



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B33867

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

May 7, 2008

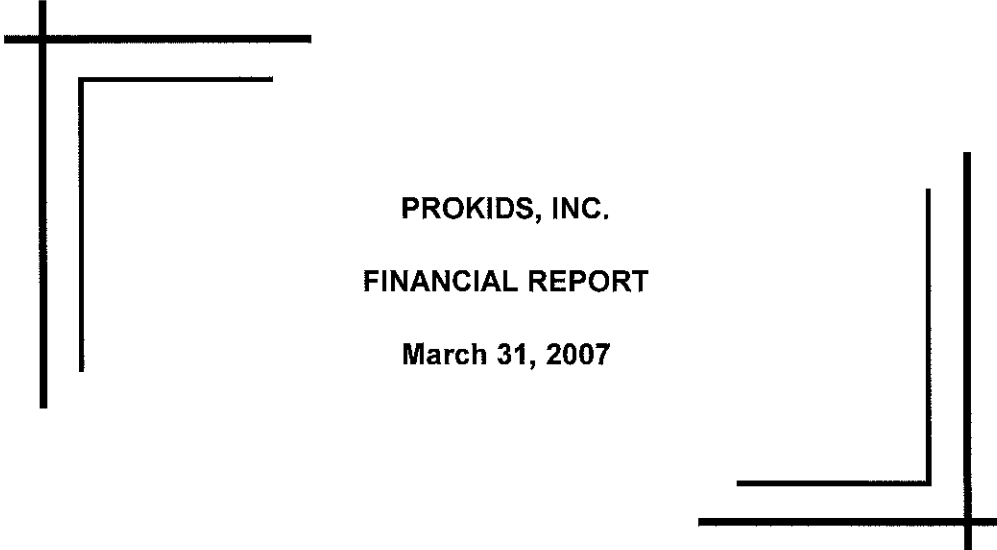
Board of Directors
Prokids, Inc.
2511 East 46th St., Ste. E-1
Indianapolis, IN 46205

We have reviewed the audit report prepared by R J Pile, LLC, Independent Public Accountants, for the period April 1, 2006 to March 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Prokids, Inc., as of March 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. Pages 24 through 27 contain three current audit findings. Management's corrective action plan is included in a separate letter.

STATE BOARD OF ACCOUNTS



PROKIDS, INC.
FINANCIAL REPORT
March 31, 2007

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	3
FINANCIAL STATEMENTS:	
Balance Sheets	4
Statements of Activities	5 - 6
Statements of Functional Expenses	7 - 10
Statements of Cash Flows	11
Notes to Financial Statements	12 - 16
REPORTS AND SCHEDULES IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133:	
Schedule of Expenditures of Federal Awards	17
Notes to the Schedule of Expenditures of Federal Awards	18
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	19 - 20
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	21 - 22
Schedule of Findings and Questioned Costs	23 - 28
Schedule of Prior Audit Findings and Questioned Costs	29



savvy - astute, knowledgeable, intuitive, proficient

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
ProKids, Inc.
Indianapolis, Indiana

We have audited the accompanying statement of financial position of ProKids, Inc. (a nonprofit organization) as of March 31, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 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 financial statements referred to above present fairly, in all material respects, the financial position of ProKids, Inc. as of March 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2007 on our consideration of ProKids, Inc.'s internal control over financial reporting, and on 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of ProKids, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards 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 is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

RJPile, LLC

Indianapolis, Indiana
December 11, 2007

PROKIDS, INC

BALANCE SHEETS

March 31, 2007 and 2006

	<u>2007</u>	<u>Restated 2006</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 350,649	\$ 241,221
Grants receivable	244,409	271,848
Other receivables	7,044	2,850
Prepaid rent	25,753	-
Prepaid postage	3,560	4,000
	<u>631,415</u>	<u>519,919</u>
TOTAL CURRENT ASSETS		
 <u>PROPERTY AND EQUIPMENT</u>		
Office equipment	246,113	188,499
Office furniture	129,430	51,695
Leasehold improvements	29,017	12,548
	<u>404,560</u>	<u>252,742</u>
Less: accumulated depreciation	(155,990)	(114,067)
	<u>248,570</u>	<u>138,675</u>
 <u>OTHER ASSETS</u>		
Deposits	1,500	1,500
	<u>1,500</u>	<u>1,500</u>
TOTAL ASSETS		
	<u>\$ 881,485</u>	<u>\$ 660,094</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 34,639	\$ 24,967
Salaries & wages payable	54,605	25,118
FSSA funds payable, current portion	14,707	-
	<u>103,951</u>	<u>50,085</u>
TOTAL CURRENT LIABILITIES		
 <u>LONG-TERM LIABILITIES</u>		
FSSA funds payable, less current portion	<u>102,945</u>	<u>83,845</u>
 <u>NET ASSETS</u>		
Unrestricted	411,114	283,285
Temporarily restricted	263,475	242,879
	<u>674,589</u>	<u>526,164</u>
TOTAL NET ASSETS		
TOTAL LIABILITIES AND NET ASSETS		
	<u>\$ 881,485</u>	<u>\$ 660,094</u>

See Notes to Financial Statements.

