

CHILDNET, INC. AND AFFILIATE

AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
JUNE 30, 2005

CHILDNET, INC. AND AFFILIATE  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2005  
AND FOR THE YEAR THEN ENDED

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
CONSOLIDATED FINANCIAL STATEMENTS:	
Consolidated statement of financial position	3
Consolidated statement of activities	4
Consolidated statement of cash flows	5
Notes to consolidated financial statements	6 - 13
SUPPLEMENTARY INFORMATION:	
Consolidated schedule of functional expenses	14
Schedule of expenditures of federal awards and state financial assistance	15
Note to the schedule of expenditures of federal awards and state financial assistance	16
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL PROGRAMS AND STATE PROJECTS	17
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	18 - 19
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	20 - 21
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL	22 - 23



**GOLDSTEIN, ZUGMAN,  
WEINSTEIN & POOLE, LLC**  
*Certified Public Accountants and Consultants*

Irving L. Goldstein, C.P.A., P.A.  
David B. Zugman, C.P.A., P.A.  
Frederick S. Weinstein, C.P.A., P.A.  
Keenan L. Poole, C.P.A., P.A.  
David B. Black, C.P.A., P.A.  
Steven M. Borisman, C.P.A., P.A.

Howard E. Hammer, C.P.A., P.A.  
Geraldine (Dee Dee) Rinaldi, C.P.A.  
Michelle D. Bressler, C.P.A., C.F.P.  
George F. Horvath, C.P.A.  
Christopher Parsotan, C.P.A.  
Richard B. Nirenberg, C.P.A., J.D.  
Adele R. Shea, C.P.A.

Fourth Floor  
4875 North Federal Highway  
Fort Lauderdale, FL 33308  
Broward 954.351.9000  
Palm Beach 561.393.0411  
Miami-Dade 305.947.7717  
Fax 954.351.9011  
admin@gzwpcca.com

October 20, 2005

**INDEPENDENT AUDITORS' REPORT**

Board of Directors of  
ChildNet, Inc. and Affiliate  
Fort Lauderdale, Florida

We have audited the accompanying consolidated statement of financial position of ChildNet, Inc. and Affiliate (a not-for-profit organization), (the "Organizations") as of June 30, 2005 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2004 financial statements and in our report dated October 25, 2004 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ChildNet, Inc. and Affiliate as of June 30, 2005, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2005 on our consideration of ChildNet, Inc. and Affiliate's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of ChildNet, Inc. and Affiliate taken as a whole. The schedule of functional expenses (page 14) is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance (page 15) and note to the schedule of expenditures of federal awards and state financial assistance (page 16) are 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 are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*Goldstein, Zugman, Weinstein & Poole, LLC*

GOLDSTEIN, ZUGMAN,  
WEINSTEIN & POOLE, LLC

CHILDNET, INC. AND AFFILIATE  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2005  
(with summarized comparative financial information as of June 30, 2004)

	2005		2004
	Unrestricted	Temporarily Restricted	Total
		Total	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 338,888		\$3,157,996
Funds for clients – Social security benefits	475,328	475,328	0
Receivable from funding sources	2,919,461	2,919,461	2,813,874
Other receivables	70,245	70,245	13,881
Prepaid expenses	406,424	406,424	359,460
<b>Total Current Assets</b>	<b>4,210,346</b>	<b>\$ 0</b>	<b>6,345,211</b>
<b>PROPERTY AND EQUIPMENT -</b>			
Net of accumulated depreciation	1,380	1,427,010	1,428,390
		1,428,390	1,449,899
<b>TOTAL ASSETS</b>	<b>\$4,211,726</b>	<b>\$1,427,010</b>	<b>\$5,638,736</b>
		<b>\$5,638,736</b>	<b>\$7,795,110</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 927,006	\$ 927,006	\$ 891,364
Accounts payable - Providers	2,086,468	2,086,468	4,862,867
Accrued salaries and annual leave	1,457,252	1,457,252	844,214
Funds due to clients – Social security benefits	475,328	475,328	0
Deferred revenue	19,795	19,795	0
<b>Total Liabilities</b>	<b>4,965,849</b>	<b>\$ 0</b>	<b>6,598,445</b>
<b>NET ASSETS/(DEFICIT)</b>			
Unrestricted	(754,123)	(754,123)	(251,395)
Temporarily restricted	1,427,010	1,427,010	1,448,060
<b>Total Net Assets/(Deficit)</b>	<b>(754,123)</b>	<b>1,427,010</b>	<b>1,196,665</b>
		<b>672,887</b>	<b>1,196,665</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$4,211,726</b>	<b>\$1,427,010</b>	<b>\$5,638,736</b>
		<b>\$5,638,736</b>	<b>\$7,795,110</b>

