

Children First, Inc.

Financial Statements

December 31, 2018 and 2017

and

**Reports of Independent
Certified Public Accountants**



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children First, Inc.
Sarasota, Florida

We have audited the accompanying financial statements of Children First, Inc., (the Organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, the related statement of functional expenses for the year ended December 31, 2018, 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 audit 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.

CONTINUED

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children First, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, and its functional expenses for the year ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, 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*, 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 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 , 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 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 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.

PDR CPAs + Advisors

Oldsmar, Florida
April 3, 2019

CHILDREN FIRST, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	ASSETS		2018		2017
Current Assets					
Cash			\$ 2,034,505		\$ 2,697,789
Grants and contracts receivable			438,312		396,550
Other receivables			-		161,350
Certificate of deposit			250,013		-
Prepaid expenses			91,945		81,792
Total current assets			2,814,775		3,337,481
Property and Equipment, Net			4,579,169		4,350,006
Other Assets					
Beneficial interest			10,002		10,730
Deposits			2,424		2,424
			12,426		13,154
			\$ 7,406,370		\$ 7,700,641
<u>LIABILITIES AND NET ASSETS</u>					
Current Liabilities					
Accounts payable and accrued expenses			\$ 616,014		\$ 532,235
Deferred revenue			1,461,099		1,408,964
Current portion of notes payable			49,509		47,281
Total current liabilities			2,126,622		1,988,480
Long-Term Liabilities					
Notes payable, net			112,614		654,566
Total liabilities			2,239,236		2,643,046
Net Assets					
Without donor restrictions			5,075,477		4,966,810
With donor restrictions			91,657		90,785
Total net assets			5,167,134		5,057,595
			\$ 7,406,370		\$ 7,700,641

See accompanying notes to financial statements

CHILDREN FIRST, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	Without Donor Restrictions	With Donor Restrictions	<u>Total</u>	
			2018	2017
Operating Support and Revenue				
Federal grant revenue	\$ 7,049,594	\$ -	\$ 7,049,594	\$ 6,204,559
Contract revenue	1,257,416	-	1,257,416	1,059,792
Contributions and other	1,503,177	1,769	1,504,946	1,328,385
Program fees	173,120	-	173,120	176,256
In-kind contributions	766,843	-	766,843	789,602
Special events, net of direct expenses of \$161,749	503,349	-	503,349	390,569
Interest income including gain (loss) from investments	1,092	(897)	195	1,542
Total operating support and revenue	11,254,591	872	11,255,463	9,950,705
Operating Expenses				
Head Start	3,529,203	-	3,529,203	3,341,806
Early Head Start	3,977,118	-	3,977,118	3,233,664
Early Childhood Education	1,508,231	-	1,508,231	1,575,915
Families First Initiative	78,699	-	78,699	77,035
Other grants	649,713	-	649,713	17,637
Supporting services:				
Management and general	724,608	-	724,608	720,076
Fundraising	678,352	-	678,352	941,568
Total operating expenses	11,145,924	-	11,145,924	9,907,701
Change in Net Assets	108,667	872	109,539	43,004
Net Assets, Beginning of Year	4,966,810	90,785	5,057,595	5,014,591
Net Assets, End of Year	\$ 5,075,477	\$ 91,657	\$ 5,167,134	\$ 5,057,595

See accompanying notes to financial statements

CHILDREN FIRST, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Support and Revenue			
Federal grant revenue	\$ 6,204,559	\$ -	\$ 6,204,559
Contract revenue	1,059,792	-	1,059,792
Contributions and other	1,325,406	2,979	1,328,385
Program fees	176,256	-	176,256
In-kind contributions	789,602	-	789,602
Special events, net of direct expenses of \$126,106	390,569	-	390,569
Interest income including gain from investments	1,542	-	1,542
Net assets released from restrictions: Expiration of time/use restrictions	124,954	(124,954)	-
Total operating support and revenue	<u>10,072,680</u>	<u>(121,975)</u>	<u>9,950,705</u>
Operating Expenses			
Program services:			
Head Start	3,341,806	-	3,341,806
Early Head Start	3,233,664	-	3,233,664
Early Childhood Education	1,575,915	-	1,575,915
Families First Initiative	77,035	-	77,035
Other restricted grants	17,637	-	17,637
Supporting services:			
Management and general	720,076	-	720,076
Fundraising	941,568	-	941,568
Total operating expenses	<u>9,907,701</u>	<u>-</u>	<u>9,907,701</u>
Change in Net Assets	164,979	(121,975)	43,004
Net Assets, Beginning of Year	<u>4,801,831</u>	<u>212,760</u>	<u>5,014,591</u>
Net Assets, End of Year	<u>\$ 4,966,810</u>	<u>\$ 90,785</u>	<u>\$ 5,057,595</u>

