CHILDREN'S HARBOR

PLACES & PROGRAMS FOR CHILDREN, INC.

FINANCIAL REPORT

JUNE 30, 2019

PBMares

ASSURANCE, TAX & ADVISORY SERVICES

PLACES & PROGRAMS FOR CHILDREN, INC.

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FINANCIAL SECTION

PBMares

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Places & Programs for Children, Inc.

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Places & Programs for Children, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 26 as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated February 6, 2020, on our consideration of Places & Programs for Children, Inc.'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 Places & Programs for Children, Inc.'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 Places & Programs for Children, Inc.'s internal control over financial reporting and compliance.

PBMares, LLP

Norfolk, Virginia
February 6, 2020

FINANCIAL STATEMENTS

PLACES & PROGRAMS FOR CHILDREN, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

		2019		2018
ASSETS				
Cash and cash equivalents	$	935,147	$	801,950
Restricted cash		198,018		200,127
Grants and accounts receivable, net:				
Government agencies		75,003		85,866
Social service bureaus		72,017		40,609
Other		205,559		99,967
Promises to give		350,145		420,406
Prepaid expenses		15,163		11,332
Property and equipment, net		3,098,971		3,213,202
Beneficial interest in assets held by others		310,863		312,816
Total assets	$	5,260,886	$	5,186,275
LIABILITIES AND NET ASSETS				
Accounts payable:				
Trade	$	102,697	$	41,024
Home daycare providers		91,509		102,367
Accrued expenses		107,053		98,789
Deferred revenue		19,185		20,782
Bond payable		2,212,245		2,383,555
Unamortized debt issuance costs		(63,036)		(67,764)
Total liabilities		2,469,653		2,578,753
Net assets:				
Without donor restrictions		2,163,875		1,897,002
With donor restrictions		627,358		710,520
Total net assets		2,791,233		2,607,522
Total liabilities and net assets	$	5,260,886	$	5,186,275

PLACES & PROGRAMS FOR CHILDREN, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Public support:			
Federated and non-federated campaigns, net	$ -	$ 350,145	$ 350,145
Direct support	100,327	2,608	102,935
Government grants and reimbursement programs	1,887,631	-	1,887,631
Total public support	1,987,958	352,753	2,340,711
Revenues:			
Child care	2,355,609	-	2,355,609
Special events	17,262	-	17,262
Training and membership	36,440	-	36,440
Other revenue	7,941	-	7,941
Change in fair value of beneficial interest in assets held by others	1,742	8,339	10,081
Interest income	2,678	-	2,678
Total revenues	2,421,672	8,339	2,430,011
Net assets released from restrictions	444,254	(444,254)	-
Total support and revenues	4,853,884	(83,162)	4,770,722
Expenses:			
Program services	3,978,711	-	3,978,711
Support services	578,432	-	578,432
Fundraising	29,868	-	29,868
	4,587,011	-	4,587,011
Change in nets assets	266,873	(83,162)	183,711
Net assets, beginning of year	1,897,002	710,520	2,607,522
Net assets, end of year	$ 2,163,875	$ 627,358	$ 2,791,233

PLACES & PROGRAMS FOR CHILDREN, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Public support:			
Federated and non-federated campaigns, net	$ 3,722	$ 420,406	$ 424,128
Direct support	159,708	100	159,808
Government grants and reimbursement programs	1,633,188	10,000	1,643,188
Total public support	1,796,618	430,506	2,227,124
Revenues:			
Child care	2,195,017	-	2,195,017
Special events	7,109	-	7,109
Training and membership	32,195	-	32,195
Other revenue	45,838	-	45,838
Change in fair value of beneficial interest in assets held by others	1,945	25,263	27,208
Interest income	448	-	448
Total revenues	2,282,552	25,263	2,307,815
Net assets released from restrictions	437,270	(437,270)	-
Total support and revenues	4,516,440	18,499	4,534,939
Expenses:			
Program services	3,552,244	-	3,552,244
Support services	565,711	-	565,711
Fundraising	32,655	-	32,655
	4,150,610	-	4,150,610
Change in nets assets	365,830	18,499	384,329
Net assets, beginning of year	1,531,172	692,021	2,223,193
Net assets, end of year	$ 1,897,002	$ 710,520	$ 2,607,522

