

**CHILDREN'S HARBOR, INC.
AND AFFILIATED ORGANIZATION**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

**CHILDREN'S HARBOR, INC.
AND AFFILIATED ORGANIZATION
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DECEMBER 31, 2017 AND 2016**

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated financial statements of Children's Harbor, Inc. and affiliated organization (a nonprofit corporation), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The 2017 supplementary information included on pages 24 – 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and related directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

Report on 2016 Financial Statements

The financial statements of Children's Harbor, Inc. and affiliated organization as of December 31, 2016, were reviewed by other accountants whose report dated March 10, 2017, stated that based on their procedures, they are not aware of any material modifications that should be made to those consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Warren Averett, LLC

Montgomery, Alabama
March 12, 2018

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

ASSETS		
	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,403,782	\$ 3,244,049
Investments	2,046,500	63,164
Contributions receivable, less allowance for uncollectible contributions	76,812	261,348
Prepaid and other assets	61,171	62,176
Total current assets	3,588,265	3,630,737
ENDOWMENT ASSETS		
Cash and cash equivalents	810,988	454,499
Investments	4,400,041	2,972,605
Total endowment assets	5,211,029	3,427,104
Contributions receivable, less allowance	10,962	49,585
LAND, BUILDINGS, AND EQUIPMENT, NET	15,803,856	16,065,014
TOTAL ASSETS	\$ 24,614,112	\$ 23,172,440
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 44,907	\$ 68,831
Payroll taxes and other accrued liabilities	8,212	83,748
Deposits payable	12,500	13,500
Total current liabilities	65,619	166,079
NET ASSETS		
Unrestricted	24,404,161	22,862,029
Temporarily restricted	-	-
Permanently restricted	144,332	144,332
Total net assets	24,548,493	23,006,361
TOTAL LIABILITIES AND NET ASSETS	\$ 24,614,112	\$ 23,172,440

See accompanying notes and the independent accountants' review report.

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 2,998,410	\$ -	\$ -	\$ 2,998,410
Thrift Store	340,392	-	-	340,392
Return on investments	572,938	-	-	572,938
Gain on sale of assets	54,794	-	-	54,794
Facility use	194,908	-	-	194,908
Other income	889,505	-	-	889,505
TOTAL SUPPORT AND REVENUE	<u>5,050,947</u>	<u>-</u>	<u>-</u>	<u>5,050,947</u>
EXPENSES				
Program Services:				
The Family Center	654,612	-	-	654,612
Lake Martin Campus	1,841,237	-	-	1,841,237
Family Enrichment	293,234	-	-	293,234
Total program services	<u>2,789,083</u>	<u>-</u>	<u>-</u>	<u>2,789,083</u>
Support Services:				
General and administrative	207,444	-	-	207,444
Financial development	422,493	-	-	422,493
Marketing and public relations	89,795	-	-	89,795
Total support services	<u>719,732</u>	<u>-</u>	<u>-</u>	<u>719,732</u>
Total program and support services expenses	<u>3,508,815</u>	<u>-</u>	<u>-</u>	<u>3,508,815</u>
CHANGE IN NET ASSETS	1,542,132	-	-	1,542,132
Net assets at beginning of year	<u>22,862,029</u>	<u>-</u>	<u>144,332</u>	<u>23,006,361</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 24,404,161</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 144,332</u></u>	<u><u>\$ 24,548,493</u></u>

See accompanying notes and the independent accountants' review report.

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 3,385,350	\$ -	\$ -	\$ 3,385,350
Thrift Store	334,159	-	-	334,159
Return on investments	207,308	-	-	207,308
Gain on sale of assets	35,969	-	-	35,969
Facility use	184,579	-	-	184,579
Other income	37,320	-	-	37,320
TOTAL SUPPORT AND REVENUE	<u>4,184,685</u>	<u>-</u>	<u>-</u>	<u>4,184,685</u>
EXPENSES				
Program Services:				
The Family Center	746,458	-	-	746,458
Lake Martin Campus	1,846,892	-	-	1,846,892
Family Enrichment	297,923	-	-	297,923
Total program services	<u>2,891,273</u>	<u>-</u>	<u>-</u>	<u>2,891,273</u>
Support Services:				
General and administrative	260,422	-	-	260,422
Financial development	582,773	-	-	582,773
Marketing and public relations	-	-	-	-
Total support services	<u>843,195</u>	<u>-</u>	<u>-</u>	<u>843,195</u>
Total program and support services expenses	<u>3,734,468</u>	<u>-</u>	<u>-</u>	<u>3,734,468</u>
CHANGE IN NET ASSETS	450,217	-	-	450,217
Net assets at beginning of year	<u>22,411,812</u>	<u>-</u>	<u>144,332</u>	<u>22,556,144</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 22,862,029</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 144,332</u></u>	<u><u>\$ 23,006,361</u></u>

