

KIDS IN DISTRESS, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

June 30, 2012

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AND SUPPLEMENTARY INFORMATION

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**FALKINS & COMPANY**  
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INDEPENDENT AUDITORS' REPORT

Boards of Directors  
Kids In Distress, Inc.

We have audited the accompanying consolidated statement of financial position of Kids In Distress, Inc., (a nonprofit organization) (the "Organization") and its affiliates as of June 30, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The prior year summarized comparative information has been derived from the Organization's June 30, 2011 consolidated financial statements and, in our report dated October 21, 2011, we expressed an unqualified opinion on those consolidated financial statements.

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. 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 consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kids In Distress, Inc. as of June 30, 2012, and the changes in its net assets, and its cash flows 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 October 19, 2012, on our consideration of the Organization's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of the Organization taken as a whole. The accompanying Supplementary Consolidated Schedule of Expenditures of Federal Awards and State Financial Assistance with Notes is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General* and the accompanying Supplementary Consolidating Statements are not a required part of the basic 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 basic consolidated 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 information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
FALKINS & COMPANY

October 19, 2012

KIDS IN DISTRESS, INC.  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
June 30, 2012  
(With Comparative Totals for June 30, 2011)

ASSETS

	2012	2011
ASSETS:		
Cash	\$ 3,074,050	\$ 4,232,364
Investments	5,973,903	5,219,876
Grants and contracts receivable, net	691,550	858,798
Other receivables, net	228,067	36,663
Unconditional promises to give, net	868,860	869,135
Prepaid expenses	142,018	130,768
Other assets	191,443	171,278
Assets restricted for acquisition of land, buildings, and equipment, net	822,500	800,000
Land, buildings, and equipment, net	9,967,503	10,474,383
Assets restricted for endowment purposes, net	740,900	1,020,000
Total assets	\$ 22,700,794	\$ 23,813,265

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable and accrued expenses	\$ 773,789	\$ 789,081
Debt	115,850	132,400
Total liabilities	889,639	921,481
COMMITMENTS		
NET ASSETS:		
Unrestricted	19,832,915	20,737,590
Temporarily restricted	1,237,340	1,134,194
Permanently restricted	740,900	1,020,000
Total net assets	21,811,155	22,891,784
Total liabilities and net assets	\$ 22,700,794	\$ 23,813,265

See accompanying notes to consolidated financial statements

KIDS IN DISTRESS, INC.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012  
(With Comparative Totals for the Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2012	Totals 2011
<b>REVENUES, GAINS, AND OTHER SUPPORT:</b>					
Community Support:					
Contributions	\$ 2,138,006	\$ 667,986	\$ -	\$ 2,805,992	\$ 2,723,292
United Way allocations	56,446	-	-	56,446	115,141
In-kind contributions	475,308	-	-	475,308	524,978
	<u>2,669,760</u>	<u>667,986</u>	<u>-</u>	<u>3,337,746</u>	<u>3,363,411</u>
Governmental grants and contracts	6,107,392	-	-	6,107,392	6,459,988
Medicaid/HMO reimbursements	763,831	-	-	763,831	675,631
Dental clinic revenue	290,416	-	-	290,416	71,738
Investment income net of investment expenses of \$12,719 for 2012 and \$10,362 for 2011	206,974	-	-	206,974	186,423
Other revenues	-	-	-	-	-
Rental income	108,096	-	-	108,096	72,064
Forgiveness of debt	16,550	-	-	16,550	16,550
Gain (loss) on sale of securities	7,928	-	-	7,928	55,714
Unrealized gain (loss) on investments	(135,884)	-	-	(135,884)	649,948
Net assets released from restrictions:					
Provisions for losses on restricted promises to give	176,938	102,162	(279,100)	-	-
Restrictions satisfied by payments	667,002	(667,002)	-	-	-
Total revenues, gains, and other support	<u>10,879,003</u>	<u>103,146</u>	<u>(279,100)</u>	<u>10,703,049</u>	<u>11,551,467</u>
<b>EXPENSES AND LOSSES:</b>					
Program Services:					
KID Crisis Home	1,129,081	-	-	1,129,081	1,049,115
KID Therapeutic Preschools	924,229	-	-	924,229	1,035,099
Family Counseling Clinic	1,532,262	-	-	1,532,262	1,309,417
Supported Foster Care	619,034	-	-	619,034	580,096
Prevention	3,711,370	-	-	3,711,370	3,683,188
Palm Beach Programs	566,400	-	-	566,400	503,968
Dental Clinic	730,734	-	-	730,734	393,215
	<u>9,213,110</u>	<u>-</u>	<u>-</u>	<u>9,213,110</u>	<u>8,554,098</u>
Supporting Services:					
Management and general	1,277,531	-	-	1,277,531	1,074,053
Development and fundraising	1,293,037	-	-	1,293,037	1,166,619
	<u>2,570,568</u>	<u>-</u>	<u>-</u>	<u>2,570,568</u>	<u>2,240,672</u>
Total expenses and losses	<u>11,783,678</u>	<u>-</u>	<u>-</u>	<u>11,783,678</u>	<u>10,794,770</u>
CHANGE IN NET ASSETS	(904,675)	103,146	(279,100)	(1,080,629)	756,697
NET ASSETS, beginning of year	20,737,590	1,134,194	1,020,000	22,891,784	22,135,087
NET ASSETS, end of year	<u>\$ 19,832,915</u>	<u>\$ 1,237,340</u>	<u>\$ 740,900</u>	<u>\$ 21,811,155</u>	<u>\$ 22,891,784</u>

See accompanying notes to consolidated financial statements

KIDS IN DISTRESS, INC.  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2012  
(With Comparative Totals for the Year Ended June 30, 2011)

	Program Services	Supporting Services		Totals 2012	Totals 2011
		Management and General	Development and Fundraising		
Salaries	\$ 4,935,999	\$ 674,410	\$ 511,133	\$ 6,121,542	\$ 5,879,250
Employee health and benefit plans	652,608	122,747	48,462	823,817	714,573
Payroll taxes	425,802	56,964	44,516	527,282	479,897
	<u>6,014,409</u>	<u>854,121</u>	<u>604,111</u>	<u>7,472,641</u>	<u>7,073,720</u>
Bad debts	80,000	-	304,100	384,100	115,176
Conferences, conventions and meetings	11,433	11,714	10,156	33,303	20,936
Depreciation	497,271	47,826	45,872	590,969	466,979
Equipment rent and maintenance	90,628	6,745	19,108	116,481	78,746
Fund-raising	-	-	123,832	123,832	178,701
Insurance	325,003	49,575	5,243	379,821	251,369
Membership dues	1,307	6,011	3,114	10,432	13,574
Miscellaneous	19,328	25,627	24,719	69,674	82,175
Occupancy	268,314	24,720	19,279	312,313	317,194
Postage	4,024	2,569	32,078	38,671	46,945
Printing and publications	12,707	2,531	16,229	31,467	21,640
Professional fees and contract services	647,944	211,190	47,711	906,845	721,451
Specific assistance	209,016	-	-	209,016	235,980
Staff expenses	34,167	2,659	3,651	40,477	105,045
Supplies and office expense	202,201	20,757	13,441	236,399	249,691
Telephone	100,906	7,927	11,469	120,302	131,976
Travel and transportation	262,493	3,354	4,496	270,343	273,849
In-kind expenses:					
Occupancy	61,000	205	-	61,205	61,873
Specific assistance	342,069	-	-	342,069	289,774
Supplies	28,890	-	4,428	33,318	57,976
	<u>9,213,110</u>	<u>1,277,531</u>	<u>1,293,037</u>	<u>11,783,678</u>	<u>10,794,770</u>
Total expenses and losses	\$ 9,213,110	\$ 1,277,531	\$ 1,293,037	\$ 11,783,678	\$ 10,794,770

