'R KIDS, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2006

TOGETHER WITH INDEPENDENT
AUDITOR'S REPORT
R KIDS, INC.
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DECEMBER 31, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
4R Kids, Inc.
New Haven, Connecticut

We have audited the accompanying statement of financial position of 4R Kids, Inc. (a nonprofit organization) as of December 31, 2006, and the related statements of activities, cash flows and functional expenses 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 4R Kids, Inc. as of December 31, 2006, 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.

January 11, 2008

\[Signature\]
R KIDS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2006

ASSETS

Current assets
Cash $ 41,697
Accounts receivable, net 1,491
Grants receivable 8,796
Prepaid expenses 6,042
Total current assets $ 58,026

Property and equipment
Land 39,000
Furniture and equipment 70,244
Vehicles 35,105
Building 881,825
Total 1,026,174
Less accumulated depreciation 150,703
Property and equipment - net 875,471

Other assets
Deposits 2,700
Total assets $ 936,197

LIABILITIES AND NET ASSETS

Current liabilities
Accounts payable and accrued expenses $ 69,454
Accrued payroll 2,571
Due to grantor agency 30,052
Total current liabilities $ 102,077

Net assets
Unrestricted 834,120

Total liabilities and net assets $ 936,197

See accompanying notes to financial statements
<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant revenues</td>
<td>$349,701</td>
<td>$13,531</td>
<td>$363,232</td>
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<tr>
<td>Contributions</td>
<td>11,580</td>
<td></td>
<td>11,580</td>
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<tr>
<td>Fundraising</td>
<td>3,980</td>
<td></td>
<td>3,980</td>
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<tr>
<td>Program service</td>
<td>63,038</td>
<td></td>
<td>63,038</td>
</tr>
<tr>
<td>Adoption</td>
<td>19,455</td>
<td></td>
<td>19,455</td>
</tr>
<tr>
<td>Other income</td>
<td>3,685</td>
<td></td>
<td>3,685</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total support and revenue</td>
<td>480,907</td>
<td>(15,937)</td>
<td>464,970</td>
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</table>

**Expenses**

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program services</td>
<td>324,213</td>
<td></td>
<td>324,213</td>
</tr>
<tr>
<td>Management and general</td>
<td>161,704</td>
<td></td>
<td>161,704</td>
</tr>
<tr>
<td>Total expenses</td>
<td>485,917</td>
<td></td>
<td>485,917</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>(5,010)</td>
<td>(15,937)</td>
<td>(20,947)</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>839,130</td>
<td>15,937</td>
<td>855,067</td>
</tr>
<tr>
<td>Net assets, ending of year</td>
<td>$834,120</td>
<td>$</td>
<td>$834,120</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets $ (20,947)

Adjustments to reconcile change in net assets to net cash provided by operating activities:
Depreciation 35,806
Bad debt 2,126
(Increase) decrease in prepaid expenses (1,002)
(Increase) decrease in grants receivable (830)
(Increase) decrease in accounts receivable 34,039
Increase (decrease) in accounts payable 11,601
Increase (decrease) in accrued expenses (3,598)

Net cash provided by operating activities 57,195

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on the note payable (25,000)

Net cash used by financing activities (25,000)

Net increase (decrease) in cash 32,195

Cash - beginning of year 9,502

Cash - end of year $ 41,697

Supplemental disclosure:

Interest paid $ 988

See accompanying notes to financial statements
<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Management and General</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>$146,863</td>
<td>$75,052</td>
<td>$221,915</td>
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<tr>
<td>Payroll taxes</td>
<td>13,808</td>
<td>7,057</td>
<td>20,865</td>
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<tr>
<td>Employee benefits</td>
<td>5,702</td>
<td>2,914</td>
<td>8,616</td>
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<tr>
<td>Retirement</td>
<td>2,244</td>
<td>1,147</td>
<td>3,391</td>
</tr>
<tr>
<td>Training</td>
<td>1,158</td>
<td>592</td>
<td>1,750</td>
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<tr>
<td>Vehicle expense</td>
<td>3,435</td>
<td>1,756</td>
<td>5,191</td>
</tr>
<tr>
<td>Outside services</td>
<td>43,244</td>
<td>3,681</td>
<td>46,925</td>
</tr>
<tr>
<td>Consultants</td>
<td>-</td>
<td>27,107</td>
<td>27,107</td>
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<tr>
<td>Communications and advertising</td>
<td>-</td>
<td>1,648</td>
<td>1,648</td>
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<tr>
<td>Office</td>
<td>5,150</td>
<td>2,632</td>
<td>7,782</td>
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<tr>
<td>Postage</td>
<td>525</td>
<td>269</td>
<td>794</td>
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<tr>
<td>Telephone</td>
<td>3,517</td>
<td>1,797</td>
<td>5,314</td>
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<tr>
<td>Professional fees</td>
<td>6,343</td>
<td>21,844</td>
<td>28,187</td>
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<tr>
<td>Program supplies and fees</td>
<td>8,139</td>
<td>-</td>
<td>8,139</td>
</tr>
<tr>
<td>Adoption expense</td>
<td>3,230</td>
<td>-</td>
<td>3,230</td>
</tr>
<tr>
<td>Food</td>
<td>6,569</td>
<td>-</td>
<td>6,569</td>
</tr>
<tr>
<td>Insurance</td>
<td>8,751</td>
<td>3,137</td>
<td>11,888</td>
</tr>
<tr>
<td>Rent</td>
<td>9,525</td>
<td>-</td>
<td>9,525</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>13,695</td>
<td>1,483</td>
<td>15,178</td>
</tr>
<tr>
<td>Utilities</td>
<td>7,880</td>
<td>853</td>
<td>8,733</td>
</tr>
<tr>
<td>Depreciation</td>
<td>32,309</td>
<td>3,498</td>
<td>35,807</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>2,126</td>
<td>-</td>
<td>2,126</td>
</tr>
<tr>
<td>Interest expense</td>
<td>-</td>
<td>988</td>
<td>988</td>
</tr>
<tr>
<td>Indirect expenses</td>
<td>-</td>
<td>2,432</td>
<td>2,432</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>1,817</td>
<td>1,817</td>
</tr>
<tr>
<td>Total</td>
<td>$324,213</td>
<td>$161,704</td>
<td>$485,917</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

