

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**KIDS CENTRAL, INC.
OCALA, FLORIDA**

JUNE 30, 2011

**FINANCIAL STATEMENTS
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OCALA, FLORIDA**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kids Central, Inc.
Ocala, Florida

We have audited the accompanying statements of financial position of Kids Central, Inc. (the Corporation), a nonprofit organization, as of and for the year ended June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
Kids Central, Inc.
Ocala, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.



October 19, 2011
Ocala, Florida

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND JUNE 30, 2010
KIDS CENTRAL, INC. - OCALA, FLORIDA

ASSETS

	2011	2010
Current Assets		
Cash and Cash Equivalents	\$ 8,424,060	\$ 7,360,571
Grants and Provider Receivable	18,284	180,315
Unbilled Grants Receivable	657,888	602,365
Prepaid Expenses	339,638	377,071
Total Current Assets	9,439,870	8,520,322
Property and Equipment Temporarily Restricted for Federal and State Programs, Net of Accumulated Depreciation	1,430,803	1,921,200
Noncurrent Assets		
Other Assets	46,084	46,084
Total Noncurrent Assets	1,476,887	1,967,284
Total Assets	10,916,757	10,487,606

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable - Operating	5,184,960	4,648,117
Accrued Payroll and Related Expenses	755,081	625,264
Deferred Revenue	2,956,297	2,852,979
Master Trust Liability	142,427	0
Total Current Liabilities	9,038,765	8,126,360
Long-term Liabilities		
Long-term Debt, Net of Current Portion	0	0
Total Liabilities	9,038,765	8,126,360
Net Assets		
Temporarily Restricted:		
Property and Equipment	1,430,803	1,921,200
Unrestricted:		
Undesignated Net Assets	447,189	440,046
Total Net Assets	1,877,992	2,361,246
Total Liabilities and Net Assets	\$ 10,916,757	\$ 10,487,606

See accompanying notes.

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011 AND JUNE 30, 2010
KIDS CENTRAL, INC. - OCALA, FLORIDA

	2011	2010
Revenues		
State and Federal Revenues		
DCF Contracts:		
DCF Services Contract (PJ H04)	\$ 47,146,697	\$ 47,313,911
Grants - Other	1,422,029	1,916,697
Noncash DCF Contract Revenue	2,375	417,188
Total State and Federal Revenues	48,571,101	49,647,796
Other Revenues		
Donations	87,058	62,760
Interest Income	445	1,444
Contractual Service Revenue	125,827	125,827
Other Revenue	9,941	0
Total Other Revenues	223,271	190,031
Total Revenues	48,794,372	49,837,827
Expenses		
Programs		
Foster Care	2,311,241	2,377,735
Other Out-of-Home Care	2,750,139	2,894,209
Adoption	8,124,586	7,049,225
Case Management	20,412,682	19,605,753
Recruitment and Licensing	1,064,459	1,120,772
Independent Living	2,411,623	2,617,788
Prevention and Intervention	7,297,332	8,389,508
Diversions from Licensed Care	634,614	225,867
Other Grants	1,514,190	2,020,484
Fund-raising	21,091	15,352
Total Programs	46,541,957	46,316,693
Management and General	2,735,669	2,764,017
(Total Expenses)	(49,277,626)	(49,080,710)
Change in Net Assets	(483,254)	757,117
Net Assets, Beginning of Year	2,361,246	1,604,129
Net Assets, End of Year	\$ 1,877,992	\$ 2,361,246

See accompanying notes.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
KIDS CENTRAL, INC. - OCALA, FLORIDA**

