

CHILD AND FAMILY CONNECTIONS, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND JUNE 30, 2012

**CHILD AND FAMILY CONNECTIONS, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Child and Family Connections, Inc.:

We have audited the accompanying statements of financial position of Child and Family Connections, Inc. (the "Organization") as of September 30, 2012 and June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the three-month period ended September 30, 2012 and the year ended June 30, 2012. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child and Family Connections, Inc. as of September 30, 2012 and June 30, 2012, and the changes in its net assets and its cash flows for the three-month period ending September 30, 2012 and the year ended June 30, 2012 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 March 10, 2013, on our consideration of Child and Family Connections, 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 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.

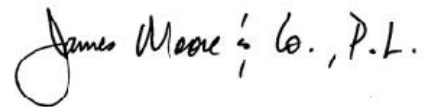
121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386/257-4100
Fax: 386/255-3261
dab@jmco.com

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352/378-1331
Fax: 352/372-3741
gnv@jmco.com

2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
Telephone: 850/386-6184
Fax: 850/422-2074
tlh@jmco.com

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

A handwritten signature in black ink that reads "James Moore & Co., P.L.". The signature is written in a cursive style with a large initial "J" and a stylized "M".

Daytona Beach, Florida
March 10, 2013

CHILD AND FAMILY CONNECTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2012 AND JUNE 30, 2012

	SEPTEMBER 30, 2012	JUNE 30, 2012
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 3,765,936	\$ 2,972,234
Other accounts receivable	79,998	2,096
Prepaid expenses	-	264,781
Total current assets	3,845,934	3,239,111
Deposits	1,138	55,137
Other assets	48,000	48,000
Restricted client trust funds		
Cash and cash equivalents	258,421	170,113
Investments	-	132,232
Total restricted client trust funds	258,421	302,345
Property and equipment, net	-	13,358
Total Assets	\$ 4,153,493	\$ 3,657,951
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable	\$ 3,141,109	\$ 2,369,325
Accrued expenses	368,878	257,350
Deferred revenue	172,246	248,467
Total current liabilities	3,682,233	2,875,142
Client trust funds	258,421	302,345
Total liabilities	3,940,654	3,177,487
Net assets		
Unrestricted	206,804	471,869
Temporarily restricted	6,035	8,595
Total net assets	212,839	480,464
Total Liabilities and Net Assets	\$ 4,153,493	\$ 3,657,951

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

CHILD AND FAMILY CONNECTIONS, INC.
STATEMENTS OF ACTIVITIES
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012
AND THE YEAR ENDED JUNE 30, 2012

	<u>SEPTEMBER 30, 2012</u>			<u>JUNE 30, 2012</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue						
Public support - government grants	\$ 9,854,104	\$ -	\$ 9,854,104	\$ 39,547,328	\$ -	\$ 39,547,328
Private support	17,269	-	17,269	132,078	14,495	146,573
Net assets released from restrictions:						
Satisfaction of purpose restrictions	2,560	(2,560)	-	14,558	(14,558)	-
Total support and revenue	<u>9,873,933</u>	<u>(2,560)</u>	<u>9,871,373</u>	<u>39,693,964</u>	<u>(63)</u>	<u>39,693,901</u>
Expenses						
Purchased program services	7,807,078	-	7,807,078	32,661,295	-	32,661,295
Professional fees and insurance	345,188	-	345,188	352,265	-	352,265
Salaries and benefits	1,462,481	-	1,462,481	4,796,020	-	4,796,020
Occupancy	272,784	-	272,784	1,057,324	-	1,057,324
General and administrative	238,109	-	238,109	701,327	-	701,327
Depreciation expense	13,358	-	13,358	105,856	-	105,856
Total expenses	<u>10,138,998</u>	<u>-</u>	<u>10,138,998</u>	<u>39,674,087</u>	<u>-</u>	<u>39,674,087</u>
Increase (decrease) in net assets	<u>(265,065)</u>	<u>(2,560)</u>	<u>(267,625)</u>	<u>19,877</u>	<u>(63)</u>	<u>19,814</u>
Net assets, beginning of period	471,869	8,595	480,464	451,992	8,658	460,650
Net assets, end of period	<u>\$ 206,804</u>	<u>\$ 6,035</u>	<u>\$ 212,839</u>	<u>\$ 471,869</u>	<u>\$ 8,595</u>	<u>\$ 480,464</u>

