

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORTS

HILLSBOROUGH KIDS, INC.

June 30, 2012

TABLE OF CONTENTS

| | |
|---|---------|
| Independent Auditors' Report | 3 - 4 |
| Financial Statements | |
| Statement of Financial Position | 5 |
| Statement of Activities and Changes in Net Assets | 6 |
| Statement of Cash Flows | 7 |
| Statement of Functional Expenses | 8 |
| Notes to Financial Statements | 9 - 13 |
| Supplemental Information | 14 |
| Schedule of Expenditures of Federal Awards and State Financial Assistance | 15 - 16 |
| Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance | 17 - 18 |
| 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 <i>Government Auditing Standards</i> | 19 - 21 |
| 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, <i>Rules of the Florida Auditor General</i> | 22 - 24 |
| Schedule of Findings and Questioned Costs - Federal Programs and State Projects | 25 - 27 |
| Management Letter | 28 - 29 |

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated in all material respects, in relation to the financial statements taken as whole.

Bucio, Gordonier & Company, P.A.

Tampa, Florida
December 10, 2012

Hillsborough Kids, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS

| | |
|--|---------------------|
| Cash and cash equivalents (notes A3, A5 and I) | \$ 4,678,801 |
| Receivables(note A4) | 678,841 |
| Funds held in trust (note B) | <u>259,430</u> |
| Total current assets | <u>5,617,072</u> |
| Total assets | <u>\$ 5,617,072</u> |

LIABILITIES AND NET ASSETS

| | |
|---|---------------------|
| Accounts payable and accrued expenses | \$ 3,199,721 |
| Refundable advances (note A4) | 501,114 |
| Funds held in trust (note B) | <u>259,430</u> |
| Total current liabilities | <u>3,960,265</u> |
| Commitments and contingencies (notes C and D) | <u>-</u> |
| Total liabilities | 3,960,265 |
| Net assets - unrestricted (note A2) | <u>1,656,807</u> |
| Total liabilities and net assets | <u>\$ 5,617,072</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, 2012

| | |
|--|---------------|
| Revenues | |
| Grants (notes A4, E and H) | |
| Governmental | \$ 68,905,477 |
| Other | 172,232 |
| Community based care partnership | 166,000 |
| Contributions - other (note F) | 95,097 |
| Miscellaneous | 8,858 |
| | <hr/> |
| Total revenues | 69,347,664 |
| Expenses | |
| Program | |
| Case management | 31,002,369 |
| Out of home care | 16,098,143 |
| Adoption | 14,978,860 |
| Preservation services | 4,887,548 |
| Total program expenses | 66,966,920 |
| | <hr/> |
| Management and general | 3,038,823 |
| | <hr/> |
| Total expenses | 70,005,743 |
| | <hr/> |
| Change in net assets | (658,079) |
| Net assets at beginning of year | 2,908,104 |
| Transfer of property and equipment (note A6) | (593,218) |
| | <hr/> |
| Net assets at end of year | \$ 1,656,807 |
| | <hr/> |

The accompanying notes are an integral part of this statement.

Hillsborough Kids, Inc.

STATEMENT OF CASH FLOWS

For the year ended June 30, 2012

| | |
|--|----------------------------|
| Cash flows from operating activities | |
| Change in net assets | <u>\$ (658,079)</u> |
| Adjustments to reconcile change in net assets to net cash used by operating activities | |
| Depreciation and amortization | 655,603 |
| Increase in receivables | (642,943) |
| Decrease in other assets | 82,674 |
| Decrease in accounts payable and accrued expenses | (1,364,764) |
| Decrease in refundable advances | <u>(2,147,372)</u> |
| Total adjustments | <u>(3,416,802)</u> |
| Net cash used by operating activities | <u>(4,074,881)</u> |
| Cash flows from investing activities | |
| Purchases of office and computer equipment | <u>(59,283)</u> |
| Net cash used by investing activities | <u>(59,283)</u> |
| Net decrease in cash and cash equivalents | (4,134,164) |
| Cash and cash equivalents at beginning of year | <u>8,812,965</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 4,678,801</u></u> |
| Supplemental disclosures of cash flow information | |
| Cash paid during the year | |
| Interest | <u><u>\$ -</u></u> |
| Taxes | <u><u>\$ -</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, 2012