PLACES & PROGRAMS FOR CHILDREN, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	Program Services						
	Child Care	Training	USDA Homes	Total	Support Services	Fundraising	Total
Personnel costs:							
Salaries	$ 1,732,465	$ 199,818	$ 67,665	$ 1,999,948	$ 307,683	$ 29,868	$ 2,337,499
Payroll taxes	131,231	14,978	5,218	151,427	23,525	-	174,952
Employee benefits	126,801	14,751	72	141,624	36,680	-	178,304
Total personnel costs	1,990,497	229,547	72,955	2,292,999	367,888	29,868	2,690,755
Awards, grants and scholarships	-	198,031	-	198,031	-	-	198,031
Bad debt expense (recoveries)	(10,026)	-	-	(10,026)	-	-	(10,026)
Conferences, conventions and meetings	842	29,100	225	30,167	1,214	-	31,381
Depreciation	153,336	-	-	153,336	9,829	-	163,165
Emergency vouchers	-	6,415	-	6,415	-	-	6,415
Equipment repairs and maintenance	5,117	3,346	4,246	12,709	14,308	-	27,017
Food	226,953	1,589	-	228,542	969	-	229,511
Insurance	57,302	1,646	1,785	60,733	10,488	-	71,221
Interest and financing fees	1,350	-	-	1,350	86,596	-	87,946
Local transportation	21,053	1,150	2,427	24,630	2,598	-	27,228
Miscellaneous	17,496	2,337	5,961	25,794	8,532	-	34,326
Occupancy	202,339	17,142	10,482	229,963	15,870	-	245,833
Organization dues	162	49	504	715	1,029	-	1,744
Postage	857	-	-	857	1,886	-	2,743
Printing, publications, and advertising	2,000	-	-	2,000	1,698	-	3,698
Professional fees and contractual services	74,478	8,006	3,253	85,737	37,422	-	123,159
Provider reimbursements	-	-	530,599	530,599	-	-	530,599
Supplies	88,749	1,682	97	90,528	13,588	-	104,116
Telephone, internet, and website	10,596	1,878	1,158	13,632	4,517	-	18,149
Total expenses	$ 2,843,101	$ 501,918	$ 633,692	$ 3,978,711	$ 578,432	$ 29,868	$ 4,587,011

PLACES & PROGRAMS FOR CHILDREN, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Program Services						
	Child Care	Training	USDA Homes	Total	Support Services	Fundraising	Total
Personnel costs:							
Salaries	$ 1,526,156	$ 194,030	$ 69,692	$ 1,789,878	$ 237,039	$ 28,351	$ 2,055,268
Payroll taxes	115,833	14,595	5,192	135,620	21,527	2,199	159,346
Employee benefits	111,644	11,275	4,341	127,260	23,140	2,105	152,505
Total personnel costs	1,753,633	219,900	79,225	2,052,758	281,706	32,655	2,367,119
Awards, grants and scholarships	300	107,410	-	107,710	-	-	107,710
Bad debt expense	20,026	-	-	20,026	-	-	20,026
Conferences, conventions and meetings	515	18,765	931	20,211	1,020	-	21,231
Depreciation	150,151	-	-	150,151	17,341	-	167,492
Emergency vouchers	-	6,337	-	6,337	-	-	6,337
Equipment repairs and maintenance	6,133	5,157	4,078	15,368	13,312	-	28,680
Food	180,295	1,565	13	181,873	151	-	182,024
Insurance	15,739	-	-	15,739	49,286	-	65,025
Interest and financing fees	1,410	-	-	1,410	94,494	-	95,904
Local transportation	10,885	1,077	2,648	14,610	3,917	-	18,527
Miscellaneous	9,446	714	1,141	11,301	5,947	-	17,248
Occupancy	185,739	17,869	10,344	213,952	13,715	-	227,667
Organization dues	169	-	534	703	606	-	1,309
Postage	195	94	248	537	1,922	-	2,459
Printing, publications, and advertising	3,424	430	381	4,235	1,244	-	5,479
Professional fees and contractual services	64,847	7,197	12,344	84,388	63,775	-	148,163
Provider reimbursements	-	-	570,932	570,932	-	-	570,932
Supplies	61,554	3,070	2,946	67,570	12,694	-	80,264
Telephone, internet, and website	10,232	1,110	1,091	12,433	4,581	-	17,014
Total expenses	$ 2,474,693	$ 390,695	$ 686,856	$ 3,552,244	$ 565,711	$ 32,655	$ 4,150,610

