

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)

Financial Statements

June 30, 2012 and 2011

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
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June 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Florida Healthy Kids Corporation
Tallahassee, Florida

We have audited the accompanying basic financial statements of Florida Healthy Kids Corporation (a non-profit organization and component unit of the State of Florida) as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of Florida Healthy Kids Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

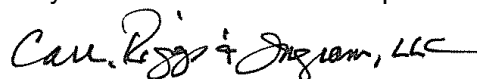
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Florida Healthy Kids Corporation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2012 on our consideration of Florida Healthy Kids Corporation'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements of Florida Healthy Kids Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



September 24, 2012

Management's Discussion and Analysis

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Management's Discussion and Analysis

As management of the Florida Healthy Kids Corporation (the "Corporation" or "Healthy Kids"), we offer readers of the Corporation's financial statements this narrative overview and analysis of the Corporation's financial activities for the year ended June 30, 2012. This overview and analysis is required by accounting principles generally accepted in the United States of America ("GAAP") in Governmental Accounting Standards Board Statement No. 34, *Basis Financial Statements- and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34").

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of two parts: Management's Discussion and Analysis and the Financial Statements. The Corporation is a component unit of the state of Florida and follows enterprise fund reporting. Therefore, the financial statements are presented in a manner similar to that of a private business, using the economic resources measurement focus and the accrual basis of accounting.

The Corporation's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed on a given date. This information is reported on the Statement of Net Assets. The table below shows a summary of the Corporation's financial position at June 30, 2012 and 2011.

FINANCIAL POSITION

<i>Years ended June 30,</i>	2012	2011	Change
Assets			
Current assets	\$ 43,970,774	\$ 38,527,834	14.13%
Equipment	133,172	35,158	278.78%
Total assets	\$ 44,103,946	\$ 38,562,992	14.37%
Liabilities			
Current liabilities	\$ 27,689,036	\$ 25,055,781	10.51%
Noncurrent liabilities	65,474	-	100.00%
Total liabilities	27,754,510	25,055,781	10.77%
Net assets			
Invested in capital assets	133,172	35,158	278.78%
Unrestricted	16,216,264	13,472,053	20.37%
Total net assets	16,349,436	13,507,211	21.04%
Total liabilities and net assets	\$ 44,103,946	\$ 38,562,992	14.37%

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Management's Discussion and Analysis

Information regarding the results of operations during the current year is reported in the Statement of Revenues, Expenses and Changes in Net Assets. This statement shows the increase or decrease in net assets during the year as a result of the Corporation's revenues and expenses. The table below shows a summary of the Corporation's changes in net assets for the fiscal years ended June 30, 2012 and 2011.

CHANGES IN NET ASSETS

<i>Years ended June 30,</i>	2012	2011	Change
Operating revenues	\$ 356,452,200	\$ 339,041,973	5.14%
Operating expenses	354,186,063	338,599,267	4.60%
Net operating gain	2,266,137	442,706	411.88%
Non-operating revenues	576,088	493,380	16.76%
Increase in net assets	2,842,225	936,086	203.63%
Net assets, beginning	13,507,211	12,571,125	7.45%
Net assets, ending	\$ 16,349,436	\$ 13,507,211	21.04%

FINANCIAL HIGHLIGHTS

- Total assets and total liabilities increased from fiscal year ended June 30, 2011 to fiscal year ended June 30, 2012. The primary reason was an increase in State funds held by the Corporation at the end of the fiscal year.
- Operating revenues and expenses increased from fiscal year ended June 30, 2011 to fiscal year ended June 30, 2012, primarily as a result of increased enrollment.
- Net assets increased from fiscal year ended June 30, 2011 to fiscal year ended June 30, 2012, primarily as a result of the use of liability funds to cover third party administrator related costs, interest income and a portion of experience adjustment payments.

