



CHILDNET, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

As of and for the Year Ended June 30, 2014

And Reports of Independent Auditor

CHILDNET, INC.
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Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of ChildNet, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of Auditor General* of the State of Florida, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Organization's 2013 financial statements, and our report dated December 20, 2013, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

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

Fort Lauderdale, Florida
December 22, 2014

CHILDNET, INC.**STATEMENT OF FINANCIAL POSITION**

JUNE 30, 2014

(WITH SUMMARIZED TOTALS AS OF JUNE 30, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,750,853	\$ -	\$ 4,750,853	\$ 10,640,153
Funds for clients - Social Security benefits	666,024	-	666,024	627,144
Grants and other receivables	4,193,877	-	4,193,877	365,652
Prepaid expenses	732,987	-	732,987	403,298
Total current assets	<u>10,343,741</u>		<u>10,343,741</u>	<u>12,036,247</u>
Property and equipment, net	<u>165,482</u>	<u>684,984</u>	<u>850,466</u>	<u>794,884</u>
Other assets				
Security deposits	199,187	-	199,187	74,187
Total other assets	<u>199,187</u>	<u>-</u>	<u>199,187</u>	<u>74,187</u>
Total Assets	<u>\$ 10,708,410</u>	<u>\$ 684,984</u>	<u>\$ 11,393,394</u>	<u>\$ 12,905,318</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 1,374,004	\$ -	\$ 1,374,004	\$ 2,848,481
Accounts payable - providers	5,669,921	-	5,669,921	1,859,731
Accrued salaries and annual leave	1,438,598	-	1,438,598	1,513,414
Funds due to clients - Social Security benefits	666,024	-	666,024	627,144
Deferred revenue	2,306,272	-	2,306,272	6,260,481
Total current liabilities	<u>11,454,819</u>	<u>-</u>	<u>11,454,819</u>	<u>13,109,251</u>
Net (deficit) assets				
Unrestricted	(746,409)	-	(746,409)	(994,403)
Temporarily restricted	-	684,984	684,984	790,470
Total net (deficit) assets	<u>(746,409)</u>	<u>684,984</u>	<u>(61,425)</u>	<u>(203,933)</u>
Total Liabilities and Net Assets	<u>\$ 10,708,410</u>	<u>\$ 684,984</u>	<u>\$ 11,393,394</u>	<u>\$ 12,905,318</u>

CHILDNET, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	Unrestricted	Temporarily Restricted	2014 Total	2013 Total
Changes in net assets:				
Support and revenues				
Government grants and contracts	\$ 110,119,333	\$ 322,659	\$ 110,441,992	\$ 90,352,128
Contributions	713,880	-	713,880	838,302
In-kind contributions	765,256	-	765,256	561,820
Net assets released from restrictions	428,145	(428,145)	-	-
Total support and revenues	<u>112,026,614</u>	<u>(105,486)</u>	<u>111,921,128</u>	<u>91,752,250</u>
Expenses				
Program services:				
DCF community based care	109,545,216	-	109,545,216	90,654,625
Other community based care	781,125	-	781,125	165,526
Supporting services:				
General and administrative	203,399	-	203,399	174,366
Fundraising	445,457	-	445,457	501,651
In-kind	765,256	-	765,256	561,820
Loss on disposal of assets	38,167	-	38,167	40,811
Total expenses	<u>111,778,620</u>	<u>-</u>	<u>111,778,620</u>	<u>92,098,799</u>
Increase (decrease) in net assets	<u>247,994</u>	<u>(105,486)</u>	<u>142,508</u>	<u>(346,549)</u>
Net (deficit) assets, beginning of year	<u>(994,403)</u>	<u>790,470</u>	<u>(203,933)</u>	<u>142,616</u>
Net (deficit) assets, end of year	<u>\$ (746,409)</u>	<u>\$ 684,984</u>	<u>\$ (61,425)</u>	<u>\$ (203,933)</u>

