

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2009 AND 2008

**CHILDNET, INC. AND AFFILIATE
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

TABLE OF CONTENTS

Independent Auditors' Report	1-2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 16
Supplementary Information:	
Schedule of Expenditures of Federal Awards and State Financial Assistance	17
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance..	18
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	19 - 20
Independent Auditors' Report on Compliance with Requirements Applicable to 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.....	21 - 22
Schedule of Findings and Questioned Costs.....	23 - 24
Schedule of Prior Audit Findings.....	25

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of ChildNet, Inc. (a non-profit organization), and Affiliate as of June 30, 2009 and 2008 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ChildNet, Inc. and Affiliate as of June 30, 2009 and 2008 and the changes in their net assets and their cash flows for the years 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 17, 2009 on our consideration of ChildNet, Inc. and Affiliate'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 important for assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of ChildNet, Inc. and Affiliate taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance (page 17) and notes to the schedule of expenditures of federal awards and state financial assistance (page 18) are 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, and are also not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Berenfeld Spritzer Shechter & Sheer LLP

BERENFELD, SPRITZER, SHECHTER & SHEER LLP
Fort Lauderdale, Florida
December 17, 2009

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2008

Assets

	Unrestricted	Temporarily Restricted	2009 Total	2008 Total
Current Assets				
Cash and cash equivalents	\$ 4,932,342	\$ -	\$ 4,932,342	\$ 2,330,258
Funds for clients - Social Security benefits	570,253	-	570,253	588,968
Other receivables	41,708	-	41,708	27,270
Prepaid expenses	703,522	-	703,522	674,274
Total Current Assets	6,247,825	-	6,247,825	3,620,770
Property and equipment, net	418,818	946,290	1,365,108	1,218,111
Total Assets	\$ 6,666,643	\$ 946,290	\$ 7,612,933	\$ 4,838,881

Liabilities and Net Assets

Current Liabilities				
Accounts payable and accrued expenses	\$ 1,079,201	\$ -	\$ 1,079,201	\$ 130,581
Accounts payable - Providers	2,528,964	-	2,528,964	2,280,347
Accrued salaries and annual leave	1,004,492	-	1,004,492	1,716,124
Funds due to clients - Social Security benefits	570,253	-	570,253	588,968
Current portion of long-term debt	37,383	-	37,383	32,988
Deferred revenue	1,984,021	-	1,984,021	-
Total Current Liabilities	7,204,314	-	7,204,314	4,749,008
Long Term Liabilities				
Long-term debt, net of current portion	238,970	-	238,970	268,522
Total Liabilities	7,443,284	-	7,443,284	5,017,530
Net (Deficit) Assets				
Unrestricted	(776,641)	-	(776,641)	(972,828)
Temporarily restricted	-	946,290	946,290	794,179
Total Net (Deficit) Assets	(776,641)	946,290	169,649	(178,649)
Total Liabilities and Net Assets	\$ 6,666,643	\$ 946,290	\$ 7,612,933	\$ 4,838,881

See accompanying notes to the consolidated financial statements.

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009 WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
Changes in Net Assets:				
Support and revenues				
Government grants and contracts	\$ 64,378,887	\$ 522,430	\$ 64,901,317	\$ 66,996,167
Contributions	296,069	-	296,069	339,420
In-kind contributions	307,401	-	307,401	248,692
Interest and dividend income	48	-	48	1,535
Net assets released from restrictions	370,319	(370,319)	-	-
Total support and revenues	<u>65,352,724</u>	<u>152,111</u>	<u>65,504,835</u>	<u>67,585,814</u>
Expenses				
Program services	64,360,297	-	64,360,297	66,595,146
Support services:				
Management and general	409,032	-	409,032	569,406
In-kind expenses	307,401	-	307,401	248,692
Loss on disposal of assets	79,807	-	79,807	53,317
Total Expenses	<u>65,156,537</u>	<u>-</u>	<u>65,156,537</u>	<u>67,466,561</u>
Increase (Decrease) in Net Assets	196,187	152,111	348,298	119,253
Net (Deficit) Assets, Beginning of Year	<u>(872,828)</u>	<u>794,179</u>	<u>(178,649)</u>	<u>(297,902)</u>
Net (Deficit) Assets, End of Year	<u>\$ (776,641)</u>	<u>\$ 946,290</u>	<u>\$ 169,649</u>	<u>\$ (178,649)</u>

See accompanying notes to the consolidated financial statements.

