# CHILDNET, INC. AND AFFILIATE

## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2017

# CHILDNET, INC. AND AFFILIATE

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MARCUM
ACCOUNTANTS ▲ ADVISORS

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
**ChildNet, Inc. and Affiliate**

***Report on the Financial Statements***

We have audited the accompanying financial statements of ChildNet, Inc. and Affiliate (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



MARCUMGROUP
MEMBER

Marcum LLP ▪ 450 East Las Olas Boulevard ▪ 9th Floor ▪ Fort Lauderdale, Florida 33301 ▪ Phone 954.320.8000 ▪ Fax 954.320.8001 ▪ www.marcumllp.com

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ChildNet, Inc. and Affiliate as of June 30, 2017, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the Organization's 2016 financial statements, and our report dated December 30, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matters***

*Other Information*

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 and state financial assistance, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, Rules of the Auditor General, is presented for purposes of additional analysis 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. Such 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 accompanying schedule of expenditures of federal awards and state financial assistance is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2017, on our consideration of ChildNet, Inc. and Affiliate's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ChildNet, Inc. and Affiliate's internal control over financial reporting and compliance.

Marcum LLP

Miami, FL
December 27, 2017

# CHILDNET, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### JUNE 30, 2017
### (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2016)

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 1,337,086 | $ 6,678,625 |
| Restricted cash | 618,211 | 512,711 |
| Grants and other receivables | 11,071,152 | 4,678,236 |
| Prepaid expenses | 1,426,020 | 1,978,510 |
| **Total Current Assets** | 14,452,469 | 13,848,082 |
| **Property and Equipment, Net** | 514,839 | 741,889 |
| **Other Assets** | 334,219 | 334,219 |
| **Total Assets** | $ 15,301,527 | $ 14,924,190 |
| **Liabilities and Net (Deficit) Assets** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | $ 3,092,379 | $ 1,136,613 |
| Accounts payable - providers | 8,575,024 | 10,975,398 |
| Accrued salaries and annual leave | 2,782,441 | 2,805,930 |
| Funds due to clients - Social Security benefits | 618,211 | 512,711 |
| Current portion of capital lease obligation | 67,211 | 88,371 |
| Deferred revenue | 1,197,981 | 100,000 |
| **Total Current Liabilities** | 16,333,247 | 15,619,023 |
| **Long-term Liabilities** | | |
| Line of credit | 1,500,000 | -- |
| Capital lease obligation, net of current portion | -- | 75,167 |
| Deferred rent | 699,871 | 621,193 |
| **Total Long-term Liabilities** | 2,199,871 | 696,360 |
| **Total Liabilities** | 18,533,118 | 16,315,383 |
| **Commitments and Contingencies** | | |
| **Net (Deficit) Assets** | | |
| Unrestricted | (3,747,771) | (2,134,423) |
| Temporarily restricted | 516,180 | 743,230 |
| **Total Net (Deficit) Assets** | (3,231,591) | (1,391,193) |
| **Total Liabilities and Net (Deficit) Assets** | $ 15,301,527 | $ 14,924,190 |

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

# CHILDNET, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF ACTIVITIES

### FOR THE YEAR ENDED JUNE 30, 2017
### (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

| | Unrestricted | Temporarily Restricted | 2017 | 2016 |
|---|---|---|---|---|
| **Support, Revenues and Losses** | | | | |
| Government grants and contracts | $ 123,488,274 | $ 112,690 | $ 123,600,964 | $ 125,172,790 |
| Contributions | 604,149 | -- | 604,149 | 458,077 |
| In-kind contributions | 306,820 | -- | 306,820 | 624,317 |
| Other revenue | 159,540 | -- | 159,540 | 149,222 |
| Loss on disposal of assets | (390) | -- | (390) | (11,056) |
| Net assets released from restrictions | 339,740 | (339,740) | -- | -- |
| **Total Support, Revenues and Losses** | 124,898,133 | (227,050) | 124,671,083 | 126,393,350 |
| **Expenses** | | | | |
| Program services: | | | | |
| DCF community based care | 122,030,402 | -- | 122,030,402 | 123,086,957 |
| Other community based care | 1,547,975 | -- | 1,547,975 | 1,338,036 |
| Supporting services: | | | | |
| General and administrative | 2,758,711 | -- | 2,758,711 | 2,922,846 |
| Fundraising | 174,393 | -- | 174,393 | 403,074 |
| **Total Expenses** | 126,511,481 | -- | 126,511,481 | 127,750,913 |
| **Decrease in Net Assets** | (1,613,348) | (227,050) | (1,840,398) | (1,357,563) |
| **Net (Deficit) Assets** - Beginning | (2,134,423) | 743,230 | (1,391,193) | (33,630) |
| **Net (Deficit) Assets** - Ending | $ (3,747,771) | $ 516,180 | $ (3,231,591) | $ (1,391,193) |

