

CHILDNET, INC.
D/B/A CHILDNET

JUNE 30, 2004

Financial Statements

CHILDNET, INC.
D/B/A CHILDNET

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2004

AND INDEPENDENT AUDITORS' REPORT

CHILDNET, INC.
FINANCIAL STATEMENTS
AS OF JUNE 30, 2004
AND FOR THE YEAR THEN ENDED

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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 25, 2004

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, 2004 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 2003 financial statements and in our report dated October 16, 2003 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2004, 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 25, 2004 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

ChildNet, Inc.
October 25, 2004
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 14) 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 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 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.

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

CHILDNET, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004
(with summarized comparative financial information as of June 30, 2003)

| | 2004 | | | 2003 |
|---|--------------------|---------------------------|--------------------|--------------------|
| | Unrestricted | Temporarily Restricted | Total | Total |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash | \$3,157,996 | | \$3,157,996 | \$ 201,275 |
| Receivable from funding sources | 2,827,755 | | 2,827,755 | 1,018,124 |
| Prepaid expenses | <u>359,460</u> | | <u>359,460</u> | <u>40,502</u> |
| Total Current Assets | 6,345,211 | \$ 0 | 6,345,211 | 1,259,901 |
| PROPERTY AND EQUIPMENT - | | | | |
| Net of accumulated depreciation | <u>1,839</u> | <u>1,448,060</u> | <u>1,449,899</u> | <u>326,380</u> |
| TOTAL ASSETS | <u>\$6,347,050</u> | <u>\$1,448,060</u> | <u>\$7,795,110</u> | <u>\$1,586,281</u> |
| LIABILITIES AND NET ASSETS | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued expenses | \$ 891,364 | | \$ 891,364 | \$ 182,731 |
| Accounts payable - Providers | 4,862,867 | | 4,862,867 | 999,786 |
| Accrued salaries and annual leave | <u>844,214</u> | | <u>844,214</u> | <u>70,163</u> |
| Total Liabilities | <u>6,598,445</u> | \$ 0 | <u>6,598,445</u> | <u>1,252,680</u> |
| NET ASSETS/(DEFICIT) | | | | |
| Unrestricted | (251,395) | | (251,395) | 9,520 |
| Temporarily restricted | | <u>1,448,060</u> | <u>1,448,060</u> | <u>324,081</u> |
| Total Net Assets/(Deficit) | <u>(251,395)</u> | <u>1,448,060</u> | <u>1,196,665</u> | <u>333,601</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$6,347,050</u> | <u>\$1,448,060</u> | <u>\$7,795,110</u> | <u>\$1,586,281</u> |

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

CHILDNET, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004
(with summarized comparative financial information
for the year ended June 30, 2003)

| | <u>2004</u> | | | <u>2003</u> |
|--|---------------------|----------------------------------|---------------------|-------------------|
| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | <u>Total</u> | <u>Total</u> |
| Changes in Net Assets: | | | | |
| Support and Revenues | | | | |
| Contracts | \$46,369,678 | \$1,114,309 | \$47,483,987 | \$3,596,797 |
| Contributions | 129,117 | | 129,117 | 19,950 |
| In-kind contribution-Rent | 545,360 | | 545,360 | 0 |
| In-kind contribution - Equipment | | <u>170,454</u> | <u>170,454</u> | <u>91,598</u> |
| Total Support and Revenues | <u>47,044,155</u> | <u>1,284,763</u> | <u>48,328,918</u> | <u>3,708,345</u> |
| Expenses | | | | |
| Program services | 47,396,821 | | 47,396,821 | 3,344,235 |
| Supporting services | <u>69,033</u> | | <u>69,033</u> | <u>23,009</u> |
| Total Expenses | <u>47,465,854</u> | <u>0</u> | <u>47,465,854</u> | <u>3,367,244</u> |
| Net assets released from restrictions | <u>160,784</u> | <u>(160,784)</u> | <u>0</u> | <u>0</u> |
| INCREASE/(DECREASE) IN NET ASSETS | (260,915) | 1,123,979 | 863,064 | 341,101 |
| Net Assets/(Deficit) - Beginning of Year | <u>9,520</u> | <u>324,081</u> | <u>333,601</u> | <u>(7,500)</u> |
| NET ASSETS/(DEFICIT) - END OF YEAR | <u>\$ (251,395)</u> | <u>\$1,448,060</u> | <u>\$ 1,196,665</u> | <u>\$ 333,601</u> |

