

**CHILDNET, INC. AND AFFILIATE  
CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
JUNE 30, 2008 AND 2007**

**CHILDNET, INC. AND AFFILIATE  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of ChildNet, Inc. (a non-profit organization), and Affiliate as of June 30, 2008 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information of ChildNet, Inc. and Affiliate as of June 30, 2007, were audited by other auditors whose report dated March 5, 2008, expressed an unqualified opinion on those statements.

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 consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ChildNet, Inc. and Affiliate as of June 30, 2008 and the changes in their net assets and their 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 January 21, 2009 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, 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 important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of ChildNet, Inc. and Affiliate taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance (page 17) and notes to the schedule of expenditures of federal awards and state financial assistance (page 18) are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, local Governments, and Non-Profit Organizations*, and Chapter 10.650, Rules of the Auditor General, and are also not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

As discussed in Note 14 to the consolidated financial statements, certain errors resulting in overstatement of previously reported accounts payable and accrued expenses as of June 30, 2007, were discovered by management of the Organization during the current year. Accordingly, an adjustment has been made to net assets as of July 1, 2006, to correct the error.

*Berenfeld Spritzer Shechter & Sheer LLP*

BERENFELD, SPRITZER, SHECHTER & SHEER LLP  
Fort Lauderdale, Florida  
January 21, 2009

**CHILDNET, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2008 WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2007**

	<u>Assets</u>			<b>2007 Total (Restated)</b>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>	
<b>Current Assets</b>				
Cash and cash equivalents	\$ 2,330,258	\$ -	\$ 2,330,258	\$ 2,449,670
Funds for clients - Social Security benefits	588,968	-	588,968	613,687
Receivable from funding sources	-	-	-	35,634
Other receivables	27,270	-	27,270	255,628
Prepaid expenses	674,274	-	674,274	428,563
<b>Total Current Assets</b>	<b>3,620,770</b>	<b>-</b>	<b>3,620,770</b>	<b>3,783,182</b>
<b>Property and equipment, net</b>	<b>423,932</b>	<b>794,179</b>	<b>1,218,111</b>	<b>1,190,435</b>
<b>Total Assets</b>	<b>\$ 4,044,702</b>	<b>\$ 794,179</b>	<b>\$ 4,838,881</b>	<b>\$ 4,973,617</b>
 <b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	\$ 130,581	\$ -	\$ 130,581	\$ 607,485
Accounts payable - Providers	2,280,347	-	2,280,347	2,331,046
Accrued salaries and annual leave	1,716,124	-	1,716,124	1,601,542
Funds due to clients - Social Security benefits	588,968	-	588,968	613,687
Current portion of long-term debt	32,988	-	32,988	-
Deferred revenue	-	-	-	117,759
<b>Total Current Liabilities</b>	<b>4,749,008</b>	<b>-</b>	<b>4,749,008</b>	<b>5,271,519</b>
<b>Long Term Liabilities</b>				
Long-term debt, net of current portion	268,522	-	268,522	-
<b>Total Liabilities</b>	<b>5,017,530</b>	<b>-</b>	<b>5,017,530</b>	<b>5,271,519</b>
<b>Net (Deficit) Assets</b>				
Unrestricted	(972,828)	-	(972,828)	(1,419,349)
Temporarily restricted	-	794,179	794,179	1,121,447
<b>Total Net (Deficit) Assets</b>	<b>(972,828)</b>	<b>794,179</b>	<b>(178,649)</b>	<b>(297,902)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,044,702</b>	<b>\$ 794,179</b>	<b>\$ 4,838,881</b>	<b>\$ 4,973,617</b>

See accompanying notes to the consolidated financial statements.

**CHILDNET, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008 WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007**