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

CHILD AND FAMILY CONNECTIONS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012
AND THE YEAR ENDED JUNE 30, 2012

	<u>SEPTEMBER 30, 2012</u>			<u>JUNE 30, 2012</u>		
	<u>Program Services</u>	<u>Supporting Services</u>		<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Child Services</u>	<u>Administrative Services</u>	<u>Total</u>	<u>Child Services</u>	<u>Administrative Services</u>	<u>Total</u>
Purchased program services:						
Case management	\$ 1,229,475	\$ -	\$ 1,229,475	\$ 6,201,904	\$ -	\$ 6,201,904
Foster home licensing and recruiting	342,741	-	342,741	1,307,711	-	1,307,711
Mental health services	353,251	-	353,251	1,516,293	-	1,516,293
Maintenance adoption services	2,209,481	-	2,209,481	8,712,019	-	8,712,019
Residential and therapeutic care	2,547,841	-	2,547,841	10,670,044	-	10,670,044
Prevention and support services	255,382	-	255,382	952,772	-	952,772
Independent living and transitional support services	865,114	-	865,114	3,293,295	-	3,293,295
Other	3,793	-	3,793	7,257	-	7,257
Total purchased program services	<u>7,807,078</u>	<u>-</u>	<u>7,807,078</u>	<u>32,661,295</u>	<u>-</u>	<u>32,661,295</u>
Salaries and benefits	1,174,993	287,488	1,462,481	3,729,901	1,066,119	4,796,020
General and administrative	163,493	74,616	238,109	378,238	323,089	701,327
Professional fees and insurance	59,760	285,428	345,188	237,914	114,351	352,265
Occupancy	262,099	10,685	272,784	914,552	142,772	1,057,324
Depreciation	10,018	3,340	13,358	79,392	26,464	105,856
Total expenses	<u><u>\$ 9,477,441</u></u>	<u><u>\$ 661,557</u></u>	<u><u>\$ 10,138,998</u></u>	<u><u>\$ 38,001,292</u></u>	<u><u>\$ 1,672,795</u></u>	<u><u>\$ 39,674,087</u></u>

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

CHILD AND FAMILY CONNECTIONS, INC.
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012
AND THE YEAR ENDED JUNE 30, 2012

	<u>SEPTEMBER 30,</u> <u>2012</u>	<u>JUNE 30,</u> <u>2012</u>
Cash flows from operating activities		
Net increase (decrease) in net assets	\$ (267,625)	\$ 19,814
Adjustments to reconcile net increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	13,358	105,856
(Increase) decrease in certain assets:		
Other accounts receivable	(77,902)	1,767
Prepaid expenses and deposits	318,780	(111,648)
Restricted cash and cash equivalents - client trust funds	43,924	72,138
Other assets	-	(2,000)
Increase (decrease) in certain liabilities:		
Accounts payable	771,784	260,920
Accrued expenses	111,528	(115,005)
Deferred revenue	(76,221)	(853,864)
Client trust funds	(43,924)	(72,138)
Net cash provided by (used in) operating activities	<u>793,702</u>	<u>(694,160)</u>
Cash flows from investing activities		
Purchases of property and equipment	-	(14,436)
Net increase (decrease) in cash and cash equivalents	<u>793,702</u>	<u>(708,596)</u>
Cash and cash equivalents, beginning of period	2,972,234	3,680,830
Cash and cash equivalents, end of period	<u><u>\$ 3,765,936</u></u>	<u><u>\$ 2,972,234</u></u>

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

CHILD AND FAMILY CONNECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND JUNE 30, 2012

(1) **Summary of Significant Accounting Policies:**

(a) **General**—Child and Family Connections, Inc., (the Organization) is a Florida nonprofit organization exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. The Organization was organized as a corporation under the laws of the State of Florida in December 1999, for the purpose of administering, integrating, coordinating, and assuring the delivery of child protection services, emergency shelter, in-home protective services, relative care placements, foster care, foster care supervision, permanent foster care, intensive residential treatment, independent living, family reunification, and family prevention, adoption and appropriate related services in Palm Beach County, Florida.

