

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORTS

HILLSBOROUGH KIDS, INC.

June 30, 2010

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**RIVERO, GORDIMER & COMPANY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Hillsborough Kids, Inc.

We have audited the accompanying statement of financial position of Hillsborough Kids, Inc. ("HKI"), a Florida not-for-profit corporation, as of June 30, 2010, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of HKI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of America. 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 audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2010 on our consideration of HKI's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information, including the Schedule of Expenditures of Federal Awards and State Financial Assistance, identified in the Table of Contents, is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *State of Florida Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information, including the Schedule of Expenditures of Federal Awards and State Financial Assistance, 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 whole.

Tampa, Florida  
December 13, 2010

Hillsborough Kids, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2010

ASSETS

Cash and cash equivalents (notes A3, A5 and I)	\$ 7,162,180
Grant receivable	<u>13,169</u>
Total current assets	7,175,349
Funds held in trust (note B)	326,199
Investments (notes A6 and I)	1,300,000
Property and equipment, net of accumulated depreciation (notes A7 and C)	1,619,049
Other assets	<u>82,674</u>
Total assets	<u>\$ 10,503,271</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 4,554,284
Refundable advances (note A4)	<u>2,454,010</u>
Total current liabilities	7,008,294
Funds held in trust (note B)	<u>326,199</u>
Commitments and contingencies (notes D and E)	<u>-</u>
Total liabilities	7,334,493
Net assets - unrestricted (note A2)	<u>3,168,778</u>
Total liabilities and net assets	<u>\$ 10,503,271</u>

The accompanying notes are an integral part of this statement.

Hillsborough Kids, Inc.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2010

Revenues	
Grants (notes A4, F and H)	
Governmental	\$ 66,930,362
Other	134,807
Contributions - other (note G)	13,454
Investment	29,380
Miscellaneous	92,476
	<hr/>
Total revenues	67,200,479
	<hr/>
Expenses	
Program	
Case management	30,018,690
Out of home care	17,733,106
Adoption	13,064,517
Preservation services	4,141,401
Total program expenses	64,957,714
	<hr/>
Management and general	1,859,711
	<hr/>
Total expenses	66,817,425
	<hr/>
Change in net assets	383,054
Net assets at beginning of year	2,785,724
	<hr/>
Net assets at end of year	\$ 3,168,778
	<hr/>

The accompanying notes are an integral part of this statement.

Hillsborough Kids, Inc.

STATEMENT OF CASH FLOWS

For the year ended June 30, 2010

Cash flows from operating activities	
Change in net assets	<u>\$ 383,054</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	633,318
Loss on disposal of equipment	575
Decrease in grant and other receivables	280,594
Increase in prepaid expenses and other assets	(51,949)
Decrease in accounts payable and accrued expenses	(297,483)
Decrease in refundable advances	<u>(435,742)</u>
Total adjustments	<u>129,313</u>
Net cash provided by operating activities	<u>512,367</u>
Cash flows from investing activities	
Purchases of office and computer equipment	<u>(899,227)</u>
Net decrease in cash and cash equivalents	(386,860)
Cash and cash equivalents at beginning of year	<u>7,549,040</u>
Cash and cash equivalents at end of year	<u><u>\$ 7,162,180</u></u>
Supplemental disclosures of cash flow information	
Cash paid during the year	
Interest	<u>\$ -</u>
Taxes	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

