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June 18, 2009

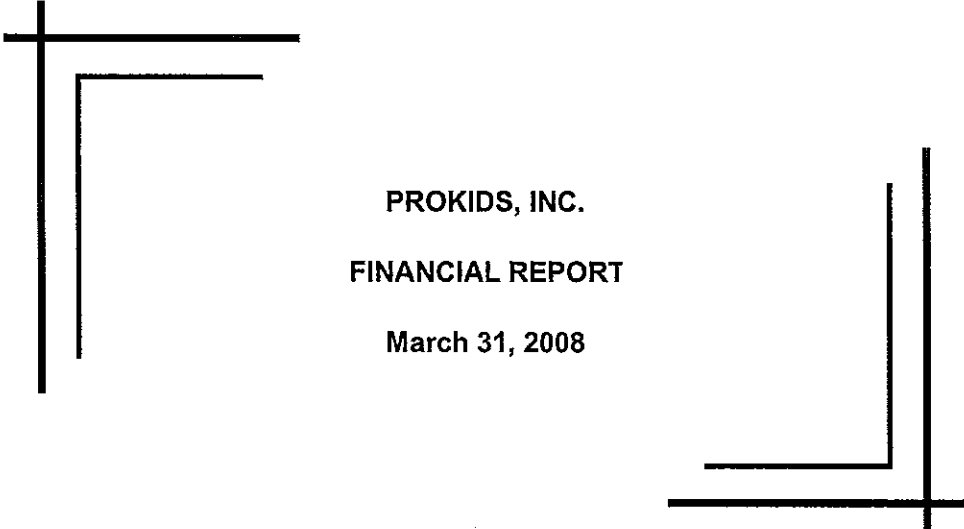
Board of Directors  
Prokids, Inc.  
6923 Hillsdale Court  
Indianapolis, IN 46250

We have reviewed the audit report prepared by R J Pile, LLC, Independent Public Accountants, for the period April 1, 2007 to March 31, 2008. 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, 2008, 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 the status of three prior audit findings. The management letter contains two comments.

STATE BOARD OF ACCOUNTS



**PROKIDS, INC.**  
**FINANCIAL REPORT**  
**March 31, 2008**

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**INDEPENDENT AUDITOR'S REPORT  
ON THE FINANCIAL STATEMENTS**

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

We have audited the accompanying balance sheets of ProKids, Inc. (a nonprofit organization) as of March 31, 2008 and 2007, 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 audits 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 audits provide 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, 2008 and 2007, 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 July 25, 2008 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  
July 25, 2008

PROKIDS, INC

**BALANCE SHEETS**

March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS</u></b>		
Cash	\$ 148,836	\$ 350,649
Grants receivable	641,535	244,409
Other receivables	275	7,044
Prepaid rent	-	25,753
Prepaid postage	3,553	3,560
<b>TOTAL CURRENT ASSETS</b>	<u>794,199</u>	<u>631,415</u>
<b><u>PROPERTY AND EQUIPMENT</u></b>		
Office equipment	381,362	246,113
Office furniture	237,399	129,430
Leasehold improvements	83,103	29,017
	<u>701,864</u>	<u>404,560</u>
Less: accumulated depreciation	<u>(217,119)</u>	<u>(155,990)</u>
	<u>484,745</u>	<u>248,570</u>
<b><u>OTHER ASSETS</u></b>		
Deposits	<u>26,761</u>	<u>1,500</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,305,705</u>	<u>\$ 881,485</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b><u>CURRENT LIABILITIES</u></b>		
Accounts payable	\$ 188,436	\$ 34,639
Salaries & wages payable	63,879	54,605
FSSA funds payable, current portion	53,924	14,707
<b>TOTAL CURRENT LIABILITIES</b>	<u>306,239</u>	<u>103,951</u>
<b><u>LONG-TERM LIABILITIES</u></b>		
FSSA funds payable, less current portion	<u>44,119</u>	<u>102,945</u>
<b><u>NET ASSETS</u></b>		
Unrestricted	666,862	411,114
Temporarily restricted	288,485	263,475
<b>TOTAL NET ASSETS</b>	<u>955,347</u>	<u>674,589</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,305,705</u>	<u>\$ 881,485</u>

See Notes to Financial Statements.