PROKIDS,

STATEMENTS OF
Years ended March 31,

	2007		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>			
Grants - federal	\$ 3,054,098	\$ 195,500	\$ 3,249,598
Grants - other	-	-	-
Conferences	-	135,469	135,469
Contributions	2,000	5,260	7,260
Interest income	9,148	-	9,148
Supervision exemption fees	-	-	-
TOTAL SUPPORT AND REVENUE BEFORE RELEASE OF NET ASSETS FROM RESTRICTIONS	3,065,246	336,229	3,401,475
<u>NET ASSETS RELEASED FROM RESTRICTION</u>			
Purpose - restricted contributions	315,633	(315,633)	-
TOTAL SUPPORT AND REVENUE	3,380,879	20,596	3,401,475
<u>EXPENSES</u>			
Program expenses:			
Central Indiana Cluster 12	2,698,685	-	2,698,685
Focused Monitoring/Quality Review	105,307	-	105,307
Unified Training System	287,863	-	287,863
Total program expenses	3,091,855	-	3,091,855
General and administrative expenses	157,635	-	157,635
Fundraising	3,560	-	3,560
TOTAL EXPENSES	3,253,050	-	3,253,050
CHANGE IN NET ASSETS	127,829	20,596	148,425
<u>NET ASSETS</u>			
Beginning of year	283,285	242,879	526,164
Prior period adjustment	-	-	-
Beginning of year - restated	283,285	242,879	526,164
End of year	\$ 411,114	\$ 263,475	\$ 674,589

See Notes to Financial Statements.

INC.

ACTIVITIES

2007 and 2006

<u>2006 Restated</u>		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 1,500,791	\$ 168,651	\$ 1,669,442
-	-	-
-	155,992	155,992
2,634	9,399	12,033
6,113	-	6,113
<u>-</u>	<u>(125)</u>	<u>(125)</u>
1,509,538	333,917	1,843,455
<u>311,966</u>	<u>(311,966)</u>	<u>-</u>
<u>1,821,504</u>	<u>21,951</u>	<u>1,843,455</u>
1,232,461	-	1,232,461
138,988	-	138,988
<u>272,500</u>	<u>-</u>	<u>272,500</u>
1,643,949	-	1,643,949
99,212	-	99,212
<u>3,560</u>	<u>-</u>	<u>3,560</u>
<u>1,746,721</u>	<u>-</u>	<u>1,746,721</u>
<u>74,783</u>	<u>21,951</u>	<u>96,734</u>
263,224	219,530	482,754
<u>(54,722)</u>	<u>1,398</u>	<u>(53,324)</u>
<u>208,502</u>	<u>220,928</u>	<u>429,430</u>
<u>\$ 283,285</u>	<u>\$ 242,879</u>	<u>\$ 526,164</u>

PROKIDS,

STATEMENT OF

Year ended

	<u>Central Indiana Cluster G</u>	<u>Focused Monitoring Quality Review</u>	<u>Unified Training System</u>
Bank service charges	\$ -	\$ -	\$ 35
Conference expense	2,158	-	6,124
Contract services	17,293	-	53,390
Depreciation	41,412	652	8,309
Disability expense	16,547	1,149	999
Dues and subscriptions	669	-	-
Equipment expense	6,192	-	606
General insurance	130	-	-
Health insurance	143,979	1,244	9,973
Loss on disposition of assets	4,105	-	-
Maintenance agreements	8,739	-	-
Materials and supplies	92,016	673	28,693
Miscellaneous expense	84	-	3,226
Other grant expense	11,022	-	50
Other outside services	7,606	-	-
Payroll service	-	-	-
Payroll taxes	139,981	6,429	9,699
Pension expense	39,428	3,838	4,386
Postage	28,621	438	1,139
Professional fees	-	-	-
Rent and utilities	76,688	1,420	21,745
Salaries	1,925,018	86,283	126,223
Stipend	5,000	-	-
Telephone	31,368	540	2,060
Travel	97,706	2,433	10,374
Workers Compensation	<u>2,923</u>	<u>208</u>	<u>832</u>
	<u>\$ 2,698,685</u>	<u>\$ 105,307</u>	<u>\$ 287,863</u>

See Notes to Financial Statements.