The Organization's primary source of funding is from the State of Florida's Department of Children and Families (DCF). As of July 1, 2009, a contract in the amount of \$108,555,459 was entered into which expired on June 30, 2012. Amendment No. 11 effective June 26, 2012 increased the amount of the contract to \$153,255,408 and extended the contract through June 30, 2013. The contract can be terminated without cause by either the Organization or DCF with 30 calendar days notice. In the event funding is unavailable, the contract with DCF can be terminated with 24 hours notice. See Note (2) regarding the termination of contract.

(b) **Basis of financial reporting**—The Organization's financial statements have been prepared on an accrual basis. The Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets—Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets—Net assets subject to donor-imposed stipulations that will not be met by either actions of the Organization or the passage of time. As of September 30, 2012 and June 30, 2012, there were no permanently restricted net assets.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

(c) **Contributions**—Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. The Organization records all revenues and gains that are spent in the same fiscal year as unrestricted revenue. Any amounts not spent are recorded as either temporarily restricted or permanently restricted revenue if donor restrictions exist.

(d) **Cash and cash equivalents**—The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for the statement of cash flows. Cash and cash equivalents do not include restricted client trust fund cash and cash equivalents.

(e) **Prepaid expenses**—Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

CHILD AND FAMILY CONNECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND JUNE 30, 2012

(1) **Summary of Significant Accounting Policies:** (Continued)

(f) **Income taxes**—The Organization is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is classified as a publicly supported organization that is not a private foundation under Section 509 (1) of the Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements. The Organization had no net unrelated business income for the three-month period ended September 30, 2012 and the year ended June 30, 2012.

The Organization files income tax returns in the U.S. federal jurisdiction. The Organization is no longer subject to U.S. Federal income tax examinations by tax authorities for years before 2009. The Organization has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with accounting principles generally accepted in the United States of America, and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Organization.

(g) **Use of 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 amounts could differ from those estimates.

(h) **Property and equipment**—Furniture and equipment acquired by the Organization is considered to be owned by the Organization. However, funding sources may maintain an equitable interest in the assets purchased with grant monies as well as the right to determine the use of any proceeds from the sale of these assets. The State of Florida has a reversionary interest in those assets purchased with its funds that have a cost of \$1,000 or more and an estimated useful life of at least one year. The Federal Government has a reversionary interest in those assets purchased with its funds that have a cost of \$5,000 or more and an estimated useful life of at least one year.

Furniture and equipment with a value greater than \$1,000 and an estimated useful life of at least one year is recorded at cost when purchased or at estimated fair market value when contributed. Depreciation is computed using the straight-line method over the estimated useful life of the assets, ranging from three to seven years. Repairs and maintenance are expensed as incurred.

(i) **Other accounts receivable**—Other accounts receivable are stated at the amount management expects to collect from balances at year-end. Based on management's assessment of the current relationship and credit worthiness of entities having balances with the Organization, it has concluded that the realization of losses on balances outstanding at year-end will be immaterial.

(j) **Deferred revenue**—Deferred revenue primarily consists of advances received for contracted programs that apply to future periods.

(k) **Restricted client trust funds**—Restricted client trust funds consist of cash and cash equivalents in the amount of \$258,421 and \$170,113 at September 30, 2012 and June 30, 2012, respectively. The Organization held investments in the Florida Treasury Investment Pool – Special Purpose Investment Account (SPIA) in the amount of \$132,232 at June 30, 2012. These funds were managed by the Organization and represent client's personal funds. The cash and cash equivalents are held in demand deposits with two federally insured banks which were fully covered by the Federal Deposit Insurance Corporation at September 30, 2012 and June 30, 2012.

CHILD AND FAMILY CONNECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND JUNE 30, 2012

(1) **Summary of Significant Accounting Policies:** (Continued)

The Organization's investments in the SPIA consist of ownership of shares of the Florida Treasury Investment Pool, not the underlying securities. These investments are stated at fair value based on other significant observable inputs either directly or indirectly (including quoted prices for similar securities, interest rates, yield curves, credit risk, etc.) – Level 2. At June 30, 2012, the fair value factor for the SPIA was 1.0171. The credit rating as of June 30, 2012, as determined by Standard and Poor's, was Af. The effective duration of the SPIA as of June 30, 2012 was 2.38 years. Additional valuation information is available at the State of Florida's Comprehensive Annual Financial Report, which can be obtained through their website, www.myfloridacfo.com.

