

**CHILDNET, INC. AND AFFILIATE**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

# CHILDNET, INC. AND AFFILIATE

## CONTENTS

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<b>Independent Auditors' Report</b> .....	1-3
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### **Consolidated Financial Statements**

Statements of Financial Position.....	4
Statements of Activities .....	5
Statements of Functional Expenses .....	6-7
Statements of Cash Flows.....	8

<b>Notes to Consolidated Financial Statements</b> .....	9-25
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### **Compliance Section**

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	26-27
Independent Auditors' Report on Compliance for Each Major Federal Program and State Project; Report on Internal Control over Compliance; Required by the Uniform Guidance and Chapter 10.650 Rules of the Auditor General.....	28-30
Schedule of Expenditures of Federal Awards and State Financial Assistance.....	31-32
Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance .....	33
Schedule of Findings and Questioned Costs.....	34-35

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
**ChildNet, Inc. and Affiliate**

### **Report on the Audit of the Financial Statements**

#### *Opinion*

We have audited the consolidated financial statements of ChildNet, Inc. and Affiliate (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of ChildNet, Inc. and Affiliate as of June 30, 2022 and 2021, and the changes in their net assets (deficiency) and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued or available to be issued.

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audits.
- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- obtain an understanding of internal control relevant to the audits 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 Organization's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

### ***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 the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, Rules of the Auditor General, is presented for purposes of additional analysis and is not a required part of the 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2022 on our consideration of ChildNet, Inc. and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ChildNet, Inc. and Affiliate's 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 ChildNet, Inc. and Affiliate's internal control over financial reporting and compliance.

*Marcum LLP*

Miami, FL  
December 16, 2022

# CHILDNET, INC. AND AFFILIATE

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	2022	2021
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 19,146,070	\$ 18,511,911
Restricted cash	811,925	1,019,698
Grants and other receivables	137,814	1,105,616
Prepaid expenses	1,552,757	300,727
<b>Total Current Assets</b>	21,648,566	20,937,952
<b>Property and Equipment, Net</b>	425,367	421,206
<b>Other Assets</b>	421,572	421,950
<b>Total Assets</b>	\$ 22,495,505	\$ 21,781,108
<b>Liabilities and Net Assets (Deficiency)</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ --	\$ 20,466
Accounts payable - providers	2,285,668	1,788,245
Accrued salaries and annual leave	3,359,392	3,705,832
Funds due to Florida Department of Children and Families	3,172,163	1,544,800
Funds due to clients - Social Security benefits	811,925	1,019,698
Current portion of note payable	--	6,466
Deferred revenue	14,282,134	11,310,998
<b>Total Current Liabilities</b>	23,911,282	19,396,505
<b>Long-term Liabilities</b>		
Note payable, net of current portion	--	4,496
Deferred rent	980,486	634,084
<b>Total Long-term Liabilities</b>	980,486	638,580
<b>Total Liabilities</b>	24,891,768	20,035,085
<b>Commitments and Contingencies</b>		
<b>Net Assets (Deficiency)</b>		
Without donor restrictions	(2,726,965)	1,501,304
With donor restrictions	330,702	244,719
<b>Total Net Assets (Deficiency)</b>	(2,396,263)	1,746,023
<b>Total Liabilities and Net Assets (Deficiency)</b>	\$ 22,495,505	\$ 21,781,108

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

**CHILDNET, INC. AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	2022			2021		
	Without donor restrictions	With donor restrictions	Totals	Without donor restrictions	With donor restrictions	Totals
<b>Support and Revenues</b>						
Government grants and contracts	\$ 139,102,456	\$ 169,026	\$ 139,271,482	\$ 126,507,354	\$ 197,985	\$ 126,705,339
In-kind contributions	1,462,796	--	1,462,796	1,397,605	--	1,397,605
Contributions	287,893	--	287,893	219,315	--	219,315
Other revenue	7,591	--	7,591	28,011	--	28,011
Net assets released from restrictions	<u>83,043</u>	<u>(83,043)</u>	<u>--</u>	<u>338,265</u>	<u>(338,265)</u>	<u>--</u>
<b>Total Support and Revenues</b>	<u>140,943,779</u>	<u>85,983</u>	<u>141,029,762</u>	<u>128,490,550</u>	<u>(140,280)</u>	<u>128,350,270</u>
<b>Expenses</b>						
Program services:						
DCF community based care	140,555,534	--	140,555,534	127,183,006	--	127,183,006
Other community based care	698,626	--	698,626	749,154	--	749,154
Supporting activities:						
General and administrative	3,653,970	--	3,653,970	3,337,624	--	3,337,624
Fundraising	<u>263,918</u>	<u>--</u>	<u>263,918</u>	<u>275,417</u>	<u>--</u>	<u>275,417</u>
<b>Total Expenses</b>	<u>145,172,048</u>	<u>--</u>	<u>145,172,048</u>	<u>131,545,201</u>	<u>--</u>	<u>131,545,201</u>
<b>Change in Net Assets (Deficiency)</b>	(4,228,269)	85,983	(4,142,286)	(3,054,651)	(140,280)	(3,194,931)
<b>Net Assets (Deficiency) - Beginning</b>	<u>1,501,304</u>	<u>244,719</u>	<u>1,746,023</u>	<u>4,555,955</u>	<u>384,999</u>	<u>4,940,954</u>
<b>Net Assets (Deficiency) - Ending</b>	<u>\$ (2,726,965)</u>	<u>\$ 330,702</u>	<u>\$ (2,396,263)</u>	<u>\$ 1,501,304</u>	<u>\$ 244,719</u>	<u>\$ 1,746,023</u>