See accompanying notes to financial statements

CHILDREN FIRST, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	Program Services					Supporting Services				Total Expenses	
	Head Start	Early Head Start	Early	Families	Other Grants	Total Program Services	Management and		Total Supporting Services	2018	2017
			Childhood Education	First Initiative			General	Fundraising			
Salaries	\$ 1,604,739	\$ 2,314,341	\$ 714,214	\$ 55,517	\$ 475,020	\$ 5,163,831	\$ 436,333	\$ 437,284	\$ 873,617	\$ 6,037,448	\$ 5,284,634
Payroll taxes	126,093	174,255	52,190	3,878	34,808	391,224	30,936	31,521	62,457	453,681	412,694
Employee insurance	151,354	265,932	93,575	3,758	43,524	558,143	25,790	29,892	55,682	613,825	575,174
Retirement	76,816	114,742	53,873	2,919	25,015	273,365	25,474	23,540	49,014	322,379	282,318
Total Salaries and Related Expenses	1,959,002	2,869,270	913,852	66,072	578,367	6,386,563	518,533	522,237	1,040,770	7,427,333	6,554,820
Contractual services	612,846	324,565	188,254	3,732	27,961	1,157,358	125,469	31,953	157,422	1,314,780	1,286,031
Repairs and maintenance	95,749	86,265	34,100	202	7,504	223,820	6,287	9,220	15,507	239,327	236,874
Utilities and telephone	77,618	66,172	34,727	255	2,095	180,867	5,185	5,426	10,611	191,478	165,944
Occupancy	145,134	43,475	117,312	55	472	306,448	434	435	869	307,317	302,840
Insurance	53,105	36,657	12,151	-	-	101,913	4,536	2,149	6,685	108,598	105,674
Food and nutrition	232,679	161,859	100,035	917	263	495,753	1,419	9,322	10,741	506,494	492,406
Transportation	7,601	4,006	4,109	175	413	16,304	1,240	692	1,932	18,236	22,382
Staff training and travel	111,299	70,391	2,059	-	494	184,243	12,352	7,398	19,750	203,993	138,690
Program supplies	92,455	127,684	36,563	2,517	1,360	260,579	-	254	254	260,833	170,733
Office supplies and postage	7,985	7,471	2,325	1,066	336	19,183	8,124	18,865	26,989	46,172	30,035
Parent activities	1,729	1,057	3,683	34	238	6,741	-	-	-	6,741	10,041
Children's screening and therapy	997	699	290	-	-	1,986	-	-	-	1,986	1,267
Printing and advertising	12,707	10,926	3,604	885	941	29,063	7,559	28,344	35,903	64,966	88,461
Miscellaneous	29,504	51,194	14,514	32	411	95,655	6,941	10,701	17,642	113,297	42,412
Property tax expense	3,183	3,663	1,626	70	491	9,033	561	491	1,052	10,085	10,117
Subscriptions and dues	6,341	5,609	2,690	26	9,391	24,057	3,482	11,556	15,038	39,095	22,315
	<u>1,490,932</u>	<u>1,001,693</u>	<u>558,042</u>	<u>9,966</u>	<u>52,370</u>	<u>3,113,003</u>	<u>183,589</u>	<u>136,806</u>	<u>320,395</u>	<u>3,433,398</u>	<u>3,126,222</u>
Total Expenses Before Depreciation	3,449,934	3,870,963	1,471,894	76,038	630,737	9,499,566	702,122	659,043	1,361,165	10,860,731	9,681,042
Depreciation	79,269	106,155	36,337	2,661	18,976	243,398	22,486	19,309	41,795	285,193	226,659
Total Expenses	\$ 3,529,203	\$ 3,977,118	\$ 1,508,231	\$ 78,699	\$ 649,713	\$ 9,742,964	\$ 724,608	\$ 678,352	\$ 1,402,960	\$ 11,145,924	\$ 9,907,701

