

Today's Harbor for Children, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2021 and 2020

Today's Harbor for Children, Inc.

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Independent Auditors' Report

To the Board of Directors of
Today's Harbor for Children, Inc.:

We have audited the accompanying financial statements of Today's Harbor for Children, Inc., which comprise the statements of financial position as of June 30, 2021 and 2020 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

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

Auditors' 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. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Today's Harbor for Children, Inc. as of June 30, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

October 8, 2021

Today's Harbor for Children, Inc.

Statements of Financial Position as of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 389,386	\$ 502,369
Program service contracts receivable	41,801	56,222
Prepaid expenses and other assets	105,562	119,742
Investments (<i>Notes 3 and 4</i>)	7,073,606	5,367,522
Property, net (<i>Note 5</i>)	<u>2,551,735</u>	<u>2,822,189</u>
 TOTAL ASSETS	 <u>\$10,162,090</u>	 <u>\$ 8,868,044</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 32,220	\$ 43,371
Accrued salaries and related benefits	28,329	52,313
Refundable advances:		
Paycheck Protection Program (<i>Note 8</i>)	278,723	278,723
Special event sponsorships	<u>72,600</u>	<u>33,300</u>
Total liabilities	<u>411,872</u>	<u>407,707</u>
Net assets:		
Without donor restrictions	9,565,627	8,311,453
With donor restrictions (<i>Note 6</i>)	<u>184,591</u>	<u>148,884</u>
Total net assets	<u>9,750,218</u>	<u>8,460,337</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$10,162,090</u>	 <u>\$ 8,868,044</u>

See accompanying notes to financial statements.

Today's Harbor for Children, Inc.

Statement of Activities for the year ended June 30, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions (<i>Note 7</i>)	\$ 874,872	\$ 228,745	\$ 1,103,617
Program service contract fees	407,298		407,298
Special events:			
Revenue	159,295		159,295
Cost of donor benefits	(38,975)		(38,975)
Other income	<u>217</u>	<u></u>	<u>217</u>
Total operating revenue	1,402,707	228,745	1,631,452
Net assets released from restrictions:			
Property improvements	11,886	(11,886)	
Program services	<u>181,152</u>	<u>(181,152)</u>	<u></u>
Total	<u>1,595,745</u>	<u>35,707</u>	<u>1,631,452</u>
OPERATING EXPENSES:			
Program services	1,609,276		1,609,276
Management and general	388,933		388,933
Fundraising	<u>130,151</u>	<u></u>	<u>130,151</u>
Total operating expenses	<u>2,128,360</u>	<u></u>	<u>2,128,360</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(532,615)	35,707	(496,908)
NON-OPERATING TRANSACTIONS:			
Net investment return	<u>1,786,789</u>	<u></u>	<u>1,786,789</u>
CHANGES IN NET ASSETS	1,254,174	35,707	1,289,881
Net assets, beginning of year	<u>8,311,453</u>	<u>148,884</u>	<u>8,460,337</u>
Net assets, end of year	<u>\$ 9,565,627</u>	<u>\$ 184,591</u>	<u>\$ 9,750,218</u>

See accompanying notes to financial statements.

Today's Harbor for Children, Inc.

Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions (<i>Note 7</i>)	\$ 1,153,798	\$ 215,098	\$ 1,368,896
Program service contract fees	485,822		485,822
Special events:			
Revenue	565,707		565,707
Cost of donor benefits	(159,736)		(159,736)
Other income	<u>10,623</u>		<u>10,623</u>
Total operating revenue	2,056,214	215,098	2,271,312
Net assets released from restrictions:			
Program services	133,680	(133,680)	
Strategic plan	<u>34,430</u>	<u>(34,430)</u>	
Total	<u>2,224,324</u>	<u>46,988</u>	<u>2,271,312</u>
OPERATING EXPENSES:			
Program services	2,075,830		2,075,830
Management and general	534,488		534,488
Fundraising	<u>368,074</u>		<u>368,074</u>
Total operating expenses	<u>2,978,392</u>		<u>2,978,392</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(754,068)	46,988	(707,080)
NON-OPERATING TRANSACTIONS:			
Net investment return	<u>573,426</u>		<u>573,426</u>
CHANGES IN NET ASSETS	(180,642)	46,988	(133,654)
Net assets, beginning of year	<u>8,492,095</u>	<u>101,896</u>	<u>8,593,991</u>
Net assets, end of year	<u>\$ 8,311,453</u>	<u>\$ 148,884</u>	<u>\$ 8,460,337</u>

See accompanying notes to financial statements.

