



CHILDNET, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

As of and for the Year Ended June 30, 2013

And Reports of Independent Auditor

CHILDNET, INC.
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR 1 - 2

FINANCIAL STATEMENTS

Statement of Financial Position3
Statement of Activities.....4
Statement of Functional Expenses5
Statements of Cash Flows6
Notes to Financial Statements 7 - 12

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards and State Financial Assistance 13 - 14
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance..... 15

REPORTS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, OMB CIRCULAR A-133 AND CHAPTER 10.650:

Report of Independent Auditor 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*..... 16 - 17

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 and Chapter 10.650 *Rules of Auditor General* 18 - 19

SCHEDULE OF FINDINGS AND QUESTIONED COSTS..... 20 - 21

SCHEDULE OF PRIOR AUDIT FINDINGS22

Report of Independent Auditor

To the Board of Directors
ChildNet, Inc.
Plantation, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of ChildNet, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2013, and the related 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.

Auditor's 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Supplementary 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of Auditor General* of the State of Florida, 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. 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2012 financial statements, and our report dated December 27, 2012, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the Organization'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* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cherry Behant LLP". The signature is written in a cursive, flowing style.

Fort Lauderdale, Florida
December 20, 2013

CHILDNET, INC.
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013
(WITH SUMMARIZED TOTALS AS OF JUNE 30, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 10,640,153	\$ -	\$ 10,640,153	\$ 3,286,631
Funds for clients - Social Security benefits	627,144	-	627,144	511,798
Other receivables	365,652	-	365,652	250,923
Prepaid expenses	403,298	-	403,298	3,503,900
Total current assets	<u>12,036,247</u>		<u>12,036,247</u>	<u>7,553,252</u>
Property and equipment, net	<u>4,414</u>	<u>790,470</u>	<u>794,884</u>	<u>906,216</u>
Other assets				
Security deposits	74,187	-	74,187	-
Total other assets	<u>74,187</u>	<u>-</u>	<u>74,187</u>	<u>-</u>
Total Assets	<u>\$ 12,114,848</u>	<u>\$ 790,470</u>	<u>\$ 12,905,318</u>	<u>\$ 8,459,468</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 2,848,481	\$ -	\$ 2,848,481	\$ 839,788
Accounts payable - providers	1,859,731	-	1,859,731	1,785,396
Accrued salaries and annual leave	1,513,414	-	1,513,414	1,097,357
Funds due to clients - Social Security benefits	627,144	-	627,144	511,798
Deferred revenue	6,260,481	-	6,260,481	4,082,513
Total current liabilities	<u>13,109,251</u>	<u>-</u>	<u>13,109,251</u>	<u>8,316,852</u>
Net (deficit) assets				
Unrestricted	(994,403)	-	(994,403)	(757,813)
Temporarily restricted	-	790,470	790,470	900,429
Total net (deficit) assets	<u>(994,403)</u>	<u>790,470</u>	<u>(203,933)</u>	<u>142,616</u>
Total Liabilities and Net Assets	<u>\$ 12,114,848</u>	<u>\$ 790,470</u>	<u>\$ 12,905,318</u>	<u>\$ 8,459,468</u>

CHILDNET, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
Changes in net assets:				
Support and revenues				
Government grants and contracts	\$ 90,108,029	\$ 244,099	\$ 90,352,128	\$ 65,900,936
Contributions	838,302	-	838,302	280,242
In-kind contributions	561,820	-	561,820	399,518
Net assets released from restrictions	354,058	(354,058)	-	-
Total support and revenues	<u>91,862,209</u>	<u>(109,959)</u>	<u>91,752,250</u>	<u>66,580,696</u>
Expenses				
Program services:				
DCF community based care	90,654,625	-	90,654,625	65,807,626
Other community based care	165,526	-	165,526	198,450
Supporting services:				
General and administrative	174,366	-	174,366	30,281
Fundraising	501,651	-	501,651	309,150
In-kind	561,820	-	561,820	399,518
Loss on disposal of assets	40,811	-	40,811	27,417
Total expenses	<u>92,098,799</u>	<u>-</u>	<u>92,098,799</u>	<u>66,772,442</u>
Decrease in net assets	<u>(236,590)</u>	<u>(109,959)</u>	<u>(346,549)</u>	<u>(191,746)</u>
Net (deficit) assets, beginning of year	<u>(757,813)</u>	<u>900,429</u>	<u>142,616</u>	<u>334,362</u>
Net (deficit) assets, end of year	<u>\$ (994,403)</u>	<u>\$ 790,470</u>	<u>\$ (203,933)</u>	<u>\$ 142,616</u>

