

**FLORIDA SINGLE AUDIT ACT – NONPROFIT AND FOR-PROFIT ENTITIES
FINANCIAL REPORTING PACKAGE SUBMITTAL CHECKLIST**

Entity Name: ChildNet, Inc. and Affiliate

Entity Type (Nonprofit, For-Profit): Non-Profit

Contact Person Name and Title: Donna Eprifania, CFO

Contact Person Mailing Address: 1100 W. Mc Nab Road

Fort Lauderdale, FL 33309

Contact Person Phone Number: 954-414-6000 X 3862

Contact Person E-mail Address: deprifania@childnet.us

Fiscal Period Audited: July 1, 2017 to June 30, 2018

Date the auditor delivered the audit report to the entity: December 17, 2018

Does the financial reporting package include the following items required by Section 10.656(3), Rules of the Auditor General:

Required for State single audits as defined by Section 215.97(2)(x), Florida Statutes, and project-specific audits as defined by Section 215.97(2)(w), Florida Statutes:

YES A schedule of expenditures of State financial assistance as described in Section 10.656(3)(d)1., Rules of the Auditor General? **NOTE:** The schedule of expenditures of State financial assistance, when applicable, is required to be combined with the schedule of expenditures of Federal awards.

YES The auditor's report on the schedule of State financial assistance as described in Section 10.656(3)(d)2., Rules of the Auditor General?

YES The auditor's report on compliance with requirements that could have a direct and material effect on each major State project and on internal control over compliance as described in Section 10.656(3)(d)3., Rules of the Auditor General?

YES A schedule of findings and questioned costs as described in Section 10.656(3)(d)4., Rules of the Auditor General?

N/A A summary schedule of prior audit findings as described in Section 10.656(3)(d)5., Rules of the Auditor General? **NOTE:** If a schedule of prior audit findings is not presented because there are no prior audit findings to be reported, this should be stated in the schedule of findings and questioned costs.

N/A A corrective action plan as described Section 10.656(3)(d)6., Rules of the Auditor General?

N/A The management letter defined in Section 10.654(1)(e), Rules of the Auditor General, and, if applicable, a written statement of explanation or rebuttal, including corrective action to be taken, concerning the deficiencies cited in the management

letter (see Section 10.656(3)(e), Rules of the Auditor General)? **NOTE:** If a management letter is not presented because there are no items related to State financial assistance required to be reported in the management letter, this should be stated in the schedule of findings and questioned costs.

- YES Are all of the above elements of the financial reporting package included in a **single document** as required by Section 10.656(3), Rules of the Auditor General?
- YES Are **one** paper copy and **one** electronic copy of the financial reporting package being submitted as required by Section 10.657(1), Rules of the Auditor General? **NOTE:** There is no provision in law authorizing an extension for filing the financial reporting package.
- YES Is the electronic copy named using all lower case letters as follows? [fiscal year] [name of entity].pdf. For example, the converted document for the 2017-18 fiscal year for "Example Nonprofit" entity should be named 2018 example nonprofit.pdf.
- YES Is the financial reporting package being submitted within 45 days after receipt of the financial reporting package from the auditor, but no later than 9 months after the end of the fiscal year as required by Section 10.657(2), Rules of the Auditor General?

Required only for State single audits as defined by Section 215.97(2)(x), Florida Statutes:

- YES The annual financial statements described in Section 10.655(3), Rules of the Auditor General, as applicable, together with related notes to the financial statements (see Section 10.656(3)(f), Rules of the Auditor General)?
- N/A Required supplementary information (RSI) such as the management's discussion and analysis, or the budgetary comparison schedule required as RSI if not presented as part of the financial statements (see Section 10.655(3), Rules of the Auditor General)? **NOTE:** This applies only to nonprofit organizations that are determined to be governmental entities.
- YES The auditor's report on the financial statements as described in Section 10.656(3)(b), Rules of the Auditor General?
- YES The auditor's report on compliance and internal control based on an audit of the financial statements as described in Section 10.656(3)(b), Rules of the Auditor General?
- YES If applicable, the auditor's reports and related financial information required pursuant to Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), or other applicable Federal law (see Section 10.656(3)(c), Rules of the Auditor General)?

