



CHILDNET, INC. AND AFFILIATE

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

As of and for the Year Ended June 30, 2015

And Reports of Independent Auditor

CHILDNET, INC. AND AFFILIATE
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Report of Independent Auditor

To the Board of Directors
ChildNet, Inc.
Ft. Lauderdale, Florida

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ChildNet, Inc. and affiliate (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2015 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2015, 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 consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Organization's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 22, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 23, 2015, 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.



Orlando, Florida
December 23, 2015

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(WITH SUMMARIZED TOTALS AS OF JUNE 30, 2014)

	Unrestricted	Temporarily Restricted	2015 Total	2014 Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,399,678	\$ -	\$ 2,399,678	\$ 4,750,853
Funds for clients - Social Security benefits	685,570	-	685,570	666,024
Grants and other receivables	9,334,130	-	9,334,130	4,193,877
Prepaid expenses	692,497	-	692,497	732,987
Total Current Assets	13,111,875	-	13,111,875	10,343,741
Property and equipment, net	9,714	1,130,921	1,140,635	850,466
Other Assets:				
Deferred rent receivable	502,031	-	502,031	-
Security deposits	322,592	-	322,592	199,187
Total Assets	\$ 13,946,212	\$ 1,130,921	\$ 15,077,133	\$ 11,393,394
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 1,998,439	\$ -	\$ 1,998,439	\$ 1,374,004
Accounts payable - providers	10,189,950	-	10,189,950	5,669,921
Accrued salaries and annual leave	1,500,697	-	1,500,697	1,438,598
Funds due to clients - Social Security benefits	685,570	-	685,570	666,024
Current portion of capital lease	77,425	-	77,425	-
Deferred revenue	-	-	-	2,306,272
Total Current Liabilities	14,452,081	-	14,452,081	11,454,819
Long-term Liabilities:				
Deferred rent	502,031	-	502,031	-
Capital lease, net of current portion	156,651	-	156,651	-
Total Liabilities	15,110,763	-	15,110,763	11,454,819
Net (Deficit) Assets:				
Unrestricted	(1,164,551)	-	(1,164,551)	(746,409)
Temporarily restricted	-	1,130,921	1,130,921	684,984
Total Net (Deficit) Assets	(1,164,551)	1,130,921	(33,630)	(61,425)
Total Liabilities and Net Assets	\$ 13,946,212	\$ 1,130,921	\$ 15,077,133	\$ 11,393,394

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Changes in net assets:				
Support and Revenues:				
Government grants and contracts	\$ 118,031,160	\$ 806,706	\$ 118,837,866	\$ 110,441,992
Contributions	588,005	-	588,005	713,880
In-kind contributions	645,758	-	645,758	765,256
Other unrestricted revenue	30,644	-	30,644	-
Net assets released from restrictions	360,769	(360,769)	-	-
Total Support and Revenues	<u>119,656,336</u>	<u>445,937</u>	<u>120,102,273</u>	<u>111,921,128</u>
Expenses:				
Program services:				
DCF community based care	117,156,660	-	117,156,660	109,545,216
Other community based care	1,548,005	-	1,548,005	781,125
Supporting services:				
General and administrative	206,403	-	206,403	203,399
Fundraising	472,544	-	472,544	445,457
In-kind	645,758	-	645,758	765,256
Loss on disposal of assets	45,108	-	45,108	38,167
Total Expenses	<u>120,074,478</u>	<u>-</u>	<u>120,074,478</u>	<u>111,778,620</u>
Increase (decrease) in net assets	(418,142)	445,937	27,795	142,508
Net (deficit) assets, beginning of year	(746,409)	684,984	(61,425)	(203,933)
Net (deficit) assets, end of year	<u>\$ (1,164,551)</u>	<u>\$ 1,130,921</u>	<u>\$ (33,630)</u>	<u>\$ (61,425)</u>