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

# CHILDNET, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

### FOR THE YEAR ENDED JUNE 30, 2017
### (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

| | Program Services | | | Supporting Services | | | | |
|---|---|---|---|---|---|---|---|---|
| | DCF Community Based Care | Other Community Based Care | Total Program Services | General and Administrative | Fundraising | Total Supporting Services | 2017 Total Expenses | 2016 Total Expenses |
| Personnel costs | $ 23,179,365 | $ 987,579 | $ 24,166,944 | $ 2,041,493 | $ 47,915 | $ 2,089,408 | $ 26,256,352 | $ 26,092,687 |
| Contract and other services | 90,640,853 | 544,429 | 91,185,282 | -- | -- | -- | 91,185,282 | 92,047,157 |
| Occupancy and utilities | 2,556,198 | -- | 2,556,198 | 127,477 | -- | 127,477 | 2,683,675 | 3,200,477 |
| Professional fees | 1,206,193 | -- | 1,206,193 | 195,952 | 5,070 | 201,022 | 1,407,215 | 1,099,821 |
| Insurance | 930,962 | -- | 930,962 | 67,557 | -- | 67,557 | 998,519 | 983,476 |
| In-kind expenses | 306,820 | -- | 306,820 | -- | -- | -- | 306,820 | 624,317 |
| Equipment and leases | 631,607 | -- | 631,607 | 18,100 | -- | 18,100 | 649,707 | 618,377 |
| Travel | 589,225 | 8,771 | 597,996 | 38,100 | 180 | 38,280 | 636,276 | 704,494 |
| Maintenance | 459,086 | -- | 459,086 | 25,460 | -- | 25,460 | 484,546 | 406,911 |
| Office and computer supplies | 265,945 | 658 | 266,603 | 117,619 | 1,867 | 119,486 | 386,089 | 405,242 |
| Telephone | 364,722 | 192 | 364,914 | 20,253 | -- | 20,253 | 385,167 | 515,810 |
| Depreciation and amortization | 339,431 | 309 | 339,740 | -- | -- | -- | 339,740 | 446,062 |
| Staff training and recruitment | 244,626 | 5,907 | 250,533 | 25,186 | -- | 25,186 | 275,719 | 247,527 |
| Data communications | 175,500 | -- | 175,500 | 6,602 | -- | 6,602 | 182,102 | 119,355 |
| Postage | 137,193 | 130 | 137,323 | 32,984 | -- | 32,984 | 170,307 | 193,801 |
| Donations | -- | -- | -- | -- | 119,361 | 119,361 | 119,361 | -- |
| Dues and subscriptions | 2,676 | -- | 2,676 | 41,928 | -- | 41,928 | 44,604 | 45,399 |
| **Total** | $ 122,030,402 | $ 1,547,975 | $ 123,578,377 | $ 2,758,711 | $ 174,393 | $ 2,933,104 | $ 126,511,481 | $ 127,750,913 |

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

## CHILDNET, INC. AND AFFILIATE

### CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED JUNE 30, 2017
### (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

| | 2017 | 2016 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Change in net assets | $ (1,840,398) | $ (1,357,563) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 339,740 | 446,062 |
| Loss on disposal of fixed assets | 390 | 11,056 |
| Change in operating assets and liabilities: | | |
| Restricted cash | (105,500) | 172,859 |
| Grants and other receivables | (6,392,916) | 4,655,894 |
| Prepaid expenses | 552,490 | (1,286,013) |
| Other assets | -- | 490,404 |
| Accounts payable and accrued expenses | 1,955,766 | (861,826) |
| Accounts payable - providers | (2,400,374) | 785,448 |
| Accrued salaries and annual leave | (23,489) | 1,305,233 |
| Funds due to clients - Social Security benefits | 105,500 | (172,859) |
| Deferred revenue | 1,097,981 | 100,000 |
| Deferred rent | 78,678 | 119,162 |
| Total Adjustments | (4,791,734) | 5,765,420 |
| **Net Cash Provided by (Used in) Operating Activities** | (6,632,132) | 4,407,857 |
| **Cash Flows From Investing Activities** | | |
| Purchase of property and equipment | (113,080) | (58,372) |
| **Cash Flows From Financing Activities** | | |
| Proceeds from line of credit borrowings | 1,500,000 | -- |
| Payments on capital lease obligation | (96,327) | (70,538) |
| **Net Change in Cash and Cash Equivalents** | (5,341,539) | 4,278,947 |
| **Cash and Cash Equivalents** - Beginning | 6,678,625 | 2,399,678 |
| **Cash and Cash Equivalents** - Ending | $ 1,337,086 | $ 6,678,625 |
| **Supplemental Disclosure of Cash Flow Information** | | |
| Cash paid during the year for interest | 21,100 | 28,607 |
| In-kind donations | $ 306,820 | $ 624,317 |