Financial Statements

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Statements of Net Assets

<i>June 30,</i>	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 42,227,374	\$ 36,380,294
Government grants receivable	1,013,711	1,126,336
Security deposits and advances	158,404	140,845
Interest and other receivables	571,285	880,359
Total current assets	43,970,774	38,527,834
Capital assets		
Capital assets, net	71,607	35,158
Equipment under capital lease, net	61,565	-
Total capital assets	133,172	35,158
Total assets	\$ 44,103,946	\$ 38,562,992
Liabilities and Net Assets		
Current liabilities		
Insurance premiums collected in advance	\$ 15,654,608	\$ 15,780,827
Refundable advances	6,814,257	2,532,058
Accounts payable and accrued liabilities	4,167,518	2,399,529
Liability for compensated absences	227,259	247,340
Other liability	782,387	3,745,309
Due to AHCA - CMS/MediKids transfers of premiums	43,007	350,718
Current portion of capital lease obligation	33,212	-
Total current liabilities	27,722,248	25,055,781
Noncurrent liabilities		
Capital leases obligation, less current portion	32,262	-
Total liabilities	27,754,510	25,055,781
Net assets		
Invested in capital assets	133,172	35,158
Unrestricted	16,216,264	13,472,053
Total net assets	16,349,436	13,507,211
Total liabilities and net assets	\$ 44,103,946	\$ 38,562,992

See accompanying notes to financial statements.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Statements of Revenues, Expenses, and Changes in Net Assets

<i>Years ended June 30,</i>	2012	2011
Operating revenues		
Program specific operating grants:		
Federal	\$ 196,055,038	\$ 189,521,171
State of Florida	87,546,051	86,501,042
Local match	26,298	55,153
Participant insurance premiums	67,374,864	57,264,938
KidCare Administration contract revenue	5,449,949	5,699,669
Total operating revenues	356,452,200	339,041,973
Operating expenses		
Insurance premiums	327,135,997	311,217,862
Contractual services	22,518,100	22,534,481
Salaries, taxes and benefits	2,499,209	2,421,011
Printing and marketing	926,266	1,292,817
Office expenses	669,359	714,291
Professional services	124,922	157,863
Meetings and travel	92,492	68,346
Bank charges	54,216	99,949
Training and licensing	58,696	47,872
Depreciation and amortization	59,655	18,572
Insurance and other expenses	47,151	26,203
Total operating expenses	354,186,063	338,599,267
Operating gain	2,266,137	442,706
Non-operating revenues		
Interest income	576,088	493,380
Change in net assets	2,842,225	936,086
Net assets, beginning of year	13,507,211	12,571,125
Net assets, end of year	\$ 16,349,436	\$ 13,507,211

See accompanying notes to financial statements.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Statements of Cash Flows

<i>Years ended June 30,</i>	2012	2011
Cash flows from operating activities		
Receipts from participants	\$ 67,248,645	\$ 59,303,112
Receipts from program specific operating grants	288,022,211	266,186,394
Other receipts	5,449,949	5,699,669
Payments to insurers	(327,135,997)	(311,217,862)
Payments to employees	(1,743,688)	(1,686,851)
Other payments	(26,210,429)	(29,797,707)
Net cash provided by (used in) operating activities	5,630,691	(11,513,245)
Cash flows from noncapital and related financing activities		
CMS/MediKids transfers of premiums	(307,711)	312,086
Net cash (used in) provided by noncapital and related financing activities	(307,711)	312,086
Cash flows from investing activities		
Interest earnings	616,295	524,026
Net cash provided by investing activities	616,295	524,026
Cash flows from capital and related financing activities		
Purchase of property and equipment	(65,321)	(23,741)
Principal payments on capital lease obligation	(26,874)	-
Net cash used in capital and related financing activities	(92,195)	(23,741)
Net increase (decrease) in cash and cash equivalents	5,847,080	(10,700,874)
Cash and cash equivalents, beginning of year	36,380,294	47,081,168
Cash and cash equivalents, end of year	\$ 42,227,374	\$ 36,380,294

See accompanying notes to financial statements.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Statements of Cash Flows (Continued)

	2012	2011
Reconciliation of operating gain		
to net cash provided by (used in) operating activities:		
Operating gain	\$ 2,266,137	\$ 442,706
Adjustments to reconcile operating gain to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	59,655	18,572
Change in assets and liabilities:		
Government grants receivable	112,625	(293,734)
Other receivables	268,867	5,615,182
Security deposits and advances	(17,559)	(26,117)
Contract receivable	-	500,000
Refundable advances	4,282,199	(9,597,239)
Accounts payable and accrued liabilities	1,767,989	(5,534,792)
Insurance premiums collected in advance	(126,219)	2,038,174
Liability for compensated absences	(20,081)	28,694
Other liability	(2,962,922)	(4,704,691)
Net cash provided by (used in) operating activities	\$ 5,630,691	\$ (11,513,245)

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:

Due to AHCA-CMS/Medikids transfers of premiums	\$ (307,711)	\$ 312,086
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The Corporation had non-cash financing transactions relating to a capital lease on new technology/equipment of \$92,348 in 2012.