See accompanying notes and the independent accountants' review report.

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services	Supporting Services			Total	Total Expenses For the Year Ended December 31, 2017
		General Administration	Financial Development	Marketing and Public Relations		
Salaries	\$ 905,608	\$ 118,273	\$ 279,028	\$ 19,419	\$ 416,720	\$ 1,322,328
Employee benefits	157,300	8,414	27,848	1,963	38,225	195,525
Payroll taxes	67,717	9,275	21,788	1,599	32,662	100,379
Total salaries and related expenses	1,130,625	135,962	328,664	22,981	487,607	1,618,232
Supplies	32,676	4,954	5,231	473	10,658	43,334
Utilities	123,323	2,683	-	-	2,683	126,006
Insurance	73,350	11,495	9,798	246	21,539	94,889
Maintenance and repairs	88,648	3,508	1,106	-	4,614	93,262
Family support	22,646	-	-	-	-	22,646
Telephone	27,243	6,211	4,431	-	10,642	37,885
Postage	1,121	732	5,674	10	6,416	7,537
Travel	10,433	427	10,423	-	10,850	21,283
Dues and subscriptions	1,257	-	1,488	1,245	2,733	3,990
Legal and accounting	-	2,965	-	-	2,965	2,965
Workshops, seminars, and education	3,187	309	3,622	80	4,011	7,198
Other professional fees and contract service payments	356,944	24,332	22,100	47,120	93,552	450,496
Program activities	89,163	2,090	7,736	1,035	10,861	100,024
Printing	5,954	2,460	7,854	-	10,314	16,268
Public relations	2,727	-	-	11,275	11,275	14,002
Special events	144,926	-	-	-	-	144,926
Miscellaneous	27,826	1,048	1,022	5,330	7,400	35,226
Total expenses before depreciation	2,142,049	199,176	409,149	89,795	698,120	2,840,169
Depreciation of buildings and equipment	647,034	8,268	13,344	-	21,612	668,646
TOTAL EXPENSES	\$ 2,789,083	\$ 207,444	\$ 422,493	\$ 89,795	\$ 719,732	\$ 3,508,815

See accompanying notes and the independent accountants' review report.

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Services	Supporting Services			Total Expenses For the Year Ended December 31, 2016
		General Administration	Financial Development	Total	
Salaries	\$ 892,877	\$ 143,338	\$ 314,845	\$ 458,183	\$ 1,351,060
Employee benefits	146,332	15,794	27,087	42,881	189,213
Payroll taxes	65,580	11,211	24,422	35,633	101,213
Total salaries and related expenses	1,104,789	170,343	366,354	536,697	1,641,486
Supplies	34,596	3,620	4,037	7,657	42,253
Utilities	129,445	1,371	690	2,061	131,506
Insurance	76,251	10,598	8,149	18,747	94,998
Maintenance and repairs	80,198	2,891	1,407	4,298	84,496
Family support	36,055	-	-	-	36,055
Telephone	27,450	6,697	4,181	10,878	38,328
Postage	3,438	423	9,772	10,195	13,633
Travel	10,461	492	6,611	7,103	17,564
Dues and subscriptions	1,055	90	2,350	2,440	3,495
Legal and accounting	-	16,551	-	16,551	16,551
Workshops, seminars, and education	4,616	356	4,916	5,272	9,888
Other professional fees and contract service payments	464,525	31,120	89,017	120,137	584,662
Program activities	95,795	2,901	14,256	17,157	112,952
Printing	9,328	3,234	20,561	23,795	33,123
Public relations	953	-	15,751	15,751	16,704
Special events	154,440	-	-	-	154,440
Miscellaneous	7,825	294	6,772	7,066	14,891
Total expenses before depreciation	2,241,220	250,981	554,824	805,805	3,047,025
Depreciation of buildings and equipment	650,053	9,441	27,949	37,390	687,443
TOTAL EXPENSES	\$ 2,891,273	\$ 260,422	\$ 582,773	\$ 843,195	\$ 3,734,468

See accompanying notes and the independent accountants' review report.