CHILDNET, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	Program Services			Supporting Services				2013 Total Expenses	2012 Total Expenses	
	DCF Community Based Care	Other Community Based Care	Total Program Services	General and Administrative	Fundraising	In-Kind	Total Supporting Services			Other
Personnel costs	\$ 24,083,589	\$ 144,888	\$ 24,228,477	\$ -	\$ 32,486	\$ -	\$ 32,486	\$ -	\$ 24,260,963	\$ 21,621,165
Contract and other services	60,125,748	10,687	60,136,435	-	-	-	-	-	60,136,435	39,362,879
Occupancy and utilities	1,475,723	-	1,475,723	-	-	-	-	-	1,475,723	745,639
Telephone	493,633	-	493,633	-	-	-	-	-	493,633	341,967
Insurance	858,953	-	858,953	-	-	-	-	-	858,953	883,929
Office and computer supplies	442,328	1,085	443,413	6,297	1,501	-	7,798	-	451,211	356,658
Postage	123,736	-	123,736	-	-	-	-	-	123,736	130,228
Professional fees	874,470	800	875,270	168,069	5,148	-	173,217	-	1,048,487	857,508
Staff training and recruitment	221,149	1,415	222,564	-	-	-	-	-	222,564	182,971
Travel	640,938	6,380	647,318	-	6,811	-	6,811	-	654,129	519,312
Dues and subscriptions	29,968	-	29,968	-	-	-	-	-	29,968	39,572
Equipment and leases	610,246	-	610,246	-	-	-	-	-	610,246	390,610
Data communications	195,592	-	195,592	-	-	-	-	-	195,592	118,966
Maintenance	111,405	271	111,676	-	-	-	-	-	111,676	129,321
Depreciation	357,591	-	357,591	-	-	-	-	-	357,591	360,463
Donations	9,556	-	9,556	-	455,705	-	455,705	-	465,261	304,319
In-kind expenses	-	-	-	-	-	561,820	561,820	-	561,820	399,518
Loss on disposal of assets	-	-	-	-	-	-	-	40,811	40,811	27,417
TOTAL	\$ 90,654,625	\$ 165,526	\$ 90,820,151	\$ 174,366	\$ 501,651	\$ 561,820	\$ 1,237,837	\$ 40,811	\$ 92,098,799	\$ 66,772,442

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

CHILDNET, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2013

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ (346,549)	\$ (191,746)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	357,591	360,463
Loss on disposal of assets	40,811	27,417
Changes in operating assets and liabilities:		
Other receivables	(114,729)	51,524
Prepaid expenses	3,100,602	(2,453,618)
Security deposits	(74,187)	-
Accounts payable and accrued expenses	2,008,693	84,756
Accounts payable - providers	74,335	(137,308)
Accrued salaries and annual leave	416,057	46,288
Deferred revenue	2,177,968	(1,248,993)
Net cash provided by (used in) operating activities	<u>7,640,592</u>	<u>(3,461,217)</u>
Cash flows from investing activities		
Purchase of property and equipment	(287,070)	(65,653)
Net cash used in investing activities	<u>(287,070)</u>	<u>(65,653)</u>
Cash flows from financing activities		
Principal payments on long-term debt	-	(6,459)
Net cash used in financing activities	<u>-</u>	<u>(6,459)</u>
Net increase (decrease) in cash and cash equivalents	<u>7,353,522</u>	<u>(3,533,329)</u>
Cash and cash equivalents, beginning of year	<u>3,286,631</u>	<u>6,819,960</u>
Cash and cash equivalents, end of year	<u>\$ 10,640,153</u>	<u>\$ 3,286,631</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ -</u>	<u>\$ 158</u>
Supplemental disclosure of non-cash investing and financing activities:		
In-kind donations	<u>\$ 561,820</u>	<u>\$ 399,518</u>