See accompanying notes to consolidated financial statements

KIDS IN DISTRESS, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2012  
(With Comparative Totals for the Year Ended June 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,080,629)	\$ 756,697
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	590,969	466,979
Bad debt expense	105,000	115,176
Provision for collection losses	279,100	-
Amortization of discount on unconditional promises to give	(9,000)	(25,000)
Amortization of discount on unconditional promises to give restricted for endowment purposes	(25,000)	(10,996)
Amortization of discount on unconditional promises to give restricted for long-term purposes	(23,000)	(26,000)
Unrealized and realized (gains) losses on investments	127,956	(704,959)
Forgiveness of debt	(16,550)	(16,550)
Contributions restricted for long-term and endowment purposes	-	(10,000)
Investment donations	-	(15,680)
(Increase) decrease in assets:		
Grants and contracts receivable	185,746	(75,865)
Other receivables	(289,902)	(11,998)
Unconditional promises to give	9,275	106,285
Prepaid expenses and other assets	(31,415)	(112,679)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(15,292)	194,860
Net cash provided by (used in) operating activities	(192,742)	630,270
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of land, buildings, and equipment	(84,089)	(1,517,849)
Proceeds from sales of investments	2,945,818	1,115,727
Purchases of investments	(3,827,801)	(970,977)
Increase (decrease) in assets restricted for investment in:		
Land, buildings and equipment	500	95,000
Endowment	-	(5,900)
Net cash used in investing activities	(965,572)	(1,283,999)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for acquisition of:		
Investment in endowment	-	5,900
Net cash provided by financing activities	-	5,900
NET DECREASE IN CASH	(1,158,314)	(647,829)
CASH, beginning of year	4,232,364	4,880,193
CASH, end of year	\$ 3,074,050	\$ 4,232,364

See accompanying notes to consolidated financial statements

KIDS IN DISTRESS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012  
(With Comparative Totals for June 30, 2011)

**Note 1 - Nature of Activities and Summary of Significant Accounting Policies**

The following is the nature of activities of Kids In Distress, Inc. ("KID") and its affiliates (the "Organization"), and a summary of significant accounting policies followed by the Organization in the preparation of the accompanying financial statements.

Kids In Distress, Inc. - KID is a nonprofit organization dedicated to the prevention of child abuse, the preservation of the family, and the care and treatment of abused and neglected children in South Florida through its various programs. KID is principally supported by contracts with ChildNet, Inc. (approximately 19% of revenues in 2012 and 2011), Children's Services Council of Broward County, Inc. (approximately 20% of revenues in 2012 and 2011) and other grants and contracts from governmental agencies, as well as contributions from members of the surrounding community (approximately 31% and 30% of revenues in 2012 and 2011, respectively). If a significant reduction in the level of support from governmental agencies were to occur, it could have a material effect on KID's activities.

Consolidated financial statements

These financial statements consolidate the accounts of Kids in Distress, Inc. and its affiliates, as described below. All inter-organization transactions and balances have been eliminated in consolidation.

Kids in Distress Foundation, Inc. (the "Foundation") – Kids in Distress Foundation, Inc. was formed to support KID by providing financial resources, operating and expanding facilities and equipment, and investing funds of KID under a management contract and lease between the two entities. The Foundation is included in consolidation because KID has both an economic interest in and control over the Foundation through a majority voting interest in the governing board of the Foundation.

1776 Independence Hall, LLC – 1776 Independence Hall, LLC, a Florida Limited Liability Company, was formed in a prior year to hold certain real estate to be acquired in the future. The Foundation is its sole member (owner).

Healthcare Solutions, LLC ("Healthcare" or "Kid Dental Clinic") – Healthcare Solutions, LLC, a Florida Limited Liability Company with KID its sole member (owner), was formed during the year ended June 30, 2010 to manage a new dental and optometry program serving children and their families. The clinic commenced operations during the current year.

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Financial Statement Presentation - The Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Dental and Optometry Programs - As described above, Healthcare initiated a program to provide dental and optometry services to children and their families during the current year. It entered into an agreement with Nova Southeastern University ("NSU"), under which NSU will supply licensed dentistry and optometry professionals, and KID will provide management and facilities to deliver these services to children and their families who have often never received this care. NSU is compensated for its services under this agreement.



Revenues from the dental program earned by KID are received principally from insurance programs sponsored by the State of Florida and the United States' Medicaid Program. Patient receivables at June 30, 2012 amounted to approximately \$65,229 (net of allowance for uncollectible accounts of \$80,000 for 2012) and are included in other receivables on the statement of financial position. Revenues from the optometry program earned by KID are received from rent from NSU to operate the program on the KID campus.

Restricted and Unrestricted Contributions - Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from restrictions.

Conditional contributions received are not recorded as contribution revenue until the donor conditions are met. Such amounts are recorded as refundable advances, and will be recognized subsequently as contribution revenue when the donor conditions are met.

Fair Value of Financial Instruments – The Organization estimates that the fair value of all financial instruments at June 30, 2012 and 2011 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying Consolidated Statement of Financial Position.

Cash and Cash Equivalents – For purposes of reporting cash flows, the Organization considers any highly liquid instruments with an initial maturity of three months or less to be cash equivalents. The Organization maintains cash balances at a bank and brokerage firms located within the same geographic region, which may, at times, exceed federally insured limits. The Organization has not experienced any losses on such accounts and does not believe it is exposed to any significant risk with respect to cash and cash equivalents.

Investments – Investments in debt securities and marketable equity securities with readily determinable fair values are reported at their quoted fair market values. Equity securities without readily determinable fair values are stated at cost. Donated marketable securities are recorded as contributions at their estimated fair values at the date of receipt of the donation.

Promises to Give – Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefit received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Land, Buildings, and Equipment – The Organization capitalizes, at cost, all material expenditures for land, buildings and equipment. Donated land, buildings, and equipment are capitalized at the approximate fair market value at the date of the gift. Depreciation is provided by the straight-line method over useful lives of three to thirty years.