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

## NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***THE ORGANIZATION***

ChildNet, Inc. ("ChildNet"), formerly known as Community Based Solutions, Inc., was incorporated on July 25, 2001 under the laws of the State of Florida as a not-for-profit organization. ChildNet is a non-profit organization devoted to the development of community-based services and support for children and families served by the Broward and Palm Beach Counties child protection and foster care system. ChildNet's mission is to develop and manage a comprehensive, community-based, coordinated system of care for abused, neglected, and abandoned children and their families and for children and families who are at risk of maltreatment and/or placement in the foster care system. ChildNet receives its funding principally from the Florida Department of Children and Families ("DCF") in the form of Mental Health Treatment, Substance Abuse Treatment, Adoption Subsidy, Foster Care Subsidy, and Independent Living Services for Adults and Children grants.

Tech Care For Kids, Inc. ("TCFK"), a social purpose corporation, was incorporated on August 13, 2014 under the laws of the State of Florida. The purpose of TCFK's formation is to create, design, deliver and support technology to improve the delivery of social services. There are 1,000 shares of common stock issued and outstanding, all of which are held by ChildNet. TCFK had minimal operations as of and for the year ended June 30, 2017.

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

***PRINCIPLES OF CONSOLIDATION***

The consolidated financial statements include the accounts of ChildNet and TCFK (collectively, the "Organization"). All significant transactions and account balances between entities have been eliminated in consolidation.

***FINANCIAL STATEMENT PRESENTATION***

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions as follows:

***Unrestricted***
Net assets used by the Organization which are free of donor-imposed restrictions; all revenues and expenses that are not changes in temporarily or permanently restricted net assets are considered to be unrestricted net assets.

## NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

### *FINANCIAL STATEMENT PRESENTATION (CONTINUED)*

***Temporarily Restricted***
Net assets used by the Organization which are limited by donor-imposed stipulations that either expire with the passage of time or that can be fulfilled or removed by actions of the Organization pursuant to those stipulations. As of June 30, 2017, the Organization had temporarily restricted net assets of approximately $516,000, which consists of nonexpendable property and equipment, net of depreciation, in which DCF maintains title upon completion or termination of the Broward and Palm Beach Counties contracts (See Note 2).

***Permanently Restricted***
Net assets used by the Organization which are limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets as of June 30, 2017.

### *CASH EQUIVALENTS*

All highly liquid investments with original maturities of three months or less when acquired are considered to be cash equivalents.

### *RESTRICTED CASH*

The Organization acts as a representative payee for social security benefits on behalf of children who are in custody of the State of Florida as a result of either their parents being deceased, disabled, lost their parental rights or the child is disabled. The benefits are managed by the Organization to ensure that the children's current and foreseeable needs are being provided. Restricted cash represents the benefits received in excess of the current need requirements which are held in escrow and monitored by the DCF.

### *CONCENTRATIONS OF CREDIT RISK*

Financial instruments which potentially expose the Organization to concentrations of credit risk consist principally of cash and cash equivalents (including restricted cash) and grants and other receivables.

**NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

***CONCENTRATIONS OF CREDIT RISK (CONTINUED)***

***Cash and Cash Equivalents (Including Restricted Cash)***
Financial instruments that potentially subject the Organization to concentrations of credit risk consist of deposit accounts. The Organization had approximately $2,132,000 of balances in excess of insurance limits covered by the Federal Deposit Insurance Corporation ("FDIC") as of June 30, 2017. The Organization maintains these balances in what it believes to be high quality financial institutions, which it believes limits its risk.

***Grants and Other Receivables***
Grants and other receivables consist principally of amounts due from grantor agencies pursuant to the terms of the respective grant agreements. Grants and other receivables are stated at net realizable value. Allowances are provided for amounts estimated to be uncollectible based on historical experience and any specific collection issues that the Organization has identified. It is the Organization's policy to charge uncollectible receivables against the allowance when management determines that the related balance will not be collected. Management determined that an allowance for doubtful accounts was not necessary at June 30, 2017.

***PROPERTY AND EQUIPMENT***

Property and equipment valued in excess of $1,000 with a useful life over one year are capitalized. Property and equipment are recorded at cost or, if donated, at fair value at the date of donation. Major renewals and improvements are capitalized, while repairs and maintenance expenditures are expensed as incurred. When items are retired or otherwise disposed of, the related costs and accumulated depreciation or amortization are removed from the accounts and any resulting gains or losses are recognized. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the useful life or the term of the lease. Amortization of equipment under capital leases is included in depreciation and amortization expense.