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1—Summary of significant accounting policies

Nature of Activities – Community Based Solutions, Inc. was incorporated on July 25, 2001. On October 10, 2002, Community Based Solutions, Inc. changed its name to ChildNet, Inc., d/b/a/ ChildNet (“ChildNet”) or (the “Organization”). On October 1, 2012, the Organization was awarded a contract by the Florida Department of Children and Families (“DCF”) to serve the abused, abandoned and neglected children of Palm Beach County, Florida.

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’s support and revenue was received substantially from a grant evidenced by a contract with its funding source, DCF.

Basis of Accounting – The Organization follows standards of accounting and financial reporting prescribed for not-for-profit organizations. The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Comparative Financial Information – The 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2012 from which the summarized information was derived.

Financial Statement Presentation – The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, if any.

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may, or will be, met by either actions of the Organization and/or the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that may be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the assets for general or specific purposes.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Cash and Cash Equivalents – The Organization considers cash and all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents include checking and money market accounts held in federally insured financial institutions.

CHILDNET, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1—Summary of significant accounting policies (continued)

Revenue Recognition – Contract revenue is recognized as revenue in the period in which it is expended for cost-reimbursed agreements. Amounts that have not yet been expended are recorded as deferred revenue. All other revenues are recognized when earned.

Fair Value of Financial Instruments – Except as otherwise disclosed, the Organization's financial instruments, other receivables, accounts payable, and accrued expenses are reported at their carrying value, which in the opinion of management, approximates their fair value and have relatively short-term maturities.

Donated Supplies and Services – Donated supplies and services are reflected in the accompanying statements at their estimated fair market values at date of receipt. Donated services are recognized at their fair market value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amount of such donated goods for the year ended June 30, 2013 was \$561,820.

Functional Expense Allocation – The costs of providing the programs and activities of the Organization have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services benefited based on cost allocation plans approved by DCF on August 29, 2013 and July 31, 2013 for Broward and Palm Beach Counties, respectively, with effective dates of July 1, 2012 and October 1, 2012, respectively. Indirect costs reimbursable under the DCF contract are included as program costs.

Income Tax – The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a nonprofit organization other than a private foundation. However, the Organization is subject to income taxes on unrelated business income. No income tax provision is required since the Organization had no unrelated business taxable income during the year ended June 30, 2013.

Financial Accounting Standards Board Accounting Standards Codification Topic 740, "Income Taxes" prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance requires that the Organization determine whether the benefits of the Organization's tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. The Organization did not have unrecognized tax benefits and does not have any uncertain tax positions. The tax years 2010 through 2013 remain subject to examination by major tax jurisdictions as of June 30, 2013.

The Organization includes any interest and penalties assessed by income taxing authorities in operating expenses. The Organization did not have penalties and interest expenses for the year ended June 30, 2013.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1—Summary of significant accounting policies (continued)

Property and Equipment – Property and equipment are recorded at cost or, if donated, at their estimated fair market value at the time of donation. Upon disposition of an asset, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statement of activities. Property and equipment acquired with donor funds are recorded at cost or, if donated, at their estimated fair market value at the time of donation and classified as temporarily restricted assets. Upon disposition or replacement of such assets, the Organization is required to obtain approval from the donor and any proceeds from disposition are remitted back to the donor.

Property and equipment acquisitions are capitalized if they are in excess of \$1,000. Items that are less than the capitalization threshold are expensed in the year acquired. The Organization reviews assets for impairment whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable. A determination of impairment, if any, is made based on estimates of undiscounted future cash flows. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from three to seven years.

Concentration of Grant Awards – The Organization receives approximately 99% of its grant funding from 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.

Concentration of Credit Risk – The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (“FDIC”) covers \$250,000 for substantially all depository accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2013, the Organization had approximately \$12,600,000 in excess of these insured amounts.