Donated Materials and Services – Donated equipment and materials are reflected as in-kind contributions at their estimated value when received. Such contributions are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire land, buildings, and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated and acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

The value of certain donated clothing and other supplies used in the Organization's programs have been estimated and are included in the Consolidated Statement of Activities under the caption "In-kind contributions". Also included under the same caption are donated vendor services, which are recorded at their estimated fair values. No amounts have been reflected in the financial statements for donated services by individuals. The Organization generally pays for services requiring specific expertise. However, a substantial number of volunteers have donated significant amounts of their time to the operations of the Organization and in its fund raising campaigns. The Organization benefits from more than 5,000 volunteer hours per year.

Program Costs – The costs of providing the various programs and other activities have been detailed in the Consolidated Statement of Functional Expenses and summarized on a functional basis in the Consolidated Statement of Activities. Salaries and other expenses which are associated with a specific program are charged directly to that program. Salaries and other expenses which benefit more than one program are allocated to the various programs based on the relative benefit provided. Management and general expenses include those expenses that are not directly identifiable with any other specific function but to provide for the overall support and direction of the Organization.

**Income Taxes** – The Organization is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3). However, income from certain activities not directly related to the Organization’s tax-exempt purpose may be subject to taxation as unrelated business income. Management has reviewed its tax status and determined that there are no significant uncertain tax positions. The Organization’s federal Return of Organization Exempt from Income Tax (Form 990) for 2011, 2010, and 2009 are subject to examination by the IRS, generally for three years after they were filed.

**Reclassifications** – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**Note 2 – Unconditional Promises to Give**

Unconditional promises to give at June 30, 2012 and 2011 for KID consist of the following:

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ 898,259	\$ 1,023,635
Restricted for future operations	202,401	252,500
Restricted to capital expenditures	941,500	992,000
Less valuation allowance	<u>(10,000)</u>	<u>(10,000)</u>
Gross unconditional promises to give	<u>\$ 2,032,160</u>	<u>\$ 2,258,135</u>

Gross unconditional promises to give are expected to be collected over the following periods:

Receivable in less than one year	\$ 507,190	\$ 727,635
Receivable in one to five years	455,000	492,500
Receivable in more than five years	<u>1,069,970</u>	<u>1,038,000</u>
Gross unconditional promises to give	2,032,160	2,258,135
Less discounts to net present value	(390,000)	(447,000)
Less allowance for uncollectible promises to give	<u>(48,800)</u>	<u>(190,000)</u>
Unconditional promises to give, net	<u>\$ 1,593,360</u>	<u>\$ 1,621,135</u>

Net unconditional promises to give are reported under the following categories on the Consolidated Statement of Financial Position:

Unconditional promises to give, net	\$ 868,860	\$ 869,135
Assets restricted for acquisition of land, buildings, and equipment, net (See Note 3)	<u>724,500</u>	<u>752,000</u>
	<u>\$ 1,593,360</u>	<u>\$ 1,621,135</u>

Promises to give which are expected to be collected beyond one year are recognized at fair value using present value techniques and have been discounted at rates ranging from 3.9% to 5.5% when the donor has made an unconditional promise to give to the Organization.

**Note 3 – Assets Restricted for Acquisition of Land, Buildings, and Equipment and Endowment Purposes**

The assets restricted for acquisition of land, buildings, and equipment consists of the following:

The assets restricted for acquisition of land, buildings, and equipment consists of the following:

	<u>2012</u>	<u>2011</u>
Cash	98,000	48,000
Promises to give restricted to capital expenditures, net (See Note 2)	<u>724,500</u>	<u>752,000</u>
	<u>\$ 822,500</u>	<u>\$ 800,000</u>

The assets restricted for endowment purposes consist of the following:

Cash	\$ 740,900	\$ 740,900
Promises to give, (net of allowance for uncollectible promises to give of \$279,100 for 2012)	<u>-</u>	<u>279,100</u>
	<u>\$ 740,900</u>	<u>\$ 1,020,000</u>

**Note 4 – Investments**

Investments at June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Equities and other funds with readily determinable fair values	\$ 5,973,903	\$ 4,992,898
Certificates of deposit	<u>-</u>	<u>226,978</u>
	<u>\$ 5,973,903</u>	<u>\$ 5,219,876</u>

Equities and other funds with readily determinable fair values consist primarily of mutual funds invested in asset classes consisting of U.S., International and Fixed Income Funds in order to achieve a balanced approach to portfolio construction and management in accordance with the Organization's investment policy.

Cash held in brokerage firms amounting to \$391,601 and \$352,644 for 2012 and 2011, respectively, are considered cash equivalents and are included in cash on the Consolidated Statement of Financial Position.

### Note 5 – Fair Value Measurements

Fair values of assets measured on a recurring basis at June 30, 2012 and 2011 are as follows:

	<u>Quoted Prices in Active Markets For Identical Assets (Level 1)</u>
<u>June 30, 2012</u>	
Equities	\$ 5,973,903
Certificates of Deposit	-
Total	<u>\$ 5,973,903</u>
<u>June 30, 2011</u>	
Equities	\$ 4,992,898
Certificates of Deposit	226,978
Total	<u>\$ 5,219,876</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. There were no assets subject to Level 2 or Level 3 fair value measurements at June 30, 2012 and 2011.

### Note 6 – Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,574,091	\$ 2,574,091
Buildings	8,867,161	8,867,161
Building improvements	1,711,866	1,705,505
Furniture and equipment	1,870,921	2,116,012
Transportation equipment	270,913	269,712
	<u>15,294,952</u>	<u>15,532,481</u>
Less accumulated depreciation	5,327,449	5,058,098
	<u>\$ 9,967,503</u>	<u>\$10,474,383</u>

### Note 7 – Debt

In a prior year, the Organization entered into a Consent to and Assignment of Agreement, non-interest bearing Promissory Note, and Mortgage with Broward County, Florida to purchase a building. The loan is to be forgiven over the term of the original loan, at the rate of 5% per year or \$16,550, as long as KID retains title to the property and complies with the terms and conditions of the Agreement. The loan is secured by a mortgage on the property.

