HIBISCUS CHILDREN'S CENTER, INC.
AND AFFILIATE,
HIBISCUS CHILDREN'S CENTER
FOUNDATION, INC.

Combined Financial Statements
with
Independent Auditors' Report

Year Ended June 30, 2019
(With Corresponding Totals for June 30, 2018)

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Independent Auditors' Report

To the Boards of Directors
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying combined financial statements of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc. (a nonprofit organization), which comprise the combined statement of financial position as of June 30, 2019, and the related combined statements of activities, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

To the Boards of Directors
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.

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 combined financial statements referred to above present fairly, in all material respects, the financial position of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc. as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary and Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supplementary information including the combining schedule of financial position and the combining schedule of activities and changes in net assets, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Additional information including the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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. Both the Supplementary information and the Additional information are 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 11, 2020 on our consideration of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, 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 Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, 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 Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'s internal control over financial reporting and compliance.

To the Boards of Directors
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.

Report on Summarized Comparative Information

The Organization's 2018 financial statements were audited by other auditors who expressed an unmodified audit opinion on those audited financial statements in their report dated February 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with those audited financial statements from which it has been derived.

Nuttall, Donini & Associates, CPA's

Nuttall, Donini & Associates, CPA's

February 11, 2020

Hibiscus Children's Center, Inc. and Affiliate
Combined Statements of Financial Position
June 30, 2019
(With Corresponding Totals for June 30, 2018)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 787,503	$ 1,026,598
Accounts receivable, net	985,721	636,600
Contributions receivable, net	47,975	132,852
Prepaids and other assets	47,737	81,686
Total current assets	1,868,936	1,877,736
Other assets:		
Investments	3,092,211	3,797,816
Contributions receivable, net	107,956	188,456
Deposits	17,204	18,765
Total other assets	3,217,371	4,005,037
Property and equipment, net	4,241,509	3,272,518
Total assets	$ 9,327,816	$ 9,155,291
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 256,711	$ 167,890
Accrued compensation and related expenses	551,036	481,559
Total current liabilities	807,747	650,449
Net assets:		
Without donor restrictions	8,215,548	7,674,573
With donor restrictions	304,521	830,269
Total net assets	8,520,069	8,504,842
Total liabilities and net assets	$ 9,327,816	$ 9,155,291

See accompanying notes to financial statements.

Hibiscus Children's Center, Inc. and Affiliate
Combined Statements of Activities and Changes in Net Assets
For the year ended June 30, 2019
(With Corresponding Totals for June 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	All Funds Combined
Operating activities:				
Grants and contracts for operations	$4,284,770	$ -	$4,284,770	$4,466,362
Program service revenues	1,394,148	-	1,394,148	1,354,856
Donations	715,961	398,975	1,114,936	1,638,242
Thrift Shop	338,476	-	338,476	327,777
Special events (integral and ongoing):				
Special event revenue	808,426	-	808,426	859,513
Cost of direct benefits to donors	(192,451)	-	(192,451)	(204,769)
Net revenue from special events	615,975	-	615,975	654,744
Total revenue and support before releases	7,349,330	398,975	7,748,305	8,441,981
Net assets released from restrictions				
Satisfaction of program restrictions	315,102	(315,102)	-	-
Satisfaction of capital improvements	615,946	(615,946)	-	-
Total revenue and support	8,280,378	(532,073)	7,748,305	8,441,981
Expenses:				
Program activities:				
Residential programs	4,092,607	-	4,092,607	4,593,183
Clinical	1,685,884	-	1,685,884	1,499,197
Support for families in crisis	423,909	-	423,909	212,237
Total program activities	6,202,400	-	6,202,400	6,304,617
Thrift Shop	292,621	-	292,621	265,628
Fundraising activities	383,790	-	383,790	449,011
General and Administrative	1,025,580	-	1,025,580	982,891
Total program and supporting activities	7,904,391	-	7,904,391	8,002,147
Change in net assets from operating activities	375,987	(532,073)	(156,086)	439,834
Non-operating activities:				
Investment return, net	165,252	6,325	171,577	211,534
Interest expense	(264)	-	(264)	-
Change in net assets from non-operating activities	164,988	6,325	171,313	211,534
Change in net assets	540,975	(525,748)	15,227	651,368
Net assets, beginning of year	7,674,573	830,269	8,504,842	7,853,474
Net assets, end of year	$8,215,548	$ 304,521	$8,520,069	$8,504,842

See accompanying notes to financial statements.

