Total	339,478	-	(4,921)	334,557
Less accumulated depreciation:				
Furniture	(142,245)	-	4,921	(137,324)
Equipment	(3,596)	(1,134)	-	(4,730)
Computers and software	(128,146)	(26,602)	-	(154,748)
Leasehold improvements	(7,766)	-	-	(7,766)
Total	(281,753)	(27,736)	4,921	(304,568)
Total capital assets, net	\$ 57,725	\$ (27,736)	\$ -	\$ 29,989

	July 1, 2008	Additions	Deletions	June 30, 2009
Depreciable assets:				
Furniture	\$ 142,245	\$ -	\$ -	\$ 142,245
Equipment	18,201	-	(12,525)	5,676
Computers and software	190,206	48,815	(55,230)	183,791
Leasehold improvements	7,766	-	-	7,766
Total	358,418	48,815	(67,755)	339,478
Less accumulated depreciation:				
Furniture	(142,245)	-	-	(142,245)
Equipment	(14,986)	(1,135)	12,525	(3,596)
Computers and software	(157,480)	(25,896)	55,230	(128,146)
Leasehold improvements	(7,766)	-	-	(7,766)
Total	(322,477)	(27,031)	67,755	(281,753)
Total capital assets, net	\$ 35,941	\$ 21,784	\$ -	\$ 57,725

Depreciation expense for the years ended June 30, 2010 and 2009 was \$27,736 and \$27,031, respectively.

Florida Healthy Kids Corporation
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Notes to Financial Statements

NOTE 6 – OPERATING LEASE COMMITMENTS

The Corporation leases office space and equipment under non-cancelable operating leases with remaining terms of one to five years. At June 30, 2010, future minimum lease payments are as follows:

<i>Years ending June 30,</i>	
2011	\$ 316,980
2012	302,464
2013	296,806
2014	-
2015	-
Total	\$ 916,250

Lease expense for the years ended June 30, 2010 and 2009 was \$328,199 and \$301,878, respectively.

NOTE 7 – COMMITMENTS

Contracts

The Corporation contracts with health care insurers to provide medical and dental services in every county. The Corporation also contracts with a third party administrator to provide administrative program services to enrollees. Amounts to be paid under these contracts will vary with enrollment.

Line of Credit

The Corporation maintains two lines of credit of \$5,000,000 each, both with an interest rate of LIBOR plus 1.7%, and are renewed annually. Both notes are open revolving lines of credit, with advances on one note restricted to pending accounts payable from the State of Florida.

No amounts were outstanding on either of the lines of credit at June 30, 2010 and 2009.

NOTE 8 – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2010 and 2009, the Corporation paid \$150,943 and \$131,317, respectively, in legal fees to a law firm serving as general counsel to the Board of Directors. General Counsel served as a non-voting advisory member to the Contract Workgroup and Purchasing and Oversight Committee of the Corporation during the year ended June 30, 2010. The outstanding balance due from the Corporation to these firms as of June 30, 2010 and 2009 was \$8,917 and \$10,436, respectively.

Florida Healthy Kids Corporation
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Notes to Financial Statements

NOTE 9 – DEFINED CONTRIBUTION RETIREMENT PLAN

On July 1, 2002, the Corporation adopted a Tax Sheltered Annuity Plan 403(b) Plan, “the Plan”). Under the Plan, the Corporation contributes an amount equal to 15% of eligible employees’ compensation and an additional 100% match of employee participant contributions to a maximum of 2%. Changes to the plan provisions are made by adoption of a plan amendment. During the year ended June 30, 2010, the Corporation contributed \$283,351 and participants contributed \$53,190 to the Plan. During the year ended June 30, 2009, the Corporation contributed \$258,064 and participants contributed \$44,448 to the Plan.

NOTE 10 – FUNDING CONCENTRATIONS

As of June 30, 2010, approximately 31% of the Corporation’s operating revenues were State of Florida appropriations, which are renewed on an annual basis. The receipt of Title XXI federal funds (which comprise approximately 69% of the Corporation’s operating revenues) is dependent on the continuation of matching funding sources from non-federal sources, including state and local funds.

