

CHILDREN'S HARBOR, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORTS

JUNE 30, 2019 AND 2018

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Children's Harbor, Inc. and Subsidiary

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Children's Harbor, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2019 and 2018, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Boca Raton, Florida
December 17, 2019

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30,

ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 977,255	\$ 1,102,444
Restricted cash	20,715	233,905
Pledges receivable	66,500	205,000
Grant and contract receivables	255,148	412,058
Prepaid expenses and other current assets	52,125	100,908
TOTAL CURRENT ASSETS	1,371,743	2,054,315
Pledges receivable, net of discount and current portion	326,732	370,569
Cash surrender value of life insurance	351,415	339,989
Deposits and other assets	20,751	22,981
Property and equipment, net	835,300	599,772
TOTAL ASSETS	\$ 2,905,941	\$ 3,387,626
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 227,564	\$ 184,732
Deferred revenue	49,188	35,517
TOTAL CURRENT LIABILITIES	276,752	220,249
Tenant security deposits	15,935	9,235
TOTAL LIABILITIES	292,687	229,484
NET ASSETS		
Without donor restrictions	2,193,460	2,348,668
With donor restrictions	419,794	809,474
TOTAL NET ASSETS	2,613,254	3,158,142
TOTAL LIABILITIES AND NET ASSETS	\$ 2,905,941	\$ 3,387,626

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

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES						
Grant and contract revenue	\$ 3,430,376	\$ -	\$ 3,430,376	\$ 3,722,863	\$ -	\$ 3,722,863
Contributions	120,939	53,824	174,763	54,090	122,188	176,278
Special events	273,844	-	273,844	242,161	-	242,161
Donated facilities	400,000	-	400,000	400,000	-	400,000
Medicaid income	127,988	-	127,988	179,379	-	179,379
Rental and other income	190,657	-	190,657	146,044	-	146,044
Interest income	19,487	-	19,487	10,974	-	10,974
In-kind contributions	-	-	-	17,242	-	17,242
Net assets released from restrictions	443,504	(443,504)	-	210,090	(210,090)	-
TOTAL PUBLIC SUPPORT AND REVENUES	5,006,795	(389,680)	4,617,115	4,982,843	(87,902)	4,894,941
EXPENSES:						
Program services	4,413,096	-	4,413,096	4,058,674	-	4,058,674
Management and support services	324,613	-	324,613	363,846	-	363,846
Fundraising	424,294	-	424,294	295,680	-	295,680
TOTAL EXPENSES	5,162,003	-	5,162,003	4,718,200	-	4,718,200
CHANGE IN NET ASSETS	(155,208)	(389,680)	(544,888)	264,643	(87,902)	176,741
NET ASSETS AT BEGINNING OF YEAR	2,348,668	809,474	3,158,142	2,084,025	897,376	2,981,401
NET ASSETS AT END OF YEAR	\$ 2,193,460	\$ 419,794	\$ 2,613,254	\$ 2,348,668	\$ 809,474	\$ 3,158,142

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

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services					Support Services			Total
	Residential	Family Strengthening	Relationships & Economic Stability - True North	Transition to Independent Living (TIL)	Other Programs	Total Program Services	Management and Support Services	Fundraising	
	Forgoing Pathways to Healthy								
Salaries and related expenses	\$ 1,495,601	\$ 415,511	\$ 592,925	\$ 200,664	\$ 107,223	\$ 2,811,924	\$ 212,437	\$ 241,595	\$ 3,265,956
Contract labor	31,801	2,184	154,753	970	731	190,439	1,562	890	192,891
Donated facilities	229,075	-	-	125,000	-	354,075	45,925	-	400,000
Other costs	6,461	513	832	1,223	12	9,041	3,126	11,241	23,408
Maintenance and repairs	89,332	24,346	29,485	60,039	5,648	208,850	18,511	11,925	239,286
Utilities	49,755	-	406	48,854	-	99,015	2,503	835	102,353
General living expenses	97,924	-	-	-	-	97,924	-	-	97,924
Program supplies and expenses	22,317	5,684	52,334	51,099	14,416	145,850	-	-	145,850
Depreciation and amortization	65,160	5,404	-	30,454	-	101,018	11,218	2,728	114,964
Catering	-	-	-	-	-	-	-	77,715	77,715
Insurance	40,873	3,528	3,427	12,816	-	60,644	4,583	2,658	67,885
Telephone	16,821	7,592	7,226	7,292	13,880	52,811	4,551	1,984	59,346
Rent	-	27,000	50,153	-	-	77,153	-	-	77,153
Travel and auto	42,220	7,138	9,283	1,155	2,741	62,537	2,590	1,348	66,475
Staff training	27,866	1,045	8,528	266	10	37,715	1,326	120	39,161
Office supplies	6,968	3,446	12,478	777	147	23,816	8,121	1,749	33,686
Professional fees	10,299	4,093	3,400	13,200	-	30,992	2,069	2,347	35,408
Office expenses	1,988	512	193	447	-	3,140	691	9,018	12,849
Development activities	-	-	-	-	-	-	-	48,369	48,369
Professional development	3,356	-	9,984	-	-	13,340	1,082	-	14,422
Printing and publications	-	24	-	-	-	24	-	5,637	5,661
Dues and subscriptions	17,756	2,568	2,303	1,300	-	23,927	2,982	3,690	30,599
Equipment rental	4,984	851	1,245	1,781	-	8,861	1,336	445	10,642
TOTAL EXPENSES	\$ 2,260,557	\$ 511,439	\$ 938,955	\$ 557,337	\$ 144,808	\$ 4,413,096	\$ 324,613	\$ 424,294	\$ 5,162,003