The estimated useful lives of each asset group are as follows:

| Asset Group | Years |
|---|---|
| Leasehold improvements | 5-20 |
| Furniture, fixtures and equipment | 3-20 |

## NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

***IMPAIRMENT OF LONG-LIVED ASSETS***

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 360, *Property, Plant and Equipment,* the carrying value of long-lived assets is reviewed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by determining if the carrying value of the asset exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset over the remaining economic life of the asset. If recoverability is not assured, impairment is determined based on comparing the carrying value of the asset and the estimated fair value of the asset. Management does not believe that long-lived assets were impaired as of June 30, 2017.

***DEFERRED RENT***

The Organization records rent payments from operating leases, which generally call for escalating payments and free rents over the terms of the leases, on a straight-line basis over the lease term, as required in FASB ASC No. 840, *Leases*. The difference between the rent payments and straight-line basis of such rent is recorded as deferred rent.

***FAIR VALUE OF FINANCIAL INSTRUMENTS***

The carrying amounts of cash and cash equivalents (including restricted cash), grants and other receivables, accounts payables and accrued expenses and other current liabilities approximate their fair values due to their short term nature and that they are receivable or payable upon demand. The Organization estimates that the carrying value approximates the fair value for the line of credit based on current rates offered to the Organization for lines of credit of comparable maturities and similar collateral requirements. However, considerable judgement is involved in making fair value determinations and current estimates of fair value may differ significantly from amounts presented herein.

## NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

#### *FAIR VALUE MEASUREMENTS*

Pursuant to FASB ASC 820, *Fair Value Measurements*, the Organization defines fair value as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

***Level 1***
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

***Level 2***
Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

***Level 3***
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

***FAIR VALUE MEASUREMENTS (CONTINUED)***

The Organization did not have any assets or liabilities requiring fair value measurement on a recurring basis as of June 30, 2017.

***CONTRIBUTIONS***

Contributions and gifts received with no restrictions or specified uses identified by the donor are included in unrestricted revenue in the consolidated statement of activities when received. Contributions received with donor stipulations that limit the use of donated assets are reported as either temporarily or permanently restricted revenue in the consolidated statement of activities when received.

When donor restrictions expire or are fulfilled by actions of the Organization, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted revenue in the accompanying consolidated statement of activities.

***GRANTS FROM GOVERNMENT AGENCIES***

Grants from governmental agencies are recognized as revenue when the grant funds have been expended in accordance with the grant provisions of the respective agreements.

***DEFERRED REVENUE***

Deferred revenue represents advances to be used on future expenditures. Deferred revenue is recognized as revenue when the related expenditures are incurred.

***CONTRIBUTED GOODS AND SERVICES***

Contributed goods and services are reflected in the consolidated financial statements at their estimated fair value, if reasonably determined. The contributions of services are recognized if the services received (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations. For the year ended June 30, 2017, there was approximately $307,000 in non-cash contributions.

**NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

***CONTRIBUTED GOODS AND SERVICES (CONTINUED)***

Services provided by volunteers throughout the year are not recognized as contributions in the consolidated financial statements since these services are not susceptible to objective measurement or valuation.

***FUND-RAISING ACTIVITIES***

The Organization's consolidated financial statements are presented in accordance with FASB ASC 958 *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities that Included Fund Raising*. FASB ASC 958 establishes criteria for accounting and reporting for any entity that solicits contributions.

Directly identifiable fund-raising expenses are charged to supporting services. Expenses related to more than one function are charged to supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

***FUNCTIONAL ALLOCATION OF EXPENSES***

The cost of providing the various programs and other activities has been detailed in the consolidated statement of functional expenses and is summarized on a functional basis in the consolidated statement of activities. Salaries and other expenses, which are associated with a specific program, are charged directly to that program. Salaries and other expenses, which benefit more than one program, are allocated to the various programs based on the time spent.

***INCOME TAXES***

ChildNet is a not-for-profit organization, as defined by section 501(c)(3) of the Internal Revenue Code, and as such is subject to federal income taxes only on unrelated business income. There were no income taxes resulting from unrelated business income during the year ended June 30, 2017.

## NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

***INCOME TAXES (CONTINUED)***

TCFK is taxed as a corporation for federal income tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enacted date. The Organization did not record a provision for income taxes for TCFK in the accompanying consolidated financial statements as TCFK's operations since inception are minimal.

The Organization accounts for uncertainty in income taxes in accordance with GAAP, which requires recognition in the accompanying consolidated financial statements of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Organization had no material unrecognized tax benefits and no adjustments to its consolidated financial position, activities or cash flows were required. The Organization does not expect that unrecognized tax benefits will increase within the next twelve months.

The Organization did not record any interest or penalties on uncertain tax positions in the consolidated statement of financial position as of June 30, 2017 or the consolidated statement of activities for the year then ended. If the Organization were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes.

