# CHILDNET, INC.

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

**As of and for the Year Ended June 30, 2012**

**And**

**Report of Independent Certified Public Accountants**

**CHILDNET, INC.**

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

## Report of Independent Certified Public Accountants

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

We have audited the accompanying statement of financial position of ChildNet, Inc. (the "Organization") as of June 30, 2012 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's financial statements for the year June 30, 2011 and, in our report dated December 21, 2011, we expressed an unqualified opinion on those financial statements

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2012 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and Chapter 10.650 Rules of the Auditor General of the State of Florida, 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 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.

Cherry, Bekaert & Holland, L.L.P.

Fort Lauderdale, Florida
December 27, 2012

**CHILDNET, INC.**

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

(WITH SUMMARIZED TOTALS AS OF JUNE 30, 2011)

| | Unrestricted | Temporarily Restricted | 2012 Total | 2011 Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | $ 3,286,631 | $ - | $ 3,286,631 | $ 6,819,960 |
| Funds for clients - Social Security benefits | 511,798 | - | 511,798 | 562,721 |
| Other receivables | 250,923 | - | 250,923 | 302,447 |
| Prepaid expenses | 3,503,900 | - | 3,503,900 | 1,050,282 |
| Total current assets | 7,553,252 | | 7,553,252 | 8,735,410 |
| **Property and equipment, net** | 5,787 | 900,429 | 906,216 | 1,228,443 |
| **Total assets** | $ 7,559,039 | $ 900,429 | $ 8,459,468 | $ 9,963,853 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued expenses | $ 839,788 | $ - | $ 839,788 | $ 755,032 |
| Accounts payable - providers | 1,785,396 | - | 1,785,396 | 1,922,704 |
| Accrued salaries and annual leave | 1,097,357 | - | 1,097,357 | 1,051,069 |
| Funds due to clients - Social Security benefits | 511,798 | - | 511,798 | 562,721 |
| Current portion of long-term debt | - | - | - | 6,459 |
| Deferred revenue | 4,082,513 | - | 4,082,513 | 5,331,506 |
| Total current liabilities | 8,316,852 | - | 8,316,852 | 9,629,491 |
| **Net (deficit) assets** | | | | |
| Unrestricted | (757,813) | - | (757,813) | (884,814) |
| Temporarily restricted | - | 900,429 | 900,429 | 1,219,176 |
| Total net (deficit) assets | (757,813) | 900,429 | 142,616 | 334,362 |
| **Total liabilities and net assets** | $ 7,559,039 | $ 900,429 | $ 8,459,468 | $ 9,963,853 |

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

**CHILDNET, INC.**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

| | Unrestricted | Temporarily Restricted | 2012 Total | 2011 Total |
|---|---|---|---|---|
| **Changes in net assets:** | | | | |
| Support and revenues | | | | |
| Government grants and contracts | $ 65,862,700 | $ 38,236 | $ 65,900,936 | $ 67,021,636 |
| Contributions | 280,242 | - | 280,242 | 268,851 |
| In-kind contributions | 399,518 | - | 399,518 | 457,554 |
| Net assets released from restrictions | 356,983 | (356,983) | - | - |
| Total support and revenues | 66,899,443 | (318,747) | 66,580,696 | 67,748,041 |
| Expenses | | | | |
| Program services | 65,813,518 | - | 65,813,518 | 67,144,833 |
| Support services: | | | | |
| Other support | 531,989 | - | 531,989 | 440,021 |
| In-kind expenses | 399,518 | - | 399,518 | 457,554 |
| Loss on disposal of assets | 27,417 | - | 27,417 | 32,993 |
| Total expenses | 66,772,442 | - | 66,772,442 | 68,075,401 |
| Increase (decrease) in net assets | 127,001 | (318,747) | (191,746) | (327,360) |
| Net (deficit) assets, beginning of year | (884,814) | 1,219,176 | 334,362 | 661,722 |
| Net (deficit) assets, end of year | $ (757,813) | $ 900,429 | $ 142,616 | $ 334,362 |