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009 WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008

	Program Services			Supporting Services			2008 Total Expenses
	Community Based Care	Total Program Services	Management and General	In-Kind Expenses	2009 Total Expenses		
Personnel costs	\$ 19,662,827	\$ 19,662,827	\$ 5,730	\$ -	\$ 19,668,557	\$ 21,977,530	
Contract and other services	39,667,114	39,667,114	36,995	-	39,704,109	39,214,467	
Occupancy and utilities	1,751,739	1,751,739	5,075	-	1,756,814	1,773,551	
Telephone	292,739	292,739	-	-	292,739	499,270	
Insurance	399,359	399,359	356	-	399,715	545,785	
Office and computer supplies	313,114	313,114	4,567	-	317,681	332,197	
Postage	97,486	97,486	-	-	97,486	123,287	
Professional fees	347,970	347,970	28,486	-	376,458	273,137	
Staff training and recruitment	185,308	185,308	-	-	185,308	241,777	
Travel	526,874	526,874	-	-	526,874	550,879	
Dues and subscriptions	19,059	19,059	360	-	19,419	40,693	
Equipment and leases	363,183	363,183	7,494	-	370,677	316,612	
Data communications	177,270	177,270	-	-	177,270	209,702	
Maintenance	200,348	200,348	9,707	-	210,055	290,351	
Depreciation	355,907	355,907	22,984	-	378,891	471,342	
Donations	-	-	287,276	-	287,276	303,972	
In-kind expenses	-	-	-	307,401	307,401	248,692	
TOTAL	\$ 64,360,297	\$ 64,360,297	\$ 409,032	\$ 307,401	\$ 65,076,730	\$ 67,413,244	

See accompanying notes to the consolidated financial statements.

**CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 348,298	\$ 119,253
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	378,891	471,342
Loss on disposal of assets	79,807	53,317
Changes in assets and liabilities		
Decrease in receivables from funding sources	-	35,634
(Increase) decrease in other receivables	(14,438)	228,358
(Increase) in prepaid expenses	(29,248)	(245,711)
Increase (decrease) in accounts payable and accrued expenses	948,620	(476,904)
Increase (decrease) in accounts payable - providers	248,617	(50,699)
(Decrease) increase in accrued salaries and annual leave	(711,632)	114,582
Increase (decrease) in deferred revenue	1,984,021	(117,759)
Net Cash Provided By Operating Activities	3,232,936	131,413
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(605,695)	(231,687)
Net Cash Used In Investing Activities	(605,695)	(231,687)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(25,157)	(19,138)
Net Cash Used In Financing Activities	(25,157)	(19,138)
Net (decrease) increase in cash and cash equivalents	2,602,084	(119,412)
Cash and cash equivalents, Beginning of Year	2,330,258	2,449,670
Cash and cash equivalents, End of Year	\$ 4,932,342	\$ 2,330,258
Supplemental disclosure of cash flow information:		
Interest paid	\$ 20,992	\$ 12,545
Supplemental disclosure of non-cash investing and financing activities:		
Debt incurred in acquisition of property and equipment	\$ 6,268	\$ 320,648
In-kind donations	\$ 307,401	\$ 248,692

See accompanying notes to the consolidated financial statements.

**CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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").

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.

Broward Cares for Kids Foundation, Inc. ("Broward Cares for Kids") was incorporated on October 7, 2004 and created to be a fundraising arm of ChildNet. Broward Cares for Kids was approved as a private, tax-exempt organization with the IRS, under Section 501(c)(3) effective October 7, 2004. The purpose of Broward Cares for Kids is to provide alternative sources of funding which will facilitate the implementation of services not currently eligible from State and Federal funding to ChildNet.