Program Expenses						
	Foster Care	Other Out-of- Home Care	Adoption	Case Management	Recruitment and Licensing	Independent Living
Salaries and Benefit Expenses						
Salaries	\$ 0	\$ 0	\$ 142,606	\$ 2,895,302	\$ 675,035	\$ 366,321
Benefits	0	0	28,266	571,889	158,059	88,025
Total Salaries and Benefit Expenses	0	0	170,872	3,467,191	833,094	454,346
Other Expenses						
Out-of-Home Care						
Payments	2,182,882	2,742,922	5,576,298	1,560	0	1,494,802
Contracted Services	9,372	6,011	2,239,903	15,346,432	0	291,216
Flex Funds	0	0	0	17,720	0	0
Staff Recruitment	0	0	0	0	0	0
Training	0	0	1,773	64,304	8,181	12,048
Travel	0	0	4,301	69,891	39,572	19,343
Occupancy and Utilities	0	0	12,629	198,774	61,850	32,837
Telephone and Data Lines	227	0	44,834	217,873	21,235	11,030
Supplies	0	0	331	9,244	2,492	986
Postage	0	0	364	8,664	1,941	1,170
Professional Fees	0	0	12,163	171,725	16,001	11,873
Consultants	0	0	0	215,624	0	0
Insurance	0	0	3,323	70,730	19,068	9,888
Minor Equipment and Maintenance	0	0	2,357	47,820	12,056	6,721
Other Expenses	118,760	1,206	6,286	101,346	19,873	36,644
Total Other Expenses	2,311,241	2,750,139	7,904,562	16,541,707	202,269	1,928,558
Total Expenses Before Depreciation	2,311,241	2,750,139	8,075,434	20,008,898	1,035,363	2,382,904
Depreciation	0	0	49,152	403,784	29,096	28,719
Total Expenses	\$ 2,311,241	\$ 2,750,139	\$ 8,124,586	\$ 20,412,682	\$ 1,064,459	\$ 2,411,623

See accompanying notes.

Program Expenses						
Prevention and Intervention	Diversion from Licensed Care	Other Grants	Fundraising	Total	Management and General	Combined Total
\$ 372,261	\$ 196,092	\$ 383,409	\$ 4,337	\$ 5,035,363	\$ 1,563,453	\$ 6,598,816
87,261	39,468	95,729	520	1,069,217	375,332	1,444,549
459,522	235,560	479,138	4,857	6,104,580	1,938,785	8,043,365
0	17,900	0	0	12,016,364	0	12,016,364
6,512,731	213,760	2,161	0	24,621,586	0	24,621,586
52,799	0	810,129	0	880,648	0	880,648
0	0	0	0	0	485	485
7,685	176	1,591	0	95,758	17,474	113,232
22,164	4,461	27,670	0	187,402	17,894	205,296
39,194	20,920	37,508	0	403,712	99,921	503,633
13,378	6,656	1,370	54	316,657	33,829	350,486
7,930	596	314	11,120	33,013	16,949	49,962
1,465	393	722	0	14,719	4,194	18,913
22,567	5,195	1,003	1,785	242,312	143,729	386,041
5,490	0	147,308	0	368,422	209,039	577,461
11,705	5,951	998	110	121,773	31,033	152,806
9,599	3,897	1,817	294	84,561	34,440	119,001
83,211	111,106	670	2,871	481,973	59,107	541,080
6,789,918	391,011	1,033,261	16,234	39,868,900	668,094	40,536,994
7,249,440	626,571	1,512,399	21,091	45,973,480	2,606,879	48,580,359
47,892	8,043	1,791	0	568,477	128,790	697,267
\$ 7,297,332	\$ 634,614	\$ 1,514,190	\$ 21,091	\$ 46,541,957	\$ 2,735,669	\$ 49,277,626

See accompanying notes.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010
KIDS CENTRAL, INC. - OCALA, FLORIDA**

	Program Expenses					
	Foster Care	Other Out-of- Home Care	Adoption	Case Management	Recruitment and Licensing	Independent Living
Salaries and Benefit Expenses						
Salaries	\$ 0	\$ 0	\$ 86,523	\$ 2,677,492	\$ 688,251	\$ 351,031
Benefits	0	0	16,828	571,830	165,574	84,493
Total Salaries and Benefit Expenses	0	0	103,351	3,249,322	853,825	435,524
Other Expenses						
Out-of-Home Care						
Payments	2,294,393	2,894,006	4,828,293	2,822	0	1,880,803
Contracted Services	2,502	203	1,978,786	14,914,261	800	49,060
Flex Funds	0	0	0	12,811	0	0
Staff Recruitment	0	0	841	2,296	154	0
Training	550	0	3,697	56,763	11,978	12,724
Travel	0	0	2,758	88,041	51,037	23,356
Occupancy and Utilities	0	0	4,523	230,397	67,833	38,822
Telephone and Data Lines	0	0	25,323	192,979	22,673	11,834
Supplies	0	0	31,317	13,990	5,119	3,159
Postage	26	0	212	10,329	2,783	2,074
Professional Fees	0	0	1,463	215,308	23,525	22,912
Consultants	0	0	0	157,128	0	0
Insurance	0	0	1,420	54,664	19,518	8,777
Minor Equipment and Maintenance	0	0	60,440	113,146	16,102	8,740
Other Expenses	80,264	0	606	79,867	17,961	96,501
Total Other Expenses	2,377,735	2,894,209	6,939,679	16,144,802	239,483	2,158,762
Total Expenses Before Depreciation	2,377,735	2,894,209	7,043,030	19,394,124	1,093,308	2,594,286
Depreciation	0	0	6,195	211,631	27,464	23,502
Total Expenses	\$ 2,377,735	\$ 2,894,209	\$ 7,049,225	\$ 19,605,755	\$ 1,120,772	\$ 2,617,788