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,542,132	\$ 450,217
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	668,646	687,443
Gain on sale of assets	(54,794)	(35,969)
Unrealized (gain) loss on investments	(494,650)	90,533
Realized gain on investments	(67,396)	(259,849)
Donated property	-	(19,000)
Changes in assets and liabilities:		
Contributions receivable	223,159	52,828
Prepaid and other assets	1,005	(2,054)
Accounts payable	(23,924)	(5,027)
Accrued liabilities	(76,536)	7,581
Net cash provided by operating activities	<u>1,717,642</u>	<u>966,703</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in cash and cash equivalents in the Endowment Fund	(356,489)	(189,284)
Purchase of land, buildings, and equipment	(410,113)	(406,547)
Proceeds from sale of assets	57,419	38,332
Purchase of investments	(3,402,940)	(1,229,110)
Proceeds from sale of investments	554,214	1,258,338
Net cash used in investing activities	<u>(3,557,909)</u>	<u>(528,271)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,840,267)	438,432
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,244,049</u>	<u>2,805,617</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,403,782</u></u>	<u><u>\$ 3,244,049</u></u>

See accompanying notes and the independent accountants' review report.

CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Established in 1989, Children's Harbor, Inc. is a fully qualified charitable organization with the sole purpose of strengthening children with long-term serious illnesses and their families. Counseling and support services are provided through the Family Center at Benjamin Russell Hospital for Children in Birmingham. The original Children's Harbor Lake Martin campus is located beside Lake Martin, 15 miles south of Alexander City, Alabama, on Highway 63, and provides camping and adventure services to these children and their families. In May 2013, the campus completed a major renovation and construction project increasing the overall sleeping capacity of the campus to over 400 beds.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The significant accounting and reporting policies are described subsequently to enhance the usefulness and understandability of the financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Functional Expenses

Children's Harbor, Inc. allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Support and Revenue – Donated Materials and Services

Individuals, civic groups, and business firms have contributed various amounts of materials and services to assist in fulfilling the programs of Children's Harbor, Inc. Donated materials are reflected as contributions at their estimated value at the date of receipt and are recorded as expenses for program services or capitalized as assets. No amounts have been reflected in the statements for donated services in as much as no objective basis is available to measure the value of such services.

Income Tax Status

Children's Harbor, Inc. qualifies as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code.

Consolidated Financial Statements

The financial statements include the accounts of Children's Harbor, Inc. and the Children's Harbor Endowment Fund (Endowment Fund). Intercompany transactions have been eliminated.

Fair Value Measurements

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, Children's Harbor, Inc. accounts for its financial instruments as well as certain assets and liabilities at fair value. Fair value is defined as the price that would be paid in an orderly transaction, or exit price, between market participants to sell the asset or transfer the liability in the principal or most advantageous market for the asset or liability.

Children's Harbor, Inc. is required by accounting principles generally accepted in the United States of America to categorize its financial instruments based on the priority of the inputs to the valuation technique into a three level fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level of input that is significant to the fair value of the instrument. Financial assets and liabilities recorded in the consolidated statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 Financial assets and liabilities whose values are based on quoted prices for identical assets or liabilities in an active market that Children's Harbor, Inc. has the ability to access (examples include active exchange traded equity securities, and most U.S. Government and agency securities).

- Level 2 Financial assets and liabilities are valued using inputs of quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurements – Continued

Level 3 Financial assets and liabilities are valued using pricing inputs which are unobservable for the assets, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds, and real estate.

