

**CHILDNET, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2010 AND 2009**

CHILDNET, INC.
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of ChildNet, Inc. (a non-profit organization), as of June 30, 2010 and the related statement of activities, functional expenses and cash flows for the year then ended. We have also audited the consolidated statement of financial position of ChildNet, Inc. and Affiliate as of June 30, 2009, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended. The financial statements and consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of ChildNet, Inc. as of June 30, 2010 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2009 consolidated financial statements present fairly, in all material respects, the consolidated financial position of ChildNet, Inc. and Affiliate as of June 30, 2009, 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 December 16, 2010 on our consideration of ChildNet, Inc.'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 audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements of ChildNet, Inc. 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 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Berenfeld Spritzer Shechter & Sheer LLP

BERENFELD, SPRITZER, SHECHTER & SHEER LLP
Fort Lauderdale, Florida
December 16, 2010

CHILDNET, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 WITH SUMMARIZED CONSOLIDATED TOTALS AS OF JUNE 30, 2009

Assets

	Unrestricted	Temporarily Restricted	2010 Total	2009 Total
Current Assets				
Cash and cash equivalents	\$ 6,940,161	\$ -	\$ 6,940,161	\$ 4,932,342
Funds for clients - Social Security benefits	561,373	-	561,373	570,253
Other receivables	315,212	-	315,212	41,708
Prepaid expenses	642,053	-	642,053	703,522
Total Current Assets	<u>8,458,799</u>	<u>-</u>	<u>8,458,799</u>	<u>6,247,825</u>
Property and equipment, net	<u>12,747</u>	<u>1,418,828</u>	<u>1,431,575</u>	<u>1,365,108</u>
Total Assets	<u>\$ 8,471,546</u>	<u>\$ 1,418,828</u>	<u>\$ 9,890,374</u>	<u>\$ 7,612,933</u>

Liabilities and Net Assets

Current Liabilities				
Accounts payable and accrued expenses	\$ 861,960	\$ -	\$ 861,960	\$ 1,079,201
Accounts payable - Providers	1,739,453	-	1,739,453	2,528,964
Accrued salaries and annual leave	1,332,367	-	1,332,367	1,004,492
Funds due to clients - Social Security benefits	561,373	-	561,373	570,253
Current portion of long-term debt	7,135	-	7,135	37,383
Deferred revenue	4,722,443	-	4,722,443	1,984,021
Total Current Liabilities	<u>9,224,731</u>	<u>-</u>	<u>9,224,731</u>	<u>7,204,314</u>
Long Term Liabilities				
Long-term debt, net of current portion	<u>3,921</u>	<u>-</u>	<u>3,921</u>	<u>238,970</u>
Total Liabilities	<u>9,228,652</u>	<u>-</u>	<u>9,228,652</u>	<u>7,443,284</u>
Net (Deficit) Assets				
Unrestricted	(757,106)	-	(757,106)	(776,641)
Temporarily restricted	-	1,418,828	1,418,828	946,290
Total Net (Deficit) Assets	<u>(757,106)</u>	<u>1,418,828</u>	<u>661,722</u>	<u>169,649</u>
Total Liabilities and Net Assets	<u>\$ 8,471,546</u>	<u>\$ 1,418,828</u>	<u>\$ 9,890,374</u>	<u>\$ 7,612,933</u>

See accompanying notes to the financial statements.