Compensated Absences – The Organization recognizes the costs of compensated absences when actually earned by the employees. Accordingly, a liability for such absences has been recorded in the accompanying financial statements. Compensated absences are not reimbursable under the DCF contract until taken by the employee. Accordingly, the Organization does not accrue revenue until that point.

Reclassification – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements in order to maintain consistency and comparability between periods presented. The reclassifications were made to provide additional information about program and supporting costs and did not involve the correction of an error or an accounting change.

Note 2—Contracts

ChildNet 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, 2014 with DCF in the amount of \$325,674,444. The services in Palm Beach County are provided under a one year, nine month contract ending June 30, 2014 in the amount of \$68,861,515. The contracts can be terminated by either party with 180 days’ notice in writing. The contracts require ChildNet to comply with certain performance measures on a monthly basis and may be terminated in the event of non-compliance. The Broward County contract may be renewed for one term not to exceed five years.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 3—Contracts with outside providers

ChildNet has contractual agreements with various non-profit agencies and one for-profit agency (“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 ChildNet on a monthly basis. ChildNet 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 ChildNet. ChildNet 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, ChildNet paid approximately \$39,000,000 to outside Providers for the year ended June 30, 2013 and had an amount payable to the Providers of \$1,859,731 as of June 30, 2013.

Note 4—Matching fund requirements

ChildNet and its Providers allocated matching funds of cash and in-kind services in the amount of \$561,820 to the Promoting Safe and Stable Families Program for the year ended June 30, 2013.

Note 5—Property and equipment

Property and equipment consist of the following as of June 30, 2013:

Furniture and equipment	\$ 2,843,303
Less: accumulated depreciation	(2,048,419)
Property and equipment, net	<u>\$ 794,884</u>

Depreciation expense for the year ended June 30, 2013 totaled \$357,591.

Note 6—Debt

On October 29, 2010, the Organization entered into a line of credit agreement in the amount of \$1,000,000 with BB&T bank, renewable annually. Payments of accrued unpaid interest are due monthly. Interest on the line of credit is calculated at the BB&T Business Prime rate. Borrowings are secured by substantially all assets of the Organization. There were no advances on the line of credit during the year ended June 30, 2013.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 7—Compensated absences

The Organization accrues paid time off (“PTO”) hours for employees over 26 pay periods. PTO hours are based on the number of years of service up to 29 days. Employees may carry forward to the next fiscal year a maximum of 120 hours. Major Illness Account (“MIA”) hours are accrued over 26 pay periods up to a maximum of 320 hours. Upon termination or employees providing two weeks’ notice, employees will be paid for all accrued PTO hours. Employees are not paid for unused MIA hours. As of June 30, 2013, PTO was accrued in the amount of \$1,109,863.

Note 8—Temporarily restricted net assets

Temporarily restricted net assets consist of nonexpendable property and equipment net of depreciation at June 30, 2013 in the amount of \$790,470 in which DCF, the grantor, maintains title upon completion or termination of the contract.

For the year ended June 30, 2013, \$354,058 of net assets was released from restrictions as a result of depreciation.

Note 9—Retirement plan

The Organization maintains a 403(b) tax-deferred annuity retirement plan (the “Plan”), for the benefit of all their employees meeting the minimum eligibility requirements. The Organization, at its discretion, will contribute a percentage of compensation on behalf of each eligible employee. For the year ended June 30, 2013, 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, 2013, the Organization contributed \$570,431 to the Plan.

Note 10—Commitments and contingencies

Lease Obligations - The Organization leases office space in Broward County under a non-cancelable operating lease expiring in May 2014 and office space in Palm Beach County under an operating lease scheduled to expire June 2017, but which can be cancelled at 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. The aggregate rent expense for the year ended June 30, 2013 totaled \$1,475,017. The Organization also leases vehicles and office equipment under non-cancelable leases expiring in various years through 2017. The aggregate lease expense for the year ended June 30, 2013 totaled \$492,014.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 1,977,674
2015	90,259
2016	45,014
2017	11,512
Total future minimum lease payments	<u>\$ 2,124,459</u>

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 10—Commitments and contingencies (continued)

Contingencies - Amounts received from contracting agencies are subject to audit and potential adjustments by the contracting agencies. Any disallowed costs, including amounts already collected, would become a liability of the Organization if so determined in the future. It is management's belief that no material liability will result from future audits of such activities.

