

CHILDNET, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2011 AND 2010**

CHILDNET, INC.

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Independent Auditor's Report

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

We have audited the accompanying statement of financial position of ChildNet, Inc. (the "Organization") as of June 30, 2011 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The statement of financial position, statement of activities and statement of functional expenses include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived. The financial statements of the Organization as of and for the year ended June 30, 2010 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated December 16, 2010.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

Cheryl Bekkert & Holland LLP

Ft. Lauderdale, Florida
December 21, 2011

CHILDNET, INC.

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011 WITH SUMMARIZED TOTALS AS OF JUNE 30, 2010**

ASSETS

	Unrestricted	Temporarily Restricted	2011 Total	2010 Total
Current Assets				
Cash and cash equivalents	\$ 6,819,960	\$ -	\$ 6,819,960	\$ 6,940,161
Funds for clients - Social Security benefits	562,721	-	562,721	561,373
Other receivables	302,447	-	302,447	315,212
Prepaid expenses	1,050,282	-	1,050,282	642,053
Total current assets	8,735,410		8,735,410	8,458,799
Property and equipment, net	9,267	1,219,176	1,228,443	1,431,575
Total assets	<u>\$ 8,744,677</u>	<u>\$ 1,219,176</u>	<u>\$ 9,963,853</u>	<u>\$ 9,890,374</u>

LIABILITIES AND NET ASSETS

Current liabilities				
Accounts payable and accrued expenses	\$ 771,863	\$ -	\$ 771,863	\$ 861,960
Accounts payable - providers	1,922,704	-	1,922,704	1,739,453
Accrued salaries and annual leave	1,034,238	-	1,034,238	1,332,367
Funds due to clients - Social Security benefits	562,721	-	562,721	561,373
Current portion of long-term debt	6,459	-	6,459	4,597
Deferred revenue	5,331,506	-	5,331,506	4,722,443
Total current liabilities	9,629,491	-	9,629,491	9,222,193
Long term liabilities				
Long-term debt, net of current portion	-	-	-	6,459
Total liabilities	9,629,491	-	9,629,491	9,228,652
Net (deficit) assets				
Unrestricted	(884,814)	-	(884,814)	(757,106)
Temporarily restricted	-	1,219,176	1,219,176	1,418,828
Total net (deficit) assets	(884,814)	1,219,176	334,362	661,722
Total liabilities and net assets	<u>\$ 8,744,677</u>	<u>\$ 1,219,176</u>	<u>\$ 9,963,853</u>	<u>\$ 9,890,374</u>

CHILDNET, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	2011 Total	2010 Total
Changes in net assets:				
Support and revenues				
Government grants and contracts	\$ 66,839,699	\$ 181,937	\$ 67,021,636	\$ 65,350,291
Contributions	268,851	-	268,851	261,858
In-kind contributions	457,554	-	457,554	246,099
Net assets released from restrictions	381,589	(381,589)	-	-
Total support and revenues	67,947,693	(199,652)	67,748,041	65,858,248
Expenses				
Program services	67,144,833	-	67,144,833	64,424,675
Support services:				
Other support	440,021	-	440,021	480,774
In-kind expenses	457,554	-	457,554	246,099
Loss on disposal of assets	32,993	-	32,993	187,549
Total expenses	68,075,401	-	68,075,401	65,339,097
Increase (decrease) in net assets	(127,708)	(199,652)	(327,360)	519,151
Net (deficit) assets, beginning of year	(757,106)	1,418,828	661,722	142,571
Net (deficit) assets, end of year	\$ (884,814)	\$ 1,219,176	\$ 334,362	\$ 661,722

See accompanying notes to the financial statements.

CHILDNET, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2011 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2010

