Embrace Families Community Based Care, Inc.

Financial and Compliance Report
June 30, 2019

Contents

Independent Auditor's Report

To the Board of Directors
Embrace Families Community Based Care, Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of Embrace Families Community Based Care, Inc., which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Embrace Families Community Based Care, Inc., as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Newly Adopted Accounting Pronouncement
As discussed in Note 1 to the accompanying financial statements, Embrace Families Community Based Care, Inc. adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters – Supplementary Information
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Florida Chapter 10.650, *Rules of the Auditor General*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2020, on our consideration of Embrace Families Community Based Care, Inc.'s internal control over financial reporting and 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 Embrace Families Community Based Care, 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 Embrace Families Community Based Care, Inc.'s internal control over financial reporting and compliance.

RSM US LLP

Orlando, Florida
January 29, 2020

Embrace Families Community Based Care, Inc.

Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash	$ 4,460,388	$ 3,767,242
Restricted cash held for master trust	182,169	184,485
Accounts receivable	2,224,382	125,481
Prepaid expenses and other assets	311,943	451,097
Total current assets	7,178,882	4,528,305
Investment in limited liability company	174,893	241,910
Property and equipment, net	373,078	280,859
Total assets	$ 7,726,853	$ 5,051,074
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,159,783	$ 4,698,981
Deferred revenue	1,218,696	-
Due to Embrace Families, Inc.	681,516	701,614
Current portion of capital lease obligation	-	28,991
Assets held for master trust	182,169	184,485
Total current liabilities	7,242,164	5,614,071
Custodial assets held for others	357,710	230,727
Total liabilities	7,599,874	5,844,798
Commitments and contingencies (Notes 5, 8 and 9)		
Net assets without donor restrictions (deficit)	126,979	(793,724)
Total liabilities and net assets	$ 7,726,853	$ 5,051,074

See notes to financial statements.

Embrace Families Community Based Care, Inc.

Statements of Activities
Years Ended June 30, 2019 and 2018

	2019	2018
Revenues:		
Grants and contracts	**$ 73,454,711**	$ 73,182,781
Contributions and other income	**1,205,502**	295,946
Total revenues	**74,660,213**	73,478,727
Expenses:		
Program services:		
Foster care	**8,205,095**	10,712,271
Adoptions	**19,311,903**	18,468,541
Residential	**8,874,097**	11,060,400
Independent living	**7,511,945**	5,323,615
System of care	**11,889,247**	13,882,695
Financial assistance	**13,146,830**	11,693,661
Other program services	**3,122,993**	1,397,315
Total program services	**72,062,110**	72,538,498
Supporting services:		
General and administrative	**1,627,400**	1,268,566
Fundraising	**50,000**	-
Total supporting services	**1,677,400**	1,268,566
Total expenses	**73,739,510**	73,807,064
Change in net assets	**920,703**	(328,337)
Net assets without donor restrictions (deficit):		
Beginning	**(793,724)**	(465,387)
Ending	**$ 126,979**	$ (793,724)

See notes to financial statements.

Embrace Families Community Based Care, Inc.