PROKIDS, INC.

**STATEMENTS OF ACTIVITIES**  
 Years ended March 31, 2008 and 2007

	<b>2008</b>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>SUPPORT AND REVENUE</u></b>			
Grants - federal	\$ 3,909,936	\$ 261,731	\$ 4,171,667
Conferences	3,465	131,735	135,200
Contributions	451	3,224	3,675
Interest income	7,390	-	7,390
	<hr/>	<hr/>	<hr/>
<b>TOTAL SUPPORT AND REVENUE BEFORE RELEASE OF NET ASSETS FROM RESTRICTIONS</b>	3,921,242	396,690	4,317,932
<b><u>NET ASSETS RELEASED FROM RESTRICTION</u></b>			
Purpose - restricted contributions	371,680	(371,680)	-
	<hr/>	<hr/>	<hr/>
<b>TOTAL SUPPORT AND REVENUE</b>	4,292,922	25,010	4,317,932
<b><u>EXPENSES</u></b>			
Program expenses:			
Central Indiana Cluster G	3,417,355	-	3,417,355
Focused Monitoring/Quality Review	89,785	-	89,785
Unified Training System	353,326	-	353,326
Total program expenses	3,860,466	-	3,860,466
	<hr/>	<hr/>	<hr/>
General and administrative expenses	173,148	-	173,148
Fundraising	3,560	-	3,560
	<hr/>	<hr/>	<hr/>
<b>TOTAL EXPENSES</b>	4,037,174	-	4,037,174
<b>CHANGE IN NET ASSETS</b>	255,748	25,010	280,758
<b><u>NET ASSETS</u></b>			
Beginning of year	411,114	263,475	674,589
	<hr/>	<hr/>	<hr/>
End of year	\$ 666,862	\$ 288,485	\$ 955,347
	<hr/>	<hr/>	<hr/>

See Notes to Financial Statements.

**2007**

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 3,054,098	\$ 195,500	\$ 3,249,598
-	135,469	135,469
2,000	5,260	7,260
<u>9,148</u>	<u>-</u>	<u>9,148</u>
3,065,246	336,229	3,401,475
<u>315,633</u>	<u>(315,633)</u>	<u>-</u>
<u>3,380,879</u>	<u>20,596</u>	<u>3,401,475</u>
2,698,685	-	2,698,685
105,307	-	105,307
<u>287,863</u>	<u>-</u>	<u>287,863</u>
3,091,855	-	3,091,855
157,635	-	157,635
<u>3,560</u>	<u>-</u>	<u>3,560</u>
<u>3,253,050</u>	<u>-</u>	<u>3,253,050</u>
127,829	20,596	148,425
<u>283,285</u>	<u>242,879</u>	<u>526,164</u>
<u>\$ 411,114</u>	<u>\$ 263,475</u>	<u>\$ 674,589</u>

PROKIDS, INC.

**STATEMENT OF FUNCTIONAL EXPENSES**

Year ended March 31, 2008

	<b>Central Indiana <u>Cluster G</u></b>	<b>Focused Monitoring Quality <u>Review</u></b>	<b>Unified Training <u>System</u></b>
Bank service charges	\$ 35	\$ -	\$ 2,841
Conference expense	5,788	-	8,063
Contract services	17,170	228	23,889
Depreciation	51,943	655	11,289
Disability expense	33,727	823	1,687
Dues and subscriptions	238	-	51
Equipment expense	19,274	-	12,449
General insurance	-	-	-
Health insurance	183,036	47	11,163
Loss on disposition of assets	-	-	-
Maintenance agreements	17,844	-	-
Materials and supplies	68,286	1,845	37,387
Miscellaneous expense	-	-	-
Other grant expense	627	1,114	3,442
Other outside services	11,260	-	1,698
Payroll service	-	-	-
Payroll taxes	179,198	5,230	12,681
Pension expense	82,525	2,900	6,216
Postage	26,171	37	6,286
Professional fees	-	-	-
Rent and utilities	116,431	1,800	25,997
Salaries	2,437,494	70,491	171,922
Stipend	5,600	-	-
Telephone	38,383	941	8,623
Travel	118,222	3,591	7,476
Workers Compensation	4,103	83	166
	<u>\$ 3,417,355</u>	<u>\$ 89,785</u>	<u>\$ 353,326</u>

