

CHILDNET, INC.
D/B/A CHILDNET

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2003

AND INDEPENDENT AUDITORS' REPORT

CHILDNET, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

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October 16, 2003

INDEPENDENT AUDITORS' REPORT

Board of Directors of
ChildNet, Inc., d/b/a ChildNet
Fort Lauderdale, Florida

We have audited the accompanying statement of financial position of ChildNet, Inc. (a not-for-profit organization), d/b/a ChildNet (the "Organization") as of June 30, 2003 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2002 financial statements and in our report dated December 12, 2002 we expressed an unqualified opinion on those financial statements.

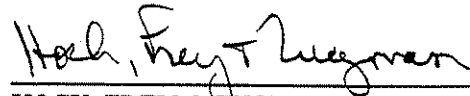
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ChildNet, Inc. as of June 30, 2003, and the changes in its net assets and its 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 16, 2003 on our consideration of ChildNet, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 audit.

ChildNet, Inc.
October 16, 2003
Page 2

Our audit was performed for the purpose of forming an opinion on the basic financial statements of ChildNet, Inc. taken as a whole. The schedule of functional expenses (page 12) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance (page 13) and note to the schedule of expenditures of federal awards and state financial assistance (page 14) 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 financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



HOCH, FREY & ZUGMAN
Certified Public Accountants

CHILDNET, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2003
(with summarized comparative financial information as of June 30, 2002)

	2003			2002
	Unrestricted	Temporarily Restricted	Total	Total
ASSETS				
CURRENT ASSETS				
Cash	\$ 201,275		\$ 201,275	\$ 0
Receivable from funding sources	1,018,124		1,018,124	31,876
Prepaid expenses	<u>40,502</u>		<u>40,502</u>	<u>0</u>
Total Current Assets	1,259,901	\$ 0	1,259,901	31,876
PROPERTY AND EQUIPMENT -				
Net of accumulated depreciation	<u>2,299</u>	<u>324,081</u>	<u>326,380</u>	<u>0</u>
TOTAL ASSETS	<u>\$1,262,200</u>	<u>\$324,081</u>	<u>\$1,586,281</u>	<u>\$31,876</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 182,731		\$ 182,731	\$39,376
Accounts payable - Providers	999,786		999,786	0
Accrued salaries and annual leave	<u>70,163</u>		<u>70,163</u>	<u>0</u>
Total Liabilities	<u>1,252,680</u>	<u>\$ 0</u>	<u>1,252,680</u>	<u>39,376</u>
NET ASSETS				
Unrestricted	9,520		9,520	(7,500)
Temporarily restricted		<u>324,081</u>	<u>324,081</u>	<u>0</u>
Total Net Assets	<u>9,520</u>	<u>324,081</u>	<u>333,601</u>	<u>(7,500)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,262,200</u>	<u>\$324,081</u>	<u>\$1,586,281</u>	<u>\$31,876</u>

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

CHILDNET, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003
(with summarized comparative financial information
for the period from July 25, 2001 (inception) to June 30, 2002)

	<u>2003</u>			<u>2002</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Changes in Net Assets:				
Support and Revenues				
Contracts	\$3,330,288	\$266,509	\$3,596,797	\$31,876
Contributions	19,950		19,950	0
Contributed equipment		91,598	91,598	0
Total Support and Revenues	<u>3,350,238</u>	<u>358,107</u>	<u>3,708,345</u>	<u>31,876</u>
Expenses				
Program services	3,344,235		3,344,235	39,376
Other	23,009	0	23,009	0
Total Expenses	<u>3,367,244</u>	<u>0</u>	<u>3,367,244</u>	<u>39,376</u>
Net assets released from restrictions	<u>34,026</u>	<u>(34,026)</u>	<u>0</u>	<u>0</u>
INCREASE/(DECREASE) IN NET ASSETS	17,020	324,081	341,101	(7,500)
Net Assets - Beginning of Year	<u>(7,500)</u>	<u>0</u>	<u>(7,500)</u>	<u>0</u>
NET ASSETS - END OF YEAR	<u>\$ 9,520</u>	<u>\$324,081</u>	<u>\$ 333,601</u>	<u>\$ (7,500)</u>