Hillsborough Kids, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2010

	Program Expenses						
	Case Management	Out of Home Care	Adoption	Preservation Services	Total	Management and General	Combined Total
Salaries, benefits, and taxes	\$ 4,110,826	\$ -	\$ 54,869	\$ 362,012	\$ 4,527,707	\$ 1,373,280	\$ 5,900,987
Out of home care payments	1,057,791	17,550,119	11,379,159	315,607	30,302,676	-	30,302,676
Subcontracts	20,443,630	14,906	1,309,995	3,333,441	25,101,972	460	25,102,432
Professional/temp/outside service	1,707,464	-	81,093	11,799	1,800,356	225,871	2,026,227
Telephone expense	365,195	-	8,544	19,067	392,806	20,639	413,445
Office supplies	82,746	-	261	4,122	87,129	24,664	111,793
Insurance	189,991	-	1,961	11,335	203,287	27,360	230,647
Media	362,802	-	69,411	3,353	435,566	13,853	449,419
Minor equipment and maintenance	823,807	-	6,476	33,955	864,238	75,948	940,186
Occupancy	448,065	-	28,143	2,354	478,562	40,940	519,502
Education	114,625	-	217	1,283	116,125	36,704	152,829
Travel	27,221	-	558	3,819	31,598	2,366	33,964
Total expenses before depreciation	29,734,163	17,565,025	12,940,687	4,102,147	64,342,022	1,842,085	66,184,107
Depreciation	284,527	168,081	123,830	39,254	615,692	17,626	633,318
Total expenses	<u>\$ 30,018,690</u>	<u>\$ 17,733,106</u>	<u>\$ 13,064,517</u>	<u>\$ 4,141,401</u>	<u>\$ 64,957,714</u>	<u>\$ 1,859,711</u>	<u>\$ 66,817,425</u>

The accompanying notes are an integral part of this statement.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - DESCRIPTION OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A brief description of the organization and a summary of its significant accounting policies consistently applied in the preparation of the accompanying financial statements follow:

1. Organization

Hillsborough Kids, Inc. ("HKI") was incorporated in August 1999 to serve as the lead agency for the State of Florida Department of Children and Families ("DCF") Community Based Care Project (the "CBCP") in Hillsborough County, Florida (the "County") by performing administrative services, financial management, data communication services, training, family preservation services and quality assurance for child protection services. DCF, who previously performed these activities, still contracts to provide child protection investigations and legal services through the State of Florida Office of the Attorney General within the County for the CBCP. Under the authority of DCF, HKI was contracted to perform the lead agency services for the CBCP in March of 2001.

HKI accomplishes its purpose as the lead agency for the CBCP by utilizing a system of care that includes seven independent agencies (the "Stakeholders") that are subcontracted through HKI to provide services to the abused and neglected children and their families within the County. The seven Stakeholders consist of the following agencies that operate within the County: Camelot Community Care, Inc., The Children's Home, Inc., The Children's Home Society of Florida, Inc., Mental Health Care, Inc., The Devereux Foundation, Gulf Coast Jewish Family Services, Inc., and Youth and Family Alternatives, Inc. The seven Stakeholders operate and work together in four independent, but related care centers established throughout the County. The first care center opened in May 2002, and the second, third and fourth care centers were opened during the year ended June 30, 2003. The four care centers collectively serve approximately 2,600 children. The purpose of the care centers is to serve as a central point of operations and administration for the CBCP in different geographical areas of the County.

HKI receives the majority of their funding and support from DCF. Included in the funding from DCF are federal funds from the U.S. Department of Health and Human Services. As the lead agency in the CBCP, HKI acts as a pass-through entity for a significant portion of the DCF funding. As a pass-through entity, HKI is responsible for administration of the pass-through funds to the subrecipient organizations, which is accomplished through their role as the lead agency as described in the DCF contracts.

2. Basis of Accounting

HKI follows the provisions of the Financial Accounting Standards Boards *Accounting Standards Codification* ("FASB ASC").

FASB ASC 958-205 (*Presentation of Financial Statements*) establishes standards for general purpose external financial statements of not-for-profit organizations that require a statement of financial position, a statement of activities, and a statement of cash flows.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE A - DESCRIPTION OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

FASB ASC 958-605 (*Revenue Recognition*) requires HKI to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. It also requires recognition of contributed services meeting certain criteria at fair values. Accordingly, net assets of HKI and changes therein are classified and reported as follows:

- Unrestricted net assets - not subject to donor-imposed restrictions or the donor-imposed restrictions have expired.
- Temporarily restricted net assets - subject to donor-imposed stipulations that may or will be fulfilled by actions of HKI to meet the stipulations or become unrestricted by the passage of time. Currently, HKI has no temporarily restricted net assets.
- Permanently restricted net assets - subject to donor-imposed stipulations that they be retained and invested permanently by HKI. Currently, HKI has no permanently restricted net assets.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid short-term money market instruments with maturity of three months or less when purchased or acquired. Cash equivalents approximated \$2,600,000 at June 30, 2010.

