CHILDREN'S HARBOR, INC.

Financial Statements

For the Years Ended June 30, 2013 and 2012

With the Independent Auditors' Report

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For the Years Ended June 30, 2013 and 2012

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Harbor, Inc. (the "Organization") which comprise the statement of financial position as of June 30, 2013 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 Children's Harbor, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 September 13, 2013, on our consideration of Children's Harbor, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Children's Harbor, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statements of Children's Harbor, Inc. as of June 30, 2012, were audited by other auditors whose report dated October 30, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Melamed & Karp, P.A.

Melamed & Karp, P.A.
September 13, 2013

CHILDREN'S HARBOR, INC.

Statements of Financial Position
June 30, 2013 and 2012

Assets	2013	*(Restated)* 2012
Current assets:		
Cash and cash equivalents	**$ 635,586**	$ 606,994
Contracts receivable from government agencies	**185,910**	144,422
Grants receivable	**4,587**	2,087
Prepaid expenses	**29,033**	38,595
Total current assets	**855,116**	792,098
Property and equipment, net	**402,126**	347,889
Other assets:		
Cash value of life insurance	**294,549**	284,843
Deposits	**1,034**	1,154
Total other assets	**295,583**	285,997
Total assets	**$ 1,552,825**	$ 1,425,984
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 117,913**	$ 114,452
Accrued payroll and payroll taxes	**66,445**	61,342
Unearned grant revenue	**89,825**	66,125
Total current liabilities	**274,183**	241,919
Net assets:		
Unrestricted net assets	**1,275,484**	1,156,327
Temporarily restricted net assets	**3,158**	27,738
Total net assets	**1,278,642**	1,184,065
Total liabilities and net assets	**$ 1,552,825**	$ 1,425,984

CHILDREN'S HARBOR, INC.

Statements of Activities
For the Years Ended June 30, 2013 and 2012

	2013			*(Restated)* 2012
	Unrestricted	**Temporarily Restricted**	**Total**	Total
Revenues				
Public and other support:				
Fundraising events	$ 117,751	$ -	**$ 117,751**	$ 106,205
Contributions and grants	370,040	3,158	**373,198**	332,190
Contract revenue	1,439,078	-	**1,439,078**	1,396,267
Donated facilities	273,913	-	**273,913**	192,000
Interest income	11,583	-	**11,583**	3,011
Medicaid income	268,582	-	**268,582**	150,237
Other income	1,242	-	**1,242**	2,270
Net assets released from restrictions	27,738	(27,738)	**-**	-
Total revenues	2,509,927	(24,580)	**2,485,347**	2,182,180
Expenses				
Program services:				
Residential	1,517,297	-	**1,517,297**	1,195,501
Family strengthening	550,834	-	**550,834**	667,529
Total program services	2,068,131	-	**2,068,131**	1,863,030
Support services:				
Management and general	158,327	-	**158,327**	139,124
Development/fundraising	164,312	-	**164,312**	153,093
Total support services	322,639	-	**322,639**	292,217
Total expenses	2,390,770	-	**2,390,770**	2,155,247
Increase (decrease) in net assets	119,157	(24,580)	**94,577**	26,933
Net assets, beginning (*Note 7*)	1,156,327	27,738	**1,184,065**	1,157,132
Net assets, ending	$ 1,275,484	$ 3,158	**$ 1,278,642**	$ 1,184,065

CHILDREN'S HARBOR, INC.

Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	2013	*(Restated)* 2012
Cash flows from operating activities:		
Change in net assets	**$ 94,577**	$ 26,933
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization expense	**25,696**	24,770
Changes in operating assets and liabilities:		
Contracts receivable from government agencies	**(41,488)**	75,668
Grants receivable	**(2,500)**	(2,087)
Prepaid expenses	**9,562**	(23,372)
Cash value of life insurance	**(9,706)**	15,157
Deposits	**120**	-
Accounts payable and accrued expenses	**3,461**	77,552
Accrued payroll and payroll taxes	**5,103**	8,773
Unearned grant revenue	**23,700**	66,125
Net cash flows provided by operating activities	**108,525**	269,519
Cash flows from investing activities:		
Purchase of property and equipment	**(79,933)**	(78,112)
Investments in life insurance policy	**-**	(300,000)
Net cash flows used in investing activities	**(79,933)**	(378,112)
Net increase (decrease) in cash and cash equivalents	**28,592**	(108,593)
Cash and cash equivalents		
Beginning of year	**606,994**	715,587
End of year	**$ 635,586**	$ 606,994

See Independent Auditors' Report and Notes to Financial Statements

CHILDREN'S HARBOR, INC.

Statements of Functional Expenses
For the Years Ended June 30, 2013 and 2012

	PROGRAM SERVICES			SUPPORTING SERVICES			*(Restated)*
	Residential	Family Strengthening	Subtotal	Management and General	Fundraising	**2013 Total**	2012 Total
Salaries and benefits	$ 994,105	$ 447,097	$ 1,441,202	$ 80,331	$ 96,547	**$ 1,618,080**	$ 1,567,130
Donated facilities	228,261	-	228,261	45,652	-	**273,913**	192,000
Other costs	107,594	16,352	123,946	6,543	25,031	**155,520**	93,045
Travel and auto	28,844	24,805	53,649	213	393	**54,255**	40,160
Residential flexible fund	15,384	20,596	35,980	-	-	**35,980**	18,673
Utilities	26,162	3,428	29,590	3,892	1,740	**35,222**	35,830
Insurance	28,578	4,487	33,065	1,197	798	**35,060**	31,619
Maintenance and repairs	17,391	6,970	24,361	4,365	1,396	**30,122**	33,057
Professional fees	16,083	4,028	20,111	4,942	715	**25,768**	17,888
Depreciation	16,135	8,248	24,383	955	358	**25,696**	24,770
Telephone	12,754	8,217	20,971	2,210	1,149	**24,330**	23,012
Catering	-	-	-	-	18,407	**18,407**	30,080
Contract labor	10,492	1,818	12,310	515	323	**13,148**	4,800
Professional development	5,192	897	6,089	4,574	967	**11,630**	11,170
Equipment rental	5,241	1,747	6,988	466	311	**7,765**	7,713
Office expenses	416	306	722	728	3,971	**5,421**	5,198
Printing and publications	135	72	207	36	4,984	**5,227**	1,598
Development activities	-	-	-	-	3,114	**3,114**	4,138
Dues and subscriptions	303	-	303	749	2,051	**3,103**	2,667
Staff training	2,199	462	2,661	415	27	**3,103**	4,011
Postage and delivery	257	713	970	386	1,410	**2,766**	3,522
Security monitoring	1,771	591	2,362	158	105	**2,625**	2,675
Internet	-	-	-	-	515	**515**	491
Total Expenses	$ 1,517,297	$ 550,834	$ 2,068,131	$ 158,327	$ 164,312	**$ 2,390,770**	$ 2,155,247

See Independent Auditors' Report and Notes to Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Children’s Harbor, Inc. (the “Organization”) was incorporated in 1996 as a Florida non-profit corporation. Children’s Harbor, Inc. was founded to provide a continuum of care for dependent/neglected children throughout Broward County. Children’s Harbor, Inc.’s vision is to develop and operate the preeminent comprehensive model for the prevention of child abuse and neglect, and the healing of children and families already victimized through the operation of community-based prevention and intervention services, family-style campus based residential services and community-based private foster homes.

Summary of Significant Accounting Principles

Basis of Accounting

The accompanying financial statements of Children's Harbor, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization prepares its financial statements in accordance with the Financial Accounting Standards Board (FASB) – Accounting Standards Codification (ASC). Under FASB ASC, Children's Harbor, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. A description of the three net assets categories follows:

- Unrestricted – Net assets that are not subject to donor-imposed restrictions. Board-designated net assets represent amounts the Organization has set aside for specific purpose.