PLACES & PROGRAMS FOR CHILDREN, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

		2019		2018
Cash flows from operating activities:				
Change in net assets	$	183,711	$	384,329
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		163,165		167,492
Amortization of debt issuance costs		4,728		4,334
Change in fair value of beneficial interest in assets held by others		(10,081)		(27,208)
Contributions restricted for long-term purposes		-		(100)
Bad debt expense (recoveries)		(10,026)		20,026
Change in assets and liabilities				
Grants and accounts receivable		(116,111)		(38,691)
Promises to give		70,261		53
Prepaid expenses		(3,831)		6,884
Accounts payable		44,800		42,894
Accrued expenses		8,264		(38,887)
Deferred revenue		(1,597)		1,880
Net cash provided by operating activities		333,283		523,006
Cash flows from investing activities:				
Property and equipment acquisitions		(42,919)		(43,162)
Net distributions from beneficial interest in assets held by others		12,034		10,033
Net cash used in investing activities		(30,885)		(33,129)
Cash flows from financing activities:				
Proceeds from contributions restricted for permanent endowment		-		100
Principal payments on bond payable		(171,310)		(163,017)
Net cash used in financing activities		(171,310)		(162,917)
Net increase in cash and cash equivalents		131,088		326,960
Cash and cash equivalents, beginning of year		1,002,077		675,117
Cash and cash equivalents, end of year	$	1,133,165	$	1,002,077

PLACES & PROGRAMS FOR CHILDREN, INC.

STATEMENTS OF CASH FLOWS (Continued)
Years Ended June 30, 2019 and 2018

		2019		2018
Supplemental Disclosure of Cash				
Cash and cash equivalents	**$**	**935,147**	$	801,950
Restricted cash		**198,018**		200,127
	$	**1,133,165**	$	1,002,077
Supplemental Disclosure of Cash Flow Information				
Interest paid	**$**	**83,218**	$	91,570
Supplemental Disclosure of Non-Cash Operating and Investing Activities				
Construction in progress additions included in accounts payable	**$**	**6,015**	$	-

PLACES & PROGRAMS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Nature of Activities

Places & Programs for Children, Inc. (the Organization) is a group of four early care and education centers providing child care to the general public in South Hampton Roads, Virginia. The Organization offers scholarships, based on income, to ensure all children have access to quality early care and education. The Organization operates a community training and professional development department to benefit the early care and education communities by providing workshops, seminars and conferences for individual teachers and the center and home based child care providers. The Organization provides emergency tuition assistance aimed at allowing children to stay in their child care setting when their families face financial crisis. The Organization is also a sponsor of the United States Department of Agriculture's (USDA) Child and Adult Care Food Program (CACFP), whereby it is responsible for the administration of the food program in approximately 104 day care homes. The Organization is supported primarily through child care fees and government grant reimbursements.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation: The Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions or with donor restrictions, as applicable as follows:

> Net assets without donor restrictions are those currently available at the discretion of the Organization's Board of Directors for use in the Organization's operations and are not subject to donor or other grantor restrictions.
>
> Net assets with donor restrictions are those whose use by the Organization is limited by donor-imposed stipulations that expire by passage of time, can be fulfilled and removed by actions of the Organization pursuant to those stipulations, or are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restriction expires or is otherwise satisfied in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires or is otherwise satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets released from restrictions.