***USE OF ESTIMATES***

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

## NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

### *COMPARATIVE INFORMATION*

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2016 from which the summarized information was derived.

### *RECENT ACCOUNTING PRONOUNCEMENTS*

In August 2016, the FASB issued ASU 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities*", representing the completion of the first phase of a two-phase project to amend not-for-profit financial reporting requirements as set out in FASB ASC 958, *Not-for-Profit Entities*. The ASU eliminates the distinction between resources with permanent restrictions and those with temporary restrictions from the face of not-for-profit financial statements by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes: net assets with donor restrictions and net assets without donor restrictions. Further, the ASU requires enhanced disclosures and also allows not-for-profits to present operating cash flows on the statement of cash flows using either the direct method or the indirect method. The ASU will be effective for the Organization for fiscal years starting after December 15, 2017, and the interim periods within. Reporting entities should apply the ASU retrospectively to all periods presented. Earlier application is permitted, however, the Organization did not early adopt the ASU. Management is in the process of evaluating the ASU for the potential impact on its consolidated financial statements upon adoption.

### *SUBSEQUENT EVENTS*

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through December 27, 2017, the date the consolidated financial statements were available to be issued.

## NOTE 2 - LIQUIDITY

The Organization is subject to certain liquidity risks. For the year ended June 30 2017, the Organization incurred an increase in net deficiency of approximately $1,840,000, which resulted in a net deficiency of approximately $3,232,000 as of June 30, 2017. As of June 30, 2017, the Organization had approximately $1,337,000 of cash and cash equivalents and a working capital deficit of approximately $1,881,000. For the year ended June 30, 2017, the Organization was funded through normal recurring advance payments from the DCF and also made a one-time withdrawal against its' line of credit (Note 6) that was subsequently repaid in July 2017.

On July 3, 2017, the Organization received approximately $3,760,000 of Risk Pool/Back of the Bill appropriations provided by DCF as part of the General Appropriations Acts to fund current and prior period deficits. The Organization implemented a Financial Viability Plan ("Plan") as required by the General Appropriations Act during the year ended June 30, 2017. The Plan provides a detailed analysis and plan of action detailing the steps necessary to mitigate costs and bring projected expenditures in line with revenues. As part of the implementation of this Plan, DCF provides a quarterly financial performance update on all 19 statewide Community Based Care agencies ("CBC"). For the first quarter ended September 30, 2017, the Organization was one of five CBC's projecting to end fiscal year June 30, 2018 with a surplus, while the remaining 14 CBC's will be in a deficit status. As a result, the Organization believes it currently has sufficient cash and financing commitments to meet its cash requirements over the next year. The Organization expects that strict adherence to the Plan, while also continuing to reduce costs throughout operations, will allow the Organization to continue to reduce prior year deficits and attain financial viability, although there are no assurances that this will occur.

## NOTE 3 - CONTRACTS

The Organization coordinates and administers certain child welfare services in Broward and Palm Beach Counties 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 services in Broward County are provided under a five-year contract ending on June 30, 2019 with DCF in the amount of $689,536,973. The services in Palm Beach County are provided under a five-year contract ending June 30, 2019 in the amount of $230,969,548. The contracts can be terminated by either party with 180 days' notice in writing. The contracts require the Organization to comply with certain performance measures on a monthly basis and may be terminated in the event of non-compliance.

For the year ended June 30, 2017, service fees earned by the Organization under the contracts amounted to approximately $122,360,000, which are included in government grants and contracts in the accompanying consolidated statements of activities.

### NOTE 4 - CONTRACTS WITH OUTSIDE PROVIDERS

The Organization has contractual agreements with various non-profit agencies and one for-profit agency (collectively, the "Providers") to provide foster care and intervention and family support services for them.

The foster care contracts specify the responsibility of the Providers 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.

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

Contracts are for a period of one year. Under these contracts, the Organization paid approximately $60,803,000, which is included in program services in the accompanying consolidated statement of activities, to Providers for the year ended June 30, 2017 and had an amount payable to the Providers of approximately $8,575,000 as of June 30, 2017.

### NOTE 5 - PROPERTY AND EQUIPMENT

As of June 30, 2017, property and equipment consist of the following:

| | |
|---|---|
| Furniture, fixtures and equipment | $ 2,735,231 |
| Leasehold improvements | 19,560 |
| | 2,762,991 |
| Less: Accumulated depreciation and amortization | (2,248,152) |
| Construction in progress | 8,200 |
| **Property and Equipment, Net** | $ 514,839 |

Depreciation and amortization expense for the year ended June 30, 2017 was approximately $340,000.