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").

Principles of Consolidation

The consolidated financial statements include the accounts of ChildNet and Broward Cares for Kids, collectively referred herein as the ("Organization"). All material interorganization transactions have been eliminated.

Basis of Accounting

The Organization follows standards of accounting and financial reporting prescribed for not-for-profit organizations. The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Comparative Financial Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2008 from which the summarized information was derived.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Consolidated Financial Statement Presentation

The consolidated financial statements of the Organization have been presented in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, 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

The Organization accounts for contributions in accordance with the requirements of the Financial Accounting Standards Board in SFAS No. 116 "Accounting for Contributions Received and Contributions Made". In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and 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.

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 spent are recorded as deferred revenue. All other revenues are recognized when earned.

**CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 mortgage notes payable approximate 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 consolidated 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. Many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. The amount of such donated goods for the years ended June 30, 2009 and 2008 was \$307,401 and \$248,692, respectively.

Functional Expense Allocation

The costs of providing the programs and activities of the Organization have been summarized on a functional basis in the accompanying consolidated 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 September 18, 2008 with an effective date of July 1, 2008.

Income Tax

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for income taxes.

The Organization currently accounts for uncertain tax positions under the provisions of SFAS No. 5 – "Accounting for Contingencies", which states an estimated expense shall be accrued when information indicates it is probable that a liability has been incurred and the amount can be reasonably estimated. In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes", which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." However, in accordance with FASB Staff Position FIN 48-3 issued in December 2008, the Organization has elected to defer the application of FIN 48 for its year ended June 30, 2010.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, 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 consolidated 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 consolidated Statements 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. Estimated useful lives are as follows:

Building	30 Years
Furniture and fixtures	7 Years
Vehicles	5 Years
Computer equipment	5 Years

Concentration of Grant Awards

The Organization receives approximately 99.0% of its grant funding through the Florida Department of Children and Families (DCF) in the form of Mental Health Treatment, Substance Abuse Treatment, Adoption Subsidy, Foster Care Subsidy, and Independent Living Services for Adults and Children grants.

Concentration of Credit Risk

During the year ended June 30, 2009, the Organization converted all of their existing cash accounts to non-interest bearing accounts in order to participate in the FDIC's temporary Transaction Account Guarantee Program which provides unlimited insurance coverage for depositors. The unlimited insurance coverage is temporary and will remain in effect through June 30, 2010.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated financial statements.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements.

Subsequent Events

In preparing the accompanying consolidated financial statements, the Organization evaluated subsequent events through December 17, 2009, the date of issuance of the consolidated financial statements. The Organization determined that no events or transactions have occurred subsequent to June 30, 2009, which would require recognition or disclosure in the consolidated financial statements.

NOTE 2 - CONTRACTS

On July 1, 2003, DCF awarded ChildNet a contract in the amount of \$176,640,367 which was in effect until June 30, 2006. Effective July 1, 2006, DCF renewed this contract in the amount of \$195,497,016 through June 30, 2009. The contract was amended on October 24, 2007, increasing the payments for contractual services to \$198,661,451. 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 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.

On July 1, 2009, DCF awarded ChildNet a five year contract in the amount of \$333,765,268 which reflects a fixed annual amount of \$66,753,052 for contracted services. The contract may be renewed for one term not to exceed five years. The contract contains the same provisions and requirements as the Organization's prior contract noted above.

**CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 - CONTRACTS WITH OUTSIDE PROVIDERS

ChildNet has contractual agreements with various non-profit agencies ("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 years ended June 30, 2009 and 2008, respectively.

NOTE 4 - MATCHING FUND REQUIREMENTS

ChildNet and its Providers allocated matching funds of cash and in-kind services in the amounts of \$552,016 and \$499,684 to the Promoting Safe and Stable Families Program for the years ended June 30, 2009 and 2008, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Furniture and equipment	\$ 1,781,758	\$ 2,178,956
Building	<u>383,884</u>	<u>383,884</u>
	2,165,642	2,562,840
Less: accumulated depreciation	(1,322,964)	(1,344,729)
Property and equipment not yet placed in service	<u>522,430</u>	<u>-</u>
Property and equipment, net	<u>\$ 1,365,108</u>	<u>\$ 1,218,111</u>

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 5 - PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the years ended June 30, 2009 and 2008 totaled \$378,891 and \$471,342, respectively.