The accompanying notes are an integral part of these financial statements.

CHILDNET, INC. AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005  
(with summarized comparative financial information  
for the year ended June 30, 2004)

	2005			2004
	Unrestricted	Temporarily Restricted	Total	Total
Changes in Net Assets:				
Support and Revenues				
Contracts	\$62,163,126	\$ 366,004	\$62,529,130	\$47,483,987
Contributions	38,730		38,730	129,117
In-kind contribution-Rent	521,734		521,734	545,360
In-kind contribution - Equipment			0	170,454
Net assets released from restrictions	<u>334,092</u>	<u>(334,092)</u>	<u>0</u>	<u>0</u>
Total Support and Revenues	<u>63,057,682</u>	<u>31,912</u>	<u>63,089,594</u>	<u>48,328,918</u>
Expenses				
Program services	63,500,548		63,500,548	47,396,821
Supporting services	59,862		59,862	69,033
Loss on disposal of assets		<u>52,962</u>	<u>52,962</u>	<u>0</u>
Total Expenses	<u>63,560,410</u>	<u>52,962</u>	<u>63,613,372</u>	<u>47,465,854</u>
(DECREASE)/INCREASE IN NET ASSETS	(502,728)	(21,050)	(523,778)	863,064
Net Assets/(Deficit) - Beginning of Year	<u>(251,395)</u>	<u>1,448,060</u>	<u>1,196,665</u>	<u>333,601</u>
NET ASSETS/(DEFICIT) - END OF YEAR	<u>\$ (754,123)</u>	<u>\$1,427,010</u>	<u>\$ 672,887</u>	<u>\$ 1,196,665</u>

The accompanying notes are an integral part of these financial statements.

CHILDNET, INC. AND AFFILIATE  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005  
(with comparative financial information  
for the year ended June 30, 2004)

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Decrease)/increase in net assets	\$ (523,778)	\$ 863,064
Adjustments to reconcile (decrease)/ increase in net assets to net cash (used in)/provided by operating activities:		
Depreciation	334,551	161,244
Contributed equipment	0	(170,454)
Loss on disposal of assets	52,962	0
Increase in receivables from funding sources	(105,587)	(1,795,750)
Increase in other receivables	(56,364)	(13,881)
Increase in prepaid expenses	(46,964)	(318,958)
Increase in accounts payable and accrued expenses	35,642	708,633
(Decrease)/increase in accounts payable - Providers	(2,776,399)	3,863,081
Increase in accrued salaries and annual leave	613,038	774,051
Increase in deferred revenue	<u>19,795</u>	<u>0</u>
 Net Cash (Used In)/Provided By Operating Activities	 (2,453,104)	 4,071,030
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(366,004)</u>	<u>(1,114,309)</u>
 (DECREASE)/INCREASE IN CASH	 (2,819,108)	 2,956,721
 Cash - Beginning of Year	 <u>3,157,996</u>	 <u>201,275</u>
 CASH - END OF YEAR	 <u>\$ 338,888</u>	 <u>\$3,157,996</u>
 <b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
In-kind contributions:		
Rent	\$521,734	\$545,360
Property and equipment	<u>0</u>	<u>170,454</u>
	<u>\$521,734</u>	<u>\$715,814</u>

The accompanying notes are an integral part of these financial statements.

CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Community Based Solutions, Inc. was incorporated on July 25, 2001. On October 10, 2002, Community Based Solutions, Inc. changed its name to ChildNet, Inc., d/b/a ChildNet ("ChildNet").

ChildNet is a not-for-profit organization devoted to the development of community-based services and support for children and families served by the Broward County child protection and foster care system. ChildNet's mission is to develop and manage a comprehensive, community-based, coordinated system of care for abused, neglected, and abandoned children and their families and for children and families who are at risk of maltreatment and/or placement in the foster care system.

Broward Cares for Kids Foundation, Inc. ("Broward Cares for Kids") was incorporated on October 7, 2004. On March 25, 2005, Broward Cares for Kids filed to be considered a private, not-for-profit organization with the IRS, created as a fundraising arm of ChildNet. The purpose of Broward Cares for Kids is to provide alternative source of funding which will facilitate the implementation of services not currently eligible from State and Federal funding to ChildNet.

ChildNet's support and revenue was received substantially from a grant evidenced by a contract with its funding source, Florida Department of Children and Families ("DCF"). ChildNet also had non-contractual grants designated for certain projects or programs as well as a contract with the Children's Services Council of Broward County ("CSC").

Consolidated Financial Statements

The accompanying consolidated financial statements reflect the financial position and results of operations of ChildNet and its affiliated supporting organization, Broward Cares for Kids, collectively referred herein as the ("Organization"). For the year ended June 30, 2005, Broward Cares for Kids' activity was immaterial. All intercompany transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting to conform with accounting principles generally accepted in the United States of America.



CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The Organization has adopted Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by action of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had not permanently restricted net assets at June 30, 2005.

Comparative Financial Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

Cash

Cash consists of various checking accounts.

Revenue Recognition

Contract revenue is recognized as revenue in the period in which it is expended for cost-reimbursed agreements. Amounts that have not yet been spent are recorded as deferred revenue.

CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Contributions and grants are recognized as revenue when received and recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

All other revenues are recognized when earned.

Contributions of Services, Facilities and Materials

The Organization occupies, without charge or for nominal charges, certain facilities used for its program services.

In-kind contributions of services, facilities and materials are recorded at their estimated fair value.

Functional Expense Allocation

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

Estimates

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

Income Tax

ChildNet has qualified as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code, and, accordingly, is not subject to federal or state tax.

Broward Cares for Kids has filed for recognition of exemption under Section 501(c)(3) of the U.S. Internal Revenue Code. This would qualify Broward Cares for Kids as a tax-exempt organization.

CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 2 - CONTRACTS

On July 1, 2003, DCF awarded the ChildNet a contract in the amount of \$176,640,367 which will be in effect until June 30, 2006. ChildNet is to coordinate and administer certain child welfare services in Broward County including emergency shelter, residential group care, in-home protection services, relative care placements, foster care, case management, post-placement supervision, independent living, family reunification and preservation and adoption services. The contract can be terminated by either party with 180 days notice in writing. The contract requires ChildNet to comply with certain performance measures on a monthly basis and may be terminated in the event of non-compliance.

On September 11, 2003, DCF awarded a contract between their Substance Abuse and Mental Health Program ("SAMH") and ChildNet in the amount of \$285,010 to provide intervention services that focus on reducing risk factors generally associated with the progression of mental health problems, plus incidental expenses that include cost of clothing, medical care, educational needs and other approved costs. The contract expired on June 30, 2004.

ChildNet entered into a contract with CSC in the amount of \$257,462 which expired on September 30, 2004. The contract was to provide a specialized foster care recruitment program (Teen Permanence), which would supply suitable and stable placements for adjudicated dependent youth in Broward County.