HKI has a funding agreement with each Stakeholder agency that requires the agency to issue an irrevocable letter of credit or similar financial instrument for an amount up to \$175,000, benefiting HKI. The fair value of these financial instruments totals \$1,150,000 at June 30, 2010 and has been pledged as collateral for HKI's line of credit, see Note D. No assets have been recorded in association with these financial instruments, since HKI has no intentions, at this time, to draw them before they expire.

4. Grant Revenues and Refundable Advances

Revenues from governmental grants are recorded based upon terms of the grantor allotment which generally provide that revenues are earned when the allowable costs of the specific grant provisions have been incurred. Support received from governmental agencies in advance of related allowable costs is recorded as refundable advances. Unexpended advances may have to be returned to the awarding agency at the end of the contract term. Revenues are subject to audit by the grantor and, if the examination results in a disallowance of any expenditure, repayment could be required.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE A - DESCRIPTION OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Concentration of Credit Risk

Financial instruments, which potentially subject HKI to concentrations of credit risk, consist principally of cash and cash equivalents. The total of these balances that exceed federal deposit insurance limits is approximately \$6,000,000 at June 30, 2010.

HKI receives a substantial amount of its support from the State of Florida Department of Children and Families (over 99% of total revenues for the year ended June 30, 2010). Any significant reduction in the level of this support could have an effect on HKI's programs.

6. Investments

Investments consist of a certificate of deposit at June 30, 2010 that is invested with a financial institution. This certificate of deposit is classified as a long-term asset since it was obtained to meet reserve operating capital requirements of Contract # QJ00R with DCF.

7. Property and Equipment

Property and equipment are stated at cost on the date of acquisition. Depreciation is provided for using the straight-line method over the estimated useful lives of each asset, approximately three to five years. HKI follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$1,000.

8. Income Tax Status

HKI is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes, respectively. Accordingly, no income tax liability has been recorded in the financial statements. HKI has not reported any unrelated business income; however, such status is subject to final determination upon examination, if any, of the related income tax returns by appropriate taxing authorities.

HKI is not aware of any tax positions it has taken that are subject to a significant degree of uncertainty. Tax years after 2006 remain subject to examination by federal and state taxing authorities.

9. Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs benefited.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE B – FUNDS HELD IN TRUST

HKI acts as a representative payee for individuals who receive Social Security and/or Supplemental Security Income (SSI) benefits. Funds held in trust represent Social Security and/or SSI funds received by individuals within HKI's system of care. These funds are maintained in an interest bearing collective checking account which is used to deposit beneficiaries' Social Security and SSI benefits, and also to make disbursements for beneficiaries' cost of care charges. Interest earnings on this account are allocated to the beneficiaries based on their individual ending ledger balance for the month.

HKI records the value of the collective checking account as an asset and records a liability for the total value of the individual participant accounts on the Statement of Financial Position. These amounts offset each other at June 30, 2010.

NOTE C – PROPERTY AND EQUIPMENT

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

Office and computer equipment	\$ 2,826,520
Vehicles	337,921
Leasehold improvements	<u>472,932</u>
	3,637,373
Less accumulated depreciation and amortization	<u>(2,018,324)</u>
	<u>\$ 1,619,049</u>

Property and equipment acquired with State funds from DCF are considered to be controlled by HKI while being used for general operations. However, ownership of this property shall be vested in DCF. The cost basis of such property approximated \$2,700,000 (net book value of approximately \$1,100,000) at June 30, 2010.

NOTE D - LINE OF CREDIT

HKI maintains a \$4,400,000 line of credit with a financial institution that matures on April 25, 2011. Interest on outstanding balances is due monthly at the greater of 3.5% or the one month LIBOR rate (.348% at June 30, 2009) plus 2.5%. The line of credit is collateralized by all assets of HKI and all Irrevocable Letters of Credit and certificates of deposit benefiting HKI, funded by the Stakeholders (see note A3). There was no amount outstanding on the line of credit at June 30, 2010. Management intends to renew the line of credit beyond the maturity date. The line of credit is used to meet reserve operating capital requirements of Contract # QJ00R with DCF.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE E - COMMITMENTS

1. Pension Plans

HKI adopted the ADP TotalSource Retirement Savings Plan (the "Plan"), effective December 1, 2008, as a restatement from its prior plan, that was originally effective December 1, 2003. The Plan covers all employees who are at least 21 years of age and meet certain service requirements. HKI's contributions to the plan are equal to 100% of participant contributions up to 4% of their annual salary. Additionally, at management's discretion, a profit sharing contribution may be made to the plan and allocated to participants pro rata, based on their total compensation. HKI's contributions to the plan approximated \$230,000 for the year ended June 30, 2010.