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

**CHILDNET, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

| | Program Services | Supporting Services | | | | |
|---|---|---|---|---|---|---|
| | Community Based Care | Other Support | In-Kind Expenses | Other | 2012 Total Expenses | 2011 Total Expenses |
| Personnel costs | $ 21,469,767 | $ 151,398 | $ - | $ - | $ 21,621,165 | $ 21,798,070 |
| Contract and other services | 39,307,273 | 55,606 | - | - | 39,362,879 | 40,238,682 |
| Occupancy and utilities | 745,639 | - | - | - | 745,639 | 876,112 |
| Telephone | 341,899 | 68 | - | - | 341,967 | 412,882 |
| Insurance | 883,929 | - | - | - | 883,929 | 450,527 |
| Office and computer supplies | 356,446 | 212 | - | - | 356,658 | 269,204 |
| Postage | 130,228 | - | - | - | 130,228 | 94,595 |
| Professional fees | 847,546 | 9,962 | - | - | 857,508 | 1,094,329 |
| Staff training and recruitment | 176,407 | 6,564 | - | - | 182,971 | 181,189 |
| Travel | 519,312 | - | - | - | 519,312 | 545,043 |
| Dues and subscriptions | 39,572 | - | - | - | 39,572 | 52,263 |
| Equipment and leases | 390,410 | 200 | - | - | 390,610 | 525,394 |
| Data communications | 118,966 | - | - | - | 118,966 | 192,873 |
| Maintenance | 129,321 | - | - | - | 129,321 | 205,802 |
| Depreciation | 356,803 | 3,660 | - | - | 360,463 | 385,069 |
| Donations | - | 304,319 | - | - | 304,319 | 262,820 |
| In-kind expenses | - | - | 399,518 | - | 399,518 | 457,554 |
| Loss on disposal of assets | - | - | - | 27,417 | 27,417 | 32,993 |
| TOTAL | $ 65,813,518 | $ 531,989 | $ 399,518 | $ 27,417 | $ 66,772,442 | $ 68,075,401 |

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

**CHILDNET, INC.**

STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2012

| | For the Years Ended | |
|---|---|---|
| | **2012** | **2011** |
| **Cash flows from operating activities** | | |
| Change in net assets | $ (191,746) | $ (327,360) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation | 360,463 | 385,069 |
| Loss on disposal of assets | 27,417 | 32,993 |
| Changes in operating assets and liabilities: | | |
| Other receivables | 51,524 | 12,765 |
| Prepaid expenses | (2,453,618) | (408,229) |
| Accounts payable and accrued expenses | 84,756 | (90,096) |
| Accounts payable - providers | (137,308) | 183,251 |
| Accrued salaries and annual leave | 46,288 | (298,129) |
| Deferred revenue | (1,248,993) | 609,063 |
| Net cash (used in) provided by operating activities | (3,461,217) | 99,327 |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | (65,653) | (214,931) |
| Net cash used in investing activities | (65,653) | (214,931) |
| **Cash flows from financing activities** | | |
| Principal payments on long-term debt | (6,459) | (4,597) |
| Net cash used in financing activities | (6,459) | (4,597) |
| Net decrease in cash and cash equivalents | (3,533,329) | (120,201) |
| Cash and cash equivalents, beginning of year | 6,819,960 | 6,940,161 |
| Cash and cash equivalents, end of year | $ 3,286,631 | $ 6,819,960 |
| **Supplemental disclosure of cash flow information:** | | |
| Interest paid | $ 158 | $ 422 |
| **Supplemental disclosure of non-cash investing and financing activities:** | | |
| In-kind donations | $ 399,518 | $ 457,554 |

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

**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").

ChildNet is a non-profit organization devoted to the development of community-based services and support for children and families served by the Broward County child protection and foster care system. 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, Florida Department of Children and Families ("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, 2011 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 one federally insured financial institution. At times, the balances in these accounts may exceed federally insured limits. The Organization has not experienced any losses in these accounts and believes they are not exposed to any significant credit risk with respect to cash.

**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. The fair value of the Organization's long-term debt approximates carrying value since stated rates are similar to rates currently available to the Organization for debt with similar terms and remaining 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, 2012 was $399,518.

*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 a cost allocation plan approved by DCF on October 24, 2011 with a retroactively effective date of July 1, 2011.

*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, 2012.

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 2009 through 2012 remain subject to examination by major tax jurisdictions as of June 30, 2012.

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, 2012.

**Note 1—Summary of significant accounting policies (Continued)**

*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.