CHILDNET, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	Program Services			Supporting Services			Other	2014 Total Expenses	2013 Total Expenses
	DCF Community Based Care	Other Community Based Care	Total Program Services	General and Administrative	Fundraising	In-Kind			
Personnel costs	\$ 25,534,772	\$ 598,645	\$ 26,133,417	\$ -	\$ 12,006	\$ -	\$ 12,006	\$ 26,145,423	\$ 24,260,963
Contract and other services	76,880,059	3,460	76,883,519	-	-	-	-	76,883,519	60,136,435
Occupancy and utilities	1,910,045	4,955	1,915,000	-	-	-	-	1,915,000	1,475,723
Telephone	563,487	3,348	566,835	-	-	-	-	566,835	493,633
Insurance	910,223	4,146	914,369	-	-	-	-	914,369	858,953
Office and computer supplies	375,043	2,851	377,894	5,900	8,212	-	14,112	392,005	451,211
Postage	177,166	101	177,267	-	343	-	343	177,610	123,736
Professional fees	820,187	132,904	953,091	197,499	4,270	-	201,769	1,154,860	1,048,487
Staff training and recruitment	223,118	14,080	237,198	-	285	-	285	237,483	222,564
Travel	635,860	12,003	647,863	-	167	-	167	648,030	654,129
Dues and subscriptions	63,726	-	63,726	-	-	-	-	63,726	29,968
Equipment and leases	670,860	1,475	672,335	-	105	-	105	672,440	610,246
Data communications	212,365	328	212,693	-	-	-	-	212,693	195,592
Maintenance	133,961	65	134,026	-	-	-	-	134,026	111,676
Depreciation	434,344	743	435,087	-	158	-	158	435,245	357,591
Donations	-	2,021	2,021	-	419,910	-	419,910	421,931	465,261
In-kind expenses	-	-	-	-	-	765,256	765,256	765,256	561,820
Loss on disposal of assets	-	-	-	-	-	-	-	38,167	40,811
TOTAL	\$ 109,545,216	\$ 781,125	\$ 110,326,341	\$ 203,399	\$ 445,457	\$ 765,256	\$ 1,414,112	\$ 111,778,620	\$ 92,098,799

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

CHILDNET, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 142,508	\$ (346,549)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	435,245	357,591
Loss on disposal of assets	38,167	40,811
Changes in operating assets and liabilities:		
Other receivables	(3,828,225)	(114,729)
Prepaid expenses	(329,689)	3,100,602
Security deposits	(125,000)	(74,187)
Accounts payable and accrued expenses	(1,435,597)	2,635,837
Accounts payable - providers	3,810,190	74,335
Accrued salaries and annual leave	(74,816)	416,057
Deferred revenue	(3,954,209)	2,177,968
Net cash provided by (used in) operating activities	<u>(5,321,426)</u>	<u>8,267,736</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(528,994)</u>	<u>(287,070)</u>
Net cash used in investing activities	<u>(528,994)</u>	<u>(287,070)</u>
Net increase (decrease) in cash and cash equivalents	<u>(5,850,420)</u>	<u>7,980,666</u>
Cash and cash equivalents, beginning of year	<u>11,267,297</u>	<u>3,286,631</u>
Cash and cash equivalents, end of year	<u>\$ 5,416,877</u>	<u>\$ 11,267,297</u>
Cash and cash equivalent balance composed of:		
Cash and cash equivalents	\$ 4,750,853	\$ 10,640,153
Funds for clients	<u>666,024</u>	<u>627,144</u>
	<u>\$ 5,416,877</u>	<u>\$ 11,267,297</u>
Supplemental disclosure of non-cash investing and financing activities:		
In-kind donations	<u>\$ 765,256</u>	<u>\$ 561,820</u>

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 1—Summary of significant accounting policies

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

ChildNet is a non-profit organization devoted to the development of community-based services and support for children and families served by the Broward and Palm Beach Counties child protection and foster care system. ChildNet’s mission is to develop and manage a comprehensive, community-based, coordinated system of care for abused, neglected, and abandoned children and their families and for children and families who are at risk of maltreatment and/or placement in the foster care system.