See Notes to Financial Statements.

<u>General and Administrative</u>	<u>Fund Raising</u>	<u>2008 Total</u>
\$ 598	\$ -	\$ 3,474
-	-	13,851
-	-	41,287
2,279	-	66,166
1,713	-	37,950
964	-	1,253
-	-	31,723
4,640	-	4,640
8,116	180	202,542
42	-	42
3,548	-	21,392
1,106	-	108,624
813	-	813
324	-	5,507
1,838	-	14,796
3,302	-	3,302
8,051	230	205,390
4,765	150	96,556
488	-	32,982
19,125	-	19,125
2,400	-	146,628
108,314	3,000	2,791,221
-	-	5,600
348	-	48,295
270	-	129,559
104	-	4,456
<u>\$ 173,148</u>	<u>\$ 3,560</u>	<u>\$ 4,037,174</u>

PROKIDS, INC.

**STATEMENT OF FUNCTIONAL EXPENSES**

Year ended March 31, 2007

	Central Indiana <u>Cluster 12</u>	Focused Monitoring Quality <u>Review</u>	Unified Training <u>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	2,923	208	832
	<u>\$ 2,698,685</u>	<u>\$ 105,307</u>	<u>\$ 287,863</u>

See Notes to Financial Statements.

<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
416	-	4,379
<u>\$ 157,635</u>	<u>\$ 3,560</u>	<u>\$ 3,253,050</u>

**PROKIDS, INC.**

**STATEMENTS OF CASH FLOWS**  
Years ended March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Cash received from grants, contributions and interest	\$ 3,530,885	\$ 3,086,335
Cash received for restricted purposes	396,690	338,385
Cash disbursed for programs and general and administrative purposes	<u>(3,827,005)</u>	<u>(3,148,644)</u>
Net cash provided by (used in) operating activities	<u>100,570</u>	<u>276,076</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Property and equipment acquisitions	<u>(302,383)</u>	<u>(166,648)</u>
Net cash provided by (used in) investing activities	<u>(302,383)</u>	<u>(166,648)</u>
 Increase (decrease) in cash and equivalents	 (201,813)	 109,428
<b><u>CASH AND EQUIVALENTS</u></b>		
Beginning	<u>350,649</u>	<u>241,221</u>
 Ending	 <u>\$ 148,836</u>	 <u>\$ 350,649</u>
<b><u>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 280,758	\$ 148,425
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	66,166	52,648
Loss on disposition of assets	42	4,105
(Increase) decrease in grants receivable	(397,126)	27,439
(Increase) decrease in other receivables	6,769	(4,194)
(Increase) decrease in prepaid expenses	25,760	(25,313)
(Increase) decrease in deposits	(25,261)	-
Increase (decrease) in accounts payable	153,797	9,672
Increase (decrease) wages payable	9,274	29,487
Increase (decrease) in due to FSSA	<u>(19,609)</u>	<u>33,807</u>
 Net cash provided by (used in) operating activities	 <u>\$ 100,570</u>	 <u>\$ 276,076</u>

See Notes to Financial Statements.

PROKIDS, INC.

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2008

**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, 2008

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, 2008

**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, 2008 and 2007 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 office lease for additional floor space. The lease expires April 30, 2009.

On April 1, 2007 the Organization entered into an additional two-year lease in a neighboring building for additional space. This lease expires April 30, 2009.