(l) **Functional allocation of expenses**—The costs of providing the various programs and other activities has been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(m) **Subsequent events**—The Organization has evaluated events and transactions for potential recognition and disclosure in the financial statements through March 10, 2013, which is the date that the financial statements were available to be issued. See Note (2) for disclosure of subsequent events regarding termination of the DCF contract.

(2) **Significant Funding Source:**

The Organization receives a substantial amount of its funding (approximately 99% for the three-month period ended September 30, 2012 and the year ended June 30, 2012) from the U.S. Department of Health and Human Services that is passed through the State of Florida Department of Children and Families (DCF). The significant reduction in the level of this funding could have an adverse effect on the Organization's programs and activities. On August 23, 2012, the Organization received notice from the Department of Children and Families (DCF) in which DCF stated their right to terminate the contract with 30 day notice was being exercised. The contract between the Organization and DCF was terminated without cause effective September 30, 2012. The Organization's programs, activities, and fixed assets were transferred to ChildNet, Inc. at or near September 30, 2012. Subsequent to the termination of the DCF contract, the purpose of the entity going forward will be determined by management. Management anticipates dissolving the entity by June 30, 2013.

(3) **Concentration of Credit Risk:**

Significant concentrations of credit risk for cash and cash equivalents owned by the Organization for the three-month period ended September 30, 2012 and the year ended June 30, 2012 are as follows:

Cash in bank—The Organization maintains demand deposits with one federally insured bank. At times, the balance in this account was in excess of federally insured limits. At September 30, 2012 and June 30, 2012, the account balance exceeded federally insured limits by \$4,603,012 and \$3,392,017, respectively. The Organization has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash and cash equivalents.

CHILD AND FAMILY CONNECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND JUNE 30, 2012

(4) **Property and Equipment:**

Property and equipment consist of the following as of September 30, 2012 and June 30, 2012:

	September 30, 2012	June 30, 2012
Furniture and equipment	\$ 2,012	\$ 367,483
Less: Accumulated depreciation	2,012	354,125
	\$ -	\$ 13,358

Depreciation expense for the three-month period ended September 30, 2012 and the year ended June 30, 2012 was \$13,358 and \$105,856, respectively. The fixed assets were transferred to ChildNet, Inc. on September 27, 2012.

(5) **Line of Credit:**

On July 10, 2006, the Organization executed a line of credit, with a financial institution that allows borrowings up to \$1,000,000, with an interest rate equal to the Wall Street Journal Prime Rate. The interest rate at September 30, 2012 was 3.25%. There were no advances from this line of credit during the three-month period ended September 30, 2012 and the year ended June 30, 2012, and as June 30, 2012, no amount was outstanding on the line of credit. The line of credit was collateralized by the Organization's accounts receivable. The line of credit was terminated on September 17, 2012.

(6) **Employee Leasing Company:**

The Organization utilizes the service of an employee leasing service for staffing purposes. The employee leasing service provides employee benefits, including health insurance and 401(k) plan participation. All expenses associated with the services provided by the employee leasing service are shown as salaries and benefits on the Statement of Functional Expenses. The Organization's 401(k) matching contribution was 4% from July 1, 2011 through December 31, 2011, until the Organization terminated the employee match. For the year ended June 30, 2012, the Organization made retirement contributions totaling \$13,354.

(7) **Grants and Match Requirements:**

The Organization has an agreement with and receives a substantial portion of its support from the State of Florida Department of Children and Families and the U.S. Department of Health and Human Services. The agreement with DCF has a requirement that a specified amount of the grant be funded by matching funds from specified sources. The Organization is subject to audit by the granting agencies and, if these audits are unfavorable, the agencies can require a refund of a portion of the contracts. It is management's opinion that the terms of the agreement have been substantially met and costs submitted for reimbursements are allowable under the agreement. Management believes that the matching requirements were met during the three-month period ended September 30, 2012 and the year ended June 30, 2012.