Support and revenue recognition: Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Government grants and reimbursements are generally conditional and recognized when qualifying expenses have been incurred. Child care are other revenues are recognized when earned.

Cash and cash equivalents: The Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash and cash equivalents.

Note 2. Summary of Significant Accounting Policies (Continued)

Restrictions* on *cash: Cash maintained in separate bank accounts, in accordance with donor and grantor stipulations, was $47,712 and $50,127 at June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, cash restricted for debt service was $150,306 and $150,000, respectively.

Beneficial interest in assets held by others: Beneficial interest in assets held by others are reported at their fair value in the statements of financial position. Fair value for these assets is determined using the net asset value (NAV) practical expedient. Unrealized gains and losses are included in the statements of activities.

Grants and accounts receivable: The Organization is involved in programs with governmental, other nonprofit entities, and individuals, which result in unsecured accounts receivable. Uncollectible accounts from these programs are rare. When they do occur, approval to write off any amount is required from the chief executive officer. Receivables that might be due from government agencies as a result of amended reimbursement claims will not be paid if such amended claims are not filed within 90 days of the original claim. Grants and accounts receivable are deemed past due if not received within 30 days. There was an allowance of $10,000 recorded at June 30, 2019. There was an allowance of $20,026 recorded at June 30, 2018.

Promises to give: United Way and other promises to give are stated at the amount management expects to collect from balances outstanding at year-end. These receivables represent amounts due from United Way and other individuals. Management believes that all of these receivables are fully collectible; therefore, no provision for doubtful accounts has been made. All of the Organization's promises to give were due within the next year as of June 30, 2019 and 2018.

Property and equipment: Property and equipment are stated at cost if purchased and at fair value on the date received, if donated. Generally, major improvements and assets valued at $1,000 or more are capitalized, while ordinary maintenance and repairs are expensed. Depreciation is computed using the straight-line or accelerated methods over the estimated useful lives of the related assets as follows:

Building and improvements	5 - 40 years
Leasehold improvements	7 - 10 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

Deferred revenue: Deferred revenue consists of student tuition and fees received in advance of the services performed.

Donated services: A substantial number of unpaid volunteers have made significant contributions of their time to help develop the Organization's programs and activities. The value of these contributions is not reflected in the accompanying financial statements since it is not susceptible to objective measurement or valuation.

Functional allocation of expenses: The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses which can be directly associated with a function are charged directly. Other expenses that are common to several functions are allocated by various statistical bases.

Note 2. Summary of Significant Accounting Policies (Continued)

Advertising: The Organization expenses advertising costs as they are incurred. Advertising expense was $3,209 and $3,650 for 2019 and 2018, respectively, and is included in printing, publications, and advertising in the statements of functional expenses.

Income taxes: The Organization is a qualifying nonprofit entity as defined in Section 501 (c)(3) of the Internal Revenue Code and is therefore exempt from federal and state income taxes, except on net income generated from unrelated business taxable income, if any.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization's management has evaluated the impact of the guidance to its financial statements. The Organization's income tax returns are subject to examination by taxing authorities, generally for a period of three years from the date they were filed.

The Organization's policy is to classify income tax related interest and penalties, if any, in general and administrative expenses.

Concentrations and credit risk: Financial instruments which potentially subject the Organization to concentration of credit risk consist principally of cash, temporary cash investments, other investments, and receivables. Concentrations of credit risk with respect to grant receivables are limited due to the number of grantors, many of which are federal government pass through grants.

The Organization maintains its cash and cash equivalents in one bank located in Virginia. During the years ended June 30, 2019 and 2018, the Organization from time to time had amounts on deposit in excess of the Federal Deposit Insurance Corporation insured limits.

