

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORTS

HILLSBOROUGH KIDS, INC.

June 30, 2011

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RIVERO, GORDIMER & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

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

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, 2011, 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, 2011, 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 12, 2011 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 12, 2011

Hillsborough Kids, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2011

ASSETS

Cash and cash equivalents (notes A3, A5 and I)	\$ 8,812,965
Grant receivable	<u>35,898</u>
Total current assets	8,848,863
Funds held in trust (note B)	286,846
Property and equipment, net of accumulated depreciation (notes A6 and C)	1,189,538
Other assets	<u>82,674</u>
Total assets	<u><u>\$ 10,407,921</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 4,564,485
Refundable advances (note A4)	<u>2,648,486</u>
Total current liabilities	7,212,971
Funds held in trust (note B)	<u>286,846</u>
Commitments and contingencies (notes D and E)	<u>-</u>
Total liabilities	7,499,817
Net assets - unrestricted (note A2)	<u>2,908,104</u>
Total liabilities and net assets	<u><u>\$ 10,407,921</u></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, 2011

Revenues	
Grants (notes A4, F and H)	
Governmental	\$ 66,657,315
Other	200,749
Contributions - other (note G)	9,565
Investment	10,830
Miscellaneous	<u>140,543</u>
Total revenues	<u>67,019,002</u>
Expenses	
Program	
Case management	28,602,902
Out of home care	17,550,482
Adoption	14,050,723
Preservation services	<u>4,621,409</u>
Total program expenses	<u>64,825,516</u>
Management and general	<u>2,454,160</u>
Total expenses	<u>67,279,676</u>
Change in net assets	(260,674)
Net assets at beginning of year	<u>3,168,778</u>
Net assets at end of year	<u>\$ 2,908,104</u>

The accompanying notes are an integral part of this statement.

Hillsborough Kids, Inc.

STATEMENT OF CASH FLOWS

For the year ended June 30, 2011

Cash flows from operating activities	
Change in net assets	<u>\$ (260,674)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	798,717
Loss on disposal of equipment	904
Increase in grant and other receivables	(22,729)
Increase in accounts payable and accrued expenses	10,201
Increase in refundable advances	194,476
Total adjustments	<u>981,569</u>
Net cash provided by operating activities	<u>720,895</u>
Cash flows from investing activities	
Purchases of office and computer equipment	(370,110)
Proceeds from maturity of certificate of deposit	<u>1,300,000</u>
Net cash provided by investing activities	<u>929,890</u>
Net increase in cash and cash equivalents	1,650,785
Cash and cash equivalents at beginning of year	<u>7,162,180</u>
Cash and cash equivalents at end of year	<u><u>\$ 8,812,965</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, 2011

	Program Expenses						
	Case Management	Out of Home Care	Adoption	Preservation Services	Total	Management and General	Combined Total
Salaries, benefits, and taxes	\$ 4,093,283	\$ -	\$ 60,655	\$ 515,980	\$ 4,669,918	\$1,885,674	\$ 6,555,592
Out of home care payments	2,785	17,248,937	12,123,197	41,033	29,415,952	-	29,415,952
Subcontracts	20,019,252	93,805	1,522,865	3,873,136	25,509,058	-	25,509,058
Professional/temp/outside service	1,519,027	-	60,740	75,873	1,655,640	219,817	1,875,457
Telephone expense	375,844	-	20,886	8,909	405,639	20,886	426,525
Office supplies	122,788	-	1,183	6,571	130,542	36,880	167,422
Insurance	293,366	-	14,809	8,236	316,411	28,406	344,817
Media	338,487	74	52,617	-	391,178	12,567	403,745
Minor equipment and maintenance	685,638	-	18,822	20,616	725,076	84,017	809,093
Occupancy	685,148	-	5,987	1,939	693,074	99,957	793,031
Education	104,030	-	2,014	3,226	109,270	33,077	142,347
Travel	23,799	-	16	10,779	34,594	3,326	37,920
Total expenses before depreciation	28,263,447	17,342,816	13,883,791	4,566,298	64,056,352	2,424,607	66,480,959
Depreciation	339,455	207,666	166,932	55,111	769,164	29,553	798,717
Total expenses	<u>\$ 28,602,902</u>	<u>\$ 17,550,482</u>	<u>\$ 14,050,723</u>	<u>\$ 4,621,409</u>	<u>\$ 64,825,516</u>	<u>\$ 2,454,160</u>	<u>\$ 67,279,676</u>

The accompanying notes are an integral part of this statement.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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, 2011

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 \$4,200,000 at June 30, 2011.