This checklist should accompany the financial reporting package. It is suggested that you retain a copy of the checklist for your files. Do not hesitate to contact us if assistance or clarification is needed regarding reporting requirements. Our contact information is as follows:

Auditor General
Local Government Audits/342
Claude Pepper Building, Room 401
111 West Madison Street
Tallahassee, FL 32399-1450

Telephone: (850) 412-2881

E-mail Address: flaudgen_localgovt@aud.state.fl.us

Web site Address: FLAuditor.gov

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

CHILDNET, INC. AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ChildNet, Inc. and Affiliate

Report on the Financial Statements

We have audited the accompanying financial statements of ChildNet, Inc. and Affiliate (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ChildNet, Inc. and Affiliate as of June 30, 2018, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and our report dated December 27, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, Rules of the Auditor General, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of expenditures of federal awards and state financial assistance is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of ChildNet, Inc. and Affiliate's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ChildNet, Inc. and Affiliate's internal control over financial reporting and compliance.

Marcum LLP

Miami, FL
December 17, 2018

CHILDNET, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,189,228	\$ 1,337,086
Restricted cash	643,897	618,211
Grants and other receivables	616,359	11,071,152
Prepaid expenses	1,231,738	1,426,020
Total Current Assets	11,681,222	14,452,469
Property and Equipment, Net	381,785	514,839
Other Assets	334,219	334,219
Total Assets	\$ 12,397,226	\$ 15,301,527
Liabilities and Net (Deficit) Assets		
Current Liabilities		
Line of credit	\$ --	\$ 1,500,000
Accounts payable and accrued expenses	4,865,974	3,092,379
Accounts payable - providers	6,605,452	8,575,024
Accrued salaries and annual leave	1,884,406	2,782,441
Funds due to clients - Social Security benefits	643,897	618,211
Current portion of capital lease obligation	--	67,211
Current portion of note payable	5,581	--
Deferred revenue	1,340,746	1,197,981
Total Current Liabilities	15,346,056	17,833,247
Long-term Liabilities		
Note payable, net of current portion	22,406	--
Deferred rent	741,624	699,871
Total Long-term Liabilities	764,030	699,871
Total Liabilities	16,110,086	18,533,118
Commitments and Contingencies		
Net (Deficit) Assets		
Unrestricted	(4,103,801)	(3,747,771)
Temporarily restricted	390,941	516,180
Total Net (Deficit) Assets	(3,712,860)	(3,231,591)
Total Liabilities and Net (Deficit) Assets	\$ 12,397,226	\$ 15,301,527

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

CHILDNET, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

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

	Unrestricted	Temporarily Restricted	2018	2017
Support, Revenues and Losses				
Government grants and contracts	\$ 122,051,329	\$ 154,389	\$ 122,205,718	\$ 123,600,964
Contributions	502,336	--	502,336	604,149
In-kind contributions	381,171	--	381,171	306,820
Other revenue	157,414	--	157,414	159,540
Loss on disposal of assets	(385)	--	(385)	(390)
Net assets released from restrictions	<u>279,628</u>	<u>(279,628)</u>	<u>--</u>	<u>--</u>
Total Support, Revenues and Losses	<u>123,371,493</u>	<u>(125,239)</u>	<u>123,246,254</u>	<u>124,671,083</u>
Expenses				
Program services:				
DCF community based care	119,281,891	--	119,281,891	122,030,402
Other community based care	1,360,521	--	1,360,521	1,547,975
Supporting services:				
General and administrative	2,897,087	--	2,897,087	2,758,711
Fundraising	<u>188,024</u>	<u>--</u>	<u>188,024</u>	<u>174,393</u>
Total Expenses	<u>123,727,523</u>	<u>--</u>	<u>123,727,523</u>	<u>126,511,481</u>
Change in Net Assets	(356,030)	(125,239)	(481,269)	(1,840,398)
Net (Deficit) Assets - Beginning	<u>(3,747,771)</u>	<u>516,180</u>	<u>(3,231,591)</u>	<u>(1,391,193)</u>
Net (Deficit) Assets - Ending	<u>\$ (4,103,801)</u>	<u>\$ 390,941</u>	<u>\$ (3,712,860)</u>	<u>\$ (3,231,591)</u>