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

CHILDNET, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(with summarized comparative financial information
for the year ended June 30, 2003)

| | 2004 | 2003 |
|---|--------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 863,064 | \$ 341,101 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 161,244 | 34,026 |
| Contributed equipment | (170,454) | (91,598) |
| Increase in accounts receivable | (1,809,631) | (986,248) |
| Increase in prepaid expenses | (318,958) | (40,502) |
| Increase in accounts payable and accrued expenses | 708,633 | 143,355 |
| Increase in accounts payable - Providers | 3,863,081 | 999,786 |
| Increase in accrued salaries and annual leave | <u>774,051</u> | <u>70,163</u> |
| Net Cash Provided By Operating Activities | 4,071,030 | 470,083 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | <u>(1,114,309)</u> | <u>(268,808)</u> |
| INCREASE IN CASH | 2,956,721 | 201,275 |
| Cash - Beginning of Year | <u>201,275</u> | <u>0</u> |
| CASH - END OF YEAR | <u>\$3,157,996</u> | <u>\$201,275</u> |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| In-kind contributions: | | |
| Property and equipment | <u>\$ 170,454</u> | <u>\$ 91,598</u> |

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

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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, 2003, from which the summarized information was derived.

Cash and Cash Equivalents

Cash and cash equivalents consist of various checking accounts.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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 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.

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 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.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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.

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, the Organization was to provide services that included 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, was only to be used for budgeted and agreed-upon expenses such as payroll, benefits, travel and training.

On July 1, 2003, DCF awarded the Organization another contract in the amount of \$172,522,525 which will be in effect until June 30, 2006. The Organization 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 the Organization 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 the Organization 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 Organization 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, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 3 - CONTRACTS WITH OUTSIDE PROVIDERS

The Organization has contractual agreements with various not-for-profit agencies (“Providers”) to provide foster care, case management, and intervention and family support services for the Organization.

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.

Contracts are for a period of one year. Under these contracts, the Organization paid approximately \$26,500,000 to outside Providers for the year ended June 30, 2004.

NOTE 4 - MATCHING FUND REQUIREMENTS

The Organization and its network providers allocated matching funds of cash and in-kind services in the amount of \$586,276 to the Promoting Safe and Stable Families Program.

The Organization received matching funds from the DCF in the amount of \$9,592,221.

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 | \$1,645,169 |
| Less: Accumulated depreciation | <u>(195,270)</u> |
| Net Property and Equipment | <u>\$1,449,899</u> |

Depreciation expense for the year ended June 30, 2004 was \$161,244.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 6 - 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, 2004. These amounts were paid subsequent to year end.

NOTE 7 - LINE OF CREDIT

The Organization has a \$1,000,000 line of credit from RBC Centura Bank. The line of credit bears interest at prime plus .25% and expires December 31, 2004. Borrowings are collateralized by accounts receivable from contracts and are due upon demand.

At June 30, 2004, no borrowings were outstanding under this line of credit.

NOTE 8 - 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 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, 2004, PTO hours were accrued in the amount of \$377,578.

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, 2004 consisted of:

| | |
|---|--------------------|
| Florida Department of Children and Families | \$1,402,186 |
| Children’s Services Council of Broward County | <u>45,874</u> |
| Total | <u>\$1,448,060</u> |

For the year ended June 30 , 2004, \$160,784 of net assets were released from restrictions as a result of depreciation.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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, 2004, 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 \$295,918 to the Plan for the year ended June 30, 2004.

NOTE 11 - LEASE COMMITMENTS

The Organization has entered into the following sublease agreements with DCF:

On July 1, 2003 – Office space over a period of 29 months. Rent payments for the year ended June 30, 2004 were approximately \$89,307 and the lease is renewable for a period of five additional years.

On August 1, 2003 - Office space for a period of 11 months and rent payments for the year ended June 30, 2004 were approximately \$303,170. The lease was not renewed.

On February 1, 2003 – Office space for 63 months. Current year's rent was \$118,278.

On January 1, 2004 – Office space for 51 months, with two one-year renewal options. Current year's rent was \$22,859.