| | Program Expenses | | | | | | |
|------------------------------------|----------------------|----------------------|----------------------|--------------------------|----------------------|---------------------------|----------------------|
| | Case Management | Out of Home Care | Adoption | Preservation Services | Total | Management and General | Combined Total |
| Salaries, benefits, and taxes | \$ 4,815,319 | \$ - | \$ 72,600 | \$ 541,546 | \$ 5,429,465 | \$ 2,394,178 | \$ 7,823,643 |
| Out of home care payments | 1,297,874 | 15,845,745 | 13,129,715 | 21,038 | 30,294,372 | 24,042 | 30,318,414 |
| Subcontracts | 20,626,009 | 117,849 | 1,533,843 | 4,223,539 | 26,501,240 | - | 26,501,240 |
| Professional/temp/outside service | 1,578,248 | - | 25,526 | 4,979 | 1,608,753 | 241,268 | 1,850,021 |
| Telephone expense | 365,981 | - | 19,230 | 8,294 | 393,505 | 21,537 | 415,042 |
| Office supplies | 66,358 | - | 3,851 | 3,042 | 73,251 | 17,683 | 90,934 |
| Insurance | 828,932 | - | 45,248 | 20,103 | 894,283 | 58,206 | 952,489 |
| Media | 190,057 | 91 | 1,178 | 332 | 191,658 | 12,659 | 204,317 |
| Minor equipment and maintenance | 273,168 | - | 13,078 | 14,150 | 300,396 | 51,245 | 351,641 |
| Occupancy | 607,111 | - | 8,032 | 1,618 | 616,761 | 97,776 | 714,537 |
| Education | 76,798 | - | 1,417 | 1,519 | 79,734 | 21,678 | 101,412 |
| Travel | 17,571 | - | 33 | 6,565 | 24,169 | 2,281 | 26,450 |
| Total expenses before depreciation | 30,743,426 | 15,963,685 | 14,853,751 | 4,846,725 | 66,407,587 | 2,942,553 | 69,350,140 |
| Depreciation | 258,943 | 134,458 | 125,109 | 40,823 | 559,333 | 96,270 | 655,603 |
| Total expenses | <u>\$ 31,002,369</u> | <u>\$ 16,098,143</u> | <u>\$ 14,978,860</u> | <u>\$ 4,887,548</u> | <u>\$ 66,966,920</u> | <u>\$ 3,038,823</u> | <u>\$ 70,005,743</u> |

The accompanying notes are an integral part of this statement.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 accomplished 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 received 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 acted as a pass-through entity for a significant portion of the DCF funding. As a pass-through entity, HKI was responsible for administration of the pass-through funds to the sub-recipient organizations, which is accomplished through their role as the lead agency as described in the DCF contracts.

HKI's contract with DCF to provide the service described above expired on June 30, 2012 and was not renewed. As of July 1, 2012 HKI no longer receives funding from DCF. All costs incurred in July, August and September 2012 related to closing the CBCP activities are accrued at June 30, 2012.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

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

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.

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 \$1,376,000 at June 30, 2012.

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.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

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

Revenues are subject to audit by the grantor and, if the examination results in a disallowance of any expenditure, repayment could be required.

5. Concentrations of Credit Risk

Financial instruments, which potentially subject HKI to concentrations of credit risk, consist principally of cash and cash equivalents. Accordingly, HKI utilizes financial institutions it considers to be at high credit quality.

HKI received a substantial amount of its support from DCF (99% of total revenues for the year ended June 30, 2012). As of July 1, 2012 HKI no longer receives funding from DCF.