Fair Value of Financial Instruments

At December 31, 2017 and 2016, the fair value of all financial instruments approximates carrying value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Investments – Fair value is based on quoted market prices at the reporting date. Donated investments are initially recorded at market value on the date of donation and thereafter reported in accordance with the above provisions.

Contributions Receivable – Carrying value, which approximates fair value, is based on the face amount of the gift, time remaining to maturity, and the interest rate applicable to determine the net present value of the receivables at year end.

Financial Instruments and Concentration of Credit Risk

The Endowment Fund holds its investments in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the Endowment Fund's investment holdings and the amounts reported on the statements of financial position.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation, the effect of which is immaterial.

Subsequent Events

Management has evaluated subsequent events through March 12, 2018, which is the date the financial statements were available to be issued.

CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. AFFILIATED ORGANIZATION

On May 25, 2001, Children's Harbor Endowment Fund, a nonprofit corporation, was incorporated. This organization is governed by a board of directors, which is appointed by the board of Children's Harbor, Inc. The Fund is recognized as a "Type 1" supporting organization under the Internal Revenue Code. The activity of the Endowment Fund has been consolidated with the financial statements of Children's Harbor, Inc. The following is a summary of its activities and financial position:

	<u>2017</u>	<u>2016</u>
Cash	\$ 810,988	\$ 454,499
Due from Children's Harbor, Inc.	-	95,441
Investment Securities	<u>4,400,041</u>	<u>2,972,605</u>
Net assets	<u>\$ 5,211,029</u>	<u>\$ 3,522,545</u>
Net Assets – Unrestricted	\$ 5,066,697	\$ 3,378,213
Net Assets – Temporarily Restricted	-	-
Net Assets – Permanently Restricted	<u>144,332</u>	<u>144,332</u>
	<u>\$ 5,211,029</u>	<u>\$ 3,522,545</u>
Net Assets Endowment	\$ 5,211,029	\$ 3,522,545
Less: Due from Children's Harbor, Inc.	-	<u>(95,441)</u>
Net Consolidated Endowment Assets	<u>\$ 5,211,029</u>	<u>\$ 3,427,104</u>
Contributions and other income	\$ 1,691,286	\$ 304,832
Expenditures	<u>(2,801)</u>	<u>(2,500)</u>
Change in Net Assets	<u>\$ 1,688,485</u>	<u>\$ 302,332</u>

CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

3. INVESTMENTS

Investment assets at December 31, 2017 and 2016, consist of marketable securities. The securities were either purchased by the Organization or donated by individuals.

Investments as of December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost/Donated Value</u>	<u>Fair Value</u>	<u>Cost/Donated Value</u>	<u>Fair Value</u>
Investments Nonendowment				
Real Estate	\$ 46,500	\$ 46,500	\$ 46,500	\$ 46,500
Certificates of Deposit	2,000,000	2,000,000		
Corporate Stocks	-	-	16,664	16,664
	<u>\$ 2,046,500</u>	<u>\$ 2,046,500</u>	<u>\$ 63,164</u>	<u>\$ 63,164</u>
Endowment Fund Investments				
Equity Stocks	\$ 1,887,399	\$ 2,321,909	\$ 1,729,027	\$ 1,834,532
Open End Mutual Funds/Bonds	1,845,562	2,078,132	1,050,763	1,138,073
	<u>\$ 3,732,961</u>	<u>\$ 4,400,041</u>	<u>\$ 2,779,790</u>	<u>\$ 2,972,605</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2017:

<u>2017</u>	<u>Children's Harbor, Inc.</u>	<u>Children's Harbor Endowment Fund</u>	<u>Total</u>
Interest and dividends	\$ 1,014	\$ 46,460	\$ 47,474
Net unrealized gain	-	494,650	494,650
Net realized gain (loss)	(3,011)	70,407	67,396
Investment fees	-	(36,582)	(36,582)
Total investment return	<u>\$ (1,997)</u>	<u>\$ 574,935</u>	<u>\$ 572,938</u>

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

3. INVESTMENTS – CONTINUED

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2016:

<u>2016</u>	<u>Children's Harbor, Inc.</u>	<u>Children's Harbor Endowment Fund</u>	<u>Total</u>
Interest and dividends	\$ 1,093	\$ 69,508	\$ 70,601
Net unrealized gain	-	259,849	259,849
Net realized gain (loss)	(2,176)	(88,357)	(90,533)
Investment fees	-	(32,609)	(32,609)
Total investment return	<u>\$ (1,083)</u>	<u>\$ 208,391</u>	<u>\$ 207,308</u>

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are recorded at historical cost, or, in the case of donated property, the estimated value at the date of donation. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The estimated lives are as follows:

	<u>Years</u>
Land improvements	40
Buildings	30
Furniture and equipment	3 – 20
Transportation equipment	3 – 6

CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. LAND, BUILDINGS, AND EQUIPMENT – CONTINUED

The following is a summary of changes in property and equipment for the year ended December 31, 2017:

	Balance January 1, 2017	Additions	Retirements	Balance December 31, 2017
Land	\$ 5,205,500	\$ -	\$ -	\$ 5,205,500
Land improvements	1,696,681	12,979	-	1,709,660
Buildings	13,732,414	111,264	(25,874)	13,817,804
Furniture and equipment	1,994,073	31,507	(512)	2,025,068
Transportation	161,707	-	-	161,707
Construction in progress	5,000	254,362	-	259,362
	<u>22,795,375</u>	<u>410,112</u>	<u>(26,386)</u>	<u>23,179,101</u>
Less accumulated depreciation	<u>(6,730,361)</u>	<u>(668,645)</u>	<u>23,761</u>	<u>(7,375,245)</u>
Land, buildings, and equipment, net	<u>\$16,065,014</u>	<u>\$ (258,533)</u>	<u>\$ (2,625)</u>	<u>\$15,803,856</u>

The following is a summary of changes in property and equipment for the year ended December 31, 2016:

	Balance January 1, 2016	Additions	Retirements	Balance December 31, 2016
Land	\$ 5,205,500	\$ -	\$ -	\$ 5,205,500
Land improvements	1,407,352	289,329	-	1,696,681
Buildings	13,156,168	576,246	-	13,732,414
Furniture and equipment	1,983,864	50,684	(40,475)	1,994,073
Transportation	161,707	-	-	161,707
Construction in progress	514,712	5,000	(514,712)	5,000
	<u>22,429,303</u>	<u>921,259</u>	<u>(555,187)</u>	<u>22,795,375</u>
Less accumulated depreciation	<u>(6,081,188)</u>	<u>(687,442)</u>	<u>38,269</u>	<u>(6,730,361)</u>
Land, buildings, and equipment, net	<u>\$16,348,115</u>	<u>\$ 233,817</u>	<u>\$ (516,918)</u>	<u>\$16,065,014</u>

CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. LAND, BUILDINGS, AND EQUIPMENT – CONTINUED

Construction in progress represents expenditures for construction related to refurbishment of decks attached to buildings and cabins. As of December 31, 2017, expenditures of \$259,362 had been incurred for projects that will be completed in 2018.

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 84,911	\$ 286,352
Receivable in one to five years	11,667	56,667
Receivable in more than five years	-	-
Total contributions receivable	96,578	343,019
Less discounts to net present value	(5,431)	(18,365)
Less allowance for uncollectible	(3,373)	(13,721)
Net contributions receivable	<u>\$ 87,774</u>	<u>\$ 310,933</u>
Current portion receivable	\$ 76,812	\$ 261,348
Long-term receivable	10,962	49,585
Net contributions receivable	<u>\$ 87,774</u>	<u>\$ 310,933</u>

The discount rates used on long-term promises to give ranged from 0.2% to 4.89%.

6. FOUNDERS' CONTRIBUTION

During the years ended December 31, 2017 and 2016, Children's Harbor, Inc. received several large contributions from its founders, Benjamin and Luanne Russell, organizations affiliated with them, and other family members. Founders' contributions are as follows:

<u>Contributor</u>	<u>2017</u>	<u>2016</u>
Benjamin and Luanne Russell	\$ 3,975	\$ 1,305
Addelia Russell Charitable Foundation	100,000	94,441
Benjamin and Roberta Russell Foundation	126,500	126,500
Others	7,900	7,900
	<u>\$ 238,375</u>	<u>\$ 230,146</u>

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

7. PENSION PLAN

Children's Harbor, Inc. has established a defined contribution pension plan for the benefit of all of its employees. In 2015, the Organization began contributing matching contributions to the plan up to a maximum of 5%. In prior years, a contribution of 5% was made to the account of each individual employee based on annual compensation levels. Total pension expense for the years ending December 31, 2017 and 2016 was \$42,178 and \$39,327, respectively. An employee must be over age 21 and have one year of service with Children's Harbor, Inc. before they can participate in the plan.