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	Program Services			Supporting Services				Other	2015 Total Expenses	2014 Total Expenses
	DCF Community Based Care	Other Community Based Care	Total Program Services	General and Administrative	Fundraising	In-Kind	Total Supporting Services			
Personnel costs	\$ 24,729,380	\$ 957,002	\$ 25,686,382	\$ 41,195	\$ 5,594	\$ -	\$ 46,789	\$ -	\$ 25,733,171	\$ 26,145,423
Contract and other services	84,511,395	313,648	84,825,043	-	-	-	-	-	84,825,043	76,883,519
Occupancy and utilities	2,564,250	6,094	2,570,344	-	-	-	-	-	2,570,344	1,915,000
Telephone	556,140	2,388	558,528	-	-	-	-	-	558,528	566,835
Insurance	1,192,243	3,992	1,196,235	-	-	-	-	-	1,196,235	914,369
Office and computer supplies	320,241	46	320,287	81,789	6,522	-	88,311	-	408,598	392,005
Postage	162,763	182	162,945	-	-	-	-	-	162,945	177,610
Professional fees	959,648	241,613	1,201,261	79,564	3,515	-	83,079	-	1,284,340	1,154,860
Staff training and recruitment	240,505	4,849	245,354	-	-	-	-	-	245,354	237,483
Travel	554,110	14,605	568,715	-	348	-	348	-	569,063	648,032
Dues and subscriptions	56,583	-	56,583	-	-	-	-	-	56,583	63,726
Equipment and leases	601,579	2,206	603,785	3,855	1,145	-	5,000	-	608,785	672,440
Data communications	102,435	-	102,435	-	-	-	-	-	102,435	212,693
Maintenance	246,839	107	246,946	-	-	-	-	-	246,946	134,026
Depreciation	358,549	1,273	359,822	-	947	-	947	-	360,769	435,245
Donations	-	-	-	-	454,473	-	454,473	-	454,473	421,931
In-kind expenses	-	-	-	-	-	645,758	645,758	-	645,758	765,256
Loss on disposal of assets	-	-	-	-	-	-	-	45,108	45,108	38,167
Total	\$ 117,156,660	\$ 1,548,005	\$ 118,704,665	\$ 206,403	\$ 472,544	\$ 645,758	\$ 1,324,705	\$ 45,108	\$ 120,074,478	\$ 111,778,620

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

CHILDNET, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 27,795	\$ 142,508
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	360,769	435,245
Loss on disposal of assets	45,108	38,167
Changes in operating assets and liabilities:		
Other receivables	(5,140,253)	(3,828,225)
Prepaid expenses	40,490	(329,689)
Security deposits	(123,405)	(125,000)
Accounts payable and accrued expenses	643,981	(1,435,597)
Accounts payable - providers	4,520,029	3,810,190
Accrued salaries and annual leave	62,099	(74,816)
Deferred revenue	(2,306,272)	(3,954,209)
Net cash used in operating activities	<u>(1,869,659)</u>	<u>(5,321,426)</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(438,546)</u>	<u>(528,994)</u>
Net cash used in investing activities	<u>(438,546)</u>	<u>(528,994)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	<u>(23,424)</u>	<u>-</u>
Net cash used in financing activities	<u>(23,424)</u>	<u>-</u>
Net decrease in cash and cash equivalents	(2,331,629)	(5,850,420)
Cash and cash equivalents, beginning of year	<u>5,416,877</u>	<u>11,267,297</u>
Cash and cash equivalents, end of year	<u>\$ 3,085,248</u>	<u>\$ 5,416,877</u>
Cash and cash equivalent balance composed of:		
Cash and cash equivalents	\$ 2,399,678	\$ 4,750,853
Funds for clients	<u>685,570</u>	<u>666,024</u>
	<u>\$ 3,085,248</u>	<u>\$ 5,416,877</u>
Supplemental disclosure of non-cash investing and financing activities:		
In-kind donations	<u>\$ 645,758</u>	<u>\$ 765,256</u>
Purchase of equipment through capital lease	<u>\$ 257,500</u>	<u>\$ -</u>

CHILDNET, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1—Summary of significant accounting policies

Nature of Organization – 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”). On October 1, 2012, ChildNet 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.

Tech Care For Kids, Inc. (“TCFK”), a Florida social purpose corporation, was incorporated on August 13, 2014. 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 stock outstanding, all of which are held by ChildNet. Collectively, ChildNet and TCFK are referred to as the “Organization”.

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

Principles of Consolidation – The consolidated financial statements include the accounts of ChildNet and TCFK. ChildNet has both an economic interest in and control of TCFK through 100% ownership of all outstanding shares and mutual board members. All material inter-organizational transactions have been eliminated.

Comparative Financial Information – The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with 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, 2014 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.

CHILDNET, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1—Summary of significant accounting policies (continued)

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.