The Organization receives a substantial award from the United Way of South Hampton Roads (United Way) each year. A loss of funding or a significant decrease in funding would have a significant financial impact on the Organization. Included in promises to give is $350,145 and $420,406 due from United Way at June 30, 2019 and 2018, respectively. Approximately 22% and 19% of the Organization's revenue was earned from the U.S. Department of Agriculture in 2019 and 2018. Any significant reductions in this funding would require the Organization to reduce or eliminate this program.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates and assumptions.

Debt issuance costs: Debt issuance costs of $118,195 net of accumulated amortization of $55,159 and $50,431 as of June 30, 2019 and 2018, respectively are reported as a direct reduction of the obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest and financing fees on the statements of functional expenses and is computed using the straight-line method which approximates the effective interest method.

Note 2. Summary of Significant Accounting Policies (Continued)

New accounting pronouncements: During the year ended June 30, 2019, the Organization adopted Accounting Standard Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Organization has not yet decided on a transition method. The ASU is effective for years beginning after December 31, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accordance with U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. Management has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications have no effect on the change in net assets as previously reported.

Subsequent events: In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 6, 2020, the date the financial statements were available to be issued.

Note 3. Liquidity and Availability

Financial assets and liquidity resources available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

Cash and cash equivalents	$	935,147
Grants and accounts receivable		352,579
Promises to give		350,145
Available line of credit		100,000
Total financial assets and liquidity resources available within one year	$	1,737,871

The Organization's cash flows are typically spread evenly throughout the year. The Organization's line of credit is utilized to manage cash flows as needed.

Note 4. Promises to Give

Promises to give consist of the follow:

		2019		2018
United Way allocation for next fiscal year	**$**	**350,145**	$	420,406
Total promises to give	**$**	**350,145**	$	420,406

Note 5. Beneficial Interest in Assets Held by Others

In connection with the Batten Endowment Challenge grant (see Note 15), the Organization has established a permanent endowment fund at the Hampton Roads Community Foundation (HRCF) known as the Children's Harbor Anchor Fund.

In addition, the Organization has an agency fund held by the United Way of South Hampton Roads Foundation (UWSHRF). The Organization retains variance power for these funds and can withdraw them at any time.

Beneficial interest in assets held by others is composed of the following at fair market value as of June 30, 2019 and 2018:

		2019		2018
Children's Harbor Anchor Fund held by HRCF	**$**	**276,585**	$	280,114
Places and Programs for Children Fund held by UWSHRF		**34,278**		32,702
Total beneficial interest in assets held by others	**$**	**310,863**	$	312,816

Note 6. Fair Value Measurements

The Organization estimates the fair value of its beneficial interest in the Children's Harbor Anchor Fund managed by the Hampton Roads Community Foundation (HRCF) based on the Organization's proportionate share of the HRCF's reported net assets, a method equivalent to NAV. Accordingly, the beneficial interest in the assets held by the HRCF is not subject to the traditional fair value hierarchy. Similarly, the Organization estimates the fair value of its beneficial interest in the assets held by the United Way of South Hampton Roads (UWSHR) Foundation based on the Organization's proportionate share of the UWSHR Foundation's reported net assets, a method equivalent to NAV.

The Organization's financial instruments valued at fair value on a recurring basis consisted of the following at June 30, 2019:

		Valued at NAV		**Total**
Beneficial interest in assets held by others	**$**	**310,863**	**$**	**310,863**

The Organization's financial instruments valued at fair value on a recurring basis consisted of the following at June 30, 2018:

		Valued at NAV		Total
Beneficial interest in assets held by others	$	312,816	$	312,816

Note 6. Fair Value Measurements (Continued)

The Organization's financial instruments valued at fair value in accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, consist of funds invested in the Children's Harbor Anchor Fund managed by the HRCF as well as the agency fund managed by the UWSHRF. These pooled funds consist of equities and other securities that have active markets as well as alternative investments that do not have readily determinable fair values, real assets and private equity investments. Collectively however, the Organization's beneficial interests in the assets held by the HRCF and UWSHRF cannot be traded on active markets. The fair values of the alternative investments that do not have readily determinable fair values are determined by the investment managers and are based on audited financial statements provided to the investment managers or are based on historical cost, appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the investment manager taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate.