*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 five 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 and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2012, the Organization's deposits were fully insured by the FDIC, based on the specified coverage.

*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.

*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.

### Note 2—Contracts

ChildNet coordinates and administers certain child welfare services in Broward County including emergency shelter, residential group care, in-home protection services, relative care placements, foster care, case management, post-placement supervision, independent living, family reunification and preservation, and adoption services. The services are provided under a five year contract ending on June 30, 2014 with DCF in the amount of $333,765,268. The contract can be terminated by either party with 180 days notice in writing. The contract requires ChildNet to comply with certain performance measures on a monthly basis and may be terminated in the event of non-compliance. The contract may be renewed for one term not to exceed five years.

### 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 $27,000,000 and $26,000,000 to outside Providers for the year ended June 30, 2012.

### Note 4—Matching fund requirements

ChildNet and its Providers allocated matching funds of cash and in-kind services in the amount of $399,518 to the Promoting Safe and Stable Families Program for the year ended June 30, 2012.

### Note 5—Property and equipment

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

| | |
|---|---|
| Furniture and equipment | $ 2,357,956 |
| Less: accumulated depreciation | (1,451,740) |
| Property and equipment, net | $ 906,216 |

Depreciation expense for the year ended June 30, 2012 totaled $360,463.

**Note 6—Accounts payable - Community-based care providers**

ChildNet reimburses the Providers for both case management and foster care management services. The payable represents amounts invoiced to ChildNet for services provided prior to June 30, 2012. As of June 30, 2012, the amount payable to Providers was $1,785,396.

**Note 7—Debt**

On October 29, 2010, the Organization entered into a line of credit agreement in the amount of $1,000,000 with BankAtlantic, renewable annually. Payments of accrued unpaid interest are due monthly beginning December 1, 2010. Interest on the line of credit is calculated at the BankAtlantic Business Prime rate (initial rate of 4.5%). 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, 2012.

The Organization entered into a note payable for $20,226 in September 2007 to purchase a vehicle. The note payable included interest at 4.9% per annum with equal monthly principal and interest payments of $439, maturing on September 25, 2011. As of June 30, 2012, the note was paid off.

The Organization entered into a note payable for $6,268 in June 2009 to purchase a vehicle. The note payable included interest at 4.9% per annum with equal monthly principal and interest payments of $188, maturing on June 12, 2012. As of June 30, 2012, the note was paid off.

The Organization incurred interest expense on the notes payable of $158 for the year ended June 30, 2012.

**Note 8—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, 2012, PTO was accrued in the amount of $742,147.

**Note 9—Temporarily restricted net assets**

Temporarily restricted net assets consist of nonexpendable property and equipment net of depreciation at June 30, 2012 in the amount of $900,429 in which DCF, the grantor, maintains title upon completion or termination of the contract.

For the year ended June 30, 2012, $356,983 of net assets was released from restrictions as a result of depreciation.

**Note 10—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, 2012, 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, 2012, the Organization contributed $554,205 to the Plan.

**Note 11—Commitments and contingencies**

*Lease Obligations* - The Organization leases certain office space under non-cancelable operating leases expiring in 2014. The aggregate rent expense for the year ended June 30, 2012 totaled $745,032. 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, 2012 totaled $276,769.

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

| Years Ending June 30, | Amount |
|---|---|
| 2013 | $ 1,084,499 |
| 2014 | 1,001,732 |
| 2015 | 32,198 |
| 2016 | 15,161 |
| 2017 | 3,582 |
| Total future minimum lease payments | $ 2,137,172 |

*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 12—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 13—Subsequent events**

In preparing the accompanying financial statements, the Organization evaluated subsequent events through December 27, 2012, the date the financial statements were available to be issued.

On October 1, 2012, the Organization was awarded a $29,093,656 contract by DCF. This contract is to serve the abused, abandoned and neglected children of Palm Beach County, Florida; the types of services include foster care, adoption and independent living. This contract will expire on June 30, 2014.