**Note 8 – Governmental Grants and Contracts**

Governmental Grants and Contracts consist of the following:

	Term	Amount	Support	
			2012	2011
State of Florida Department of Children and Families				
JH318	07/01/10 - 06/30/11	100,000	\$ -	\$ 100,000
JH318	07/01/11 - 06/30/12	100,000	100,000	-
			<u>100,000</u>	<u>100,000</u>
Broward County, Children's Service Administration Division				
10-CP-CSA-8233-01	10/01/09 - 09/30/10	298,330	-	53,600
09-CSAD-8233-01	10/01/09 - 10/01/10	40,000	-	27,200
11-CPCS-8233-01	10/01/10 - 09/30/11	383,330	31,283	204,967
10-CP-CSA-8233-01	10/01/11 - 09/30/12	383,330	155,100	-
10-CP-CSA-8233-01	10/01/10 - 09/30/11	312,330	29,468	-
10-CP-CSA-8233-01	10/01/10 - 09/30/11	40,000	12,480	-
11-CP-CSA-8233-01	10/01/11 - 09/30/12	104,741	96,114	-
			<u>324,445</u>	<u>285,767</u>
Children's Services Council of Broward County				
KID 07-2217	10/01/09 - 09/30/10	1,532,547	-	427,723
KID 08-2216	10/01/09 - 09/30/10	363,660	-	64,829
KID 10-2219	10/01/09 - 09/30/10	400,000	-	108,960
KID 07-2217	10/01/10 - 09/30/11	1,532,547	356,622	1,145,475
KID 08-2216	10/01/10 - 09/30/11	363,660	85,051	256,296
KID 10-2219	10/01/10 - 09/30/11	400,000	92,321	296,914
KID 08-2216	10/01/11 - 08/31/12	313,295	211,439	-
KID 11-2218	10/01/11 - 09/30/12	489,013	341,998	-
KID 10-2219	10/01/11 - 09/30/12	400,000	272,647	-
KID 11-2210	10/01/11 - 09/30/12	1,086,654	736,987	-
			<u>2,097,065</u>	<u>2,300,197</u>
School Board of Broward County				
	08/21/10 - 05/31/11	299,624	(5,000)	299,624
			<u>(5,000)</u>	<u>299,624</u>
Broward Regional Health Planning Council, Inc.				
Healthy Families Broward				
HFB10-11KID	07/01/10 - 06/30/11	264,812	-	263,094
HFB10-12KID	07/01/11 - 06/30/12	264,812	264,791	-
			<u>264,791</u>	<u>263,094</u>

	Term	Amount	Support	
			2012	2011
HFB10-12KID	07/01/11 - 06/30/12	264,812	264,791	-
			<u>264,791</u>	<u>263,094</u>
Broward Healthy Start Coalition, Inc.				
KIDSC10	07/01/10 - 06/30/11	395,000	-	395,000
KIDSC11	07/01/11 - 06/30/12	420,848	420,873	-
			<u>420,873</u>	<u>395,000</u>
Family Central, Inc.				
General Agreement	07/01/10 - 06/30/11	-	-	188,122
General Agreement	07/01/11 - 06/30/12	-	223,710	-
			<u>223,710</u>	<u>188,122</u>
ChildNet, Inc.				
KID-10-SHL	07/01/10 - 06/30/11	695,920	-	646,109
KID-10-VIS	07/01/10 - 06/30/11	41,356	-	45,660
KID-10-ADP	07/01/10 - 06/30/11	127,000	-	127,000
KID-10-ASM	07/01/10 - 06/30/11	32,913	-	39,996
KID-10-CFS	07/01/10 - 06/30/11	470,454	-	470,437
KID-10-FRS	07/01/10 - 06/30/11	364,289	-	364,289
KID-10-FHM	07/01/10 - 06/30/11	498,738	-	423,653
KID-10-CBA	07/01/10 - 06/30/11	20,000	-	14,000
KID-10-CHC	07/01/10 - 06/30/11	93,142	13,172	61,278
KID-11-SHL	07/01/11 - 06/30/12	661,728	533,721	-
KID-11-VIS	07/01/11 - 06/30/12	43,475	43,475	-
KID-11-ADP	07/01/11 - 06/30/12	127,000	126,528	-
KID-11-ASM	07/01/11 - 06/30/12	39,996	39,996	-
KID-11-CFS	07/01/11 - 06/30/12	470,454	470,434	-
KID-11-FRS	07/01/11 - 06/30/12	364,289	364,289	-
KID-11-FHM	07/01/11 - 06/30/12	555,690	435,546	-
KID-11-CBA	07/01/11 - 06/30/12	20,000	13,000	-
			<u>2,040,161</u>	<u>2,192,422</u>
Palm Beach County				
Child and Family Connection				
RA016-10	07/01/10 - 06/30/11	-	-	63,731
RL002-10	07/01/10 - 06/30/11	-	-	350,894
One on One service	07/01/10 - 06/30/11	-	-	21,137
RL-KID-11	07/01/11 - 06/30/12	-	464,136	-
RA016-10	07/01/11 - 06/30/12	-	167,378	-
RL002-10	07/01/11 - 06/30/12	-	9,833	-
			<u>641,347</u>	<u>435,762</u>
Total governmental grants and contracts			<u>\$ 6,107,392</u>	<u>\$ 6,459,988</u>

**Note 9 – Commitments**

KID leases real property operating facilities from the Foundation under a lease agreement in the amount of \$675,792 and \$581,610 for 2012 and 2011, respectively. KID also leases certain equipment from the Foundation at an annual amount of \$231,612 and \$181,212 for 2012 and 2011, respectively. The effects of these transactions are eliminated in consolidation.

Effective July 1, 1998, KID entered into a management agreement with the Foundation, whereby KID provides investment administration, real estate management, professional fund raising, reporting, and other services to the Foundation for a monthly fee of \$2,000 for 2012 and 2011, which amounted to \$48,000 for 2012 and 2011. The effects of this agreement are eliminated in consolidation.

**Note 10 – Contingencies**

As described in Note 1 to the financial statements, the Organization has a long history of serving the South Florida community in matters involving abused and neglected children through its various programs. From time to time the Organization is presented with lawsuits contending damages to third parties associated with that service. KID believes that for currently pending matters, such claims are without merit, and even in the unlikely event of an unfavorable outcome would be adequately covered by insurance.

**Note 11 – Restrictions On Net Assets**

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2012</u>	<u>2011</u>
Purchase of property and equipment	\$ 822,500	\$ 800,000
For subsequent years' activities	414,840	334,194
	<u>\$ 1,237,340</u>	<u>\$ 1,134,194</u>

**Endowment Funds**

Permanently restricted net assets at June 30, 2012 and 2011 consist of four endowment funds established for Kid residential services. Contributions to the endowment funds are subject to donor restrictions that stipulate the original principal of the gifts are to be held and invested by the Organization indefinitely and income from the funds to be expended for the established purpose of the endowment. Contributions to the endowment funds are classified as permanently restricted net assets. Income from the funds is classified with temporarily restricted net assets until the purpose of the restriction is satisfied. When the purpose of the restriction is met, the net assets are reclassified to unrestricted net assets.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), enacted by the State of Florida on June 22, 2011, as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The donor restricted endowment funds are invested pursuant to the Organization's investment and spending objectives of subjecting the funds to low investment risk and providing the Organization with current income. The Organization generally expends the endowment funds' investment income for the donor-designated purpose.