8. TRANSACTIONS WITH RELATED PARTIES

Children's Harbor, Inc. has made payments during the year to Russell Lands, Inc. for miscellaneous construction and maintenance projects for the years ending December 31, 2017 and 2016 in the amount of \$171,267 and \$139,561, respectively. The projects were coordinated by Russell Lands, Inc. and the Organization was billed for cost plus for the services provided. Some of the materials were purchased from Russell Do-It Center, a division of Russell Lands, Inc., at contractor's prices. The cost of these materials was fair and reasonable and consistent with prices from other vendors.

Mr. Benjamin Russell, chairman of the board, and Thomas T. Lamberth, treasurer, of Children's Harbor, Inc. are officers of Russell Lands, Inc. William E. Davenport, vice-chairman of the board, is a retired officer of Russell Lands, Inc.

During 1998, Children's Harbor, Inc. entered into an agreement with Children's Hospital in Birmingham to provide services to seriously ill children and their families. Children's Harbor, Inc. reimburses Children's Hospital a portion of the expense to provide these services. Payments to Children's Hospital totaled \$290,728 during 2017 and \$383,453 during 2016. Mr. Benjamin Russell, chairman of the board, is also a member of the board of Children's Hospital.

9. CONTRIBUTION AGREEMENT

Beginning in 2000, Children's Hospital agreed to contribute \$50,000 per year to Children's Harbor, Inc. for the next 25 years. The amounts received under this agreement were \$62,500 for 2017 and \$37,500 for 2016. The quarterly payments began in April 2000 and will continue through March of 2025.

CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

10. THE FAMILY CENTER

The Family Center is a project that was initiated by Children's Harbor, Inc. Children's Harbor, Inc. works in conjunction with Children's Hospital to provide counseling and support services to children with chronic illnesses and their families. The expenses of providing these services are shared with Children's Hospital.

The following is a summary of these expenses and the shared cost of Children's Harbor, Inc. and Children's Hospital.

	<u>2017</u>	<u>2016</u>
Amount of cost contributed by Children's Hospital	\$ 100,478	\$ 100,210
Amount of cost contributed by Children's Harbor, Inc.	<u>654,612</u>	<u>746,458</u>
Total expenditures	<u>\$ 755,090</u>	<u>\$ 846,668</u>

11. CASH FLOWS INFORMATION

The Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statements of cash flows exclude permanently restricted cash and cash equivalents.

12. CONCENTRATION OF CREDIT RISK FOR CASH HELD IN BANK

The Organization maintains its cash in bank deposit accounts in a financial institution located in Alabama. The balances at the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At various times, there may be balances in the accounts that are over the FDIC limit. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk associated with these deposits.

13. TEMPORARILY RESTRICTED NET ASSETS

There were no temporarily restricted net assets as of December 31, 2017 and 2016.

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

14. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of December 31, 2017 and 2016 consist of \$144,332 and \$144,332, respectively, held for use solely by the Children's Harbor Endowment Fund. These amounts will be invested and the income generated from these investments will be classified as unrestricted.

15. FAIR VALUE MEASUREMENTS

The Endowment Fund uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Endowment Fund values all other assets and liabilities refer to Note 1 – Summary of Significant Accounting Policies.

The following table sets forth by level, within the fair value hierarchy, the Endowment Fund assets at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 2,321,909	\$ -	\$ -	\$ 2,321,909
Open End Mutual Funds	<u>2,078,132</u>	<u>-</u>	<u>-</u>	<u>2,078,132</u>
	<u>\$ 4,400,041</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,400,041</u>

The following table sets forth by level, within the fair value hierarchy, the Endowment Fund assets at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 1,834,532	\$ -	\$ -	\$ 1,834,532
Open End Mutual Funds	<u>1,138,073</u>	<u>-</u>	<u>-</u>	<u>1,138,073</u>
	<u>\$ 2,972,605</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,972,605</u>

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

16. ENDOWMENTS

The Children's Harbor Endowment Fund's endowment consists of various individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments.