See accompanying notes.

Program Expenses

Prevention and Intervention	Diversion from Licensed Care	Other Grants	Fundraising	Total	Management and General	Combined Total
\$ 336,187	\$ 0	\$ 332,933	\$ 3,666	\$ 4,476,083	\$ 1,487,083	\$ 5,963,166
79,133	0	63,043	448	981,349	343,732	1,325,081
415,320	0	395,976	4,114	5,457,432	1,830,815	7,288,247
17	15,752	0	0	11,916,086	0	11,916,086
7,586,688	163,796	45	0	24,696,141	1,000	24,697,141
68,266	4,037	1,334,186	0	1,419,300	0	1,419,300
308	0	0	0	3,599	1,328	4,927
9,627	0	1,614	0	96,953	47,612	144,565
25,896	0	9,243	0	200,331	28,642	228,973
44,760	0	20,814	0	407,149	111,118	518,267
14,041	0	2,241	43	269,134	33,775	302,909
8,291	0	738	5,078	67,692	14,432	82,124
3,136	0	504	0	19,064	4,933	23,997
57,549	885	2,081	3,767	327,490	154,428	481,918
8,647	0	242,748	0	408,523	266,242	674,765
10,642	0	1,896	46	96,963	28,635	125,598
11,521	0	5,282	12	215,243	72,423	287,666
93,856	41,397	1,016	2,292	413,760	66,456	480,216
7,943,245	225,867	1,622,408	11,238	40,557,428	831,024	41,388,452
8,358,565	225,867	2,018,384	15,352	46,014,860	2,661,839	48,676,699
30,941	0	2,100	0	301,833	102,178	404,011
\$ 8,389,506	\$ 225,867	\$ 2,020,484	\$ 15,352	\$ 46,316,693	\$ 2,764,017	\$ 49,080,710

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011 AND JUNE 30, 2010
KIDS CENTRAL, INC. - OCALA, FLORIDA

	2011	2010
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	\$ (483,254)	\$ 757,117
Adjustments to Reconcile Change in Net Assets to Net		
Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	697,267	404,011
In-Kind Contributions Property and Equipment	0	(399,511)
Changes in Assets - Decrease (Increase) and Liabilities -		
Increase (Decrease):		
Grants Receivable	162,031	(154,762)
Unbilled Grants Receivable	(55,523)	(184,932)
Prepaid Expenses	37,433	282,562
Accounts Payable	536,843	362,298
Accrued Payroll and Payroll Taxes	129,817	131,044
Deferred Revenue	103,318	(319,649)
Master Trust Liability	142,427	0
Net Cash Provided by (Used in) Operating Activities	1,270,359	878,178
Cash Flows from Investing Activities		
Purchase of Property and Equipment	(206,870)	(641,470)
Net Cash Provided by (Used in) Investing Activities	(206,870)	(641,470)
Net Increase (Decrease) in Cash and Cash Equivalents	1,063,489	236,708
Cash and Cash Equivalents, Beginning of Year	7,360,571	7,123,863
Cash and Cash Equivalents, End of Year	\$ 8,424,060	\$ 7,360,571
<u>Supplemental Data for Noncash Investing and Financing Activities:</u>		
In-Kind Contributions of Property and Equipment	\$ 0	\$ 399,511

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
KIDS CENTRAL, INC. - OCALA, FLORIDA