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

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services					Support Services			
	Forgoing Pathways to Healthy					Total Program Services	Management and Support Services	Fundraising	Total
	Residential	Family Strengthening	Relationships & Economic Stability - True North	Transition to Independent Living (TIL)	Other Programs				
Salaries and related expenses	\$ 1,312,933	\$ 425,700	\$ 523,531	\$ 156,675	\$ 176,014	\$ 2,594,853	\$ 232,558	\$ 127,170	\$ 2,954,581
Contract labor	17,610	2,495	190,861	880	1,226	213,072	1,156	517	214,745
Donated facilities	229,075	-	-	125,000	-	354,075	45,925	-	400,000
Other costs	37,193	1,037	1,459	1,941	249	41,879	4,411	7,129	53,419
Maintenance and repairs	44,370	7,319	9,340	34,576	1,572	97,177	9,222	7,233	113,632
Utilities	48,682	-	1,583	43,347	-	93,612	2,658	815	97,085
General living expenses	77,974	-	-	-	-	77,974	-	-	77,974
Program supplies and expenses	24,189	1,160	49,952	33,096	20,567	128,964	-	-	128,964
Depreciation and amortization	55,040	4,483	-	5,107	-	64,630	9,454	1,553	75,637
Catering	-	-	-	-	-	-	-	57,807	57,807
Insurance	35,454	2,691	1,237	12,726	-	52,108	6,283	3,590	61,981
Telephone	11,963	7,607	5,736	4,999	18,542	48,847	5,423	2,434	56,704
Rent	-	-	45,597	-	10,800	56,397	-	-	56,397
Travel and auto	36,624	11,809	13,870	2,798	2,218	67,319	976	396	68,691
Staff training	20,787	414	12,845	271	1,441	35,758	1,055	56	36,869
Office supplies	7,246	1,459	17,032	2,412	5,062	33,211	14,812	623	48,646
Professional fees	27,999	7,491	3,000	10,400	-	48,890	26,808	26,420	102,118
Office expenses	1,027	434	89	596	135	2,281	30	11,076	13,387
Development activities	-	-	-	-	-	-	-	41,690	41,690
Professional development	6,694	60	7,251	-	1,107	15,112	158	-	15,270
Printing and publications	56	28	-	84	56	224	56	5,236	5,516
Dues and subscriptions	5,319	-	126	1,659	-	7,104	1,472	1,473	10,049
Equipment rental	4,830	-	1,343	1,772	-	7,945	1,389	462	9,796
In-kind expense	6,947	-	-	10,295	-	17,242	-	-	17,242
TOTAL EXPENSES	\$ 2,012,012	\$ 474,187	\$ 884,852	\$ 448,634	\$ 238,989	\$ 4,058,674	\$ 363,846	\$ 295,680	\$ 4,718,200

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

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (544,888)	\$ 176,741
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	114,964	75,637
Amortization of pledge discount	(6,163)	(28,461)
Unrealized gains in cash surrender value of life insurance	(11,426)	(11,215)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Restricted cash	213,190	(78,637)
Pledges receivable	188,500	201,952
Grant and contract receivables	156,910	2,474
Prepaid expenses and other current assets	48,783	(55,798)
Deposits	2,230	(7,275)
Increase (decrease) in:		
Accounts payable and accrued expenses	42,832	(34,728)
Tenant security deposits	6,700	75
Deferred revenue	13,671	(42,374)
TOTAL ADJUSTMENTS	770,191	21,650
NET CASH PROVIDED BY OPERATING ACTIVITIES	225,303	198,391
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(350,492)	(191,683)
NET CASH USED IN INVESTING ACTIVITIES	(350,492)	(191,683)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(125,189)	6,708
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,102,444	1,095,736
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 977,255	\$ 1,102,444

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

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

1. NATURE OF ORGANIZATION

Children's Harbor, Inc. was incorporated in 1996 as a Florida non-profit corporation under the Florida Not-For-Profit Corporation Act and is exempt from income taxes according to provisions of Section 501(c)(3) of the Internal Revenue Code ("IRC"). Children's Harbor, Inc. was founded to provide a continuum of care for dependent/neglected children. Children's Harbor, Inc.'s vision is to develop and operate the preeminent comprehensive model for the prevention of child abuse and neglect, and the healing of children and families already victimized through the operation of community-based prevention and intervention services, family-style campus based residential services and community-based private foster homes.

