

CHILDNET, INC. AND AFFILIATE

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2006

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2006
AND FOR THE YEAR THEN ENDED

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December 20, 2006

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, 2006 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 2005 consolidated financial statements and in our report dated October 20, 2005 we expressed an unqualified opinion on those consolidated 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, 2006, 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 December 20, 2006 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 considered in assessing 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 notes 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 also 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, 2006
(with summarized comparative financial information as of June 30, 2005)

	2006		2005
	Unrestricted	Temporarily Restricted	Total
			Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 668,651		\$ 668,651
Funds for clients – Social security benefits	601,267		475,328
Receivable from funding sources	2,643,362		2,919,461
Other receivables	90,228		70,245
Prepaid expenses	<u>477,264</u>		<u>406,424</u>
Total Current Assets	4,480,772	\$ 0	4,210,346
PROPERTY AND EQUIPMENT -			
Net of accumulated depreciation	<u>34,788</u>	<u>1,537,408</u>	<u>1,428,390</u>
TOTAL ASSETS	<u>\$4,515,560</u>	<u>\$1,537,408</u>	<u>\$6,052,968</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$1,444,739		\$ 927,006
Accounts payable - Providers	2,134,647		2,086,468
Accrued salaries and annual leave	832,018		1,457,252
Funds due to clients – Social security benefits	601,267		475,328
Deferred revenue	<u>145,380</u>		<u>19,795</u>
Total Liabilities	<u>5,158,051</u>	<u>\$ 0</u>	<u>4,965,849</u>
NET ASSETS/(DEFICIT)			
Unrestricted	(642,491)		(754,123)
Temporarily restricted		<u>1,537,408</u>	<u>1,427,010</u>
Total Net Assets/(Deficit)	<u>(642,491)</u>	<u>1,537,408</u>	<u>672,887</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$4,515,560</u>	<u>\$1,537,408</u>	<u>\$6,052,968</u>

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, 2006
(with summarized comparative financial information
for the year ended June 30, 2005)

	2006			2005
	Unrestricted	Temporarily Restricted	Total	Total
Changes in Net Assets:				
Support and Revenues				
Contracts	\$64,157,032	\$ 498,491	\$64,655,523	\$62,529,130
Contributions	92,070		92,070	38,730
In-kind contribution-Rent	0		0	521,734
Net assets released from restrictions	<u>385,342</u>	<u>(385,342)</u>	<u>0</u>	<u>0</u>
Total Support and Revenues	<u>64,634,444</u>	<u>113,149</u>	<u>64,747,593</u>	<u>63,089,594</u>
Expenses				
Program services	64,404,770		64,404,770	63,500,548
Supporting services	118,042		118,042	59,862
Loss on disposal of assets		<u>2,751</u>	<u>2,751</u>	<u>52,962</u>
Total Expenses	<u>64,522,812</u>	<u>2,751</u>	<u>64,525,563</u>	<u>63,613,372</u>
INCREASE/(DECREASE) IN NET ASSETS	111,632	110,398	222,030	(523,778)
Net Assets/(Deficit) - Beginning of Year	<u>(754,123)</u>	<u>1,427,010</u>	<u>672,887</u>	<u>1,196,665</u>
NET ASSETS/(DEFICIT) - END OF YEAR	<u>\$ (642,491)</u>	<u>\$1,537,408</u>	<u>\$ 894,917</u>	<u>\$ 672,887</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, 2006
(with comparative financial information
for the year ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase/(decrease) in net assets	\$ 222,030	\$ (523,778)
Adjustments to reconcile increase/(decrease) in net assets to net cash provided by/(used in) operating activities:		
Depreciation	386,018	334,551
Loss on disposal of assets	2,751	52,962
Increase/(decrease) in receivables from funding sources	276,099	(105,587)
Increase in other receivables	(19,983)	(56,364)
Increase in prepaid expenses	(70,840)	(46,964)
Increase in accounts payable and accrued expenses	517,733	35,642
Increase/(decrease) in accounts payable - Providers	48,179	(2,776,399)
(Decrease)/increase in accrued salaries and annual leave	(625,234)	613,038
Increase in deferred revenue	<u>125,585</u>	<u>19,795</u>
Net Cash Provided By/(Used In) Operating Activities	862,338	(2,453,104)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(532,575)</u>	<u>(366,004)</u>
INCREASE/(DECREASE) IN CASH	329,763	(2,819,108)
Cash - Beginning of Year	<u>338,888</u>	<u>3,157,996</u>
CASH - END OF YEAR	<u>\$ 668,651</u>	<u>\$ 338,888</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
In-kind contributions:		
Rent	<u>\$0</u>	<u>\$521,734</u>