Hibiscus Children's Center, Inc. and Affiliate
Combined Statements of Functional Expenses
For the year ended June 30, 2019
(With Corresponding Totals for June 30, 2018)

	2019								2018
	Program Activities				Supporting Activities				Combined
	Residential Programs	Clinical	Support for Families In Crisis	Total Program	Thrift Store	Fundraising	General and Administrative	Total Expenses	
Salaries and wages	$ 2,378,703	$ 1,043,084	$ 218,224	$ 3,640,011	$ 142,974	$ 207,325	$ 662,225	$ 4,652,535	$ 4,846,934
Employee benefits	450,722	161,897	42,555	655,174	33,760	26,404	110,349	825,687	923,198
Payroll taxes	194,309	82,865	17,239	294,413	11,459	16,057	49,472	371,401	321,779
Total staffing	3,023,734	1,287,846	278,018	4,589,598	188,193	249,786	822,046	5,849,623	6,091,911
Aid to families	5,264	-	13,325	18,589	-	-	-	18,589	23,961
Bad debt	8,792	71,861	-	80,653	-	-	-	80,653	73,307
Depreciation	164,215	3,320	-	167,535	-	-	9,908	177,443	208,430
Donor appreciation	-	-	-	-	-	6,174	-	6,174	9,324
Dues, licenses and subscriptions	15,156	6,896	1,138	23,190	994	15,811	34,980	74,975	22,310
Equipment rental and maintenance	104,235	10,638	1,141	116,014	1,087	10,375	6,621	134,097	173,039
General operating supplies	185,315	4,899	366	190,580	1,328	3,685	7,878	203,471	237,445
Insurance	97,378	15,472	2,234	115,084	6,511	2,359	17,969	141,923	149,324
Occupancy	111,485	45,019	9,774	166,278	66,267	9,291	21,109	262,945	243,678
Office expenses and miscellaneous	90,123	77,109	11,261	178,493	12,704	38,169	47,724	277,090	215,849
Printing and distribution	899	422	62	1,383	54	10,526	1,713	13,676	20,550
Professional services	84,479	74,688	3,693	162,860	8,190	4,113	20,570	195,733	140,892
Program expenses	102,262	19,745	66,776	188,783	-	11,321	-	200,104	113,183
Public education, advocacy and promotion	136	539	-	675	513	12,329	-	13,517	45,345
Telephone	35,078	18,959	4,017	58,054	2,870	4,123	14,971	80,018	76,512
Training	17,525	9,699	20,023	47,247	414	1,420	12,549	61,630	44,499
Travel and transportation	46,531	38,772	12,081	97,384	3,496	4,308	7,542	112,730	112,592
Total expenses	$ 4,092,607	$ 1,685,884	$ 423,909	$ 6,202,400	$ 292,621	$ 383,790	$ 1,025,580	$ 7,904,391	$ 8,002,151

See accompanying notes to financial statements.

Hibiscus Children's Center, Inc. and Affiliate
Combined Statements of Cash Flows
For the year ended June 30, 2019
(With Corresponding Totals for June 30, 2018)

		2019		2018
Cash flows from operating activities:				
Change in net assets	$	15,227	$	651,368
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		177,443		208,430
Net realized and unrealized gains on investments		(170,263)		(244,971)
(Increase) decrease in:				
Accounts receivable		(349,121)		(26,296)
Contributions receivable		165,377		(147,852)
Prepaids and other assets		33,949		(28,863)
Deposits		1,561		-
Increase (decrease) in:				
Accounts payable		88,821		61,001
Accrued compensation and related expenses		69,477		(35,372)
Deferred revenue		(1,000)		(16,300)
Net cash provided by operating activities		31,471		421,145
Cash flows from investing activities				
Purchase of property and equipment		(1,146,434)		(520,384)
Proceeds from sale of investments		2,264,792		3,786,861
Purchase of investments		(1,388,924)		(3,786,989)
Net cash used for investing activities		(270,566)		(520,512)
Net decrease in cash		(239,095)		(99,367)
Cash and cash equivalents, beginning of year		1,026,598		1,125,972
Cash and cash equivalents, end of year	$	787,503	$	1,026,605
Supplemental disclosure of cash flow information:				
Interest paid	$	264	$	-

See accompanying notes to financial statements.

Note 1 – Nature of Organization and Purpose

Organization and Purpose

Hibiscus Children's Center, Inc. ("Hibiscus") is a Florida not-for-profit corporation organized and licensed by the Florida Department of Children and Families to operate a number of well-defined programs to meet the critical needs of Florida's abused or neglected children and their families. These programs are varied in scope to focus directly on the needs of these troubled children and include high quality residential care, assistance to families in trouble, therapeutic services and support for foster families. Serving principally the Martin, Okeechobee, St. Lucie and Indian River counties of Florida, Hibiscus was incorporated on September 11, 1985 and opened the first shelter in October 1989. Hibiscus provides the following social, health and welfare services to the community.

Hibiscus Residential Programs provide a safe environment for newborns to 17- year olds with 24-hour supervision, medical and dental care, plus psychological counseling through facilities at its Jensen Beach Shelter, Vero Beach Children's Village and St. Lucie Sanctuary4Kids Emergency Shelter. At these facilities, children live in a home-like environment where they can more naturally prepare for successful transition into foster or adoptive homes. Hibiscus is the only licensed residential child caring shelter on the Treasure Coast of Florida. The facilities care for children removed from their families by court order.

Hibiscus Clinical Programs provide a wide range of mental health services to residential and outpatient clients. These services include individual, family and group therapy, psychiatric evaluation, medication management and many more critical services that support children and their families in our community.

Hibiscus Support For Families in Crisis is a nationally recognized abuse prevention program for families who seek help voluntarily offering respite care, counseling, housing and mental health services.

Hibiscus Safe Care Program provides home-based prevention services with an individual or family focus that include assessment, case planning, case management, education, and/or skill building that have been shown to be effective in preventing child abuse.