On July 1, 2004 – Office space for 55 months at \$19,809 per month beginning November 1, 2004.

Future minimum lease payments are as follows:

Years Ending June 30

| | |
|------|--------------------|
| 2005 | \$ 580,004 |
| 2006 | 615,489 |
| 2007 | 567,002 |
| 2008 | 598,608 |
| 2009 | 488,594 |
| | <u>\$2,849,697</u> |

Rent expense for the year was \$1,087,495, including the in-kind use of the Organization's facilities from DCF in the amount of \$545,360.

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

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 11 - LEASE COMMITMENTS (Continued)

Future minimum lease payments are as follows:

Years ending June 30

| | |
|-------|------------------|
| 2005 | \$ 68,470 |
| 2006 | 56,162 |
| 2007 | 52,043 |
| 2008 | 24,977 |
| 2009 | <u>7,937</u> |
| Total | <u>\$209,589</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.

Several former employees of the Organization 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

The Organization had 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. Effective April 1, 2004, the contract was terminated. During the years ended June 30, 2004 and 2003, the Organization paid \$198,000 and \$217,339, respectively, for these services. The Organization also contracted with Family Central, Inc. to provide parent education services through a Nurturing Families Program, Parenting Skills Development Approach. During the year ended June 30, 2004, the Organization paid \$165,000 for these services. Three members of the Board of Directors of the Organization are on the Board of Directors of Family Central, Inc.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 14 - 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, 2004 the Organization's uninsured cash balance totaled \$3,531,162.

Revenues

During the year ended June 30, 2004 substantially all of the Organization's contract revenues were received through the DCF. The operations of the Organization are dependent upon the funding from this entity.

CHILDNET, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004

| | <u>Program Services</u> | | | <u>Supporting Services</u> | | |
|--------------------------------|--|--|--|-------------------------------|-----------------------------------|---------------------|
| | <u>Florida Department of Children and Families</u> | | <u>Children's Services Council of Broward County</u> | | | |
| | <u>#JJ100</u> | <u>#JH117</u> | <u>#03-2770</u> | | | |
| | <u>Community Based Care</u> | <u>Children's Mental Intervention Services</u> | <u>Teen Permanence</u> | <u>Total Program Services</u> | <u>General and Administrative</u> | <u>Total</u> |
| Personnel costs | \$11,087,950 | | \$159,643 | \$11,247,593 | | \$11,247,593 |
| Contract services | 32,388,042 | \$285,357 | | 32,673,399 | | 32,673,399 |
| Occupancy | 1,094,392 | | | 1,094,392 | | 1,094,392 |
| Telephone | 410,413 | | 5,633 | 416,046 | | 416,046 |
| Insurance | 338,708 | | | 338,708 | | 338,708 |
| Office and computer supplies | 302,659 | | 18,815 | 321,474 | \$12,312 | 333,786 |
| Postage | 37,111 | | 14 | 37,125 | 273 | 37,398 |
| Professional fees | 426,374 | | 2,453 | 428,827 | 384 | 429,211 |
| Staff training and recruitment | 50,803 | | 8,631 | 59,434 | 10,265 | 69,699 |
| Travel | 277,450 | | 3,725 | 281,175 | 40,032 | 321,207 |
| Dues and subscriptions | 47,313 | | 16,650 | 63,963 | 30 | 63,993 |
| Equipment and leases | 128,545 | | 553 | 129,098 | 975 | 130,073 |
| Data communications | 33,239 | | | 33,239 | | 33,239 |
| Maintenance | 111,564 | | | 111,564 | 4,302 | 115,866 |
| Depreciation | 160,784 | | | 160,784 | 460 | 161,244 |
| TOTAL | <u>\$46,895,347</u> | <u>\$285,357</u> | <u>\$216,117</u> | <u>\$47,396,821</u> | <u>\$69,033</u> | <u>\$47,465,854</u> |