INC.

FUNCTIONAL EXPENSES

March 31, 2007

<u>General and Administrative</u>	<u>Fund Raising</u>	<u>2007 Total</u>
\$ 375	\$ -	\$ 410
-	-	8,282
-	-	70,683
2,275	-	52,648
1,599	-	20,294
1,054	-	1,723
-	-	6,798
9,111	-	9,241
5,592	180	160,968
-	-	4,105
3,500	-	12,239
5,401	-	126,783
214	-	3,524
-	-	11,072
-	-	7,606
2,237	-	2,237
7,273	230	163,612
4,773	150	52,575
425	-	30,623
13,353	-	13,353
2,317	-	102,170
97,119	3,000	2,237,643
-	-	5,000
427	-	34,395
174	-	110,687
<u>416</u>	<u>-</u>	<u>4,379</u>
<u>\$ 157,635</u>	<u>\$ 3,560</u>	<u>\$ 3,253,050</u>

PROKIDS,

STATEMENT OF
Year ended

	<u>Central Indiana Cluster 12</u>	<u>Focused Monitoring Quality Review</u>	<u>Unified Training System</u>
Bank service charges	\$ 35	\$ -	\$ -
Conference expense	-	-	13,899
Contract services	1,551	-	66,025
Depreciation	27,608	1,301	4,861
Disability expense	15,368	2,294	1,144
Dues and subscriptions	30	-	-
Equipment expense	-	-	2,844
General insurance	1,664	-	-
Health insurance	67,722	4,772	6,000
Loss on disposition of assets	1,191	-	-
Maintenance agreements	2,553	-	-
Materials and supplies	45,322	4,305	25,553
Miscellaneous expense	273	-	2,012
Other grant expense	22,013	493	-
Other services expense	-	-	-
Other outside services	23,203	-	140
Payroll service	-	-	-
Payroll taxes	61,265	8,052	8,598
Pension expense	39,482	5,877	5,248
Postage	17,587	257	4,368
Professional fees	35	-	-
Rent and utilities	56,257	2,805	13,387
Salaries	805,377	105,502	112,653
Stipend	-	-	-
Telephone	11,772	640	2,804
Travel	31,074	2,596	2,823
Workers Compensation	1,079	94	141
	<u>\$ 1,232,461</u>	<u>\$ 138,988</u>	<u>\$ 272,500</u>

See Notes to Financial Statements.

INC.

FUNCTIONAL EXPENSES

March 31, 2006

<u>General and Administrative</u>	<u>Fund Raising</u>	<u>2006 Total</u>
\$ 335	\$ -	\$ 370
-	-	13,899
-	-	67,576
2,260	-	36,030
875	-	19,681
1,064	-	1,094
669	-	3,513
5,394	-	7,058
70	180	78,744
-	-	1,191
10,456	-	13,009
2,540	-	77,720
229	-	2,514
-	-	22,506
-	-	-
-	-	23,343
-	-	-
3,928	230	82,073
2,621	150	53,378
619	-	22,831
11,560	-	11,595
1,400	-	73,849
51,446	3,000	1,077,978
-	-	-
513	-	15,729
88	-	36,581
3,145	-	4,459
<u>\$ 99,212</u>	<u>\$ 3,560</u>	<u>\$ 1,746,721</u>

PROKIDS, INC.

STATEMENTS OF CASH FLOWS
Years ended March 31, 2007 and 2006

	<u>2007</u>	<u>Restated 2006</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from grants, contributions and interest	\$ 3,086,335	\$ 1,433,368
Cash received for restricted purposes	338,385	332,661
Cash disbursed for programs and general and administrative purposes	<u>(3,148,644)</u>	<u>(1,679,496)</u>
Net cash provided by operating activities	<u>276,076</u>	<u>86,533</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Property and equipment acquisitions	<u>(166,648)</u>	<u>(82,057)</u>
Net cash used in investing activities	<u>(166,648)</u>	<u>(82,057)</u>
Increase in cash and equivalents	109,428	4,476
<u>CASH AND EQUIVALENTS</u>		
Beginning	<u>241,221</u>	<u>236,745</u>
Ending	<u>\$ 350,649</u>	<u>\$ 241,221</u>
<u>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Change in net assets	\$ 148,425	\$ 96,734
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	52,648	36,030
Loss on disposition of assets	4,105	1,191
(Increase) decrease in grants receivable	27,439	(74,576)
(Increase) in other receivables	(4,194)	(2,850)
(Increase) decrease in prepaid expenses	(25,313)	(4,000)
Decrease in deposits	-	100
Increase (decrease) in accounts payable	9,672	(1,609)
Increase wages payable	29,487	4,992
Increase in due to FSSA	<u>33,807</u>	<u>30,521</u>
Net cash provided by operating activities	<u>\$ 276,076</u>	<u>\$ 86,533</u>

See Notes to Financial Statements.