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

## CHILDNET, INC. AND AFFILIATE

### CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	Program Services			Supporting Activities			Total Expenses
	DCF Community Based Care	Other Community Based Care	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Personnel costs	\$ 32,262,090	\$ 598,402	\$ 32,860,492	\$ 2,787,828	\$ 37,209	\$ 2,825,037	\$ 35,685,529
Contract and other services	97,617,849	52	97,617,901	145	106,892	107,037	97,724,938
Occupancy and utilities	3,533,387	34,532	3,567,919	175,914	1,053	176,967	3,744,886
Insurance	1,558,216	19,635	1,577,851	141,743	532	142,275	1,720,126
In-kind expenses	1,462,796	--	1,462,796	--	--	--	1,462,796
Data communications	864,012	11,032	875,044	42,535	2,124	44,659	919,703
Staff training and recruitment	585,097	9,627	594,724	8,982	--	8,982	603,706
Professional fees	402,144	4,902	407,046	160,361	8,572	168,933	575,979
Travel	567,554	2,189	569,743	3,983	510	4,493	574,236
Telephone	397,763	5,894	403,657	69,505	131	69,636	473,293
Equipment and leases	324,311	3,852	328,163	24,113	3,226	27,339	355,502
Emergency response/Covid expenditures	318,133	2,466	320,599	12,727	68	12,795	333,394
Maintenance	264,430	2,827	267,257	12,543	19,887	32,430	299,687
Office and computer supplies	217,423	3,216	220,639	46,126	10,182	56,308	276,947
Marketing and community outreach	180,329	--	180,329	4,616	73,532	78,148	258,477
Depreciation and amortization	--	--	--	162,849	--	162,849	162,849
<b>Total</b>	<b><u>\$ 140,555,534</u></b>	<b><u>\$ 698,626</u></b>	<b><u>\$ 141,254,160</u></b>	<b><u>\$ 3,653,970</u></b>	<b><u>\$ 263,918</u></b>	<b><u>\$ 3,917,888</u></b>	<b><u>\$ 145,172,048</u></b>

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



## CHILDNET, INC. AND AFFILIATE

### CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	Program Services			Supporting Activities			Total Expenses
	DCF	Other	Total			Total	
	Community Based Care	Community Based Care	Program Services	General and Administrative	Fundraising	Supporting Services	
Personnel costs	\$ 31,448,955	\$ 403,504	\$ 31,852,459	\$ 2,724,863	\$ 8,932	\$ 2,733,795	\$ 34,586,254
Contract and other services	86,613,825	235,857	86,849,682	3,826	68,028	71,854	86,921,536
Occupancy and utilities	3,248,348	50,026	3,298,374	148,909	103,184	252,093	3,550,467
Insurance	1,273,701	11,173	1,284,874	116,164	395	116,559	1,401,433
In-kind expenses	1,397,605	--	1,397,605	--	--	--	1,397,605
Professional fees	683,842	9,319	693,161	65,784	8,651	74,435	767,596
Data communications	704,153	8,304	712,457	1,382	--	1,382	713,839
Telephone	472,451	6,059	478,510	79,185	157	79,342	557,852
Emergency response/Covid expenditur	387,494	15,293	402,787	1,560	7	1,567	404,354
Travel	299,573	604	300,177	12,584	--	12,584	312,761
Office and computer supplies	138,474	1,610	140,084	31,311	73,517	104,828	244,912
Marketing and community outreach	197,951	2,121	200,072	4,271	10,671	14,942	215,014
Maintenance	157,168	2,592	159,760	8,090	49	8,139	167,899
Depreciation and amortization	--	--	--	129,654	--	129,654	129,654
Equipment and leases	77,269	2,692	79,961	8,562	90	8,652	88,613
Staff training and recruitment	82,197	--	82,197	1,479	1,736	3,215	85,412
<b>Total</b>	<u>\$ 127,183,006</u>	<u>\$ 749,154</u>	<u>\$ 127,932,160</u>	<u>\$ 3,337,624</u>	<u>\$ 275,417</u>	<u>\$ 3,613,041</u>	<u>\$ 131,545,201</u>