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, 2015 was \$645,758.

Functional Expense Allocation – The costs of providing the programs and activities of the Organization have been summarized on a functional basis in the accompanying consolidated statement of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services benefited based on cost allocation plans approved by DCF on October 15, 2014 and October 22, 2014 for Broward and Palm Beach Counties, respectively, with an effective date of July 1, 2014. Indirect costs reimbursable under the DCF contract are included as program costs.

Income Tax – ChildNet 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, ChildNet is subject to income taxes on unrelated business income. No income tax provision is required since ChildNet had no unrelated business taxable income during the year ended June 30, 2015.

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. No income tax provision is reported since the activity for TCFK in its inception year is minimal.

Use of Estimates – The preparation of consolidated 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

CHILDNET, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015, the Organization had approximately \$3,339,000 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 consolidated 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, 2019 with DCF in the amount of \$650,238,809. The services in Palm Beach County are provided under a five-year contract ending June 30, 2019 in the amount of \$210,586,655. 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. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

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 \$59,000,000 to outside Providers for the year ended June 30, 2015 and had an amount payable to the Providers of approximately \$10,200,000 as of June 30, 2015.

Note 4—Matching fund requirements

ChildNet and its Providers allocated matching funds of cash and in-kind services in the amount of \$645,758 to the Promoting Safe and Stable Families Program for the year ended June 30, 2015.

Note 5—Property and equipment

Property and equipment consist of the following as of June 30, 2015:

Furniture and equipment	\$ 2,786,448
Construction in progress	8,200
	<u>2,794,648</u>
Less: accumulated depreciation	<u>(1,654,013)</u>
Property and equipment, net	<u>\$ 1,140,635</u>

Depreciation expense for the year ended June 30, 2015 totaled \$360,769.

Note 6—Debt

On October 29, 2010, the Organization entered into a line of credit agreement in the amount of \$1,000,000 with a financial institution, renewable annually. Payments of accrued unpaid interest are due monthly. Interest on the line of credit is calculated at the bank’s 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, 2015.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

Note 7—Capital Lease

Equipment under a capital lease consists of one piece of office equipment and software with a capitalized cost of \$257,500. Accumulated depreciation in the consolidated statement of financial position included \$14,306 related to this leased equipment. Depreciation expense reported in the consolidated statement of activities includes \$14,306 for the equipment under capital lease. The title of this equipment passes to the Organization at the end of the lease period. Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2016	\$ 106,380
2017	106,380
2018	70,920
	<u>283,680</u>
Amount representing interest	49,604
	<u>\$ 234,076</u>

Note 8—Compensated absences

The Organization accrues paid time off (“PTO”) hours for employees over 26 pay periods. PTO hours are based on the number of years of service up to 29 days. Employees may carry forward to the next fiscal year a maximum of 120 hours. Major Illness Account (“MIA”) hours are accrued over 26 pay periods up to a maximum of 320 hours. Upon termination or employees providing two weeks’ notice, employees will be paid for all accrued PTO hours. Employees are not paid for unused MIA hours. As of June 30, 2015, PTO was accrued in the amount of \$888,316.

Note 9—Temporarily restricted net assets

Temporarily restricted net assets consist of nonexpendable property and equipment net of depreciation at June 30, 2015 in the amount of \$1,130,921 in which DCF, the grantor, maintains title upon completion or termination of the contract.

For the year ended June 30, 2015, \$360,769 of net assets was released from restrictions as a result of depreciation.

Note 10—Retirement plan

The Organization maintains a 403(b) tax-deferred annuity retirement plan (the “Plan”), for the benefit of all their employees meeting the minimum eligibility requirements. The Organization, at its discretion, will contribute a percentage of compensation on behalf of each eligible employee. For the year ended June 30, 2015, 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, 2015, the Organization contributed \$624,807 to the Plan.

CHILDNET, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

Note 11—Commitments and contingencies

Lease Obligations – The Organization leases office space in Palm Beach County under an operating lease scheduled to expire June 2017, but which 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. The Organization also leased office space in Broward County under a non-cancelable operating lease, which expired in February 2015, at which time The Organization remained in the office space on a month-to-month lease until they moved into a new office building in May 2015. The Organization entered into a new operating lease for office space in Broward County scheduled to expire February 2025. The aggregate rent expense for the year ended June 30, 2015 totaled \$2,533,966. 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, 2015 totaled \$572,194.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2016	\$ 2,470,300
2017	2,553,179
2018	1,579,975
2019	1,585,095
2020	1,579,017
Thereafter	7,698,382
Total future minimum lease payments	<u>\$ 17,465,948</u>

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

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

Note 12—Funds due from/to clients – social security benefits

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

Note 13—Subsequent events

In preparing the accompanying consolidated financial statements, the Organization evaluated subsequent events through December 23, 2015, the date the consolidated financial statements were available to be issued.