See accompanying notes to financial statements.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 1 – NATURE OF BUSINESS

In 1990, the Florida Legislature passed the Florida Healthy Kids Corporation Act establishing Florida Healthy Kids Corporation (the “Corporation”) and directing it to create a comprehensive insurance product for school children and to facilitate the provision of preventive care for children. The Corporation is a component unit of the State of Florida and, as such, its financial information is included in the State of Florida’s financial statements.

The Corporation operates in all 67 Florida counties and insures over 233,000 children. The Corporation contracts with health maintenance organizations and other licensed insurers to provide health and dental insurance to school-aged children who are not covered under Medicaid or private insurance. Premiums may be subsidized depending on family size and income.

The United States Congress enacted Title XXI of the Social Security Act in 1997, which created the Children’s Health Insurance Program for uninsured children under age 19. The State of Florida’s plan was implemented on April 1, 1998 under the Florida Kidcare Act. In addition to providing insurance for children under their Title XXI program, the Corporation performs administrative functions for the State of Florida’s other Title XXI programs (Children’s Medical Services and MediKids). These administrative duties include Medicaid screening, application processing, and record keeping functions for approximately 58,000 additional children. In addition, the Corporation is statutorily required to promote the overall KidCare program.

Funding for the programs is provided through appropriations from the Federal Government under Title XXI, the State of Florida, local funds, and family paid premiums.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Corporation are described below:

Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

No component units were identified for the years ended June 30, 2012 and 2011.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments with an initial maturity of three months or less, including cash on hand and demand deposits to be cash equivalents. Additionally, the Corporation's accounts in the State of Florida Treasurer's Pooled Funds Accounts are considered to be cash equivalents. The accounts are stated at cost, and accrued interest is recorded separately on the statements of net assets.

Restricted Cash and Cash Equivalents

The Corporation considers the balance in the Insurance Premiums Collected in Advance account to be restricted cash and cash equivalents. This balance represents funds paid to the Corporation by families for future months of insurance coverage. The Corporation also maintains a separate bank account with funds being held for a potential claim against funds recovered from a third party. The funds in this account are considered restricted cash and cash equivalents. The restricted cash and cash equivalent balances at June 30, 2012 and 2011 were \$16,055,092 and \$16,181,307, respectively.

Capital Assets, Net

Capital assets are reported at cost less accumulated depreciation. Additions, improvements, and other capital outlays that are \$5,000 or more and significantly extend the useful life of the asset are capitalized. All capital assets are depreciated using the straight-line method over their estimated useful lives, which range from three to seven years.

Insurance Premiums Collected in Advance

Insurance premiums collected in advance represent the balance of family premium payments received by the Corporation in advance of their use for the family's insurance coverage.

Refundable Advances

Refundable advances represent the liability for funds received from funding agencies but not yet earned as of the end of the reporting period.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due to AHCA – CMS/MediKids Transfers of Premiums

Due to AHCA-CMS/MediKids transfers of premiums represent the premiums collected from the Children's Medical Services and MediKids families and due to be transferred to the Agency for Health Care Administration (AHCA). This account can also include other amounts payable to AHCA.

Operating Revenues

Operating revenues are those grants and other revenue sources used to finance the annual operating activities of the Corporation excluding interest.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Government Grants Receivable

No allowance for doubtful accounts has been established, as management believes these amounts to be fully collectible.

Subsequent Events

Subsequent events have been evaluated through the date of the independent auditors' report.

NOTE 3 – DEPOSITS

As of June 30, 2012, the carrying amount of the Corporation's deposits, including restricted amounts, was \$28,871,638 and bank balances on deposit totaled \$27,670,222. Demand deposits totaling \$27,670,222 were collateralized in accordance with 280.04 Florida Statutes.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 3 – DEPOSITS (CONTINUED)

As of June 30, 2011, the carrying amount of the Corporation's deposits, including restricted amounts, was \$8,878,654 and bank balances on deposit totaled \$11,557,384. Demand deposits totaling \$11,557,384 were collateralized in accordance with 280.04 Florida Statutes.