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

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

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 and created to be a fundraising arm of ChildNet. Broward Cares for Kids was approved as a private, tax-exempt organization with the IRS, under Section 501(c) (3) effective October 7, 2004. 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").

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.

Consolidated Financial Statements

The accompanying consolidated financial statements reflect the financial position, statement of activities, and cash flows of ChildNet and its affiliated supporting organization, Broward Cares for Kids, collectively referred herein as the ("Organization"). For the year ended June 30, 2006, Broward Cares for Kids' activity was immaterial. All interorganizational transactions have been eliminated in the consolidated financial statements.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2005, from which the summarized information was derived.

Basis of Presentation

The Organization's financial statements are presented in accordance with 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.

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 income from the assets is available for either general operations or specific purposes in accordance with donor stipulations. The Organization had no permanently restricted net assets at June 30, 2006.

Cash and Cash Equivalents

The Organization consider cash and all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents include checking and money market accounts. At times, the balances in these accounts may exceed federally insurance limits. The Organization has not experienced any losses in these accounts and believes they are not exposed to any significant credit risk with respect to cash.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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 and Broward Cares for Kids have qualified as tax-exempt organizations under Section 501(c)(3) of the U.S. Internal Revenue Code, and, accordingly, are not subject to federal or state tax.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 - CONTRACTS

On July 1, 2003, DCF awarded ChildNet a contract in the amount of \$176,640,367 which was in effect until June 30, 2006. Effective July 1, 2006, DCF renewed this contract in the amount of \$195,497,016 through June 30, 2009. 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.

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.

ChildNet entered into a contract with CSC in the amount of \$265,000 which expired on June 30, 2006. The contract was to provide innovative foster placement options for children 13-17.

NOTE 3 - CONTRACTS WITH OUTSIDE PROVIDERS

ChildNet has contractual agreements with various not-for-profit agencies ("Providers") to provide foster care 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.

Intervention and family support services' contracts specify that the Providers shall deliver certain services to children and families as needed and report regularly to ChildNet. ChildNet pays the Providers based on the number of children or families served each month up to a set maximum amount.

Contracts are for a period of one year. Under these contracts, ChildNet paid approximately \$38,000,000 to outside Providers for the year ended June 30, 2006.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 - MATCHING FUND REQUIREMENTS

ChildNet and its network providers allocated matching funds of cash and in-kind services in the amount of \$614,839 to the Promoting Safe and Stable Families Program.

ChildNet received matching funds from the DCF in the amount of \$13,986,825.

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 \$1,000 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	\$2,469,022
Less: Accumulated depreciation	<u>(896,826)</u>
Net Property and Equipment	<u>\$1,572,196</u>

Depreciation expense for the year ended June 30, 2006 was \$386,018.

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, 2006. 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%. ChildNet shall have at the end of each fiscal quarter tangible net worth not less than \$950,000. Borrowings are collateralized by accounts receivable from contracts and are due upon demand.

At June 30, 2006, no borrowings were outstanding under this line of credit.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006, PTO hours were accrued in the amount of \$831,613.

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, 2006 consisted of:

Florida Department of Children and Families	\$1,491,534
Children's Services Council of Broward County	<u>45,874</u>
Total	<u>\$1,537,408</u>

For the year ended June 30, 2006, \$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, 2006, 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 \$562,185 to the Plan for the year ended June 30, 2006.

