Kid Net Foundation

Financial Statements

August 31, 2011 and 2010

(With Independent Auditor’s Report Thereon)

George R. Dethlefsen, CPA

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INDEPENDENT AUDITOR'S REPORT

Kid Net Foundation
Dallas, Texas

To the Board of Directors:

We have audited the accompanying statements of financial position of Kid Net Foundation (a nonprofit organization) as of August 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our 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 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 the 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 financial statements referred to above present fairly, in all material respects, the financial position of Kid Net Foundation as of August 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 November 10, 2011, on our consideration of Kid Net Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Kid Net Foundation taken as a whole. The accompanying schedule of expenditures of federal awards is 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 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.

George R. Dethlefsen, CPA

George R. Dethlefsen, CPA
Waco, Texas

November 10, 2011

Kid Net Foundation
Statements of Financial Position
August 31, 2011 and 2010

ASSETS

		2011	2010
Current Assets:			
Cash and cash equivalents	$	648,041	729,798
Contract fees receivable		64,864	119,551
Grants receivable		-	58,050
Pledges receivable		21,116	43,352
Other		25,821	25,038
Total current assets		759,842	975,789
Property, plant, and equipment net of accumulated depreciation of $1,233,726 and $1,139,647		8,211,112	8,431,736
Investments		150,192	141,720
Other assets		425	425
TOTAL ASSETS	$	9,121,571	9,549,670

LIABILITIES AND NET ASSETS

		2011	2010
Accounts payable	$	22,802	17,281
Total current liabilities		22,802	17,281
TOTAL LIABILITIES		22,802	17,281
Unrestricted		8,835,027	9,175,185
Temporarily restricted		174,642	268,104
Permanently restricted		89,100	89,100
TOTAL NET ASSETS		9,098,769	9,532,389
TOTAL LIABILITIES AND NET ASSETS	$	9,121,571	9,549,670

The accompanying notes are an integral part of these financial statements

Kid Net Foundation
Statement of Activities
For the Year Ended August 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Support:				
Contributions	$ 743,651	$ 65,686	$ -	$ 809,337
Special events, net $29,411	95,561	-	-	95,561
Total Support	839,212	65,686	-	904,898
Revenue:				
Contract	681,761	-	-	681,761
Investment income, net	6	8,472	-	8,478
Other	38,677	-	-	38,677
Total Revenue	720,444	8,472	-	728,916
Net assets released from restrictions:				
Satisfaction of usage restrictions	167,620	(167,620)	-	-
Total Support and Revenue	1,727,276	(93,462)	-	1,633,814
EXPENSES				
Child care expenses	1,828,305	-	-	1,828,305
General and administrative	110,393	-	-	110,393
Fundraising	128,737	-	-	128,737
Total Expenses	2,067,435	-	-	2,067,435
Change in net assets	(340,159)	(93,462)	-	(433,621)
Net assets, beginning of year	9,175,186	268,104	89,100	9,532,390
Net assets, end of year	$ 8,835,027	$ 174,642	$ 89,100	$ 9,098,769

Kid Net Foundation

Statement of Activities

For the Year Ended August 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Support:				
Contributions	$ 1,157,586	$ 103,918	$ -	$ 1,261,504
Special events, net $28,344	108,973	-	-	108,973
Total Support	1,266,559	103,918	-	1,370,477
Revenue:				
Contract	587,760	-	-	587,760
Investment income, net	6,212	(985)	-	5,227
Other	36,081	-	-	36,081
Total Revenue	630,053	(985)	-	629,068
Net assets released from restrictions:				
Satisfaction of usage restrictions	400,352	(400,352)	-	-
Total Support and Revenue	2,296,964	(297,419)	-	1,999,545
EXPENSES				
Child care expenses	1,719,580	-	-	1,719,580
General and administrative	111,777	-	-	111,777
Fundraising	125,139	-	-	125,139
Total Expenses	1,956,496	-	-	1,956,496
Change in net assets	340,468	(297,419)	-	43,049
Net assets, beginning of year	8,834,718	565,523	89,100	9,489,341
Net assets, end of year	$ 9,175,186	$ 268,104	$ 89,100	$ 9,532,390

The accompanying notes are an integral part of these financial statements

Kid Net Foundation
Statements of Functional Expenses

For the Year Ended August 31, 2011

	Total Child Care	General	Fundraising	Total
Staffing expense	$ 1,030,600	$ 43,889	$ 104,469	$ 1,178,958
Travel	33,059	2,504	58	35,621
Supplies	99,727	672	97	100,496
Occupancy	130,861	19,715	-	150,576
Contract services	178,831	7,991	7,200	194,022
Other	83,537	4,049	14,856	102,442
Total before depreciation	1,556,615	78,820	126,680	1,762,115
Depreciation	271,690	31,573	2,057	305,320
Total expenses	$ 1,828,305	$ 110,393	$ 128,737	$ 2,067,435