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services								Supporting Services		
	Foster Care	Adoptions	Residential	Independent Living	System of Care	Financial Assistance	Other Program Services	Total Program Services	General and Administrative	Fundraising	Total Expenses
Salaries	$ 467,210	$ 634,595	$ 467,210	$ 886,077	$ 1,233,720	$ 1,075,353	$ 48,533	$ 4,812,698	$ 147,540	$ -	$ 4,960,238
Payroll taxes and employee benefits	121,903	161,573	121,903	317,653	151,765	227,910	96,040	1,198,747	38,496	-	1,237,243
Total salaries and related benefits	589,113	796,168	589,113	1,203,730	1,385,485	1,303,263	144,573	6,011,445	186,036	-	6,197,481
Purchased services contracts	3,345,725	4,718,869	3,060,649	3,226,972	4,783,732	5,130,090	222,103	24,488,140	919,339	-	25,407,479
Adoption	-	12,746,063	-	-	-	-	-	12,746,063	-	-	12,746,063
Out of home	3,314,708	-	4,321,322	-	2,880,881	111,393	599,233	11,227,537	-	-	11,227,537
Professional fees	532,315	478,815	479,779	672,225	991,303	604,658	2,066,179	5,825,274	388,372	-	6,213,646
Financial assistance	52,806	71,365	52,806	107,898	124,189	5,177,949		5,587,013	16,675	-	5,603,688
Occupancy	248,003	335,169	248,003	506,744	583,259	548,645	60,862	2,530,685	78,317	-	2,609,002
Independent living	-	-	-	1,544,226	-	-	-	1,544,226	-	-	1,544,226
Client screening and certifications	-	-	-	-	852,479	-	-	852,479	-	-	852,479
Supplies	38,149	51,557	38,149	77,949	89,718	84,394	9,362	389,278	12,047	-	401,325
Communication	23,407	31,633	23,407	47,827	55,048	51,781	5,744	238,847	7,392	-	246,239
Advertising and marketing	15,726	21,253	15,726	32,133	36,985	34,790	3,859	160,472	4,966	-	165,438
Equipment rental and maintenance	14,447	19,525	14,447	29,519	33,977	31,960	3,545	147,420	4,562	-	151,982
Conferences, travel and training	12,583	17,006	12,583	25,711	29,593	27,837	3,088	128,401	3,974	-	132,375
Fees, bad debts and other	5,934	8,019	5,934	12,124	13,955	13,126	1,456	60,548	1,873	50,000	112,421
Depreciation	3,844	5,196	3,844	7,855	9,041	8,505	943	39,228	1,215	-	40,443
Memberships	3,833	5,180	3,833	7,832	9,014	8,479	941	39,112	1,210	-	40,322
Postage and shipping	3,012	4,071	3,012	6,155	7,084	6,664	739	30,737	951	-	31,688
Insurance	1,490	2,014	1,490	3,045	3,504	3,296	366	15,205	471	-	15,676
Total expenses	$ 8,205,095	$ 19,311,903	$ 8,874,097	$ 7,511,945	$ 11,889,247	$ 13,146,830	$ 3,122,993	$ 72,062,110	$ 1,627,400	$ 50,000	$ 73,739,510

See notes to financial statements.

Embrace Families Community Based Care, Inc.

Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services								Supporting Services	
	Foster Care	Adoptions	Residential	Independent Living	System of Care	Financial Assistance	Other Program Services	Total Program Services	General and Administrative	Total Expenses
Salaries	$ 426,447	$ 583,042	$ 426,447	$ 868,836	$ 1,246,969	$ 616,509	$ 198,855	$ 4,367,105	$ 134,704	$ 4,501,809
Payroll taxes and employee benefits	119,277	158,252	119,277	226,765	321,330	167,886	58,013	1,170,800	37,667	1,208,467
Total salaries and related benefits	545,724	741,294	545,724	1,095,601	1,568,299	784,395	256,868	5,537,905	172,371	5,710,276
Purchased services contracts	5,535,337	4,484,491	3,126,193	1,050,745	5,675,715	5,085,341	4,860	24,962,682	733,414	25,696,096
Out of home	3,337,372	-	6,204,274	-	4,136,183	-	607	13,678,436	-	13,678,436
Adoption	-	11,917,623	-	-	-	-	800	11,918,423	-	11,918,423
Professional fees	894,992	783,351	785,363	883,071	809,074	1,045,951	955,935	6,157,737	236,806	6,394,543
Financial assistance	20,161	27,386	20,161	40,476	57,939	4,233,666	-	4,399,789	6,368	4,406,157
Occupancy	250,152	339,799	250,152	502,209	718,887	359,556	117,745	2,538,500	79,012	2,617,512
Independent living	-	-	-	1,493,466	-	-	-	1,493,466	-	1,493,466
Client screening and certifications	-	-	-	-	547,216	-	-	547,216	-	547,216
Supplies	21,533	29,250	21,533	43,230	61,882	30,951	10,135	218,514	6,802	225,316
Communication	20,744	28,178	20,744	41,646	59,614	29,816	9,764	210,506	6,551	217,057
Insurance	20,647	28,047	20,647	41,452	59,336	29,677	9,718	209,524	6,522	216,046
Equipment rental and maintenance	18,003	24,455	18,003	36,143	51,737	25,877	8,474	182,692	5,686	188,378
Fees, bad debts and other	15,400	20,919	15,400	30,917	44,256	22,135	7,249	156,276	4,862	161,138
Conferences, travel and training	11,959	16,245	11,959	24,010	34,369	17,191	5,629	121,362	3,777	125,139
Advertising and marketing	9,318	12,658	9,318	18,707	26,779	13,394	4,386	94,560	2,943	97,503
Memberships	3,813	5,179	3,813	7,655	10,958	5,481	1,795	38,694	1,204	39,898
Depreciation	3,720	5,053	3,720	7,469	10,691	5,347	1,751	37,751	1,175	38,926
Postage and shipping	3,396	4,613	3,396	6,818	9,760	4,883	1,599	34,465	1,073	35,538
Total expenses	$ 10,712,271	$ 18,468,541	$ 11,060,400	$ 5,323,615	$ 13,882,695	$ 11,693,661	$ 1,397,315	$ 72,538,498	$ 1,268,566	$ 73,807,064