CHILDNET, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010 WITH SUMMARIZED CONSOLIDATED TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Changes in Net Assets:				
Support and revenues				
Government grants and contracts	\$ 64,584,170	\$ 766,121	\$ 65,350,291	\$ 64,901,317
Contributions	261,858	-	261,858	296,069
In-kind contributions	246,099	-	246,099	307,401
Interest and dividend income	-	-	-	48
Net assets released from restrictions	293,583	(293,583)	-	-
Total support and revenues	<u>65,385,710</u>	<u>472,538</u>	<u>65,858,248</u>	<u>65,504,835</u>
Expenses				
Program services	64,424,675	-	64,424,675	64,360,297
Support services:				
Other support	480,774	-	480,774	409,032
In-kind expenses	246,099	-	246,099	307,401
Loss on disposal of assets	187,549	-	187,549	79,807
Total Expenses	<u>65,339,097</u>	<u>-</u>	<u>65,339,097</u>	<u>65,156,537</u>
Increase in Net Assets	<u>46,613</u>	<u>472,538</u>	<u>519,151</u>	<u>348,298</u>
Net (Deficit) Assets, Beginning of Year, as previously reported	(776,641)	946,290	169,649	(178,649)
Deconsolidation of Broward Cares for Kids Foundation, Inc. (Note 1)	<u>(27,078)</u>	<u>-</u>	<u>(27,078)</u>	<u>-</u>
Net (Deficit) Assets, Beginning of Year, as restated	<u>(803,719)</u>	<u>946,290</u>	<u>142,571</u>	<u>(178,649)</u>
Net (Deficit) Assets, End of Year	<u>\$ (757,106)</u>	<u>\$ 1,418,828</u>	<u>\$ 661,722</u>	<u>\$ 169,649</u>

See accompanying notes to the financial statements.

CHILDNET, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010 WITH SUMMARIZED CONSOLIDATED TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	Program Services			Supporting Services		2010	2009
	Community Based Care	Total Program Services	Other Support	In-Kind Expenses	Total Expenses	Total Expenses	Total Expenses
Personnel costs	\$ 19,749,420	\$ 19,749,420	\$ 65,152	\$ -	\$ 19,814,572	\$ 19,668,557	
Contract and other services	40,550,944	40,550,944	108,863	-	40,659,807	39,704,109	
Occupancy and utilities	987,636	987,636	-	-	987,636	1,756,814	
Telephone	295,524	295,524	-	-	295,524	292,739	
Insurance	353,196	353,196	-	-	353,196	399,715	
Office and computer supplies	239,960	239,960	-	-	239,960	317,681	
Postage	74,138	74,138	-	-	74,138	97,486	
Professional fees	359,227	359,227	-	-	359,227	376,458	
Staff training and recruitment	223,669	223,669	-	-	223,669	185,308	
Travel	483,718	483,718	80	-	483,798	526,874	
Dues and subscriptions	54,722	54,722	-	-	54,722	19,419	
Equipment and leases	392,363	392,363	11,167	-	403,530	370,677	
Data communications	166,366	166,366	-	-	166,366	177,270	
Maintenance	226,827	226,827	1,127	-	227,954	210,055	
Depreciation	266,965	266,965	35,538	-	302,503	378,891	
Donations	-	-	258,847	-	258,847	287,276	
In-kind expenses	-	-	-	246,099	246,099	307,401	
TOTAL	\$ 64,424,675	\$ 64,424,675	\$ 480,774	\$ 246,099	\$ 65,151,548	\$ 65,076,730	

See accompanying notes to the financial statements.