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

CHILDNET, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(with summarized comparative financial information
for the period from July 25, 2001 (inception) to June 30, 2002)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase/(Decrease) in net assets	\$ 341,101	\$ (7,500)
Adjustments to reconcile increase/(decrease) in net assets to net cash provided by operating activities:		
Depreciation	34,026	
Contributed equipment	(91,598)	
Increase in accounts receivable	(986,248)	(31,876)
Increase in prepaid expenses	(40,502)	
Increase in accounts payable and accrued expenses	143,355	39,376
Increase in accounts payable - Providers	999,786	
Increase in accrued salaries and annual leave	<u>70,163</u>	
Net Cash Provided By Operating Activities	470,083	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(268,808)</u>	<u>0</u>
INCREASE IN CASH	201,275	0
Cash - Beginning of Year	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u>\$ 201,275</u>	<u>\$ 0</u>

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

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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 ("The Organization").

The Organization 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.

The Organization'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.

The Organization's revenue was received substantially from grants evidenced by contracts with its funding sources, Florida Department of Children and Families ("DCF") and the Children's Services Council of Broward County ("CSC").

Basis of Accounting

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

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.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information. 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, 2002, from which the summarized information was derived.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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 are recognized when the donor makes a promise to give and are 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.

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.

Estimates

The preparation of 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

The Organization 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.

NOTE 2 - CONTRACTS

The Organization entered into contracts with DCF and CSC to fund start-up costs to develop key competencies in the child protection services process and to transition family case management from DCF to The Organization.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2 - CONTRACTS (Continued)

The initial contract with DCF was for \$825,000 and expired on February 28, 2003. The purpose of this start-up contract was to afford the Provider the opportunity to develop key competencies in the child protection services process and to establish an infrastructure, including policy and procedure development prior to assuming responsibility for child protection services.

DCF awarded another contract in the amount of \$1,773,491 for the period from April 1, 2003 to June 30, 2003. For this contract, ChildNet is to provide services that include early services intervention and placement/replacement services, incident reporting and notification process, foster care home recruitment and retention, and licensing and case management.

The contract with CSC was for \$1,000,000 for the period June 1, 2002 through June 30, 2003. The funding, unless changed by a signed amendment, can only be used for budgeted and agreed-upon expenses such as payroll, benefits, travel and training.

NOTE 3 - CONTRACTS WITH OUTSIDE PROVIDERS

The Organization has contractual agreements with various not-for-profit agencies ("Providers") to provide foster care management and case management services for the Organization. The Organization assumed case management service and foster care service contracts from DCF in March, 2003, for the period April 1, 2003 to June 30, 2003.

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 the Organization on a monthly basis. The Organization 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 the Organization. The Organization pays the Providers a specified amount per case manager each month up to a set maximum amount.

On July 1, 2003, the Organization renewed all contracts for a period of one year. Under these contracts, the Organization is to pay a total of approximately \$5,025,000 to outside Providers for the year ended June 30, 2004.

CHILDNET, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2003

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment acquisitions are recorded at cost. Donated property and equipment is recorded at the 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	\$360,406
Less: Accumulated depreciation	<u>(34,026)</u>
Net Property and Equipment	<u>\$326,380</u>

Depreciation expense for the year ended June 30, 2003 was \$34,026.

NOTE 5 - ACCOUNTS PAYABLE - COMMUNITY-BASED CARE PROVIDERS

The Organization reimburses the Providers for both case management and foster care management services. The payable represents amounts invoiced to the Organization for services provided prior to June 30, 2003. These amounts were paid subsequent to year end.

NOTE 6 - ACCRUED PAID TIME OFF

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 three days to the next fiscal year. Short-term disability ("STD") 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 STD hours.

NOTE 7 - 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, 2003 consisted of:

Florida Department of Children and Families	\$278,207
Children's Services Council of Broward County	<u>45,874</u>
	<u>\$324,081</u>

For the year ended June 30, 2003, \$34,026 of net assets were released from restrictions as a result of depreciation.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 8 - 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. In addition, the Organization matches 50% of the elective employee deferrals up to 6% of compensation. The Organization contributed \$2,224 to the Plan for the year ended June 30, 2003.

NOTE 9 - LEASE COMMITMENTS

On July 1, 2003, the Organization entered into a sublease agreement with DCF for office space in Central Broward County over a period of 29 months. Rent payments are approximately \$7,450 per month and the lease is renewable for a period of five additional years. On August 1, 2003, the Organization entered into another sublease with DCF for office space in North Broward County. The term of the sublease is for 11 months and rent payments are approximately \$27,560 per month. The lease is renewable for a period of eight additional years.