CHILDNET, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2004

| <u>Federal/State Agency, Pass-Through Entity 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 | \$ 1,172,151 | \$ 800,746 |
| Medical Assistance Program (Medicaid; Title XIX) | 93.778 | JJ100 | 36,546 | 10,547 |
| Temporary Assistance for Needy Families (TANF) | 93.558 | JJ100 | 4,863,570 | 2,492,601 |
| Foster Care – Title IV-E | 93.658 | JJ100 | 7,716,752 | 5,487,449 |
| Child Welfare Services – State Grants | 93.645 | JJ100 | 1,942,738 | 578,286 |
| Social Services Block Grant | 93.667 | JJ100 | 6,397,691 | 3,086,751 |
| Child Abuse and Neglect State Grants | 93.669 | JJ100 | 58,862 | |
| Promoting Safe and Stable Families | 93.556 | JJ100 | 1,797,175 | 1,527,862 |
| Chafee Foster Care Independent Living | 93.674 | JJ100 | 1,733,202 | 1,393,528 |
| Chafee Education and Training Vouchers Program | 93.599 | JJ100 | <u>194,364</u> | <u> </u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$25,913,051</u> | <u>\$15,377,770</u> |
| Florida Department of Children and Families: | | | | |
| Community Based Care Supports | 60.094 | JJ100 | \$3,573,789 | \$3,573,789 |
| In-Home Supports | 60.075 | JJ100 | 2,674,183 | 2,364,232 |
| Out-of-Home Supports | 60.074 | JJ100 | 232,433 | 92,973 |
| Adoption Services | 60.076 | JJ100 | 46,269 | |
| Purchase Therapeutic Services Child Case Management | 60.046 | JH117 | 23,823 | 23,823 |
| Purchase Therapeutic Services Child Outpatient Services | 60.058 | JH117 | <u>252,850</u> | <u>252,850</u> |
| TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE | | | <u>\$6,803,347</u> | <u>\$6,307,667</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, 2004

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, 2004

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of ChildNet, Inc.
2. There was one reportable condition disclosed during the audit of the financial statements and reported in Part B of the Schedule of Findings and Questioned Costs. The reportable condition was not considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of ChildNet, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There was one reportable condition relating to the audit of the major federal award programs and reported in Part C of the Schedule of Findings and Questioned Costs. The reportable condition was not considered to be a material weakness.
5. The auditors' report on compliance for the major federal award programs and major state financial assistance projects for ChildNet, Inc. expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs and major state financial assistance projects for ChildNet, Inc. are reported in Part C of this Schedule.
7. The thresholds for distinguishing Type A and B federal programs and state projects were \$777,392 and \$300,000, respectively.
8. ChildNet, Inc. was determined not 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 Number</u> | <u>Name of Major Federal Program</u> | <u>Amount Expended</u> |
|------------------------|--|----------------------------|
| 93.558 | Temporary Assistance for Needy Families (TANF) | \$4,863,570 |
| 93.658 | Foster Care – Title IV-E | 7,716,752 |
| 93.659 | Adoption Assistance | 1,172,151 |
| 93.645 | Child Welfare Services – State Grants | 1,942,738 |
| 93.667 | Social Services Block Grant | 6,397,691 |
| 93.556 | Promoting Safe and Stable Families | 1,797,175 |
| 93.674 | Chafee Foster Care Independent Living | 1,733,202 |

| <u>CFSA Number</u> | <u>Name of Major State Project</u> | <u>Amount Expended</u> |
|------------------------|------------------------------------|----------------------------|
| 60.094 | Community Based Care Supports | \$3,573,789 |
| 60.075 | In-Home Supports | 2,674,183 |

CHILDNET, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FEDERAL PROGRAMS AND STATE PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2004

B. FINDINGS – FINANCIAL STATEMENT AUDIT

| <u>Finding Number</u> | <u>Reportable Condition</u> |
|---------------------------|---|
| 2004-1 | <p>ADOPTION SUBSIDY</p> <p>Some payments for adopted children are being made incorrectly. Auditor selected 25 children receiving adoption subsidies. Of that sample, 5 children were receiving incorrect subsidy payments totaling \$1,413. These incorrect subsidy payments occurred prior to ChildNet assuming responsibility from DCF in April 2004. The total number of children receiving subsidies as of June 30, 2004 was 1,647.</p> <p>The Subsidized Adoption Program Disposition Sheets that were in some adopted childrens' files reflected a different amount than the amounts in the Integrated Child Welfare Services Information System (ICWSIS).</p> <p>Payments are made based on the amounts in ICWSIS.</p> <p>The ICWSIS Coordinator is responsible for updating the annual adoption renewal subsidies in the adopted child's file and in ICWSIS, and for making the payment for the benefit of the children.</p> <p>Someone other than the ICWSIS Coordinator should be reviewing payments and comparing the amounts paid to the ICWSIS database and the childrens' files to determine that the payment is proper.</p> <p>Management Response: Management agrees with the auditor's recommendation.</p> |