Today's Harbor for Children, Inc.

Statement of Functional Expenses for the year ended June 30, 2021

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Operating expenses:				
Salaries and related benefits	\$ 659,998	\$ 88,475	\$ 64,319	\$ 812,792
Professional fees	38,382	254,080	5,895	298,357
Depreciation	290,678			290,678
Insurance	202,675	6,051	4,744	213,470
Utilities	110,008	10,552	6,560	127,120
Repairs and maintenance	110,200	1,709	1,353	113,262
Contract services	58,676		26,400	85,076
Educational and residential supplies	45,835			45,835
Food	44,957			44,957
Supplies	23,340	13,190	6,628	43,158
Rent	1,711	1,711	11,978	15,400
Transportation	13,370			13,370
Dues and subscriptions	5,155			5,155
Cash allowances and gifts to residents	3,403			3,403
Postage and printing	89	174	2,218	2,481
Travel	703	77		780
Conferences and training	96		56	152
Other		12,914		12,914
Total operating expenses	<u>\$ 1,609,276</u>	<u>\$ 388,933</u>	<u>\$ 130,151</u>	2,128,360
Special events:				
Cost of donor benefits				<u>38,975</u>
Total				<u>\$ 2,167,335</u>

See accompanying notes to financial statements.

Today's Harbor for Children, Inc.

Statement of Functional Expenses for the year ended June 30, 2020

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Operating expenses:				
Salaries and related benefits	\$ 909,631	\$ 177,404	\$ 261,574	\$ 1,348,609
Professional fees	37,298	256,706	16,902	310,906
Depreciation	302,531			302,531
Insurance	193,887	5,222	4,929	204,038
Utilities	107,781	11,504	14,621	133,906
Repairs and maintenance	65,052	2,869	4,434	72,355
Contract services	22,602			22,602
Educational and residential supplies	73,715			73,715
Food	258,737			258,737
Supplies	42,740	34,407	18,380	95,527
Rent	3,389	3,389	23,723	30,501
Transportation	31,610	4,884	3,414	39,908
Dues and subscriptions	9,296			9,296
Cash allowances and gifts to residents	8,257			8,257
Postage and printing	1,756	11,103	13,095	25,954
Travel	4,773	2,831	6,006	13,610
Conferences and training	2,775	5,372	996	9,143
Other		18,797		18,797
Total operating expenses	<u>\$ 2,075,830</u>	<u>\$ 534,488</u>	<u>\$ 368,074</u>	2,978,392
Special events:				
Cost of donor benefits				<u>159,736</u>
Total				<u>\$ 3,138,128</u>

See accompanying notes to financial statements.

Today's Harbor for Children, Inc.

Statements of Cash Flows for the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,289,881	\$ (133,654)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	290,678	302,531
Net realized gain on investments	(1,760,313)	(363,108)
Changes in operating assets and liabilities:		
Program service contracts receivable	14,421	(17,823)
Prepaid expenses and other assets	14,180	16,162
Accounts payable, accrued salaries and related benefits	(35,135)	(59,408)
Deferred special event sponsorships	39,300	(26,750)
Refundable advance	<u> </u>	<u>278,723</u>
Net cash used by operating activities	<u>(146,988)</u>	<u>(3,327)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	4,567,818	6,716,418
Purchases of investments	(4,497,890)	(6,544,399)
Change in cash and money market mutual funds held as investments	(15,699)	(15,391)
Proceeds from sale of property	3,600	
Purchases of property	<u>(23,824)</u>	<u>(88,643)</u>
Net cash provided by investing activities	<u>34,005</u>	<u>67,985</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	10,000	
Repayment of line of credit	<u>(10,000)</u>	
Net cash provided by financing activities	<u>0</u>	
NET CHANGE IN CASH	(112,983)	64,658
Cash, beginning of year	<u>502,369</u>	<u>437,711</u>
Cash, end of year	<u>\$ 389,386</u>	<u>\$ 502,369</u>

See accompanying notes to financial statements.