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 \$90,664 and the lease is renewable for a period of five additional years.

CHILDNET, INC. AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2006

NOTE 11 - LEASE COMMITMENTS (Continued)

On April 1, 2003 – Office space for 60 months. Current year's rent was \$300,169.

On January 1, 2004 – Office space for 51 months, with two one-year renewal options. Current year's rent was \$47,743.

On July 1, 2004 – Office space for 55 months at \$19,809 per month. Current year's rent was \$237,705.

On February 1, 2005 – Office space for 62 months. Current year's rent was \$224,635.

On April 1, 2006 – Office space subleased from DCF. On a month to month basis, DCF bills ChildNet for the monthly rent. The current year's rent was \$750,119.

Future minimum lease payments are as follows:

Years Ending June 30,

2007	\$1,216,347
2008	1,479,024
2009	1,238,859
2010	913,592
2011	776,953
Thereafter	<u>2,473,797</u>
Total	<u>\$8,098,572</u>

Rent expense for the year was \$1,651,035.

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

Future minimum lease payments are as follows:

Years ending June 30,

2007	\$ 76,222
2008	48,915
2009	31,736
2010	<u>1,847</u>
Total	<u>\$158,720</u>

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

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.

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, 2006 ChildNet paid \$186,996 for these services. Family Central, Inc. employs several members of the Board of Directors of ChildNet.

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, 2006 the Organization has an uninsured cash balance of \$498,564.

Revenues

During the year ended June 30, 2006 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, 2006

	Program Services			Total Program Services	General and Administrative	Supporting Services	Total
	Florida Dept. of Children and Families #JJ100	Children's Services Council of Broward County #05-2772	Children's Services Council of Broward County #05-2773				
Personnel costs	\$21,048,824	\$18,400		\$21,067,224	\$ 9,755		\$21,076,979
Contract services	37,846,729		\$210,211	38,056,940	34,211		38,091,151
Occupancy and utilities	1,718,599			1,718,599	10		1,718,609
Telephone	704,489			704,489			704,489
Insurance	580,089			580,089			580,089
Office and computer supplies	395,315			395,315	23,744		419,059
Postage	97,489			97,489	271		97,760
Professional fees	146,277			146,277	2,007		148,284
Staff training and recruitment	153,780			153,780			153,780
Travel	467,838			467,838	13,216		481,054
Dues and subscriptions	77,290			77,290	1,627		78,917
Equipment and leases	216,120			216,120			216,120
Data communications	71,289			71,289	1,412		72,701
Maintenance	266,689			266,689			266,689
Depreciation	385,342			385,342	676		386,018
Donation					25,334		25,334
Hurricane Relief					5,779		5,779
TOTAL	<u>\$64,176,159</u>	<u>\$18,400</u>	<u>\$210,211</u>	<u>\$64,404,770</u>	<u>\$118,042</u>		<u>\$64,522,812</u>

CHILDNET, INC. AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2006

<u>Federal/State Grantor, Pass-Through Grantor Federal Program/ State Project</u>	<u>CFDA CFSA Number</u>	<u>Contract/ Grant Number</u>	<u>Expenditures</u>	<u>Transfers to Subrecipients</u>
U.S. Department of Health and Human Services:				
Pass-Through Florida Department of Children and Families:				
Adoption Assistance	93.659	JJ100	\$ 5,072,507	\$ 1,982,226
Medical Assistance Program (Medicaid; Title XIX)	93.778	JJ100	73,387	339
Temporary Assistance for Needy Families (TANF)	93.558	JJ100	7,124,126	4,225,533
Foster Care – Title IV-E	93.658	JJ100	10,807,518	4,018,982
Child Welfare Services – State Grants	93.645	JJ100	639,463	
Social Services Block Grant	93.667	JJ100	4,528,310	3,634,649
Promoting Safe and Stable Families	93.556	JJ100	1,387,074	1,084,607
Chafee Foster Care Independence Program	93.674	JJ100	626,762	513,006
Chafee Education and Training Vouchers Program (ETV)	93.599	JJ100	353,827	
Grants to States for Access and Visitation Programs	93.597	JJ100	28,361	28,361
Adoption Incentive Payments	93.603	JJ100	<u>264,814</u>	<u>233,529</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$30,906,149</u>	<u>\$15,721,232</u>
Florida Department of Children and Families:				
Community Based Care Supports	60.094	JJ100	\$11,610,710	\$96,687
In-Home Supports	60.075	JJ100	<u>8,822</u>	<u> </u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$11,619,532</u>	<u>\$96,687</u>