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

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

Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2013 from which the summarized information was derived.

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

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

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

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

CHILDNET, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 1—Summary of significant accounting policies (continued)

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

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

Donated Supplies and Services – Donated supplies and services are reflected in the accompanying statements at their estimated fair market values at date of receipt. Donated services are recognized at their fair market value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amount of such donated goods for the year ended June 30, 2014 was \$765,256.

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

Income Tax – The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a nonprofit organization other than a private foundation. However, the Organization is subject to income taxes on unrelated business income. No income tax provision is required since the Organization had no unrelated business taxable income during the year ended June 30, 2014.

Financial Accounting Standards Board Accounting Standards Codification Topic 740, "Income Taxes" prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance requires that the Organization determine whether the benefits of the Organization's tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. The Organization did not have unrecognized tax benefits and does not have any uncertain tax positions. The tax years 2010 through 2013 remain subject to examination by major tax jurisdictions as of June 30, 2014.

The Organization includes any interest and penalties assessed by income taxing authorities in operating expenses. The Organization did not have penalties and interest expenses for the year ended June 30, 2014.

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

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 1—Summary of significant accounting policies (continued)

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

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

Concentration of Grant Awards – The Organization receives approximately 99% of its grant funding from DCF in the form of Mental Health Treatment, Substance Abuse Treatment, Adoption Subsidy, Foster Care Subsidy, and Independent Living Services for Adults and Children grants.

Concentration of Credit Risk – The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (“FDIC”) covers \$250,000 for substantially all depository accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2014, the Organization had approximately \$5,804,000 on deposit in excess of these insured amounts.

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

Note 2—Contracts

ChildNet coordinates and administers certain child welfare services in Broward and Palm Beach Counties including emergency shelter, residential group care, in-home protection services, relative care placements, foster care, case management, post-placement supervision, independent living, family reunification and preservation, and adoption services. The services in Broward County are provided under a five-year contract ending on June 30, 2014 with DCF in the amount of \$325,674,444. The services in Palm Beach County are provided under a one-year, nine-month contract ending June 30, 2014 in the amount of \$68,861,515. The contracts can be terminated by either party with 180 days’ notice in writing. The contracts require ChildNet to comply with certain performance measures on a monthly basis and may be terminated in the event of non-compliance. The Broward and Palm Beach County contracts were renewed for five years.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 3—Contracts with outside providers

ChildNet has contractual agreements with various non-profit agencies and one for-profit agency (“Providers”) to provide foster care and intervention and family support services for them.

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

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

Contracts are for a period of one year. Under these contracts, ChildNet paid approximately \$49,000,000 to outside Providers for the year ended June 30, 2014 and had an amount payable to the Providers of \$5,669,921 as of June 30, 2014.

Note 4—Matching fund requirements

ChildNet and its Providers allocated matching funds of cash and in-kind services in the amount of \$765,256 to the Promoting Safe and Stable Families Program for the year ended June 30, 2014.

Note 5—Property and equipment

Property and equipment consist of the following as of June 30, 2014:

Furniture and equipment	\$ 2,157,486
Construction in progress	163,968
	<u>2,321,454</u>
Less: accumulated depreciation	<u>(1,470,988)</u>
Property and equipment, net	<u>\$ 850,466</u>

Depreciation expense for the year ended June 30, 2014 totaled \$435,245.