### NOTE 6 - LINE OF CREDIT

On April 18, 2016, the Organization entered into a line of credit agreement (the "Line") in the amount of $2,000,000. Payments of accrued unpaid interest are due monthly and the Line expires in March 2018. Interest on the Line is calculated at the bank's business prime rate (4.25% as of June 30, 2017). The Line requires the Organization to be in compliance with certain financial covenants. As of June 30, 2017, the Organization was not in compliance with certain financial covenant requirements and received the applicable waiver from the bank. Borrowings are secured by substantially all assets of the Organization. As of June 30, 2017, there was an outstanding balance on the Line in the amount of $1,500,000.

### NOTE 7 - CAPITAL LEASE OBLIGATION

Equipment under a capital lease consists of one piece of office equipment and software with a capitalized cost of approximately $258,000. Accumulated depreciation and amortization in the consolidated statement of financial position includes approximately $186,000 related to this leased equipment. Depreciation and amortization expense reported in the consolidated statement of activities includes approximately $86,000 for the equipment under capital lease. The title of this equipment passes to the Organization at the end of the lease period. Remaining future minimum lease payments are as follows:

| For the Year Ending June 30, | Amount |
|---|---|
| 2018 | $ 79,679 |
| **Total Minimum Lease Payments** | 79,679 |
| Less: Amortization representing interest | 12,468 |
| **Present Value of Minimum Lease Payments** | 67,211 |
| Less: Current portion of capital lease obligation | 67,211 |
| **Capital Lease Obligation, Net of Current Portion** | $ -- |

### NOTE 8 - RETIREMENT PLAN

The Organization maintains a 403(b) tax-deferred annuity retirement plan (the "Retirement Plan") for the benefit of all their employees meeting the minimum eligibility requirements. The Organization, at its discretion, will contribute a percentage of eligible compensation on behalf of each eligible employee. For the year ended June 30, 2017, 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. For the year ended June 30, 2017, the Organization contributed approximately $642,000 to the Retirement Plan.

### NOTE 9 - COMMITMENTS

#### *LEASE OBLIGATIONS*

The Organization leases office space in Palm Beach County under an operating lease, as amended, scheduled to expire June 2019, but which can be cancelled at an earlier time in the event that the contract between the Organization and DCF to serve the abused, abandoned and neglected children of Palm Beach County is terminated or not renewed. Additionally, the Organization leases office space in Broward County scheduled to expire February 2025.

The Organization also leases vehicles and office equipment under non-cancelable leases expiring in various years from 2017 through 2020.

Future estimated minimum payments required under the above leases are as follows:

| For the Year Ending June 30, | Amount |
|---|---|
| 2018 | $ 2,681,000 |
| 2019 | 2,655,000 |
| 2020 | 1,601,000 |
| 2021 | 1,588,000 |
| 2022 | 1,629,000 |
| Thereafter | 4,553,000 |
| **Total** | $ 14,707,000 |

The aggregate rent expense for all cancellable and non-cancellable leases for the year ended June 30, 2017 was approximately $2,721,000.

## NOTE 10 - CONTINGENCIES

### *FEDERAL, STATE, AND LOCAL GRANT PROGRAMS*

The Organization participates in federal, state and local grant programs that are subject to audit by the respective grantor agencies. Any disallowed funds received or to be received under these programs may constitute a liability in the amount of the disallowed funds. Management does not believe that any potential disallowed funds would have a significant effect on the consolidated financial statements.

### *LEGAL MATTERS*

The Organization is subject to legal proceedings and claims arising in the normal course of business. There are currently no pending legal proceedings to which the Organization is a party that management believes will have a material effect on the Organization's consolidated financial position or results of operations.

## NOTE 11 - CONCENTRATIONS

For the year ended June 30, 2017, the Organization received approximately 99% of its government grant revenue from DCF. As the revenue from DCF is significant to the overall operations of the Organization, any significant reduction or loss of funding from DCF may affect the Organization’s ability to operate in its present form. As of June 30, 2017, receivables from DCF were approximately 98% of grants and other receivables.

# 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*

Board of Directors
**ChildNet, Inc. and Affiliate**

We have audited, in accordance with the 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, the financial statements of ChildNet, Inc. and Affiliate (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 27, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.





Marcum LLP ▪ 450 East Las Olas Boulevard ▪ 9th Floor ▪ Fort Lauderdale, Florida 33301 ▪ Phone 954.320.8000 ▪ Fax 954.320.8001 ▪ www.marcumllp.com

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Organization's financial statements are free from 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.*

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Miami, FL
December 27, 2017

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

Board of Directors
**ChildNet, Inc. and Affiliate**

***Report on Compliance for Each Major Federal Program and State Project***

We have audited the compliance of ChildNet, Inc. and Affiliate (collectively, the "Organization") with the types of compliance requirements described in the *OMB Compliance Supplement* and the requirements described in the *Department of Financial Services'* State Projects Compliance Supplement, that could have a direct and material effect on the Organization's major Federal programs and State projects for the year ended June 30, 2017. 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.