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

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

	Program Services				Supporting Services			2018 Total Expenses	2017 Total Expenses
	DCF Community Based Care	Other Community Based Care	Total Program Services	General and Administrative	Fundraising	Supporting Services	2018 Total Expenses		
Personnel costs	\$ 22,467,634	\$ 502,410	\$ 22,970,044	\$ 2,058,565	\$ 40,010	\$ 2,098,575	\$ 25,068,619	\$ 26,256,352	
Contract and other services	89,025,826	798,501	89,824,327	--	--	--	89,824,327	91,185,282	
Occupancy and utilities	2,540,887	14,700	2,555,587	153,986	--	153,986	2,709,573	2,683,675	
Professional fees	871,865	21,600	893,465	281,598	5,138	286,736	1,180,201	1,407,215	
Insurance	930,340	--	930,340	75,447	--	75,447	1,005,787	998,519	
Equipment and leases	593,600	--	593,600	47,557	--	47,557	641,157	649,707	
Travel	542,125	8,370	550,495	17,014	--	17,014	567,509	636,276	
Maintenance	468,998	--	468,998	30,919	--	30,919	499,917	484,546	
Telephone	395,027	50	395,077	25,139	--	25,139	420,216	385,167	
In-kind expenses	381,171	--	381,171	--	--	--	381,171	306,820	
Office and computer supplies	229,751	5,576	235,327	74,092	2,550	76,642	311,969	386,089	
Depreciation and amortization	279,319	309	279,628	--	--	--	279,628	339,740	
Data communications	242,892	--	242,892	16,244	--	16,244	259,136	182,102	
Staff training and recruitment	185,031	8,975	194,006	33,557	--	33,557	227,563	275,719	
Postage	118,528	30	118,558	42,506	--	42,506	161,064	170,307	
Donations	--	--	--	--	140,326	140,326	140,326	119,361	
Dues and subscriptions	8,897	--	8,897	40,463	--	40,463	49,360	44,604	
Total	\$ 119,281,891	\$ 1,360,521	\$ 120,642,412	\$ 2,897,087	\$ 188,024	\$ 3,085,111	\$ 123,727,523	\$ 126,511,481	

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

CHILDNET, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

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

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ (481,269)	\$ (1,840,398)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	279,628	339,740
Loss on disposal of fixed assets	385	390
Change in operating assets and liabilities:		
Restricted cash	(25,686)	(105,500)
Grants and other receivables	10,454,793	(6,392,916)
Prepaid expenses	194,282	552,490
Accounts payable and accrued expenses	1,773,595	1,955,766
Accounts payable - providers	(1,969,572)	(2,400,374)
Accrued salaries and annual leave	(898,035)	(23,489)
Funds due to clients - Social Security benefits	25,686	105,500
Deferred revenue	142,765	1,097,981
Deferred rent	41,753	78,678
Total Adjustments	10,019,594	(4,791,734)
Net Cash Provided by (Used in) Operating Activities	9,538,325	(6,632,132)
Cash Flows From Investing Activities		
Purchase of property and equipment	(116,726)	(113,080)
Cash Flows From Financing Activities		
Proceeds from line of credit borrowings	--	1,500,000
Repayment of line of credit	(1,500,000)	--
Principle payments on notes payable	(2,246)	--
Payments on capital lease obligation	(67,211)	(96,327)
Net Cash Provided by (Used in) Financing Activities	(1,569,457)	1,403,673
Net Change in Cash and Cash Equivalents	7,852,142	(5,341,539)
Cash and Cash Equivalents - Beginning	1,337,086	6,678,625
Cash and Cash Equivalents - Ending	\$ 9,189,228	\$ 1,337,086
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 5,220	\$ 21,100
Purchase of vehicle through note payable	\$ 30,233	\$ --

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

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE ORGANIZATION

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

Tech Care For Kids, Inc. ("TCFK"), a social purpose corporation, was incorporated on August 13, 2014 under the laws of the State of Florida. The purpose of TCFK's formation is to create, design, deliver and support technology to improve the delivery of social services. There are 1,000 shares of common stock issued and outstanding, all of which are held by ChildNet. TCFK had minimal operations as of and for the year ended June 30, 2018.

PRINCIPLES OF CONSOLIDATION

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

FINANCIAL STATEMENT PRESENTATION

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

Unrestricted

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

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Temporarily Restricted

Net assets used by the Organization which are limited by donor-imposed stipulations that either expire with the passage of time or that can be fulfilled or removed by actions of the Organization pursuant to those stipulations. As of June 30, 2018, the Organization had temporarily restricted net assets of approximately \$391,000, which consist of nonexpendable property and equipment, net of depreciation, in which DCF maintains title upon completion or termination of the Broward and Palm Beach Counties contracts (See Note 3).

Permanently Restricted

Net assets used by the Organization which are limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets as of June 30, 2018.