- Temporarily restricted - net assets subject to donor-imposed restrictions that may or will be met. Net assets are released from donor restrictions when a stipulated time restriction ends or a purpose restriction has been accomplished.

- Permanently restricted – net assets subject to permanent donor-imposed restrictions. There were no permanently restricted net assets at June 30, 2013 and 2012.

Prior Year Summarized Financial Information

While comparative information is not required under US GAAP, management believes this information is useful and has included certain summarized financial information from its fiscal 2012 financial statements. Such summarized information is not intended to be a complete presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements as of and for the year ended June 30, 2012, from which it was derived.

Note 1. Nature of Operations and Summary of Significant Accounting Policies *(continued)*

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures including, but not limited to, the determination of the net realizable value of receivables and the useful lives of donated and acquired assets. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purpose of the statement of cash flows, Children's Harbor, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization maintains its cash deposit in bank deposit accounts. These deposits may exceed the amount of insurance provided on such deposits; generally these deposits may be redeemed upon demand and therefore, bear minimal risk.

Contributions and Grants

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about the length of time and maintenance of long those long-lived assets, the Organization reports the expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give are recorded as revenues and accounts receivable when the promise is made. In the first year a pledge is made, the pledge receivable is recorded at its fair value by applying a discount rate (risk-free rate plus a risk premium) to the probability weighted cash flows for each year in which the cash is expected to be received. In subsequent years, amortization of the discount is credited to contribution income. Pledges that are expected to be received in one year are reported at net realizable value. The estimate of uncollectible pledges is determined based upon historical experience with the donors. There were no unconditional promises to give or pledges received in 2013 or 2012.

Revenue from grants is recognized according to the specific agreement. Generally, revenues from restricted grants are recognized in the period of the grant award while revenues from cost reimbursement contracts are recognized to the extent of project expenses incurred. Grants and contracts are subject to audit by the awarding agency.

Note 1. Nature of Operations and Summary of Significant Accounting Policies *(continued)*

Allowance for Uncollectible Accounts

Based on the ability to collect receivables from governmental agencies, pledge receivable and grant receivable, no provision for uncollectible accounts is maintained. Uncollectible receivables are written off using the direct write off method, which management believes is not materially different from the allowance method. For the years ended June 30, 2013 and 2012, amounts written off were not material to the financial statements.

Donated Facilities, Materials and Services

Facilities
The Organization occupies, at a nominal charge of $1 per year, the land and building owned by the City of Pembroke Pines in exchange for providing services to the community. The lease agreement expires in April 2028. The estimated fair rental value of the premises is reported as support and expenses in period in which the building is used. The estimated fair rental value of the premises was $273,913 and $192,000 in 2013 and 2012, respectively.

Materials
Donated materials are recorded at fair value on the date of donation.

Services
Contributed services are recognized when the services are received: (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Donated services provided by volunteers in connection with the various programs are not recorded as contributions by Children's Harbor, Inc., because it is not practical to determine the fair value of such services. Management deems the unrecorded donated services to be immaterial.

Contracts Receivable

The Organization renders services to clients under contractual agreements with governmental organizations. These agreements typically require the Organization to apply for annual renewal. Certain agreements provide for termination by either party upon written notice.

Contracts receivable expected to be received within one year are recorded at their net realizable value. Management reviews the contracts receivable on a regular basis to determine collectability and estimates the portion of the balance that will not be collected, if any. At June 30, 2013 and 2012, contracts receivable were $185,910 and $144,422, respectively.

Fair Value of Financial Instruments
The carrying amounts of cash and cash equivalents, contracts receivable, prepaid expenses, deposits, accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments.

Note 1. Nature of Operations and Summary of Significant Accounting Policies *(continued)*

Fair Value Measurements

Assets and liabilities measured at fair value are categorized into one of three different levels depending on the observability of the inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are market-observable inputs for measuring the asset or liability other than quoted prices included within Level 1. Level 3 inputs are unobservable inputs for measuring the asset or liability reflecting significant modifications to observable related market data or the Organization's assumptions about pricing by market participants.