As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Endowment Fund has interpreted the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, the Endowment Fund classifies permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization.

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

16. ENDOWMENTS – CONTINUED

Endowment net asset activity and type of fund for the year ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets at January 1, 2017	\$ 3,378,213	\$ -	\$ 144,332	\$ 3,522,545
Earnings:				
Dividend and interest income	46,460	-	-	46,460
Investment expense	(36,582)	-	-	(36,582)
Realized and unrealized gains	565,056	-	-	565,056
Total investment return	574,934	-	-	574,934
Contributions	1,116,351	-	-	1,116,351
Appropriations for expenditure	(2,801)	-	-	(2,801)
	1,113,550	-	-	1,113,550
Endowment Net Assets at December 31, 2017	<u>\$ 5,066,697</u>	<u>\$ -</u>	<u>\$ 144,332</u>	<u>\$ 5,211,029</u>
Endowment Fund net assets by type of fund at December 31, 2017:				
Donor restricted	\$ -	\$ -	\$ 144,332	\$ 144,332
Board designated	5,066,697	-	-	5,066,697
Total Endowment Funds	<u>\$ 5,066,697</u>	<u>\$ -</u>	<u>\$ 144,332</u>	<u>\$ 5,211,029</u>

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

16. ENDOWMENTS – CONTINUED

Endowment net asset activity and type of fund for the year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets at January 1, 2016	\$ 3,075,881	\$ -	\$ 144,332	\$ 3,220,213
Earnings:				
Dividend and interest income	69,508	-	-	69,508
Investment expense	(32,609)	-	-	(32,609)
Realized and unrealized gains	171,492	-	-	171,492
Total investment return	208,391	-	-	208,391
Contributions	96,441	-	-	96,441
Appropriations for expenditure	(2,500)	-	-	(2,500)
	93,941	-	-	93,941
Endowment Net Assets at December 31, 2016	<u>\$ 3,378,213</u>	<u>\$ -</u>	<u>\$ 144,332</u>	<u>\$ 3,522,545</u>
Endowment Fund net assets by type of fund at December 31, 2016:				
Donor restricted	\$ -	\$ -	\$ 144,332	\$ 144,332
Board designated	3,378,213	-	-	3,378,213
Total Endowment Funds	<u>\$ 3,378,213</u>	<u>\$ -</u>	<u>\$ 144,332</u>	<u>\$ 3,522,545</u>

Return Objectives and Risk Parameters

The Endowment Fund has adopted investment and spending policies for endowed assets to provide a predictable stream of funding for programs supported by its endowments, while seeking to maintain the purchasing power of gifts' values at the time they are received. Endowed assets include donor restricted funds that the Endowment Fund will hold in perpetuity or for a donor specified period, as well as Board designated funds. Endowed assets are invested in a manner to achieve a balanced return of current income and modest growth of principal consistent with the preservation of the purchasing power of such assets.

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

16. ENDOWMENTS – CONTINUED

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment Fund targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Endowment Fund does not have a spending policy at this time. The goal of the Organization is to accumulate assets from which the investment return will allow the Organization to continue its objective without having to rely as heavily on donor contributions.

17. SETTLEMENT INCOME

The Organization received a settlement, net of associated settlement fees, in the amount of \$839,384 during the year ended December 31, 2017, related to BP Oil's Deepwater Horizon rig explosion and subsequent oil spill in the Gulf of Mexico. This settlement is included in other income.