See notes to financial statements.

Embrace Families Community Based Care, Inc.

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	**$ 920,703**	$ (328,337)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	**40,443**	38,926
Earnings in equity method investment	**4,578**	(173)
Provision for doubtful accounts	**15,845**	42,712
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Restricted cash held for master trust	**2,316**	46,961
Accounts receivable	**(2,114,746)**	1,503,360
Prepaid expenses and other assets	**139,154**	6,200
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	**460,802**	(3,292,040)
Due to Embrace Families, Inc.	**(20,098)**	175,467
Deferred revenue	**1,218,696**	-
Assets held for master trust	**(2,316)**	(46,961)
Net cash provided by (used in) operating activities	**665,377**	(1,853,885)
Cash flows from investing activities:		
Purchases of property and equipment	**(5,679)**	(10,146)
Distribution received from investment in limited liability company	**62,439**	200,000
Net cash provided by investing activities	**56,760**	189,854
Cash flows from financing activities:		
Change in due to/from affiliates	**-**	(758,260)
Repayments of capital lease obligation	**(28,991)**	(29,641)
Net cash used in financing activities	**(28,991)**	(787,901)
Net increase (decrease) in cash	**693,146**	(2,451,932)
Cash:		
Beginning of year	**3,767,242**	6,219,174
Ending of year	**$ 4,460,388**	$ 3,767,242
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 633**	$ 2,405

See notes to financial statements.

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Embrace Families Community Based Care, Inc., (EFCBC or the Organization) is a Florida not-for-profit organization dedicated to developing community-based services and support for children and families served by the child welfare system in Orange, Osceola and Seminole Counties in the state of Florida. Operations are directed by a voluntary board who receive no compensation for their services. Effective January 7, 2019, the Organization changed its name from Community Based Care of Central Florida, Inc. to Embrace Families Community Based Care, Inc.

The Organization's program services are as follows:

Foster care: Provides recruitment, training, licensing, re-licensing and support for foster care parents.

Adoptions: Provides cost of adoption assistance, subsidy payments and other nonrecurring adoption expenses for adopting families.

Residential: Provides placement of children in relative care, family foster care, therapeutic foster care, medical foster care, residential group care or emergency shelter.

Independent living: Provides pre-independent living assessments, independent life skills assessments, employment training, counseling and after care support services, and provides payments to clients who participate in the program.

System of care: Provides case management, prevention and early intervention and domestic violence support.

Financial assistance: Provides assistance for community, assessments and preventative financial assistance.

Other program services: Includes background screenings, home licensing and home health inspections.

A summary of the Organization's significant accounting policies follows:

Basis of presentation: The accompanying financial statements have been prepared on the accrual basis of accounting.

A not-for-profit organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations, but may be designated for specific purposes by action of the Board of Directors.

Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization, the passage of time or permanently maintained by the Organization. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. The Organization does not have any net assets with donor restrictions.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Accounts receivable: Accounts receivable are stated at net realizable value. The Organization uses the allowance method to determine uncollectible accounts receivable. The allowance is established based upon management's analysis of specific accounts and other economic factors. In the opinion of management, no allowance for uncollectible accounts receivable was considered necessary at June 30, 2019 and 2018.