See accompanying notes to financial statements

CHILDREN FIRST, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ 109,539	\$ 43,004
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of deferred financing costs	972	972
Depreciation	285,193	226,659
Change in beneficial interest	728	(2,329)
(Increase) decrease in:		
Grants and contract receivable	(41,762)	(119,816)
United Way receivable	-	124,954
Other receivables	161,350	(100,719)
Prepaid expenses	(10,153)	(2,578)
Increase in:		
Accounts payable and accrued expenses	83,776	152,324
Deferred revenue	52,135	634,807
	641,778	957,278
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Purchases of property and equipment	(514,354)	(221,502)
Purchase of certificate of deposit	(250,013)	-
	(764,367)	(221,502)
Net cash used in investing activities		
Cash Flows from Financing Activities:		
Repayment of notes payable	(540,695)	(45,151)
	(663,284)	690,625
Net (Decrease) Increase in Cash		
	2,697,789	2,007,164
Cash at Beginning of Year		
	\$ 2,034,505	\$ 2,697,789
Cash at End of Year		
	\$ 2,034,505	\$ 2,697,789
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 38,505	\$ 34,049

See accompanying notes to financial statements

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE A - NATURE OF ORGANIZATION

Children First, Inc. (the Organization) is a not-for-profit organization whose purpose is to strengthen children and families by improving the quality of their lives through a comprehensive approach to development, education, health, and well-being. Federal Head Start and Early Head Start programs are available for children from birth to five years of age. Subsidized children and preschool programs are available for families with low income. The Organization also offers The Families First Initiative, which focuses on strengthening families.

Funding is provided primarily from the Department of Health and Human Services.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenue of the net assets without donor restrictions class. Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional.

Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing services. Nonoperating activities, if any, are limited to other activities considered to be of a more unusual or nonrecurring nature.

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Summarized Comparative Information

The accompanying financial statements include certain prior year summarized comparative total amounts. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2017 from which summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities, as well as pro rata allocations in the recording of expenditures, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements include allocation of expenses by function and useful lives of depreciable assets.

Fair Value Measurement

The financial statements are prepared in accordance with an accounting standard, for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements or on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on a measurement date. The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Cash

Cash consists of cash on deposit with financial institutions and petty cash funds.

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash held in financial institutions in excess of federally-insured limits. From time to time throughout the years ended December 31, 2018 and 2017, the Organization's cash balance may have exceeded the federally insured limit. However, the Organization has not experienced and does not expect to incur any losses in such accounts.

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Grants, Contracts, and Other Receivables

Grants and contracts receivable represent amounts due from various federal, state, and local agencies for purposes specified by each grant. Receivables are stated at the amount management expects to collect from outstanding balances. Management monitors the collection status of its receivable balances on an ongoing basis. The Organization provides for probable uncollectible amounts through a charge to earnings and credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Receivables are written off as a charge to the allowance for doubtful accounts when, in management's estimation, it is probable that the receivable is worthless. Based on management's analysis of possible bad debts, an allowance for doubtful accounts was not deemed necessary at December 31, 2018 and 2017.

Property and Equipment

Property and equipment are stated at cost, if purchased or at estimated fair value at the date of receipt if acquired by gift. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. Major renewals and betterments are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. It is the policy of the Organization to maintain all property and equipment in good condition. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the assets ranging from 5 - 40 years.

Investments

The Organization records their investments, which comprise of the beneficial interests in assets held by foundations, at fair value in the statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) are included as a component in the statements of activities.

Deferred Financing Costs

Loan costs are being amortized on a straight-line basis over the term of the loan. The amount is included in long-term debt, net in the statements of financial position.

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give are reported at present value at the date the promise is received to the extent estimated to be collected by the Organization. Other conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire during the fiscal year in which the contributions are 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, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Federal grants, contract revenues and certain other revenues, including cost reimbursement contracts, are considered exchange transactions and are recorded as unrestricted revenue when earned. Revenue under these contracts is deferred until earned. Revenue is earned and recognized in the financial statements when eligible expenses are incurred or services provided.

Donated Services and Materials

Donated materials are recorded as support at their fair value at the date of donation. Contributions of services are recorded as support at their estimated fair value if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

For the years ended December 31, 2018 and 2017, the value of contributed services meeting the requirements for recognition in the financial statements has been recorded as unrestricted support. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services under the financial accounting standards.