CHILDNET, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

YEAR ENDED JUNE 30, 2015

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	\$ 6,737,597	\$ 251,759
		IJ705	4,775,486	420,015
Medical Assistance Program	93.778	JJ212	98,713	-
		IJ705	51,342	-
Temporary Assistance for Needy Families (TANF)	93.558	JJ212	4,691,752	482,710
		IJ705	3,004,922	1,239,844
Foster Care - Title IV-E	93.658	JJ212	14,903,054	11,049,391
		IJ705	8,594,456	7,342,101
Child Welfare Services - State Grants	93.645	JJ212	666,811	100,836
		IJ705	391,011	178,775
Social Services Block Grant	93.667	JJ212	5,917,805	5,917,805
		IJ705	3,381,707	3,380,661
Promoting Safe and Stable Families	93.556	JJ212	1,453,896	1,382,602
		IJ705	5,784,592	5,757,471
Independent Living	93.674	JJ212	842,316	-
		IJ705	906,844	322,830
Chafee Education and Training Vouchers Program	93.599	JJ212	388,055	-
		IJ705	141,634	-
Grants to States for Access and Visitation Programs	93.597	JJ212	36,949	36,949
		IJ705	54,121	54,121
Administration for Children, Youth and Families-Child Abuse	93.669	JJ212	2,872	2,872
		IJ705	408	-
Adoption Incentive Payments	93.603	JJ212	249,113	-
		IJ705	224,670	-
Predictive Analytic Approach to Achieving Youth Stability	93.670	90CA1797	377,165	-
Pass-Through Kids in Distress, Inc.:				
The HEART (Housing, Empowerment, Achievement, Recovery and Triumph) Alliance for Sustainable Families	93.670	90CF0041	58,134	-
The HEART (Housing, Empowerment, Achievement, Recovery and Triumph) Alliance for Sustainable Families	93.670	KID-HHS-CHN	59,887	-
Total Expenditures of Federal Awards			\$ 63,795,312	\$ 37,920,742

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, 2015*

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	\$ 2,793,928	\$ 1,920,201
		IJ705	1,996,984	1,695,119
Adoption Services	60.076	JJ212	53,161	-
		IJ705	1,692	-
Independent Living Program	60.112	JJ212	1,873,772	-
		IJ705	795,029	-
Sexually Exploited Children	60.138	JJ212	688,742	688,742
		IJ705	377,973	377,973
Total Expenditures of State Financial Assistance			\$ 8,581,281	\$ 4,682,035
Total Expenditures of Federal Awards and State Financial Assistance			\$ 72,376,593	\$ 42,602,777

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, 2015

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 consolidated financial statements.

Note 2—Summary of significant accounting policies

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

Note 3—Contingencies

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

**Report of Independent Auditor on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Consolidated 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 consolidated financial statements of ChildNet, Inc. (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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 consolidated 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.

Orlando, Florida
December 23, 2015

**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.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the State of Florida Department of Financial Services' 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, 2015. The Organization's major federal programs and state financial assistance projects 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 projects.

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, 2015.

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.

Orlando, Florida
December 23, 2015

CHILDNET, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

Section I - Summary of Auditor's 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:

<u>Federal Awards Programs</u>	<u>CFDA No.</u>
U.S Department of Health and Human Services:	
Pass-through Florida Department of Children and Families:	
Promoting Safe and Stable Families	93.556
Foster Care - Title IV-E	93.658

<u>State Financial Assistance Projects</u>	<u>CFSA No.</u>
Florida Department of Children and Families:	
Sexually Exploited Children	60.138
Out-of Home Support	60.074

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

Federal programs	<u>\$ 1,913,859</u>
State projects	<u>\$ 300,000</u>

Auditee qualified as low-risk auditee for federal purposes? yes no

CHILDNET, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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, 2015 audit.

CHILDNET, INC.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2015

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.