Funds appropriated to the Corporation for the period from July 1, 2011 to June 30, 2012 for the Healthy Kid Program include \$92,487,511 and \$203,412,896 from State and Federal funds, respectively. Total State and Federal Funds appropriated to the Corporation for the period July 1, 2011 to June 30, 2012 for administration of the KidCare program is \$6,052,752.

NOTE 11 – CONTINGENCIES

Litigation

The Corporation is party to routine legal proceedings and litigation arising in the ordinary course of business. In the opinion of Management, the outcome of such actions will have no material impact on the Corporation’s financial condition.

Unspent State Funds

State of Florida appropriations are released to the Corporation in accordance with a funding agreement between the Corporation and the Agency for Health Care Administration (the “Agency”). The agreement stipulates the use of funds for the Corporation’s statutory purposes and the payment dates and amounts from the Agency to the Corporation. Unspent funds are required to be returned upon dissolution of the Corporation or upon demand by the Agency.

Based on the Agency’s expressed intent to collect unspent state funds, the full amount of released unspent state funds for fiscal years 2009-2010 and 2008-2009 is included in refundable advances as of June 30, 2010 and 2009, respectively.

Florida Healthy Kids Corporation
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Notes to Financial Statements

NOTE 11 – CONTINGENCIES (CONTINUED)

Unspent State Funds (Continued)

The Corporation is authorized by statute to create and maintain an operating fund. The amount that can be accumulated in this fund is limited to no more than 25% of the Corporation's annualized operating expenditures. Amounts above this threshold are required to be returned to the State. The Corporation's net assets did not exceed this threshold as of June 30, 2010 or at any time during the year then ended.

Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. Conventional commercial insurance coverage has been purchased from various independent carriers to insure against such risks and minimize the Corporation's financial exposure to such risks.

The Corporation is not involved in any risk pools with other governmental entities.

NOTE 12 – LIQUIDATED DAMAGES

In accordance with the Corporation's contract with its third party administrator (TPA), liquidated damages are to be assessed against the TPA when specific, monthly performance measures are not met. The \$8,450,000 balance in the Other Liability account represents the estimated liquidated damages for the fiscal year ended June 30, 2010. A total of \$7,950,000 of these liquidated damages has been withheld from the payment to the TPA based upon the TPA's performance reports. The \$500,000 balance of the liquidated damages is reflected in the Contract Receivable assets account. The Corporation has been advised that, at this time, the liquidated damages funds are to be considered as subject to the outcome of litigation. Therefore, they are currently recorded as Other Liability.

Supplementary Information

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Schedule of Expenditures of Federal Awards and State Matching Funds
Year ended June 30, 2010

Federal/State Agency, Pass Through Entity, Federal Program	State Contract Number	CFDA Number	Expenditures
Federal			
<u>U.S. Department of Health and Human Services:</u>			
<u>State Children's Insurance Program</u>			
Passed through State of Florida, Agency for Health Care Administration:			
Title XXI Health Insurance	MED017	93.767	\$ 178,859,602
KidCare Administration	MED017	93.767	3,911,019
Total expenditures of federal awards			\$ 182,770,621
State matching funds:			
Tobacco Settlement Trust Fund Appropriation	MED017	N/A	\$ 57,400,491
General Revenue Appropriation	MED017	N/A	24,600,211
KidCare Administration	MED017	N/A	1,793,293
Total state matching funds			\$ 83,793,995

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Florida Healthy Kids Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and 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.