Note 1 - Summary of Significant Accounting Principles

Organization

Kids Central, Inc. (the Corporation), is a not-for-profit organization organized under the laws of the State of Florida; receiving most of its revenue from state and federal funds. The Corporation formed March 22, 2002, pursuant to the Florida Not-for-Profit Organization Act, Chapter 617, Florida Statutes. The Corporation is a community based care agency that serves as a lead agency in the privatization of foster care services in accordance with Section 409.1671 of the Florida Statutes in Marion, Lake, Citrus, Sumter, and Hernando Counties, Florida. The services provided as a lead agency include:

- Providing Child Protection and Welfare Services to Children
- Procuring the Following Items on Behalf of Children: Foster Care, Emergency Shelter, and Group Home Care
- Helping Abused, Neglected, and Abandoned Children
- Providing Community Education About the Needs and Issues of Children

The Corporation is governed by a Board of Directors made up of individuals who are nominated by a nominating committee and elected by the Board of Directors.

Basis of Accounting

The Corporation follows standards of accounting and financial reporting prescribed for nonprofit organizations. It uses the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred. Federal, state, and local government grants are recorded as support when performance occurs under the terms of the grant agreement. Revenues are recorded based upon the earlier of when costs are eligible to be billed or eligible expenses are incurred.

Financial Statement Presentation

Net assets of the Corporation and changes therein are classified and reported as follows:

- **Unrestricted Net Assets**—Net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets**—Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Corporation and/or the passage of time.

Recognition of Donor—Restricted Contributions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Under this premise the Corporation accounts for its funding from the Florida Department of Children and Families (DCF) as one unrestricted function.

Property and Equipment

The Corporation capitalizes all property and equipment with a cost of greater than \$1,000 and an estimated useful life exceeding one year.

NOTES TO FINANCIAL STATEMENTS
KIDS CENTRAL, INC. - OCALA, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Principles (Continued)

Property and Equipment (Concluded)

Property and equipment, consisting of office furniture, equipment, and software, are recorded at cost if purchased or fair value if donated and depreciated over their estimated useful lives of three to seven years using the straight-line method. Vehicles are recorded at cost and depreciated over their estimated useful lives of seven years using the straight-line method. Repairs and maintenance are expensed as incurred.

Title to property and equipment purchased with DCF funds vest with the DCF upon completion or termination of DCF contracts.

Grants Receivable and Accounts Receivable

Receivables are recorded by the Corporation for funds to be received from various federal and state grants as revenues are earned. An allowance for uncollectible receivables has not been recorded, as all amounts are deemed collectible. It is the Corporation's policy to charge-off uncollectible accounts receivable when management determines the receivable will not be collected.

Donated Space, Supplies, and Services

In accordance with Accounting Standards Codification (ASC) 958-605-50-1, *Contributions of Services*, shall be recognized if the services received: (a) create or enhance nonfinancial assets; or (b) require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized.

Certain federal and state grants require matching contributions from the community and the receiving entity. The Corporation treats the matching contributions provided to sub-recipients as matching contributions received by the Corporation. In some instances federal grant matching contribution requirements are met with state funding.

Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes.

The Corporation files income tax returns in the U.S. federal and state jurisdictions. With few exceptions, the Corporation is no longer subject to U.S. federal, state, and local, or non-U.S. income tax examinations by tax authorities before 2007.

Cash and Cash Equivalents

Cash and cash equivalents consist solely of demand accounts in the name of the Corporation. Funds held at year-end and at various times during the year exceeded the limits under the Federal Deposit Insurance Corporation.

NOTES TO FINANCIAL STATEMENTS
KIDS CENTRAL, INC. - OCALA, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Principles (Concluded)

Deferred Revenues

The Corporation receives advanced funding through the year from DCF. The unearned portion of those funds is classified as deferred revenues. Unexpended federal grant funds held at the end of the year are required to be returned to DCF.

Accounting Estimates

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

Evaluation of Subsequent Events

The Corporation has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through October 19, 2011, the date the financial statements were available to be issued.