6. Property and Equipment

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

The property and equipment of HKI that were originally purchased with support received from DCF was transferred to another unrelated organization at the request of DCF during 2012. Any property and equipment not taken by the unrelated organization was disposed during the year. HKI transferred property and equipment which had a book value at the time of transfer of \$593,218 during the year ended June 30, 2012. Accordingly HKI maintains no property and equipment with any carrying value as of June 30, 2012.

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, 2008 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.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - FUNDS HELD IN TRUST

HKI acted 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, 2012.

HKI no longer acts as a representative payee and as of September 2012 all funds held in trust have been returned to the Social Security Administration.

NOTE C - LINE OF CREDIT AND PURCHASE CARD FACILITY

HKI maintained a \$3,200,000 line of credit with a financial institution through June 30, 2012. Interest on outstanding balances was due monthly at the one month LIBOR rate plus 2.25%. Additionally, HKI maintained 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, 2012. The line of credit and purchase card facility were closed as of June 30, 2012.

NOTE D - 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 \$406,000 for the year ended June 30, 2012.

2. Operating Leases

HKI conducts its operations in leased facilities and also leases certain equipment. All leases are classified as operating leases. As mentioned in note A1, HKI's contract with DCF expired effective June 20, 2012 and was taken over by an unrelated organization. The new organization has assumed responsibility for leases extending beyond June 30, 2012.

Rent expense for the year ended June 30, 2012 was approximately \$560,000.

Hillsborough Kids, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE D – COMMITMENTS – Continued

3. Contingencies

HKI was involved in several legal actions and disputes at June 30, 2012. No actions exist which, in management's opinion, would have a material effect on HKI's financial position.

NOTE E - GOVERNMENTAL GRANT REVENUES

Governmental grant revenues consisted of funds earned from the following tiers of government for the year ended June 30, 2012:

| | |
|----------------|----------------------|
| Federal | \$ 35,285,348 |
| State | 25,801,223 |
| State matching | <u>7,818,906</u> |
| | <u>\$ 68,905,477</u> |

NOTE F - 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 G - MATCHING REQUIREMENTS

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

NOTE H - SUBSEQUENT EVENTS

HKI has evaluated events and transactions occurring subsequent to June 30, 2012 as of December 10, 2012 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, 2012

Hillsborough Kids, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE

For the year ended June 30, 2012

| Federal/State Grantor/Pass-Through Grantor/Program Title | Federal CFDA # or State CSFA # | 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 | \$ 1,131,856 | \$ 1,093,827 |
| Temporary Assistance for Needy Families | 93.558 | QJ00R | 5,652,375 | 2,812,694 |
| Chafee Education and Training Vouchers Program (ETV) | 93.599 | QJ00R | 240,372 | - |
| Adoption Incentive Payments | 93.603 | QJ00R | 585,947 | - |
| Child Welfare Services, State Grants | 93.645 | QJ00R | 803,502 | 560,665 |
| Foster Care - Title IV-E | 93.658 | QJ00R | 14,166,310 | 10,028,289 |
| Adoption Assistance | 93.659 | QJ00R | 7,644,458 | 1,796,001 |
| Social Service Block Grant | 93.667 | QJ00R | 4,263,904 | 3,237,751 |
| Child Abuse and Neglect State Grants | 93.669 | QJ00R | 166,986 | 166,986 |
| Chafee Foster Care Independent Living | 93.674 | QJ00R | 343,230 | 174,730 |
| Medical Assistance Program | 93.778 | QJ00R | 34,387 | - |
| Passed through Kids Central, Inc. | | | | |
| Family Connections Grant | 93.605 | N/A | 252,021 | - |
| Total expenditures of federal awards | | | <u>35,285,348</u> | <u>19,870,943</u> |
| State | | | | |
| <u>Florida Department of Children and Families</u> | | | | |
| Community Based Care Supports | 60.094 | QJ00R | 25,801,223 | 15,433,474 |
| Total expenditures of state financial assistance | | | <u>25,801,223</u> | <u>15,433,474</u> |
| Total expenditures of federal awards and state financial assistance | | | <u>\$ 61,086,571</u> | <u>\$ 35,304,417</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, 2012