Property and equipment: Property and equipment are recorded at cost when purchased or at fair value at the date of gift, if contributed. Property and equipment is capitalized if it has a cost of $1,000 or more and a useful life, when acquired of more than a year. Property and equipment acquired by the Organization are considered owned by the Organization. However, state and local funding sources may maintain an equitable interest in the property purchased with grant monies as well as the right to determine the use of any proceeds from the sale of these assets. State and local funding sources have a reversionary interest in those custodial assets purchased with its funds. Depreciation of property and equipment is computed using the straight-line method of accounting over the estimated useful lives of the depreciable assets, which ranges from 3 to 40 years.

Impairment of long-lived assets: The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate such value may not be recoverable. Recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to future net cash flows expected to be generated by the asset or asset group. If such assets or asset groups are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets or asset groups exceeds the fair value of the assets or asset groups. Assets or asset groups to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairment of its long-lived assets or asset groups has been recognized during the years ended June 30, 2019 and 2018.

Assets held for master trust: The Organization is a representative payee for children in licensed foster care that receive Social Security or other trust benefits. Benefit payments and withdrawals are recorded as assets and liabilities and are not reflected in the accompanying statements of activities. Funds are maintained in separate bank accounts as required by funding sources and reflected on the accompanying statements of financial position as restricted cash held for master trust.

Grants and contracts revenue: The Organization is principally funded by grants and contracts from federal, state and local governmental agencies. Grants and contracts received provide specified amounts for various grant years principally as reimbursement for allowable costs incurred. Revenue from cost reimbursement grants and contracts is recognized as eligible costs are incurred. Accounts receivable is recorded to the extent costs have been incurred but not reimbursed by the granting agencies. Conversely, deferred revenue is recorded when grant or contract advances exceed eligible costs incurred. Deferred revenue will either be offset against subsequent allowable costs incurred or refunded to the granting agencies upon grant termination.

Contributions: Contributions received are recorded at fair value as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without restrictions if the restriction expires in the reporting period in which the support is recognized. When a restriction is accomplished or it expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Contributed services are recognized and reported at fair value in the period received, if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. There were no contributed services for the years ended June 30, 2019 and 2018.

Functional expenses: The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities and in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

Income taxes: The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Statutes. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying financial statements.

The Organization follows accounting standards relating to accounting for uncertainty in income taxes. Management assessed whether there were any uncertain tax positions which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying financial statements. The Organization files income tax returns in the U.S. federal jurisdiction. Generally, the Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years before June 30, 2016.

Use of estimates: The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

Concentrations: At various times throughout 2019 and 2018 and at June 30, 2019 and 2018, cash balances held at a financial institution were in excess of federally insured limits. However, the Organization has not experienced any losses in such accounts and management believes no significant concentration of credit risk exists with respect to this cash account.

Unsecured accounts receivable are limited as the receivables are primarily grants and contracts receivable from governmental entities.

The Organization received substantially all of its revenue from federal and state funding awarded through one contract during the years ended June 30, 2019 and 2018.

Investment in limited liability company: Investment in an unconsolidated subsidiary, in which the Organization has a 4% interest or otherwise exercises significant influence, is accounted for using the equity method.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Newly adopted accounting pronouncement: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities.* ASU 2016-14 changes presentation and disclosure requirements for not-for-profit entities to provide qualitative and quantitative requirements as follows:

- Net assets presentation in two categories – net assets without donor restrictions and net assets with donor restrictions;
- Presentation of investment income net of investment expenses;
- Analysis of expenses by both natural and functional classification;
- Liquidity and availability of resources disclosure requirement;
- Presentation of operating cash flows either direct or indirect method; permits the use of direct method without reconciliation of change in net assets to net cash flow from operating activities.

As the result of ASU 2016-14 adoption, the Organization has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulate effect transition method. The updated standard will become effective for annual reporting periods beginning after December 15, 2018. Management expects to adopt the cumulative-effect transition method and is currently evaluating the impact this ASU will have on its financial statements.

In February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Nonpublic entities should apply the amendments for fiscal years beginning after December 15, 2020. The Organization is currently evaluating the impact this ASU will have on its financial statements.