On February, 7, 2008 the Organization signed a new office lease in a different office complex to consolidate their space. The term of the lease is for ten years commencing on May 1, 2008.

Rental expense, including common area maintenance, for the years ended March 31, 2008 and 2007 was \$146,628 and \$102,170, respectively.

The future minimum lease payments as of March 31, 2008 are as follows:

2009	\$	324,014
2010		211,811
2011		200,031
2012		204,035
2013		204,399
Thereafter		1,060,866
	\$	<u>2,205,156</u>

**PROKIDS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2008

**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 \$96,556 and \$52,575, for the years ended March 31, 2008 and 2007, 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, 2008 and 2007, 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. In 2007 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. The balance of the repayment at March 31, 2008 was \$98,043.

PROKIDS, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended March 31, 2008

<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-1460-02	\$ 3,777,462
Unified Training System		49-04-SS-1460-04	109,495
Unified Training System		49-08-RO-1460-01	152,236
Focused Monitoring Activities		49-05-SS-1460-03	55,536
Focused Monitoring Activities		49-05-SS-1460-04	40,354
		*	<u>4,135,083</u>
IN General Supervision Enhancement - subcontract with Ball State University	84.373	44606-001-PN01	<u>36,584</u>
Total expenditures of federal awards			<u>\$ 4,171,667</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, 2008

**NOTE 1 BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ProKids, Inc. and is presented on the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133 (Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in this preparation of, the financial statements.

**NOTE 2 RISK BASED AUDIT APPROACH**

The dollar threshold used to distinguish between Type A and Type B programs is \$300,000. ProKids, Inc. did not qualify 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, 2008, and have issued our report thereon dated July 25, 2008. 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 ProKids, Inc. 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 ProKids' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ProKids' internal control over financial reporting.

A control deficiency 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 reliably 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 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 consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of ProKids, Inc. in a separate letter dated July 25, 2008.

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 those specified parties.

*R. J. Kile, LLC*

Indianapolis, Indiana  
July 25, 2008

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND 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, 2008. 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 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*. 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.

In our opinion, 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, 2008.

## 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.

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 Kite, LLC*

Indianapolis, Indiana  
July 25, 2008

PROKIDS, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended March 31, 2008

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, 2008, 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, 2008, disclosed no significant deficiencies in internal control.

C. Noncompliance Material to the Financial Statements

The audit disclosed no instances of noncompliance which are material to the basic financial statements of ProKids, Inc., as of and for the year ended March 31, 2008.

D. Significant deficiencies in Internal Control Over Major Programs

The audit of compliance of ProKids, Inc., for the year ended March 31, 2008 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, 2008, was a unqualified opinion.

F. Findings Relating to Major Programs

The audit disclosed no 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>4,135,083</u>

**PROKIDS, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS** - continued  
Year ended March 31, 2008

**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, 2008, when excluding large loan and guaranteed loan programs.

**I. Qualification of Auditee as a Low-Risk Auditee**

ProKids, Inc. did not qualify as a low-risk auditee under applicable provisions of OMB Circular No. A-133, for the year ended March 31, 2008.

**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**

None

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**A. Significant Deficiencies in Internal Control over Federal Programs**

None

**B. Compliance Findings**

None

**C. Questioned Costs**

None

PROKIDS, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

Year ended March 31, 2008

The prior year single audit disclosed instances of noncompliance that were required to be reported under U.S. Government Auditing Standards and are described in the accompanying schedule of prior audit findings and questioned costs at items 2007-1, 2007-2, and 2007-3.

I. 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

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. Finding is resolved.

PROKIDS, INC.

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS** - Continued  
Year ended March 31, 2008

I. 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. Finding is resolved.

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. Finding is resolved.

PROKIDS, INC.

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2008

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

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 of 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. Finding is resolved.

PROKIDS, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

Year ended March 31, 2008

II. 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. Finding is resolved.

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. Finding is resolved.