	Unrestricted	Temporarily Restricted	2008 Total	2007 Total (Restated)
<b>Changes in Net Assets:</b>				
Support and revenues				
Government grants and contracts	\$ 66,885,150	\$ 111,017	\$ 66,996,167	\$ 65,744,001
Contributions	339,420	-	339,420	105,072
In-kind contributions	248,692	-	248,692	-
Interest and dividend income	1,535	-	1,535	2,191
Net assets released from restrictions	438,285	(438,285)	-	-
Total support and revenues	<u>67,913,082</u>	<u>(327,268)</u>	<u>67,585,814</u>	<u>65,851,264</u>
Expenses				
Program services	66,595,146	-	66,595,146	66,861,399
Support services:				
Management and general	569,406	-	569,406	254,566
In-kind expenses	248,692	-	248,692	-
Loss on disposal of assets	53,317	-	53,317	41,211
Total Expenses	<u>67,466,561</u>	<u>-</u>	<u>67,466,561</u>	<u>67,157,176</u>
Increase (Decrease) in Net Assets	<u>446,521</u>	<u>(327,268)</u>	<u>119,253</u>	<u>(1,305,912)</u>
Net (Deficit) Assets, Beginning of Year, as previously reported	(1,419,349)	1,121,447	(297,902)	894,917
Prior Period Adjustment	-	-	-	113,093
Net (Deficit) Assets, Beginning of Year, as restated	<u>(1,419,349)</u>	<u>1,121,447</u>	<u>(297,902)</u>	<u>1,008,010</u>
Net (Deficit) Assets, End of Year, as restated	<u>\$ (972,828)</u>	<u>\$ 794,179</u>	<u>\$ (178,649)</u>	<u>\$ (297,902)</u>

See accompanying notes to the consolidated financial statements.

**CHILDNET, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Program Services			Supporting Services		Total Expenses
	Community Based Care	Total Program Services	Management and General	In-Kind Expenses		
Personnel costs	\$ 21,910,452	\$ 21,910,452	\$ 67,078	\$ -	\$ 21,977,530	
Contract and other services	39,114,341	39,114,341	100,126	-	39,214,467	
Occupancy and utilities	1,773,551	1,773,551	-	-	1,773,551	
Telephone	499,270	499,270	-	-	499,270	
Insurance	545,785	545,785	-	-	545,785	
Office and computer supplies	312,858	312,858	19,339	-	332,197	
Postage	123,287	123,287	-	-	123,287	
professional fees	259,987	259,987	13,150	-	273,137	
Staff training and recruitment	241,777	241,777	-	-	241,777	
Travel	550,879	550,879	-	-	550,879	
Dues and subscriptions	15,367	15,367	25,326	-	40,693	
Equipment and leases	312,063	312,063	4,549	-	316,612	
Data communications	209,702	209,702	-	-	209,702	
Maintenance	283,426	283,426	6,925	-	290,351	
Depreciation	442,401	442,401	28,941	-	471,342	
Donations	-	-	303,972	-	303,972	
In-kind expenses	-	-	-	248,692	248,692	
<b>TOTAL</b>	<b>\$ 66,595,146</b>	<b>\$ 66,595,146</b>	<b>\$ 569,406</b>	<b>\$ 248,692</b>	<b>\$ 67,413,244</b>	

See accompanying notes to the consolidated financial statements.

**CHILDNET, INC. AND AFFILIATE  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 119,253	\$(1,305,912)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	471,342	489,699
Loss on disposal of assets	53,317	41,211
Changes in assets and liabilities		
Decrease in receivables from funding sources	35,634	2,607,728
Decrease (increase) in other receivables	228,358	(165,400)
(Increase) decrease in prepaid expenses	(245,711)	48,701
(Decrease) in accounts payable and accrued expenses	(476,904)	(724,161)
(Decrease) increase in accounts payable - providers	(50,699)	196,399
Increase in accrued salaries and annual leave	114,582	769,524
(Decrease) in deferred revenue	(117,759)	(27,621)
Net Cash Provided By Operating Activities	131,413	1,930,168
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(231,687)	(163,887)
Proceeds from the sale of property and equipment	-	14,738
Net Cash Used In Investing Activities	(231,687)	(149,149)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(19,138)	-
Net Cash Used In Financing Activities	(19,138)	-
Net (decrease) increase in cash and cash equivalents	(119,412)	1,781,019
Cash and cash equivalents, Beginning of Year	2,449,670	668,651
Cash and cash equivalents, End of Year	\$ 2,330,258	\$ 2,449,670
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 12,545	\$ -
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Debt incurred in acquisition of property and equipment	\$ 320,648	\$ -
In-kind donations	\$ 248,692	\$ -

See accompanying notes to the consolidated financial statements.



**CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**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").

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.

Broward Cares for Kids Foundation, Inc. ("Broward Cares for Kids") was incorporated on October 7, 2004 and created to be a fundraising arm of ChildNet. Broward Cares for Kids was approved as a private, tax-exempt organization with the IRS, under Section 501(c)(3) effective October 7, 2004. The purpose of Broward Cares for Kids is to provide alternative source of funding which will facilitate the implementation of services not currently eligible from State and Federal funding to ChildNet.