The FASB has issued certain new or modifications to, or interpretations of, existing accounting guidance in addition to the ASU's described above. The Organization has considered the new pronouncements and does not believe that any other new or modified guidance will have a material impact on the Organization's reported financial position or activities in the near term.

Subsequent events: Management has assessed subsequent events through January 29, 2020, the date the financial statements were available to be issued.

Note 2. Investment in Limited Liability Company

Investment in a limited liability company of $174,893 and $241,910 as of June 30, 2019 and 2018, respectively, consists of a 4% interest in Community Based Care Integrated Health, LLC (Integrated Health). Integrated Health is a Florida limited liability company engaged in the child welfare managed care business throughout Florida. The investment is accounted for using the equity method as the Organization has significant influence, but not control over the entity. The Organization's share of Integrated Health's net (loss) income was ($4,578) and $173 during the years ended June 30, 2019 and 2018, respectively, and is included in contributions and other income in the accompanying statements of activities. In addition, the Organization received distributions from Integrated Health in the amount of $62,439 and $200,000, during the years ended June 30, 2019 and 2018, respectively.

The following is a summary of financial position and results of operations of Integrated Health, as of and for the years ended June 30, 2019 and 2018:

	2019	2018
Total assets	$ 3,389,837	$ 5,272,901
Total liabilities	$ 767,504	$ 975,154
Total members' equity	2,622,333	4,297,747
Total liabilities and members' equity	$ 3,389,837	$ 5,272,901
Total revenues	$ 8,678,913	$ 9,599,094
Total expenses	8,793,370	9,594,816
Net (loss) income	$ (114,457)	$ 4,278
EFCBC's share of net (loss) income	$ (4,578)	$ 173

Note 3. Property and Equipment

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019		
	EFCBC	Custodial Assets	Total
Land	$ -	$ 65,600	$ 65,600
Buildings	-	362,448	362,448
Furniture and equipment	1,030,159	-	1,030,159
Software	460,316	-	460,316
	1,490,475	428,048	1,918,523
Less accumulated depreciation	(1,475,107)	(70,338)	(1,545,445)
	$ 15,368	$ 357,710	$ 373,078

Note 3. Property and Equipment (Continued)

	2018		
	EFCBC	Custodial Assets	Total
Land	$ -	$ 55,600	$ 55,600
Buildings	-	211,722	211,722
Furniture and equipment	1,022,044	-	1,022,044
Software	460,316	-	460,316
	1,482,360	267,322	1,749,682
Less accumulated depreciation	(1,432,228)	(36,595)	(1,468,823)
	$ 50,132	$ 230,727	$ 280,859

Depreciation expense for the years ended June 30, 2019 and 2018, was $40,443 and $38,926, respectively.

Note 4. Line of Credit

EFCBC has an unsecured revolving line of credit of $5,000,000, bearing interest at the greater of the prime rate of interest plus .75% (6.25% at June 30, 2019) or 4.0%, payable monthly. There was no outstanding balance on the line of credit at June 30, 2019 and 2018. The line of credit is due on demand and is reviewed annually, with an expiration date of December 31, 2055.

Note 5. Leases

The Organization leases facilities and equipment under various operating leases that expire through February 2028. Facilities leases include early termination clauses in the event the Organization's funding contracts are terminated. The aggregate rental expense paid under these leases totaled approximately $2,262,000 and $2,269,000 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments under these operating leases as of June 30, 2019, are as follows:

Years ending June 30:	
2020	$ 2,106,377
2021	1,861,121
2022	1,167,963
2023	757,410
2024	756,164
Thereafter	2,837,001
	$ 9,486,036

Note 6. Retirement Plan

The Organization's employees are eligible to participate in a defined contribution 401(k) Profit Sharing Plan (the Plan). Employees become eligible to participate in the Plan on the first monthly date following the attainment of age 18 and the completion of one hour of service. Plan participants may voluntarily contribute, on a pre-tax basis, up to 100% of their qualified annual compensation, as defined in the Plan, up to the Internal Revenue Code maximum limits. The Organization makes matching contributions equal to 100% of each participant's contribution to a maximum of 4% of compensation, as defined in the Plan document. Contributions to the Plan for the years ended June 30, 2019 and 2018, were approximately $123,000 and $111,000, respectively, and is included in payroll taxes and employee benefits in the accompanying statements of functional expenses.