	Program Services			Supporting Services			2010 Total Expenses
	Community Based Care	Total Program Services	Other Support	In-Kind Expenses	2011		
					Total Expenses	Total Expenses	
Personnel costs	\$ 21,717,563	\$ 21,717,563	\$ 80,507	\$ -	\$ 21,798,070	\$ 19,814,572	
Contract and other services	40,146,981	40,146,981	91,701	-	40,238,682	40,659,807	
Occupancy and utilities	875,576	875,576	536	-	876,112	987,636	
Telephone	412,882	412,882	-	-	412,882	295,524	
Insurance	449,863	449,863	664	-	450,527	353,196	
Office and computer supplies	268,979	268,979	225	-	269,204	239,960	
Postage	94,595	94,595	-	-	94,595	74,138	
Professional fees	1,094,329	1,094,329	-	-	1,094,329	359,227	
Staff training and recruitment	181,189	181,189	-	-	181,189	223,669	
Travel	544,967	544,967	76	-	545,043	483,798	
Dues and subscriptions	52,263	52,263	-	-	52,263	54,722	
Equipment and leases	525,382	525,382	12	-	525,394	403,530	
Data communications	192,873	192,873	-	-	192,873	166,366	
Maintenance	205,802	205,802	-	-	205,802	227,954	
Depreciation	381,589	381,589	3,480	-	385,069	302,503	
Donations	-	-	262,820	-	262,820	258,847	
In-kind expenses	-	-	-	457,554	457,554	246,099	
TOTAL	\$ 67,144,833	\$ 67,144,833	\$ 440,021	\$ 457,554	\$ 68,042,408	\$ 65,151,548	

See accompanying notes to the financial statements.

CHILDNET, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	For the Years Ended	
	2011	2010
Cash flows from operating activities		
Change in net assets	\$ (327,360)	\$ 519,151
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	385,069	301,103
Loss on disposal of assets	32,993	187,549
Changes in operating assets and liabilities:		
Other receivables	12,765	(191,891)
Prepaid expenses	(408,229)	61,469
Accounts payable and accrued expenses	(90,096)	(217,241)
Accounts payable - providers	183,251	(789,365)
Accrued salaries and annual leave	(298,129)	327,875
Deferred revenue	609,063	2,738,422
Net Cash Provided By Operating Activities	<u>99,327</u>	<u>2,937,072</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(214,931)</u>	<u>(918,743)</u>
Net Cash Used In Investing Activities	<u>(214,931)</u>	<u>(918,743)</u>
Cash flows from financing activities		
Principal payments on long-term debt	<u>(4,597)</u>	<u>(8,277)</u>
Net Cash Used In Financing Activities	<u>(4,597)</u>	<u>(8,277)</u>
Net increase (decrease) in cash and cash equivalents	<u>(120,201)</u>	<u>2,010,052</u>
Cash and cash equivalents, beginning of year	<u>6,940,161</u>	<u>4,930,109</u>
Cash and cash equivalents, end of year	<u>\$ 6,819,960</u>	<u>\$ 6,940,161</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 422</u>	<u>\$ 723</u>
Supplemental disclosure of non-cash investing and financing activities:		
In-kind donations	<u>\$ 457,554</u>	<u>\$ 246,099</u>

CHILDNET, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

Note 1 – Summary of Significant Accounting Policies

Nature of Activities - Community Based Solutions, Inc. was incorporated on July 25, 2001. On October 10, 2002, Community Based Solutions, Inc. changed its name to ChildNet, Inc., d/b/a/ ChildNet (“ChildNet”) or (the “Organization”).

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

ChildNet’s support and revenue was received substantially from a grant evidenced by a contract with its funding source, Florida Department of Children and Families (“DCF”).

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

Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2010 from which the summarized information was derived.

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

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

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

Cash and Cash Equivalents - The Organization considers cash and all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents include checking and money market accounts held in one federally insured financial institution. At times, the balances in these accounts may exceed federally insured limits. The Organization has not experienced any losses in these accounts and believes they are not exposed to any significant credit risk with respect to cash.

CHILDNET, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Fair Value of Financial Instruments - Except as otherwise disclosed, the Organization's financial instruments, other receivables, accounts payable, and accrued expenses are reported at their carrying value, which in the opinion of management, approximates their fair value and have relatively short-term maturities. The fair value of the Organization's long-term debt approximates carrying value since stated rates are similar to rates currently available to the Organization for debt with similar terms and remaining maturities.

Donated Supplies and Services - Donated supplies and services are reflected in the accompanying 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 years ended June 30, 2011 and 2010 was \$457,554 and \$246,099, respectively.

Functional Expense Allocation - The costs of providing the programs and activities of the Organization have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services benefited based on a cost allocation plan approved by DCF on October 1, 2010 with an effective date of July 1, 2010.

Income Tax - The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a nonprofit organization other than a private foundation. However, the Organization is subject to income taxes on unrelated business income. No income tax provision is required since the Organization had no unrelated business taxable income during the years ended June 30, 2011 and 2010.

FASB ASC Topic 740, "Income Taxes" prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance requires that the Organization determine whether the benefits of the Organization's tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. The Organization did not have unrecognized tax benefits and does not have any uncertain tax positions. The tax years 2008 through 2011 remain subject to examination by major tax jurisdictions as of June 30, 2011.