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

# CHILDNET, INC. AND AFFILIATE

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	2021
<b>Cash Flows From Operating Activities</b>		
Change in net assets (deficiency)	\$ (4,142,286)	\$ (3,194,931)
Adjustments to reconcile change in net assets (deficiency) to net cash provided by (used in) operating activities:		
Depreciation and amortization	162,849	129,654
Change in operating assets and liabilities:		
Grants and other receivables	967,802	1,362,044
Prepaid expenses	(1,252,030)	(66,392)
Other assets	378	(78,857)
Accounts payable and accrued expenses	(20,466)	(1,049,742)
Accounts payable - providers	497,423	(6,742,301)
Accrued salaries and annual leave	(346,440)	22,076
Funds due to Florida Department of Children and Families	1,627,363	1,544,800
Funds due to clients - Social Security benefits	(207,773)	52,332
Deferred revenue	2,971,136	8,059,738
Deferred rent	346,402	(75,843)
	4,746,644	3,157,509
<b>Total Adjustments</b>		
	604,358	(37,422)
<b>Net Cash Provided By (Used in) Operating Activities</b>		
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(167,010)	(170,947)
<b>Cash Flows From Financing Activities</b>		
Principal payments on notes payable	(10,962)	(4,987)
<b>Net Change in Cash, Cash Equivalents and Restricted Cash</b>	426,386	(213,356)
<b>Cash, Cash Equivalents and Restricted Cash - Beginning</b>	19,531,609	19,744,965
<b>Cash, Cash Equivalents and Restricted Cash - Ending</b>	\$ 19,957,995	\$ 19,531,609
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest	\$ 378	\$ 673

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

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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### NOTE 1 - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *THE ORGANIZATION*

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

Tech Care For Kids, Inc. (“TCFK”), a social purpose corporation, was incorporated on August 13, 2014 under the laws of the State of Florida. The purpose of TCFK’s formation is to create, design, deliver and support technology to improve the delivery of social services. There are 1,000 shares of common stock issued and outstanding, all of which are held by ChildNet. TCFK had minimal operations as of and for the years ended June 30, 2022 and 2021.

#### *PRINCIPLES OF CONSOLIDATION*

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

#### *FINANCIAL STATEMENT PRESENTATION*

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

#### *Without Donor Restrictions*

Net assets (deficiency) used by the Organization, which are free of donor-imposed restrictions; all revenues and expenses that are not changes in net assets (deficiency) with donor restrictions.

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

#### *FINANCIAL STATEMENT PRESENTATION (CONTINUED)*

##### *With Donor Restrictions*

Net assets used by the Organization, which are limited by donor-imposed stipulations that either expire with the passage of time or that can be fulfilled or removed by actions of the Organization pursuant to those stipulations. As of June 30, 2022 and 2021, the Organization had net assets with donor restriction of approximately \$331,000 and \$245,000, respectively, which consists principally of nonexpendable property and equipment, net of depreciation, in which DCF maintains title upon completion or termination of the Broward and Palm Beach Counties contracts (See Notes 3 and 12).

##### *CASH EQUIVALENTS*

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

##### *RESTRICTED CASH*

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

##### *RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH*

The following tables provide a reconciliation of cash, cash equivalents, and restricted cash reported within the accompanying consolidated statements of financial position that sum to the total of the same such amounts shown in the accompanying consolidated statements of cash flows.

	<u>June 30, 2022</u>
Cash and cash equivalents	\$ 19,146,070
Restricted cash	<u>811,925</u>
<b>Total Cash, Cash Equivalents, and Restricted Cash Presented in the Consolidated Statements of Cash Flows as of</b>	
<b>June 30, 2022</b>	<b><u>\$ 19,957,995</u></b>

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

#### *RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH (CONTINUED)*

	<u>June 30, 2021</u>
Cash and cash equivalents	\$ 18,511,911
Restricted cash	<u>1,019,698</u>
<b>Total Cash, Cash Equivalents, and Restricted Cash Presented in the Consolidated Statements of Cash Flows as of June 30, 2021</b>	<b><u>\$ 19,531,609</u></b>

#### *CONCENTRATIONS OF CREDIT RISK*

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

#### *Cash and Cash Equivalents (Including Restricted Cash)*

The Organization maintains its cash and cash equivalents in deposit accounts at certain financial institutions. The Organization had approximately \$19,992,000 of balances in excess of insurance limits covered by the Federal Deposit Insurance Corporation ("FDIC") as of June 30, 2022. The Organization maintains these balances in what it believes to be high quality financial institutions, which it believes limits its risk.