On January 4, 2017, Brown's Harbor, Inc. was incorporated as a Florida non-profit corporation under the Florida Not-For-Profit Corporation Act and is exempt from income taxes according to provisions of Section 501(c)(3) of the IRC. Brown's Harbor, Inc. was founded to support and carry out the charitable and education functions of Children's Harbor, Inc. by providing financial support and other aid, which includes ensuring that at risk young adults successfully transition to a self-sufficient independent living situation, providing supportive services necessary for young adults to live independently and to coordinate and integrate life skills for young adults ages 18-25.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Children's Harbor, Inc. and Brown's Harbor, Inc. (collectively referred to as the "Organization"). Children's Harbor, Inc. owns 100% of the membership interest in Brown's Harbor, Inc. All intercompany accounts and transactions have been eliminated for consolidated financial statement presentation.

Basis of Presentation and Net Assets

The Organization prepares its consolidated financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Net assets and revenues, expenses, gains and losses are classified based on the existence of donor-imposed restrictions as follows:

Net Assets without Donor Restrictions consist of contributions and other inflows of assets whose use is not subject to donor-imposed restrictions. A portion of these net assets are designated by the Board for future investment (NOTE 8).

Net Assets with Donor Restrictions consist of contributions and other inflows of assets whose use is subject to donor-imposed restrictions that are more specific than broad limits reflecting the nature of the not-for-profit entity, the environment in which it operates and the purposes specified in its articles of incorporation or bylaws or comparable documents. Donor-imposed restrictions may be temporary in nature, such as stipulating that resources may be used only after a specified date or limited to specific programs or services. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the contribution is reported as without donor restrictions on the accompanying Consolidated Statements of Activities. Certain donor imposed restrictions are perpetual in nature (NOTE 9).

Use of Estimates

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

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased and all interest-bearing cash accounts to be cash equivalents.

Restricted Cash

Restricted cash consists of funds limited in use by the donor.

Contributions and Pledges Receivable

Contributions are recognized as revenue when they are received or unconditionally pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in more than one year are discounted using a risk adjusted interest rate and are recorded at net present value. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Grants Receivable and Revenue Recognition

The Organization receives a significant portion of its revenues from government grants and contracts. The amounts received under these grants and contracts are designated for specific purposes by the granting agencies. Grant and contract revenue is recognized when the allowable costs as defined by the individual grants or contracts are incurred and/or the unit of service has been performed. Grants receivable at year end represent expenditures and/or units of service performed, which have not yet been reimbursed by the granting agency.

Allowance for Uncollectible Accounts

Management analyzes, on an ongoing basis, outstanding pledge, grant and contract receivables individually to determine if an allowance for doubtful accounts is required. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. No allowance for doubtful accounts was recorded at June 30, 2019 and 2018, as management believes all pledge, grant and contract receivable balances are collectable.

Rental Income

Rental income is derived from short-term leases on apartment units and is recognized as the monthly rentals become due. Apartments are rented to youth through the Organization's transition to independent living program. Total rental income related to this program totaled approximately \$163,000 and \$120,000 for the years ended June 30, 2019 and 2018, respectively, and is included within "Rental and other income" on the Consolidated Statements of Activities.

Donated Facilities, Goods and Services

Donated facilities, goods and services are recognized if the benefits received either create or enhance non-financial assets or require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Organization occupies, at a nominal charge of \$1 per year, two leased properties owned by the City of Pembroke Pines in exchange for providing services to the community. The estimated fair rental value of the premises is reported as support and expense in the period in which the properties are used. The estimated fair rental value of the properties was \$400,000 for each of the years ended June 30, 2019 and 2018. The leases were entered into on April 20, 1998 and September 1, 2016 for a 30-year term and 10-year term, respectively.

Many individuals have donated time and services to advance the Organization's programs and objectives. The value of these services has not been recorded in the accompanying consolidated financial statements because they do not meet the criteria to be recorded in the consolidated financial statements under U.S. GAAP.

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets predominantly consist of insurance and other program expenses for the next fiscal year. Expenditures which relate to programs for the next fiscal year are reported as a prepaid asset and are expensed during the next year as the related program function takes place.

Property and Equipment, Net

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are recorded at cost, or if contributed, at fair value at the time of the donation, and depreciated or amortized using the straight-line method over the estimated useful lives of the assets.