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Note 7. Property and Equipment

Property and equipment consist of the following:

	2019	2018
Land	**$ 748,845**	$ 748,845
Building and improvements	**4,841,596**	4,841,596
Leasehold improvements	**51,166**	51,166
Furniture and equipment	**713,443**	680,849
Vehicles	**206,991**	206,991
Construction in progress	**16,340**	-
	6,578,381	6,529,447
Accumulated depreciation	**(3,479,410)**	(3,316,245)
Property and equipment, net	**$ 3,098,971**	$ 3,213,202

Depreciation expense was $163,165 and $167,492 for the years ended June 30, 2019 and 2018, respectively.

Note 8. Bond Payable

The bond payable consists of a 25-year Industrial Development Authority of Matthews County Bond, Series 2007, dated September 26, 2007, collateralized by real estate. The bond had an original value of $3,500,000 and requires monthly principal and interest payments of $21,098, through September 2032. The interest rate is adjusted and fixed every five years. The interest rate for the five year period ending July 1, 2022 is 3.55%. The interest rate for the five year period ended July 1, 2017 was 5.25%. There are no covenants or guarantees in the bond agreement.

Future maturities of long-term debt are as follows:

Year	Amount
2020	$ 177,527
2021	183,932
2022	190,569
2023	197,446
2024	204,570
2025-2029	1,139,047
2030-2032	119,154
	$ 2,212,245

Note 9. Net Assets

Net assets without donor restrictions consist of the following:

	2019	2018
Net investment in plant	**$ 949,762**	$ 897,411
Bond sinking fund	**150,306**	150,000
General unrestricted	**1,063,807**	849,591
	$ 2,163,875	$ 1,897,002

Net assets with donor restrictions consist of the following:

	2019	2018
Accumulated earnings in the Children's Harbor Anchor Fund held by HRCF	**$ 38,651**	$ 42,180
Original gifts to the Children's Harbor Anchor Fund held by HRCF to be invested in perpetuity	**237,934**	237,934
Grants and accounts receivable	**628**	10,000
United Way promise to give	**350,145**	420,406
	$ 627,358	$ 710,520

Note 9. Net Assets (Continued)

Net assets were released from restrictions by satisfying the restricted purposes or due to the passage of time as follows:

		2019		2018
Distributions from beneficial interest in assets held by others	**$**	**12,034**	$	10,033
United Way time restriction expired		**420,406**		420,406
Donor purpose restrictions satisfied		**11,814**		6,831
	$	**444,254**	$	437,270

Note 10. Retirement Plan

The Organization sponsors a 403(b) defined contribution pension plan covering all employees who work a minimum of 1,000 hours per calendar year, have worked for the Organization for at least one year, and have attained age 21. Contributions to the plan by the Organization are discretionary and must be approved by the Board of Directors. The Organization contributed $10,308 and $15,022 to the plan for 2019 and 2018, respectively, and is included in employee benefits on the statements of functional expenses.

Note 11. Operating Leases

The Organization leased various properties through non-cancelable operating leases that expired at various times through June 2018, and are currently month-to-month. Rental expense paid under these operating leases was $55,120 and $44,889 per year for 2019 and 2018, respectively, and are included in occupancy expense on the statements of functional expenses.

Note 12. Donations In-Kind

During the years ended June 30, 2019 and 2018, the Organization received gifts in-kind of program supplies valued at $375 and $42, respectively, that have been reflected in the financial statements of the Organization.

Note 13. Fundraising Costs

Revenue reported as "public support from federated and non-federated campaigns, net" in the accompanying statements of activities includes contributions received by the United Way of South Hampton Roads on behalf of the Organization. That support is reported net of the Organization's proportionate share of the United Way's fundraising costs of $50,266 and $61,397 for 2019 and 2018, respectively.