The composition of the endowment net assets for the funds and changes in endowment net assets as of June 30, 2012 and 2011 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2010	\$ -	\$ 1,009,004	\$ 1,009,004
Contributions	-	10,996	10,996
Investment income	2,511	-	2,511
Net appreciation	-	-	-
Program expenditures	(2,511)	-	(2,511)
Endowment net assets, June 30, 2011	-	1,020,000	1,020,000
Contributions	-	-	-
Investment income	1,569	-	1,569
Net appreciation	-	-	-
Provision for losses	-	(279,100)	(279,100)
Program expenditures	(1,569)	-	(1,569)
Endowment net assets, June 30, 2012	<u>\$ -</u>	<u>\$ 740,900</u>	<u>\$ 740,900</u>

#### **Note 12 – Auxiliary**

The Organizations' volunteer auxiliary is separately incorporated under the name Kids In Distress Auxiliary, Inc. (the "Auxiliary") with the express purpose of raising funds for the benefit of the Organizations. None of the results of operations or accounts of the Auxiliary is included in the accompanying financial statements.

The Auxiliary made contributions to KID in the approximate amount of \$187,000 during the years ended June 30, 2012 and 2011. These amounts are included in Community Support – Contributions on the Consolidated Statement of Activities.

#### **Note 13 – Retirement Plans**

KID sponsors a retirement savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees, and matching contributions are made by the Organization for the first four percent of compensation deferred by participating employees. Plan expense for 2012 and 2011 was approximately \$139,000 and \$ 123,000, respectively.



KID previously adopted a Top Hat Deferred Compensation Plan, which qualifies under Section 457(b) of the Internal Revenue Code, for certain of its employees and independent contractors. The Organization may make contributions to the Plan; however, no amounts were contributed by KID in 2012.

**Note 14 – Matching Requirements**

Some grants require matching of amounts awarded with amounts contributed by other sources. All contractual matching requirements have been met. The Florida Department of Children and Families (Contract #JH318) local grant match requirements for 2012 were met.

**Note 15 – Subsequent Events**

Management has evaluated subsequent events through October 19, 2012, the date which the financial statements were available to be issued.

KIDS IN DISTRESS, INC.  
SUPPLEMENTARY INFORMATION

June 30, 2012

KIDS IN DISTRESS, INC.  
 SUPPLEMENTARY CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 AND STATE FINANCIAL ASSISTANCE WITH NOTES  
 For the Year Ended June 30, 2012

<u>Federal/State Agency, Pass-Through Entity</u>	<u>CFDA CSFA Number</u>	<u>Federal Program/State Project</u>	<u>Contract Grant Number</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through ChildNet, Inc.	93.658	Foster Care - Title IV E	KID-11-FHM KID-11-SHL
Passed through Child and Family Connections, Inc.	93.658	Foster Care - Title IV E	RL-KID-11 RA016-10
		Subtotal Foster Care - Title IV E	
Passed through ChildNet, Inc.	93.667	Social Services Block Grant	KID-11-SHL
Passed through Child and Family Connections, Inc.	93.667	Social Services Block Grant	RA016-10
		Subtotal Social Services Block Grant	
Passed through ChildNet, Inc.	93.556	Promoting Safe and Stable Families	KID-11-FHM KID-11-ADP
Passed through Child and Family Connections, Inc.	93.556	Promoting Safe and Stable Families	RL-KID-11
		Subtotal Promoting Safe and Stable Families	
Passed through ChildNet, Inc.	93.558	Temporary Assistance For Needy Families	KID-11-FHM
Passed through Child and Family Connections, Inc.	93.558	Temporary Assistance For Needy Families	RL-KID-11
		Subtotal Temporary Assistance for Needy Families	
Passed through ChildNet, Inc.	93.659	Adoption Assistance	KID-11-FHM KID-11-VIS
Passed through Child and Family Connections, Inc.	93.659	Adoption Assistance	RL-KID-11
		Subtotal Adoption Assistance	
Passed through ChildNet, Inc.	93.645	Child Welfare Services- State Grants	KID-11-FHM
Passed through Child and Family Connections, Inc.	93.645	Child Welfare Services- State Grants	RL-KID-11
		Subtotal Child Welfare Services State Grants	

<u>Expenditures</u>	<u>Transfer to Subrecipients</u>
\$ 206,890	\$ -
105,036	-
105,918	-
70,495	-
<u>488,339</u>	<u>-</u>
144,926	-
44,264	-
<u>189,190</u>	<u>-</u>
1,222	-
126,528	-
2,218	-
<u>129,968</u>	<u>-</u>
68,218	-
57,290	-
<u>125,508</u>	<u>-</u>
45,689	-
43,475	-
42,015	-
<u>131,179</u>	<u>-</u>
19,184	-
14,479	-
<u>33,663</u>	<u>-</u>

KIDS IN DISTRESS, INC.  
 SUPPLEMENTARY CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE  
 FINANCIAL ASSISTANCE WITH NOTES  
 For the Year Ended June 30, 2012

<u>Federal/State Agency, Pass-Through Entity</u>	<u>CFDA CSFA Number</u>	<u>Federal Program/State Project</u>	<u>Contract Grant Number</u>
Passed through Broward Healthy Start Coalition	93.994	Maternal and Child Health Services Block Grant to the States	KIDSCC-11
Passed through Broward Healthy Start Coalition	93.778	Medical Assistance Program	KIDSCC-11
Passed through ChildNet, Inc.	93.669	Child Abuse and Neglect- State Grants	KID-11-ASM
Passed through the State of Florida Department of Children and Families	93.958	Block Grants for Community Mental Health services	One Services
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			
Passed through ChildNet, Inc.	60.094	Community-Based Care Supports	KID-11-SHL KID-11-ASM KID-11-CFS KID-11FRS KID-11-FHM KID-11-CBA
Passed through Child and Family Connections, Inc.			RL-KID-11 RA016-10
		Subtotal Community-Based Care Supports	
Passed through the State of Florida Department of Children and Families	60.048	Children's Mental Health Community Support Services	JH318
<b>TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE</b>			

<u>Expenditures</u>	<u>Transfer to Subrecipients</u>
<u>33,539</u>	<u>-</u>
<u>184,203</u>	<u>-</u>
<u>4,091</u>	<u>-</u>
<u>540</u>	<u>-</u>
<u>\$ 1,320,220</u>	<u>\$ -</u>
\$ 165,387	\$ -
35,905	-
470,434	-
364,289	-
196,596	-
13,000	-
196,561	-
<u>47,559</u>	<u>-</u>
<u>1,489,731</u>	<u>-</u>
<u>100,000</u>	<u>-</u>
<u>\$ 1,589,731</u>	<u>\$ -</u>

NOTES TO SUPPLEMENTARY CONSOLIDATED SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
For the Year Ended June 30, 2012

**Note 1 – Basis of Presentation**

The accompanying consolidated schedule of expenditures of federal awards and state financial assistance with notes includes the federal grant activity of Kids In Distress, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Curricular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2 – Governmental Grants and Contracts**

All governmental grant and contract revenue was expended during the year.