Note 7. Related Party Transactions

In July 2013, the Organization signed a five-year agreement (after the initial term, this agreement will automatically continue for successive one-year periods, unless either party gives written notice to the other of its intent not to renew this agreement within 30 days prior to the expiration of each term) with its parent company, Embrace Families, Inc., to receive management and administrative services. Fees are charged based on a schedule of both direct and indirect costs incurred monthly. Expenses incurred by the Organization during the years ended June 30, 2019 and 2018, for these services was approximately $5,517,000 and $6,200,000, respectively, which is included in professional fees in the accompanying statements of functional expenses. Amounts due to Embrace Families, Inc. at June 30, 2019 and 2018, related to this agreement, totaled approximately $681,500 and $701,600, respectively, which is included in the accompanying statements of financial position.

In June 2019, the Organization entered into two promissory notes totaling $220,000 with Embrace Families, Inc. to receive cash advances for current operations related to two programs. These promissory notes are non-interest bearing and due 30 days after Embrace Families, Inc. provides written notice of demand. At June 30, 2019, the $220,000 is included in accounts payable and accrued expenses in the accompanying statements of financial position.

In June 2019, the Organization received a contribution of approximately $915,800 from Embrace Families, Inc. and is included as contributions and other income in the accompanying statements of activities.

The Organization made payments to an affiliate, Embrace Families Solutions, Inc., under a subrecipient agreement, of approximately $624,000 and $610,200, during the years ended June 30, 2019 and 2018, respectively. Amounts due to Embrace Families Solutions, Inc., at June 30, 2019 and 2018, related to this subrecipient agreement, totaled approximately $47,800 and $119,200, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of financial position.

In July 2018, the Organization signed a five-year agreement (after the initial term, this agreement will automatically continue for successive one year periods, unless either party gives written notice to the other of its intent not to renew this agreement within 30 days prior to the expiration of each term) with an affiliate, Embrace Families Foundation, Inc., to receive marketing services. Fees are fixed and incurred monthly. Expenses incurred by the Organization during the year ended June 30, 2019 for these services was $50,000 which is included in fees, bad debts and other expenses in the accompanying statements of functional expenses.

The Organization has a receivable from Embrace Families, Inc. at June 30, 2019, in the amount of approximately $173,200, which is included in accounts receivable in the accompanying statements of financial position.

Note 8. Commitments and Contingencies

EFCBC, as an authorized agent of the state of Florida in accordance with Florida Statute Section 409.1671, has contracted with organizations to deliver quality child welfare services. The contracts have five-year terms, but often can be renewed for additional five-year terms.

The Organization is subject to state and federal audit examination to determine compliance with grant or contract requirements. In the event that expenditures would be disallowed, repayment could be required. Management is of the opinion that such expenditures, if any, would not have a material adverse impact on the Organization.

Note 9. State Funding and Impact on Net Assets

The Organization receives a substantial amount of grants and contracts from the state of Florida to operate as a child welfare organization to benefit children and families in the service area discussed in Note 1. Servicing children and families who are at risk under a contract with the State of Florida's Department of Children and Families puts the Organization at risk if funding is not sufficient to meet those welfare needs. The state of Florida has several funding mechanisms to help make up any deficit incurred as follows: a) the state of Florida established risk pools to assist organizations to ensure those organizations are adequately funded and that no children or families are denied assistance; b) organizations can apply for an increase in core funding from the state of Florida's legislature; and c) organizations can also make direct funding requests from the state of Florida's legislature. During the year ended June 30, 2019, the Organization received approximately $1,120,000 increase in core funding from the state of Florida's legislature. The Organization did not request additional funds from the state of Florida's risk pool during the year ended June 30, 2019. The Organization did not request additional funds during the year ended June 30, 2018, from the state of Florida's risk pool or from the state of Florida's legislature. Other funding mechanisms to cover the operating needs of the Organization include drawing on the unused $5,000,000 line of credit (see Note 4).