CHILDNET, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010 WITH CONSOLIDATED TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 519,151	\$ 348,298
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	301,103	378,891
Loss on disposal of assets	187,549	79,807
Changes in assets and liabilities		
(Increase) decrease in other receivables	(191,891)	(14,438)
(Increase) in prepaid expenses	61,469	(29,248)
Increase (decrease) in accounts payable and accrued expenses	(217,241)	948,620
Increase (decrease) in accounts payable - providers	(789,365)	248,617
(Decrease) increase in accrued salaries and annual leave	327,875	(711,632)
Increase (decrease) in deferred revenue	2,738,422	1,984,021
	<u>2,937,072</u>	<u>3,232,936</u>
Net Cash Provided By Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(918,743)	(605,695)
	<u>(918,743)</u>	<u>(605,695)</u>
Net Cash Used In Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(8,277)	(25,157)
	<u>(8,277)</u>	<u>(25,157)</u>
Net Cash Used In Financing Activities		
Net increase in cash and cash equivalents	<u>2,010,052</u>	<u>2,602,084</u>
Cash and cash equivalents, Beginning of Year, as previously reported	4,932,342	2,330,258
Deconsolidation of Broward Cares for Kids Foundations, Inc. (Note 1)	(2,233)	-
Cash and cash equivalents, Beginning of Year, as restated	<u>4,930,109</u>	<u>2,330,258</u>
Cash and cash equivalents, End of Year	<u>\$ 6,940,161</u>	<u>\$ 4,932,342</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 723</u>	<u>\$ 20,992</u>
Supplemental disclosure of non-cash investing and financing activities:		
Debt incurred in acquisition of property and equipment	<u>\$ -</u>	<u>\$ 6,268</u>
In-kind donations	<u>\$ 246,099</u>	<u>\$ 307,401</u>

See accompanying notes to the financial statements.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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").

Broward Cares for Kids Foundation, Inc.

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. During the year ended June 30, 2009, ChildNet held a majority voting interest and an economic interest in Broward Cares for Kids, which resulted in the consolidation of the two entities according to ASC Topic 958-810-25, *Consolidation of Not for Profit Entities*. However, at July 1, 2009, ChildNet no longer maintained a majority voting interest in Broward Cares for Kids, therefore precluding consolidation as of and for the year ended June 30, 2010. Upon deconsolidation, the Organization removed \$284,243 of assets and \$257,165 of liabilities from its statement of financial position and recorded a cumulative debit adjustment to net assets of \$27,078. The periods presented in this report prior to the effective date of the deconsolidation continue to include related balances associated with Broward Cares for Kids.

Broward Care for Kids will remain a related party of ChildNet as there is still an economic interest at June 30, 2010 (See Note 12).

Principles of Consolidation

The financial statements for the year ended June 30, 2009 include the accounts of ChildNet and Broward Cares for Kids, and all material interorganization transactions have been eliminated. As disclosed above, the financial statements for the year ended June 30, 2010 will include only the accounts of ChildNet as Broward Cares for Kids was deconsolidated.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

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, 2009 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, 2010 AND 2009

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 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 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, 2010 and 2009 was \$246,099 and \$307,401, 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 9, 2009 with an effective date of July 1, 2009.

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.

The Organization currently accounts for uncertain tax positions under the provisions of ASC Topic 450 (formerly SFAS No. 5 – "Accounting for Contingencies"), which states an estimated expense shall be accrued when information indicates it is probable that a liability has been incurred and the amount can be reasonably estimated.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 Statements 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. Estimated useful lives are as follows:

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

Concentration of Grant Awards

The Organization receives approximately 99% 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, and Independent Living Services for Adults and Children grants.

Concentration of Credit Risk

During the year ended June 30, 2009, the Organization converted all of its existing cash accounts to non-interest bearing accounts in order to participate in the FDIC's temporary Transaction Account Guarantee Program which provides unlimited insurance coverage for depositors. The unlimited insurance coverage was temporary and remained in effect through June 30, 2010.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 financial statements.

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 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 and \$27,000,000 to outside Providers for the years ended June 30, 2010 and 2009, respectively.

NOTE 4 - MATCHING FUND REQUIREMENTS

ChildNet and its Providers allocated matching funds of cash and in-kind services in the amounts of \$447,207 and \$552,016 to the Promoting Safe and Stable Families Program for the years ended June 30, 2010 and 2009, respectively.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 2,353,111	\$ 1,781,758
Building	<u>-</u>	<u>383,884</u>
	2,353,111	2,165,642
Less: accumulated depreciation	(921,536)	(1,322,964)
Property and equipment not yet placed in service	<u>-</u>	<u>522,430</u>
Property and equipment, net	<u>\$ 1,431,575</u>	<u>\$ 1,365,108</u>

Depreciation expense for the years ended June 30, 2010 and 2009 totaled \$302,503 and \$378,891, respectively.