**Note 3 – Transfers to Subrecipients**

There were no transfers to subrecipients.

KIDS IN DISTRESS, INC.  
SUPPLEMENTARY CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
For the Year Ended June 30, 2012

ASSETS

	Kids In Distress, Inc.	Kids In Distress Foundation, Inc.	Consolidating Adjustments	Consolidated Totals 2012	Consolidated Totals 2011
<b>ASSETS:</b>					
Cash	\$ 650,451	\$ 2,423,599	\$ -	\$ 3,074,050	\$ 4,232,364
Investments	-	5,973,903	-	5,973,903	5,219,876
Grants and contracts receivable	691,550	-	-	691,550	858,798
Other receivables, net	228,067	125,000	(125,000)	228,067	36,663
Unconditional promises to give, net	868,860	-	-	868,860	869,135
Prepaid expenses	142,018	-	-	142,018	130,768
Other assets	191,443	-	-	191,443	171,278
Assets restricted for acquisition of land, buildings, and equipment, net	822,500	-	-	822,500	800,000
Land, buildings, and equipment, net	518,765	9,448,738	-	9,967,503	10,474,383
Assets restricted for endowment purposes, net	-	740,900	-	740,900	1,020,000
<b>Total assets</b>	<b>\$ 4,113,654</b>	<b>\$ 18,712,140</b>	<b>(125,000)</b>	<b>\$ 22,700,794</b>	<b>\$ 23,813,265</b>

LIABILITIES AND NET ASSETS

<b>LIABILITIES:</b>					
Accounts payable and accrued expenses	\$ 890,237	\$ 8,552	\$ (125,000)	\$ 773,789	\$ 789,081
Debt	-	115,850	-	115,850	132,400
<b>Total liabilities</b>	<b>890,237</b>	<b>124,402</b>	<b>(125,000)</b>	<b>889,639</b>	<b>921,481</b>
<b>COMMITMENTS</b>					
<b>NET ASSETS:</b>					
Unrestricted	1,986,077	17,846,838	-	19,832,915	20,737,590
Temporarily restricted	1,237,340	-	-	1,237,340	1,134,194
Permanently restricted	-	740,900	-	740,900	1,020,000
<b>Total net assets</b>	<b>3,223,417</b>	<b>18,587,738</b>	<b>-</b>	<b>21,811,155</b>	<b>22,891,784</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,113,654</b>	<b>\$18,712,140</b>	<b>\$ (125,000)</b>	<b>\$ 22,700,794</b>	<b>\$ 23,813,265</b>



KIDS IN DISTRESS, INC.  
SUPPLEMENTARY CONSOLIDATING STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012

	Kids In Distress, Inc.			Subtotals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS, AND OTHER SUPPORT:</b>				
Community Support:				
Contributions	\$ 2,138,006	\$ 667,986	\$ -	\$ 2,805,992
United Way allocations	56,446	-	-	56,446
In-kind contributions	475,308	-	-	475,308
	<u>2,669,760</u>	<u>667,986</u>	<u>-</u>	<u>3,337,746</u>
Governmental grants and contracts	6,107,392	-	-	6,107,392
Medicaid/HMO reimbursements	763,831	-	-	763,831
Dental clinic revenue	290,416	-	-	290,416
Investment income net of investment expenses of \$12,719 for 2012 and \$10,362 for 2011	1,111	-	-	1,111
Rental income	108,096	-	-	108,096
Other revenues	48,000	-	-	48,000
Forgiveness of debt	-	-	-	-
Gain (loss) on sale of securities	-	-	-	-
Unrealized gain (loss) on investments	(466)	-	-	(466)
Net assets released from restrictions:				
Provisions for losses on restricted promises to give	(102,162)	102,162	-	-
Restrictions satisfied by payments	667,002	(667,002)	-	-
Total revenues, gains, and other support	<u>10,552,980</u>	<u>103,146</u>	<u>-</u>	<u>10,656,126</u>
<b>EXPENSES AND LOSSES:</b>				
Program Services:				
KID Crisis Home	1,163,930	-	-	1,163,930
KID Therapeutic Preschools	979,902	-	-	979,902
KID Infant and Toddler Emergency Shelter	-	-	-	-
Family Counseling Clinic	1,567,983	-	-	1,567,983
Supported Foster Care	636,462	-	-	636,462
Prevention	3,777,566	-	-	3,777,566
Palm Beach Programs	566,956	-	-	566,956
KID Dental Clinic	785,330	-	-	785,330
	<u>9,478,129</u>	<u>-</u>	<u>-</u>	<u>9,478,129</u>
Supporting Services:				
Management and general	1,272,648	-	-	1,272,648
Development and fundraising	1,034,229	-	-	1,034,229
	<u>2,306,877</u>	<u>-</u>	<u>-</u>	<u>2,306,877</u>
Total expenses and losses	<u>11,785,006</u>	<u>-</u>	<u>-</u>	<u>11,785,006</u>
CHANGE IN NET ASSETS	(1,232,026)	103,146	-	(1,128,880)
NET ASSETS, beginning of year	3,218,103	1,134,194	-	4,352,297
Transfer of assets	-	-	-	-
NET ASSETS, end of year	<u>\$ 1,986,077</u>	<u>\$ 1,237,340</u>	<u>\$ -</u>	<u>\$ 3,223,417</u>

See accompanying notes to consolidated financial statements

Kids In Distress Foundation, Inc.

Unrestricted	Temporarily Restricted	Permanently Restricted	Subtotals	Consolidating Adjustments	Consolidated Totals 2012	Consolidated Totals 2011
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,805,992	\$ 2,723,292
-	-	-	-	-	56,446	115,141
-	-	-	-	-	475,308	524,978
-	-	-	-	-	3,337,746	3,363,411
-	-	-	-	-	6,107,392	6,459,988
-	-	-	-	-	763,831	675,631
-	-	-	-	-	290,416	71,738
205,863	-	-	205,863	-	206,974	186,423
907,404	-	-	907,404	(907,404)	108,096	72,064
-	-	-	-	(48,000)	-	-
16,550	-	-	16,550	-	16,550	16,550
7,928	-	-	7,928	-	7,928	55,714
(135,418)	-	-	(135,418)	-	(135,884)	649,948
279,100	-	(279,100)	-	-	-	-
-	-	-	-	-	-	-
1,281,427	-	(279,100)	1,002,327	(955,404)	10,703,049	11,551,467
48,263	-	-	48,263	(83,112)	1,129,081	1,049,115
103,327	-	-	103,327	(159,000)	924,229	1,035,099
-	-	-	-	-	-	-
68,679	-	-	68,679	(104,400)	1,532,262	1,309,417
30,776	-	-	30,776	(48,204)	619,034	580,096
148,892	-	-	148,892	(215,088)	3,711,370	3,683,188
9,248	-	-	9,248	(9,804)	566,400	503,968
94,204	-	-	94,204	(148,800)	730,734	393,215
503,389	-	-	503,389	(768,408)	9,213,110	8,554,098
117,383	-	-	117,383	(112,500)	1,277,531	1,074,053
333,304	-	-	333,304	(74,496)	1,293,037	1,166,619
450,687	-	-	450,687	(186,996)	2,570,568	2,240,672
954,076	-	-	954,076	(955,404)	11,783,678	10,794,770
327,351	-	(279,100)	48,251	-	(1,080,629)	756,697
17,519,487	-	1,020,000	18,539,487	-	22,891,784	22,135,087
-	-	-	-	-	-	-
<u>\$ 17,846,838</u>	<u>\$ -</u>	<u>\$ 740,900</u>	<u>\$ 18,587,738</u>	<u>\$ -</u>	<u>\$ 21,811,155</u>	<u>\$ 22,891,784</u>