#### *Grants and Other Receivables*

Grants and other receivables consist principally of amounts due from grantor agencies pursuant to the terms of the respective grant agreements. Grants and other receivables are stated at net realizable value. Allowances are provided for amounts estimated to be uncollectible based on historical experience and any specific collection issues that the Organization has identified. It is the Organization's policy to charge uncollectible receivables against the allowance when management determines that the related balance will not be collected. Management determined that an allowance for doubtful accounts was not necessary as of June 30, 2022 and 2021.

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

#### *PROPERTY AND EQUIPMENT*

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

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

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

#### *IMPAIRMENT OF LONG-LIVED ASSETS*

In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 360, *Property, Plant and Equipment*, the carrying value of long-lived assets is reviewed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by determining if the carrying value of the asset exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset over the remaining economic life of the asset. If recoverability is not assured, impairment is determined based on comparing the carrying value of the asset and the estimated fair value of the asset. Management does not believe that long-lived assets were impaired as of June 30, 2022 and 2021.

#### *DEFERRED RENT*

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

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

#### *FAIR VALUE MEASUREMENTS*

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

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

#### *Level 1*

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

#### *Level 2*

Inputs to the valuation methodology include:

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

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

#### *Level 3*

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

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

The Organization did not have any assets or liabilities requiring fair value measurement on a recurring basis as of June 30, 2022 and 2021.

**CHILDNET, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

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

***CONTRIBUTIONS***

Contributions and gifts received with no restrictions or specified uses identified by the donor are included in without donor restriction revenue in the accompanying consolidated statements of activities when received. Contributions received with donor stipulations that limit the use of donated assets are reported as with donor restriction revenue in the accompanying consolidated statements of activities when received.

When donor restrictions expire or are fulfilled by actions of the Organization, with donor restriction net assets are reclassified as without donor restriction net assets (deficiency) and reported in the accompanying consolidated statements of activities as net assets released from restriction. Donor restricted contributions whose restrictions are met within the same year as received are reflected as without donor restriction revenue in the accompanying consolidated statements of activities.

***GRANTS AND CONTRACTS FROM GOVERNMENT AGENCIES***

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

***DEFERRED REVENUE***

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

***CONTRIBUTED GOODS AND SERVICES***

Contributed goods and services are reflected in the accompanying consolidated financial statements at their estimated fair value, if reasonably determined. The donations of services are recognized as contributions if the services received (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value of the donation. For the years ended June 30, 2022 and 2021, there were approximately \$1,463,000 and \$1,398,000, respectively, in non-cash contributions.



# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

##### *CONTRIBUTED GOODS AND SERVICES*

As of June 30, 2022, contributed goods and services consisted of:

<u>Program or Supporting Service</u>	<u>Donated Services</u>
Family Preservation	\$ 117,159
Family Support	5,000
Family Reunification	384,539
Adoption, Promotion and Support	<u>956,098</u>
<b>Total</b>	<b><u>\$ 1,462,796</u></b>

As of June 30, 2021, contributed goods and services consisted of:

<u>Program or Supporting Service</u>	<u>Donated Services</u>
Family Preservation	\$ 23,541
Family Support	4,166
Family Reunification	332,231
Adoption, Promotion and Support	<u>1,037,667</u>
<b>Total</b>	<b><u>\$ 1,397,605</u></b>

All donated services and assets were utilized by the Organization's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

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

##### *FUND-RAISING ACTIVITIES*

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

**CHILDNET, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

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

***FUND-RAISING ACTIVITIES (CONTINUED)***

Directly identifiable fund-raising expenses are charged to supporting services. Expenses related to more than one function are charged to supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

***FUNCTIONAL ALLOCATION OF EXPENSES***

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

***INCOME TAXES***

ChildNet is a not-for-profit organization, as defined by section 501(c)(3) of the Internal Revenue Code, and as such is subject to federal income taxes only on unrelated business income. There were no significant income taxes resulting from unrelated business income during the years ended June 30, 2022 and 2021.

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

The Organization accounts for uncertainty in income taxes in accordance with GAAP, which requires recognition in the accompanying consolidated financial statements of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the consolidated financial statements is the largest

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

#### *INCOME TAXES (CONTINUED)*

benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Organization had no material unrecognized tax benefits and no adjustments to its consolidated financial position, activities or cash flows were required. The Organization does not expect that unrecognized tax benefits will increase within the next twelve months.