Statement of Functional Expenses

The Corporation incurs costs that are directly or indirectly allocable to its programs. These costs and their allocations have been reported in the statement of functional expenses. Direct costs are allocated directly to the programs through the Corporation's account coding function. Indirect costs are allocated to the programs based on one of the following methodologies: 1) number of full-time equivalent (FTE) positions; 2) number of actual employees; 3) by individual employee; or 4) by the number of children served in the program. The allocations are in accordance with the annual Cost Allocation Plan (CAP) prepared by the Corporation and approved by the DCF.

Note 2 - Property and Equipment

The following is a schedule of property and equipment owned by the Corporation:

	Balance at 06/30/11
Furniture and Equipment	\$ 2,807,822
Vehicles	942,269
(Accumulated Depreciation)	(2,319,288)
Property and Equipment, Net of Accumulated Depreciation	\$ 1,430,803
	Balance at 06/30/10
Furniture and Equipment	\$ 2,613,311
Vehicles	929,909
(Accumulated Depreciation)	(1,622,020)
Property and Equipment, Net of Accumulated Depreciation	\$ 1,921,200

Total depreciation expense for all property and equipment as of June 30, 2011 and 2010, was \$697,267 and \$404,011 respectively.

NOTES TO FINANCIAL STATEMENTS
KIDS CENTRAL, INC. - OCALA, FLORIDA
(Continued)

Note 3 - Property and Equipment Temporarily Restricted for Federal and State Programs

The Corporation owns property and equipment whose acquisition has been funded by various federal and state programs. The use, removal, or replacement of this property and equipment is controlled by the granting agency and title may revert back to the agency in the event the activities of the program are prematurely terminated. The Corporation, as custodian of the property and equipment, maintains the property and equipment as a temporarily restricted net asset where use is restricted for the programs for which it was acquired. All equipment held by the Corporation is considered temporarily restricted.

Note 4 - Short-term Debt

Lines of Credit

The Corporation has one line of credit payable which may be used for operating purposes with no outstanding balance as of June 30, 2011. The Corporation has an available \$500,000 of unadvanced funds available on the approved line of credit with Wells Fargo.

Note 5 - Operating Leases

The Corporation has a noncancelable operating lease for office space through January 31, 2013. The office space rental agreement is renewable at the end of the agreement. The noncancelable operating lease is scheduled as follows:

<u>Description</u>	<u>6/30/11 Lease Expense</u>	<u>Future Minimum Lease Payments</u>					<u>Totals</u>
		<u>6/30/12</u>	<u>6/30/13</u>	<u>6/30/14</u>	<u>6/30/15</u>	<u>6/30/16</u>	
Office Space	\$ 413,245	\$ 402,000	\$ 234,500	\$ 0	\$ 0	\$ 0	\$ 636,500
Totals	<u>\$ 413,245</u>	<u>\$ 402,000</u>	<u>\$ 234,500</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 636,500</u>

Note 6 - Defined Contribution Pension Plan

The Corporation has a 401(k) defined contribution pension plan covering substantially all employees. This plan is the Kids Central, Inc. 401(k) Retirement Plan (the Plan). The Plan is administered by the Corporation and its trustees are the Corporation's Board of Directors. Authority to amend the Plan rests with the trustees. The matching contribution was 100% of each participant's contribution, up to 4% of each participating employee's compensation. Employees are immediately vested in the contributions to the Plan. Employer contributions, net of forfeitures (pension expense), to the Plan during the fiscal years ended June 30, 2011 and 2010, was \$150,924 and \$126,159, respectively.

Note 7 - Concentrations

The Corporation receives approximately 97% of its support from DCF (including federal portion). A significant reduction in the level of this support, if this were to occur, may have an effect on the Corporation's programs and activities. A new contract with DCF was signed on July 1, 2011, and extends through June 30, 2016.

NOTES TO FINANCIAL STATEMENTS
KIDS CENTRAL, INC. - OCALA, FLORIDA
(Concluded)

Note 8 - Contingencies and Commitments

Contingencies

Grants require the fulfillment of certain conditions set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to grantors. Although this is a possibility, the Board of Directors deems the contingency remote, since by accepting the grants and their terms it has accommodated the objectives of the Corporation to the provisions of the grants.

The Corporation has received from various parties, letters of intent to file lawsuits to which the Corporation would be named as a defendant. The Corporation is not aware that any of these parties has filed a lawsuit and the attorney for these matters is unable to conclude the likelihood of an adverse outcome is probable or remote.