KIDS IN DISTRESS, INC.  
SUPPLEMENTARY CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2012

	Program Services					
	KID Crisis Home	KID Therapeutic Preschools	KID Dental Clinic	Family Counseling Clinic	Supported Foster Care	Prevention
<u>Kids In Distress, Inc.</u>						
Salaries	\$ 572,214	\$ 471,320	\$ 132,043	\$1,024,235	\$319,398	\$2,092,860
Employee health and benefit plans	79,717	72,600	17,706	114,928	43,465	285,977
Payroll taxes	50,344	41,654	9,417	86,243	29,071	180,952
	<u>702,275</u>	<u>585,574</u>	<u>159,166</u>	<u>1,225,406</u>	<u>391,934</u>	<u>2,559,789</u>
Bad debts	-	-	80,000	-	-	-
Conferences, conventions and meetings	1,275	1,869	30	939	910	3,315
Depreciation	18,854	5,042	-	8,101	6,636	3,786
Equipment rent and maintenance	10,644	38,313	36,432	32,259	12,272	78,005
Fund-raising	-	-	-	-	-	-
Insurance	54,198	57,411	44,986	36,687	34,679	62,692
Membership dues	83	104	73	125	340	530
Miscellaneous	2,114	1,435	7,831	3,072	619	3,525
Occupancy	146,056	170,898	157,911	104,627	53,155	214,167
Postage	-	80	426	145	1,520	1,296
Printing and publications	1,329	1,287	1,555	2,416	1,779	3,075
Professional fees and contract services	19,058	16,074	216,926	29,869	9,953	346,036
Specific assistance	7,702	1,282	-	-	31,184	162,104
Staff expenses	3,208	3,165	5,046	4,250	7,328	9,433
Supplies and office expense	57,963	41,820	54,320	10,743	6,908	25,174
Telephone	8,373	7,117	6,475	16,389	6,335	45,284
Travel and transportation	16,691	3,062	1,053	63,510	8,698	150,029
In-kind expenses:						
Occupancy	13,000	-	-	-	-	-
Specific assistance	86,018	34,753	13,000	29,155	62,212	106,531
Supplies	15,089	10,616	100	290	-	2,795
	<u>1,163,930</u>	<u>979,902</u>	<u>785,330</u>	<u>1,567,983</u>	<u>636,462</u>	<u>3,777,566</u>
<u>Kids In Distress Foundation, Inc.</u>						
Total expenses and losses	48,263	103,327	94,204	68,679	30,776	148,892
Consolidating adjustments	(83,112)	(159,000)	(148,800)	(104,400)	(48,204)	(215,088)
Total consolidated expenses and losses	<u>\$1,129,081</u>	<u>\$ 924,229</u>	<u>\$ 730,734</u>	<u>\$1,532,262</u>	<u>\$619,034</u>	<u>\$3,711,370</u>

Supporting Services

Palm Beach Programs	Subtotals	Management and General	Development and Fundraising	Subtotals	Totals 2012	Totals 2011
\$ 323,929	\$ 4,935,999	\$ 674,410	\$ 511,133	\$ 1,185,543	\$ 6,121,542	\$ 5,879,250
38,215	652,608	122,747	48,462	171,209	823,817	714,573
28,121	425,802	56,964	44,516	101,480	527,282	479,897
<u>390,265</u>	<u>6,014,409</u>	<u>854,121</u>	<u>604,111</u>	<u>1,458,232</u>	<u>7,472,641</u>	<u>7,073,720</u>
-	80,000	-	25,000	25,000	105,000	115,176
3,095	11,433	11,714	10,156	21,870	33,303	20,936
4,321	46,740	8,749	400	9,149	55,889	74,188
11,450	219,375	20,927	40,376	61,303	280,678	220,366
-	-	-	123,832	123,832	123,832	178,701
34,350	325,003	42,124	5,243	47,367	372,370	243,662
52	1,307	6,011	3,114	9,125	10,432	13,574
735	19,331	24,165	24,719	48,884	68,215	77,651
8,300	855,114	69,216	63,775	132,991	988,105	898,801
557	4,024	2,569	32,078	34,647	38,671	46,945
1,266	12,707	2,531	16,229	18,760	31,467	21,640
10,028	647,944	201,033	47,711	248,744	896,688	712,784
6,744	209,016	-	-	-	209,016	235,980
1,737	34,167	2,659	3,651	6,310	40,477	105,045
5,273	202,201	15,343	13,441	28,784	230,985	245,459
10,933	100,906	7,927	11,469	19,396	120,302	131,976
19,450	262,493	3,354	4,496	7,850	270,343	273,849
48,000	61,000	205	-	205	61,205	61,873
10,400	342,069	-	-	-	342,069	289,774
-	28,890	-	4,428	4,428	33,318	57,976
<u>566,956</u>	<u>9,478,129</u>	<u>1,272,648</u>	<u>1,034,229</u>	<u>2,306,877</u>	<u>11,785,006</u>	<u>11,100,076</u>
9,248	503,389	117,383	333,304	450,687	954,076	505,516
<u>(9,804)</u>	<u>(768,408)</u>	<u>(112,500)</u>	<u>(74,496)</u>	<u>(186,996)</u>	<u>(955,404)</u>	<u>(810,822)</u>
<u>\$ 566,400</u>	<u>\$ 9,213,110</u>	<u>\$ 1,277,531</u>	<u>\$ 1,293,037</u>	<u>\$ 2,570,568</u>	<u>\$ 11,783,678</u>	<u>\$ 10,794,770</u>

**FALKINS & COMPANY**  
PROFESSIONAL ASSOCIATION

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

Boards of Directors  
Kids In Distress, Inc.

We have audited the consolidated financial statements of Kids In Distress, Inc. and its affiliates (a nonprofit organization) (the "Organization") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we have identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and another that we consider to be a significant deficiency.