PROKIDS, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

ProKids, Inc. (Organization) was formed to develop, implement, and manage intra-agency programs, identified by Part C of the Individuals With Disabilities Education Act (IDEA) legislation, in order to provide early intervention services to eligible infants and toddlers (birth to three years of age) with disabilities and their families. In the State of Indiana, this Part C program is called First Steps.

The goals of the First Steps Program in Indiana are to identify and find eligible children who are developmentally delayed; to provide assessment/evaluation of development for referred children to determine eligibility; to assist children to transition into other appropriate programs, once the child is three years of age and/or no longer eligible; to teach families to be advocates for their child's needs; and to provide appropriate developmental interventions so as to decrease the need for ongoing Special Education Services.

ProKids, Inc. is the Fiscal Agent for the Local Planning and Coordinating Council (LPCC) and the System Point of Entry (SPOE) for the Indiana First Steps Program in Marion, Hamilton, Johnson, and Tipton counties (Central Indiana Cluster 12). The Organization also holds statewide contracts with the State of Indiana to provide Focused Monitoring and Quality Review services for the First Steps Program, and training for First Steps Providers.

- Local Planning and Coordinating Councils - The purpose of these grants is to provide funding for Marion, Hamilton, Johnson and Tipton counties to do public awareness, child find, transition, education, and other activities that enhance the early intervention program in each county. The Organization provides fiscal agent services, through cost reimbursement, to administer these funds for each of the above counties.
- System Point of Entry - The purpose of these grants is to provide funding to receive referrals from Marion, Hamilton, Johnson and Tipton counties for children who are suspected of having developmental delays or who are at risk for developmental delays due to their medical condition or other biological risk factors; to initiate the evaluation process; and to determine whether eligibility criteria have been met. The Organization provides fiscal agent services, through cost reimbursement, to administer these funds for each of the above counties.
- Focused Monitoring and Quality Review - The purpose of these grants is to provide funding to assist in the coordination and facilitation of activities related to best practice and quality improvement, including data base management and reports. The Organization provides fiscal agent services, through cost reimbursement, to administer these funds statewide.
- Unified Training System First Steps Programmatic Training - The purpose of this grant is to provide statewide training for providers, parents, and family members in First Steps, essential to the continued development of the early intervention system. The Organization provides fiscal agent services, through cost reimbursement, to administer these funds statewide.

PROKIDS, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - continued

A summary of the Organization's significant accounting policies are as follows:

A. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

These financial statements have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with Statements of Financial Accounting Standards No. 116 and 117 adopted by the Financial Accounting Standards Board (FASB) in June 1993. This has been done by classification of transactions and balances into three categories of net assets: unrestricted net assets which have no donor-imposed restrictions, temporarily restricted net assets which have donor-imposed restrictions that will expire in the future, and permanently restricted net assets which have donor-imposed restrictions which do not expire. The Organization has only unrestricted net assets and temporarily restricted net assets.

B. Cash and Equivalents

Cash and cash equivalents consist of two accounts. The Organization maintains its cash balances with a reputable financial institution. The demand deposit accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution. The balances may occasionally exceed the insured limit.

C. Property and Equipment

Furniture, equipment, and leasehold improvements in excess of \$600 are capitalized and recorded at cost. Fixed assets are considered to be owned by ProKids, Inc.; however, state funding sources may maintain equitable interest in the property purchased by grant monies, as well as the right to determine the use of any proceeds from the sale of these assets. Depreciation is provided using the straight-line method over the following estimated useful lives of the assets:

	<u>Years</u>
Furniture and equipment	5 - 7
Leasehold improvements	4

D. Revenue Recognition

Support received under grants and contracts is recorded as public support when the related amounts are determined to be due from the grantor agencies. Management considers all amounts to be collectible.

E. Income Taxes

The Organization is a charitable organization exempt from income taxation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes has been made.

PROKIDS, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - continued

F. Use of Estimates

The preparation of financial statements in conformity with U.S. 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 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.

NOTE 2 RESTRICTIONS ON NET ASSETS

Substantially all of the restrictions on net assets as of March 31, 2007 and 2006 are related to funds retained for conferences to be conducted in subsequent fiscal years. These funds are restricted in use through the Unified Training System grant.

NOTE 3 LEASE COMMITMENTS

On December 1, 2006 the Organization renewed their original operating lease, expiring on April 30, 2008, for one additional year with additional floor space to the existing office facility.