***Management's Responsibility***

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its Federal programs and State projects.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major Federal programs and State projects based on our audit of the types of compliance requirements referred to above. 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; Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)*;* and Chapter 10.650, Rules of the Auditor General. Those standards, Uniform Guidance, and Chapter 10.650, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program or State project occurred. An audit includes examining, on a test basis, evidence about ChildNet, Inc. and Affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program and State project. However, our audit does not provide a legal determination of the Organization's compliance.



MARCUMGROUP
MEMBER

**Marcum LLP** ▪ 450 East Las Olas Boulevard ▪ 9th Floor ▪ Fort Lauderdale, Florida 33301 ▪ **Phone** 954.320.8000 ▪ **Fax** 954.320.8001 ▪ **www.marcumllp.com**

***Opinion on Each Major Federal Program and State Project***

In our opinion, ChildNet, Inc. and Affiliate complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs and State projects for the year ended June 30, 2017.

***Report on Internal Control Over Compliance***

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program and State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and State project and to test and report on internal control over compliance in accordance with the Uniform Guidance 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.

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 or State project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Marcum LLP

Miami, FL
December 27, 2017

# CHILDNET, INC. AND AFFILIATE

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

## FOR THE YEAR ENDED JUNE 30, 2017

| Federal/State Agency, Pass-through Entity | CFDA/ CSFA No. | Contract | Expenditures | Transfers to Subrecipients |
|---|---|---|---|---|
| **Federal Awards** | | | | |
| U.S. Department of Health and Human Services: | | | | |
| Pass-Through Florida Department of Children and Families Cluster: | | | | |
| Adoption Assistance | 93.659 | JJ212 | $ 13,066,478 | $ 418,620 |
| | | IJ706 | 9,151,131 | 1,469,680 |
| Medical Assistance Program | 93.778 | JJ212 | 195,265 | -- |
| | | IJ706 | 151,491 | -- |
| Temporary Assistance for Needy Families (TANF) | 93.558 | JJ212 | 8,572,942 | 814,356 |
| | | IJ706 | 5,095,548 | 2,799,004 |
| Foster Care - Title IV - E | 93.658 | JJ212 | 37,420,141 | 22,048,768 |
| | | IJ706 | 20,362,520 | 15,382,131 |
| Child Welfare Services - State Grants | 93.645 | JJ212 | 994,215 | 166,474 |
| | | IJ706 | 593,764 | 397,016 |
| Social Services Block Grant | 93.667 | JJ212 | 5,975,668 | 6,444,856 |
| | | IJ706 | 2,936,021 | 3,097,767 |
| Promoting Safe and Stable Families | 93.556 | JJ212 | 1,337,340 | 1,225,571 |
| | | IJ706 | 960,076 | 933,508 |
| Independent Living | 93.674 | JJ212 | 866,148 | -- |
| | | IJ706 | 962,304 | -- |
| Chafee Education and Training Vouchers Program | 93.599 | JJ212 | 431,322 | -- |
| | | IJ706 | 245,208 | -- |
| Grants to States for Access and Visitation Programs | 93.597 | JJ212 | 43,475 | 43,475 |
| | | IJ706 | 45,101 | 45,101 |
| Administration for Children, Youth and Families-Child Abuse | 93.669 | JJ212 | 4,160 | 1,459 |
| | | IJ706 | 2,752 | 2,180 |
| Adoption Incentive Payments | 93.603 | JJ212 | 113,278 | -- |
| | | IJ706 | 257,581 | -- |
| Block Grants for Community Mental Health Services | 93.958 | JJ212 | 881,398 | 764,498 |
| | | IJ706 | 723,235 | 723,235 |
| Community Based Family Resource and Support Grant | 93.590 | IJ707 | 136,033 | 136,033 |
| Total Florida Department of Children and Families Cluster: | | | 111,524,595 | 56,913,732 |
| Pass-Through Kids in Distress, Inc.: | | | | |
| The HEART (Housing, Empowerment, Achievement, Recovery and Triumph) Alliance for Sustainable Families | 93.670 | KID-HHS-CHN | 18,894 | -- |
| **Total Federal Awards** | | | $ 111,543,489 | $ 56,913,732 |

***See notes to the schedule of expenditures of federal awards and state financial assistance.***

# CHILDNET, INC. AND AFFILIATE

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE (CONTINUED)