Affiliated Corporation

The Hibiscus Children's Center Foundation, Inc. ("Foundation") was established for the purpose of conducting fundraising activities and for generating and maintaining endowment funds exclusively for Hibiscus. Both Hibiscus and the Foundation are related organizations with a majority of the same Board of Directors. The accompanying financial statements include the accounts of both entities. Inter-company transactions and balances have been eliminated.

Income Tax Status

Hibiscus and its affiliate are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the code. Hibiscus and its affiliate are not classified as private foundations. Accordingly, no provision for income taxes is recorded in the accompanying financial statements.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles, using the accrual basis of accounting. Assets and related revenues are recorded when earned, and liabilities and related expenses are recognized as incurred. In applying generally accepted accounting principles to program service revenues, the legal and contractual requirements of the individual programs are used as guidance.

Basis of Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the Guide). ASC 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and changes therein are classified as follows:

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 Hibiscus. Hibiscus' Board of Directors may designate assets without restrictions for specific operational purposes from time to time.

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 Hibiscus or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

All contributions are considered available for unrestricted use unless specifically restricted by the donor. When a restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments that are readily convertible into cash and have original maturities of three months or less.

Investments

Debt and equity securities with readily determinable fair values purchased for investment are recorded at fair value based on quoted market prices. Net appreciation (depreciation) in the fair value of investments, which includes realized gains and losses and unrealized appreciation (depreciation) on those investments, is reported in the statement of activities in accordance with

Note 2 – Summary of Significant Accounting Policies (continued)

Investments(continued)

donor restrictions as investment return. Investment return is presented net of investment fees. Cost basis is determined on the date of purchase. Hibiscus, on occasion, receives short-term investments, generally consisting of stocks or bonds, from donors in satisfaction of pledges made. The organization sells the contributed investments as soon as is practical after receipt.

Unconditional Promises to Give

Unconditional promises to give (contributions receivable) are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Unconditional promises to give that are scheduled to be collected in the succeeding twelve months are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give that are scheduled to be collected beyond the succeeding twelve months are reflected as long-term promises to give and are recorded at the present value of their net realizable value. Management considers the unconditional promises receivable at year-end to be fully collectible, therefore, an allowance for uncollectible promises has not been recorded. Conditional promises to give are recognized when the condition on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

Allowance for Doubtful Accounts

Accounts receivable considered uncollectible are charged against the allowance account in the year they are deemed uncollectible. The allowance account is adjusted at year end to reflect the percentage of accounts receivable considered uncollectible.

Property and Equipment

Property and equipment acquisitions greater than $1,000 are capitalized and are stated at cost. Donated property and equipment is recorded at the fair market value at the date of the gift. Depreciation is provided on a straight-line basis over the estimated useful life of the asset, which ranges from 3 - 40 years.

In-kind Contributions

Hibiscus records in-kind contributions of services requiring special skills that create or enhance the value of non-financial assets at their fair market values consistent with those amounts which would be paid for similar products and services.

Contributed Services

While Hibiscus receives a significant amount of donated services from unpaid volunteers that enhance the effectiveness of the programs or assist in fund-raising and administration, these services do not create or enhance non-financial assets, nor do they require specialized skills that if not provided by a volunteer would be purchased. Accordingly, while these services contribute to the success of the programs, they do not meet the criteria for recognition under ASC 958-605-25-16 and have not been reflected in the accompanying financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to Hibiscus' ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management by location are allocated based on Full Time Equivalent (FTE). The percentage is calculated using total number of department FTE employees over total FTE employees at the facility.

Accounting Estimates

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

Prior Period Information

The financial statements include certain prior year corresponding totals intended to be read only in relation to the current period presentation. The corresponding information was derived from Hibiscus's audited financial statements for the year ended June, 30, 2018, but does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. The prior year corresponding totals may also reflect certain reclassifications of amounts to conform to the current year presentations.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 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. Hibiscus has adjusted the presentation of these statements accordingly.

Note 3 – Cash Balances

Amounts held in individual financial institutions may exceed FDIC insured limits. Uninsured cash equivalent balances were $485,747 at June 30, 2019. Hibiscus has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Note 4 – Accounts Receivable

Accounts receivable of $985,721 at June 30, 2019, consist primarily of vendor contracts from federal and state funding sources and Medicaid. This amount is reported net of an allowance of $48,591 at June 30, 2019.

Note 5 – Contributions Receivable

Contributions receivable as of June 30, 2019, consist of unconditional promises to give in future years as follows:

Within one year	$ 47,975
Within two to five years	55,000
Over five year	52,956
	$ 155,931

Note 6 – Investments

Investments, carried at fair value based on quoted prices in active markets consist of the following at June 30, 2019:

	Cost	Fair Market Value	Net Unrealized Gains (Losses)
Mutual funds	$ 2,791,147	$ 2,634,707	$ (156,440)
Cash and cash alternatives	457,504	457,504	-
	$ 3,248,651	$ 3,092,211	$ (156,440)

The composition of investment return includes the following for the year ended June 30, 2019:

Interest and dividend earnings	$ 77,367
Account expenses	(12,221)
Net realized gain (loss) on investments	262,871
Net unrealized gain (loss) on investments	(156,440)
	$ 171,577

Hibiscus maintains investment balances at a brokerage institution insured by the Securities Investor Protection Corporation (SIPC) up to $500,000, including a maximum $250,000 for cash claims. SIPC protection would be triggered only in the event of the financial failure and liquidation of a participating securities affiliate and if Hibiscus' securities were not returned. This protection does not cover investment losses in customer accounts due to market fluctuation or other claims for losses incurred. Investments of $2,634,707 at June 30, 2019, consist of mutual funds which are subject to market risk of fluctuations in value.