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 Florida 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 | \$ 36,840 |
| Chafee Education & Training Vouchers Program (ETV) | 93.599 | QJ00R | 60,093 |
| Child Welfare Services, State Grants | 93.645 | QJ00R | 267,834 |
| Adoption Assistance | 93.659 | QJ00R | 6,534,209 |
| Adoption Assistance (American Recovery and Reinvestment Act) | 93.659 | QJ00R | - |
| Chafee Foster Care Independent Living | 93.674 | QJ00R | 85,807 |
| Medical Assistance Program | 93.778 | QJ00R | 105,150 |
| Block Grants for Community Mental Health Services | 93.958 | QJ00R | <u>728,973</u> |
| Total state funds awarded for matching | | | <u>\$ 7,818,906</u> |

Hillsborough Kids, Inc.

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

June 30, 2012

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 2011-12 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 | \$66,506,084 |
| Add: | |
| Expenditures of state awards received in prior fiscal years and expended in fiscal year 2012 | 2,648,487 |
| Family Connections grant expenditures | 252,021 |
| Less: | |
| Unexpended federal funds returned during fiscal year 2013 | (33) |
| State financial assistance received in fiscal year 2012 that will be returned to state awarding agency | <u>(501,082)</u> |
| Total governmental grant revenues per the financial statements | <u>\$68,905,477</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*

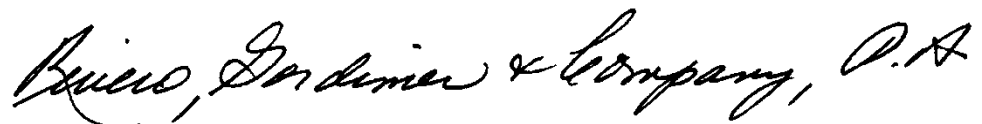
HILLSBOROUGH KIDS, INC.

June 30, 2012

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 "Buco, Gardner & Company, P.A." The signature is written in a cursive, flowing style.

Tampa, Florida
December 10, 2012

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 FLORIDA AUDITOR GENERAL*

HILLSBOROUGH KIDS, INC.

June 30, 2012



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
Herman V. Lazzara Stephen G. Douglas
Marc D. Sasser Michael E. Helton
Richard B. Gordimer, of Counsel

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 FLORIDA 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 U.S. Office of Management and Budget 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 HKI's major federal programs and state projects for the year ended June 30, 2012. 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, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Florida Auditor General*. Those standards, OMB Circular A-133 and Chapter 10.650, *Rules of the Florida 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, 2012.

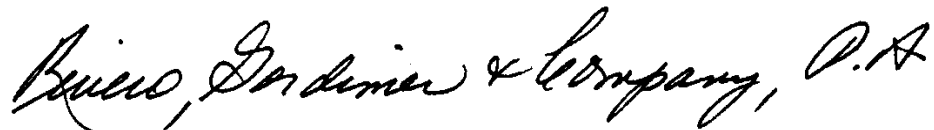
Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program or state project to determine the 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 Florida 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, others within the entity, 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 cursive script that reads "Benicio, Gordinier & Company, P.A." The signature is written in black ink and is positioned to the right of the text "This report is intended solely for the information and use of HKI's management, the Board of Directors, others within the entity, 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 10, 2012

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

HILLSBOROUGH KIDS, INC.

June 30, 2012

Hillsborough Kids, Inc.

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

For the year ended June 30, 2012

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 Florida 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 |
| 93.659 | Adoption Assistance |
| 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, 2012

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>\$1,058,560</u> |
| Dollar threshold used to distinguish between type A and type B state projects | <u>N/A</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, 2012 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, 2012 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, 2012



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
Herman V. Lazzara Stephen G. Douglas
Marc D. Sasser Michael E. Helton
Richard B. Gordimer, of Counsel

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, 2012, and have issued our report thereon, dated December 10, 2012.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, Rules of the Florida Auditor General. We have issued our Independent Auditors’ Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, 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 Florida Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedules, dated December 10, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Florida 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 10, 2012