When assets are sold or retired, the cost and related accumulated depreciation or amortization are removed from the accounts and gains or losses, if any, are included in the Consolidated Statements of Activities. Repairs and maintenance are charged to expense as incurred. Donations of property and equipment are recorded as support at their estimated fair value.

Useful lives are as follows:

Computer equipment and software	5 years
Furniture and equipment	7 years
Vehicles	5 years
Leasehold improvements	30 years
Building	30 Years

Impairment of Long-Lived Assets

The carrying value of long-lived assets is reviewed if the facts and circumstances, such as significant declines in revenues, earnings or cash flows, or material adverse changes in the business climate indicate that they may be impaired. The Organization performs its review by comparing the carrying amounts of long-lived assets to the estimated undiscounted cash flows relating to such assets. If any impairment in the value of the long-lived assets is indicated, the carrying value of the long-lived assets is adjusted to reflect such impairment.

Cash Surrender Value of Life Insurance

The Organization received a life insurance policy from a donor in which the Organization was named the beneficiary and policyholder. The insurance policy is recorded at its cash surrender value which is the amount that can be realized at the date of the consolidated statement of financial position. The Organization elected to invest the policy premiums in a fixed account at New York Life, which is credited with interest using a fixed interest rate set in advance at least annually. Interest income is recognized in the Consolidated Statements of Activities as unrestricted income.

Deferred Revenue

Deferred revenue consists of cash received in advance from grants. The Organization will recognize revenue from the grants when the specific grant function is performed. As of June 30, 2019 and 2018, the Organization had approximately \$49,000 and \$36,000, respectively, of deferred revenue.

Allocation of Functional Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities and in the Consolidated Statements of Functional Expenses. Certain administrative personnel perform duties which include both program and support functions. The expenses associated with these personnel are allocated based on the estimated hours devoted to each function. Other common administrative expenses are allocated based on the estimated utilization by the respective function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations and Credit Risk

During the years ended June 30, 2019 and 2018, the Organization received approximately 74% and 76%, respectively, of its revenue from grants and contracts. If a significant reduction in the level of funding were to occur, it would have an adverse effect on the Organization's ability to continue operating the programs and services being provided. Management is not aware of any plans for significant reductions in the level of funding for the next fiscal year.

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The majority of the Organization's cash balance is in non-interest-bearing accounts which are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, such balances may be more than the insurance limits of the FDIC. The Organization has not experienced losses on its cash and cash equivalents.

Concentrations of credit risk with respect to receivables is limited to an unconditional promise to give made by an individual donor for program funding for future periods. As of June 30, 2019 and 2018, the remaining receivable related to this donation is approximately \$390,000 and \$570,000, respectively. These balances account for approximately 59% and 58% of pledge, grant and contracts receivable at June 30, 2019 and 2018, respectively.

Income Taxes

Children's Harbor, Inc. and Brown's Harbor, Inc. are both non-profit corporations which are exempt from federal income tax under Section 501(c)(3) of the IRC and, accordingly, generally would not incur income taxes. As a result, the consolidated financial statements do not reflect a provision for income taxes.

Children's Harbor, Inc. and Brown's Harbor, Inc. recognize and measure tax positions based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where Children's Harbor, Inc. and Brown's Harbor, Inc. file their respective income tax returns. Children's Harbor, Inc. is generally no longer subject to U.S. Federal or State examinations by tax authorities for fiscal years before 2016. Brown's Harbor, Inc. was incorporated on January 4, 2017, thus all of its income tax returns filed from since its incorporation are subject to U.S. Federal or State examinations by tax authorities.

Adopted Accounting Pronouncement

Presentation of Financial Statements of Not-for-Profit Entities

During the year ended June 30, 2019, the Organization adopted Accounting Standards Update 2016-14, Not for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions," (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The Organization has applied the update retrospectively to all periods presented and adjusted the presentation of these consolidated financial statements accordingly. As a result, the Organization has reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions, as well as, temporarily restricted and permanently restricted net assets to net assets with donor restrictions. The adoption of this update has no other material effect on the Organization's consolidated financial position and changes in net assets. In addition, the Organization has elected to continue to present the consolidated statements of cash flows using the indirect method and has included separate consolidated statements of functional expenses in its consolidated financial statements.

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. The Organization is currently evaluating the effect the update will have on its consolidated financial statements.

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements, lessor accounting, and disclosures related to accounting changes and error corrections. The Organization is currently evaluating the effect the update will have on its consolidated financial statements.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the Organization's presentation of comparative periods in the consolidated financial statements will continue to be in accordance with current lease accounting. The Organization is evaluating the method of adoption it will elect. The update is originally effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The effective dates have tentatively been extended to fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021.

Restricted Cash

In November 2016, the FASB issued an accounting standard update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the effect the update will have on its consolidated financial statements.

Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued an accounting standard update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its consolidated financial statements.

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Organization has evaluated subsequent events through December 17, 2019, which is the date the consolidated financial statements were available to be issued.

Reclassification

Certain items in the 2018 consolidated financial statements were reclassified to conform to the 2019 presentation.

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES

The Organization maintains a policy of structuring its financial assets to be available as general expenditures, liabilities and other obligations come due. In managing its liquidity needs, the Organization monitors and maintains a cash float to cover general operating expenditures and established a strict annual budget. The Organization also has a line of credit available with borrowing capacity of up to \$200,000 which can be used to meet general expenditures within a year (NOTE 7).

The Organization's financial assets available within one year of the Consolidated Statement of Financial Position date for general expenditures are as follows:

Cash and cash equivalents	\$ 977,255
Restricted cash	20,715
Pledges receivable	66,500
Grant and contract receivables	255,148
Total current financial assets	1,319,618
Less amounts unavailable for general expenditures within one year due to:	
Net assets restricted by donors for specific purposes and programs	87,215
	\$ 1,232,403

4. PLEDGES RECEIVABLE, NET

Pledges receivable, net are summarized as follows at June 30,:

	2019	2018
Gross pledges receivable	\$ 416,500	\$ 605,000
Less: Discount on long-term pledges	(23,268)	(29,431)
Pledges receivable, net	\$ 393,232	\$ 575,569

Pledges receivable with payment terms in excess of one year have been discounted using a risk adjusted interest rate (approximately 1.75% - 5.25%) to reflect their estimated present value. Pledges receivable are unsecured and are primarily from donors in South Florida.

Payments due on pledges receivable as of June 30, 2019 are as follows:

Years Ending June 30,	
2020	\$ 66,500
2021	50,000
2022	50,000
2023	50,000
2024	50,000
Thereafter	150,000
	\$ 416,500

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

4. PLEDGES RECEIVABLE, NET (CONTINUED)

The Organization determined an allowance for doubtful accounts was not necessary at June 30, 2019 and 2018. No bad debt expense was recorded for the years ended June 30, 2019 and 2018.

5. CASH SURRENDER VALUE OF LIFE INSURANCE

The Organization received a life insurance policy from a donor in which the Organization was named the beneficiary and policyholder. The policy expires on February 1, 2052 when the beneficiary is 95 years old. The Organization contributed \$300,000 to the policy premium. The policy allows the holder an option to invest policy premiums with New York Life ("NYL"), through NYL's Investment Division. The Organization has elected to invest its policy premiums in the Fixed Account offered by NYL, which is supported by assets in NYL's General Account. NYL's Fixed Account is credited with interest using a fixed interest rate, determined in advance at least annually, guaranteed at 3% or greater. Monthly charges are deducted from the cash account, which include monthly contract charges, cost of insurance and a mortality and expense charge. The cash surrender value of the life insurance policy at June 30, 2019 and 2018 was \$351,415 and \$339,989, respectively.

Premium payments can be made at the policyholder's discretion. Of the \$300,000 contributed for the initial policy premium, \$15,405 was moved into a separate account at NYL for deferred premiums which will be amortized through February 2022. The prepaid premium will earn a guaranteed interest of not less than 4%. There are no required additional premium payments; however, additional premium payments may be required to keep the policy from lapsing. The advanced premium payment is reduced for monthly premium expenses such as sales tax, state tax, federal tax and other charges. The deferred premium load account balance at June 30, 2019 and 2018 was \$7,269 and \$8,974, respectively, and is included within "Deposits and other assets" on the Consolidated Statements of Financial Position.

The face amount of the policy at June 30, 2019 was \$600,000. Upon death of the insured, the Organization has elected to receive the greater of the face amount of the policy or the alternative cash surrender value. At any time, the Organization is able to remit a request for the cash surrender value or alternative cash surrender value. However, once the cash surrender value is paid, the policy will cease to exist.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following at June 30,:

	<u>2019</u>	<u>2018</u>
Computer equipment and software	\$ 88,377	\$ 29,046
Furniture and equipment	97,433	100,530
Vehicles	227,281	227,281
Leasehold improvements	809,604	520,609
Building	180,000	180,000
	<u>1,402,695</u>	<u>1,057,466</u>
Accumulated depreciation and amortization	<u>(567,395)</u>	<u>(457,694)</u>
	<u>\$ 835,300</u>	<u>\$ 599,772</u>

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was approximately \$115,000 and \$76,000, respectively.

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

7. LINE OF CREDIT

The Organization has an unsecured line of credit in the amount of \$200,000. The Organization did not utilize the line of credit during the years ended June 30, 2019 and 2018. The line carries interest at the greater of a floating rate equal to the index (prime rate) plus 0.75% or the floor interest rate of 5%, payable monthly. As of June 30, 2019 and 2018, the Organization had no outstanding balance under the line of credit. The line of credit expires on January 15, 2020.

8. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following as of June 30,:

	2019	2018
Net assets without restrictions - Undesignated	\$ 1,842,045	\$ 2,008,679
Net assets without restrictions - Board designated	351,415	339,989
	\$ 2,193,460	\$ 2,348,668

Board designations of net assets are voluntary segregations of unrestricted net assets for future investment and may be amended at any time by specific board action.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30,:

	2019	2018
Restricted by donors for specific purposes and programs	\$ 26,562	\$ 233,905
Pledge receivable with donor purpose restrictions	376,732	570,569
Pledges receivable without donor purpose restrictions	16,500	5,000
	\$ 419,794	\$ 809,474

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization leases office space, in addition to the donated facilities described in NOTE 2, under non-cancellable operating lease agreements, with terms expiring at various dates through July 2023. Approximate minimum future rental payments under these non-cancellable lease agreements are as follows as of June 30, 2019:

<u>Years Ending June 30,</u>			
2020	\$	64,000	
2021		66,000	
2022		68,000	
2023		72,000	
2024		6,000	
		\$ 276,000	

Total rental expense for the years ended June 30, 2019 and 2018 was approximately \$77,000 and \$56,000, respectively.

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation, Claims, and Assessments

In the ordinary course of business, the Organization is exposed to various claims, threats, and legal proceedings, some of which are initiated by the Organization. In management's opinion, the outcome of all such existing matters will not have a material impact on the Organization's consolidated financial position and consolidated results of operations.

SUPPLEMENTAL SCHEDULES

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS	Children's Harbor, Inc.	Brown's Harbor, Inc.	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	\$ 812,028	\$ 165,227	\$ -	\$ 977,255
Restricted cash	20,715	-	-	20,715
Pledges receivable	16,500	50,000	-	66,500
Grant and contract receivables	244,310	10,838	-	255,148
Due from affiliates	29,324	-	(29,324)	-
Prepaid expenses and other current assets	52,125	-	-	52,125
TOTAL CURRENT ASSETS	<u>1,175,002</u>	<u>226,065</u>	<u>(29,324)</u>	<u>1,371,743</u>
Pledges receivable, net of discount and current portion	-	326,732	-	326,732
Cash surrender value of life insurance	351,415	-	-	351,415
Deposits and other assets	20,751	-	-	20,751
Property and equipment, net	539,997	295,303	-	835,300
TOTAL ASSETS	<u>\$2,087,165</u>	<u>\$ 848,100</u>	<u>\$ (29,324)</u>	<u>\$ 2,905,941</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 206,045	\$ 21,519	\$ -	\$ 227,564
Due to affiliates	-	29,324	(29,324)	-
Deferred revenue	49,188	-	-	49,188
TOTAL CURRENT LIABILITIES	<u>255,233</u>	<u>50,843</u>	<u>(29,324)</u>	<u>276,752</u>
Tenant security deposits	-	15,935	-	15,935
TOTAL LIABILITIES	<u>255,233</u>	<u>66,778</u>	<u>(29,324)</u>	<u>292,687</u>
NET ASSETS				
Without donor restrictions	1,788,870	404,590	-	2,193,460
With donor restrictions	43,062	376,732	-	419,794
TOTAL NET ASSETS	<u>1,831,932</u>	<u>781,322</u>	<u>-</u>	<u>2,613,254</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$2,087,165</u>	<u>\$ 848,100</u>	<u>\$ (29,324)</u>	<u>\$ 2,905,941</u>

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS	Children's Harbor, Inc.	Brown's Harbor, Inc.	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	\$ 936,431	\$ 166,013	\$ -	\$ 1,102,444
Restricted cash	233,905	-	-	233,905
Pledges receivable	5,000	200,000	-	205,000
Grant and contract receivables	390,381	21,677	-	412,058
Due from affiliates	27,265	94,000	(121,265)	-
Prepaid expenses and other current assets	97,408	3,500	-	100,908
TOTAL CURRENT ASSETS	<u>1,690,390</u>	<u>485,190</u>	<u>(121,265)</u>	<u>2,054,315</u>
Pledges receivable, net of discount and current portion	-	370,569	-	370,569
Cash surrender value of life insurance	339,989	-	-	339,989
Deposits and other assets	20,181	2,800	-	22,981
Property and equipment, net	451,662	148,110	-	599,772
TOTAL ASSETS	<u>\$ 2,502,222</u>	<u>\$ 1,006,669</u>	<u>\$ (121,265)</u>	<u>\$ 3,387,626</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 148,648	\$ 36,084	\$ -	\$ 184,732
Due to affiliates	94,000	27,265	(121,265)	-
Deferred revenue	35,517	-	-	35,517
TOTAL CURRENT LIABILITIES	<u>278,165</u>	<u>63,349</u>	<u>(121,265)</u>	<u>220,249</u>
Tenant security deposits	9,235	-	-	9,235
TOTAL LIABILITIES	<u>287,400</u>	<u>63,349</u>	<u>(121,265)</u>	<u>229,484</u>
NET ASSETS				
Without donor restrictions	1,975,917	278,751	94,000	2,348,668
With donor restrictions	238,905	664,569	(94,000)	809,474
TOTAL NET ASSETS	<u>2,214,822</u>	<u>943,320</u>	<u>-</u>	<u>3,158,142</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,502,222</u>	<u>\$ 1,006,669</u>	<u>\$ (121,265)</u>	<u>\$ 3,387,626</u>