ChildNet entered into a contract with CSC in the amount of \$120,430, which expired on October 20, 2005. The contract was to provide families with the ability to develop and acquire resources needed to reduce risk factors related to child abuse and neglect, and provide support for participants to sustain healthy families.

NOTE 3 - CONTRACTS WITH OUTSIDE PROVIDERS

ChildNet has contractual agreements with various not-for-profit agencies ("Providers") to provide foster care, case management, and intervention and family support services for them.

The foster care contracts specify the responsibility of the Provider to arrange for expedient shelter of children, monitor licensing of foster homes in accordance with Florida state statutes and report certain performance measures to ChildNet on a monthly basis. ChildNet pays the Providers a specified amount per licensed foster home each month up to a set maximum amount.

Case management contracts specify the responsibility of the Provider to oversee cases, visit with children and families on a regular basis and report information related to the case management to ChildNet. ChildNet pays the Providers a specified amount per case manager each month up to a set maximum amount.

Contracts are for a period of one year. Under these contracts, ChildNet paid approximately \$40,000,000 to outside Providers for the year ended June 30, 2005.

CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 4 - MATCHING FUND REQUIREMENTS

ChildNet and its network providers allocated matching funds of cash and in-kind services in the amount of \$551,771 to the Promoting Safe and Stable Families Program.

ChildNet received matching funds from the DCF in the amount of \$14,489,342.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment acquisitions are recorded at cost. Donated property and equipment is recorded at the estimated fair market value at the date of the donation. Property and equipment with a useful life of more than one year and a cost or donated value of \$750 or more is capitalized. Depreciation is provided for furniture and equipment over the estimated useful lives of three to seven years of the assets on a straight-line basis.

Property and equipment is summarized as follows:

Furniture and equipment	\$1,958,211
Less: Accumulated depreciation	<u>(529,821)</u>
Net Property and Equipment	<u>\$1,428,390</u>

Depreciation expense for the year ended June 30, 2005 was \$334,551.

NOTE 6 - ACCOUNTS PAYABLE – COMMUNITY-BASED CARE PROVIDERS

ChildNet reimburses the providers for both case management and foster care management services. The payable represents amounts invoiced to ChildNet for services provided prior to June 30, 2005. These amounts were paid subsequent to year-end.

NOTE 7 - LINE OF CREDIT

ChildNet has a \$1,000,000 line of credit from SunTrust Bank. The line of credit bears interest at prime plus 1.00% and expires November 30, 2005. Borrowings are collateralized by accounts receivable from contracts and are due upon demand.

At June 30, 2005, no borrowings were outstanding under this line of credit.

NOTE 8 - ACCRUED PAID TIME OFF AND SICK LEAVE

The Organization accrues paid time off (“PTO”) hours for employees over 26 pay periods. PTO hours are based on the number of years of service up to 29 days. Employees may carry forward a maximum of four weeks (160 hours) to the next fiscal year. Major Illness Account (“MIA”) hours are accrued over 26 pay periods up to a maximum of 320 hours. Upon termination, employees will be paid for all accrued PTO hours. Employees are not paid for unused MIA hours. As of June 30, 2005, PTO hours were accrued in the amount of \$792,425.

CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of nonexpendable property (i.e. tangible personal property of a nonconsumable nature) in which the grantor maintains title upon completion or termination of the contract.

Temporarily restricted net assets at June 30, 2005 consisted of:

Florida Department of Children and Families	\$1,381,136
Children's Services Council of Broward County	<u>45,874</u>
Total	<u>\$1,427,010</u>

For the year ended June 30, 2005, \$334,092 of net assets were released from restrictions as a result of depreciation.

NOTE 10 - EMPLOYEE RETIREMENT PLAN

The Organization has adopted a 403(b) tax-deferred annuity retirement plan (the "Plan"), covering all of their employees meeting the minimum eligibility requirements. The Organization, at its discretion, will contribute a percentage of compensation on behalf of each eligible employee. For the year ended June 30, 2005, the Organization's discretionary percentage was 2% of eligible employee compensation. In addition, the Organization matches 50% of the elective employee deferrals up to 6% of compensation. The Organization contributed \$521,607 to the Plan for the year ended June 30, 2005.