On April 1, 2007 the Organization entered into an additional two-year operating lease commencing on June 1, 2007 in a neighboring building for additional space.

Rental expense, including common area maintenance, for the years ended March 31, 2007 and 2006 was \$101,028 and \$64,661, respectively.

Also, the Organization currently leases a small office space in Hamilton County for \$4,200 per year.

The future minimum lease payments as of March 31, 2007 are as follows:

2008	\$	139,583
2009		140,652
2010		14,132
2011		-
		<hr/>
	\$	<u>294,367</u>

PROKIDS, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

NOTE 4 EMPLOYEE BENEFIT PLAN

The Board of ProKids, Inc. established a 403(b) Defined Contribution Retirement Plan (Plan) as of October 1, 2000. The original Plan was amended effective, July 1, 2006. Under the amendment, an employee is eligible to participate on the first day of the succeeding month, one year after the new employee's hire date. To be eligible, an employee must be at least 21 years of age and work a minimum of 30 hours per week. Plan contributions are made at five percent of compensation. Plan contributions are invested at the discretion of each participant and are fully vested and non-forfeitable when such contributions are made. Pension expense was \$52,575 and \$53,378, for the years ended March 31, 2007 and 2006, respectively.

NOTE 5 FUNCTIONAL EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 6 COMMITMENTS AND CONTINGENCIES

The Organization maintains a \$200,000 open line of credit with the National Bank of Indianapolis at an interest rate of one-half percent above the bank's prime rate. The purpose of the line of credit is to finance working capital needs. As of March 31, 2007 and 2006, the Organization did not have any outstanding borrowing on this open line of credit. The line of credit is secured by the bank with a commercial security agreement securing all receivables of the Organization.

NOTE 7 GRANT FUNDING AND REPAYMENT

The Organization receives a substantial portion of revenue from cost reimbursement grants provided by the Indiana Family and Social Services Administration. Under the grants' terms, additional periodic audits are possible by the grantor agency. Failure to comply with grant requirements may result in suspension of further grant funding and possible reimbursement for disallowed expenditures. A grantor agency conducted an audit of the Organization and discovered costs that were not allowable which were charged to the grant resulting in a repayment of \$117,652. Management is not aware of any other potential disallowance of claims asserted by the grantor agency. The noninterest bearing repayment agreement consists of twenty-four equal monthly installments beginning January 1, 2008 through December 1, 2009.

PROKIDS, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

NOTE 8 RESTATEMENT

The March 31, 2006 financial statements were restated to reflect a correction of an error. A grantor agency conducted an audit and discovered that \$117,752 of grant funds were drawn over the past four years for unallowable expenses. Of this amount, \$33,807 affected the current year, \$30,521 was attributable to the 2006 fiscal year and the remaining \$53,324 was related to the 2005 and 2004 fiscal years. The liability to reflect the repayment resulted in the restatement of the prior year's balance sheet, statements of activities and cash flows. The following reflects the effect of the restatement.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Changes to Balance Sheet:			
FSSA funds payable for disallowed expenses	\$ 83,845	\$ -	\$ 83,845
Net Assets at March 31, 2006 as previously reported	\$ 369,784	\$ 240,225	\$ 610,009
Change affecting years prior to March 31, 2006	(54,722)	1,398	(53,324)
Change affecting year ended March 31, 2006	(31,777)	1,256	(30,521)
	<u>(86,499)</u>	<u>2,654</u>	<u>(83,845)</u>
Net Assets at March 31, 2006 as restated	\$ 283,285	\$ 242,879	\$ 526,164
Changes to Statement of Activities:			
Grant income - Federal - as previously reported	\$ 1,532,568	\$ 167,395	\$ 1,699,963
Disallowed expenses for the year ended March 31, 2006	(31,777)	1,256	(30,521)
Grant income - Federal - as restated	<u>\$ 1,500,791</u>	<u>\$ 168,651</u>	<u>\$ 1,669,442</u>
Net Assets at March 31, 2005 as previously reported	\$ 263,224	219,530	\$ 482,754
Change affecting years prior to March 31, 2006	(54,722)	1,398	(53,324)
Net Assets at March 31, 2005 as restated	<u>208,502</u>	<u>220,928</u>	<u>429,430</u>
Change in net assets for the year ended March 31, 2006 as previously reported	106,560	20,695	127,255
Disallowed expenses for the year ended March 31, 2006	(31,777)	1,256	(30,521)
Change in net assets for the year ended March 31, 2006 as restated	<u>74,783</u>	<u>21,951</u>	<u>96,734</u>
Net Assets at March 31, 2006 as restated	<u>\$ 283,285</u>	<u>\$ 242,879</u>	<u>\$ 526,164</u>