Note 9 - Related Parties

The Corporation made payments of \$385,384 and \$2,600,242 to Marion County Children's Alliance (the Alliance) for various program services during the years ended June 30, 2011 and 2010, respectively. During 2011, these funds were used by the Alliance for general business operations, afterschool programs, and holiday programs. In 2010, \$2,255,045 of these funds were utilized by the Alliance to procure after school, summer, spring break, and holiday programs for children by various providers. A member of the Corporation's Board of Directors is the Executive Director for the Alliance.

During 2006, the Corporation became a limited partner in the Community Based Care Partnership, Inc. (the Partnership), for the purpose of bidding on the State of Florida's Child Welfare Prepaid Mental Health Plan. The Partnership was ultimately awarded the agreement, and the Corporation, as limited partners, entered into a prepaid, capitated agreement with the Partnership beginning June 1, 2007. The Corporation provided child welfare mental health services under the contract during the years ended June 30, 2011 and 2010, recognizing revenue of \$125,827 both years.

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*,
ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED
STATES; THE PROVISIONS OF OFFICE OF MANAGEMENT
AND BUDGET (OMB) CIRCULAR A-133 AND CHAPTER 10.650,
*RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA***

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

Board of Directors
Kids Central, Inc.
Ocala, Florida

We have audited the financial statements of Kids Central, Inc. (the Corporation), a nonprofit organization, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our audit 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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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

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

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
Kids Central, Inc.
Ocala, Florida

**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*
(*Concluded*)**

Compliance and Other Matters

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

We noted certain matters that we have reported to the management of the Corporation in a separate management letter dated October 19, 2011.

This report is intended solely for the information and use of the Board of Directors, management, 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.

Purvis, Gray and Company, LLP

October 19, 2011
Ocala, Florida

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

Board of Directors
Kids Central, Inc.
Ocala, Florida

Compliance

We have audited Kids Central, Inc.'s (the Corporation), compliance with the types of compliance requirements described in the 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 Corporation's major federal programs and state projects for the year ended June 30, 2011. The Corporation'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 Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General*. Those standards, OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or the state project occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we consider 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 Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended June 30, 2011.

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Board of Directors
Kids Central, Inc.
Ocala, Florida

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

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance 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, 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 weakness. 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 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 those specified parties.

Purris, Gray and Company, LLP

October 19, 2011
Ocala, Florida

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2011
KIDS CENTRAL, INC. - OCALA, FLORIDA**

Grantor/Pass-Through Agency Program Title	CFDA/CFSA Number	Contract Number	Expenditures	Amounts Awarded to Subrecipients
<u>Federal Awards</u>				
U.S. Department of Health and Human Services Passed Through State of Florida Department of Children and Families:				
Promoting Safe and Stable Families Temporary Assistance for Needy Families (TANF)	93.556	PJH04	\$ 804,048	\$ 737,014
Grants to States for Access and Visitation Programs	93.558	PJH04	3,788,397	2,389,206
Chafee Education and Training Vouchers Program (ETV)	93.597	PJH04	43,475	43,533
Child Welfare Services	93.599	PJH04	70,800	0
Foster Care (Title IV-E)	93.645	PJH04	596,866	446,328
Foster Care (Title IV-E)	93.658	PJH04	8,140,670	4,999,839
Foster Care (Title IV-E)	93.658-ARRA	PJH04	832,692	0
			<u>8,973,362</u>	<u>4,999,839</u>
Adoption Assistance (Title IV-E)	93.659-ARRA	PJH04	382,757	0
Adoption Assistance (Title IV-E)	93.659	PJH04	3,619,407	1,002,529
			<u>4,002,164</u>	<u>1,002,529</u>
Social Service Block Grant	93.667	PJH04	1,562,500	0
Child Abuse Neglect State Grant	93.669	PJH04	155,321	172,973
Adoption Incentive Payments	93.603	PJH04	224,384	0
Chafee Foster Care Independence Program	93.674	PJH04	362,050	141,754
Medical Assistance Program	93.778	PJH04	42,764	0
U.S. Department of Health and Human Services Passed Through Administration of Children and Families				
Family Connection Grant	93.605	90-CF-0026	480,361	0
U.S. Department of Housing and Urban Development Passed Through State of Florida Department of Children and Families				
Homeless Prevention and Rapid Re-Housing Program	14.257-ARRA	PFZ04	912,755	0
Total Federal Awards			<u>22,019,247</u>	<u>9,933,176</u>
<u>State Financial Assistance</u>				
State of Florida Department of Children and Families				
Community Based Care - (CBC) Supports	60.094	PJH04	\$ 22,759,299	\$ 12,066,176
Total State Financial Assistance			<u>22,759,299</u>	<u>12,066,176</u>
Total Federal Awards and State Financial Assistance			<u>\$ 44,778,546</u>	<u>\$ 21,999,352</u>