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").

**Principles of Consolidation**

The consolidated financial statements include the accounts of ChildNet and Broward Cares for Kids, collectively referred herein as the ("Organization"). All material interorganization transactions have been eliminated.

**Basis of Accounting**

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

**Comparative Financial Information**

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2007 from which the summarized information was derived.

**CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Consolidated Financial Statement Presentation**

The consolidated financial statements of the Organization have been presented in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report 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**

The Organization accounts for contributions in accordance with the requirements of the Financial Accounting Standards Board in SFAS No. 116 "Accounting for Contributions Received and Contributions Made". In accordance with SFAS No. 116, 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.

**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 spent are recorded as deferred revenue. All other revenues are recognized when earned.

**CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 mortgage notes payable approximate 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 consolidated 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. Many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. The amount of such donated goods for the years ended June 30, 2008 was \$248,692.

**Donated Assets**

Donations of assets, if material, are recorded as support at their estimated fair value at the date of donation. Such donations would be reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Absent donor stipulations regarding how long donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**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 September 28, 2006 with an effective date of July 1, 2006.

**Income Tax**

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for income taxes.

**CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Use of Estimates**

The preparation of consolidated 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 consolidated 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 impairments, 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. Estimated useful lives are as follows:

Building	30 Years
Furniture and fixtures	7 Years
Vehicles	5 Years
Computer equipment	5 Years

**Concentration of Grant Awards**

The Organization receives approximately 99.8% of its grant funding through the Florida Department of Children and Families (DCF) in the form of Mental Health Treatment, Substance Abuse Treatment, Adoption Subsidy, Foster Care Subsidy, Independent Living Services for Adults and Children grants.

**Concentration of Credit Risk**

The Organization maintains cash balances at one financial institution which at times may exceed federally insured limits. At June 30, 2008 and 2007, the Organization had uninsured cash balances of \$3,581,448 and \$2,358,405, respectively. Management believes that these funds are invested in a highly reputable financial institution and maintain that the risk of loss is minimal.

**CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Compensated Absences**

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

**NOTE 2 - CONTRACTS**

On July 1, 2003, DCF awarded ChildNet a contract in the amount of \$176,640,367 which was in effect until June 30, 2006. Effective July 1, 2006, DCF renewed this contract in the amount of \$195,497,016 through June 30, 2009. The contract was amended on October 24, 2007, increasing the payments for contractual services to \$198,661,451. ChildNet is to coordinate and administer 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 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.

**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 Provider 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 and \$22,000,000 to outside Providers for the years ended June 30, 2008 and 2007, respectively.

**CHILDNET, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

**NOTE 4 - MATCHING FUND REQUIREMENTS**

ChildNet and its Providers allocated matching funds of cash and in-kind services in the amounts of \$499,684 to the Promoting Safe and Stable Families Program for the year ended June 30, 2008, and \$597,818 to the Promoting Safe and Stable Families and \$395,560 to the Purchase Therapeutic Services, Child Community Support Services Program and Promoting Safe and Stable Families Program for the year ended June 30, 2007.

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Furniture and equipment	\$ 2,178,956	\$ 2,473,785
Building	<u>383,884</u>	<u>-</u>
	2,562,840	2,473,785
Less: accumulated depreciation	<u>(1,344,729)</u>	<u>(1,283,350)</u>
Property and equipment, net	<u>\$ 1,218,111</u>	<u>\$ 1,190,435</u>

Depreciation expense for the years ended June 30, 2008 and 2007 totaled \$471,342 and \$489,699, respectively.

**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, 2008. For the years ended June 30, 2008 and 2007, the amount payable to Providers was \$2,280,347 and \$2,331,046, respectively.

**NOTE 7 - LONG-TERM DEBT**

The Organization had a \$1,000,000 line of credit agreement with a bank, which expired in May 2008. The Organization is in the process of negotiating the renewal of the agreement with the bank. The proposed terms of the agreement are as follows: \$650,000 open end demand revolving line of credit, with interest payable monthly at the one month LIBOR rate plus 2.95% per annum. The Organization agreed to maintain a zero balance outstanding on the line for at least one 30 consecutive day period. Borrowings are secured by substantially all assets of the Organization. There were no outstanding balances on the line of credit at June 30, 2008 and 2007.