CHILD AND FAMILY CONNECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND JUNE 30, 2012

(8) **Operating Leases:**

The Organization leases certain office space under agreements classified as operating leases. Office space leases expire at various dates through March 2013. Total rent expense for the three-month period ended September 30, 2012 and the year ended June 30, 2012, was approximately \$293,000 and \$1,058,000, respectively. Future minimum lease payments required under the terms are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 261,899

Included in the \$261,899 of future minimum lease payments is a \$50,000 settlement between the Organization and the lessor for termination of the lease.

(9) **Contingencies:**

Amounts received or receivable from governmental agencies are subject to audit and adjustment by grantor agencies, principally federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the Organization. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Organization expects such amounts, if any, to be immaterial.

(10) **Other Asset – Child Welfare Trust:**

In 2009, the limited partners of The Community Based Care Partnership, Ltd. formed the Child Welfare Trust (the “Trust”) which is a risk pool formed to provide assets to meet the obligations of the prepaid mental health program. Each partner made an initial contribution to the Trust of \$45,000. The balance at September 30, 2012 and June 30, 2012 was \$48,000. The Organization shares in this risk pool based on their respective ownership percentage. The Organization may be required to fund the risk pool on an annual basis based on the medical loss ratio. Quarterly, the General Partner makes a determination whether the assets held in the risk pool are sufficient to meet the obligations of the prepaid mental health program in the Organization’s service areas. If funding of the risk pool is required, the Organization may be required to utilize unrestricted funds as it is not a chargeable expense under the grant agreement with the State of Florida, Department of Children and Families as discussed in Note 1(a). During the three-month period ended September 30, 2012 and the year ended June 30, 2012, the Organization was not required to make any additional contributions to the Trust. The balance was liquidated subsequent to period end on October 4, 2012.

CHILD AND FAMILY CONNECTIONS, INC.

ADDITIONAL INFORMATION

FOR THE THREE MONTHS

ENDED SEPTEMBER 30, 2012

CHILD AND FAMILY CONNECTIONS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, STATE FINANCIAL
ASSISTANCE, AND STATE MATCHING OF FEDERAL AWARDS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

Federal Program/Federal Agency/State Agency, Pass-Through Entity, State Project	CFDA/ CSFA Number	Grantor's Contract Number	Expenditures
FEDERAL AWARDS			
U.S. Department of Health and Human Services			
Passed through State of Florida			
Department of Children and Families:			
Temporary Assistance for Needy Families (TANF)	93.558	IJ701	\$ 651,675
Access and Visitation Program	93.597	IJ701	10,181
Chafee Education and Training Vouchers Program	93.599	IJ701	31,483
Stephanie Tubbs Jones Child Welfare Services Program	93.645	IJ701	89,427
Promoting Safe and Stable Families	93.556	IJ701	148,717
Promoting Safe and Stable Families - IV-B, Part II Caseworkers	93.556	IJ701	11,320
			<u>160,037</u>
Title IV-E Foster Care	93.658	IJ701	2,085,136
Adoption Assistance	93.659	IJ701	1,096,499
Social Services Block Grant	93.667	IJ701	791,916
Child Abuse and Neglect Grant	93.669	IJ701	99
Chafee Foster Care Independence Program	93.674	IJ701	80,236
Medical Assistance Program - Medicaid Cluster	93.778	IJ701	12,836
Adoption Incentive Payments	93.603	IJ701	40,120
Total Expenditures of Federal Awards			<u>\$ 5,049,645</u>
STATE FINANCIAL ASSISTANCE			
Department of Children and Families			
Community Based Care Supports	60.094	IJ701	\$ 3,738,742
Total Expenditures of State Financial Assistance			<u>\$ 3,738,742</u>
STATE MATCHING OF FEDERAL AWARDS			
Department of Children and Families			
Chafee Education and Training Vouchers Program	93.599	IJ701	\$ 7,869
Stephanie Tubbs Jones Child Welfare Services Program	93.645	IJ701	29,809
Adoption Assistance	93.659	IJ701	877,800
Chafee Foster Care Independence Program	93.674	IJ701	20,058
Medical Assistance Program	93.778	IJ701	12,835
Block Grants for Community Mental Health Services	93.958	IJ701	113,572
Promoting Safe and Stable Families	93.556	IJ701	3,774
Total Expenditures of State Matching of Federal Awards			<u>\$ 1,065,717</u>
Total Expenditures of Federal Awards, State Financial Assistance, and State Matching of Federal Awards			<u>\$ 9,854,104</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards,
State Financial Assistance, and State Matching of Federal Awards.