The Organization has been successful in the prior years by obtaining additional funding through the risk pool, core funding and direct requests of the state of Florida legislature. However, successful efforts for additional state of Florida funding in prior years is no guarantee of success in the future. The line of credit is available to fund operations but is subject to annual bank reviews and is due on demand (see Note 4).

Note 10. Liquidity and Availability of Resources

As of June 30, 2019, the following reflects the Organization's financial assets, reduced by amounts not available for general use within one year of June 30, 2019.

Financial assets, at year-end	
Cash	$ 4,460,388
Restricted cash held for master trust	182,169
Accounts receivable	2,224,382
	6,866,939
Less those unavailable for general expenditures within one year:	
Restricted cash held for master trust	(182,169)
Financial assets available to meet cash needs for general expenditures within one year	$ 6,684,770

As part the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Embrace Families Community Based Care, Inc.

Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2019

Grantor/Pass-Through/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Contract/ Grant Period	Federal Expenditures	Amount Provided to Subrecipients
Federal Awards:					
U.S. Department of Health and Human Services:					
Passed-through:					
State of Florida Department of Children and Families:					
Promoting Safe and Stable Families Program	93.556	GJL57	7/1/18 – 6/30/19	$ 1,420,264	$ 1,383,977
Temporary Assistance for Needy Families Program	93.558	GJL57	7/1/18 – 6/30/19	4,113,114	2,136,501
Grants to States for Access and Visitation Program	93.597	GJL57	7/1/18 – 6/30/19	25,549	25,549
Chafee Education and Training Vouchers Program	93.599	GJL57	7/1/18 – 6/30/19	66,830	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	GJL57	7/1/18 – 6/30/19	1,197,240	740,220
Foster Care – Title IV-E Program	93.658	GJL57	7/1/18 – 6/30/19	12,385,071	7,414,626
Adoption Assistance – Title IV-E Program	93.659	GJL57	7/1/18 – 6/30/19	9,031,801	1,567,199
Social Services Block Grant Program	93.667	GJL57	7/1/18 – 6/30/19	3,053,491	2,334,858
Child Abuse and Neglect State Grants Program	93.669	GJL57	7/1/18 – 6/30/19	142,529	92,579
Chafee Foster Care Independence Program	93.674	GJL57	7/1/18 – 6/30/19	773,669	188,702
Medical Assistance Program	93.778	GJL57	7/1/18 – 6/30/19	196,109	-
Direct program:					
Adoption Opportunities Program	93.652	90CO1138-01-00	9/30/18 – 9/29/19	325,860	-
Total U.S. Department of Health and Human Services				32,731,527	15,884,211
U.S. Department of Labor:					
Passed-through:					
CareerSource Central Florida:					
WIOA Youth Activities	17.259	1617-011	7/1/18 – 6/30/19	68,687	-
Total expenditures of federal awards				$ 32,800,214	$ 15,884,211

Grantor/Pass-Through/Program Title	State CSFA Number	Pass-Through Entity Identifying Number	Contract/ Grant Period	State Expenditures	Amount Provided to Subrecipients
State Financial Assistance:					
State of Florida Department of Children and Families:					
Direct programs:					
Out-of-Home Supports Program	60.074	GJL57	7/1/18 – 6/30/19	$ 5,947,672	$ 1,463,278
In-Home Supports Program	60.075	GJL57	7/1/18 – 6/30/19	768,742	336,004
Independent Living Program	60.112	GJL57	7/1/18 – 6/30/19	116,612	-
Motor Vehicle Insurance for Kids in Care Program	60.123	LJ973	1/1/18 – 6/30/21	785,801	-
CBC-Sexually Exploited Children Program	60.138	GJL57	7/1/18 – 6/30/19	530,513	530,513
Chafee Extended Foster Care Program	60.141	GJL57	7/1/18 – 6/30/19	237,453	37,847
CBC - Purchase of Therapeutic Services for Children Program	60.183	GJL57	7/1/18 – 6/30/19	1,146,870	-
Total expenditures of state financial assistance				9,533,663	2,367,642
Total federal awards and state financial assistance				$ 42,333,877	$ 18,251,853

See notes to schedule of expenditures of federal awards and state financial assistance.

Embrace Families Community Based Care, Inc.