In July 2003, the Organization entered into three non-cancelable leases for office equipment. The leases are for a period of two years and the total monthly payment for all the leases is \$704. The leases are renewable for additional one-year periods unless written notice to the contrary is provided to the Organization.

Future minimum lease payments are as follows:

<u>Year ending June 30</u>	
2004	\$401,000
2005	98,000
2006	<u>37,000</u>
Total	<u>\$536,000</u>

There was no rental expense for the year ended June 30, 2003.

NOTE 10 - 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.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 10 - CONTINGENCIES (Continued)

In July 2003, a former employee of the Organization filed a Charge of Discrimination with the U.S. Equal Employment Opportunity Commission (EEOC). No litigation has been filed as of the date of these financial statements. While the final outcome cannot be determined at this time, management believes that the it will not have a material effect on the Organization's financial statements.

NOTE 11 - RELATED PARTY TRANSACTIONS

The Organization has contracted with Family Central, Inc. to provide some of the accounting, human resources, and information technology services through an Administrative Service Organization ("ASO"), both of which are not-for-profit organizations. During the fiscal year ended June 30, 2003, and for the period July 25, 2001 (inception) through June 30, 2002, the Organization paid \$217,339 and \$38,176, respectively, for these services. Three members of the Board of Directors of the Organization are on the Board of Directors of Family Central, Inc.

NOTE 12 - CONCENTRATIONS OF CREDIT RISK

Cash

The Organization maintains its cash balance with one financial institution covered under the Federal Deposit Insurance Corporation (FDIC). The accounts are insured by the FDIC up to \$100,000. At June 30, 2003 the Organization's uninsured cash balance totaled \$101,125.

Revenues

During the year ended June 30, 2003 approximately 70% of the Organization's revenues was received through contractual agreements with the DCF. The operations of the Organization are dependent upon the funding from this entity.

NOTE 13 - SUBSEQUENT EVENT

On July 1, 2003, the Organization was awarded a contract from DCF in the amount of \$170,319,931, subject to fund availability, to provide support services to children and families and foster care support for dependent children, for a period of three years ending June 30, 2006. The contract can be terminated by either party with 180 days notice in writing. The contract requires the Organization to comply with certain performance measures on a monthly basis and may be terminated in the event of non-compliance.

CHILDNET, INC.
 SCHEDULE OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>Total</u>	<u>Project Total</u>	<u>Florida</u> <u>Department of</u> <u>Children and Families</u>		<u>Children's</u> <u>Services Council</u> <u>of Broward County</u>		<u>Other</u>	
			<u>Project #</u>	<u>JJ866</u>	<u>JJ957</u>	<u>02-6103</u>		<u>03-2770</u>
				<u>Start Up</u>	<u>Bridge</u>	<u>Start Up</u>		<u>Teen</u> <u>Permanency</u>
Personnel costs	\$1,211,436	\$1,211,436	\$275,061	\$ 445,588	\$452,427	\$38,360		
Contract services	1,149,965	1,149,965		1,149,965				
Occupancy	32,262	32,262		4,185	28,077			
Telephone	27,105	26,920		12,586	14,027	307	\$ 185	
Insurance	24,882	24,882	9,160		15,722			
Office supplies	26,542	26,542		12,110	14,432			
Postage	1,262	1,262		63	1,199			
Printing and advertising	25,975	25,975		10,951	15,024			
Dues and subscriptions	17,167	17,167			17,167			
Staff training	8,960	8,960		1,487	7,473			
Professional fees	684,085	684,085	275,411	62,021	346,363	290		
Screening	10,414	10,414	439	5,242	3,258	1,475		
Equipment	9,940	9,940	8,980		960			
Travel	20,869	20,869		7,306	13,328	235		
Relocation and recruitment	12,117	12,117			12,117			
Temporary labor	36,107	36,107	9,225	16,478	10,404			
Equipment leases	1,272	1,272		1,272				
Depreciation	34,026	34,026	34,026					
Data communication	1,407	1,407		1,407				
Vehicle fuel	1,073	1,073		1,073				
Household supplies	998	982		982			16	
Janitorial services	1,452	1,452		1,452				
Expendable equipment	1,880	1,880		1,880				
Communication equipment	3,240	3,240		3,240				
Foster Parent Support	22,808						22,808	
TOTAL	<u>\$3,367,244</u>	<u>\$3,344,235</u>	<u>\$612,302</u>	<u>\$1,739,288</u>	<u>\$951,978</u>	<u>\$40,667</u>	<u>\$23,009</u>	