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AND MAJOR STATE FINANCIAL ASSISTANCE PROJECTS AUDIT

| <u>Finding Number</u> | <u>Finding</u> | <u>Questioned Cost</u> |
|---------------------------|--|----------------------------|
| 2004-2 | <p>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS-THROUGH FLORIDA DEPARTMENT OF CHILDREN AND FAMILIES</p> <p>Adoption Assistance - CFDA No. 93.659; Temporary Assistance for Needy Families – CFDA No. 93.558</p> | |

CHILDNET, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FEDERAL PROGRAMS AND STATE PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2004

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AND MAJOR STATE FINANCIAL ASSISTANCE PROJECTS AUDIT (Continued)

| <u>Finding Number</u> | <u>Finding</u> | <u>Questioned Cost</u> |
|---------------------------|----------------|----------------------------|
|---------------------------|----------------|----------------------------|

Reportable Condition: As discussed at Finding 2004-1, some payments for adopted children are being made incorrectly. Amounts provided to or on behalf of individuals should be calculated in accordance with program requirements. The Subsidized Adoption Program Disposition Sheets that were in the child’s files reflected a different amount than the amounts in the Integrated Child Welfare Services Information System (“ICWSIS”). Payments are made based on the amounts in ICWSIS. The ICWSIS Coordinator is responsible for updating the annual adoption renewal subsidies in the adopted child’s file and in ICWSIS, and for making the payment for the benefit of the children. Someone other than the ICWSIS Coordinator should be reviewing payments and comparing the amounts paid to the ICWSIS database and child’s file to determine that the payment is proper.

Management Response: Management agrees with the auditor’s recommendation.

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.

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.

The inadequate monitoring procedures could cause files to have insufficient and/or incorrect information as they relate to payments and services provided.

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 Response: Management agrees with the auditor’s recommendation.

CHILDNET, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FEDERAL PROGRAMS AND STATE PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2004

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AND MAJOR STATE FINANCIAL ASSISTANCE PROJECTS AUDIT (Continued)

| <u>Finding Number</u> | <u>Finding</u> | <u>Questioned Cost</u> |
|-----------------------|--|------------------------|
| 2004-4 | <p>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 – CFSA No. 60.094</p> <p>Auditor found that fixed asset (capital expenditure) schedules do not identify their location and which federal or state agency the assets revert to.</p> <p>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.</p> <p>Management Response: Management agrees with the auditor’s recommendation.</p> | |

CHILDNET, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
FEDERAL PROGRAMS AND STATE PROJECTS
FOR THE YEAR ENDED JUNE 30, 2004

The prior year audit of the financial statements of ChildNet, Inc. disclosed no findings relating to the financial statements and no findings nor questioned costs relating to federal programs and state projects.



Board of Directors

Virginia Miller
Chairman

Shane Strum
Vice Chairman

Howard Bakalar
Secretary

Barbara Weinstein

Emilio Benitez

Maria San Juan

Leslie Tworoger

Vinlee Stepelton

Sandra Harris

Britt Sikes

Jim McKinley

John Hart

Peter Baltaris
Chief Executive Officer

1400 West Commercial Blvd.
Fort Lauderdale, FL 33309
Tel: (954) 202 3800
Fax: (954) 202 3897

Mission:
To protect Broward's abused,
neglected and abandoned
children.

www.ChildNet.us



CORRECTIVE ACTION PLAN

October 25, 2004

Cognizant Agency for Audit -

FLORIDA DEPARTMENT OF CHILDREN AND FAMILIES

ChildNet, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2004.

Name and address of independent public accounting firm:

Goldstein, Zugman, Weinstein & Poole, LLC
4875 North Federal Highway,
Fort Lauderdale, FL 33308

Audit period: June 30, 2004

The findings from the June 30, 2004 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

2004-1 Adoption Subsidy

Reportable Condition: 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: 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.