CASH EQUIVALENTS

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

RESTRICTED CASH

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

CONCENTRATIONS OF CREDIT RISK

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

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

CONCENTRATIONS OF CREDIT RISK (CONTINUED)

Cash and Cash Equivalents (Including Restricted Cash)

The Organization maintains its cash and cash equivalents in deposit accounts at certain financial institutions. The Organization had approximately \$9,689,000 of balances in excess of insurance limits covered by the Federal Deposit Insurance Corporation ("FDIC") as of June 30, 2018. The Organization maintains these balances in what it believes to be high quality financial institutions, which it believes limits its risk.

Grants and Other Receivables

Grants and other receivables consist principally of amounts due from grantor agencies pursuant to the terms of the respective grant agreements. Grants and other receivables are stated at net realizable value. Allowances are provided for amounts estimated to be uncollectible based on historical experience and any specific collection issues that the Organization has identified. It is the Organization's policy to charge uncollectible receivables against the allowance when management determines that the related balance will not be collected. Management determined that an allowance for doubtful accounts was not deemed necessary at June 30, 2018.

PROPERTY AND EQUIPMENT

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

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

<u>Asset Group</u>	<u>Years</u>
Leasehold improvements	5-20
Furniture, fixtures and equipment	3-20

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 360, *Property, Plant and Equipment*, the carrying value of long-lived assets is reviewed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by determining if the carrying value of the asset exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset over the remaining economic life of the asset. If recoverability is not assured, impairment is determined based on comparing the carrying value of the asset and the estimated fair value of the asset. Management does not believe that long-lived assets were impaired as of June 30, 2018.

DEFERRED RENT

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

FAIR VALUE MEASUREMENTS

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

Level 1

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

Level 2

Inputs to the valuation methodology include:

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

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

Level 3

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

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

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

FAIR VALUE MEASUREMENTS (CONTINUED)

The Organization did not have any assets or liabilities requiring fair value measurement on a recurring basis as of June 30, 2018.

GRANTS AND CONTRACTS FROM GOVERNMENT AGENCIES

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

DEFERRED REVENUE

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

CONTRIBUTIONS

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

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

CONTRIBUTED GOODS AND SERVICES

Contributed goods and services are reflected in the consolidated financial statements at their estimated fair value, if reasonably determined. The contributions of services are recognized if the services received (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations. For the year ended June 30, 2018, there was approximately \$381,000 in non-cash contributions.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

CONTRIBUTED GOODS AND SERVICES (CONTINUED)

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

FUND-RAISING ACTIVITIES

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

FUNCTIONAL ALLOCATION OF EXPENSES

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

INCOME TAXES

ChildNet is a not-for-profit organization, as defined by section 501(c)(3) of the Internal Revenue Code, and as such is subject to federal income taxes only on unrelated business income. There were no income taxes resulting from unrelated business income during the year ended June 30, 2018.

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

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

INCOME TAXES (CONTINUED)

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

The Organization did not record any interest or penalties on uncertain tax positions in the consolidated statement of financial position as of June 30, 2018 or the consolidated statement of activities for the year then ended. If the Organization were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes.

USE OF ESTIMATES

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

COMPARATIVE INFORMATION

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2017 from which the summarized information was derived.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued ASU 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities*", representing the completion of the first phase of a two-phase project to amend not-for-profit financial reporting requirements as set out in FASB ASC 958, *Not-for-Profit Entities*. The ASU eliminates the distinction between resources with permanent restrictions and those with temporary restrictions from the face of not-for-profit financial statements by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes: net assets with donor restrictions and net assets without donor restrictions. Further, the ASU requires enhanced disclosures and also allows not-for-profits to present operating cash flows on the statement of cash flows using either the direct method or the indirect method. This ASU is applicable for the Organization for its annual reporting period beginning on July 1, 2018. Reporting entities should apply the ASU retrospectively to all periods presented. Earlier application is permitted, however, the Organization did not early adopt the ASU. Management is in the process of evaluating the ASU for the potential impact on its consolidated financial statements upon adoption.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU applies to all entities, including business entities that receive or make contributions of cash and other assets (except for transfers of assets from government entities to business entities). This ASU provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. Making this determination is important because distinguishing between contributions and exchange transactions determines which guidance is applied. For contributions, an entity should follow the guidance in FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, whereas, for exchange transactions, an entity should follow other guidance. This ASU is applicable for the Organization for its annual reporting period beginning on July 1, 2019. Earlier application is permitted, however, the Organization did not early adopt the ASU. Management is in the process of evaluating the ASU for the potential impact on its consolidated financial statements upon adoption.