NOTE 4 – INVESTMENT IN FLORIDA STATE TREASURY INVESTMENT POOL

Account balances with the Florida State Treasury Investment Pool, were held in Special Purpose Investment Accounts (SPIA). The accounts totaled \$13,355,736 and \$27,501,640 at June 30, 2012 and 2011, respectively. As a SPIA participant, the Corporation owns a share in the Florida Treasury Investment Pool, not the underlying securities. The Corporation has immediate access to their funds in the SPIA account provided the liquidation is less than \$15 million. As of June 30, 2012, the Corporation's Fair Value factor in the Florida State Treasury's Investment Pool was 1.0171%.

At June 30, the Corporation's investment balances in the Florida State Treasury Investment Pool were as follows:

	2012		2011	
Fair Value	Maturity	Rating	Fair Value	
<u>\$13,355,736</u>	2.38	A+f	<u>\$27,501,640</u>	

Interest Rate Risk

The Corporation invests in short term instruments as a means of managing its exposure to fair value losses arising from increasing interest rates. The effective duration of the Florida State Treasury Investment Pool at June 30, 2012 is 2.38 years.

Credit Risk

The Corporation's policy is to invest in high quality instruments with the lowest level of risk. The investment in the Florida State Treasury Investment Pool is rated A+f by Standard and Poor's.

Additional disclosure for the Florida State Treasury Investment Pool may be found in the State of Florida's Comprehensive Annual Financial Report at Note 2.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS, NET

Capital asset activity for the years ended June 30, 2012 and 2011 was as follows:

	July 1, 2011	Additions	Deletions	June 30, 2012
Depreciable assets:				
Furniture	\$ 114,750	\$ -	\$ (10,974)	\$ 103,776
Equipment	-	25,531	-	25,531
Computers and software	196,626	14,310	(20,800)	190,136
Leasehold improvements	7,766	25,480	-	33,246
Capital lease	-	92,348	-	92,348
Total	319,142	157,669	(31,774)	445,037
Less accumulated depreciation and amortization:				
Furniture	(114,750)	-	10,974	(103,776)
Equipment	-	(2,128)	-	(2,128)
Computers and software	(161,468)	(17,454)	20,800	(158,122)
Leasehold improvements	(7,766)	(9,290)	-	(17,056)
Capital lease	-	(30,783)	-	(30,783)
Total	(283,984)	(59,655)	31,774	(311,865)
Total capital assets, net	\$ 35,158	\$ 98,014	\$ -	\$ 133,172

	July 1, 2010	Additions	Deletions	June 30, 2011
Depreciable assets:				
Furniture	\$ 137,324	\$ -	\$ (22,574)	\$ 114,750
Equipment	5,676	-	(5,676)	-
Computers and software	183,791	23,741	(10,906)	196,626
Leasehold improvements	7,766	-	-	7,766
Total	334,557	23,741	(39,156)	319,142
Less accumulated depreciation and amortization:				
Furniture	(137,324)	-	22,574	(114,750)
Equipment	(4,730)	(946)	5,676	-
Computers and software	(154,748)	(17,626)	10,906	(161,468)
Leasehold improvements	(7,766)	-	-	(7,766)
Total	(304,568)	(18,572)	39,156	(283,984)
Total capital assets, net	\$ 29,989	\$ 5,169	\$ -	\$ 35,158

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 was \$59,655 and \$18,572, respectively.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 6 – OPERATING LEASE COMMITMENTS

The Corporation leases office space and equipment under non-cancelable operating leases. The Corporation's office space lease expires September 30, 2013.

At June 30, 2012 future minimum lease payments are as follows:

<i>Years ending June 30,</i>	
2013	\$ 321,052
2014	90,072
2015	8,280
2016	8,280
Total	\$ 427,684

Lease expense for the years ended June 30, 2012 and 2011 was \$336,320 and \$331,349, respectively.

NOTE 7 – COMMITMENTS

Contracts

The Corporation contracts with health care insurers to provide medical and dental services in every county. The Corporation also contracts with a third party administrator to provide administrative program services to enrollees. Amounts to be paid under these contracts will vary with enrollment.

Line of Credit

The Corporation maintains two lines of credit of \$5,000,000 each, both with an interest rate of LIBOR plus 1.7%, and are renewed annually. The one month LIBOR rate was 0.246% as of June 30, 2012. Both notes are open revolving lines of credit, with advances on one note restricted to pending accounts payable from the State of Florida.