Included in property and equipment at June 30, 2009 is \$522,430 of property not yet placed in service. This represents the purchase of office furniture and computer equipment for new office space that was not placed in service as of June 30, 2009.

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, 2009. For the years ended June 30, 2009 and 2008, the amount payable to Providers was \$2,528,964 and \$2,280,347, respectively.

NOTE 7 - LONG-TERM DEBT

The Organization had a \$1,000,000 line of credit agreement with a bank, which was renewed on March 17, 2009. The proposed terms of the agreement are as follows: \$650,000 open end demand revolving line of credit, with interest payable monthly at the one month LIBOR rate plus 2.95% per annum. The Organization agreed to maintain a zero balance outstanding on the line for at least one 30 consecutive day period. Borrowings are secured by substantially all assets of the Organization. There were no advances on the line of credit during the years ended June 30, 2009 and 2008.

During the years ended June 30, 2009 and 2008, \$75,000 and \$200,000 of the line of credit was pledged to the lease of office space in the form of a Letter of Credit to serve as a security deposit, leaving \$925,000 and \$800,000 available, respectively.

The Organization entered into a note payable for \$230,000 in November 2007 with a financial institution, collateralized by real estate. The note payable bears interest at 7.4% per annum with equal monthly principal and interest payments of \$1,854, with a final balloon payment of \$199,739 on November 8, 2012. At June 30, 2009, the current portion of the note payable was \$6,078, and the non-current portion of the note payable was \$213,047.

The Organization entered into a note payable for \$70,422 in November 2007 with a financial institution, collateralized by all assets of the Organization. The note payable bears interest at 7.4% per annum with equal monthly principal and interest payments of \$2,191, maturing on November 8, 2010. At June 30, 2009, the current portion of the note payable was \$24,510, and the non-current portion of the note payable was \$10,620.

The Organization entered into a note payable for \$20,226 in September 2007 to purchase a vehicle. The note payable bears interest at 4.9% per annum with equal monthly principal and interest payments of \$439, maturing on September 25, 2011. At June 30, 2009, the current portion of the note payable was \$4,805, and the non-current portion of the note payable was \$6,779.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 7 - LONG-TERM DEBT (continued)

The Organization entered into a note payable for \$6,268 in June 2009 to purchase a vehicle. The note payable bears interest at 4.9% per annum with equal monthly principal and interest payments of \$188, maturing on June 12, 2012. At June 30, 2009, the current portion of the note payable was \$1,990, and the non-current portion of the note payable was \$4,278.

The annual requirement for principal payments on the debt for the next five years and thereafter is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 37,383
2011	24,298
2012	10,965
2013	203,707
2014	-
Thereafter	<u>-</u>
Total	<u>\$ 276,353</u>

The Organization incurred interest expense on the notes payable of \$20,992 and \$12,545 for the years ended June 30, 2009 and 2008, respectively.

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 160 hours for the years ended June 30, 2009 and 2008. Starting January 1, 2010, employees may carry forward to the next fiscal year a maximum of 40 hours. Major Illness Account ("MIA") hours are accrued over 26 pay periods up to a maximum of 320 hours. Upon termination, employees will be paid for all accrued PTO hours. Employees are not paid for unused MIA hours. As of June 30, 2009 and 2008, PTO was accrued in the amount of \$861,526 and \$871,208, respectively.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of nonexpendable property (i.e. tangible personal property of a non-consumable nature) in which DCF, the grantor, maintains title upon completion or termination of the contract.

For the year ended June 30, 2009, \$370,319 of net assets was released from restrictions as a result of depreciation.

**CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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, 2009 and 2008, the Organization's discretionary percentage was 2% for each year, of eligible employee compensation. In addition, the Organization matches 50% of the elective employee deferrals up to 6% of compensation. For the years ended June 30, 2009 and 2008, the Organization contributed \$516,038 and \$545,595, respectively, to the Plan.