CHILD AND FAMILY CONNECTIONS, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, STATE FINANCIAL ASSISTANCE, AND STATE MATCHING OF FEDERAL AWARDS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

(1) Basis of Accounting

The Schedule of Expenditures of Federal Awards, State Financial Assistance, and State Matching of Federal Awards (the Schedule) is prepared on the accrual basis of accounting.

(2) Service Provided Contracts

Only revenues earned in accordance with the contract terms are reported as expenditures on the Schedule.

(3) Sub-recipients

Of the expenditures presented in the accompanying Schedule, Child and Family Connections, Inc. provided federal awards, state financial assistance, and state matching of federal awards under contract number IJ701 to the following sub-recipients:

4 Kids of South Florida	\$ 40,512
Alpha House	11,046
Alternate Family Care	13,650
Camelot Community Care	46,490
Childrens Home Society	1,584,195
Choices Children's & Family Consortium	20,684
Family Preservation	17,583
Father Flanagan's Boys Home	130,520
Florida Baptist Childrens Home	11,528
Foster Adoptive Parent Association	46,471
Grandma's Place	118,610
Kid's in Distress	180,409
Parent Child Center	111,174
Place of Hope	511,266
TCHPS	164,953
The Haven	70,035
Vision Quest Life Corp	180,816
Vita Nova	187,887
Total payments to sub-recipients	<u>\$ 3,447,829</u>

**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***

To the Board of Directors of
Child and Family Connections, Inc.:

We have audited the financial statements of Child and Family Connections, Inc., (the Organization) as of and for the three-month period ended September 30, 2012, and have issued our report thereon dated March 10, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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

121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386/257-4100
Fax: 386/255-3261
dab@jmco.com

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352/378-1331
Fax: 352/372-3741
gnv@jmco.com

2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
Telephone: 850/386-6184
Fax: 850/422-2074
tlh@jmco.com

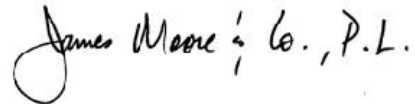
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Compliance and Other Matters

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

We noted certain matters that we reported to management of the Organization in a separate letter dated March 10, 2013.

This report is intended solely for the information and use of management of Child and Family Connections, Inc., others within the entity, the Board of Directors, 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.

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large initial 'J'.

Daytona Beach, Florida
March 10, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL
PROGRAM AND STATE FINANCIAL ASSISTANCE 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 of
Child and Family Connections, Inc.:

Compliance

We have audited Child and Family Connections, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the Florida Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs and state financial assistance projects for the three-month period ended September 30, 2012. The Organization'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 the Organization's management. Our responsibility is to express an opinion on the Organization'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 financial assistance project occurred. An audit includes examining, on a test basis, evidence about the Organization'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 the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the three-month period ended September 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and Section 10.650, Rules of the Auditor General, and which is described in the accompanying schedule of findings and questioned costs as item 2012-01.

121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386/257-4100
Fax: 386/255-3261
dab@jmco.com

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352/378-1331
Fax: 352/372-3741
gnv@jmco.com

2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
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Internal Control Over Compliance

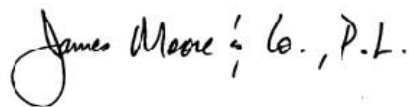
Management of Child and Family Connections, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-01. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Organization's response to the findings identified in our audit is included on Page 23. We did not audit the Organization's response and, accordingly, we express no opinion on the response.

The purpose of this report is intended solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Organization's major federal programs and state projects and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Organization's compliance but not to provide an opinion on the effectiveness of the Organization's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's compliance with requirements applicable to each major federal program and state project and its internal control compliance. Accordingly, this report is not suitable for any other purpose.



Daytona Beach, Florida
March 10, 2013

CHILD AND FAMILY CONNECTIONS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS
PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

I. Summary of Auditors' Results:

Financial Statements:

- Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- No significant deficiencies or material weaknesses were reported related to internal control over financial reporting.
- No instances of noncompliance material to the financial statements were noted.