NOTE 11 - LEASE COMMITMENTS

ChildNet has entered into the following lease agreements:

On July 1, 2003 – Office space subleased from DCF over a period of 29 months. Rent payments for the year ended June 30, 2005 were approximately \$89,307 and the lease is renewable for a period of five additional years.

On April 1, 2003 – Office space for 60 months. Current year's rent was \$292,830.

On January 1, 2004 – Office space for 51 months, with two one-year renewal options. Current year's rent was \$46,575.

On July 1, 2004 – Office space for 55 months at \$19,809 per month. Current year's rent was \$237,708.

On February 1, 2005 – Office space for 62 months. Current year's rent was \$62,212.

CHILDNET, INC. AND AFFILIATE  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2005

NOTE 11 - LEASE COMMITMENTS (Continued)

On April 1, 2005 – Office space subleased from DCF. DCF bills the ChildNet for the monthly rent and ChildNet in turn invoices DCF for the same amount as reimbursement. The current year’s rent was \$45,793 per month for a total of \$137,378, plus in-kind use of the ChildNet’s facilities from DCF from July 1, 2004 to March 31, 2005 in the amount of \$521,734.

Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	
2006	\$1,587,166
2007	812,292
2008	759,256
2009	497,825
2010	<u>153,860</u>
Total	<u>\$3,810,399</u>

Rent expense for the year was \$1,390,083, including the in-kind use of ChildNet’s facilities from DCF in the amount of \$521,734.

ChildNet entered into various non-cancelable leases for office equipment. The leases are for a period of two to five years.

Future minimum lease payments are as follows:

<u>Years ending June 30,</u>	
2006	\$ 99,896
2007	96,188
2008	70,486
2009	36,815
2010	<u>1,847</u>
Total	<u>\$305,232</u>

NOTE 12 - CONTINGENCIES

Amounts received from contracting agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed costs, including amounts already collected, would become a liability of the Organization if so determined in the future. It is management’s belief that no material liability will result from future audits of such activities.

CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 12 - CONTINGENCIES (Continued)

Several former employees of ChildNet have each filed a Charge of Discrimination with the U.S. Equal Employment Opportunity Commission. No litigation has been filed as of the date of these financial statements. While the final outcomes cannot be determined at this time, management believes that they will not have a material effect on the Organization's financial statements.

NOTE 13 - RELATED PARTY TRANSACTIONS

ChildNet contracted with Family Central, Inc. to provide child abuse and parent education services. During the year ended June 30, 2005 ChildNet paid \$198,913 for these services. Family Central, Inc. employs several members of the Board of Directors of ChildNet.

ChildNet contracted with US Imaging Solutions, LLC to provide electronic document solution services. During the year ended June 30, 2005, ChildNet paid \$21,634 for these services. A member of the Board of Directors is co-owner of US Imaging Solutions, LLC.

NOTE 14 - CONCENTRATIONS OF CREDIT RISK

*Cash*

The Organization maintains its cash balances with two financial institutions covered under the Federal Deposit Insurance Corporation (FDIC). The accounts are insured by the FDIC up to \$100,000. At June 30, 2005 the Organization has an uninsured cash balance of \$169,798.

*Revenues*

During the year ended June 30, 2005 substantially all of ChildNet's contract revenues were received through the DCF. The operations of ChildNet are dependent upon the funding from this entity.

NOTE 15 - FUNDS FOR CLIENTS/DUE TO CLIENTS – SOCIAL SECURITY BENEFITS

ChildNet acts as a representative payee for social security benefits on behalf of children who are in custody of the State of Florida because either their parents are deceased or disabled and/or lost their parental rights or the child is disabled. The benefits are managed by ChildNet to ensure that the children's current and foreseeable needs are being provided. The benefits in excess of current needs requirements are held in escrow and invested in highly liquid, risk free government securities with the State Treasury and monitored by the Department of Children and Families.