Note 14. Line of Credit

At June 30, 2019 and 2018, the Organization had an available revolving line of credit in the amount of $100,000 that matures on November 26, 2020. The line is secured by a credit line deed of trust on real property. The loan bears interest at prime plus 3%; however, not less than 6.5% per year and is payable on demand. The line of credit did not have a balance outstanding at June 30, 2019 or 2018.

Note 15. Endowment Funds

The Organization is a participant in the Batten Endowment Challenge grant. This program is designed to create a lasting source of funding to improve the educational achievement of children and youth in South Hampton Roads. The Batten Endowment Challenge established a $1 million endowment with the HRCF in a designated fund for which the earnings benefit the Organization. The fund is administered, managed and invested by the HRCF. Each year a distribution will be made to the Organization in accordance with the HRCF's spending policy, which is currently 4.5% of a trailing twelve quarter average. The Organization holds no variance power over these funds.

The Organization's endowment consists of various funds which are included in beneficial interest in assets held by others. These funds are donor-restricted funds established for the purpose of creating the Children's Harbor Anchor Fund. As required by U.S. generally accepted accounting principles (GAAP), net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The management of donor-restricted endowment funds is governed by state law under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the Virginia state legislature in 2008. The law gives guidance for investment and spending practices, giving consideration for donor intent and the organization's overall resources and charitable purpose. Based on their interpretation of law and in compliance with donor intent, the Organization classifies endowment net assets as without donor restrictions or with donor restrictions, the accumulated earnings and original value of gifts donated to the endowment, until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the state UPMIFA law. The Organization appropriates expenditures from time-to-time as a specific need arises.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds could fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, a deficiency of this nature is reported in net assets with donor restrictions. As of June 30, 2019, no such deficiency existed.

Note 15. Endowment Funds (Continued)

A summary of the activity in the endowment net assets for the year ended June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	**$ -**	**$ 280,114**	**$ 280,114**
Investment return:			
Net appreciation	**-**	**8,339**	**8,339**
Appropriation of endowment assets for expenditure	**-**	**(11,868)**	**(11,868)**
Endowment net assets, end of year	**$ -**	**$ 276,585**	**$ 276,585**

A summary of the activity in the endowment net assets for the year ended June 30, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 264,721	$ 264,721
Contributions	-	100	100
Investment return:			
Net appreciation	-	25,263	25,263
Appropriation of endowment assets for expenditure	-	(9,970)	(9,970)
Endowment net assets, end of year	$ -	$ 280,114	$ 280,114

In accordance with state UPMIFA law, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the investment policies of the Organization.

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the executive committee, the endowment assets are invested in a manner that is intended to maximize long-term growth using a balanced approach with less than full stock market risk and volatility.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Note 15. Endowment Funds (Continued)

Pursuant to the agreement with HRCF related to this fund, the Organization receives an annual distribution up to HRCF's spending policy, which is currently 4.5% of a trailing twelve quarter average. Although this is an endowment fund, the fund agreement does allow the Organization to request an amount greater than HRCF's spending policy if it makes the case that the purpose of the distribution meets one of three criteria outlined in the agreement. All requests must be approved by the Organization's board of directors and by HRCF's board of directors.

COMPLIANCE SECTION

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
Places & Programs for Children, Inc.

We have audited 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, the financial statements of Places & Programs for Children, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2019, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated February 6, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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 Organization's 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 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 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*.

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.

PBMares, LLP

Norfolk, Virginia
February 6, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Places & Programs for Children, Inc.

Report on Compliance for the Major Federal Program

We have audited Places & Programs for Children, Inc.'s (the Organization) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2019. The Organization's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 Title 2 U.S. *Code of Federal Regulations 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 its major federal program 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Purpose of this Report

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.