Federal Awards:

- No significant deficiencies or material weaknesses were identified related to internal control over major programs.
- Type of auditors' report issued on compliance for major programs: *Unqualified*
- The audit disclosed no audit findings, which are required to be reported in accordance with Section 510(a) of Circular A-133.
- Identification of Major programs:
 - CFDA No. 93.658 – Foster Care – Title IV-E
- Dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- Auditee is considered to be a low risk auditee pursuant to OMB Circular A-133.

State Financial Assistance:

- There was one significant deficiency related to internal control over major state projects disclosed by the audit, which was not considered a material weakness.
- Type of auditors' report issued on compliance for major projects: *Unqualified*
- The audit disclosed one audit finding, which is required to be reported in accordance with Rules of the Auditor General, Chapter 10.650.
- Identification of Major projects:
 - CSFA No. 60.094 – Community Based Care Supports.
- Dollar threshold used to distinguish between Type A and Type B projects was \$300,000.

CHILD AND FAMILY CONNECTIONS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS
PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012
(Continued)

II. Financial Statement Findings:

None

III. Findings and Questioned Costs Major Federal Programs and State Projects:

2012-01 – CSFA 60.094 – Community Based Care Support: Adoption Client Documentation:

Condition: One of forty client files chosen for testing was unable to be located.

Criteria: Community Based Care Support funds are to be used for child protection services that include adoption services. Allowable costs for the program require documentation of the services.

Effect: The grantor agency may require the return of funds under the grant.

Context: Forty clients under the grant were tested and proper documentation of the services provided could not be produced for one of the tested clients.

Recommendation: A client file tracking system, such as a check-in, check-out procedure should be put in place to ensure that all client files are properly maintained.

IV. Prior Year Audit Findings:

None

V. Corrective Action Plans:

See “Response to Management Letter Finding FY 12-13” on page 23.

**MANAGEMENT LETTER OF INDEPENDENT AUDITORS'
REQUIRED BY CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

To the Board of Directors
Child and Family Connections, Inc.:

We have audited the financial statements of Child and Family Connections, Inc. (the Organization) as of and for the three-month period ended September 30, 2012, and have issued our report thereon dated March 10, 2013.

We conducted our audit 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 Florida Auditor General. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 Florida Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 10, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General, which requires disclosure in the management letter of violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements or State project amounts that is less than material but more than inconsequential. In addition, for matters that have an inconsequential effect on the financial statements or State project amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, (2) Deficiencies in internal control that are not significant deficiencies. In connection with our audit, the following matters are required to be disclosed:

2012-02 Client Trust Accounts Transfer:

During the course of our audit we noted bank account balances as of September 30, 2012 for the current needs and dedicated client trust accounts. Per the interagency agreement between ChildNet and the Organization, ChildNet assumed full responsibility of the client trust funds on September 21, 2012, with all cash to be transferred within five business days. We noted this transfer did not occur in prescribed time period and recommend the Organization fulfill future legal obligations in a timely manner.

121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386/257-4100
Fax: 386/255-3261
dab@jmco.com

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352/378-1331
Fax: 352/372-3741
gnv@jmco.com

2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
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Fax: 850/422-2074
tlh@jmco.com

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2012-03 Journal Entry Documentation:

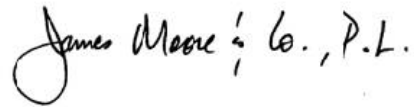
During our testing of journal entries, we examined the supporting documentation for entries selected for testing. We noted that supporting documentation could not be provided for eight entries. ChildNet took possession of all documentation during the transition of operations from the Organization to ChildNet. Support for the journal entries selected for testing was not able to be obtained from ChildNet during the course of our audit and we were unable to test proper authorization of the entries.

2012-04 Maintenance Adoption Subsidy Grant Receivable:

During the course of our audit we noted the recorded revenue from DCF did not reconcile to the DCF Post Award Notice. An additional \$80,000 of funds was received by the Organization from DCF subsequent to period end for grant expenditures relating to the three-month period under audit. This amount was not accrued as of period end. We recommend that the Post Award Notice be reconciled to recorded revenue to ensure that all revenue and receivables are properly recorded.

The Organization's response to the findings identified in our audit is included on Page 23. We did not audit the Organization's response and, accordingly, we express no opinion on the response.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



Daytona Beach, Florida
March 10, 2013