No amounts were outstanding on either of the lines of credit at June 30, 2012 and 2011.

NOTE 8 – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2012 and 2011, the Corporation paid \$70,737 and \$55,321, respectively, in legal fees to a law firm serving as general counsel to the Board of Directors. General Counsel served as a non-voting advisory member to the Purchasing and Contracting Committee of the Corporation during the year ended June 30, 2012. The outstanding balance due from the Corporation to the firm as of June 30, 2012 and 2011 was \$11,248 and \$11,813, respectively.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 9 – DEFINED CONTRIBUTION RETIREMENT PLAN

On July 1, 2002, the Corporation adopted a Tax Sheltered Annuity Plan 403(b) Plan, “the Plan”). Under the Plan, the Corporation contributes an amount equal to 15% of eligible employees’ compensation and an additional 100% match of employee participant contributions to a maximum of 2%. Changes to the plan provisions are made by adoption of a plan amendment. During the year ended June 30, 2012, the Corporation contributed \$275,960 and participants contributed \$51,189 to the Plan. During the year ended June 30, 2011, the Corporation contributed \$276,692 and participants contributed \$53,275 to the Plan.

NOTE 10 – FUNDING CONCENTRATIONS

As of June 30, 2012, approximately 25% of the Corporation’s operating revenues were State of Florida appropriations, which are renewed on an annual basis. The receipt of Title XXI federal funds (which comprise approximately 55% of the Corporation’s operating revenues) is dependent on the continuation of matching funding sources from non-federal sources, including state and local funds.

Funds appropriated to the Corporation for the period from July 1, 2012 to June 30, 2013 for the Healthy Kid Program include \$97,988,136 and \$232,403,735 from State and Federal funds, respectively. Total State and Federal Funds appropriated to the Corporation for the period July 1, 2012 to June 30, 2013 for administration of the KidCare program is \$5,840,021.

NOTE 11 – CONTINGENCIES

Litigation

The Corporation is party to routine legal proceedings and litigation arising in the ordinary course of business. In the opinion of Management, the outcome of such actions will have no material impact on the Corporation’s financial condition.

Unspent State Funds

State of Florida appropriations are released to the Corporation in accordance with a funding agreement between the Corporation and the Agency for Health Care Administration (the “Agency”). The agreement stipulates the use of funds for the Corporation’s statutory purposes and the payment dates and amounts from the Agency to the Corporation. Unspent funds are required to be returned upon dissolution of the Corporation or upon demand by the Agency.

Based on the Agency’s expressed intent to collect unspent state funds, the full amount of released unspent state funds for fiscal years 2011-2012 and 2010-2011 is included in refundable advances as of June 30, 2012 and 2011, respectively.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 11 – CONTINGENCIES (CONTINUED)

Unspent State Funds (Continued)

The Corporation is authorized by statute to create and maintain an operating fund. The amount that can be accumulated in this fund is limited to no more than 25% of the Corporation's annualized operating expenditures. Amounts above this threshold are required to be returned to the State. The Corporation's net assets did not exceed this threshold as of June 30, 2012 or at any time during the year then ended.

Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. Conventional commercial insurance coverage has been purchased from various independent carriers to insure against such risks and minimize the Corporation's financial exposure to such risks.

The Corporation is not involved in any risk pools with other governmental entities.

NOTE 12 – LIQUIDATED DAMAGES

In accordance with the Corporation's contract with its third party administrator (TPA), liquidated damages are to be assessed against the TPA when specific, monthly performance measures are not met. The \$782,387 balance in the Other Liability account represents the liquidated damages remaining with the Corporation at the fiscal year ended June 30, 2012. All of these liquidated damages have been withheld from payments to the TPA based upon the TPA's performance reports. There are no liquidated damages due from the TPA at June 30, 2012, therefore the Contract Receivable balance is \$0 at June 30, 2012. Due to the continuation of TPA services and the potential for actual damages, these funds are currently recorded as Other Liability.

NOTE 13 – CAPITAL LEASE

The Corporation leases technology/equipment under a capital lease. The lease contains an option whereby the Corporation can purchase the products at the end of the lease term for \$1.

The following is an analysis of the leased property under capital lease.