SUBSEQUENT EVENTS

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through December 17, 2018, the date the consolidated financial statements were available to be issued.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 2 - LIQUIDITY

The Organization is subject to certain liquidity risks. For the year ended June 30 2018, the Organization incurred an increase in net deficiency of approximately \$481,000. As of June 30, 2018, the Organization had approximately \$9,189,000 of cash and cash equivalents and a working capital deficit of approximately \$3,665,000.

For the year ended June 30, 2018, the Organization's operations were partially funded through normal recurring advance payments from the DCF. Additionally, the Organization received approximately \$7,874,000 of Risk Pool/Back of the Bill appropriations provided by DCF as part of the General Appropriations Acts to fund current and prior period deficits.

The Organization also continued to implement the Financial Viability Plan ("Plan") as required by the General Appropriations Act during the year ended June 30, 2018. The Organization adopted the Plan during 2017. The Plan provides a detailed analysis and plan of action detailing the steps necessary to mitigate costs and bring projected expenditures in line with revenues. As part of the implementation of this Plan, DCF provides a quarterly financial performance update on all 19 statewide Community Based Care agencies ("CBC").

Subsequent to year-end, the Organization was notified that they were the selected provider for Broward County procurement. Accordingly, on July 1, 2019, the Organization will be negotiating a new 5-year agreement with the DCF. The Organization will be negotiating its second 5-year term under the renewal provision option with the DCF for the Palm Beach catchment area and Contract IJ706. These extensions will continue to allow the Organization to receive Risk Pool/Back of the Bill appropriations provided by DCF as part of the General Appropriations Acts to fund current and prior period deficits.

As a result, the Organization believes it currently has sufficient cash and financing commitments to meet its cash requirements over the next year. The Organization expects that strict adherence to the Plan, while also continuing to reduce costs throughout operations, will allow the Organization to continue to reduce prior year deficits and attain financial viability, although there are no assurances that this will occur.

CHILDNET, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 3 - CONTRACTS

The Organization coordinates and administers certain child welfare services in Broward and Palm Beach Counties including emergency shelter, residential group care, in-home protection services, relative care placements, foster care, case management, post-placement supervision, independent living, family reunification and preservation, and adoption services. The services in Broward County are provided under a five-year contract ending on June 30, 2019 with DCF in the amount of \$700,897,407. The services in Palm Beach County are provided under a five-year contract ending June 30, 2019 in the amount of \$233,748,087. The contracts can be terminated by either party with 180 days' notice in writing. The contracts require the Organization to comply with certain performance measures on a monthly basis and may be terminated in the event of non-compliance.

For the year ended June 30, 2018, service fees earned by the Organization under the contracts amounted to approximately \$121,059,000, which are included in government grants and contracts in the accompanying consolidated statements of activities.

NOTE 4 - CONTRACTS WITH OUTSIDE PROVIDERS

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

The foster care contracts specify the responsibility of the Providers to arrange for expedient shelter of children, monitor licensing of foster homes in accordance with Florida state statutes, and report certain performance measures to the Organization on a monthly basis. The Organization pays the Providers a specified amount per licensed foster home each month up to a set maximum amount.

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

Contracts are for a period of one year. Under these contracts, the Organization paid approximately \$60,962,000, which is included in program services in the accompanying consolidated statement of activities, to Providers for the year ended June 30, 2018 and had an amount payable to the Providers of approximately \$6,605,000 as of June 30, 2018.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 5 - PROPERTY AND EQUIPMENT

As of June 30, 2018, property and equipment consist of the following:

Furniture, fixtures and equipment	\$ 2,890,958
Leasehold improvements	<u>19,560</u>
Total	2,910,518
Less: Accumulated depreciation and amortization	<u>(2,528,733)</u>
Property and Equipment, Net	<u>\$ 381,785</u>

Depreciation and amortization expense for the year ended June 30, 2018 was approximately \$280,000.

NOTE 6 - LINE OF CREDIT

On April 18, 2016, the Organization entered into a line of credit agreement (the "Line") in the amount of \$2,000,000. Payments of accrued unpaid interest are due monthly and the Line expires in March 2020. Interest on the Line is calculated at the bank's business prime rate (5.00% as of June 30, 2018). Borrowings are secured by substantially all assets of the Organization. As of June 30, 2018, there was no outstanding balance on the Line.