Impairment of Long-Lived Assets

Management reviews all long-lived assets, which consist primarily of land and buildings, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to a real property appraisal. If the carrying amount of an asset exceeds its appraisal value, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Functional Allocation of Expenses

The costs of providing the various program and other activities have been detailed in the statement of functional expenses and summarized on a functional basis in the statements of activities. Expenses that can be identified with a specific program service are charged directly to that program, according to their natural expenditure and classification. Certain costs have been allocated among the programs and supporting services benefited based on direct usage or management's estimates of the benefit derived by each activity. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and related expenses	Time and effort
Contractual services	Directly identifiable
Repairs and maintenance	Directly identifiable
Utilities and telephone	Directly identifiable
Occupancy	Directly identifiable
Insurance	Directly identifiable
Food and nutrition	Directly identifiable
Transportation	Directly identifiable
Staff training and travel	Directly identifiable
Program supplies	Directly identifiable
Office supplies and postage	Directly identifiable
Printing and advertising	Directly identifiable
Miscellaneous	Directly identifiable
Property tax expense	Directly identifiable
Subscriptions and dues	Directly identifiable
Depreciation	Directly identifiable

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Uncertain Tax Positions

The Organization accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Organization has identified its tax status as a tax-exempt entity as its only significant tax position; however, the Organization has determined that such tax position does not result in an uncertainty requiring recognition. The Organization is not currently under examination by any taxing jurisdiction. The Organization's federal returns are generally open for examination for three years following the date filed.

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

NOTE C - AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at December 31:

	<u>2018</u>	<u>2017</u>
Financial Assets:		
Cash and cash equivalents	\$ 2,034,505	\$ 2,697,789
Grants, contracts and other receivables	438,312	557,900
Certificate of deposit	<u>250,013</u>	<u>-</u>
Total financial assets	2,722,830	3,255,689
Less Amounts Not Available to be Used Within One Year:		
Payment of notes payable	49,509	47,281
Net assets with donor restrictions	<u>89,019</u>	<u>88,147</u>
	<u>138,528</u>	<u>135,428</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 2,584,302</u>	<u>\$ 3,120,261</u>

These financial assets available to meet general expenditures represent 86 days of cash on hand at December 31, 2018. The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit. The Organization has a \$250,000 line-of-credit available.

During 2018, the Organization made an additional payment towards the debt principal in the amount of \$500,000. This payment affected the liquidity information presented above as the emphasis of the Organization is long-term. This debt reduction was a resource allocation decision resulting in lower interest expense/cash outlay of approximately \$245,000 over the next 10.75 years.

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,224,157	\$ 1,224,157
Buildings	4,311,487	4,311,487
Furniture, fixtures, and equipment	1,354,993	1,042,757
Vehicles	229,964	229,964
Leasehold improvements	<u>1,238,171</u>	<u>1,036,052</u>
	8,358,772	7,844,417
Less accumulated depreciation	<u>(3,779,603)</u>	<u>(3,494,411)</u>
	<u>\$ 4,579,169</u>	<u>\$ 4,350,006</u>

NOTE E - BENEFICIAL INTEREST

The Organization established an account with Community Foundation of Sarasota County (CFSC). The trust agreement names the Organization as the beneficiary of the investment. Earnings on the funds are periodically distributed to the Organization in accordance with the trust agreement. The Organization's interest in the assets held by CFSC is recorded at fair value. The Organization holds interests in assets held by the CFSC of \$10,002 and \$10,730 at December 31, 2018 and 2017, respectively; all of which are classified as net assets with donor restrictions.

NOTE F - FAIR VALUE MEASUREMENT

The Organization's beneficial interest is reported at fair value in the accompanying statements of financial position.

Following is a description of valuation methodologies used for investments measured at fair value.

Beneficial interest in a perpetual trust - the investments are managed by a third party who is unrelated to this Organization. The trust assets are valued based upon the third party information without adjustment. The Organization does not develop nor are they provided with the quantitative inputs used to develop the fair market values. Management has determined that these items should be reported at Level 3 because the fair values for these assets have unobservable inputs.