July 25, 2008

Board of Directors  
Prokids, Inc.  
6923 Hillsdale Court  
Indianapolis, IN 46250

To the Board of Directors:

During the course of our audit of the financial statements of Prokids, Inc. for the year ended March 31, 2008, we gathered information with regard to financial and administrative matters. This letter includes comments and suggestions offered as a means of an ongoing process of modifying and improving the Organization's practices and procedures. This letter is divided into two sections.

## **SECTION I OBSERVATIONS AND COMMENTS**

This section contains observations on current policies and future opportunities.

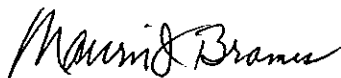
## **SECTION II AUDITOR'S COMMUNICATION TO MANAGEMENT ON INTERNAL CONTROLS**

The purpose of this communication is to inform you of any internal control deficiencies that came to our attention during the audit.

We appreciate the opportunity you have given us this year to serve Prokids. Should you have any questions or require additional information regarding any of these items, please let us know. We hope you have found our service and input both interesting and valuable.

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

Sincerely,



Marvin J. Brames, CPA  
Director

MJB/jeb

## SECTION I

### OBSERVATIONS AND COMMENTS

#### ACCOMPLISHMENTS

We want to commend Prokids and especially Tammie Hardin for their preparedness for the audit. All accounts were reconciled and supporting documentation was provided for all of our inquiries.

#### DISPOSAL OF CAPITAL ASSETS OWNED BY THE STATE

In 2008, Prokids disposed of two computers that were originally purchased with grant funds. These computers were initially capitalized, included on Prokids fixed asset listing and depreciated. Generally, State and Federal grants require the disposal of capital assets, originally purchased with grant monies, to be approved since the assets should revert back to the grantor. Cost principles require the grantee to identify capitalized fixed asset that will revert to the grantor. We recommend that management obtain approval from the state on how to properly dispose of these computers.

#### FEDERAL FORM 990 REDESIGNED

On December 20, 2007, the IRS released the redesigned Form 990, *Return of Organization Exempt from Income Tax* (2008 Form 990). The new form incorporates many recommendations made in public comments on the discussion draft released on June 14, 2007. Organizations will begin using the new form for the 2008 tax year which will be filed in 2009.

The new form will expand the disclosures required by the Organization. Separate schedules will need to be completed and there are additional questions to be answered. The following list includes a few items ProKids, Inc. will need to disclose on the new form that will change from current Form 990 disclosures.

- Information on fundraising events including paid fundraising professional, prizes and gifts given away and facility cost.
- Compensation related disclosures including W-2 wages, bonuses, other compensation, benefits such as first class travel, health clubs, etc.
- Information on how Executive Director's salary is determined.
- Questions whether written policies exist for conflicts of interest, whistleblower, document retention and destruction.
- Disclosure on the availability of these policies and the Form 990 to the public.

We suggest that management review the new Form 990 which can be found on the IRS.gov website under the charitable organizations tab.

## SECTION II

### AUDITOR'S COMMUNICATION TO MANAGEMENT ON INTERNAL CONTROLS

In connection with our audit of the financial statements of Prokids, Inc. as of and for the year ended March 31, 2008, we identified deficiencies in internal control over financial reporting (control deficiencies).

A control deficiency 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 financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to authorize, initiate, record, process or report financial data reliably 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.

A material weakness is a significant deficiency, or a 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.

Significant deficiencies and material weaknesses are required to be communicated in a separate letter and would not be repeated in this communication.

The following are descriptions of identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

- The Organization has a lack of segregation of duties relating to the maintenance of the general ledger and financial reporting. The Executive Director has the ability to post transactions, reconcile accounts and prepare financial reports with no formal independent review other than the month-end review of bank reconciliations and financial statements
- The bank reconciliation is reviewed but other monthly reports are not reviewed. For instance, monthly journal entries and accounts receivable reports prepared by the Executive Director are not regularly reviewed or approved.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.