*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 Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (Finding 2012-1).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned costs to be a significant deficiency (Finding 2012-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of their 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2012-1 and Finding 2012-2.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organizations response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Boards of Directors, the audit committee, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
FALKINS & COMPANY

October 19, 2012

# FALKINS & COMPANY

PROFESSIONAL ASSOCIATION

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR 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

Boards of Directors  
Kids In Distress, Inc.

### Compliance

We have audited the compliance of Kids In Distress, Inc. (a nonprofit organization) (the "Organization") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs and state projects for the year ended June 30, 2012. The Organization's major Federal programs and State projects are identified in the summary of auditors' 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 the Organization's management. Our responsibility is to express an opinion on the Organization'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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether 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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, Kids In Distress, Inc. and Kids In Distress Foundation, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs and State projects for the year ended June 30, 2012.

### Internal Control Over Compliance

Management of Kids In Distress, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs and State projects. In planning and performing our audit, we considered the Organization'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 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 the Organization'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 the Boards of Directors, the audit committee, management, others within the Organization, and 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.

  
FALKINS & COMPANY

October 19, 2012

KIDS IN DISTRESS, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2012

SECTION I – SUMMARY OF AUDITORS RESULTS

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of Kids In Distress, Inc.
2. One material weakness was identified in internal control during the audit of the consolidated financial statements, and a significant deficiency was noted that was not considered to be a material weakness.
3. No material weaknesses or significant deficiencies were identified during the audit of Federal programs or State projects.
4. The auditors' report on compliance with requirements applicable to the major Federal programs and State projects for Kids In Distress, Inc. expresses an unqualified opinion.
5. Our audit disclosed no findings required to be reported related to Federal programs under section 510(a) of OMB Circular A-133, or did our audit disclose any findings related to State projects required to be disclosed under Chapter 10.656 for nonprofit and for-profit organizations.
6. The programs/projects tested as major programs/projects included:

<u>Federal Program</u>	<u>CFDA Number</u>
Foster Care – Title IV E	93.658
<u>State Projects</u>	<u>CSFA Number</u>
Community Bases Care (CBC) Supports	60.094

7. The threshold for distinguishing Types A and B programs/projects was \$300,000 for major Federal programs and \$300,000 for major State projects.
8. Kids In Distress, Inc. was determined to be a low-risk auditee pursuant to OMB Circular A-133.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

Yes

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

None

D. FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECTS

None

E. OTHER ISSUES

See summary of prior audit findings



## SECTION II – FINANCIAL STATEMENT FINDINGS

### Finding 2012-1 Controls over Dental Clinic Credentials

#### **Material Weakness**

Finding: The Organization became aware that many of the dental services it was rendering over an extended period of time during the year may not have been eligible for claim submission to Medicaid. In many cases it was uncertain whether the dental personnel providing the services were properly credentialed. This condition resulted in a review by management several months later to attempt to identify unqualified billings, and a decision to reimburse the Medicaid program \$143,000 for claims it had billed and received, but which might not have been permitted. Although the repayment to Medicaid is expected to be recovered from the dental services provider, oversight and monitoring of the program's regulatory requirements by KID was not sufficient to promptly identify and correct the deficiency to avoid the problem and a possible loss.

Effect: The use of specialized service providers who are not properly credentialed can result in lost revenues to the Organization. Insurance providers such as Medicaid could take more drastic measures in the event of recurring errors such as this.

Recommendation: The Organization should review its control procedures in this area, and enhance the oversight of dental program requirements for credentialing. The clinic should have a list of authorized dentists who will serve as supervisors which can be used to log the presence of appropriate supervisors. In the event credentialed dentists are not present, patient services should cease.

Further, given the regulatory complexity present in this environment, the Organization should also evaluate whether it has the necessary experience and training in its personnel to properly manage dental clinic operations.

Management Response: Management concurs with the finding and recommendation.

KID has restructured the dental operations effective August 2012 to conform with a Practice Management model whereby Healthcare Solutions, LLC contracts directly with the licensed dentist. The Clinic Manager has fifteen years experience in dental clinic operations and is responsible to navigate the regulatory complexities and is the first line manager tasked with the proper management of dental clinic. The Clinic Manager is responsible for validating the credentialed and licensing status of each contracted dentist. The Clinic Manager is also responsible to ensure that each dentist is properly credentialed by Medicaid and/or the respective third party payer prior to billing any services and that only services performed by a fully licensed and credentialed dentist are billed. A credentialing binder is maintained for each dentist to evidence this newly implemented control procedure.

KID intends to restructure the educational model implemented by faculty from a local university to ensure that fully credentialed and licensed university faculty are onsite at all times. This service component of the dental services has been temporarily suspended pending negotiations with the university to resume this model in early 2013. The Practice Management model has operated during the period that the educational model has been suspended thereby ensuring continuity of care.

KID also implemented an executive management level re-organization that introduced a Chief Operating Officer and Vice President of Social Enterprise position. This position is responsible for accounting, finance, preschool operations, dental clinic operations and other strategic initiatives. This position is responsible for supervising the Clinic Manager and in that role is also responsible for proper management of dental clinic operations.

Finding 2012-2 Controls over Medicaid Billing

**Significant Deficiency**

Finding: The Organization did not bill Medicaid for counseling services in a timely manner, and some were not recorded in the books until after year end. Preparation of billings were delayed in some cases by several months. Timely billing for services is an important control to help assure the collection of amounts due and the preparation of accurate financial statements.

Effect: Financial statements could have been misstated as a result the delayed billings, and amounts ultimately collected could have been affected by late claim submission.

Recommendation: A review of the billing system procedure in this area should be made to identify bottlenecks, inefficiencies, and oversight procedures to identify reasons for delays. Procedure to eliminate problems should be improved or reinstated to ensure prompt billing, beginning with the originator of service, submission to accounting of the service reports, and submission of invoices to Medicaid.

Management Response: Management concurs with the finding and recommendation.

KID will introduce semi-monthly billing review sessions effective October 2012 between the Chief Operating Officer/Vice President of Social Enterprise and the Medicaid Billing Specialist to tighten the controls around outstanding claims that remain unpaid as well as address barriers to timely billing to Medicaid and other third party payers. KID has reviewed the circumstances that contributed to this finding and has identified that the internal control concern is limited to the accounting and finance department.

A. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 2011-1 Controls over Dental Clinic Credentials

Finding: The Organization created a new depository account for the opening of its dental clinic in February, 2011, but did not record the account in the general ledger, and accordingly did not reconcile the ledger balance with bank statements through June 30, 2011. The Organization created a journal entry after June 30, 2011 to record the cash balance held by the new account.

Effect: Cash transactions could occur, but not be recorded.

Recommendation: We recommended the bank account should be recorded in the general ledger and be reconciled at least monthly with bank statements and any other corroborating information.

Current Year Status: Management corrected in the current year