Note 7 – Fair Value Measurements

ASC topic 820, "Fair Value Measurements and Disclosures", defines fair value, establishes guidelines for measuring fair value, and expands disclosure regarding fair value measurements. ASC Topic 820 established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. ASC Topic 820 establishes and prioritizes three levels of inputs that may be used to measure fair value.

Level 1 Measurements – Quoted prices in active markets for identical assets or liabilities.

Level 2 Measurements – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Measurements – Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

Fair values of assets measured on a recurring basis at June 30, 2019 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 2,634,707	$ 2,634,707	$ -	$ -
Contributions receivable	155,931	-	-	155,931
	$ 2,790,638	$ 2,634,707	$ -	$ 155,931

The following methods and assumptions were used by Hibiscus in estimating its fair value disclosures for financial instruments:

- Cash and cash equivalents, accounts receivable, contributions receivable, accounts payable, and accrued liabilities: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments or because they are not subject to valuation on recurring basis.
- Investments: The fair value of current and other investments is based on quoted market prices for those investments where available.

Note 7 – Fair Value Measurements (continued)

The Board of Directors reviews and approves Hibiscus' fair value measurement policies and procedures annually. At least annually, the finance committee and the Board of Directors determine if the valuation techniques used in fair value measurements are still appropriate.

Note 8 – Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30, 2019:

Land and improvements	$ 272,449
Building and improvements	4,116,651
Furniture and Equipment	482,392
Data processing equipment	123,577
Vehicles and improvements	263,037
Construction in Process	1,252,938
	6,511,044
Accumulated depreciation	(2,269,535)
	$ 4,241,509

Note 9 – Line of Credit

Hibiscus Children's Center maintains a line of credit in an amount not to exceed $600,000 with interest at the Wall Street Journal Prime Rate less 0.5%. The line of credit matures on January 6, 2021. At June 30, 2019, the outstanding balance due was $0.

Note 10 – Lease Commitments

Hibiscus rents office space and various equipment. Rent expense was approximately $192,000 for the year ended June 30, 2019.

Hibiscus has committed to various long-term building and equipment leases with terms expiring through 2021. Future minimum rental payments under these agreements are as follows:

June 30, 2020	$ 56,298
June 30, 2021	7,868
	$ 64,166

Note 11 – Retirement Plans

Hibiscus Children's Center sponsors a 401(k) plan that covers all employees who have completed their initial 90-day probationary period. Employees deferring compensation into the plan receive up to a 100 percent match, on their first 3% contribution, which is optional at the discretion of the Board of Directors. For the year ended June 30, 2019, the amount of pension expense was $118,556.

Hibiscus also has a 457(b) plan which covers only the president/CEO. The Board of Directors has approved deferred compensation of $20,000 per year, accrued upon completion of each year, for five years under the president/CEO's contract. These funds will vest and become payable solely and in its entirety at the end of the five-year period, June 1, 2023

Note 12 – Net Assets – With Donor Restrictions

Donor restricted net assets consist of the following purposes as of June 30, 2019:

Subject to expenditure for specified purpose:	
Shelter Makeover Campaign	$ 134,749
Guilds	7,821
Village van purchase	29,250
	171,820
Subject to spending policy and appropriation:	
Investment in perpetuity:	
Donor restricted endowment	118,392
Subject to appropriation and expenditure when a specified event occurs:	
Net investment earnings on investment in perpetuity	14,309
Total net assets with donor restrictions	$ 304,521

Releases from donor restricted net assets for the year ended June 30, 2019, are as follows:

Releases from restrictions:	
Subject to expenditure for specified purpose:	
Shelter Makeover Campaign	$ 337,331
Village Improvements Campaign	41,044
Capital funds	237,571
Residential and other programs	296,065
Graphic design center	18,352
Guilds	685
	$ 931,048

Note 13 – Board Designated Net Assets

The board designated net assets for the year ended June 30, 2019, are comprised of the following:

Without donor restrictions:	
Designated by the Board for:	
Quasi-endowment	$2,487,891

Note 14 –Endowment

Hibiscus has classified a substantial portion of its financial resources as endowment, which is invested to generate income to be used to support operating and strategic initiatives. The endowment includes both donor-restricted endowment funds which are classified and reported based on the existence or absence of donor-imposed restrictions and funds designated by the Board of Directors to function as an endowment. Funds are invested for long-term appreciation and current income.

Interpretation of Relevant Law
Hibiscus is subject to the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) and, thus classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Directors has interpreted the FUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument, when applicable.

In accordance with FUPMIFA, Hibiscus considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Hibiscus and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Hibiscus
- The investment policies of Hibiscus

Note 14 –Endowment (continued)

Funds with Deficiencies
From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor, FUPMIFA, or Hibiscus policies requires to retain as a fund of perpetual duration. If this were to occur, Hibiscus would not expend any monies from the fund until the fair market value of the fund returns to a level above the principal. Hibiscus does not have any deficiencies as of June 30, 2019.