SUPPLEMENTARY INFORMATION

CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
SCHEDULE OF PROGRAM SERVICES
FOR THE YEAR ENDED DECEMBER 31, 2017

	The Family Center	Lake Martin Campus	Family Enrichment	Total Program Services
Salaries and wages	\$ 198,123	\$ 596,195	\$ 111,290	\$ 905,608
Employee benefits	25,049	118,184	14,067	157,300
Payroll taxes	15,313	43,767	8,637	67,717
Total salaries and related expenses	238,485	758,146	133,994	1,130,625
Supplies	4,281	25,222	3,173	32,676
Utilities	-	123,323	-	123,323
Insurance	6,590	62,648	4,112	73,350
Maintenance and repairs	3,432	84,989	227	88,648
Family support	22,646	-	-	22,646
Telephone	453	24,863	1,927	27,243
Postage	481	640	-	1,121
Travel	3,416	5,365	1,652	10,433
Dues and subscriptions	1,244	-	13	1,257
Workshops, seminars, and education	1,325	684	1,178	3,187
Other professional fees and contract service payments	303,703	52,346	895	356,944
Program activities	56,089	32,809	265	89,163
Printing	4,190	1,739	25	5,954
Public relations	-	2,727	-	2,727
Special events	-	-	144,926	144,926
Miscellaneous	360	26,619	847	27,826
Total expenses before depreciation	646,695	1,202,120	293,234	2,142,049
Depreciation	7,917	639,117	-	647,034
Total Expenses	<u>\$ 654,612</u>	<u>\$ 1,841,237</u>	<u>\$ 293,234</u>	<u>\$ 2,789,083</u>

See independent accountants' review report.

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
SCHEDULE OF LAKE MARTIN CAMPUS EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Children's Chapel and Church in the Pines	Mariner's Retreat Centers	Lodge	General Campus	Mariner's Adventure Camp	Thrift Store	Total Lake Martin Campus Expenses
Salaries and wages	\$ 95,784	\$ 37,046	\$ 87,998	\$ 95,239	\$ 93,193	\$ 186,935	\$ 596,195
Employee benefits	16,021	9,952	14,278	20,135	14,266	43,532	118,184
Payroll taxes	5,903	2,822	6,850	7,181	7,265	13,746	43,767
Total salaries and related expenses	117,708	49,820	109,126	122,555	114,724	244,213	758,146
Supplies	1,312	1,821	6,425	6,576	6,311	2,777	25,222
Utilities	3,307	11,899	49,739	9,615	35,711	13,052	123,323
Insurance	4,061	3,507	24,755	4,884	15,450	9,991	62,648
Maintenance and repairs	1,412	15,049	25,630	9,322	27,056	6,520	84,989
Telephone	1,688	3,980	6,232	3,541	5,566	3,856	24,863
Postage	159	16	29	12	419	5	640
Travel	854	-	258	1,670	252	2,331	5,365
Workshops, seminars, and education	380	-	76	76	76	76	684
Other professional fees and contract service payments	760	6,210	20,445	7,055	17,876	-	52,346
Program activities	18,954	830	1,865	529	9,003	1,628	32,809
Printing	161	-	322	-	786	470	1,739
Public relations	2,727	-	-	-	-	-	2,727
Miscellaneous	1,525	-	6,777	-	12,500	5,817	26,619
Total expenses before depreciation	155,008	93,132	251,679	165,835	245,730	290,736	1,202,120
Depreciation	31,928	25,849	250,211	42,965	250,355	37,809	639,117
Total Expenses	<u>\$ 186,936</u>	<u>\$ 118,981</u>	<u>\$ 501,890</u>	<u>\$ 208,800</u>	<u>\$ 496,085</u>	<u>\$ 328,545</u>	<u>\$ 1,841,237</u>

See independent accountants' review report.

**CHILDREN'S HARBOR, INC. AND AFFILIATED ORGANIZATION
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions				
Organizations:				
Foundations	\$ 118,319	\$ -	\$ -	\$ 118,319
Religious and charitable	82,633	-	-	82,633
Associations and clubs	5,423	-	-	5,423
Individuals:				
Contributions	1,192,512	-	-	1,192,512
Memorials and honorariums	157,471	-	-	157,471
Business contributions	220,914	-	-	220,914
Chapel offerings	345,946	-	-	345,946
Fund raising events	736,817	-	-	736,817
	<u>2,860,035</u>	<u>-</u>	<u>-</u>	<u>2,860,035</u>
Founders' contributions	138,375	-	-	138,375
Total	<u>\$ 2,998,410</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,998,410</u>

See independent accountants' review report.