Today's Harbor for Children, Inc.

Notes to Financial Statements for the years ended June 30, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Today's Harbor for Children, Inc. (Today's Harbor) was incorporated in Texas in 1947. The mission of Today's Harbor is to provide healthy, comprehensive care for children and families in crisis. Today's Harbor operates a home in La Porte, Texas for dependent, homeless, abandoned, neglected, or underprivileged children, and promotes the general welfare of such children by teaching the principles of right living and good citizenship.

Federal income tax status – Today's Harbor is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash includes demand deposits held by financial institutions, except that cash held for investment purposes is grouped with investments in the statement of financial position and excluded from cash in the statement of cash flows. Bank deposits exceed the federally insured limit per depositor per institution.

Program service contracts receivable are noninterest-bearing amounts that reflect the amount Today's Harbor expects to receive for services already provided. Amounts are generally collected one to two months after services are provided. An allowance for uncollectible amounts is provided when changed circumstances indicate an amount may not be collected in full. All amounts are due from state agencies that management believes will be fully collected and no allowance has been provided.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property is reported at cost if purchased and at fair value at the date of gift if donated. Today's Harbor capitalizes additions and improvements with a cost of more than \$500. Depreciation is provided on a straight-line basis over estimated useful lives of 10 to 30 years for building and leasehold improvements, and 3 to 7 years for furniture, equipment, and vehicles.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions and grants are subject to one or more barriers that must be overcome before Today's Harbor is entitled to receive or retain funding. Conditional contributions are recognized when the conditions are met. Funding received before conditions are met is reported as a refundable advance.

During the year ended June 30, 2021, approximately \$345,000 of contributions were from three donors. During the year ended June 30, 2020, approximately \$216,000 of contributions were from two donors.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Program service contract fees arise from contracts with the Texas Department of Family and Protective Services for Today’s Harbor to provide residential services for children in protective custody. Fees are recognized in the period support and services are provided in an amount that reflects the consideration Today’s Harbor expects to be entitled to receive.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the event occurs. Cost of donor benefits represent the cost of goods and services provided to attendees of the special events. Sponsorships received in advance are refundable if the events do not occur and are reported as refundable advances.

Non-operating transactions include transactions not in the ordinary course of business such as investment return.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and benefits are allocated based on the estimated time and effort expended by all employees. Supplies are allocated based on an estimate of usage. Rent is allocated based on employee head counts.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure within one year of June 30 comprise the following:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 389,386	\$ 502,369
Program service contracts receivable	41,801	56,222
Investments	<u>7,073,606</u>	<u>5,367,522</u>
Total financial assets	7,504,793	5,926,113
Less board-designated investment reserve, net of distribution approved for the coming year	<u>6,834,621</u>	<u>5,186,475</u>
Total financial assets available for general expenditure	<u>\$ 670,172</u>	<u>\$ 739,638</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Today's Harbor considers all expenditures related to its ongoing program activities of operating a home for dependent, homeless, abandoned, neglected, or underprivileged children and promoting the general welfare of such children by teaching the principles of right living and good citizenship, as well as the conduct of services undertaken to support those activities, to be general expenditures.

COVID-19 has impacted child welfare investigations and reduced child placements resulting in a reduction of program service contract fees. Fundraising events also had to be curtailed or cancelled during fiscal year 2021. The extent of the impact of COVID-19 on child placements, donors, vendors, employees and on future operational and financial performance is uncertain and cannot be predicted.

In March 2021, Today's Harbor established a line of credit for up to \$1 million, which is secured by investments. During 2021, draws of \$10,000 were received and repaid leaving no balance at June 30, 2021.

The Board of Directors has designated a portion of *net assets without donor restrictions* as a reserve to be invested for long-term growth and to provide annual distributions to support operations. While Today's Harbor does not intend to use more than the approved distributions to support general expenditures, the reserve may be made available at the discretion of the Board of Directors.