The Organization includes any interest and penalties assessed by income taxing authorities in operating expenses. The Organization did not have penalties and interest expenses for the years ended June 30, 2011 and 2010.

CHILDNET, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Property and Equipment - Property and equipment are recorded at cost or, if donated, at their estimated fair market value at the time of donation. Upon disposition of an asset, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the 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 five 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 - Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The Organization maintains its cash and cash equivalents with several financial institutions. These balances are insured by the Federal Deposit Insurance Corporation. At various times, the Organization periodically held cash in excess of the insured limit. At June 30, 2011 and 2010 cash balances were under the federally insured limit.

Compensated Absences - The Organization recognizes the costs of compensated absences when actually earned by the employees. Accordingly, a liability for such absences has been recorded in the accompanying financial statements.

Reclassification - Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements in order to maintain consistency and comparability between periods presented.

CHILDNET, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Note 2 – Contracts

ChildNet coordinates and administers certain child welfare services in Broward County including emergency shelter, residential group care, in-home protection services, relative care placements, foster care, case management, post-placement supervision, independent living, family reunification and preservation, and adoption services. The services are provided under a five year contract ending on June 30th 2014 with DCF in the amount of \$333,765,268. The contract can be terminated by either party with 180 days notice in writing. The contract requires ChildNet to comply with certain performance measures on a monthly basis and may be terminated in the event of non-compliance. The contract may be renewed for one term not to exceed five years.

Note 3 – Contracts with Outside Providers

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

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

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

Contracts are for a period of one year. Under these contracts, ChildNet paid approximately \$26,000,000 to outside Providers for each of the years ended June 30, 2011 and 2010.

Note 4 – Matching Fund Requirements

ChildNet and its Providers allocated matching funds of cash and in-kind services in the amounts of \$663,803 and \$447,207 to the Promoting Safe and Stable Families Program for the years ended June 30, 2011 and 2010 respectively.

Note 5 – Property and Equipment

Property and equipment consist of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 2,396,352	\$ 2,353,111
Less: accumulated depreciation	(1,167,909)	(921,536)
Property and equipment, net	<u>\$ 1,228,443</u>	<u>\$ 1,431,575</u>

Depreciation expense for the years ended June 30, 2011 and 2010 totaled \$385,069 and \$302,503, respectively.

CHILDNET, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Note 6 – Accounts Payable - Community-Based Care Providers

ChildNet reimburses the Providers for both case management and foster care management services. The payable represents amounts invoiced to ChildNet for services provided prior to June 30, 2011. For the years ended June 30, 2011 and 2010, the amount payable to Providers was \$1,922,704 and \$1,739,453, respectively.

Note 7 – Debt

On October 29, 2010, the Organization entered into a new line of credit agreement in the amount of \$1,000,000 with BankAtlantic, renewable annually. Payments of accrued unpaid interest are due monthly beginning December 1, 2010. Interest on the line of credit is calculated at the BankAtlantic Business Prime rate (initial rate of 4.5%). Borrowings are secured by substantially all assets of the Organization.

The line of credit with BankAtlantic replaced the line of credit that was available for the year ended June 30, 2010. There were no advances on the line of credit during the years ended June 30, 2011 and 2010.

The Organization entered into a note payable for \$20,226 in September 2007 to purchase a vehicle. The note payable bears interest at 4.9% per annum with equal monthly principal and interest payments of \$439, maturing on September 25, 2011. At June 30, 2011 and 2010, the current portion of the note payable was \$4,272 and \$5,045, respectively.

The Organization entered into a note payable for \$6,268 in June 2009 to purchase a vehicle. The note payable bears interest at 4.9% per annum with equal monthly principal and interest payments of \$188, maturing on June 12, 2012. At June 30, 2011 and 2010, the current portion of the note payable was \$2,187 and \$2,090, respectively.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2012	\$ 6,459
Total future minimum principal payments	<u>\$ 6,459</u>

The Organization incurred interest expense on the notes payable of \$422 and \$723 for the years ended June 30, 2011 and 2010, respectively.

CHILDNET, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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, 2011 and 2010, PTO was accrued in the amount of \$702,711 and \$623,481, respectively.

Note 9 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of nonexpendable property and equipment net of depreciation at December 31, 2011 and 2010 in the amount of \$1,219,176 and \$1,418,828 in which DCF, the grantor, maintains title upon completion or termination of the contract.