**CHILDNET, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

YEAR ENDED JUNE 30, 2012

| Federal/State Grantor, Pass-Through Grantor<br>Federal Program/State Project | CFDA/<br>CFSA<br>Number | Contract/<br>Grant<br>Number | Expenditures | Transfers to<br>Subrecipients |
|---|---|---|---|---|
| **Federal Awards** | | | | |
| **U.S. Department of Health and Human Services:** | | | | |
| **Pass-Through Florida Department of Children and Families:** | | | | |
| Adoption Assistance | 93.659 | JJ212 | $ 11,801,650 | $ 251,877 |
| Medical Assistance Program | 93.778 | JJ212 | 205,186 | - |
| Temporary Assistance for Needy Families (TANF) | 93.558 | JJ212 | 4,631,210 | 419,364 |
| Foster Care - Title IV-E | 93.658 | JJ212 | 14,802,488 | 8,650,401 |
| Child Welfare Services - State Grants | 93.645 | JJ212 | 932,245 | 88,348 |
| Social Services Block Grant | 93.667 | JJ212 | 5,201,519 | 5,201,519 |
| Promoting Safe and Stable Families | 93.556 | JJ212 | 1,476,229 | 1,360,151 |
| Independent Living | 93.674 | JJ212 | 754,634 | - |
| Chafee Education and Training Vouchers Program | 93.599 | JJ212 | 544,668 | - |
| Grants to States for Access and Visitation Programs | 93.597 | JJ212 | 43,475 | 43,475 |
| Administration for Children, Youth and Families-Child Abuse | 93.669 | JJ212 | 5,472 | 5,065 |
| Block Grants for Community Mental Health Services | 93.958 | JJ212 | 689,817 | 689,817 |
| Adoption Incentive Payments | 93.603 | JJ212 | 268,827 | - |
| **Total Expenditure of Federal Awards** | | | $ 41,357,420 | $ 16,710,017 |
| **State Financial Assistance** | | | | |
| **Florida Department of Children and Families:** | | | | |
| Community Based Care Supports | 60.094 | JJ212 | 24,453,394 | 9,859,447 |
| **Total Expenditures of State Financial Assistance** | | | $ 24,453,394 | $ 9,859,447 |

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, 2012

## 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—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.

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**Report of Independent Certified Public Accountants 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 the financial statements of ChildNet, Inc. (the "Organization") as of and for the year ended June 30, 2012 and have issued our report thereon dated December 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

This report is intended solely for the information and use of the Board of Directors, management, others within the Organization and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Fort Lauderdale, Florida
December 27, 2012

**Report of Independent Certified Public Accountants on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General**

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

## Compliance

We have audited Childnet, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement* that 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, 2012. The Organization's major federal programs and state financial assistance projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and Chapter 10.650 Rules of the Auditor General of the State of Florida. Those standards, OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the year ended June 30, 2012.

**Internal Control over Compliance**

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

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

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

This report is intended solely for the information and use of the Board of Directors, management, others within the Organization, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Fort Lauderdale, Florida
December 27, 2012

**CHILDNET, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

**Section I – Summary of Auditors' Results**

*Financial Statements*

| | |
|---|---|
| Type of auditors' report issued: | *Unqualified Opinion* |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | ____ yes __X__ no |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | ____ yes __X__ none reported |
| Noncompliance material to financial statements noted? | ____ yes __X__ no |

*Federal Awards and State Financial Assistance Projects*

| | |
|---|---|
| Internal control over major programs: | |
| • Material weakness(es) identified? | ____ yes __X__ no |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | ____ yes __X__ none reported |
| Type of auditors' report issued on compliance for major programs: | *Unqualified Opinion* |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General? | ____ yes __X__ no |

Identification of major programs:

| Federal Awards Program | CFDA No. |
|---|---|
| Department of Health and Human Services, Pass-through Florida Department of Children and Families: | |
| Social Services Block Grant | 93.667 |
| Foster Care - Title IV-E | 93.658 |
| Promoting Safe and Stable Families | 93.556 |

| State Financial Assistance Projects | CFSA No. |
|---|---|
| Department of Health and Human Services, Pass-through Florida Department of Children and Families: | |
| Community Based Care Supports | 60.094 |

Dollar threshold used to distinguish between Type A and Type B programs:

| | |
|---|---|
| Federal: | $ 1,240,722 |
| State: | $ 733,601 |

Auditee qualified as low-risk auditee? _X_ yes ____ no

**Section II – Financial Statement Findings**

None

**Section III – Federal Award and State Financial Assistance Project Findings and Questioned Costs**

None

**CHILDNET, INC.**

SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2012

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.