Return Objectives and Risk Parameters
Hibiscus has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operations supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by Hibiscus, the endowment assets are invested in a manner that is intended to produce results that meet or exceed certain relevant market benchmark indexes while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives
Hibiscus relies on a total return strategy in which returns are achieved through capital appreciation and current yield (interest and dividends). Hibiscus targets a diversified asset allocation that emphasizes a balance between equities and fixed income securities to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy
Hibiscus's spending policy, as authorized by the Board of Directors, is to consider expected rates of return on investments, restrictions on principal, requirements to support operations and special projects, maintenance of prudent reserves, tax code requirements, and allowances for market and economic uncertainties, as applicable. Transfers to operating accounts from the endowment funds earnings require appropriation by the Board of Directors or Executive Committee.

The net assets with donor restrictions at June 30, 2019, consist of contributed assets restricted by the donors as endowments to provide an ongoing source of revenue for Hibiscus.

Note 14 –Endowment (continued)

Endowment net asset composition by type of fund as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds:			
Original donor restricted gift amount and amount and amounts required to be maintained in perpetuity by donor	$ -	$ 118,392	$ 118,392
Accumulated investment gains	-	14,309	14,309
Board restricted endowment funds	2,487,891	-	2,487,891
Total endowment funds	$2,487,891	$ 132,701	$2,620,592

As of June 30, 2019, the endowment fund is comprised of:

Investments	$2,620,592

Changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$3,199,356	$ 126,376	$3,325,732
Investment return, net	161,371	6,325	167,696
Contributions	-	-	-
Amount appropriated for expenditure	(872,836)	-	(872,836)
Endowment net assets, end of year	$2,487,891	$ 132,701	$2,620,592

Note 15 – Liquidity and Availability of Resources (continued)

Hibiscus' financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	$ 787,503
Accounts receivable, net	985,721
Contributions receivable, net	47,975
Prepaids and other assets	47,737
Total financial assets available within one year	$ 1,868,936

Hibiscus's financial assets have been reduced by amounts not available for general use because of donor imposed restrictions, not available within one year of the statement of financial position date, and amounts set aside for long-term investing in endowments.

Hibiscus's endowment funds consist of donor-restricted endowments and a quasi-endowment fund. Income from the donor-restricted endowments is restricted until appropriated for specific purposes and, therefore, is not available for general expenditure.

As part of Hibiscus' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, Hibiscus has a committed line of credit in the amount of $600,000, which it could draw upon. Additionally, Hibiscus has a quasi-endowment of $2,487,891. Although Hibiscus does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

Note 16 – Medicaid Income

The following table illustrates net patient service income from Medicaid by geographic market for the fiscal year ended June 30, 2019:

Fort Pierce	$ 564,203
Okeechobee	166,524
Jensen Beach	224,346
Vero Beach	408,819
Total patient service income	$ 1,363,892

Note 17 – Support from Other Governmental Agencies

Hibiscus entered into various agreements during the year ended June 30, 2019, with The Children's Services Councils of St. Lucie County and Okeechobee County to receive local matching financial assistance necessary to qualify for federal and state grants. The following represents the revenues, donations and expenditures associated with each program and funding agency:

	Clinical	Families in Crisis	Total
Children's Services Councils grant revenues serving:			
St. Lucie County	$ -	$ 196,583	$ 196,583
Okeechobee County	30,000	-	30,000
Safe Care	-	123,987	123,987
	30,000	320,570	350,570
Program expenditures	(1,685,884)	(423,909)	$(2,109,793)
Excess from other sources	$(1,655,884)	$ (103,339)	$(1,759,223)

Note 18 – Disclosure of Subsequent Events

Management has evaluated subsequent events through February 11, 2020 , the date the financial statements were available to be issued. Management is not aware of any events subsequent to the statement of financial position date which would require additional adjustments to, or disclosure in, the accompanying financial statements.

SUPPLEMENTARY INFORMATION

Hibiscus Children's Center, Inc. and Affiliate
Combining Schedule of Financial Position
June 30, 2019

	Hibiscus Children's Center, Inc.	Hibiscus Children's Center Foundation, Inc.	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 620,686	$ 166,817	$ 787,503
Accounts receivable, net	985,721	-	985,721
Contributions receivable, net	27,500	20,475	47,975
Prepaids and other assets	34,975	12,762	47,737
Due from Center (due to Foundation)	(592,436)	592,436	-
Total current assets	1,076,446	792,490	1,868,936
Other assets:			
Investments	-	3,092,211	3,092,211
Contributions receivable, net	25,500	82,456	107,956
Deposits	17,204	-	17,204
Total other assets	42,704	3,174,667	3,217,371
Property and equipment, net	4,241,509	-	4,241,509
Total assets	$ 5,360,659	$ 3,967,157	$ 9,327,816
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 254,719	$ 1,992	$ 256,711
Accrued compensation and related expenses	551,036	-	551,036
Total current liabilities	805,755	1,992	807,747
Net assets:			
Without donor restrictions	4,383,084	3,832,464	8,215,548
With donor restrictions	171,820	132,701	304,521
Total net assets	4,554,904	3,965,165	8,520,069
Total liabilities and net assets	$ 5,360,659	$ 3,967,157	$ 9,327,816

See accompanying notes to financial statements.