Legal Matters - In the ordinary course of conducting its business, the Organization has become involved in litigation matters and other claims, some of which are currently pending. Litigation is subject to many uncertainties and management is unable to accurately predict the outcome of individual litigated matters. Some of these matters may possibly be decided unfavorably towards the Organization.

Note 11—Funds due from/to clients – social security benefits

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. The benefits in excess of current needs requirements are held in escrow and invested in highly liquid, risk free government securities with the State Treasury and monitored by the DCF.

Note 12—Subsequent events

The Organization is tentatively set to negotiate both contracts with the Florida Department of Children and Families (Department) in late January 2014. The Organization received an offer for renewal for Broward County from the Department for which Management only has to come to terms with the new attachment to the contract. The Organization was the only bidder for the contract RFP for Palm Beach County, for which the bidding process is now closed. Management is optimistic that the Organization will soon have two five year contracts with the Department in which both will have a five year option for renewal

In preparing the accompanying financial statements, the Organization evaluated subsequent events through December 20, 2013, the date the financial statements were available to be issued.

CHILDNET, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

YEAR ENDED JUNE 30, 2013

Federal Agency, Pass-Through Entity Federal Program	CFDA Number	Contract Number	Expenditures	Transfers to Subrecipients
Federal Awards				
U.S. Department of Health and Human Services:				
Pass-Through Florida Department of Children and Families:				
Adoption Assistance	93.659	JJ212	\$ 6,615,147	\$ 138,430
		IJ705	3,371,079	528,479
Medical Assistance Program	93.778	JJ212	101,197	-
		IJ705	38,506	-
Temporary Assistance for Needy Families (TANF)	93.558	JJ212	4,392,384	349,858
		IJ705	1,954,553	1,148,776
Foster Care - Title IV-E	93.658	JJ212	16,105,434	8,048,324
		IJ705	6,254,403	5,037,339
Child Welfare Services - State Grants	93.645	JJ212	670,373	57,516
		IJ705	268,184	164,810
Social Services Block Grant	93.667	JJ212	6,127,115	6,127,115
		IJ705	2,375,749	2,374,180
Promoting Safe and Stable Families	93.556	JJ212	1,355,232	1,277,677
		IJ705	534,320	520,908
Independent Living	93.674	JJ212	1,160,035	-
		IJ705	971,562	441,742
Chafee Education and Training Vouchers Program	93.599	JJ212	457,108	-
		IJ705	134,662	-
Grants to States for Access and Visitation Programs	93.597	JJ212	40,729	40,729
		IJ705	30,548	30,548
Administration for Children, Youth and Families-Child Abuse	93.669	JJ212	2,711	2,523
		IJ705	297	279
Block Grants for Community Mental Health Services	93.958	JJ212	559,345	559,345
		IJ705	202,053	202,053
Adoption Incentive Payments	93.603	JJ212	116,853	-
		IJ705	91,763	-
Total Expenditures of Federal Awards			\$ 53,931,342	\$ 27,050,631

The accompanying notes to schedule of expenditures of federal awards and state financial assistance are an integral part of this statement.