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2019

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) includes the federal award and state financial assistance project activity of Embrace Families Community Based Care, Inc., under programs of the federal government and the state of Florida for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State of Florida Chapter 10.650, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of Embrace Families Community Based Care, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Embrace Families Community Based Care, Inc.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are recognized on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and cost principles established by the State of Florida Department of Financial Services, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

Embrace Families Community Based Care, Inc. has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

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*

Independent Auditor's Report

To the Board of Directors
Embrace Families Community Based Care, 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 Embrace Families Community Based Care, Inc., which comprise the statement of financial position as of June 30, 2019, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2020.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered Embrace Families Community Based Care, 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 Embrace Families Community Based Care, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Embrace Families Community Based Care, 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we considered material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Embrace Families Community Based Care, 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Embrace Families Community Based Care, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Embrace Families Community Based Care, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Orlando, Florida
January 29, 2020

Report on Compliance for Each Major Federal Program and State Financial Assistance Project and Report on Internal Control Over Compliance Required by The Uniform Guidance and State of Florida Chapter 10.650, *Rules of the Auditor General*

Independent Auditor's Report

To The Board of Directors
Embrace Families Community Based Care, Inc.

Report on Compliance for Each Major Federal Program and State Financial Assistance Project
We have audited Embrace Families Community Based Care, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the requirements described in the Florida Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of Embrace Families Community Based Care, Inc.'s major federal programs and state financial assistance projects for the year ended June 30, 2019. Embrace Families Community Based Care, Inc.'s major federal programs and state financial assistance projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal and state statutes, regulations and the terms and conditions of its federal awards and state financial assistance applicable to its federal programs and state financial assistance projects.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of Embrace Families Community Based Care, Inc.'s major federal programs and state financial assistance projects 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; 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) and State of Florida Chapter 10.650, *Rules of the Auditor General*. Those standards, the Uniform Guidance and the State of Florida Chapter 10.650, *Rules of the Auditor General*, 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 or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about Embrace Families Community Based Care, 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 and state financial assistance project. However, our audit does not provide a legal determination of Embrace Families Community Based Care, Inc.'s compliance.

Opinion on Each Major Federal Program and State Financial Assistance Project
In our opinion, Embrace Families Community Based Care, 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 and state financial assistance projects for the year ended June 30, 2019.

Report on Internal Control over Compliance
Management of Embrace Families Community Based Care, 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 Embrace Families Community Based Care, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program or state financial assistance project 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 state financial assistance project and to test and report on internal control over compliance in accordance with the Uniform Guidance and State of Florida Chapter 10.650, *Rules of the Auditor General*, 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 Embrace Families Community Based Care, 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 or state financial assistance project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project 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 or state financial assistance project 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 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 and State of Florida Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Orlando, Florida
January 29, 2020

Embrace Families Community Based Care, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified?	____ Yes	X None Reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified?	____ Yes	X None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	____ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.645	Stephanie Tubbs Jones Child Welfare Services Program
93.652	Adoption Opportunities Program
93.659	Adoption Assistance – Title IV-E Program

Dollar threshold used to distinguish between Type A and Type B federal programs:	$ 984,006	
Auditee qualified as low-risk auditee?	X Yes	____ No

(Continued)

Section I - Summary of Auditor's Results (Continued)

State Financial Assistance

Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with the State of Florida Chapter 10.650, *Rules of the Auditor General*?		Yes	X	No

Identification of major programs:

CSFA Number(s)	Name of State Financial Assistance Project
60.074	Out-of-Home Supports Program
60.075	In-Home Supports Program
60.123	Motor Vehicle Insurance for Kids in Care Program
60.183	CBC - Purchase of Therapeutic Services for Children Program

Dollar threshold used to distinguish between Type A and Type B state financial assistance projects: $ 750,000

Section II - Financial Statement Findings

No matters to report.

Section III - Findings and Questioned Costs for Federal Awards and State Financial Assistance

No matters to report.

Section IV - Other Reporting

There was no management letter or control deficiency letter issued for the year ended June 30, 2019, as there were no matters required to be reported in these letters.

No Corrective Action Plan is presented because there were no findings required to be reported under the Federal Single Audit Act or the Florida Single Audit Act.

No Summary Schedule of Prior Audit Findings is presented because there were no prior audit findings.