<i>June 30,</i>	2012	2011
Technology/equipment	\$ 92,348	\$ -
Accumulated amortization	(30,783)	-
Property under capital lease-net	\$ 61,565	\$ -

Amortization expense for the years ended June 30, 2012 and 2011 was \$30,783 and \$-0-, respectively.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Financial Statements

NOTE 13 – CAPITAL LEASE (CONTINUED)

The following is a schedule by year of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments:

<i>Years ending June 30,</i>	
2013	\$ 33,212
2014	33,212
2015	2,768
Total minimum lease payments	69,192
Less: Amount representing interest	(3,718)
Present value of net minimum lease payments	\$ 65,474

Interest expense for the year ended June 30, 2012 is \$2,168.

Supplementary Information

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Schedule of Expenditures of Federal Awards and State Matching Funds
Year ended June 30, 2012

Federal/State Agency, Pass Through Entity, Federal Program	State Contract Number	CFDA Number	Expenditures
Federal			
<u>U.S. Department of Health and Human Services:</u>			
<u>State Children's Insurance Program</u>			
Passed through State of Florida, Agency for Health Care Administration:			
Title XXI Health Insurance	MED017	93.767	\$ 196,055,038
KidCare Administration	MED017	93.767	3,767,415
Total expenditures of federal awards			\$ 199,822,453
State matching funds:			
Tobacco Settlement Trust Fund Appropriation	MED017	N/A	\$ 63,033,157
General Revenue Appropriation	MED017	N/A	24,512,894
KidCare Administration	MED017	N/A	1,682,536
Total state matching funds			\$ 89,228,587

See Independent Auditors' Report.

Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Notes to Schedule of Expenditures of Federal Awards and State Matching Funds
Year ended June 30, 2012

NOTE 1 – BASIS OF PRESENTATION

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

Single Audit and Auditor General Reports

**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
Florida Healthy Kids Corporation
Tallahassee, Florida

We have audited the financial statements of Florida Healthy Kids Corporation (a non-profit organization and component unit of the State of Florida) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Florida Healthy Kids Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Florida Healthy Kids Corporation'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 Florida Healthy Kids Corporation'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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

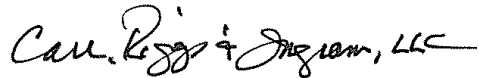
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

To the Board of Directors
Florida Healthy Kids Corporation

Compliance and Other Matters

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

This report is intended solely for the information and use of management, board of directors, others within the entity, State of Florida Office of the Auditor General, 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.



September 24, 2012

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

To the Board of Directors
Florida Healthy Kids Corporation
Tallahassee, Florida

Compliance

We have audited Florida Healthy Kids Corporation's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that could have a direct and material effect on Florida Healthy Kids Corporation's major federal programs for the year ended June 30, 2012. Florida Healthy Kids Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major programs is the responsibility of Florida Healthy Kids Corporation's management. Our responsibility is to express an opinion on Florida Healthy Kids Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 The Florida Healthy Kids Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Florida Healthy Kids Corporation's compliance with those requirements.

In our opinion, Florida Healthy Kids Corporation complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

To the Board of Directors
Florida Healthy Kids Corporation

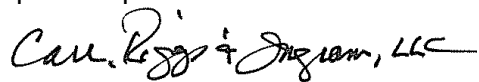
Internal Control Over Compliance

The management of Florida Healthy Kids Corporation is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Florida Healthy Kids Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, 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 Florida Healthy Kids Corporation's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies or material weaknesses in internal control over compliance. 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 management, board of directors, others within the entity, State of Florida Office of the Auditor General, 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.



September 24, 2012

**Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Schedule of Findings and Questioned Costs**

SUMMARY OF AUDIT RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Florida Healthy Kids Corporation.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Florida Healthy Kids Corporation were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General.
5. The Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program for Florida Healthy Kids Corporation which are required to be reported in this schedule.
7. The federal programs tested as major programs include:

<u>Federal Program</u>	<u>Federal CFDA No.</u>
State Children's Insurance Program	93.767
8. The threshold for distinguishing Type A and B programs/projects was \$3,000,000 for major federal programs.
9. Florida Healthy Kids Corporation was determined to be a low-risk auditee.
10. There are no items related to federal awards required to be reported in the management letter.

FINDINGS FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

None

**Florida Healthy Kids Corporation
(A Component Unit of the State of Florida)
Summary Schedule of Prior Audit Findings**

PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

None

PRIOR YEAR FINDINGS FINANCIAL STATEMENTS

None