## FOR THE YEAR ENDED JUNE 30, 2017

| Federal/State Agency, Pass-through Entity | CFDA/ CSFA No. | Contract | Expenditures | Transfers to Subrecipients |
|---|---|---|---|---|
| **State Financial Assistance** | | | | |
| State of Florida Department of Children and Families Cluster: | | | | |
| Out-of-Home Supports | 60.074 | JJ212 | $ 6,375,757 | $ 3,266,079 |
| | | IJ706 | 1,978,258 | 374,277 |
| Adoption Services | 60.076 | JJ212 | 23,915 | -- |
| | | IJ706 | 921 | -- |
| Extended Foster Care Program | 60.141 | JJ212 | 659,570 | -- |
| | | IJ706 | 800,001 | -- |
| Independent Living Program | 60.112 | JJ212 | 426,612 | -- |
| | | IJ706 | 321,132 | -- |
| Sexually Exploited Children | 60.138 | JJ212 | 199,505 | 199,505 |
| | | IJ706 | 49,727 | 49,727 |
| **Total State Financial Assistance** | | | 10,835,398 | 3,889,588 |
| **Total Federal Awards and State Financial Assistance** | | | $ 122,378,887 | $ 60,803,320 |

***See notes to the schedule of expenditures of federal awards and state financial assistance.***

# NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

## FOR THE YEAR ENDED JUNE 30, 2017

### NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the "Schedule") presents the federal and state grant activity of the Organization for the year ended June 30, 2017.

### NOTE 2 - BASIS OF ACCOUNTING

The Schedule is presented using GAAP, which is described in Note 1 to the Organization's financial statements. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Audits of States, Local Government, and Non-Profit Organizations, and Chapter 10.650, Rules of the Auditor General. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

### NOTE 3 - INDIRECT COST RATE

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**CHILDNET, INC. AND AFFILIATE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***FINANCIAL STATEMENTS***

| | | |
|---|---|---|
| Type of auditors' report issued: | ***UNMODIFIED OPINION*** | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | _____Yes | __X__No |
| Significant deficiency(ies) identified that are not considered to be material weakness(es)? | _____Yes | __X__No |
| Noncompliance material to financial statement noted? | _____Yes | __X__No |

***FEDERAL PROGRAMS AND STATE PROJECTS***

| | | |
|---|---|---|
| Internal control over major Federal programs and State projects: | | |
| Material weakness(es) identified? | _____Yes | __X__No |
| Significant deficiency(ies) identified that are not considered to be material weakness(es)? | _____Yes | __X__No |
| Type of auditors' report issued on compliance for major Federal programs and State projects: | ***UNMODIFIED OPINION*** | |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance and Chapter 10.656? | ______Yes | __X__No |

Identification of major Federal programs and State projects:

| ***NAME OF FEDERAL PROGRAM OR CLUSTER*** | ***CFDA NUMBER*** |
|---|---|
| *Florida Department of Children and Families Cluster:* | |
| Adoption Assistance | 93.659 |
| Medical Assistance Program | 93.778 |
| Temporary Assistance for Needy Families (TANF) | 93.558 |
| Foster Care - Title IV - E | 93.658 |
| Child Welfare Services - State Grants | 93.645 |
| Social Services Block Grant | 93.667 |
| Promoting Safe and Stable Families | 93.556 |
| Independent Living | 93.674 |
| Chafee Education and Training Vouchers Program | 93.599 |

### SECTION I - SUMMARY OF AUDITORS' RESULTS (CONTINUED)

| ***NAME OF FEDERAL PROGRAM OR CLUSTER*** | ***CFDA NUMBER*** |
|---|---|
| *Florida Department of Children and Families Cluster (Continued):* | |
| Grants to States for Access and Visitation Programs | 93.597 |
| Administration for Children, Youth and Families-Child Abuse | 93.669 |
| Adoption Incentive Payments | 93.603 |
| Block Grants for Community Mental Health Services | 93.958 |
| Community Based Family Resource and Support Grant | 93.590 |

| ***NAME OF STATE PROJECT*** | ***CSFA NUMBER*** |
|---|---|
| *State of Florida Department of Children and Families Cluster:* | |
| Out-of-Home Supports | 60.074 |
| Adoption Services | 60.076 |
| Extended Foster Care Program | 60.141 |
| Independent Living Program | 60.112 |
| Sexually Exploited Children | 60.138 |

Dollar threshold used to distinguish between type A and type B Federal programs: $3,000,000

Dollar threshold used to distinguish between type A and type B State projects: $325,062

Auditee qualified as low-risk auditee pursuant to the Uniform Guidance? __X__ Yes ______ No

### SECTION II - FINANCIAL STATEMENT FINDINGS

None.

### SECTION III - FEDERAL PROGRAMS AND STATE PROJECTS FINDINGS AND QUESTIONED COSTS

None. A management letter was not issued because there were no items that were required to be reported related to Federal programs or State projects.

### SECTION IV - PRIOR YEAR FINDINGS

None.