During the years ended June 30, 2008 and 2007, \$200,000 of the line of credit was pledged to the lease of office space in the form of a Letter of Credit to serve as a security deposit, leaving \$800,000 available.

**CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 7 - LONG-TERM DEBT (continued)**

The Organization entered into a note payable for \$230,000 in November 2007 with a financial institution, collateralized by real estate. The note payable bears interest at 7.4% per annum with equal monthly principal and interest payments of \$1,854, with a final balloon payment of \$199,739 on November 8, 2012. At June 30, 2008, the current note payable was \$5,646, and the non-current note payable was \$221,248.

The Organization entered into a note payable for \$70,422 in November 2007 with a financial institution, collateralized by all assets of the Organization. The note payable bears interest at 7.4% per annum with equal monthly principal and interest payments of \$2,191, maturing on November 8, 2010. At June 30, 2008, the current note payable was \$22,767, and the non-current note payable was \$35,130.

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, 2008, the current note payable was \$4,575, and the non-current note payable was \$11,584.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 32,988
2010	35,393
2011	22,208
2012	8,778
2013	202,143
Thereafter	<u>          -</u>
Total	<u>\$ 301,510</u>

**NOTE 8 - COMPENSATED ABSENCES**

The Organization accrues paid time off ("PTO") hours for employees over 26 pay periods. PTO hours are based on the number of years of service up to 29 days. Employees may carry forward to the next fiscal year a maximum of 160 hours for the year ended June 30, 2008, 80 hours for the year ended June 30, 2009, and 40 hours for the year ended June 30, 2010. Major Illness Account ("MIA") hours are accrued over 26 pay periods up to a maximum of 320 hours. Upon termination, employees will be paid for all accrued PTO hours. Employees are not paid for unused MIA hours. As of June 30, 2008 and 2007, PTO was accrued in the amount of \$871,208 and \$838,605, respectively.

**CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of nonexpendable property (i.e. tangible personal property of a non-consumable nature) in which DCF, the grantor, maintains title upon completion or termination of the contract.

For the year ended June 30, 2008, \$438,285 of net assets was released from restrictions as a result of depreciation.

**NOTE 10 - RETIREMENT PLAN**

The Organization maintains a 403(b) tax-deferred annuity retirement plan (the "Plan"), for the benefit of all their employees meeting the minimum eligibility requirements. The Organization, at its discretion, will contribute a percentage of compensation on behalf of each eligible employee. For the year ended June 30, 2008 and 2007, the Organization's discretionary percentage was 2% for each year, 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, 2008 and 2007, the Organization contributed \$545,595 and \$487,725, 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, 2008 and 2007 totaled \$1,743,743 and \$1,678,542, respectively. The Organization also leases vehicles and office equipment under non-cancelable leases expiring in various years through 2012. The aggregate lease expense for the years ended June 30, 2008 and 2007 totaled \$71,444 and \$53,813, respectively.

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

Years Ending June 30,

2009	\$ 1,635,206
2010	1,806,300
2011	1,579,643
2012	1,601,551
2013	933,726
Thereafter	_____
<b>TOTAL</b>	<b><u>\$ 7,556,426</u></b>



**CHILDNET, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**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.

On February 15, 2007, the Organization's management engaged the services of a private investigator to conduct an investigation of the theft of approximately \$8,000 of Wal-Mart gift cards. During the year ended June 30, 2008, the investigation was concluded and no actions were taken against the Organization.

**NOTE 12 - RELATED PARTY TRANSACTIONS**

Broward Cares for Kids leases certain property to ChildNet under a non-cancelable operating lease expiring on November 30, 2013. As of June 30, 2008 and June 30, 2007, the total rent paid to Broward Cares for Kids totaled \$36,467 and \$0, respectively. Minimum future rental payments to be received from the affiliate as of June 30 for each of the next five years and in the aggregate are as follows:

Year Ended June 30,		
2009	\$	48,623
2010		48,623
2011		48,623
2012		48,623
2013		20,259
Thereafter		-
Total future minimum lease payments	\$	214,751

ChildNet contracted with Family Central, Inc. to provide child abuse and parent education services. Family Central, Inc. employs two members of the Board of Directors of ChildNet. The amount paid for these services during the years ended June 30, 2008 and 2007 totaled \$80,956 and \$186,996.