NOTE 11- COMMITMENTS AND CONTINGENCIES

Lease Obligations:

The Organization leases certain office space under non-cancelable operating leases expiring in various years through 2013. The aggregate rent expense for the years ended June 30, 2009 and 2008 totaled \$1,713,560 and \$1,743,743, respectively. The Organization also leases vehicles and office equipment under non-cancelable leases expiring in various years through 2012. The aggregate lease expense for the years ended June 30, 2009 and 2008 totaled \$96,651 and \$71,444, respectively.

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

Years Ending June 30,

2010	\$ 1,404,340
2011	1,064,840
2012	1,039,659
2013	1,000,271
2014	878,285
Thereafter	-
TOTAL	<u>\$ 5,387,395</u>

Contingencies:

Amounts received from contracting agencies are subject to audit and potential adjustment 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.

**CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 12 - RELATED PARTY TRANSACTIONS

Broward Cares for Kids leases certain property to ChildNet under a non-cancelable operating lease expiring on November 30, 2013. As of June 30, 2009 and June 30, 2008, the total rent paid to Broward Cares for Kids totaled \$48,623 and \$36,467, respectively. Minimum future rental payments to be received from the affiliate as of June 30 for each of the next five years and in the aggregate are as follows:

Year Ended June 30,		
2010	\$	48,623
2011		48,623
2012		48,623
2013		20,259
2014		-
Thereafter		-
		<hr/>
Total future minimum lease payments	\$	<u>166,128</u>

ChildNet contracted with Family Central, Inc. to provide child abuse and parent education services. Family Central, Inc. employed two former members of the Board of Directors of ChildNet. The amount paid for these services during the years ended June 30, 2009 and 2008 totaled \$95,875 and \$80,956.

NOTE 13 - FUNDS DUE FROM/TO CLIENTS – SOCIAL SECURITY BENEFITS

ChildNet 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 are deceased, disabled, lost their parental rights or the child is disabled. The benefits are managed by ChildNet 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.

**CHILDNET, INC. AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2009**

Federal/State Grantor, Pass-Through Grantor Federal Program/State Project	CFDA/ CFSA Number	Contract/ Grant 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	JJ208	\$ 5,136,825	\$ 142,596
Adoption Assistance - (American Recovery and Reinvestment Act)	93.659	JJ208	353,809	-
Medical Assistance Program (Medicaid; Title XIX)	93.778	JJ208	80,662	-
Temporary Assistance for Needy Families (TANF)	93.558	JJ208	4,385,480	475,957
Foster Care - Title IV-E	93.658	JJ208	11,952,165	6,472,732
Child Welfare Services - State Grants	93.645	JJ208	840,061	118,800
Social Services Block Grant	93.667	JJ208	4,401,801	4,401,801
Promoting Safe and Stable Families	93.556	JJ208	1,381,340	1,363,615
Independent Living	93.674	JJ208	929,833	-
Chafee Education and Training Vouchers Program	93.599	JJ208	436,107	-
Grants to States for Access and Visitation Programs	93.597	JJ208	41,471	41,471
Family Preservation and Support Services	93.556	JJ208	163,425	23,111
Child Abuse and Neglect State Grants	93.669	JJ208	15,098	13,639
Total Expenditure of Federal Awards			\$ 30,118,077	\$ 13,053,722
State Financial Assistance				
Florida Department of Children and Families:				
Chafee Education and Training Vouchers Program	93.599	JJ208	\$ 109,027	\$ -
Child Welfare Services - State Grants	93.645	JJ208	280,020	39,600
Adoption Assistance - (American Recovery and Reinvestment Act)	93.659	JJ208	207,525	-
Adoption Assistance	93.659	JJ208	4,506,191	235,180
Independent Living	93.674	JJ208	232,458	-
Medical Assistance Program (Medicaid; Title XIX)	93.778	JJ208	98,935	-
Block Grants for Community Mental Health Services	93.958	JJ208	691,475	691,475
Family Preservation and Support Services	93.556	JJ208	54,475	7,704
Community Based Care Supports	60.094	JJ208	28,413,924	12,765,393
Total Expenditures of State Financial Assistance			\$ 34,594,030	\$ 13,739,352