Hibiscus Children's Center, Inc. and Affiliate
Combining Schedule of Activities and Changes in Net Assets
For the year ended June 30, 2019

	Hibiscus Children's Center, Inc.	Hibiscus Children's Center Foundation, Inc.	Total
Operating activities:			
Grants and contracts for operations	$ 4,284,770	$ -	$ 4,284,770
Program service revenues	1,394,148	-	1,394,148
Donations	360,239	754,697	1,114,936
Thrift Shop	338,476	-	338,476
Fundraising events	-	808,426	808,426
Less direct costs of events	-	(192,451)	(192,451)
Net revenue from special events	-	615,975	615,975
Total revenue and support	6,377,633	1,370,672	7,748,305
Expenses:			
Program activities:			
Residential programs	4,092,607	-	4,092,607
Clinical	1,685,884	-	1,685,884
Support for families in crisis	423,909	-	423,909
Total program activities	6,202,400	-	6,202,400
Thrift Shop	292,621	-	292,621
Fundraising activities	122,387	261,403	383,790
General and Administrative	1,025,580	-	1,025,580
Total program and supporting activities	7,642,988	261,403	7,904,391
Change in net assets from operating activities	(1,265,355)	1,109,269	(156,086)
Non-operating activities:			
Investment return, net	107	171,470	171,577
Interest expense	(264)	-	(264)
Change in net assets from non-operating activities	(157)	171,470	171,313
Change in net assets before transfers	(1,265,512)	1,280,739	15,227
Transfer from Foundation to Center	1,373,107	(1,373,107)	-
Change in net assets	107,595	(92,368)	15,227
Net assets, beginning of year	4,447,309	4,057,533	8,504,842
Net assets, end of year	$ 4,554,904	$ 3,965,165	$ 8,520,069

See accompanying notes to financial statements.

ADDITIONAL INFORMATION

Hibiscus Children's Center, Inc. and Affiliate
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant Contract Number	Expenditures
United States Department of Health and Human Services			
Pass Through from Community Based Care:			
Foster care - Title IV-E	93.658	N/A	$ 20,541
Foster care - Title IV-E	93.658	N/A	135,889
Foster care - Title IV-E	93.658	GJL57	26,205
Foster care - Title IV-E	93.658	CCK19-308	69,633
Foster care - Title IV-E	93.658	CCK19-301	319,410
Foster care - Title IV-E	93.658	DCBC 18-302	335,334
Foster care - Title IV-E	93.658	N/A	27,138
Foster care - Title IV-E	93.658	N/A	7,609
Foster care - Title IV-E	93.658	N/A	81,462
Foster care - Title IV-E	93.658	N/A	35,764
Foster care - Title IV-E	93.658	N/A	1,790
Foster care - Title IV-E	93.658	N/A	4,377
Foster care - Title IV-E	93.658	N/A	15,309
Foster care - Title IV-E	93.658	N/A	76,123
Total Foster care - Title IV-E			1,156,584
Social Services Block Grant	93.667	N/A	14,423
Social Services Block Grant	93.667	N/A	95,419
Social Services Block Grant	93.667	GJL57	19,417
Social Services Block Grant	93.667	CCK19-308	50,435
Social Services Block Grant	93.667	CCK19-301	231,350
Social Services Block Grant	93.667	DCBC 18-302	242,884
Social Services Block Grant	93.667	N/A	20,108
Social Services Block Grant	93.667	N/A	5,511
Social Services Block Grant	93.667	N/A	59,003
Social Services Block Grant	93.667	N/A	1,297
Social Services Block Grant	93.667	N/A	3,170
Social Services Block Grant	93.667	N/A	11,088
Total Social Services Block Grant			754,105
Maternal, Infant, and Early Childhood Home Visiting Grant Program	93.558	HIB-1-FY18-19	164,454
Total United States Department of Health and Human Services			2,075,143
United States Department of Justice			
Pass Through from Office of the Attorney General:			
Victim of Crimes Act	16.575	VOCA-2018-	117,799
Victim of Crimes Act	16.575	VOCA-2019-	38,713
Total Victim of Crimes Act			156,512
Total United States Department of Justice			156,512
Total Federal Expenditures			$ 2,231,655

See accompanying notes to schedule of expenditures of federal awards.

Hibiscus Children's Center, Inc. and Affiliate
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Hibiscus Children's Center, Inc. (Hibiscus) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B – Contingency

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies. Any disallowed claims, including amounts already received, might constitute a liability of Hibiscus for the return of those funds.

NUTTALL DONINI & ASSOCIATES, CPA's
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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 Boards of Directors of
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.

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 Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc., which comprise the combined statement of financial position as of June 30, 2019, and the related combined 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 11, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'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 Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal controls, described in the accompanying schedule of findings and questioned costs as items **2019-01, 2019-02** and **2019-03** that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'s Response to Findings

Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Nuttall, Donini & Associates, CPA's

Nuttall, Donini & Associates, CPA's

February 11, 2020

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

To the Boards of Directors of
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.