Cash Value of Life Insurance

The cash value of life insurance (Level 2) is stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement dates. The Organization elected to invest the policy premiums in a fixed account at New York Life, which is credited with interest using a fixed interest rate set in advance at least annually. Interest income is recognized in the Statements of Activities as unrestricted income.

Property and Equipment

The Organization capitalizes all property and equipment expenditures with a cost of $1,000 or more and having estimated useful lives of more than one year. The fair market value of donated assets is similarly capitalized. Property and equipment are recorded at the lesser of cost or fair market value. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense when incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the activities for the respective period. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are being amortized over the shorter of the lease term or useful life. The estimated useful lives for significant property and equipment categories are as follows:

	Useful Life
Computer equipment and software	5 years
Furniture and equipment	7 years
Automobiles	5 years
Leasehold improvements	30 years
Director's residence	30 years

Long-lived assets, such as property and equipment, are reviewed on an ongoing basis for impairment based on comparison of carrying value against undiscounted future cash flows. If impairment is identified, the assets' carrying amounts are adjusted to fair value. There were no such adjustments to property and equipment during the years ended June 30, 2013 or 2012.

Revenue Recognition

Revenues consist of contributions, donations and grants that are recognized when earned and the related costs and expenses are recognized when incurred.

Note 1. Nature of Operations and Summary of Significant Accounting Policies *(continued)*

Unearned Grant Revenue

During 2013 and 2012, the Organization was awarded a $140,250 grant from a foundation to fund the Achievement and Life Skills Program. Monies received from the grant are restricted for the Achievement and Life Skills Program, in which life skills coaching, educational enhancement and driving skills lessons are to be provided to adolescents enrolled in the program. The grant is being accounted for as an exchange transaction consistent with generally accepted accounting principles, in which funds for expenditures not yet incurred at June 30, 2013 and 2012 are recorded as “Unearned grant revenue”. As of June 30, 2013 and 2012, the unearned grants amounted to $89,825 and $66,125, respectively.

Functional Expense Allocations

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. A portion of supporting services such as management and general expenses has been allocated to all the programs based on management’s allocation plan.

Income Taxes

The Organization is a non-profit corporation which is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and, accordingly, generally would not incur income taxes. As a result, the financial statements do not reflect a provision for income taxes.

The Organization recognizes and measures tax position based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded as an expense.

The U.S. Federal jurisdiction is the major tax jurisdiction where the Organization files income tax returns. The Organization is generally no longer subject to U.S. Federal examinations by tax authorities for years before 2009. The Organization is not currently under audit nor has the Organization been contacted by any jurisdiction. Based on the evaluation of the Organization’s tax positions, management believes all tax positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded as of June 30, 2013 or 2012.

Compensated Absences

Employees of the Organization are entitled to be paid for unused vacation days, depending on job classification, length of service and other factors. Any unused vacation is forfeited at the end of each calendar year, but employees who terminate their employment during the year are entitled to receive payment for any unused annual vacation at the date of termination. The Organization accrues a liability for vacation at fiscal year-end, if material to the financial statements. There was no accrual posted as of June 30, 2013 or 2012.

Note 1. Nature of Operations and Summary of Significant Accounting Policies *(continued)*

Reclassification

Certain items in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

Advertising

Advertising costs are expensed as incurred. The Organization had no advertising costs for the years ended June 30, 2013 or 2012.

Date of Management's Review

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

Note 2. Cash Value of Life Insurance

During the year ended June 30, 2012, the Organization received a life insurance policy from a donor in which the Organization was named the beneficiary and policyholder. The policy expires on 02/01/2052 when the beneficiary is 95 years old. The Organization contributed $300,000 to the policy premium. The policy allows the holder an option to invest policy premiums with New York Life ("NYL"), through NYL's Investment Division. The Organization has elected to invest its policy premiums in the Fixed Account offered by NYL, which is supported by assets in NYL's General Account. NYL's Fixed Account is credited with interest using a fixed interest rate, determined in advance at least annually, guaranteed at 3% or greater. Monthly charges are deducted from the cash account, which include monthly contract charges, cost of insurance and a mortality and expense charge. The cash surrender value of the policy at June 30, 2013 and 2012 were $294,549 and $284,843, respectively.