Action Taken: ChildNet has undertaken a complete review of all Adoption files to ensure that payments are being made correctly. This review will be completed before the end of November. Going forward, all new additions to the Adoption Subsidy program will be reviewed by the ICWSIS Supervisor.



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**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL
AWARD PROGRAMS AND MAJOR STATE FINANCIAL
ASSISTANCE PROJECTS AUDIT**

REPORTABLE CONDITIONS

2004-2 Adoption Subsidy

Reportable Condition: 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: 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.

Action Taken: ChildNet has undertaken a complete review of all Adoption files to ensure that payments are being made correctly. This review will be completed before the end of November. Going forward, all new additions to the Adoption Subsidy program will be reviewed by the ICWSIS Supervisor.

**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.**

Finding: 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.



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Action Taken: Fiscal and Administrative monitoring procedures are being implemented in December of 2004, and concurrent with ChildNet's program monitoring activities, we will review the activities of at least 10 providers before the end of SFY 2004-05.

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 – CFSA No. 60.094**

Finding: 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.

Action Taken: An inventory tagging and identification program is being implemented, with completion anticipated by Jan. 30, 2005.

If the Department Of Children and Families has questions regarding this plan, please call Peter Greenhough at 954-873-4201.

Sincerely yours,

Peter Greenhough
Chief Financial Officer

Irving L. Goldstein, C.P.A., P.A.
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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 25, 2004

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

We have audited the financial statements of ChildNet, Inc., d/b/a ChildNet as of June 30, 2004 and for the year then ended, and have issued our report thereon dated October 25, 2004. 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.'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. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect ChildNet, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

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 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 instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 2004-3 and 2004-4.

This report is intended solely for the information and use of the Board of Directors and 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.

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

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Miami-Dade 305.947.7717
Fax 954.351.9011
admin@gzwpcpa.com

October 25, 2004

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

Compliance

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, 2004. 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 its 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, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, and which are described in the accompanying schedule of findings and questioned costs as items 2004-3 and 2004-4.

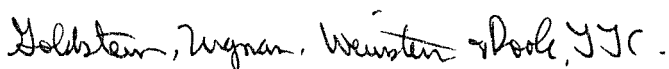
Internal Control Over Compliance

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.

We noted one matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect ChildNet, Inc.'s ability to administer a major federal program or state project in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-2.

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 noncompliance with the 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Board of Directors and 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.


GOLDSTEIN, ZUGMAN,
WEINSTEIN & POOLE, LLC

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October 25, 2004

MANAGEMENT LETTER

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

We have audited the financial statements of ChildNet, Inc. d/b/a ChildNet as of and for the year ended June 30, 2004 and have issued our report thereon dated October 25, 2004.

We conducted our audit in accordance with U.S. generally accepted auditing standards; Government Auditing Standards issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General. We have issued our Independent Auditors' 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*, Independent Auditors' Report on Compliance With Requirements Applicable to Each Major State Financial Assistance Project and on Internal Control Over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated October 25, 2004, should be considered in assessing the results of our audit for 2004.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General, which requires that we address certain compliance and other matters in the management letter, if not already addressed in the auditors' reports on compliance and internal control or schedule of findings and questioned costs. In planning and performing our audit of the financial statements of ChildNet, Inc., for the year ended June 30, 2004, we considered the internal control of ChildNet, Inc. in order to determine the scope of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. While our purpose was not to provide assurance on internal control, certain matters came to our attention that we want to report to you. These matters and the communications required by the Rules of the Auditor General are as follows.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

The Rules of the Auditor General require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings and questioned costs: (1) violations of laws, rules, regulations and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures; (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. Our audit of ChildNet, Inc. for the year ended June 30, 2004 disclosed none of the foregoing matters that are required to be disclosed.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

The Rules of the Auditor General require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal control, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations and contractual provisions reported in the preceding annual financial audit report have been corrected. Our audit for the year ended June 30, 2003 disclosed none of the foregoing matters.

Additionally, the Rules of the Auditor General require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal controls, whether or not recommendations made in the preceding management letter have been followed or otherwise no longer apply. There were no recommendations in our management letter for the year ended June 30, 2003.

This report is intended solely for the information and use of the Board of Directors and management of ChildNet, Inc., its grantor agencies and the State of Florida Office of the Auditor General 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