Note 6—Debt

On October 29, 2010, the Organization entered into a line of credit agreement in the amount of \$1,000,000 with BB&T bank, renewable annually. Payments of accrued unpaid interest are due monthly. Interest on the line of credit is calculated at the BB&T Business Prime rate. Borrowings are secured by substantially all assets of the Organization. There were no advances on the line of credit during the year ended June 30, 2014.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 7—Compensated absences

The Organization accrues paid time off (“PTO”) hours for employees over 26 pay periods. PTO hours are based on the number of years of service up to 29 days. Employees may carry forward to the next fiscal year a maximum of 120 hours. Major Illness Account (“MIA”) hours are accrued over 26 pay periods up to a maximum of 320 hours. Upon termination or employees providing two weeks’ notice, employees will be paid for all accrued PTO hours. Employees are not paid for unused MIA hours. As of June 30, 2014, PTO was accrued in the amount of \$946,728.

Note 8—Temporarily restricted net assets

Temporarily restricted net assets consist of nonexpendable property and equipment net of depreciation at June 30, 2014 in the amount of \$684,984 in which DCF, the grantor, maintains title upon completion or termination of the contract.

For the year ended June 30, 2014, \$428,145 of net assets was released from restrictions as a result of depreciation.

Note 9—Retirement plan

The Organization maintains a 403(b) tax-deferred annuity retirement plan (the “Plan”), for the benefit of all their employees meeting the minimum eligibility requirements. The Organization, at its discretion, will contribute a percentage of compensation on behalf of each eligible employee. For the year ended June 30, 2014, 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, 2014, the Organization contributed \$643,170 to the Plan.

Note 10—Commitments and contingencies

Lease Obligations - The Organization leases office space in Broward County under a non-cancelable operating lease expiring in February 2015 and office space in Palm Beach County under an operating lease scheduled to expire June 2017, but which can be cancelled at earlier time in the event that the contract between the Organization and DCF to serve the abused, abandoned and neglected children of Palm Beach County is terminated or not renewed. The aggregate rent expense for the year ended June 30, 2014 totaled \$1,915,000. The Organization also leases vehicles and office equipment under non-cancelable leases expiring in various years through 2017. The aggregate lease expense for the year ended June 30, 2014 totaled \$548,707.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2015	\$ 1,794,673
2016	1,006,463
2017	996,466
Total future minimum lease payments	<u>\$ 3,797,602</u>

CHILDNET, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 10—Commitments and contingencies (continued)

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

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

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

The Organization acts as a representative payee for social security benefits on behalf of children who are in custody of the State of Florida as a result of either their parents being deceased, disabled, lost their parental rights or the child is disabled. The benefits are managed by the Organization to ensure that the children's current and foreseeable needs are being provided. The benefits in excess of current needs requirements are held in escrow and invested in highly liquid, risk free government securities with the State Treasury and monitored by the DCF.

Note 12—Subsequent events

In preparing the accompanying financial statements, the Organization evaluated subsequent events through December 22, 2014, the date the financial statements were available to be issued.

CHILDNET, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

YEAR ENDED JUNE 30, 2014

Federal Agency, Pass-Through Entity Federal Program	CFDA Number	Contract Number	Expenditures	Transfers to Subrecipients
Federal Awards				
U.S. Department of Health and Human Services:				
Pass-Through Florida Department of Children and Families:				
Adoption Assistance	93.659	JJ212	\$ 6,909,442	\$ 181,904
		IJ705	4,826,551	809,731
Medical Assistance Program	93.778	JJ212	99,616	-
		IJ705	51,342	-
Temporary Assistance for Needy Families (TANF)	93.558	JJ212	4,213,563	413,059
		IJ705	2,630,406	1,505,311
Foster Care - Title IV-E	93.658	JJ212	15,725,906	8,692,532
		IJ705	8,449,580	7,673,269
		IJZ01	592,303	
Child Welfare Services - State Grants	93.645	JJ212	634,471	67,159
		IJ705	362,645	231,906
Social Services Block Grant	93.667	JJ212	6,033,828	5,975,893
		IJ705	3,172,229	3,910,286
Promoting Safe and Stable Families	93.556	JJ212	1,628,285	1,556,432
		IJ705	1,268,140	1,251,737
Independent Living	93.674	JJ212	1,388,856	-
		IJ705	1,282,162	390,694
Chafee Education and Training Vouchers Program	93.599	JJ212	511,129	-
		IJ705	256,891	-
Grants to States for Access and Visitation Programs	93.597	JJ212	43,475	43,475
		IJ705	43,479	43,479
Administration for Children, Youth and Families-Child Abuse	93.669	JJ212	2,711	1,498
		IJ705	345	-
Adoption Incentive Payments	93.603	JJ212	43,002	-
		IJ705	56,057	-
Predictive Analytic Approach to Achieving Youth Stability	93.670	90CA1797	251,411	-
Pass-Through Susan B Anthony Center, Inc.:				
Susan B. Anthony Recovery Center Comprehensive Residential Family Treatment Project	93.670	90CF0041	53,026	-
Pass-Through Kids in Distress, Inc.:				
The HEART (Housing, Empowerment, Achievement, Recovery and Triumph) Alliance for Sustainable Families	93.670	KID-HHS-CHN	104,638	-
Total Expenditures of Federal Awards			<u>\$ 60,635,489</u>	<u>\$ 32,748,365</u>