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Children's Harbor, Inc.</u>	<u>Brown's Harbor, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
PUBLIC SUPPORT AND REVENUES WITHOUT DONOR RESTRICTIONS				
Grant and contract revenue	\$ 3,300,315	\$ 130,061	\$ -	\$ 3,430,376
Contributions	112,939	8,000	-	120,939
Special events	273,844	-	-	273,844
Donated facilities	275,000	125,000	-	400,000
Medicaid income	127,988	-	-	127,988
Rental and other income	64,551	162,675	(36,569)	190,657
Interest income	19,480	7	-	19,487
Net assets released from restriction	<u>243,504</u>	<u>294,000</u>	<u>(94,000)</u>	<u>443,504</u>
TOTAL PUBLIC SUPPORT AND REVENUES WITHOUT DONOR RESTRICTIONS	<u>4,417,621</u>	<u>719,743</u>	<u>(130,569)</u>	<u>5,006,795</u>
PUBLIC SUPPORT AND REVENUES WITH DONOR RESTRICTIONS				
Contributions	47,661	6,163	-	53,824
Net assets released from restriction	<u>(243,504)</u>	<u>(294,000)</u>	<u>94,000</u>	<u>(443,504)</u>
TOTAL PUBLIC SUPPORT AND REVENUES WITH DONOR RESTRICTIONS	<u>(195,843)</u>	<u>(287,837)</u>	<u>94,000</u>	<u>(389,680)</u>
TOTAL PUBLIC SUPPORT AND REVENUES	<u>4,221,778</u>	<u>431,906</u>	<u>(36,569)</u>	<u>4,617,115</u>
EXPENSES:				
Program services	3,855,761	557,335	-	4,413,096
Management and support services	324,613	36,569	(36,569)	324,613
Fundraising	<u>424,294</u>	<u>-</u>	<u>-</u>	<u>424,294</u>
TOTAL EXPENSES	<u>4,604,668</u>	<u>593,904</u>	<u>(36,569)</u>	<u>5,162,003</u>
CHANGE IN NET ASSETS	(382,890)	(161,998)	-	(544,888)
NET ASSETS AT BEGINNING OF YEAR	<u>2,214,822</u>	<u>943,320</u>	<u>-</u>	<u>3,158,142</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,831,932</u>	<u>\$ 781,322</u>	<u>\$ -</u>	<u>\$ 2,613,254</u>

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Children's Harbor, Inc.</u>	<u>Brown's Harbor, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
PUBLIC SUPPORT AND REVENUES WITHOUT DONOR RESTRICTIONS				
Grant and contract revenue	\$ 3,722,863	\$ 130,062	\$ (130,062)	\$ 3,722,863
Contributions	41,620	12,470	-	54,090
Special events	242,161	-	-	242,161
Donated facilities	275,000	125,000	-	400,000
Medicaid income	179,379	-	-	179,379
Rental and other income	51,590	130,394	(35,940)	146,044
Interest income	10,974	-	-	10,974
In-kind contributions	6,947	10,295	-	17,242
Net assets released from restriction	10,090	200,000	-	210,090
TOTAL PUBLIC SUPPORT AND REVENUES WITHOUT DONOR RESTRICTIONS	<u>4,540,624</u>	<u>608,221</u>	<u>(166,002)</u>	<u>4,982,843</u>
PUBLIC SUPPORT AND REVENUES WITH DONOR RESTRICTIONS				
Contributions	93,727	33,461	(5,000)	122,188
Net assets released from restriction	(10,090)	(200,000)	-	(210,090)
TOTAL PUBLIC SUPPORT AND REVENUES WITH DONOR RESTRICTIONS	<u>83,637</u>	<u>(166,539)</u>	<u>(5,000)</u>	<u>(87,902)</u>
TOTAL PUBLIC SUPPORT AND REVENUES	<u>4,624,261</u>	<u>441,682</u>	<u>(171,002)</u>	<u>4,894,941</u>
EXPENSES:				
Program services	3,734,808	458,928	(135,062)	4,058,674
Management and support services	363,846	35,940	(35,940)	363,846
Fundraising	295,680	-	-	295,680
TOTAL EXPENSES	<u>4,394,334</u>	<u>494,868</u>	<u>(171,002)</u>	<u>4,718,200</u>
CHANGE IN NET ASSETS	229,927	(53,186)	-	176,741
NET ASSETS AT BEGINNING OF YEAR	<u>1,984,895</u>	<u>996,506</u>	<u>-</u>	<u>2,981,401</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,214,822</u>	<u>\$ 943,320</u>	<u>\$ -</u>	<u>\$ 3,158,142</u>