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 \$975,000 at June 30, 2011 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, 2011

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 \$3,700,000 at June 30, 2011.

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, 2011). Any significant reduction in the level of this support could have an effect on HKI's programs.

6. 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.

7. 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 June 30, 2007 remain open for examination by taxing authorities.

8. 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.

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.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE B - FUNDS HELD IN TRUST - Continued

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, 2011.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2011:

Office and computer equipment	\$ 2,941,264
Vehicles	411,187
Leasehold improvements	<u>472,932</u>
	3,825,383
Less accumulated depreciation and amortization	<u>(2,635,845)</u>
	<u>\$ 1,189,538</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 \$2,900,000 (net book value of approximately \$1,200,000) at June 30, 2011.

NOTE D - LINE OF CREDIT AND PURCHASE CARD FACILITY

HKI maintains a \$3,200,000 line of credit with a financial institution that matures on June 27, 2012. Interest on outstanding balances is due monthly at the one month LIBOR rate (.187% at June 30, 2011) plus 2.25%. 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). Additionally, HKI maintains a \$1,000,000 purchase card facility with the same financial institution. There was no amount outstanding on the line of credit or purchase card facility at June 30, 2011. Management intends to renew the line of credit and purchase card facility beyond the maturity date. The line of credit and purchase card facility is used to meet reserve operating capital requirements of Contract # QJ00R with DCF.

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 \$340,000 for the year ended June 30, 2011.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE E - COMMITMENTS - Continued

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 2015:

<u>Year ending June 30,</u>	
2012	\$ 573,000
2013	388,000
2014	147,000
2015	<u>70,000</u>
	<u>\$ 1,178,000</u>

Rent expense for the year ended June 30, 2011 was approximately \$650,000.

3. Contingencies

HKI was involved in several legal actions and disputes at June 30, 2011. No actions exist which, in management's opinion, would have a material effect 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, 2011:

Federal	\$ 35,106,441
State	24,742,585
State matching	<u>6,808,289</u>
	<u>\$ 66,657,315</u>

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.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

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, 2011

NOTE I - FAIR VALUE MEASUREMENTS - Continued

Following is a description of the valuation methodologies used for assets measured at fair value at June 30, 2011:

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

The method 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 value of HKI's financial instruments are as follows:

Financial assets:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash equivalents	<u>\$ 4,213,025</u>	<u>\$ 4,213,025</u>

NOTE J - SUBSEQUENT EVENTS

HKI has evaluated events and transactions occurring subsequent to June 30, 2011 as of December 12, 2011 which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE

HILLSBOROUGH KIDS, INC.

For the year ended June 30, 2011

Hillsborough Kids, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE

For the year ended June 30, 2011

Federal/State Grantor/Pass-Through Grantor/Program Title	Federal CFDA # or State CSFA #	Pass-Through Entity Identifying Number	Expenditures	Amounts Awarded to Subrecipients
Federal				
<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	\$ 1,141,910	\$ 1,104,852
Temporary Assistance for Needy Families	93.558	QJ00R	5,684,704	2,843,033
Chafee Education and Training Vouchers Program (ETV)	93.599	QJ00R	240,372	2,600
Adoption Incentive Payments	93.603	QJ00R	420,669	-
Child Welfare Services, State Grants	93.645	QJ00R	792,317	548,803
Foster Care - Title IV-E	93.658	QJ00R	13,293,513	9,390,762
Foster Care - Title IV-E (American Recovery and Reinvestment Act)	93.658-ARRA	QJ00R	1,105,367	765,639
Adoption Assistance	93.659	QJ00R	6,898,631	1,604,747
Adoption Assistance (American Recovery and Reinvestment Act)	93.659-ARRA	QJ00R	664,632	-
Social Service Block Grant	93.667	QJ00R	4,141,505	3,309,068
Child Abuse and Neglect State Grants	93.669	QJ00R	145,633	109,550
Chafee Foster Care Independent Living	93.674	QJ00R	343,230	343,230
Medical Assistance Program	93.778	QJ00R	72,433	-
Passed through Kids Central, Inc.				
Family Connections Grant	93.605	N/A	161,525	-
Total expenditures of federal awards			35,106,441	20,022,284
State				
<u>Florida Department of Children and Families</u>				
Community Based Care Supports	60.094	QJ7A0	24,742,585	14,976,855
Total expenditures of state financial assistance			24,742,585	14,976,855
Total expenditures of federal awards and state financial assistance			\$ 59,849,026	\$ 34,999,139