Single Audit and Auditor General Reports

**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
Florida Healthy Kids Corporation
Tallahassee, Florida

We have audited the financial statements of Florida Healthy Kids Corporation (a non-profit organization and component unit of the State of Florida) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 21, 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 Florida Healthy Kids Corporation'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 Florida Healthy Kids Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

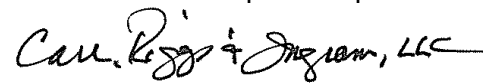
To the Board of Directors
Florida Healthy Kids Corporation

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

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



October 21, 2010

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

To the Board of Directors
Florida Healthy Kids Corporation
Tallahassee, Florida

Compliance

We have audited Florida Healthy Kids Corporation's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that could have a direct and material effect on Florida Healthy Kids Corporation's major federal programs for the year ended June 30, 2010. Florida Healthy Kids Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of Florida Healthy Kids Corporation's management. Our responsibility is to express an opinion on Florida Healthy Kids Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Florida Healthy Kids Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Florida Healthy Kids Corporation's compliance with those requirements.

In our opinion, Florida Healthy Kids Corporation complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

To the Board of Directors
Florida Healthy Kids Corporation

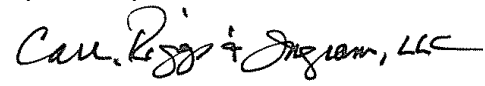
Internal Control Over Compliance

The management of Florida Healthy Kids Corporation is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Florida Healthy Kids Corporation's internal control over compliance to determine the 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 Florida Healthy Kids Corporation'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 on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement 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 or material weaknesses in internal control over compliance. 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, board of directors, others within the entity, State of Florida Office of the Auditor General, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


October 21, 2010

**Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Schedule of Findings and Questioned Costs**

SUMMARY OF AUDIT RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Florida Healthy Kids Corporation.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Florida Healthy Kids Corporation were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General.
5. The Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for Florida Healthy Kids Corporation are reported in this schedule.
7. The federal programs tested as major programs include:

<u>Federal Program</u>	<u>Federal CFDA No.</u>
State Children's Insurance Program	93.767
8. The threshold for distinguishing Type A and B programs/projects was \$3,000,000 for major federal programs.
9. Florida Healthy Kids Corporation was determined to be a low-risk auditee.
10. There are no items related to federal awards required to be reported in the management letter.

FINDINGS FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

Current Year

None

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Summary Schedule of Prior Audit Findings

PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

2009-1 U.S. Department of Health and Human Services
Passed-through the State of Florida, Agency for Health Care Administration
CFDA No. 93.767
Contract No. MED017

Criteria – Families/participants in the program are charged a reduced premium of \$15 or \$20 per family per months if the family’s annual income is at or below 200% of the Federal Poverty Level. Families with annual income above 200% of the Federal Poverty Level are charge the full insurance premium amount per child per month.

Condition – During our test of participant eligibility, we noted several instances in which data input and/or calculation errors resulted in an incorrect eligibility determination

<u>Exception Noted</u>	<u>Number Noted</u>	<u>% of Sample</u>
Participant/family paid \$15 per month and should have paid full premium amount each month	1	1.47%
Participant/family paid \$20 per month and should have paid full premium amount each month	1	1.47%
<u>Eligibility determination correct – No exception</u>	<u>66</u>	<u>97.06%</u>
Total	68	100%

Questioned Costs

\$4,188

Recommendation

The Corporation should continue to monitor the performance of the third party administrator to reduce data input and calculation errors.

Grantee Response

The Corporation will continue ongoing monitoring efforts of the Third Party Administrator (TPA). During the period sampled, the TPA was placed on a Corrective Action Plan (CAP) and assessed liquidated damages. The TPA emerged from the transition allowing the operation to stabilize.

The Corporation’s Quality Assurance Unit continues to monitor monthly all 47 performance standards in the TPA contract, which includes eligibility accuracy. Corporation staff consistently review sample methodology and monitoring practices for process improvements. In addition, weekly oversight meetings are held with Corporation and executive management staff of the TPA.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Summary Schedule of Prior Audit Findings
(Continued)

**PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS
(CONTINUED)**

The TPA substantially reduced the number of system defects to normal operational levels, eliminating the need for manual workarounds. Any identified system defect that impacts premium or enrollment is assigned the highest priority. The enhanced automation and system controls should reduce eligibility errors.

Current year status – cleared

During the current year audit we found no instances of non-compliance required to be reported.

PRIOR YEAR FINDINGS FINANCIAL STATEMENTS

None