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

**CHILDNET, INC. AND AFFILIATE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of ChildNet, Inc. and Affiliate and is presented on the accrual basis of accounting. The information in this 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 this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE 2 - SUB-RECIPIENTS

ChildNet, Inc. and Affiliate provided federal awards to sub-recipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Adoption Assistance	93.659	\$ 142,596
Temporary Assistance for Needy Families (TANF)	93.558	475,957
Foster Care – Title IV-E	93.658	6,472,732
Social Services Block Grant	93.667	4,401,801
Promoting Safe and Stable Families	93.556	1,363,615
Grants to States for Access and Visitation Programs	93.597	41,471
Family Preservation and Support Services	93.556	23,111
Child Abuse and Neglect State Grants	93.669	13,639
Child Welfare Services – State Grants	93.645	<u>118,800</u>
Total Federal Awards provided to Sub-recipients		<u>\$ 13,053,722</u>

ChildNet, Inc. and Affiliate provided state financial assistance to sub-recipients as follows:

<u>Program Title</u>	<u>Federal/State CFDA/CFSA Number</u>	<u>Amount Provided</u>
Community Based Care Supports	60.094	\$ 12,765,393
Block Grants for Community Mental Health Services	93.958	691,475
Adoption Assistance	93.659	235,180
Child Welfare Services – State Grants	93.645	39,600
Family Preservation and Support Services	93.556	<u>7,704</u>
Total State Financial Assistance provided to Sub-recipients		<u>\$ 13,739,352</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the consolidated financial statements of ChildNet, Inc. and Affiliate as of and for the year ended June 30, 2009 and have issued our report thereon dated December 17, 2009. 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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be 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*.

We noted certain matters that we reported to management of the Organization in a separate letter dated December 17, 2009.

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

Berenfeld Spritzer Shechter & Sheer LLP

BERENFELD, SPRITZER, SHECHTER & SHEER LLP
Fort Lauderdale, Florida
December 17, 2009

berenfeld

spritzer + shechter + sheer LLP =
certified public accountants & business advisors

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO 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. and Affiliate
Plantation, Florida

Compliance

We have audited the compliance of ChildNet, Inc. and Affiliate 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 are applicable to each of its major federal programs and state financial assistance projects for the year ended June 30, 2009. ChildNet, Inc. and Affiliate's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state financial assistance projects for the year ended June 30, 2009.

Internal Control Over Compliance

The management of ChildNet, Inc. and Affiliate 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program or state financial assistance project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state financial assistance project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state financial assistance project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 of ChildNet, Inc. and Affiliate and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Berenfeld Spritzer Shechter & Sheer LLP

BERENFELD, SPRITZER, SHECHTER & SHEER LLP
Fort Lauderdale, Florida
December 17, 2009

**CHILDNET, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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? reported ___ yes X none

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? reported ___ yes X none

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:
 Chafee Education and Training Vouchers Program
 Child Welfare Services-State Grants
 Promoting Safe and Stable Families
 Adoption Assistance (American Recovery and Reinvestment Act)
 Adoption Assistance
 Social Services Block Grant
 Independent Living

93.599
 93.645
 93.556
 93.659
 93.659
 93.667
 93.674

State Financial Assistance Projects

CFDA/CFSA No.

Department of Health and Human Services, Pass-through
 Florida Department of Children and Families:
 Adoption Assistance (American Recovery and Reinvestment Act)
 Adoption Assistance
 Community Based Care Supports

93.659
 93.659
 60.094

**CHILDNET, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Section I – Summary of Auditors' Results (continued)

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

Federal:	\$ 903,542
State:	\$ 1,037,821

Auditee qualified as low-risk auditee?

yes no

Section II – Financial Statement Findings

None

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

None

**CHILDNET, INC. AND AFFILIATE
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

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