‘R Kids, Inc. (the Organization) is a not-for-profit corporation organized under the laws of the State of Connecticut. The Organization’s mission is to provide services to children and families engaged in the system of the State of Connecticut Department of Children and Families, with the objective of having children live in safe and stable homes with minimal disruption. Services include the reunification of families, the promotion of permanency to children, and the providing of support services to biological, foster, pre/post adoptive and relative care families.

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

Financial statement presentation

Financial statement presentation is in accordance with 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.

Contributions

The Organization follows SFAS No. 116, “Accounting for Contributions Received and Contributions Made”. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under SFAS No. 116, restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the restrictions.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of financial statement presentation, the Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At December 31, 2006, the valuation allowance was $605.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are stated at cost or their estimated fair value at date of donation. Maintenance and repairs are charged to expense as incurred. Major improvements and betterments are capitalized. Title to property and equipment acquired with federal and state assistance reverts to the funding agency.

Depreciation is computed on the straight-line method based on the estimated useful lives of the assets which range from five to thirty-nine years.

Deferred revenue

Deferred revenue represents contributions or grants awarded or received in the current year to support the following year’s activities.

Donated services and equipment

Donated services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

The amount of donated services recorded in the financial statements for the year ended December 31, 2006, was $10,000. Such services consisted of legal consultation and representation.

A number of volunteers have donated significant amounts of time to the Organization’s program throughout the year; however no amounts are recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

Donated supplies and equipment are recorded as contributions at their estimated fair value at the date of donation.

Income tax status

The Organization is a charitable organization as defined by Section 501 (c) (3) of the Internal Revenue Code. As such, the Organization is exempt from federal and state income taxes. In addition, the Organization qualifies for the charitable deduction under Section 170 (b) (1) (A) and has been classified as an Organization other than a private foundation under Section 509 (a) (2).

Due to grantor agency

Grant funds awarded by federal and state agencies, but not expended, are required to be returned to the grantor. Grant refunds are recorded when the amount of the refund due becomes known, normally when a final accounting by the grantee is submitted. At December 31, 2006, the refund due to the Department of Children and Families for contract #8122-307-01 was $30,052.

NOTE 2 – RESTRICTED CASH

In accordance to specific grant requirements, the Organization maintains separate bank accounts for grant transactions. At December 31, 2006, the cash balances in these accounts were $2,073.
NOTE 3 – GRANTS RECEIVABLE

At December 31, 2006, grants receivable consisted of the following:

Department of Social Services, pass-through from City of New Haven $ 7,965
Empower New Haven, Inc. $ 831

$ 8,796

NOTE 4 – COMPENSATED ABSENCES

Employees of the Organization are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Organization’s policy is to recognize the costs of compensated absences when actually paid to employees.

NOTE 5 – LINE OF CREDIT

The Organization has a $50,000 revolving line of credit, none of which was used at December 31, 2006. Bank advances on the credit line are payable on demand and carry an interest rate of 7.75%. The credit line is secured by substantially all assets of the Organization.

NOTE 6 – CONCENTRATIONS

At December 31, 2006, approximately 88% of the Organization’s funding and 100% of the accounts receivable was provided by the State of Connecticut Department of Children and Families.

NOTE 7 – SUBSEQUENT EVENT/LITIGATION

In 2006, the Organization was a defendant in a lawsuit filed by the contractor that built the family visitation center in New Haven, CT. The Organization filed a counter-claim against the defendant and the case was unsettled and scheduled for arbitration for the year ended December 31, 2006. The arbitration was held at the end of 2007 and it was determined that the Organization was liable to the contractor in the amount of $51,000. At December 31, 2006, the financial statements include a liability of approximately $42,000 to the contractor. In addition, the Organization was a recipient of a grant awarded by the State of Connecticut Department of Social Services for construction related costs. The balance remaining on the grant award was $75,000 and will be disbursed to the Organization for the settlement payment to the contractor.