PROKIDS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended March 31, 2007

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditure</u>
US Department of Education			
Individuals with Disabilities Education Act			
Grants for Infants and Families with Disabilities	84.181		
Pass-Through Grantor:			
Indiana Family & Social Services Administration			
Pass-through programs:			
First Steps Cluster Contracts (FS)		49-06-FS-1460-01	\$ 2,899,128
Unified Training System		49-04-SS-1460-03	50,846
Unified Training System		49-04-SS-1460-04	106,105
Unified Training System - subcontract with Indiana University		49-04-SS-1460-03	38,549
Focused Monitoring Activities		49-05-SS-1460-02	63,961
Focused Monitoring Activities		49-05-SS-1460-03	47,563
			* <u>3,206,152</u>
IN General Supervision Enhancement - subcontract with Ball State University	84.373	44606-001-PN01	<u>43,447</u>
Total expenditures of federal awards			<u>\$ 3,249,599</u>

* Denotes major program

See Notes to Schedule of Expenditures
of Federal Awards.

PROKIDS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

March 31, 2007

NOTE 1 BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is a summary of the activity of ProKids' Federal awards program and presents transactions included in financial statements of ProKids, Inc., presented on the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles.

NOTE 2 RISK BASED AUDIT APPROACH

The dollar threshold used to distinguish between Type A and Type B programs is \$300,000. ProKids, Inc. qualified as a low-risk auditee.

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
ProKids, Inc.
Indianapolis, Indiana

We have audited the financial statements of ProKids, Inc., as of and for the year ended March 31, 2007, and have issued our report thereon dated December 11, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *U.S. 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 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.

A control deficiency in an entity's internal control over compliance 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability, in accordance with U.S. generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 instances of noncompliance that are required to be reported under U.S. Government Auditing Standards and are described in the accompanying schedule of findings and questioned costs as items 2007-1, 2007-2, and 2007-3.

ProKids, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit ProKids, Inc.'s response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management 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.

Rg file, LLC

Indianapolis, Indiana
December 11, 2007

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
ProKids, Inc.
Indianapolis, Indiana

Compliance

We have audited the compliance of ProKids, Inc., with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to each of its major Federal programs for the year ended March 31, 2007. ProKids' major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of ProKids, Inc.'s management. Our responsibility is to express an opinion on ProKids, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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*. Those standards and OMB Circular A-133 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, occurred. An audit includes examining, on a test basis, evidence about ProKids, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on ProKids, Inc.'s compliance with those requirements.

As described in items 2007-1, 2007-2, and 2007-3 in the accompanying schedule of findings and questioned costs, Prokids did not comply with certain requirements regarding allowable costs. Compliance with such requirements is necessary, in our opinion, for Prokids to comply with all requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, ProKids, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended March 31, 2007.

Internal Control Over Compliance

The management of ProKids is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered ProKids' internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 ProKids' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance, 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program, that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program, will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be 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. Prokid's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Prokid's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management 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.

Rj Kile, LLC

Indianapolis, Indiana
December 11, 2007

PROKIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended March 31, 2007

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

A. Type of Report Issued on the Financial Statements

The Independent Auditor's Report on the basic financial statements of ProKids, Inc. as of and for the year ended March 31, 2007, was an unqualified opinion.

B. Significant Deficiencies in Internal Control Disclosed by the Audit of the Financial Statements

The audit of the basic financial statements of ProKids, Inc., as of and for the year ended March 31, 2006, disclosed no significant deficiencies in internal control.

C. Noncompliance Material to the Financial Statements

The audit disclosed three instances of noncompliance which are material to the basic financial statements of ProKids, Inc., as of and for the year ended March 31, 2007.

D. Significant deficiencies in Internal Control Over Major Programs

The audit of compliance of ProKids, Inc., for the year ended March 31, 2007 disclosed no significant deficiencies in internal control over major programs.

E. Type of Report Issued on Compliance for Major Programs

The Independent Auditor's Report on compliance with requirements applicable to each major Federal program, for the year ended March 31, 2007, was a qualified opinion.

F. Findings Relating to Major Programs

The audit disclosed three instances of noncompliance as required to be reported under Section 510(a) of OMB Circular A-133.

G. Major Program

<u>Name of Federal Program</u>	<u>CFDA Number</u>	<u>Amount Expended</u>
US Department of Education Individuals with Disabilities Education Act Grants for Infants and Families with Disabilities	84.181	<u>\$ 3,206,152</u>

PROKIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued

Year ended March 31, 2007

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS - continued

H. Threshold for Distinguished Between Type A or Type B Programs

The threshold for distinguishing between Type A and Type B programs was \$300,000 for the year ended March 31, 2007, when excluding large loan and guaranteed loan programs.