The Organization did not record any interest or penalties on uncertain tax positions in the accompanying consolidated statements of financial position as of June 30, 2022 and 2021 or the accompanying consolidated statements of activities for the years then ended. If the Organization were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes.

#### *USE OF ESTIMATES*

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

#### *RECENT ACCOUNTING PRONOUNCEMENTS*

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*, which amends the guidance relating to the definition of a lease, recognition of lease assets and liabilities on the balance sheet, and the related disclosure requirements. This ASU is applicable for the Organization for its annual reporting period beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022 (per extension ASU 2020-05). Earlier application is permitted; however, the Organization did not early adopt the ASU. Management is currently in the process of evaluating the ASU for the potential impact on its consolidated financial statements upon adoption.

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

#### *RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)*

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. This ASU requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. The FASB issued the update in an effort to improve transparency in reporting nonprofit gifts-in-kind. This ASU requires the new standard to be applied retrospectively, with amendments taking effect for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. The Organization adopted the ASU during the year ended June 30, 2022 and it did not have a significant impact on its consolidated financial statements upon adoption.

#### *SUBSEQUENT EVENTS*

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through December 16, 2022, the date the consolidated financial statements were available to be issued.

### NOTE 2 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization regularly monitors liquidity required to meet its operating needs and other commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalent and access to a line of credit (Note 6). In addition to the financial assets available to meet expenditures over the 12 months, the Organization operates with a budget and anticipates collecting sufficient revenues to cover expenditures. Refer to the accompanying consolidated statements of cash flows which identify the sources and uses of the Organization's cash for each of the twelve months ended June 30, 2022 and 2021.

For the years ended June 30, 2022 and 2021, the Organization's operations were funded through normal recurring advance payments from the DCF.

As required by the General Appropriations Act during the year ended June 30, 2020, the Organization continues to implement the Financial Viability Plan ("Plan"). The Plan provides a detailed analysis and plan of action detailing the steps necessary to mitigate costs and bring projected expenditures in line with revenues. As part of the implementation of this Plan, DCF provides a quarterly financial performance update on all 19 statewide Community Based Care agencies ("CBC").

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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### NOTE 2 - LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

Effective July 1, 2019, the Organization negotiated and was awarded through competitive procurement a 5-year contract with DCF, Contract JJ217, for services in Broward County and negotiated its second 5-year term under the renewal provision for the Palm Beach catchment area contract – IJ706 (refer to Note 3). This contract and extension will continue to allow the Organization to be eligible to receive Risk Pool/Back of the Bill appropriations provided by DCF as part of the General Appropriations Acts.

As of June 30, 2022, the following financial assets could be readily made available within one year of the financial condition to meet general expenditures. There were no financial assets with donor restrictions at June 30, 2022.

#### **Financial Assets Available to Meet General Expenditures over the Next 12 Months**

Cash and cash equivalents	\$19,146,070
Grants and other receivables	<u>137,814</u>
<b>Total Financial Assets</b>	<b><u>\$19,283,884</u></b>

As of June 30, 2021, the following financial assets could be readily made available within one year of the financial condition to meet general expenditures. There were no financial assets with donor restrictions at June 30, 2021.

#### **Financial Assets Available to Meet General Expenditures over the Next 12 Months**

Cash and cash equivalents	\$18,511,911
Grants and other receivables	<u>1,105,616</u>
<b>Total Financial Assets</b>	<b><u>\$19,617,527</u></b>

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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### NOTE 3 - CONTRACTS

The Organization coordinates and administers certain child welfare services in Broward and Palm Beach Counties including emergency shelter, residential group care, in-home protection services, relative care placements, foster care, case management, post-placement supervision, independent living, family reunification and preservation, and adoption services.

Effective July 1, 2019, the Organization negotiated and was awarded through competitive procurement a 5-year contract with DCF, Contract JJ217, for services in Broward in the amount \$428,388,057 (per most recent contract amendment). The Organization also negotiated its second 5-year term under the renewal provision option with the DCF for a total amount of \$494,178,022 (per most recent contract amendment) for the Palm Beach, Contract - IJ706. This contract and extension will continue to allow the Organization to be eligible to receive Risk Pool/Back of the Bill appropriations provided by DCF as part of the General Appropriations Acts.

The contracts can be terminated by either party with 180 days' notice in writing. The contracts require the Organization to comply with certain performance measures on a monthly basis and may be terminated in the event of non-compliance.