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE F - FAIR VALUE MEASUREMENT - CONTINUED

Fair values of assets measured on a recurring basis at December 31, 2018 are as follows:

<u>Description:</u>	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Assets				
Beneficial interest	\$ -	\$ -	\$ 10,002	\$ 10,002
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,002</u>	<u>\$ 10,002</u>

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

<u>Description:</u>	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Assets				
Beneficial interest	\$ -	\$ -	\$ 10,730	\$ 10,730
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,730</u>	<u>\$ 10,730</u>

The following is a summary of changes in the fair value of the Organization's Level 3 assets for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Balance, January 1	\$ 10,730	\$ 8,401
Contributions	-	1,100
Investment (loss) income	(728)	1,229
Balance, December 31	<u>\$ 10,002</u>	<u>\$ 10,730</u>

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE G - LINE-OF-CREDIT

The line-of-credit permits borrowing up to \$250,000, bearing interest at a variable rate based on adjusted LIBOR (1-month LIBOR was 2.5% and 1.5% at December 31, 2018 and 2017, respectively). All outstanding principal and interest is due upon maturity on October 5, 2020. The line-of-credit is secured by real property. The line had no outstanding balance as of December 31, 2018 and 2017.

NOTE H - NOTES PAYABLE

Notes payable consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Note payable to a financial institution, bearing interest at a fixed rate of 4.55%, principal and interest payments due monthly, maturing October 5, 2029, at which time all unpaid principal and interest is due, secured by real property	\$ 172,811	\$ 713,506
Deferred loan costs	(14,574)	(14,574)
Accumulated amortization	3,886	2,915
Less current portion	<u>(49,509)</u>	<u>(47,281)</u>
Total notes payable, net	<u>\$ 112,614</u>	<u>\$ 654,566</u>

Future maturities of notes payable as of December 31, 2018 are as follows:

Years Ending <u>December 31,</u>	<u>Debt Service</u>	<u>Amortization</u>
2019	\$ 49,509	\$ 972
2020	51,762	972
2021	54,280	972
2022	<u>17,260</u>	<u>7,772</u>
Total	<u>\$ 172,811</u>	<u>\$ 10,688</u>

The notes payable contain customary affirmative covenants, negative covenants, and events of default but have no financial covenants. The Organization was in compliance with all covenants at December 31, 2018 and 2017.

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE I - NET ASSETS

As of December 31, 2018 and 2017, net assets with donor restrictions related to the following:

	<u>2018</u>	<u>2017</u>
Peace Project - specific purpose	\$ 2,638	\$ 2,638
Nurturing Dads - permanently endowed	10,002	10,730
Ideal Foundation - permanently endowed	20,000	20,000
Wishnie Memorial Fund - permanently endowed	<u>59,017</u>	<u>57,417</u>
	<u>\$ 91,657</u>	<u>\$ 90,785</u>

NOTE J - IN-KIND CONTRIBUTIONS

Certain services are provided to the Organization gratis or at a cost substantially less than fair market value. The difference between that actual charge and the estimated fair market value is reflected as in-kind revenue and expense in the accompanying financial statements. In-kind revenue and expense of \$766,843 and \$789,602 for the years ended December 31, 2018 and 2017, respectively, consisted primarily of in-kind rent for centers and in-kind professional services. Additionally, volunteers and parents have donated approximately 12,200 and 11,400 hours for 2018 and 2017, respectively, to the Organization in various capacities. However, these services are not reflected in the financial statements as the services do not require specialized skills.

NOTE K - OPERATING LEASES

The Organization leases center space, vehicles, and certain office equipment under operating leases, which expire on various dates through 2020. The rent expense under these operating leases for the years ended December 31, 2018 and 2017 was \$306,345 and \$301,867, respectively, and is included in occupancy in the statement of functional expenses. In-kind rental expense for various space for the years ended December 31, 2018 and 2017 was \$267,840 and \$267,818, respectively.

Future minimum lease payments required under non-cancelable leases as of December 31, 2018 are as follows:

2019	\$ 22,089
2020	<u>16,473</u>
Total minimum lease payments	<u>\$ 38,562</u>

NOTE L - CERTIFICATE OF DEPOSIT

Certificate of deposit consists of one certificate which matures in June 2020 and accrues interest at 1.83%.

CHILDREN FIRST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE M - RETIREMENT PLANS

The Organization has a 403(b) retirement plan covering all employees who have completed 1,000 or more hours of service within a one-year service period. The Organization's policy is to contribute 5% of eligible employee's compensation to the plan. In addition, for employees contributing at least 1% of compensation, the Organization will also contribute \$1 for each \$1 the employee contributes to the plan up to 2% of compensation. The employer's contribution vests based on the years of service. Forfeitures are used by the Organization to offset its contribution to the plan. Retirement expense for the years ended December 31, 2018 and 2017 was \$282,318 and \$247,685, respectively.