CHILDNET, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 AND STATE FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED JUNE 30, 2003

<u>Federal/State Agency, Pass-Through Entity</u> <u>Federal Program/ State Project</u>	<u>CFDA</u> <u>CFSA</u> <u>Number</u>	<u>Contract</u> <u>Grant</u> <u>Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:			
Pass-Through Florida Department of Children and Families:			
Adoption Assistance	93.659	JJ957	\$ 19,453
Medical Assistance Program (Medicaid; Title XIX)	93.778	JJ957	11,402
Temporary Assistance for Needy Families (TANF)	93.558	JJ957	470,172
Foster Care – Title IV-E	93.658	JJ957	329,066
Child Welfare Services – State Grants	93.645	JJ957	32,788
Social Services Block Grant	93.667	JJ957	<u>52,639</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 915,520</u>
Pass-Through Florida Department of Children and Families:			
Community Based Care Supports	60.094	JJ957	\$ 487,121
Adoption Assistance	93.659	JJ957	19,453
Medical Assistance Program (Medicaid; Title XIX)	93.778	JJ957	11,402
Child Welfare Services – State Grants	93.645	JJ957	10,929
Foster Care – Title IV-E	93.658	JJ957	<u>329,066</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 857,971</u>

The accompanying note is an integral part of this schedule.

CHILDNET, INC.
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2003

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 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.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FEDERAL PROGRAMS AND STATE PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2003

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards and State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditors' report issued on compliance for major federal awards programs and major state financial assistance projects: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 or Chapter 10.650, Rules of the Auditor General? Yes No

Identification of major programs:

<u>CFDA</u>		<u>Amount</u>
<u>Number</u>	<u>Name of Major Federal Program</u>	<u>Expended</u>
93.558	Temporary Assistance for Needy Families (TANF)	\$470,172
93.658	Foster Care - Title IV-E	329,066

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

	<u>Name of Major State Program</u>	<u>Amount</u>
<u>CFSA/CFDA</u>		<u>Expended</u>
<u>Number</u>		
60.094	Community Based Care Supports	\$487,121
93.658	Foster Care - Title IV-E	329,066

Dollar threshold used to distinguish between type A and type B programs: \$257,391

CHILDNET, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE PROJECTS
FOR THE YEAR ENDED JUNE 30, 2003

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - MAJOR FEDERAL AWARDS AND MAJOR STATE FINANCIAL ASSISTANCE
FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV - OTHER ISSUES

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

HOCH, FREY & ZUGMAN

CERTIFIED PUBLIC ACCOUNTANTS
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October 16, 2003

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
ChildNet, Inc., d/b/a ChildNet
Fort Lauderdale, Florida

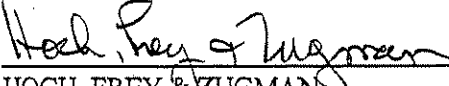
We have audited the financial statements of ChildNet, Inc., d/b/a ChildNet as of June 30, 2003 and for the year then ended, and have issued our report thereon dated October 16, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether ChildNet, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

In planning and performing our audit, we considered ChildNet, Inc.'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 assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

ChildNet, Inc., d/b/a ChildNet
October 16, 2003
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This report is intended solely for the information and use of the Board of Directors; management of ChildNet, Inc. 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.


HOCH, FREY & ZUGMAN
Certified Public Accountants

HOCH, FREY & ZUGMAN

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October 16, 2003

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., d/b/a ChildNet
Fort Lauderdale, Florida

We have audited the compliance of ChildNet, Inc., d/b/a ChildNet, 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, 2003. ChildNet, Inc.'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 their major federal programs and state projects is the responsibility of ChildNet, Inc.'s management. Our responsibility is to express an opinion on ChildNet, Inc.'s compliance based on our audit.

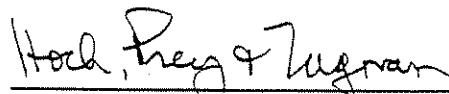
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits 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.'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.'s compliance with those requirements.

In our opinion, ChildNet, Inc. 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, 2003.

The management of ChildNet, Inc. 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.'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 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program and 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; management of ChildNet, Inc. 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.



HOCH, FREY & ZUGMAN
Certified Public Accountants