For the year ended June 30, 2011, \$381,589 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 years ended June 30, 2011 and 2010, 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, 2011 and 2010, the Organization contributed \$574,733 and \$576,387, respectively, to the Plan.

Note 11 – Commitments and Contingencies

Lease Obligations - The Organization leases certain office space under non-cancelable operating leases expiring in various years through 2013. The aggregate rent expense for the years ended June 30, 2011 and 2010 totaled \$875,789 and \$977,706, respectively. The Organization also leases vehicles and office equipment under non-cancelable leases expiring in various years through 2013. The aggregate lease expense for the years ended June 30, 2011 and 2010 totaled \$251,056 and \$247,049, respectively.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2012	\$ 1,135,386
2013	494,938
Total future minimum lease payments	<u>\$ 1,630,324</u>

CHILDNET, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

Note 11 – Commitments and Contingencies (continued)

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

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 are 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 financial statements, the Organization evaluated subsequent events through December 21, 2011, the date the financial statements were available to be issued.

CHILDNET, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2011

Federal/State Grantor, Pass-Through Grantor Federal Program/State Project	CFDA/ CFSA Number	Contract/ Grant Number	Expenditures	Transfers to Subrecipients
Federal Awards				
U.S. Department of Health and Human Services:				
Pass-Through Florida Department of Children and Families:				
Adoption Assistance	93.659	JJ212	\$ 10,750,807	\$ 224,171
Adoption Assistance - (American Recovery and Reinvestment Act)	93.659	JJ212	896,905	20,098
Medical Assistance Program	93.778	JJ212	200,835	-
Temporary Assistance for Needy Families (TANF)	93.558	JJ212	4,867,950	323,231
Foster Care - Title IV-E	93.658	JJ212	14,362,976	8,190,710
Foster Care - Title IV-E (American Recovery and Reinvestment Act)	93.658	JJ212	703,008	565,471
Child Welfare Services - State Grants	93.645	JJ212	797,802	75,238
Social Services Block Grant	93.667	JJ212	5,100,752	5,100,752
Promoting Safe and Stable Families	93.556	JJ212	1,224,185	1,230,633
Independent Living	93.674	JJ212	998,073	-
Chafee Education and Training Vouchers Program	93.599	JJ212	492,424	-
Grants to States for Access and Visitation Programs	93.597	JJ212	43,579	43,579
Family Preservation and Support Services	93.556	JJ212	121,410	-
Administration for Children, Youth and Families-Child Abuse	93.669	JJ212	6,075	5,176
Block Grants for Community Mental Health Services	93.958	JJ212	741,167	741,167
Adoption Incentive Payments	93.603	JJ212	112,978	-
Total Expenditure of Federal Awards			\$ 41,420,926	\$ 16,520,226
State Financial Assistance				
Florida Department of Children and Families:				
Community Based Care Supports	60.094	JJ212	25,450,374	9,977,738
Total Expenditures of State Financial Assistance			\$ 25,450,374	\$ 9,977,738

CHILDNET, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2011**

Note 1 – Basis of Presentation

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

Note 2 – Summary of Significant Accounting Policies

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

Note 3 – 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.



**Independent Auditor's 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.
Plantation, Florida

We have audited the financial statements of ChildNet, Inc. (the "Organization") as of and for the year ended June 30, 2011 and have issued our report thereon dated December 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *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 Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion

on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry Bekset & Holland LLP

Ft. Lauderdale, Florida
December 21, 2011



Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General

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

Compliance

We have audited the compliance of Childnet, Inc. (the "Organization") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement* that 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, 2011. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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

In our opinion, the Organization complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state financial assistance 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 financial assistance project will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry Bekert : Holland LLP

Ft. Lauderdale, Florida
December 21, 2011

CHILDNET, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified Opinion*

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards and State Financial Assistance Projects

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes no

Type of auditors' report issued on compliance for major programs: *Unqualified Opinion*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General? yes no

Identification of major programs:

<u>Federal Awards Program</u>	<u>CFDA No.</u>
Department of Health and Human Services, Pass-through	
Florida Department of Children and Families:	
Temporary Assistance for Needy Families (TANF)	93.558
Foster Care Title IV-E	93.658
Foster Care Title IV-E (American Recovery and Reinvestment Act)	93.658

<u>State Financial Assistance Projects</u>	<u>CFSA No.</u>
Department of Health and Human Services, Pass-through	
Florida Department of Children and Families:	
Community Based Care Supports	60.094

CHILDNET, INC.

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

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.