Premium payments can be made at the policyholder's discretion. Of the $300,000 contributed for the initial policy premium, $15,405 was moved into a separate account at NYL for deferred premiums which will be amortized through February 2022. The prepaid premium will earn a guaranteed interest of not less than 4%. There are no required additional premium payments; however, additional premium payments may be required to keep the policy from lapsing. The advanced premium payment is reduced for monthly premium expenses such as sales tax, state tax, federal tax and other charges. The deferred premium load account balance at June 30, 2013 and 2012 were $15,360 and $15,405, respectively and included in "prepaid expenses" on the Statement of Financial Position.

The face amount of the policy at June 30, 2013 was $600,000. Upon death of insured, the Organization has elected to receive the greater of the face amount of the policy or the alternative cash surrender value. At any time, the Organization is able to remit a request for the cash surrender value or alternative cash surrender value. However, once the cash surrender value is paid, the policy will cease to exist.

Note 2. Cash Value of Life Insurance (*continued*)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodology used for the "fixed account" is the fair value of the underlying investments/mutual funds of New York Life. There have been no changes in the methodologies used at June 30, 2013 or 2012.

Note 3. Property and Equipment

Property and equipment consisted of the following at June 30,

	2013	2012
Computer equipment and software	$ 13,395	$ 26,442
Furniture and equipment	60,629	79,080
Automobiles	150,209	128,071
Leasehold improvements	276,406	165,682
Construction in progress	-	56,929
Director's residence	180,000	180,000
Subtotal	680,639	636,204
Less: accumulated depreciation and amortization	278,513	288,315
Property and equipment, net	$ 402,126	$ 347,889

Depreciation expense was $25,696 and $24,770 for the years ended June 30, 2013 and 2012, respectively.

Note 4. Contracts With Government Agencies

Children's Harbor, Inc. entered into two contracts with ChildNet, a non-profit organization in South Florida, effective July 1, 2004. ChildNet is a pass-through provider under various contracts with the Florida Department of Children and families whereby they received federal funds and passed them through Children's Harbor, Inc. as a contracted provider of the residential sibling program. Children's Harbor, Inc. submits invoices for a fixed payment based on beds filled. Revenue received under this contract for the years ended June 30, 2013 and 2012 were $353,046 and $318,644, respectively, of which $266,067 and $216,751, respectively, were federal funds.

The second contract provides funds for the residential maternity program. This program provides residential group care and supervision for pregnant teenage girls, teen mothers and their babies in long-term foster care. Children's Harbor, Inc. submits invoices for a fixed payment based on beds filled. Revenue received under this contract for the years ended June 30, 2013 and 2012 were $494,394 and $462,430, respectively, of which $357,592 and $314,558, respectively, were federal funds.

Note 4. Contracts With Government Agencies *(continued)*

Children's Harbor, Inc. has entered into a third contract with the Children Services Council of Broward County. This contract provides funds for various in home intervention services that promote family preservation. In addition Children's Harbor, Inc. receives reimbursement for funds provided to families for emergency need ("flexible funds"). Revenues received under this contract for the years ended June 30, 2013 and 2012 were $591,638 and $596,520, respectively, of which none were federal funds.

Federal and state contract funds provided approximately 59% and 65% of Children's Harbor, Inc.'s revenues for the years ended June 30, 2013 and 2012, respectively. Children's Harbor, Inc. has entered into similar contracts for the fiscal year ending June 30, 2014.

During the year ended June 30, 2007, Children's Harbor, Inc. began Medicaid billing for some of the clients serviced. The income earned from Medicaid was $268,582 and $150,237, for the years ended June 30, 2013 and 2012, respectively. The income from Medicaid for the year ended June 30, 2012 was recorded net of a reserve totaling $90,224.