I. Qualification of Auditee as a Low-Risk Auditee

ProKids, Inc. qualified as a low-risk auditee under applicable provisions of OMB Circular No. A-133, for the year ended March 31, 2007.

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED U.S. GOVERNMENT AUDITING STANDARDS

A. Significant Deficiencies in Internal Control

None

B. Compliance Findings

2007-1 Condition: An auditor with the Indiana Family and Social Services Administration discovered that the Grantee had claimed depreciation expense on their draws relating to equipment purchased in previous years that had already been paid for with First Steps funding.

Criteria: OMB Circular A-122 Attachment B, paragraph 11 states: "The computation of use allowances or depreciation will exclude any portion of the cost or buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides."

Effect: Federal grant funds were incorrectly drawn over a number of years equal to the \$126,561 of depreciation claimed.

Grantee Action Taken: After determining the amount of depreciation incorrectly drawn on the grants over the past four years, the Grantee was able to identify \$8,909 of other allowable costs that had not been drawn over the same period. The Indiana Family and Social Services Administration (FSSA) allowed the Grantee to net the \$8,909 against the \$126,561 for a net total of \$117,652. FSSA has set up a repayment schedule for the Grantee to repay the \$117,652 in twenty-four equal monthly installments beginning January 1, 2008 through December 1, 2009.

PROKIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued

Year ended March 31, 2007

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED U.S. GOVERNMENT AUDITING STANDARDS

B. Compliance Findings - continued

2007-2 Condition: Prepaid rent and maintenance expenses for April 2007 were incorrectly charged to Federal grants in March 2007.

Criteria: The period of availability of federal funds compliance requirement, per OMB Circular A-133 compliance supplement, states: "federal awards generally specify a time period during which the Grantee may use the funds. Where a funding period is specified, a Grantee may charge to the award only costs resulting from obligations incurred." The compliance supplement also specifically states that rent is not considered an obligation until the space is used by the Grantee.

Effect: Grantee drew \$25,753 of prepaid rent and maintenance expenses against the First Steps grant in March 2007.

Grantee Action Taken: Claim procedures have been amended to move these prepaid costs to the correct period. The Indiana Family and Social Services Administration approved the reclassification of these expenses to the 2007/2008 grant year.

2007-3 Condition: An auditor with the Indiana Family and Social Services Administration found that the grantee had not received advance approvals for equipment purchases or leasehold improvements of \$5,000 or more that were charged to the Federal grants.

Criteria: OMB Circular A-133 , Attachment B, paragraph 15, states: "capital expenditures for equipment, buildings, land, or improvements thereto are not allowable unless advanced approval is obtained from the awarding agency." The Indiana Family and Social Services Administration's sub grantee procurement policy states that grantees must obtain advanced approval expenditures of \$5,000 or more and that three competitive written price estimates must be obtained for justification of price.

Effect: The Grantee purchased equipment and leasehold improvements that exceeded the \$5,000 threshold that totaled \$44,528.

Grantee Action Taken: The Grantee obtained retroactive approval for the respective equipment purchases and leasehold improvements from the Indiana Family and Social Services Administration. In addition the Grantee has updated their procurement policies and procedures to reflect this requirement.

PROKIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued

Year ended March 31, 2007

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Significant Deficiencies in Internal Control over Federal Programs

None

B. Compliance Findings

Major Program:

US Department of Education

Individuals with Disabilities Education Act

Grants for Infants and Families with Disabilities

84.181

2007-1 Condition: An auditor with the Indiana Family and Social Services Administration discovered that the Grantee had claimed depreciation expense on their draws relating to equipment purchased in previous years that had already been paid for with First Steps funding.

Criteria: OMB Circular A-122 Attachment B, paragraph 11 states: "The computation of use allowances or depreciation will exclude any portion of the cost or buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides."

Effect: Federal grant funds were incorrectly drawn over a number of years equal to the \$126,561 of depreciation claimed.

Grantee Action Taken: After determining the amount of depreciation incorrectly drawn on the grants over the past four years, the Grantee was able to identify \$8,909 of other allowable costs that had not been drawn over the same period. The Indiana Family and Social Services Administration (FSSA) allowed the Grantee to net the \$8,909 against the \$126,561 for a net total of \$117,652. FSSA has set up a repayment schedule for the Grantee to repay the \$117,652 in twenty-four equal monthly installments beginning January 1, 2008 through December 1, 2009.

PROKIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued

Year ended March 31, 2007

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

B. Compliance Findings

2007-2 Condition: Prepaid rent and maintenance expenses for April 2007 were incorrectly charged to Federal grants in which the grant period ended March 31, 2007.