**CHILDNET, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

**NOTE 13 - FUNDS DUE FROM/TO CLIENTS – SOCIAL SECURITY BENEFITS**

ChildNet 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 ChildNet 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 14 - PRIOR PERIOD ADJUSTMENT**

Net Assets as of July 1, 2006 have been adjusted for the following errors that occurred in prior years:

Overstatement of accounts payable and accrued expenses	<u>\$ 113,093</u>
Total prior period adjustment	<u>\$ 113,093</u>

The effect on the Organization's previously issued 2007 consolidated financial statements is summarized as follows:

*Statement of Financial Position as of June 30, 2007*

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>Restated</u>
Current Assets	\$ 3,783,182	\$ -	\$ 3,783,182
Property and Equipment, net	<u>1,190,435</u>	-	<u>1,190,435</u>
Total Assets	<u>\$ 4,973,617</u>	<u>\$ -</u>	<u>\$ 4,973,617</u>
Current Liabilities	<u>\$ 5,384,612</u>	<u>\$(113,093)</u>	<u>\$ 5,271,519</u>
Total Liabilities	<u>5,384,612</u>	<u>(113,093)</u>	<u>5,271,519</u>
Net (Deficit) Assets:			
Unrestricted	(1,532,442)	113,093	(1,419,349)
Temporarily Restricted	<u>1,121,447</u>	-	<u>1,121,447</u>
Total Net (Deficit) Assets	<u>( 410,995)</u>	<u>113,093</u>	<u>( 297,902)</u>
Total Liabilities and Net Assets	<u>\$ 4,973,617</u>	<u>\$ -</u>	<u>\$ 4,973,617</u>

**CHILDNET, INC. AND AFFILIATE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2008**

Federal/State Grantor, Pass-Through Grantor Federal Program/State Project	CFDA/ CFSA Number	Contract/ Grant Number	Expenditures	Transfers to Subrecipients
<b>Federal Awards</b>				
<b>U.S. Department of Health and Human Services:</b>				
<b>Pass-Through Florida Department of Children and Families:</b>				
Adoption Assistance	93.659	JJ208	\$ 9,555,312	\$ 167,168
Medical Assistance Program (Medicaid; Title XIX)	93.778	JJ208	151,638	-
Temporary Assistance for Needy Families (TANF)	93.558	JJ208	4,294,449	350,993
Foster Care - Title IV-E	93.658	JJ208	11,073,041	6,833,965
Child Welfare Services - State Grants	93.645	JJ208	1,165,669	82,811
Social Services Block Grant	93.667	JJ208	4,397,794	3,495,495
Promoting Safe and Stable Families	93.556	JJ208	1,517,906	1,517,906
Chafee Foster Care Independence Program	93.674	JJ208	1,019,117	-
Chafee Education and Training Vouchers program (ETV)	93.599	JJ208	604,349	-
Grants to States for Access and Visitation Programs	93.597	JJ208	34,651	34,651
Block Grants for Community Mental Health Services	93.958	JJ208	651,227	322,073
Child Abuse and Neglect State Grants	93.669	JJ208	83,801	71,409
<b>Total Expenditure of Federal Awards</b>			<u>\$ 34,548,954</u>	<u>\$ 12,876,471</u>
<b>State Financial Assistance</b>				
<b>Florida Department of Children and Families:</b>				
Community Based Care Supports	60.094	JJ208	\$ 31,860,936	\$ 13,405,565
<b>Total Expenditures of State Financial Assistance</b>			<u>\$ 31,860,936</u>	<u>\$ 13,405,565</u>

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

**CHILDNET, INC. AND AFFILIATE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of ChildNet, Inc. and Affiliate and is presented on the accrual basis of accounting. The information in this 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 this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

**NOTE 2 - SUB-RECIPIENTS**

ChildNet, Inc. and Affiliate provided federal awards to sub-recipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Adoption Assistance	93.659	\$ 167,168
Temporary Assistance for Needy Families (TANF)	93.558	350,993
Foster Care – Title IV-E	93.658	6,833,965
Social Services Block Grant	93.667	3,495,495
Promoting Safe and Stable Families	93.645	1,517,906
Block Grants for Community Mental Health Services	93.958	322,073
Grants to States for Access and Visitation Programs	93.597	34,651
Child Abuse and Neglect State Grants	93.669	71,409
Child Welfare Services – State Grants	93.645	<u>82,811</u>
Total Federal Awards provided to Sub-recipients		<u>\$12,876,471</u>

ChildNet, Inc. and Affiliate provided state financial assistance to sub-recipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Community Based Care Supports	60.094	<u>\$13,405,565</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  
Plantation, Florida

We have audited the consolidated financial statements of ChildNet, Inc. and Affiliate as of and for the year ended June 30, 2008 and have issued our report thereon dated January 21, 2009. 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

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statement is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be 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 consolidated 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 consolidated 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Organization in a separate letter dated January 21, 2009.