CHILDNET, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

YEAR ENDED JUNE 30, 2013

State Agency Federal Program/State Project	CFDA/CFSA Number	Contract Number	Expenditures	Transfers to Subrecipients
State Financial Assistance				
Florida Department of Children and Families:				
Community Based Care Supports	60.094	JJ212	\$ 17,396,096	\$ 5,989,422
		IJ705	8,975,976	5,074,056
Total Expenditures of State Financial Assistance			<u>\$ 26,372,072</u>	<u>\$ 11,063,478</u>
Total Expenditures of Federal Awards and State Financial Assistance			<u>\$ 80,303,414</u>	<u>\$ 38,114,109</u>
State Matching of Federal Awards				
Florida Department of Children and Families:				
Adoption Assistance	93.659	JJ212	\$ 5,657,237	\$ 132,979
		IJ705	3,003,829	524,804
Medical Assistance Program	93.778	JJ212	104,378	-
		IJ705	39,491	-
Child Welfare Services - State Grants	93.645	JJ212	223,458	19,172
		IJ705	89,395	54,937
Promoting Safe and Stable Families	93.556	JJ212	28,219	2,367
		IJ705	11,316	6,845
Independent Living	93.674	JJ212	290,009	-
		IJ705	242,899	110,445
Chafee Education and Training Vouchers Program	93.599	JJ212	114,277	-
		IJ705	33,666	-
Total State Matching of Federal Awards			<u>\$ 9,838,174</u>	<u>\$ 851,549</u>
Total Expenditures of Federal Awards, State Financial Assistance and State Matching Federal Funds			<u>\$ 90,141,588</u>	<u>\$ 38,965,658</u>

The accompanying notes to schedule of expenditures of federal awards and state financial assistance are an integral part of this statement.

CHILDNET, INC.

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

YEAR ENDED JUNE 30, 2013

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the "Schedule") includes the federal and state grant activity of ChildNet, Inc. (the "Organization") and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, Rules of the Auditor General. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2—Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3—State Matching of Federal Awards

State matching funds provided by state agencies for federal programs are not considered state financial assistance under DFS Rule 69I-5.004(1). The funds are included for reference only and are not subject to state or federal Single Audit requirements.

Note 4—Contingencies

These award programs are subject to financial and compliance audits by grantor agencies. The amount, if any, of expenditures that may be disallowed by the grantor agencies cannot be determined at this time, although the Organization expects such amounts, if any, to be immaterial.

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
ChildNet, Inc.
Plantation, Florida

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. (the "Organization"), which comprise the statement of financial position as of June 30, 2013, and the related 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 20, 2013.

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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 the 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.

A handwritten signature in black ink that reads "Cherry Behant LLP". The signature is written in a cursive, flowing style.

Fort Lauderdale, Florida
December 20, 2013

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General*

To the Board of Directors
ChildNet, Inc.
Plantation, Florida

Report on Compliance for Each Major Federal Program and State Financial Assistance Project

We have audited ChildNet, Inc (the “Organization”) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the Executive Office of the Governor of Florida’s 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 year ended June 30, 2013. The Organization’s major federal programs and state financial assistance project are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs and state financial assistance project.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization’s major federal programs and state financial assistance project 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650 *Rules of Auditor General* of the State of Florida. Those standards, OMB Circular A-133 and Chapter 10.650 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 and 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 on compliance for each major federal program and state financial assistance project. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Each Major Federal Program and State Financial Assistance Project

In our opinion, the Organization 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 financial assistance project for the year ended June 30, 2013.

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 financial assistance 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 financial assistance project and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, 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 OMB Circular A-133 and Chapter 10.650. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Behant LLP". The signature is written in a cursive, flowing style.

Fort Lauderdale, Florida
December 20, 2013

CHILDNET, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

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 no

Significant deficiency(ies) identified that are not considered to be material weaknesses?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards and State Financial Assistance Projects

Internal control over major programs and state projects:

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified that are not considered to be material weaknesses?

yes none reported

Type of auditors' report issued on compliance for major programs and state projects

Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 or Chapter 10.650?

yes no

Identification of major programs/state projects:

Federal Awards Program

CFDA No.

U.S Department of Health and Human Services:

Pass-through Florida Department of Children and Families:

Adoption Assistance

93.659

Independent Living

93.674

Chafee Education and Training Vouchers Program

93.599

Child Welfare Services - State Grants

93.645

State Financial Assistance Projects

CFSA No.

Florida Department of Children and Families:

Community Based Care Support

60.094

Dollar threshold used to distinguish between

Type A and Type B programs:

Federal programs

\$ 1,617,940

State projects

\$ 791,162

Auditee qualified as low-risk auditee for federal purposes?

yes no

CHILDNET, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Projects Findings and Questioned Costs

None

There was no management letter issued as a result of the June 30, 2013 audit.

CHILDNET, INC.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2013

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