Criteria: The period of availability of federal funds compliance requirement, per OMB Circular A-133 compliance supplement, states: "federal awards generally specify a time period during which the Grantee may use the funds. Where a funding period is specified, a Grantee may charge to the award only costs resulting from obligations incurred." The compliance supplement also specifically states that rent is not considered an obligation until the space is used by the Grantee.

Effect: Grantee drew \$25,753 of prepaid rent and maintenance expenses against the First Steps grant in March 2007.

Grantee Action Taken: Claim procedures have been amended to move these prepaid costs to the correct period. The Indiana Family and Social Services Administration approved the reclassification of these expenses to the 2007/2008 grant year.

2007-3 Condition: An auditor with the Indiana Family and Social Services Administration found that the grantee had not received advance approvals for equipment purchases or leasehold improvements of \$5,000 or more that were charged to the Federal grants.

Criteria: OMB Circular A-133 , Attachment B, paragraph 15, states: "capital expenditures for equipment, buildings, land, or improvements thereto are not allowable unless advanced approval is obtained from the awarding agency." The Indiana Family and Social Services Administration's sub grantee procurement policy states that grantees must obtain advanced approval expenditures of \$5,000 or more and that three competitive written price estimates must be obtained for justification of price.

Effect: The Grantee purchased equipment and leasehold improvements that exceeded the \$5,000 threshold that totaled \$44,528.

Grantee Action Taken: The Grantee obtained retroactive approval for the respective equipment purchases and leasehold improvements from the Indiana Family and Social Services Administration. In addition the Grantee has updated their procurement policies and procedures to reflect this requirement.

PROKIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued

Year ended March 31, 2007

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - continued

C. Questioned Costs

None

PROKIDS, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

Year ended March 31, 2007

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from the prior audit's Schedule of Prior Audit Findings and Questioned Costs.



COPY

2511 East 46th Street, Suite E-1
Indianapolis, IN 46205
PHONE (317) 257-2229
FAX (317) 205-2592
Fiscal Agent for
Central Indiana First Steps

**ProKids, Inc.
CORRECTIVE ACTION PLAN
December 11, 2007**

Oversight Agency for Audit:
Indiana Family and Social Services Administration Audit Services Section
(FSSA)

Independent Public Accounting Firm:
RJ Pile, LLC
One Indiana Square, Suite 1200
Indianapolis, IN 46204

Audit Period: April 1, 2006 – March 31, 2007

ProKids, Inc. respectfully submits the following corrective action plan for the year ended March 31, 2007.

The findings from the March 31, 2007 schedule of audit findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

2007-1 US Department of Education
Individuals with Disabilities Education Act
Grants for Infants and Families with Disabilities CFDA #84.181

Finding: Equipment purchased in prior years with Federal grant funds was depreciated in subsequent years, including the current grant year, against Federal grant funds.

Action Taken: The grantee agrees with the finding. Claims procedures have been amended to omit the unallowable amount from future claims. A review of grant periods 03-04 through 06-07 determined that \$126,561 of unallowable costs were claimed and \$8,909 of allowable costs were not claimed, leaving \$117,652 to be repaid. The following repayment plan has been approved by FSSA's Financial Management Director. Payments will be submitted by check to FSSA. Twenty-three (23) monthly payments of in the amount of \$4,902.17 beginning January 1, 2008 and a twenty-fourth payment in the amount of \$4,902.09 by December 1, 2009.

2007-2 US Department of Education
Individuals with Disabilities Education Act
Grants for Infants and Families with Disabilities

CFDA #84.181

Finding: Prepaid expenses were charged to grant funds.

Action Taken: The grantee agrees with the finding. Claims procedures have been amended to include this recurring cost in the correct year on all future claims. Retroactive approval was granted by First Steps Program Director on October 26, 2007 to reclassify expenses to the correct grant year.

2007-3 US Department of Education
Individuals with Disabilities Education Act
Grants for Infants and Families with Disabilities

CFDA #84.181

Finding: Advance approvals were not obtained for equipment purchases or leasehold improvements of \$5,000 or more per unit charged to Federal grant awards. In addition, competitive bids were not obtained.

Action Taken: The grantee agrees with the finding. Procurement procedures have been updated to reflect this requirement. Retroactive approval was granted by First Steps Program Director on October 26, 2007 for the purchases and leasehold improvements of \$5,000 or more per unit. In the future, competitive bids for, and prior approval of, all such expenses will be obtained.

If FSSA or RJ Pile, LLC has any questions regarding this plan, please contact me at (317) 257-2229 x. 102.

Sincerely,



Tamara Hardin
Executive Director