NOTE 3 – INVESTMENTS

Investments consist of the following:

	<u>2021</u>	<u>2020</u>
Common stock:		
International	\$ 1,205,702	\$ 818,189
Emerging and frontier market	876,136	500,292
Large-cap growth	861,742	767,396
Mid-cap growth	668,291	628,939
Large-cap value	587,004	423,613
Small-cap growth	401,406	397,836
Mid-cap value	163,614	126,175
Small-cap value	91,330	123,161
Other	<u> </u>	<u>122,115</u>
Total common stock	4,855,225	3,907,716
Fixed-income securities:		
Mutual funds	811,747	619,001
U. S. Government	565,669	415,069
Corporate bonds	<u>269,146</u>	<u>231,592</u>
Total fixed-income securities	1,646,562	1,265,662
REITs	457,048	91,603
Cash held in investment account	<u>114,771</u>	<u>102,541</u>
Total investments	<u>\$ 7,073,606</u>	<u>\$ 5,367,522</u>

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 4 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date. The types of investments included in Level 1 are securities traded and valued based upon a public exchange.
- *Level 2* – Inputs are quoted prices in nonactive markets or in active markets for similar assets or liabilities, or inputs which are either directly or indirectly observable with observable market data at the reporting date. Level 2 investments are priced by independent, industry recognized vendors contracted by Today’s Harbor’s custodian or independent appraisals.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability. Inputs are unobservable for the asset and include situations where there is little, if any, market activity for the investment.

Assets measured at fair value at June 30, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock	\$ 4,855,225			\$ 4,855,225
Government and corporate debt securities		\$ 834,815		834,815
Mutual funds	811,747			811,747
REITs	<u>457,048</u>			<u>457,048</u>
Total assets measured at fair value	<u>\$ 6,124,020</u>	<u>\$ 834,815</u>	<u>\$ 0</u>	<u>\$ 6,958,835</u>

Assets measured at fair value at June 30, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock	\$ 3,907,716			\$ 3,907,716
Government and corporate debt securities		\$ 646,661		646,661
Mutual funds	619,001			619,001
REITs	<u>91,603</u>			<u>91,603</u>
Total assets measured at fair value	<u>\$ 4,618,320</u>	<u>\$ 646,661</u>	<u>\$ 0</u>	<u>\$ 5,264,981</u>

Valuation methods used for assets measured at fair value are as follows:

- *Common stock* and *REITs* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Government and corporate debt securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.
- *Mutual funds* are valued at the reported net asset value.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Today’s Harbor believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 5 – PROPERTY

Property consists of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 317,082	\$ 320,682
Building and leasehold improvements	6,215,886	6,204,000
Furniture and equipment	1,475,311	1,463,373
Vehicles	<u>646,249</u>	<u>646,249</u>
Total property, at cost	8,654,528	8,634,304
Accumulated depreciation	<u>(6,102,793)</u>	<u>(5,812,115)</u>
Property, net	<u>\$ 2,551,735</u>	<u>\$ 2,822,189</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Property improvements	\$ 89,351	\$ 64,351
Vehicles	30,000	30,000
Campus director	24,685	
Summer activities	16,838	35,804
Livestock purchases	5,561	5,561
Clothing, school, and recreational supplies	3,580	1,849
Other	<u>14,576</u>	<u>11,319</u>
Total net assets with donor restrictions	<u>\$ 184,591</u>	<u>\$ 148,884</u>

NOTE 7 – IN-KIND CONTRIBUTIONS

Today's Harbor recognized the following as in-kind contributions and program services:

	<u>2021</u>	<u>2020</u>
Food	\$ 14,896	\$ 197,042
Supplies	<u>34,536</u>	<u>56,102</u>
Total in-kind contributions	<u>\$ 49,432</u>	<u>\$ 253,144</u>

NOTE 8 – CONDITIONAL CONTRIBUTIONS

In May 2020, Today's Harbor received a forgivable loan advance of \$278,723 under the Small Business Administration's Paycheck Protection Program (PPP), which was recognized as a refundable advance pending Today's Harbor meeting conditions to obtain forgiveness. Today's Harbor met eligibility requirements and used the loan to fund qualified costs and was notified in July 2021 that the advance had been forgiven. The contribution will be recognized in fiscal year 2022.

Today's Harbor has a conditional award to provide free or reduced cost breakfast and lunch to all eligible children. Contribution revenue is recognized as costs are incurred and meals are provided.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 8, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