2. Operating Leases

HKI conducts its operations in leased facilities and also leases certain equipment. All leases are classified as operating leases.

The following is a schedule of approximate non-cancelable minimum payments under such operating leases that expire at various dates through 2014:

<u>Year ending June 30,</u>	
2011	\$ 663,000
2012	453,000
2013	268,000
2014	<u>27,000</u>
	<u>\$ 1,411,000</u>

Rent expense for the year ended June 30, 2010 was approximately \$590,000.

3. Contingencies

HKI was involved in several legal actions and disputes at June 30, 2010. No actions exist which, in management's opinion, would have a material affect on HKI's financial position.

NOTE F - GOVERNMENTAL GRANT REVENUES

Governmental grant revenues consisted of funds earned from the following tiers of government for the year ended June 30, 2010:

Federal	\$ 34,288,703
State	26,194,057
State matching	<u>6,447,602</u>
	<u>\$ 66,930,362</u>

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE G - OTHER CONTRIBUTIONS

Other contributions consisted of cash contributions, from individuals and non-related agencies and foundations, to support HKI with funding for operations. These contributions are recorded as revenue when received.

NOTE H – MATCHING REQUIREMENTS

HKI has met all Federal and State matching requirements included in Contract # QJ00R with DCF.

NOTE I – FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board ASC 820 *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that HKI has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for that asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means;
- If the asset or liability has a specified (contractual) term, the input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE I – FAIR VALUE MEASUREMENTS - Continued

Following is a description of the valuation methodologies used for assets measured at fair value at June 30, 2010:

*Cash equivalents:* The carrying amounts reported in the Statement of Financial Position approximate the fair value because of the short maturities of those instruments.

*Investments (Certificate of Deposit):* Valued at original cost plus accrued interest through the date of the Statement of Financial Position.

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while HKI believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The estimated fair values of HKI's financial instruments are as follows:

Financial assets:

	Carrying Amount	Fair Value
Cash equivalents	\$ 2,602,981	\$ 2,602,981
Investments	\$ 1,300,000	\$ 1,300,000

The following table sets forth by level, within the fair value hierarchy, the Center's investment assets measured at fair value on a recurring basis:

	Fair Value	Level 1 Inputs
Certificate of deposit	<u>\$ 1,300,000</u>	<u>\$ 1,300,000</u>

NOTE J – SUBSEQUENT EVENTS

HKI has evaluated events and transactions occurring subsequent to June 30, 2010 as of December 13, 2010 which is the date the financial statements were issued. Subsequent events occurring after December 13, 2010 have not been evaluated by management. No material events have occurred since June 30, 2010 that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE

HILLSBOROUGH KIDS, INC.