This report is intended solely for the information and use of the Board of Directors, management of ChildNet, Inc. and Affiliate, 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.

*Berenfeld Spritzer Shechter & Sheer LLP*

BERENFELD, SPRITZER, SHECHTER & SHEER LLP  
Fort Lauderdale, Florida  
January 21, 2009



spritzer + shechter + sheer LLP =  
certified public accountants & business advisors

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO 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. and Affiliate  
Plantation, Florida

Compliance

We have audited the compliance of ChildNet, Inc. and Affiliate, 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 are applicable to each of its major federal programs and state projects for the year ended June 30, 2008. ChildNet, Inc. and Affiliate'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 ChildNet, Inc. and Affiliate's management. Our responsibility is to express an opinion on ChildNet, Inc. and Affiliate'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 project occurred. An audit includes examining, on a test basis, evidence about ChildNet, Inc. and Affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of ChildNet, Inc. and Affiliate's compliance with those requirements.

In our opinion, ChildNet, Inc. and Affiliate complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended June 30, 2008

### Internal Control Over Compliance

The management of ChildNet, Inc. and Affiliate 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 projects. In planning and performing our audit, we considered ChildNet, Inc. and Affiliate's internal control over compliance with requirements that could have a direct and material effect on a major federal program and state project in order to determine our 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 ChildNet, Inc. and Affiliate's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

### Schedule of Expenditures of Federal Awards and State Financial Assistance

We have audited the basic financial statements of the Organization as of and for the year ended June 30, 2008, and have issued our report thereon dated January 21, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal, state and local awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

This report is intended solely for the information and use of the Board of Directors, management of ChildNet, Inc. and Affiliate, 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.

*Berenfeld Spritzer Shechter & Sheer LLP*

BERENFELD, SPRITZER, SHECHTER & SHEER LLP  
Fort Lauderdale, Florida  
January 21, 2009



**CHILDNET, INC. AND AFFILIATE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Summary of Auditors' Results**

1. The auditor's report expresses an unqualified opinion on the consolidated financial statements of ChildNet, Inc. and Affiliate.
2. No significant deficiencies relating to the audit of the consolidated financial statements are reported in the 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*.
3. No instances of noncompliance material to the consolidated financial statements of ChildNet, Inc. and Affiliate which would be required to be disclosed in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. The auditors' report disclosed no significant deficiencies in internal control over major federal award programs and state financial assistance projects.
5. The auditors' report on compliance for the major federal award programs and state financial assistance projects for ChildNet, Inc. and Affiliate expresses an unqualified opinion on all major federal programs and state financial assistance projects.
6. There were no audit findings relative to the major federal award programs and state financial assistance projects for ChildNet, Inc. and Affiliate which would be required to be reported in accordance with Section 510(a) of OMB Circular A-133, and Rule 10.650 of Chapter 10.650, Rules of the Auditor General.
7. The thresholds used for distinguishing between Type A and B federal programs and state financial assistance projects were \$866,852 and \$1,125,445, respectively.
8. ChildNet, Inc. and Affiliate qualified as a low-risk auditee.

**CHILDNET, INC. AND AFFILIATE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Summary of Auditors' Results (continued)**

9. The federal programs and state projects tested as major programs and major projects were as follows:

CFDA		Amount
Number	Name of Major Federal Program	Expended
93.558	Temporary Assistance for Needy Families Block Grant	\$ 4,294,449
93.658	Foster Care – Title-IV-E	11,073,041
CFSA		Amount
Number	Name of Major State Project	Expended
60.094	Community Based Care Supports	\$ 31,860,936

**Findings – Financial Statement Audit**

None

**Findings – Major Federal Awards Programs and Major State Financial Assistance Projects Audits**

None

**CHILDNET, INC. AND AFFILIATE  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

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