For the years ended June 30, 2022 and 2021, service fees earned by the Organization under the contracts amounted to approximately \$138,000,000 and \$127,000,000, respectively, net of overpayments, which are included in government grants and contracts in the accompanying consolidated statements of activities. Rolling deferred revenue balances for June 2022 and June 2021, in the amount of approximately \$14,282,000 and \$11,311,000, respectively, remain available throughout the full term of the contracts for the provision of allowable services which directly affects the net asset surplus or deficiency. As of June 30, 2022 and 2021, amounts due back to the DCF under the contracts amounted to approximately \$3,172,000 and \$1,545,000, respectively, as a result of advance payment funds that were unearned throughout the respective year from the DCF.

### NOTE 4 - CONTRACTS WITH OUTSIDE PROVIDERS

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

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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### NOTE 4 - CONTRACTS WITH OUTSIDE PROVIDERS (CONTINUED)

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

Intervention and family support services contracts specify that the Providers shall deliver certain services to children and families as needed and report regularly to the Organization.

The Organization pays the Providers based on the number of children or families served each month up to a set maximum amount.

Contracts are for a period of one year. Under these contracts, the Organization paid approximately \$47,626,000, which is included in program services in the accompanying consolidated statements of activities, to Providers for the year ended June 30, 2022 and had an amount payable to the Providers of approximately \$2,286,000 as of June 30, 2022. The Organization paid approximately \$41,961,000 to Providers for the year ended June 30, 2021 and had an amount payable to the Providers of approximately \$1,788,000 as of June 30, 2021.

### NOTE 5 - PROPERTY AND EQUIPMENT

As of June 30, 2022 and 2021, property and equipment consist of the following:

	2022	2021
Furniture, fixtures and equipment	\$ 2,647,114	\$ 2,591,674
Leasehold improvements	<u>19,560</u>	<u>19,650</u>
	2,666,674	2,611,324
Less: Accumulated depreciation and amortization	<u>(2,241,307)</u>	<u>(2,190,118)</u>
<b>Property and Equipment, Net</b>	<u>\$ 425,367</u>	<u>\$ 421,206</u>

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 was approximately \$163,000 and \$130,000, respectively.

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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### NOTE 6 - LINE OF CREDIT

On April 18, 2016, the Organization entered into a line of credit agreement (the “Line”) in the amount of \$2,000,000. Payments of accrued unpaid interest are due monthly and the Line expires in May 2024. Interest on the Line is calculated at the bank’s business prime rate (4.75% as of June 30, 2022 and 2021). Borrowings are secured by substantially all assets of the Organization. As of June 30, 2022 and 2021, there was no outstanding balance on the Line.

### NOTE 7 - NOTE PAYABLE

In January 2018, the Organization entered into a vehicle loan, collateralized by the related vehicle with a net book value of approximately \$10,000 at June 30, 2021. The loan bears interest of 4.92% and is payable in monthly installments of principal and interest through maturity in January 2023. As of June 30, 2021, the loan had an outstanding balance of \$10,962, of which \$6,466 and \$4,496 was due in the subsequent fiscal years ended June 30, 2022 and 2023, respectively. For the year ended June 30, 2021, interest expense on the note payable was approximately \$700. The loan was fully paid off during the year ended June 30, 2022. For the year ended June 30, 2022, interest expense on the note payable was approximately \$400.

### NOTE 8 - RETIREMENT PLAN

The Organization maintains a 403(b) tax-deferred annuity retirement plan (the “Retirement Plan”) for the benefit of all their employees meeting the minimum eligibility requirements. The Organization, at its discretion, will contribute a percentage of eligible compensation on behalf of each eligible employee. For the years ended June 30, 2022 and 2021, 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 years ended June 30, 2022 and 2021, the Organization contributed approximately \$867,000 and \$898,000, respectively, to the Retirement Plan.



# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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### NOTE 9 - COMMITMENTS

#### *LEASE OBLIGATIONS*

The Organization leases office space in Palm Beach County under an operating lease, as amended, scheduled to expire June 2024. The Lease can be cancelled at an earlier time in the event that the contract between the Organization and DCF to serve the abused, abandoned and neglected children of Palm Beach County is terminated or not renewed. Additionally, the Organization leases office space in Broward County scheduled to expire February 2030.

The Organization also leases vehicles and office equipment under non-cancelable leases expiring in various years through 2025.

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

For the Year Ending June 30,	Amount
2023	\$ 2,871,000
2024	2,916,000
2025	1,748,000
2026	1,756,000
2027	1,799,000
Thereafter	<u>5,009,000</u>
<b>Total</b>	<b><u>\$ 16,099,000</u></b>

The aggregate rent expense for all cancellable and non-cancellable leases for the years ended June 30, 2022 and 2021 was approximately \$3,316,000 and \$2,947,000, respectively.