PBMares, LLP

Norfolk, Virginia
February 6, 2020

PLACES & PROGRAMS FOR CHILDREN, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

Federal Grantor/ Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
Pass-through Virginia Department of Health				
Child and Adult Care Food Program				
Homes Administration	10.558	10158	$ -	$ 108,420
Homes Provider Income	10.558	10158	-	530,599
Centers Programs	10.558	10158	-	194,717
Total Child and Adult Care Food Program			-	833,736
477 Cluster				
U.S. Department of Health and Human Services				
Pass-through Virginia Department of Social Services and Child Development Resources, Inc.				
Infant Toddler Specialist Network	93.575	ITSN-EAS-17	-	182,957
Total 477 Cluster			-	182,957
CDBG - Entitlement Grants Cluster				
U.S. Department of Housing and Urban Development				
Pass-through from City of Chesapeake				
Community Development Block Grant	14.218	PY 44	-	39,117
Total CDBG - Entitlement Grants Cluster			-	39,117
Total expenditures of federal awards			$ -	$ 1,055,810

PLACES & PROGRAMS FOR CHILDREN, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Places & Programs for Children, Inc. under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CRF) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations of the Uniform Guidance, wherein certain times of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

Places & Programs for Children, Inc. has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

PLACES & PROGRAMS FOR CHILDREN, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

Material weakness(es) identified?	______	Yes	√	No
Significant deficiency(ies) identified?	______	Yes	√	None Reported
Noncompliance material to financial statements noted?	______	Yes	√	No

Federal Awards

Type of auditor's report issued on compliance for major federal program: *Unmodified*

Internal control over major program:

Material weakness(es) identified?	______	Yes	√	No
Significant deficiency(ies) identified?	______	Yes	√	None Reported
Any audit findings disclosed that are required to be reported in accordance with Section 02 CFR 200.516(a)?	______	Yes	√	No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee?	______	Yes	√	No

SECTION II. FINANCIAL STATEMENT FINDINGS

No findings noted.

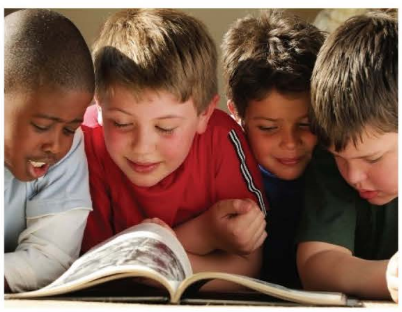
SECTION III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No findings or Questioned Costs noted.

Children's Harbor

All Children Should Have Access to Quality Early Care & Education

Early Care and Education Programs



SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2019

<u>**Identifying Number:**</u> **Finding 2018-001: Reconciliation of Tuition Revenue**

<u>Audit Finding:</u>

Significant Deficiency – Internal Control Over Financial Reporting

Criteria or specific requirement: Management should reconcile the revenue in the tuition management system to the general ledger.

Condition: Management was unable to reconcile their tuition management system to the revenue recorded in the general ledger.

Effect: There were delays in accurate financial reporting of tuition. There is also potential errors and increased fraud risk related to accounting for tuition receivables and uncollectible accounts.

Cause: The Organization had turnover and had not gone through the process of reconciling the tuition management system to the general ledger.

Recommendation: The tuition management system should be reconciled regularly to the general ledger.

Views of responsible officials: Management worked with others in the Organization to develop procedures to reconcile the tuition management system to the general ledger monthly.

<u>Corrective Action Taken:</u>

Management implemented procedures to ensure student accounts in the tuition management system reconcile with revenue in the general ledger on a monthly basis.

Corrective action was implemented January 1, 2019.

Responsible contact person: Alisha Brooks, Chief Financial Officer.

Corporate Offices
702 London Street
Portsmouth VA 23704-2413

(757)397-2981 office
(757)397-1147 fax
info@childrensharbor.cc

www.childrensharbor.cc

naeyc Accredited

Certified Agency
United Way
of South Hampton Roads

United Way