NOTE N - CONCENTRATIONS OF RISK

The Organization received federal funding from the Department of Health and Human Services in 2018 and 2017, which accounted for approximately 59% and 58% of revenues.

The Organization receives a substantial amount of support from grantor agencies for its programs. If this support were to be reduced or eliminated, it could affect the operation of the supported programs. In addition, the Organization is subject to audit examination by grantor agencies. In the event that reimbursed expenditures were disallowed, repayments would be required. Management believes the Organization is in compliance with the terms of its grant agreements.

NOTE O - CONDITIONAL PROMISES TO GIVE

During 2015, the Organization began a program campaign called Raise Your Hand. These pledges are an intention to give, rather than a promise, and are dependent on the ongoing sustainability of the four new initiatives outlined in the campaign. At December 31, 2018 and 2017, the Organization had \$1,088,438 and \$1,854,652, respectively, of conditional pledges outstanding. Since these grants represent conditional promises to give, they are not recorded as contribution revenue until donor conditions are met. Funds received from the donor in advance of the conditions being met totaled \$263,703 as of December 31, 2018 and 2017, recorded as refundable advances within deferred revenue in the accompanying statements of financial position; and will subsequently be recognized as contribution revenue when donor conditions are met.

NOTE P - SUBSEQUENT EVENTS

The Organization evaluated subsequent events through April 3, 2019, the date the financial statements were available and issued. The Organization is not aware of any subsequent events which would require recognition or disclosures in the financial statements.

SUPPLEMENTARY INFORMATION

CHILDREN FIRST, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

<u>Federal Agency</u> <u>Pass-Through Entity</u> <u>Federal Program</u>	<u>CFDA</u> <u>Number</u>	<u>Contract/</u> <u>Pass-Through Entity</u> <u>Identifying Number</u>	<u>Expenditures</u>
FEDERAL AWARDS:			
U.S. Department of Agriculture			
<i>Passed through Florida Department of Health:</i>			
Child and Adult Care Food Program	10.558	S-6	\$ 432,237
U.S. Department of Health and Human Services			
Head Start/Early Head Start	93.600	04CH010293-02	<u>6,617,357</u>
Total Expenditures of Federal Awards			<u>\$ 7,049,594</u>

See notes to schedule of expenditures of federal awards

CHILDREN FIRST, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the grant activity of Children First, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with accounting principles generally accepted in the United States of America as applicable to non-profit organizations and Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The Organization did not elect to use the 10% de minimis indirect cost rate.

MATCH

The Organization is required to provide at least 20% of the cost of the Head Start program through cash or in-kind contributions from non-Federal sources. The Organization met this match requirement for the year ended December 31, 2018.



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**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
Children First, Inc.
Sarasota, Florida

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 financial statements of Children First, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 3, 2019.

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 opinions 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. 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.

CONTINUED

**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 - CONTINUED**

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.

PDR CPAs + Advisors

Oldsmar, Florida

April 3, 2019



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

To the Board of Directors
Children First, Inc.
Sarasota, Florida

Report on Compliance for Each Major Federal Program

We have audited Children First, 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 each of the Organization's major federal programs for the year ended December 31, 2018. 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 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 December 31, 2018.

CONTINUED

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

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.

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 weakness 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.

PDR CPAs + Advisors

Oldsmar, Florida
April 3, 2019

**CHILDREN FIRST, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018**

Part I - Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards Section

Internal control over major federal programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified not considered to be material weakness(es)? yes none reported

Type of auditor's report on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR part 200, subpart E of the Uniform Guidance? yes no

Identification of major federal programs:

Federal Programs:

CFDA Numbers	Name of Program of Cluster
93.600	U.S. Department of Health and Human Services Head Start/Early Head Start

Dollar threshold used to determine Type A programs:

Federal programs \$ 750,000

Auditee qualified as low-risk auditee for federal purposes? yes no

CHILDREN FIRST, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2018

Part II - Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weakness, and instances of noncompliance related to the consolidated financial statements that are required to be reported in accordance with *Government Auditing Standards*.

There were no reportable findings.

Part III - Federal Award Findings and Questioned Costs

This section identifies the significant deficiencies, material weakness, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by the Uniform Guidance.

There were no reportable findings.

Summary Schedule of Prior Audit Findings

A Summary Schedule of Prior Audit Findings is not necessary since there were no prior audit findings.