### NOTE 10 - CONTINGENCIES

#### *FEDERAL, STATE, AND LOCAL GRANT PROGRAMS*

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

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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### NOTE 10 – CONTINGENCIES (CONTINUED)

#### *LEGAL MATTERS*

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

### NOTE 11 - CONCENTRATIONS

For the years ended June 30, 2022 and 2021, the Organization received approximately 99% of its government grant revenue from DCF. As the revenue from DCF is significant to the overall operations of the Organization, any significant reduction or loss of funding from DCF may affect the Organization's ability to operate in its present form. As of June 30, 2022 and 2021, receivables from DCF were approximately 53% and 70% of grants and other receivables.

### NOTE 12 - NET ASSETS (DEFICIENCY)

Net assets (deficiency) without donor restrictions as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Net assets (deficiency)	\$ (2,726,965)	\$ 1,501,304
<b>Total Net Assets (Deficiency) Without Donor Restrictions</b>	<b><u>\$ (2,726,965)</u></b>	<b><u>\$ 1,501,304</u></b>

Net assets with donor restrictions as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
<b>Subject to Expenditure for Specified Purpose</b>		
Capital assets, net and other	<u>\$ 330,702</u>	<u>\$ 244,719</u>
<b>Total Net Assets With Donor Restrictions</b>	<b><u>\$ 330,702</u></b>	<b><u>\$ 244,719</u></b>

# CHILDNET, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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#### NOTE 12 - NET ASSETS (DEFICIENCY) (CONTINUED)

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes during the years ended June 30, 2022 and 2021 are as follows:

	2022	2021
<b>Purpose Restrictions Accomplished</b>		
Capital assets, net	\$ 83,043	\$ 338,265
<b>Total Net Assets Released from Donor Restriction</b>	<u>\$ 83,043</u>	<u>\$ 338,265</u>

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

To the Board of Directors  
**ChildNet, Inc. and Affiliate**

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. and Affiliate (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 16, 2022.

***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) as a basis for designing 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 audits 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 consolidated financial statements. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Marcum LLP*

Miami, FL  
December 16, 2022

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

To the Board of Directors  
**ChildNet, Inc. and Affiliate**

**Report on Compliance for Each Major Federal Program and State Project**

***Opinion on Each Major Federal Program and State Project***

We have audited ChildNet, Inc. and Affiliate's (collectively the "Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of the Organization's major federal program and state projects for the year ended June 30, 2022. The Organization's major federal program and state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program and state projects for the year ended June 30, 2022.

***Basis for Opinion on Each Major Federal Program and State Project***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, Rules of the Auditor General. Our responsibilities under those standards, the Uniform Guidance and Chapter 10.650, Rules of the Auditor General are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program and state project. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's Federal programs and State projects.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and Chapter 10.650, Rules of the Auditor General will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program and state project as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and Chapter 10.650, Rules of the Auditor General, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses and significant deficiencies in internal control over compliance may exist that were not identified.

*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 a 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

*Marcum LLP*

Miami, FL  
December 16, 2022



**CHILDNET, INC. AND AFFILIATE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND  
STATE FINANCIAL ASSISTANCE**

**FOR THE YEAR ENDED JUNE 30, 2022**

Federal/State Agency, Pass-through Entity/Program or Cluster	Assistance Number	Contract	Expenditures	Transfers to Subrecipients
<b>Federal Awards</b>				
U.S. Department of Health and Human Services:				
Pass-Through Florida Department of Children and Families:				
Adoption Assistance	93.659	JJ217 IJ706	\$ 20,020,530 11,468,777	\$ 313,312 942,427
Medicaid Cluster				
Medical Assistance Program	93.778	JJ217 IJ706	950,987 387,706	-- --
Total Medicaid Cluster			<u>1,338,693</u>	--
477 Cluster				
Temporary Assistance for Needy Families (TANF)	93.558	JJ217 IJ706	6,900,688 5,785,432	469,125 943,250
Total 477 Cluster			<u>12,686,120</u>	<u>1,412,375</u>
Foster Care - Title IV - E	93.658	JJ217 IJ706	25,316,170 16,009,217	6,297,323 3,310,051
Child Welfare Services - State Grants	93.645	JJ217 IJ706	2,569,567 1,590,606	86,847 28,175
Social Services Block Grant	93.667	JJ217 IJ706	11,169,716 6,659,991	8,757,550 5,065,183
Promoting Safe and Stable Families	93.556	JJ217 IJ706	2,318,717 1,323,088	1,824,105 1,200,147
Independent Living	93.674	JJ217 IJ706	2,322,939 1,617,891	424,875 503,442
Chafee Education and Training Vouchers Program	93.599	JJ217 IJ706	1,002,531 452,057	-- --
Grants to States for Access and Visitation Programs	93.597	JJ217 IJ706	33,325 33,327	33,325 --
Administration for Children, Youth and Families-Child Abuse	93.669	JJ217 IJ706	8,269 33,324	2,369 31,887
Guardianship Assistance	93.090	JJ217 IJ706	87,322 303,878	-- --
Adoption Incentive Payments	93.603	JJ217 IJ706	1,126,580 841,090	-- --
Total Florida Department of Children and Families			<u>120,333,725</u>	<u>30,233,393</u>
<b>Total Federal Awards</b>			<u>\$ 120,333,725</u>	<u>\$ 30,233,393</u>