SINGLE AUDIT REPORTS

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

To the Board of Directors of
Children's Harbor, Inc. and Subsidiary

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Children's Harbor, Inc. and Subsidiary (the "Organization") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 17, 2019.

Internal Control over Financial Reporting

In planning and performing our audits of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 or other matters that are required to be reported under Government Auditing Standards.

To the Board of Directors of
Children's Harbor, Inc. and Subsidiary
Page Two

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Monison, Brown, Aziz & Fana

Boca Raton, Florida
December 17, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Board of Directors of
Children's Harbor, Inc. and Subsidiary

Report on Compliance for Each Major Federal Program

We have audited Children's Harbor, Inc. and Subsidiary's (the "Organization") compliance with the types of compliance requirements described in *the U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

To the Board of Directors of
Children's Harbor, Inc. and Subsidiary
Page Two

Report on Internal Control over Compliance (Continued)

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 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 will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Monison, Brown, Aigiz & Tana

Boca Raton, Florida
December 17, 2019

SUPPLEMENTAL INFORMATION

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

<u>Federal Agency/Pass-through Entity/ Federal Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	90FM0069	\$ -	\$ 1,067,339
Passed through Florida Department of Children & Families - Childnet, Inc.				
Foster Care Title IV - E	93.658	CHH18RGC	-	123,698
Foster Care Title IV - E	93.658	CHH18RGC2	-	151,911
Foster Care Title IV - E	93.658	POS	-	10,606
Social Services Block Grant	93.667	CHH18RGC	-	86,858
Social Services Block Grant	93.667	CHH18RGC2	-	106,669
Social Services Block Grant	93.667	POS	-	7,447
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	BRH18TIL	-	105,649
Passed through Our Kids of Miami-Dade/Monroe, Inc.				
Foster Care Title IV - E	93.658	RA028	-	149,720
Social Services Block Grant	93.667	RA028	-	108,443
Passed through Children's Network, Inc.				
Foster Care Title IV - E	93.658	SAQ16	-	18,452
Social Services Block Grant	93.667	SAQ17	-	13,672
Passed through Embrace Families				
Foster Care Title IV - E	93.658	GJL57	-	14,903
Social Services Block Grant	93.667	GJL57	-	11,043
Total U.S. Department of Health and Human Services			-	1,976,410
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 1,976,410

The accompany notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") represents the federal grant activity of Children's Harbor, Inc. and Subsidiary (the "Organization") for the year ended June 30, 2019. All federal awards passed through from other government agencies and nonprofit agencies are included in the accompanying Schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule is presented using the accrual basis of accounting. Federal award expenditures are recognized following the cost principles contained in Title 2 U.S Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The amounts reported in the Schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

3. BASIS OF PRESENTATION

The accompanying Schedule includes the federal awards activities of the Organization during its fiscal year ending June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

4. SUB RECIPIENTS

There were no Federal awards provided to sub recipients during the year ended June 30, 2019.

5. INDIRECT COST RATE

For certain grants, the amount expended includes an indirect cost recovery using an indirect cost rate percentage. The amount expended for the Healthy Marriage Promotion and Responsible Fatherhood grant includes an indirect cost recovery using an approved indirect cost rate of 26.82 percent. The Organization has elected to use the de minimis indirect cost rate allowed under the Uniform Guidance during the year ended June 30, 2019 for other contracts where applicable.

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Consolidated Financial Statements:

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ X _____	No
Significant deficiency(ies) identified?	_____ Yes	_____ X _____	None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ X _____	No

Federal Awards:

Internal control over major federal programs:			
Material weakness(es) identified?	_____ Yes	_____ X _____	No
Significant deficiency(ies) identified?	_____ Yes	_____ X _____	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	_____ X _____	No

Identification of major programs:

<u>CFDA Number</u> 93.086	<u>Name of Federal Program or Cluster</u> Healthy Marriage Promotion and Responsible Fatherhood Grants
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	_____ X _____ Yes _____ No

**CHILDREN'S HARBOR, INC.
AND SUBSIDIARY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

SECTION II – CONSOLIDATED FINANCIAL STATEMENT FINDINGS

CURRENT YEAR FINDINGS

None

PRIOR YEAR FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CURRENT YEAR FINDINGS

None

PRIOR YEAR FINDINGS

None