Report on Compliance for Each Major Federal Program

We have audited Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hibiscus Children's Center, Inc. and Affiliate's major federal programs for the year ended June 30, 2019. Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'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 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 Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'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 Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'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 Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'s compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc. 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 Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'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 Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Nuttall, Donini's Associates, CPA's

Nuttall, Donini & Associates, CPA's

February 11, 2020

Hibiscus Children's Center, Inc. and Affiliate
Schedule of Findings and Questioned Costs
Federal Awards Programs
Year Ended June 30, 2019

A. Summary of Audit Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? ___yes **X** no
- Significant Deficiency(s) **X** yes ___ no

Noncompliance material to financial statements noted? ___yes **X** no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ___ yes **X** no
- Significant Deficiency(s) identified ___ yes **X** no

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___ yes **X** no

The programs tested as major programs include:

Federal Program	Federal CFDA No.
United States Department of Health and Human Services:	
Foster Care - Title IV-E	93.658
Social Services Block Grant	93.667

The threshold for distinguishing Type A and B programs was $750,000 for major federal award programs.

Auditee qualified as low-risk auditee? **X** yes ___ no

B. Findings - Financial Statements Audit:

2019-01 *Financial Close and Reconciliation of Subsidiary Ledgers*

Criteria: The financial close of the monthly and annual financial statements require a process to be in place in which the assets, liability equity accounts, and other related accounts are reconciled to their detailed subsidiary ledgers to ensure the information is properly recorded, cut-off has been appropriately applied, and that all balances are fairly presented in accordance with generally accepted accounting principles in the United States of America ("GAAP").

Condition: During fiscal year 2019, there were accounts, including accounts payable and accounts receivable, which were not reconciled. As a result, a time-consuming effort was necessary to reconcile these accounts subsequent to year-end.

Effect: Subsidiary ledgers may not be properly reflected on the general or subsidiary ledgers. This condition could lead to a potential misstatement of the financial statements.

Cause: Lack of oversight, review, and proper year-end financial closing procedures do to the staffing constraints in the finance department.

Recommendation: We recommend that reconciliation of the general ledger and the subsidiary ledgers be performed monthly to ensure that the general ledger is fairly presented at any point in time. And differences should be investigated and explained, and the reconciliation reviewed and approved by an independent person.

Management Response:

Management agrees with the auditor's recommendation that the subsidiary ledgers should be reconciled to the general ledger control accounts on a monthly basis.
The Blackbaud ("FE") Financial Edge accounting system's General Ledger ("GL") and subsidiary ledgers Accounts Payable ("AP") and Accounts Receivable ("AR") and Ten Eleven ("10e11") clinical billing systems are utilized by the finance department to produce internal financial reports.
AP - A miscoded general ledger ("GL") journal entry resulted in an incorrect posting to the Accounts Payable control account. Reclassification of the journal entry resolved the issue.
AR – There are several GL accounts involved in the AR subsidiary ledger systems, FE and 10e11. The FE AR subsidiary system is primarily used for residential billing, thrift store and a few grants. The AR subsidiary systems and related general ledger accounts are reviewed and reconciled monthly

2019-02 *Credit Card Purchase Authorization and Review*

Criteria: All purchases, no matter method of payment, should be documented, approved and coded for input.

Condition: During our review of November 2018 and May 2019 credit card bills there are multiple statements that have incomplete documentation and/or supervisory authorization. Current purchasing authorization, documentation, and review procedures pertain to check disbursements but credit cards and petty cash purchases do not follow the same protocol. The organization maintains $60,000 worth of purchasing limits across 18 cards.

Effect: Potentially exposes the organization to unauthorized use of funds and inability to support certain expenses for benefit of residents.

Cause: Lack of oversight and review.

Recommendation: All credit card and petty cash purchases should be substantiated by receipt and coded for purpose. The summary spreadsheet currently used for coding should be consistently prepared and fully completed to include preparer and supervisor initials and date.

Management Response:

Management disagrees with the auditor's findings on missing credit card purchases approvals and process. Management has provided additional documentation to the auditors. Management acknowledges that due to high turnover in the Finance Department that some supporting documentation may have been misplaced, however the process was and has been in place to review and approve credit card purchases. In addition, management closed one of the agency's credit card accounts prior to the beginning of the 18-19 audit to reduce the credit exposure.

2019-03 *Segregation of Duties in the Accounting Department*

Criteria: Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties.

Condition: During our walk through of the banking process and accounts payable processes, we noted that any individual who has been given "admin rights" in the online banking accounts also have access to the accounts payable within financial edge, blank checks, ability to add new vendors to both financial edge and online banking, make ACH payments without being required to have an additional approval, and in some cases they also are the individuals reconciling the banking accounts.

Effect: Potentially exposes the organization to unauthorized use of funds and inability to support certain expenses for benefit of residents.

Cause: Lack of well-defined segregation of duties.

Recommendation: We recommend the organization safeguard financial assets by developing and implementing internal controls related to the accounts payable and banking that will provide adequate segregation of duties for disbursements of assets.

Management Response:

Management agrees with the auditor's recommendation to review and enhance the agency's finance department's segregation of duties. During fiscal year 18-19 the Finance department experienced high turnover. New staff were hired post fiscal year-end 18-19 and the new staff have segregated duties. There are some limitations on how roles can be setup in the online bank portal and management is working with the bank to make changes to the roles with complete separation of duties on the online portal.