Included in property and equipment at June 30, 2009 is \$522,430 of property not yet placed in service. This represents the purchase of office furniture and computer equipment for new office space that was not placed in service as of June 30, 2009. These assets were placed into service during the year ended June 30, 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, 2010. For the years ended June 30, 2010 and 2009, the amount payable to Providers was \$1,739,453 and \$2,528,964, respectively.

NOTE 7 - DEBT

The Organization had a \$1,000,000 line of credit agreement with a bank, which was renewed on March 17, 2009. 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 (6.2% at June 30, 2010). 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. During the year ended June 30, 2009, \$75,000 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 \$925,000 available, respectively. There were no advances on the line of credit during the years ended June 30, 2010 and 2009. The credit agreement expired in March 2010. The Organization entered into a Line of Credit with a new financial institution in October 2010, see Note 14.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 7 - DEBT (continued)

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, 2010, the current portion of the note payable was \$5,045, and the non-current portion of the note payable was \$1,734.

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, 2010, the current portion of the note payable was \$2,090, and the non-current portion of the note payable was \$2,187.

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

<u>Years Ending</u> <u>June 30,</u>	<u>Amount</u>
2011	\$ 7,135
2012	3,921
2013	-
2014	-
2015	-
Thereafter	-
Total	<u>\$ 11,056</u>

The Organization incurred interest expense on the notes payable of \$723 and \$690 for the years ended June 30, 2010 and 2009, respectively.

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 100% of their accrued time. Starting January 1, 2011, 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, will be paid for all accrued PTO hours. Employees are not paid for unused MIA hours. As of June 30, 2010 and 2009, PTO was accrued in the amount of \$623,481 and \$861,526, respectively.

**CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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, 2010, \$293,583 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, 2010 and 2009, 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, 2010 and 2009, the Organization contributed \$576,387 and \$516,038, 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, 2010 and 2009 totaled \$977,706 and \$1,713,560, 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, 2010 and 2009 totaled \$247,049 and \$250,638, respectively.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2011	\$ 1,127,687
2012	1,101,326
2013	486,765
2014	-
2015	-
Thereafter	-
Total	<u>\$ 2,715,778</u>

**CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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 Company.

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, 2010 and 2009, the total rent paid to Broward Cares for Kids totaled \$48,623 and \$36,467, 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:

<u>Year Ended June 30,</u>	<u>Amount</u>
2011	\$ 48,623
2012	48,623
2013	20,259
2014	-
2015	-
Thereafter	-
Total future minimum lease payments	<u>\$ 117,505</u>

The Organization had amounts due from Broward Cares for Kids of \$95,535 as of June 30, 2010.

CHILDNET, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 - SUBSEQUENT EVENTS

In preparing the accompanying financial statements, the Organization evaluated subsequent events through December 16, 2010, the date of issuance of the financial statements.

On October 29, 2010, the Organization entered into a 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. There were no advances on the line of credit as of December 16, 2010.