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2011
KIDS CENTRAL, INC. - OCALA, FLORIDA**

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal state grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARD
PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
KIDS CENTRAL, INC. - OCALA, FLORIDA**

1. **Summary of Audit Results**

I. Type of Audit Report Issued on Financial Statements

Unqualified Opinion

II. Significant Deficiencies in Internal Control

Audit disclosed no instances of significant deficiencies in internal control or significant deficiencies which were material weaknesses in internal control.

III. Noncompliance Material to Audited Financial Statements

Audit disclosed no material instances of noncompliance.

IV. Significant Deficiencies and/or Material Weaknesses in Internal Control Over Major Federal Award Programs and State Financial Assistance Projects

Audit disclosed no instances of significant deficiencies or significant deficiencies which were material weaknesses in internal control over major federal award programs and state financial assistance projects.

V. Type of Audit Report Issued on Compliance with Requirements Applicable to Major Federal Awards Programs and State Financial Assistance Projects

Unqualified Opinion

VI. Audit Findings Relative to Section .510(a) of OMB Circular A-133, and Chapter 10.650, *Rules of the Auditor General*

Audit disclosed no audit finding on federal programs and state financial assistance projects relative to Section .510(a) of OMB Circular A-133, and Chapter 10.650, *Rules of the Auditor General*.

VII. Major Federal Program and Major State Financial Assistance Project

Federal Program:

- U.S. Department of Health and Human Services:
 - Temporary Assistance for Needy Families (TANF)—CFDA No. 93.558
 - Social Services Block Grant—CFDA No. 93.667
 - Child Welfare Services—CFDA No. 93.645
 - Homeless Prevention and Rapid Re-Housing Program—CFDA No. 14.257 - ARRA

State Assistance Project:

- State of Florida Department of Children and Families:
 - Community Based Care Supports—CSFA No. 60.094

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARD
PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
KIDS CENTRAL, INC. - OCALA, FLORIDA
(Concluded)**

1. **Summary of Audit Results (Concluded)**

VIII. **Dollar Threshold Used to Distinguish Between Type A and Type B Federal Programs/State Assistance Projects**

\$660,577 for federal programs and \$682,779 for state assistance projects.

IX. **Auditee Qualification as Low-risk Auditee**

The auditee does qualify as a low-risk auditee per the criteria set forth in Section .530 of OMB Circular A-133. This does not apply to state financial assistance projects.

2. **Findings Related to the Financial Statements Required to be Reported Under Generally Accepted Government Auditing Standards (GAGAS)**

The audit disclosed no findings which were required to be reported under GAGAS.

3. **Findings and Questioned Costs for Major Federal Programs and State Financial Assistance Projects**

The audit disclosed no findings and question costs for the major federal programs and state financial assistance projects, listed above.

4. **Prior Audit Findings**

There were no prior year audit findings.

MANAGEMENT LETTER

Board of Directors
Kids Central, Inc.
Ocala, Florida

We have audited the financial statements of Kids Central, Inc. (the Corporation), as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated October 19, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our independent auditors' report on internal control over financial reporting and compliance and other matters, independent auditors' report on compliance with requirements applicable to each major federal program and state project and on internal control over compliance, and schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated October 19, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, *Rules of 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 have occurred, or are likely to have occurred; and (2) deficiencies in internal control that are not significant deficiencies. Our audit disclosed no matters that are required to be disclosed.

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 of Kids Central, Inc. and management, the Florida Auditor General, and the State of Florida Department of Children and Families, and is not intended and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

October 19, 2011
Ocala, Florida

Certified Public Accountants

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