CHILDNET, INC. AND AFFILIATE  
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2005

	Program Services		Supporting Services				
	Florida Department of Children and Families  <u>#JJ100</u>	Children's Services Council of Broward County  <u>#05-2772</u>	Community Based Care	Family Teen Conference	Total Program Services	General and Administrative	<u>Total</u>
Personnel costs	\$19,264,276	\$53,203			\$19,317,479	\$ 9,745	\$19,327,224
Contract services	39,754,754				39,754,754		39,754,754
Occupancy and utilities	1,449,617				1,449,617		1,449,617
Telephone	568,145				568,145		568,145
Insurance	523,704				523,704		523,704
Office and computer supplies	325,202	710			325,912	26,245	352,157
Postage	86,450				86,450		86,450
Professional fees	154,107				154,107		154,107
Staff training and recruitment	102,241	10			102,251	352	102,603
Travel	509,853	12,934			522,787	20,521	543,308
Dues and subscriptions	71,894	245			72,139	706	72,845
Equipment and leases	126,820				126,820	344	127,164
Data communications	43,566				43,566		43,566
Maintenance	118,725				118,725	1,490	120,215
Depreciation	<u>334,092</u>				<u>334,092</u>	<u>459</u>	<u>334,551</u>
<b>TOTAL</b>	<u>\$63,433,446</u>	<u>\$67,102</u>			<u>\$63,500,548</u>	<u>\$59,862</u>	<u>\$63,560,410</u>



CHILDNET, INC. AND AFFILIATE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2005

Federal/State Agency, Pass-Through Entity Federal Program/ State Project	CFDA CFSA Number	Contract/ Grant Number	Expenditures	Transfers to Subrecipients
U.S. Department of Health and Human Services:				
Pass-Through Florida Department of Children and Families:				
Adoption Assistance	93.659	JJ100	\$ 4,628,070	\$ 143,664
Medical Assistance Program (Medicaid; Title XIX)	93.778	JJ100	75,679	2,493
Temporary Assistance for Needy Families (TANF)	93.558	JJ100	8,399,253	3,214,573
Foster Care – Title IV-E	93.658	JJ100	10,952,767	4,224,117
Child Welfare Services – State Grants	93.645	JJ100	2,496,903	
Social Services Block Grant	93.667	JJ100	5,257,493	2,413,626
Child Abuse and Neglect State Grants	93.669	JJ100	67,460	67,460
Promoting Safe and Stable Families	93.556	JJ100	1,191,031	1,142,217
Chafee Foster Care Independence Program	93.674	JJ100	1,565,535	102,489
Chafee Education and Training Vouchers Program	93.599	JJ100	148,683	
Grants to States for Access and Visitation Programs	93.597	JJ100	28,359	28,359
Adoption Incentive Payments	93.603	JJ100	<u>243,825</u>	<u>18,128</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$35,055,058</u>	<u>\$11,357,126</u>
Florida Department of Children and Families:				
Community Based Care Supports	60.094	JJ100	\$7,568,586	\$2,011,422
In-Home Supports	60.075	JJ100	36,833	
Family Safety Behavioral Health Wraparound Services	60.099	JJ100	<u>343,969</u>	
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$7,949,388</u>	<u>\$2,011,422</u>
In-Kind Rent		JJ100	<u>\$521,734</u>	

The accompanying note is an integral part of this schedule.

CHILDNET, INC. AND AFFILIATE  
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of ChildNet, Inc. and Affiliate 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.