For the year ended June 30, 2010

Hillsborough Kids, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE

For the year ended June 30, 2010

Federal/State Grantor/Pass-Through Grantor/Program Title	Federal CFDA # or State CSFA #	Pass- Through Entity Identifying Number	Expenditures	Amounts Awarded to Subrecipients
<b>Federal</b>				
<u>U.S. Department of Health and Human Services</u>				
Passed-through the Florida Department of Children and Families				
Promoting Safe & Stable Families	93.556	QJ00R	\$ 1,097,680	\$ 1,086,986
Temporary Assistance for Needy Families	93.558	QJ00R	6,071,324	3,006,995
Chafee Education and Training Vouchers Program (ETV)	93.599	QJ00R	229,102	-
Adoption Incentive Payments	93.603	QJ00R	552,094	-
Child Welfare Services, State Grants	93.645	QJ00R	844,152	599,253
Foster Care - Title IV-E	93.658	QJ00R	12,713,467	8,981,991
Foster Care - Title IV-E (American Recovery and Reinvestment Act)	93.658-ARRA	QJ00R	530,495	376,592
Adoption Assistance	93.659	QJ00R	6,591,298	1,637,117
Adoption Assistance (American Recovery and Reinvestment Act)	93.659-ARRA	QJ00R	610,229	-
Social Service Block Grant	93.667	QJ00R	4,406,311	3,490,280
Child Abuse and Neglect State Grants	93.669	QJ00R	199,817	157,413
Chafee Foster Care Independent Living	93.674	QJ00R	383,954	383,954
Medical Assistance Program	93.778	QJ00R	58,780	33
Total expenditures of federal awards			<u>34,288,703</u>	<u>19,720,614</u>
<b>State</b>				
<u>Florida Department of Children and Families</u>				
Community Based Care Supports	60.094	QJ7A0 & QJ00R	26,194,057	15,169,607
Total expenditures of state financial assistance			<u>26,194,057</u>	<u>15,169,607</u>
Total expenditures of federal awards and state financial assistance			<u>\$ 60,482,760</u>	<u>\$ 34,890,221</u>

The accompanying notes are an integral part of this schedule.

Hillsborough Kids, Inc.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE

June 30, 2010

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the Federal and State grant activity of Hillsborough Kids, Inc. (HKI) 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 and 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.

NOTE B - CONTINGENCIES

These federal and state programs/projects are subject to financial and compliance audits by grantor agencies, which, if instances of material noncompliance are found, may result in disallowed expenditures, and affect HKI's continued participation in specific programs. The amount of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although HKI expects such amounts, if any, to be immaterial. There have been no disallowed expenditures by grantor agencies for HKI funding in the prior years.

NOTE C - STATE MATCHING FUNDS FOR FEDERAL PROGRAMS

State funds awarded to HKI as matching funds for federal programs consisted of the following:

Federal Program Title	Federal CFDA #	Pass-Through Entity Identifying Number	Expenditures
Promoting Safe and Stable Families Chafee Education & Training Vouchers Program (ETV)	93.556	QJ00R	\$ 12,287
Child Welfare Services, State Grants	93.599	QJ00R	57,276
Adoption Assistance	93.645	QJ00R	281,384
Adoption Assistance (American Recovery and Reinvestment Act)	93.659	QJ00R	4,829,622
Chafee Foster Care Independent Living	93.659	QJ00R	357,927
Medical Assistance Program	93.674	QJ00R	95,989
Block Grants for Community Mental Health Services	93.778	QJ00R	84,144
	93.958	QJ00R	728,973
Total state funds awarded for matching			<u>\$ 6,447,602</u>

Hillsborough Kids, Inc.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE - CONTINUED

June 30, 2010

NOTE D - RECONCILIATION OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
TO THE FINANCIAL STATEMENTS

Following is a reconciliation of the Schedule of Expenditures of Federal Awards and State Financial Assistance to the total funding reported to HKI by the Department of Children and Families in the Fiscal Year 2009-10 Post Award Notice of Federal Awards and State Financial Assistance:

Total expenditures of federal awards and state financial assistance per the Florida Department of Children and Families Post Award Notice	\$66,539,081
Add:	
Expenditures of state awards received in fiscal year 2009 and expended in fiscal year 2010	2,845,291
Less:	
Unexpended federal funds returned during fiscal year 2010	-
State financial assistance received in fiscal year 2010 and revenue recognition deferred until future periods	<u>(2,454,010)</u>
Total governmental grant revenues per the financial statements	<u>\$66,930,362</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

HILLSBOROUGH KIDS, INC.

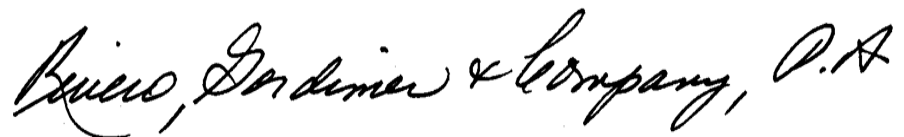
June 30, 2010



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether HKI'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, 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.