**CHILDNET, INC. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2010**

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	\$ 9,765,863	\$ 343,157
Adoption Assistance - (American Recovery and Reinvestment Act)	93.659	JJ212	844,417	-
Medical Assistance Program	93.778	JJ212	203,856	-
Temporary Assistance for Needy Families (TANF)	93.558	JJ212	4,797,912	493,488
Foster Care - Title IV-E	93.658	JJ212	13,159,296	8,139,629
Foster Care - Title IV-E (American Recovery and Reinvestment Act)	93.658	JJ212	482,943	65,365
Child Welfare Services - State Grants	93.645	JJ212	1,024,646	138,684
Social Services Block Grant	93.667	JJ212	5,022,944	5,022,944
Promoting Safe and Stable Families	93.556	JJ212	1,219,962	1,219,962
Independent Living	93.674	JJ212	1,285,069	-
Chafee Education and Training Vouchers Program	93.599	JJ212	497,041	-
Grants to States for Access and Visitation Programs	93.597	JJ212	41,356	41,356
Family Preservation and Support Services	93.556	JJ212	43,977	5,952
Administration for Children, Youth and Families-Child Abuse	93.669	JJ212	8,157	7,155
Block Grants for Community Mental Health Services	93.958	JJ212	729,381	729,381
Total Expenditure of Federal Awards			<u>\$ 39,126,820</u>	<u>\$ 16,207,073</u>
State Financial Assistance				
Florida Department of Children and Families:				
Community Based Care Supports	60.094	JJ212	26,080,526	10,149,968
Total Expenditures of State Financial Assistance			<u>\$ 26,080,526</u>	<u>\$ 10,149,968</u>

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

CHILDNET, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2010

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 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 financial statements.

NOTE 2 - SUB-RECIPIENTS

ChildNet, Inc. 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	\$ 343,157
Temporary Assistance for Needy Families (TANF)	93.558	493,488
Foster Care – Title IV-E	93.658	8,139,629
Foster Care – Title IV-E (American Recovery and Reinvestment Act)	93.658	65,365
Social Services Block Grant	93.667	5,022,944
Promoting Safe and Stable Families	93.556	1,219,962
Grants to States for Access and Visitation Programs	93.597	41,356
Family Preservation and Support Services	93.556	5,952
Block Grants for Community Mental Health Services	93.958	729,381
Administration for Children, Youth and Families – Child Abuse	93.669	7,155
Child Welfare Services – State Grants	93.645	<u>138,684</u>
Total Federal Awards provided to Sub-recipients		<u>\$ 16,207,073</u>

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

<u>Program Title</u>	<u>State CFSA Number</u>	<u>Amount Provided</u>
Community Based Care Supports	60.094	\$ <u>10,149,968</u>
Total State Financial Assistance provided to Sub-recipients		<u>\$ 10,149,968</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.
Plantation, Florida

We have audited the financial statements of ChildNet, Inc. as of and for the year ended June 30, 2010 and have issued our report thereon 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.

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 entity'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.

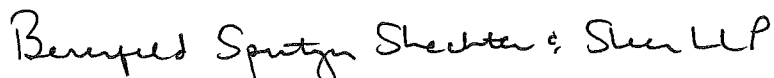
Compliance and Other Matters

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*.

We noted certain matters that we reported to management of the Organization in a separate letter dated December 16, 2010.

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

A handwritten signature in cursive script that reads "Berenfeld Spritzer Shechter & Sheer LLP".

BERENFELD, SPRITZER, SHECHTER & SHEER LLP
Fort Lauderdale, Florida
December 16, 2010

INDEPENDENT AUDITORS' 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 Childnet, Inc.'s compliance 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, 2010. ChildNet, Inc.'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 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, 2010.

Internal Control Over Compliance

The management of ChildNet, Inc. 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 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 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 of ChildNet, Inc. 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
December 16, 2010

CHILDNET, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

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 X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? reported ___ yes X none

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards and State Financial Assistance Projects

Internal control over major programs:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? reported ___ yes X none

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 X 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:	
Foster Care Title IV-E	93.658
Foster Care Title IV-E (American Recovery and Reinvestment Act)	93.658
Adoption Assistance	93.659
Adoption Assistance (American Recovery and Reinvestment Act)	93.659
Medical Assistance Program	93.778
Block Grants for Community Mental Health Services	93.958

<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 FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditors' Results (continued)

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

Federal:	\$ 1,173,805
State:	\$ 7,824,158

Auditee qualified as low-risk auditee?

X yes no

Section II – Financial Statement Findings

None

Section III – Federal Award and State Financial Assistance Project Findings and Questioned Costs

None

**CHILDNET, INC. AND AFFILIATE
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

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.