CHILDNET, INC. AND AFFILIATE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FEDERAL PROGRAMS AND STATE PROJECTS  
 FOR THE YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of ChildNet, Inc. and Affiliate.
2. No reportable conditions 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 ChildNet, Inc. and Affiliate, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs, and state financial assistance projects are reported in the Report on Compliance With Requirements Applicable to Each Major Federal Program and State Project and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General.
5. The auditors' report on compliance for the major federal award programs and major state financial assistance projects for ChildNet, Inc. and Affiliate expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs and state financial assistance projects for ChildNet, Inc. and Affiliate are required to be reported in Part C of this Schedule.
7. The thresholds for distinguishing Type A and B federal programs and state projects were \$1,051,652 and \$300,000, respectively.
8. ChildNet, Inc. and Affiliate was determined to be a low-risk auditee.
9. The federal award programs and state financial assistance projects tested as major programs and major projects were as follows:

<u>CFDA</u> <u>Number</u>	<u>Name of Major Federal Program</u>	<u>Amount</u> <u>Expended</u>
93.558	Temporary Assistance for Needy Families (TANF)	\$8,399,253
93.659	Adoption Assistance	4,628,070
<u>CFSA</u> <u>Number</u>	<u>Name of Major State Project</u>	<u>Amount</u> <u>Expended</u>
60.094	Community Based Care Supports	\$7,568,586
60.099	Family Safety Behavioral Health Wraparound Services	343,969

10. No management letter is required because there were no findings required to be reported in the management letter.

CHILDNET, INC. AND AFFILIATE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2005

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS-THROUGH FLORIDA  
DEPARTMENT OF CHILDREN AND FAMILIES

FINDING 2004-1;  
2004-2:

Adoption Assistance - CFDA No. 93.659; Temporary Assistance for Needy Families - CFDA No. 93.558

*Condition:* This finding was a reportable condition stating that the Subsidized Adoption Program Disposition Sheets that were in some adopted children's files reflected a different amount than the amounts in the Integrated Child Welfare Services Information System (ICWSIS).

*Recommendation:* The auditor recommended that someone other than the ICWSIS Coordinator should be reviewing payments and comparing the amounts paid to the ICWSIS database and the children's files to determine that the payment is proper. Management agreed with the auditor's recommendation.

*Current Status:* ChilNet has implemented the review program recommended in the corrective action plan, and all future adoptions will be paid for at the documented rates.

FINDING 2004-3:

Florida Department of Children and Families – Community Based Care - Contract No. JJ100; all major federal award programs and major state financial assistance projects

*Condition:* For the Florida Department of Children and Families ("DCF") contract, subcontract monitoring procedures and maintenance procedures were not in compliance with the Children and Families Operating Procedures ("CFOP") and the DCF contract.

*Recommendation:* Although monitoring is being performed programmatically, the Organization's procedures should be updated. In addition, monitoring should be performed financially and administratively to be in compliance with the DCF contract. Management agreed with the auditor's recommendation.

*Current Status:* ChildNet began monitoring providers in January of 2005, and to date 15 providers have been monitored. Fiscal and administrative monitoring is now an integral part of the ongoing ChildNet contract monitoring process.

CHILDNET, INC. AND AFFILIATE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2005

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS-THROUGH FLORIDA  
DEPARTMENT OF CHILDREN AND FAMILIES

FINDING 2004-4: Adoption Assistance - CFDA No. 93.659; Temporary Assistance for Needy Families - CFDA No. 93.558; Foster Care - Title IV-E- CFDA No. 93.658; Child Welfare Services - State Grants - CFDA No. 93.645; Social Services Block Grant - CFDA No. 93.667; Community Based Care Supports - CFSFA No. 60.094

*Condition:* Auditor found that fixed asset (capital expenditure) schedules do not identify their location and which federal or state agency the assets revert to.

*Recommendation:* Inventory of fixed assets should be taken at least annually and compared to the perpetual schedule of fixed assets to determine the completeness of fixed assets. Management agreed with the auditor's recommendation.

*Current Status:* All ChildNet assets have been tagged and identified with respect to location, and the complete physical inventory of these assets is now available.