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

**CHILDNET, INC. AND AFFILIATE**

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

**FOR THE YEAR ENDED JUNE 30, 2022**

Federal/State Agency, Pass-through Entity/Program or Cluster	CFSA Number	Contract	Expenditures	Transfers to Subrecipients
<b>State Financial Assistance</b>				
Florida Department of Children and Families:				
Out-of-Home Supports	60.074	JJ217	\$ 12,948,167	\$ 11,525,578
		IJ706	5,936,711	4,826,460
Adoption Services	60.076	JJ217	153,383	--
		IJ706	67,583	--
Sexually Exploited Children	60.138	JJ217	217,370	217,370
The Independent Living and Road to Independence Program	60.112	JJ217	217,508	--
		IJ706	139,489	--
Extended Foster Care Program	60.141	JJ217	433,599	--
		IJ706	549,550	--
ChildNet Behavioral Health & Safety Management	60.18	IJ706	360,000	360,000
Purchase Therapeutic Services for Children	60.183	JJ217	668,573	--
		IJ706	411,772	--
Family Finders Program	60.206	JJ217	115,480	106,743
		IJ706	80,379	75,000
Kinship Navigator Program	60.207	JJ217	744,679	215,397
		IJ706	592,005	66,010
Guardian Assistance Program	60.210	JJ217	89,665	--
		IJ706	75,954	--
Total Florida Department of Children and Families			<u>23,801,867</u>	<u>17,392,558</u>
<b>Total State Financial Assistance</b>			<u>23,801,867</u>	<u>17,392,558</u>
<b>Total Federal Awards and State Financial Assistance</b>			<u>\$ 144,135,592</u>	<u>\$47,625,951</u>

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

**CHILDNET, INC. AND AFFILIATE**

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

**FOR THE YEAR ENDED JUNE 30, 2022**

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**NOTE 1 - GENERAL**

The accompanying schedule of expenditures of federal awards and state financial assistance (the "Schedule") include the federal award and state financial activity of ChildNet, Inc. and Affiliate (collectively, the "Organization") for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.550, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

**NOTE 2 - BASIS OF ACCOUNTING**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and Chapter 10.550, *Rules of the Auditor General*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 - INDIRECT COST RATE**

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

**CHILDNET, INC. AND AFFILIATE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2022**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***FINANCIAL STATEMENTS***

Type of report issued on whether the financial statements audited were prepared in accordance with GAAP:	<b><i>UNMODIFIED OPINION</i></b>		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> None reported.	
Noncompliance material to financial statement noted?	_____ Yes	_____ <u>X</u> No	

***FEDERAL PROGRAM AND STATE PROJECTS***

Internal control over major Federal program and State projects:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> None reported.	

Type of auditors' report issued on compliance for major Federal program and State projects:	<b><i>UNMODIFIED OPINION</i></b>
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Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance and Chapter 10.650?	_____ Yes	_____ <u>X</u> No
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Identification of major Federal program and State projects:

<b><u><i>NAME OF FEDERAL PROGRAM</i></u></b>	<b><u><i>AL NUMBER</i></u></b>
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*U.S. Department of Health & Human Services:*

Foster Care- Title IV – E	93.658
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**CHILDNET, INC. AND AFFILIATE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2022**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS (CONTINUED)**

**NAME OF STATE PROJECTS**

**CFSA NUMBER**

State of Florida Department of Children and Families:

Out-of-Home Supports  
Kinship Navigator Program

60.074  
60.207

Dollar threshold used to distinguish between  
type A and type B Federal programs:

\$3,000,000

Dollar threshold used to distinguish between  
type A and type B State projects:

\$790,318

Auditee qualified as low-risk auditee pursuant to  
the Uniform Guidance?

X  Yes        No

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None.

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

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

**SECTION IV - PRIOR YEAR FINDINGS**

None.