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, 2011

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	93.556	QJ00R	\$ 40,192
Chafee Education & Training Vouchers Program (ETV)	93.599	QJ00R	60,093
Child Welfare Services, State Grants	93.645	QJ00R	264,106
Adoption Assistance	93.659	QJ00R	5,266,543
Adoption Assistance (American Recovery and Reinvestment Act)	93.659	QJ00R	290,144
Chafee Foster Care Independent Living	93.674	QJ00R	85,807
Medical Assistance Program	93.778	QJ00R	72,431
Block Grants for Community Mental Health Services	93.958	QJ00R	728,973
Total state funds awarded for matching			<u>\$ 6,808,289</u>

Hillsborough Kids, Inc.

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

June 30, 2011

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 2010-11 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	\$ 66,726,871
Add:	
Expenditures of state awards received in fiscal year 2010 and expended in fiscal year 2011	1,500,997
Family Connections grant expenditures	161,525
Less:	
Unexpended federal funds returned during fiscal year 2012	(36,605)
State financial assistance received in fiscal year 2011 and revenue recognition deferred until future periods	<u>(1,695,473)</u>
Total governmental grant revenues per the financial statements	<u>\$ 66,657,315</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, 2011



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

Board of Directors
 Hillsborough Kids, Inc.

We have audited the financial statements of Hillsborough Kids, Inc. ("HKI") as of and for the year ended June 30, 2011, and have issued our report thereon, dated December 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

Management of HKI is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered HKI'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 HKI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HKI's internal control over financial reporting.

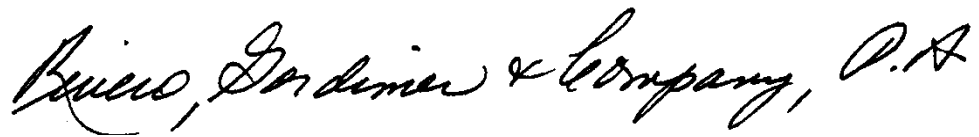
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination 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 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 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 "Bruce, Gardner & Company, P.A." The signature is written in a cursive, flowing style.

Tampa, Florida
December 12, 2011

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, 2011



RIVERO, GORDIMER & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Member	
American Institute of Certified Public Accountants	
Florida Institute of Certified Public Accountants	
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, 2011. 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, 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, 2011.

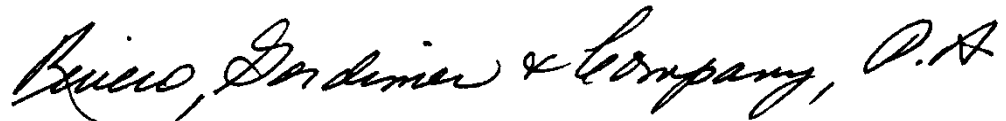
Internal Control Over Compliance

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 on 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.



Tampa, Florida
December 12, 2011

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

HILLSBOROUGH KIDS, INC.

June 30, 2011

Hillsborough Kids, Inc.

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

For the year ended June 30, 2011

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, 2011

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>\$ 1,053,193</u>
Dollar threshold used to distinguish between type A and type B state projects	<u>\$ 742,278</u>
Auditee qualified as low-risk auditee	<u>X</u> yes ___ no

Section II - Financial Statement Findings

No matters were reported for the year ended June 30, 2011 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, 2011 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, 2011



RIVERO, GORDIMER & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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American Institute of Certified Public Accountants
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Marc D. Sasser

MANAGEMENT LETTER

Board of Directors
Hillsborough Kids, Inc.

We have audited the financial statements of Hillsborough Kids, Inc. (“HKI”) as of and for the fiscal year ended June 30, 2011, and have issued our report thereon, dated December 12, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors’ Report on Internal Control Over Financial Reporting and Compliance and Other Matters, Independent Auditors’ Report on Compliance with Requirements Applicable to Each Major Federal Program and State Project and on Internal Control Over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedules, dated December 12, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, *Rules of the Auditor General*, which requires disclosure in the management letter of violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements or state project amounts that is less than material, but more than inconsequential. In addition, for matters that have an inconsequential effect on the financial statements or state project amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse that could have occurred or are likely to have occurred, (2) deficiencies in internal control that are not significant deficiencies. Our audit disclosed no matters required to be disclosed by *Rules of the Auditor General* (Section 10.654(1)(e)).

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

Tampa, Florida
December 12, 2011