NOTE 7 - CAPITAL LEASE OBLIGATION

Equipment under a capital lease consisted of one piece of office equipment and software with a capitalized cost of approximately \$258,000. This leased equipment was fully amortized as of June 30, 2018. Depreciation and amortization expense reported in the consolidated statement of activities includes approximately \$86,000 for the equipment under capital lease. During the year ended June 30, 2018, the title of this equipment was transferred to the Organization at the end of the lease period.

NOTE 8 - NOTE PAYABLE

In January 2018, the Organization entered into a vehicle note payable for approximately \$30,000. The note payable is collateralized by the related vehicle. The vehicle has a net book value of approximately \$28,000 at June 30, 2018. The note payable bears annual interest of 4.92%, payable in monthly installments of principal and interest in the amount of \$569 through maturity in January 2023.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8 - NOTE PAYABLE (CONTINUED)

Principal maturities of note payable subsequent to June 30, 2018 are as follows:

For the Year Ended June 30,	Amount
2019	\$ 5,581
2020	5,862
2021	6,157
2022	6,466
2023	<u>3,921</u>
Total	\$ <u>27,987</u>

NOTE 9 - RETIREMENT PLAN

The Organization maintains a 403(b) tax-deferred annuity retirement plan (the "Retirement Plan") for the benefit of all their employees meeting the minimum eligibility requirements. The Organization, at its discretion, will contribute a percentage of eligible compensation on behalf of each eligible employee. For the year ended June 30, 2018, 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, 2018, the Organization contributed approximately \$644,000 to the Retirement Plan.

NOTE 10 - COMMITMENTS

LEASE OBLIGATIONS

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

The Organization also leases vehicles and office equipment under non-cancelable leases expiring in various years from 2018 through 2021.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 10 - COMMITMENTS (CONTINUED)

LEASE OBLIGATIONS (CONTINUED)

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

For the Year Ending June 30,	Amount
2019	\$ 2,729,000
2020	1,626,000
2021	1,594,000
2022	1,629,000
2023	1,672,000
Thereafter	<u>2,881,000</u>
Total	<u>\$ 12,131,000</u>

The aggregate rent expense for all cancellable and non-cancellable leases for the year ended June 30, 2018 was approximately 2,723,000.

NOTE 11 - CONTINGENCIES

FEDERAL, STATE, AND LOCAL GRANT PROGRAMS

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

LEGAL MATTERS

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

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 12 - CONCENTRATIONS

For the year ended June 30, 2018, the Organization received approximately 99% of its government grant revenue from DCF. As the revenue from DCF is significant to the overall operations of the Organization, any significant reduction or loss of funding from DCF may affect the Organization's ability to operate in its present form. As of June 30, 2018, receivables from DCF were approximately 38% of grants and other receivables.



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

Board of Directors
ChildNet, Inc. and Affiliate

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ChildNet, Inc. and Affiliate (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2018

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Marcum LLP

Miami, FL
December 17, 2018

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

Board of Directors
ChildNet, Inc. and Affiliate

Report on Compliance for Each Major Federal Program and State Project

We have audited the compliance of ChildNet, Inc. and Affiliate (collectively, the "Organization") with the types of compliance requirements described in the *OMB Compliance Supplement* and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on the Organization's major Federal programs and State projects for the year ended June 30, 2018. The Organization's major Federal programs and State projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program and State Project

In our opinion, ChildNet, Inc. and Affiliate complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs and State projects for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program and State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and State project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program or State project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program or State project will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program or State project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Marcum LLP

Miami, FL
December 17, 2018

CHILDNET, INC. AND AFFILIATE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2018