**GOLDSTEIN, ZUGMAN,  
WEINSTEIN & POOLE, LLC**  
*Certified Public Accountants and Consultants*

Irving L. Goldstein, C.P.A., P.A.  
David B. Zugman, C.P.A., P.A.  
Frederick S. Weinstein, C.P.A., P.A.  
Keenan L. Poole, C.P.A., P.A.  
David B. Black, C.P.A., P.A.  
Steven M. Borisman, C.P.A., P.A.

Howard E. Hammer, C.P.A., P.A.  
Geraldine (Dee Dee) Rinaldi, C.P.A.  
Michelle D. Bressler, C.P.A., C.F.P.  
George F. Horvath, C.P.A.  
Christopher Parsotan, C.P.A.  
Richard B. Nirenberg, C.P.A., J.D.  
Adele R. Shea, C.P.A.

Fourth Floor  
4875 North Federal Highway  
Fort Lauderdale, FL 33308  
Broward 954.351.9000  
Palm Beach 561.393.0411  
Miami-Dade 305.947.7717  
Fax 954.351.9011  
admin@gzwpcca.com

October 20, 2005

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  
ChildNet, Inc. and Affiliate  
Fort Lauderdale, Florida

We have audited the consolidated financial statements of ChildNet, Inc. and Affiliate as of June 30, 2005 and for the year then ended, and have issued our report thereon dated October 20, 2005. 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 ChildNet, Inc. and Affiliate's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ChildNet, Inc. and Affiliate's consolidated 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 the Board of Directors and management of ChildNet, Inc. and Affiliate, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Goldstein, Zugman, Weinstein & Poole, LLC*  
GOLDSTEIN, ZUGMAN,  
WEINSTEIN & POOLE, LLC



**GOLDSTEIN, ZUGMAN,  
WEINSTEIN & POOLE, LLC**  
*Certified Public Accountants and Consultants*

Irving L. Goldstein, C.P.A., P.A.  
David B. Zugman, C.P.A., P.A.  
Frederick S. Weinstein, C.P.A., P.A.  
Keenan L. Poole, C.P.A., P.A.  
David B. Black, C.P.A., P.A.  
Steven M. Borisman, C.P.A., P.A.

Howard E. Hammer, C.P.A., P.A.  
Geraldine (Dee Dee) Rinaldi, C.P.A.  
Michelle D. Bressler, C.P.A., C.F.P.  
George F. Horvath, C.P.A.  
Christopher Parsotan, C.P.A.  
Richard B. Nirenberg, C.P.A., J.D.  
Adele R. Shea, C.P.A.

Fourth Floor  
4875 North Federal Highway  
Fort Lauderdale, FL 33308  
Broward 954.351.9000  
Palm Beach 561.393.0411  
Miami-Dade 305.947.7717  
Fax 954.351.9011  
admin@gzwpcca.com

October 20, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL  
PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

To the Board of Directors  
ChildNet, Inc. and Affiliate  
Fort Lauderdale, Florida

Compliance

We have audited the compliance of ChildNet, Inc. and Affiliate, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*, that are applicable to each of its major federal programs and state projects for the year ended June 30, 2005. ChildNet, Inc. and Affiliate's major federal programs and state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of ChildNet, Inc. and Affiliate's management. Our responsibility is to express an opinion on ChildNet, Inc. and Affiliate's compliance based on our audit.

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



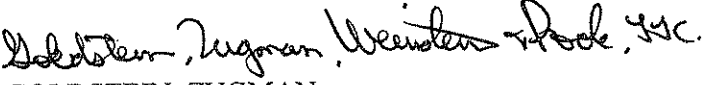
In our opinion, ChildNet, Inc. and Affiliate complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended June 30, 2005.

Internal Control Over Compliance

The management of ChildNet, Inc. and Affiliate is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered ChildNet, Inc. and Affiliate's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program or state project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management of ChildNet, Inc. and Affiliate, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
GOLDSTEIN, ZUGMAN,  
WEINSTEIN & POOLE, LLC