A handwritten signature in black ink that reads "Buero, Gardner & Company, P.A." The signature is written in a cursive, flowing style.

Tampa, Florida  
December 13, 2010

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

HILLSBOROUGH KIDS, INC.

June 30, 2010



**RIVERO, GORDIMER & COMPANY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS**

Member  
 American Institute of Certified Public Accountants  
 Florida Institute of Certified Public Accountants

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Cesar J. Rivero	Sam A. Lazzara
Richard Gordimer	Stephen G. Douglas
Herman V. Lazzara	Michael E. Helton
Marc D. Sasser	

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

Board of Directors  
 Hillsborough Kids, Inc.

Compliance

We have audited Hillsborough Kids, Inc.'s ("HKI") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, and the requirements described in the Florida 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 projects for the year ended June 30, 2010. HKI's major federal programs and state 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 projects is the responsibility of HKI's management. Our responsibility is to express an opinion on HKI'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 of America, OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General*. Those standards and 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 project occurred. An audit includes examining, on a test basis, evidence about HKI'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 HKI's compliance with those requirements.

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

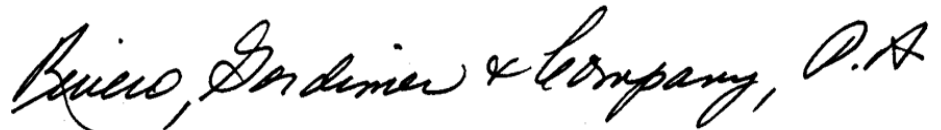
## Internal Control Over Compliance

Management of HKI is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered HKI's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project 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 the effectiveness of HKI'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 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 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 HKI's management, the Board of Directors, 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.

A handwritten signature in black ink that reads "Benicio, Gordinier & Company, P.A." The signature is written in a cursive, flowing style.

Tampa, Florida  
December 13, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL PROGRAMS AND STATE PROJECTS

HILLSBOROUGH KIDS, INC.

June 30, 2010

Hillsborough Kids, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL PROGRAMS AND STATE PROJECTS

For the year ended June 30, 2010

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued Unqualified

Internal control over financial reporting  
 Material weakness(es) identified?      yes   X   no  
 Significant deficiency(ies) identified      yes   X   none reported

Noncompliance material to financial statements noted?      yes   X   no

**Federal Awards and State Financial Assistance**

Internal control over major federal programs and state projects  
 Material weakness(es) identified?      yes   X   no  
 Significant deficiency(ies) identified      yes   X   none reported

Type of auditors' report issued on compliance for major  
 federal programs and state projects? Unqualified

Any audit findings disclosed that are required to be reported  
 in accordance with section 510(a) of Circular A-133 and  
 Chapter 10.650, *Rules of the Auditor General*?      yes   X   no

Identification of major federal programs and state projects:

**Federal**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.556	Promoting Safe & Stable Families
93.558	Temporary Assistance for Needy Families
93.658	Foster Care - Title IV - E
93.658-ARRA	Foster Care - Title IV - E (American Recovery and Reinvestment Act)
93.659	Adoption Assistance
93.659-ARRA	Adoption Assistance (American Recovery and Reinvestment Act)
93.667	Social Service Block Grant

Hillsborough Kids, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL PROGRAMS AND STATE PROJECTS - CONTINUED

For the year ended June 30, 2010

**State**

<u>CSFA Number</u>	<u>Name of State Project</u>
60.094	Community Based Care Supports
Dollar threshold used to distinguish between type A and type B federal programs	<u>\$1,028,661</u>
Dollar threshold used to distinguish between type A and type B state projects	<u>\$ 785,822</u>
Auditee qualified as low-risk auditee	<u>X</u> yes <u>   </u> no

**Section II - Financial Statement Findings**

No matters were reported for the year ended June 30, 2010 and no matters were reported for the prior year. Accordingly, a summary schedule of prior year audit findings is not presented.

**Section III - Federal Award Findings and Questioned Costs**

No matters were reported for the year ended June 30, 2010 and no matters were reported for the prior year. Accordingly, a summary schedule of prior year audit findings is not presented.

MANAGEMENT LETTER  
HILLSBOROUGH KIDS, INC.  
For the year ended June 30, 2010