Hibiscus Children's Center, Inc. and Affiliate
Summary Schedule of Prior Audit Findings
Year ended June 30, 2019

Prior Audit Findings - Financial Statements Audit:

2018-01 ***Identification of Donor Restricted Funds***

Status: Corrected

2018-02 ***Debit and Credit Card Purchase Authorization and Review***

Status: Partially corrected. Debit cards are no longer being utilized.

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To the Board of Directors and Management
Hibiscus Children's Center, Inc. and Affiliate
Hibiscus Children's Center Foundation, Inc.

In planning and performing our audit of the financial statements of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc. as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc.'s internal control to be significant deficiencies:

2019-01 *Financial Close and Reconciliation of Subsidiary Ledgers*

Criteria: The financial close of the monthly and annual financial statements require a process to be in place in which the assets, liability equity accounts, and other related accounts are reconciled to their detailed subsidiary ledgers to ensure the information is properly recorded, cut-off has been appropriately applied, and that all balances are fairly presented in accordance with generally accepted accounting principles in the United States of America ("GAAP").

Condition: During fiscal year 2019, there were accounts, including accounts payable and accounts receivable, which were not reconciled. As a result, a time-consuming effort was necessary to reconcile these accounts subsequent to year-end.

Effect: Subsidiary ledgers may not be properly reflected on the general or subsidiary ledgers. This condition could lead to a potential misstatement of the financial statements.

Cause: Lack of oversight, review, and proper year-end financial closing procedures do to the staffing constraints in the finance department.

Recommendation: We recommend that reconciliation of the general ledger and the subsidiary ledgers be performed monthly to ensure that the general ledger is fairly presented at any point in time. And differences should be investigated and explained, and the reconciliation reviewed and approved by an independent person.

Management Response:
Management agrees with the auditor's recommendation that the subsidiary ledgers should be reconciled to the general ledger control accounts on a monthly basis.
The Blackbaud ("FE") Financial Edge accounting system's General Ledger ("GL") and subsidiary ledgers Accounts Payable ("AP") and Accounts Receivable ("AR") and Ten Eleven ("10e11") clinical billing systems are utilized by the finance department to produce internal financial reports.
AP - A miscoded general ledger ("GL") journal entry resulted in an incorrect posting to the Accounts Payable control account. Reclassification of the journal entry resolved the issue.
AR – There are several GL accounts involved in the AR subsidiary ledger systems, FE and 10e11. The FE AR subsidiary system is primarily used for residential billing, thrift store and a few grants. The AR subsidiary systems and related general ledger accounts are reviewed and reconciled monthly

2019-02 *Credit Card Purchase Authorization and Review*

Criteria: All purchases, no matter method of payment, should be documented, approved and coded for input.

Condition: During our review of November 2018 and May 2019 credit card bills there are multiple statements that have incomplete documentation and/or supervisory authorization. Current purchasing authorization, documentation, and review procedures pertain to check disbursements but credit cards and petty cash purchases do not follow the same protocol. The organization maintains $60,000 worth of purchasing limits across 18 cards.

Effect: Potentially exposes the organization to unauthorized use of funds and inability to support certain expenses for benefit of residents.

Cause: Lack of oversight and review.

Recommendation: All credit card and petty cash purchases should be substantiated by receipt and coded for purpose. The summary spreadsheet currently used for coding should be consistently prepared and fully completed to include preparer and supervisor initials and date.

Management Response:

Management disagrees with the auditor's findings on missing credit card purchases approvals and process. Management has provided additional documentation to the auditors. Management acknowledges that due to high turnover in the Finance Department that some supporting documentation may have been misplaced, however the process was and has been in place to review and approve credit card purchases. In addition, management closed one of the agency's credit card accounts prior to the beginning of the 18-19 audit to reduce the credit exposure.

2019-03 *Segregation of Duties in the Accounting Department*

Criteria: Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties.

Condition: During out walk through of the banking process and accounts payable processes, we noted that any individual who has been given "admin rights" in the online banking accounts also have access to the accounts payable within financial edge, blank checks, ability to add new vendors to both financial edge and online banking, make ACH payments without being required to have an additional approval, and in some cases they also are the individuals reconciling the banking accounts.

Effect: Potentially exposes the organization to unauthorized use of funds and inability to support certain expenses for benefit of residents.

Cause: Lack of well-defined segregation of duties.

Recommendation: We recommend the organization safeguard financial assets by developing and implementing internal controls related to the accounts payable and banking that will provide adequate segregation of duties for disbursements of assets.

Management Response:
Management agrees with the auditor's recommendation to review and enhance the agency's finance department's segregation of duties. During fiscal year 18-19 the Finance department experienced high turnover. New staff were hired post fiscal year-end 18-19 and the new staff have segregated duties. There are some limitations on how roles can be setup in the online bank portal and management is working with the bank to make changes to the roles with complete separation of duties on the online portal.

We have already discussed many of these and other comments and suggestions with various Organization personnel. We will be pleased to discuss any of these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Nuttall, Donini & Associates, CPA's

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February 11, 2020