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

CHILDNET, INC.**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE***YEAR ENDED JUNE 30, 2014*

State Agency Federal Program/State Project	CFDA/CFSA Number	Contract Number	Expenditures	Transfers to Subrecipients
State Financial Assistance				
Florida Department of Children and Families:				
Out-of Home Supports	60.074	JJ212	\$ 13,403,418	\$ 6,430,438
		IJ705	10,386,296	5,541,965
In-Home Supports	60.075	JJ212	2,517,391	276,237
		IJ705	1,998,078	894,609
Independent Living Program	60.112	JJ212	1,722,027	-
Community Based Care Supports		IJ705	766,991	-
Total Expenditures of State Financial Assistance			<u>\$ 30,794,201</u>	<u>\$ 13,143,249</u>
Total Expenditures of Federal Awards and State Financial Assistance			<u>\$ 91,429,690</u>	<u>\$ 45,891,614</u>

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

CHILDNET, INC.

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

YEAR ENDED JUNE 30, 2014

Note 1—Basis of presentation

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

Note 2—Summary of significant accounting policies

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

Note 3—State Matching of Federal Awards

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

Note 4—Contingencies

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ChildNet, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Fort Lauderdale, Florida
December 22, 2014

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

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

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

We have audited ChildNet, Inc (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the Executive Office of the Governor of Florida's State Projects Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs and state financial assistance projects for the year ended June 30, 2014. The Organization's major federal programs and state financial assistance project are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs and state financial assistance 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650 *Rules of Auditor General* of the State of Florida. Those standards, OMB Circular A-133 and Chapter 10.650 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program and state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program and State Financial Assistance Project

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the year ended June 30, 2014.

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and Chapter 10.650. Accordingly, this report is not suitable for any other purpose.

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

Fort Lauderdale, Florida
December 22, 2014

CHILDNET, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:

Unmodified Opinion

Internal control over financial reporting:

Material weakness(es) identified?

yes no

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

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards and State Financial Assistance Projects

Internal control over major federal and state programs/projects:

Material weakness(es) identified?

yes no

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

yes none reported

Type of auditor's report issued on compliance for major federal and state programs/projects

Unmodified Opinion

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

yes no

Identification of major federal and state programs/projects:

Federal Awards Programs

CFDA No.

U.S Department of Health and Human Services:

Pass-through Florida Department of Children and Families:

TANF Cluster

93.558

Social Service Block Grant

93.667

State Financial Assistance Projects

CFSA No.

Florida Department of Children and Families:

Out of Home Support

60.074

Dollar threshold used to distinguish between

Type A and Type B programs:

Federal programs

\$ 1,819,065

State projects

\$ 923,826

Auditee qualified as low-risk auditee for federal purposes?

yes no

CHILDNET, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Projects Findings and Questioned Costs

None

There was no management letter issued as a result of the June 30, 2014 audit.

CHILDNET, INC.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2014

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