For the Year Ended August 31, 2010

	Total Child Care	General	Fundraising	Total
Staffing expense	$ 1,029,601	$ 20,192	$ 107,244	$ 1,157,037
Travel	21,106	2,991	32	24,129
Supplies	136,503	488	135	137,126
Occupancy	129,033	39,966	-	168,999
Contract services	56,814	7,537	7,175	71,526
Other	119,742	14,249	8,836	142,827
Total before depreciation	1,492,799	85,423	123,422	1,701,644
Depreciation	226,781	26,354	1,717	254,852
Total expenses	$ 1,719,580	$ 111,777	$ 125,139	$ 1,956,496

The accompanying notes are an integral part of these financial statements

Kid Net Foundation

Statement of Cash Flows

For the Years Ended August 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (433,621)	43,048
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized loss, (gain)	3,324	-
Unrealized loss, (gain)	(6,684)	(9,519)
Depreciation	305,320	254,852
Change in accounts receivable	134,973	177,993
Change in other	(783)	(14,377)
Change in current liabilities	5,521	(322,545)
Net cash provided by operating activities	8,050	129,452
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	-	4,483
Purchase of investments	-	-
Purchase of equipment and improvements	(88,019)	(45,106)
Investment income reinvested	(1,788)	-
Net cash used by investing activities	(89,807)	(40,623)
Net change in cash	(81,757)	88,829
Cash at beginning of year	729,798	640,969
Cash at end of year	$ 648,041	729,798
SUPPLEMENTAL INFORMATION		
Interest paid	$ -	-
Income taxes paid	$ -	-

The accompanying notes are an integral part of these financial statements

(1) Summary of Significant Accounting Policies

Organization

Kid Net Foundation dba Jonathan's Place (the Organization) was established in 1991. The mission of the Organization is to provide a safe, loving home and specialized services for children who have been abused, abandoned or neglected. These are children age newborn to 17 years that have been removed from their homes by Child Protective Services (CPS). Our mission is fulfilled through delivery and implementation of the following programs:

Emergency Shelter
Foster & Adoptive Family Program
Girls Therapeutic Program
Transitional Living
Adoption Program
Preschool Program
Education & Training of Staff & Foster Parents

Through these programs, we have established the ability for each child to receive a continuum of care without disruption in services.

The campus includes six buildings located on a 6-acre tract of land in Northeast Dallas County. The campus has three cottages – two with 16 beds each and one with 12 beds for a total bed capacity of 44.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues are classified based on the existence of donor-imposed restrictions. Accordingly, net assets of Kid Net Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Investment income, excluding realized and unrealized gains, is considered unrestricted and available for spending.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations as to time or use that are met by actions of Kid Net Foundation. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the Organization maintains them permanently.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(1) Summary of Significant Accounting Policies (continued)

Property and equipment

Building and improvements and furniture and equipment are recorded at cost or market value at date of contribution. Depreciation is provided over the estimated useful lives of the assets commencing when the asset is placed in service: furniture and fixtures, five years, and building and improvements, 39 years.

Property and equipment consisted of the following at August 31:

	2011	2010
Land	$ 354,047	354,047
Building and improvements	8,245,010	8,251,427
Furniture and equipment	790,916	911,044
Vehicles	54,865	54,865
	9,444,838	9,571,383
Less accumulated depreciation	(1,233,726)	(1,139,647)
	$ 8,211,112	8,431,736

Investments

The Organization has placed its investments with The Communities Foundation of Texas.

The Communities Foundation of Texas has invested in marketable equity securities. The investments are in four accounts, two permanent or endowment, and two non-permanent. The non-permanent accounts are available for operations of the Organization and are therefore included in the total of unrestricted net assets. Investment income earned on the permanent accounts is also available for operations and is included in temporarily restricted net assets.

Accounting standards establish a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

> Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
>
> Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
>
> Level 3 inputs are unobservable for the asset or liability.

The level in the fair value hierarchy within which a financial instrument in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Although The Communities Foundation of Texas invests in marketable equity securities, the identity of those securities is not necessarily known to the Organization. The Organization records the increase (decrease) in the market value of the investments from information provided by The Communities Foundation of Texas. The level of fair value hierarchy is therefore considered Level 2.

(1) Summary of Significant Accounting Policies (continued)

Investments (continued)

Long-term investment activity:

	2011		2010	
	Cost	Market	Cost	Market
Balance, beginning	$ 133,141	$ 141,720	137,625	136,685
Investment income reinvested	3,518	3,518	(2,124)	(2,124)
Expenses	(1,730)	(1,730)	(2,360)	(2,360)
Unrealized gains (losses)	-	6,684	-	9,519
Balance, ending	$ 134,929	$ 150,192	133,141	141,720

Long-term investments consisted of the following:

	Cost	Fair Value	Unrealized gain (loss)
At August 31, 2011:			
Communities Foundation of Texas	$ 134,929	$ 150,192	$ 15,263
At August 31, 2010:			
Communities Foundation of Texas	$ 133,141	$ 141,720	$ 8,579

The following summarizes the investment income in the statement of activities:

	2011	2010
Interest income	$ 3,524	(1,932)
Unrealized gains (losses)	6,684	9,519
Investment expenses	(1,730)	(2,360)
	$ 8,478	5,227

Grants and Awards

Revenues from grants and awards are recognized as revenue when compliance with the various stipulations is achieved.