The accompanying notes are an integral part of this schedule.

CHILDNET, INC. AND AFFILIATE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2006

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.

NOTE 2 - SUBRECIPIENTS

ChildNet, Inc. and Affiliate provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Adoption Assistance	93.659	\$ 1,982,226
Medical Assistance Program (Medicaid; Title XIX)	93.778	339
Temporary Assistance for Needy Families (TANF)	93.558	4,225,533
Foster Care – Title IV-E	93.658	4,018,982
Social Services Block Grant	93.667	3,634,649
Promoting Safe and Stable Families	93.556	1,084,607
Chafee Foster Care Independence Program	93.674	513,006
Grants to States for Access and Visitation Programs	93.597	28,361
Adoption Incentive Payments	93.603	<u>233,529</u>
Total Federal Awards Provided to Subrecipients		<u>\$15,721,232</u>

ChildNet, Inc. and Affiliate provided state financial assistance to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFSA Number</u>	<u>Amount Provided</u>
Community Based Care Supports	60.094	<u>\$96,687</u>

CHILDNET, INC. AND AFFILIATE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FEDERAL PROGRAMS AND STATE PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2006

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of ChildNet, Inc. and Affiliate.
2. No reportable conditions relating to the audit of the consolidated 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 consolidated 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 state financial assistance projects for ChildNet, Inc. and Affiliate expresses an unqualified opinion on all major federal programs and state projects.
6. No audit findings relative to the major federal award programs and state financial assistance projects for ChildNet, Inc. and Affiliate which would be required to be reported in accordance with Section 510(a) of OMB Circular A-133, and Rule 10.656 of Chapter 10.650, Rules of the Auditor General, are reported in this Schedule.
7. The thresholds used for distinguishing between Type A and B federal programs and state projects were \$927,184 and \$348,586, respectively.
8. ChildNet, Inc. and Affiliate qualified as a low-risk auditee.
9. The federal programs and state projects tested as major programs and major projects were as follows:

<u>CFDA</u>		<u>Amount</u>
<u>Number</u>	<u>Name of Major Federal Program</u>	<u>Expended</u>
93.658	Foster Care – Title IV-E	\$10,807,518
<u>CFSA</u>		<u>Amount</u>
<u>Number</u>	<u>Name of Major State Project</u>	<u>Expended</u>
60.094	Community Based Care Supports	\$11,610,710
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, 2006

The prior year audit of the consolidated financial statements of ChildNet, Inc. and Affiliate disclosed no findings relating to the financial statements and no findings nor questioned costs relating to federal awards.



GOLDSTEIN, ZUGMAN, WEINSTEIN & POOLE, LLC

Certified Public Accountants and Consultants

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December 20, 2006

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, 2006 and for the year then ended, and have issued our report thereon dated December 20, 2006. 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 or 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*.

ChildNet, Inc. and Affiliate
December 20, 2006
Page 2

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**
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December 20, 2006

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, 2006. 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.

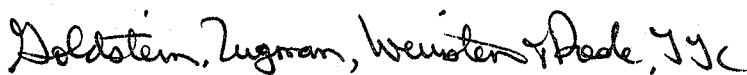
In our opinion, ChildNet, Inc. and Affiliate complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended June 30, 2006.

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.


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