Federal/State Agency, Pass-through Entity	CFDA/ CSFA No.	Contract	Expenditures	Transfers to Subrecipients
Federal Awards				
U.S. Department of Health and Human Services:				
Pass-Through Florida Department of Children and Families Cluster:				
Adoption Assistance	93.659	JJ212	\$ 17,949,194	\$ 3,374,971
		IJ706	11,224,040	2,742,217
Medical Assistance Program	93.778	JJ212	420,027	--
		IJ706	191,323	--
Temporary Assistance for Needy Families (TANF)	93.558	JJ212	7,384,306	838,420
		IJ706	4,353,211	2,219,783
Foster Care - Title IV - E	93.658	JJ212	30,075,057	15,121,580
		IJ706	18,641,569	12,956,457
Child Welfare Services - State Grants	93.645	JJ212	2,165,261	254,082
		IJ706	1,298,866	851,604
Social Services Block Grant	93.667	JJ212	5,095,934	5,095,934
		IJ706	2,721,288	2,720,901
Promoting Safe and Stable Families	93.556	JJ212	1,228,758	1,104,952
		IJ706	684,505	655,534
Independent Living	93.674	JJ212	1,308,519	191,916
		IJ706	888,266	407,275
Chafee Education and Training Vouchers Program	93.599	JJ212	309,822	--
		IJ706	287,434	--
Grants to States for Access and Visitation Programs	93.597	JJ212	33,326	33,326
		IJ706	33,327	33,327
Administration for Children, Youth and Families-Child Abuse	93.669	JJ212	8,583	--
		IJ706	3,474	--
Adoption Incentive Payments	93.603	JJ212	43,053	--
		IJ706	102,911	--
Block Grants for Community Mental Health Services	93.958	JJ212	953,622	953,622
		IJ706	603,479	603,479
Community Based Family Resource and Support Grant	93.590	IJ707	121,035	121,035
Total Florida Department of Children and Families Cluster:			<u>108,130,190</u>	<u>50,280,415</u>
Total Federal Awards			<u>\$ 108,130,190</u>	<u>\$ 50,280,415</u>

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

CHILDNET, INC. AND AFFILIATE

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

FOR THE YEAR ENDED JUNE 30, 2018

Federal/State Agency, Pass-through Entity	CFDA/ CSFA No.	Contract	Expenditures	Transfers to Subrecipients
State Financial Assistance				
State of Florida Department of Children and Families Cluster:				
Out-of-Home Supports	60.074	JJ212	\$ 7,868,303	\$ 6,436,566
		IJ706	2,378,537	1,484,510
In-Home Support	60.075	JJ212	--	--
		IJ706	255,193	242,551
Extended Foster Care Program	60.141	JJ212	733,071	--
		IJ706	684,109	--
Independent Living Program	60.112	JJ212	292,344	--
		IJ706	199,819	--
Safe Place Shelter Program	60.166	JJ212	75,000	75,000
		IJ706	25,000	25,000
Sexually Exploited Children	60.138	JJ212	206,655	206,655
		IJ706	210,746	210,746
Total Florida Department of Children and Families Cluster:			<u>12,928,777</u>	<u>8,681,028</u>
Total State Financial Assistance			<u>12,928,777</u>	<u>8,681,028</u>
Total Federal Awards and State Financial Assistance			<u>\$ 121,058,967</u>	<u>\$ 58,961,443</u>

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

CHILDNET, INC. AND AFFILIATE

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

FOR THE YEAR ENDED JUNE 30, 2018

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. and Affiliates (collectively, the "Organization") for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), Audits of States, Local Government, and Non-Profit Organizations and Chapter 10.650, Rules of the Auditor General. Because the Schedule presents only a selected portion of the consolidated operations of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Organization.

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 the Uniform Guidance, Audits of States, Local Government, and Non-Profit Organizations and Chapter 10.650, Rules of the Auditor General, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

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

CHILDNET, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<i>UNMODIFIED OPINION</i>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	___X___ No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	___X___ No
Noncompliance material to financial statement noted?	_____ Yes	___X___ No

FEDERAL PROGRAMS AND STATE PROJECTS

Internal control over major Federal programs and State projects:		
Material weakness(es) identified?	_____ Yes	___X___ No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	___X___ No

Type of auditors' report issued on compliance for major Federal programs and State projects:	<i>UNMODIFIED OPINION</i>
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Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance and Chapter 10.656?	_____ Yes	___X___ No
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Identification of major Federal programs and State projects:

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

CHILDNET, INC. AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS (CONTINUED)

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

<u>NAME OF STATE PROJECT</u>	<u>CSFA NUMBER</u>
<i>State of Florida Department of Children and Families Cluster:</i>	
Out-of-Home Supports	60.074
In-Home Support	60.075
Extended Foster Care Program	60.141
Independent Living Program	60.112
Safe Place Shelter Program	60.166
Sexually Exploited Children	60.138

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

Dollar threshold used to distinguish between
type A and type B State projects: \$387,863

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

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

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

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

SECTION IV - PRIOR YEAR FINDINGS

None.