Non-Cash Donations

Non-cash donations are recorded at the market value of goods or services provided at the time of donation, if an objective basis to measure their value is available. Such goods or services are reflected in the accompanying financial statements as both revenue when received and expense when used. Non-cash donations consisted of the following for the years ended August 31:

(1) Summary of Significant Accounting Policies (continued)

Non-Cash Donations continued

	2011	2010
Voluntary child care	$ 85,969	137,769
Groceries and supplies	83,789	133,558
Services	8,140	8,337
Property and repair	9,812	42,551
	$ 187,710	322,215

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash consists of checking and savings accounts. Cash and short-term investments held by investment managers are reported as investments and not included as cash or cash equivalents

Income Tax

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal Returns of Organization Exempt from Income Tax (Form 990) for 2009, 2008, and 2007 are subject to examination by the IRS, generally for three years after they were filed.

(2) Concentrations

Occasionally, the Organization maintains balances in its cash accounts in excess of the federally insured limit. The risk is mitigated by the financial strength of the financial institutions.

(3) Retirement Plan

The Organization has a contributory retirement plan for all employees 21 years and older who have completed 1,000 hours of service. The employees may have up to $15,500 of their salary contributed to the plan. The Organization may make discretionary contributions. The Organization made no contributions in 2011 and 2010. The Organization, effective January 1, 2010, is no longer contributing to the plan. Employees are always 100% vested in their contributed amount and are 100% vested in the Organization contribution after 3 years.

(4) Staffing Expense

The Organization leases its employees. The leasing fee includes employee fringe benefits of health insurance, workers compensation insurance, and other employee fringe benefits. The expense is reflected on the Statement of Functional Expenses as Staffing expense.

(5) Compensated Absences

Employees of the Organization are entitled to paid vacations, sick days and personal days off, depending on job classification, length of service, and other factors. It is unreasonable to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying statement of financial position. The Organization's policy is to recognize the costs of compensated absences when actually paid.

(6) Subsequent Events

The Organization has evaluated subsequent events through November 10, 2011, the date which the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

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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 of
Kid Net Foundation

We have audited the financial statements of Kid Net Foundation (a nonprofit organization) as of and for the year ended August 31, 2011, and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State of Texas Single Audit Circular.

<u>Internal Control over Financial Reporting</u>

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 *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 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 statements that 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 internal control over financial reporting 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 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* or the State of Texas Single Audit Circular.

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

George R. Dethlefsen, CPA
Waco, Texas

November 10, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR

To the Board of Directors of
Kid Net Foundation

Compliance

We have audited the compliance of Kid Net Foundation (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs and the State of Texas Single Audit Circular that are applicable to each of its major state programs for the year ended August 31, 2011. The Organization's major federal and state programs are identified in the summary of auditor's 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 and state programs 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State of Texas Single Audit Circular. Those standards and OMB Circular A-133 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 or state program 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 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 are applicable to each of its major federal and state programs for the year ended August 31, 2011.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. 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 or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *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 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 such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 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.

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

George R. Dethlefsen, CPA

George R. Dethlefsen, CPA
Waco, Texas

November 10, 2011

Kid Net Foundation
Schedule of Findings and Questioned Costs
Year Ended August 31, 2011

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Kid Net Foundation.

2. No control deficiencies were disclosed during the audit of the financial statements.

3. No instances of noncompliance material to the financial statements of Kid Net Foundation were disclosed during the audit.

4. No reportable conditions in internal control over major federal or state award programs were disclosed during the audit.

5. The auditor's report on compliance for the major federal and state award programs for Kid Net Foundation expresses an unqualified opinion on all major federal and state programs.

6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 and the State of Texas Single Audit Circular.

7. Federal and state awards are received under two programs. The program "Emergency Shelter", CFDA number 93.669, was tested as a major program.

8. The threshold for distinguishing Types A and B programs was $300,000.

9. Kid Net Foundation was determined to be a low-risk auditee.

Kid Net Foundation
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2011

Grantor Agency	Program Title	CFDA Number	Grant Number	Total Expenditures	State Expenditures
U.S. Department of Health and Human Resources					
Passed Through Texas Department of Family and Protective Services	GRO-Emergency Shelter	93.669	23220408	$ 1,123,399	$ 319,076
	GRO-Treatment Services	93.669	23734541	$ 244,085	126,518
	CPA-Foster Family	93.658	23372999	460,186	217,154
	CPA-Adoption Services	93.603	23803061	635	18,000
Total U.S. Department of Health and Human Resources				$ 1,828,305	$ 680,748

Note A

Basis of Presentation

The information in this schedule is presented on the accrual basis of accounting and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State of Texas Single Audit Circular. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.