Note 5. Net Assets

Unrestricted

A portion of the unrestricted net assets has been designated by the Board of Directors to be used for specific purposes. Designations are voluntary, board-approved segregations of unrestricted net assets for specific purposes and are used as an aid in planning future expenditures. Information regarding the components of unrestricted net assets is as follows:

	2013	*(Restated)* 2012
Designated net assets:		
General fund	**$ 294,549**	$ 284,843
Leasehold improvement fund	**8,367**	12,755
Total designated net assets	**302,916**	297,598
Undesignated net assets	**972,568**	858,729
Total unrestricted net assets	**$ 1,275,484**	$ 1,156,327

Temporarily

Temporarily restricted net assets are for designated contributions restricted for use or by the passage of time by the donor. Temporarily restricted net assets as of June 30, 2013 and 2012 amounted to $3,158 and $27,738, respectively and were donor designated for the purpose of purchasing fixed assets.

Note 6. Line of Credit

Children's Harbor, Inc. has an unsecured $100,000 line of credit that expires on January 15, 2014. The line carries interest at the greater of a floating interest rate equal to the index (prime rate) plus 1%, or the floor interest rate of 5%, payable monthly. As of June 30, 2013 and 2012, Children's Harbor, Inc. had no outstanding balances under the line of credit.

Note 7. Prior Period Adjustment

In the prior year fiscal year, an advanced life insurance policy premium of $15,405 was expensed rather than recorded as a prepaid asset. The effect of the prior period adjustment is an increase in Board Designated Net Assets and an increase in prepaid expenses on the current fiscal year.

Note 8. Concentrations of Credit Risk

The Organization may be subject to credit risk on its cash and cash equivalents, which are placed with high credit-quality financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures institutions up to $250,000 per depositor, per insured bank, for each account ownership category. From time to time, the Organization may have deposits in excess of the FDIC limits. As of June 30, 2013, the Organization had US bank accounts in excess of the FDIC limit of approximately $277,000. Management believes that the Organization is not exposed to any significant credit risk on cash and cash equivalents. The Organization has not experienced any losses on its cash and cash equivalents in the past.

CHILDREN'S HARBOR, INC.

Supplementary Schedule and Required Reporting

For the Year Ended June 30, 2013

CHILDREN'S HARBOR, INC.

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Transfers to Subrecipients
Department of Health & Human Services				
Pass-through: Department of Children & Families - ChildNet				
Foster Care Title IV-E	93.658	CHH12RGC	$ 215,046	$ -
Department of Health & Human Services				
Pass-through: Department of Children & Families - ChildNet				
Social Services Block Grant	93.667	CHH12RGC	$ 142,546	$ -
Department of Health & Human Services				
Pass-through: Department of Children & Families - ChildNet				
Foster Care Title IV-E	93.658	CHH12RGC2	$ 160,005	$ -
Department of Health & Human Services				
Pass-through: Department of Children & Families - ChildNet				
Social Services Block Grant	93.667	CHH12RGC2	$ 106,062	$ -
	Total expenditures of federal awards		**$ 623,659**	**$ -**

See Independent Auditors' Report and Notes to Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Note 1. Summary of Significant Accounting Policies

General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Children's Harbor, Inc.

Principles of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting in accordance with U.S generally accepted accounting principles.

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal awards of Children's Harbor, Inc. during the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Children's Harbor, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 13, 2013.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Children's Harbor, 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 Children's Harbor, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Children's Harbor, 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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Melamed & Karp, P.A.

Melamed & Karp, P.A.
September 13, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program
We have audited Children's Harbor, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Children's Harbor, Inc.'s major federal programs for the year ended June 30, 2013. Children's Harbor, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of Children's Harbor, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Children's Harbor, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Children's Harbor, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Children's Harbor, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Children's Harbor, 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 Children's Harbor, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Children's Harbor, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Melamed & Karp, P.A.

Melamed & Karp, P.A.
September 13, 2013

CHILDREN'S HARBOR, INC.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness identified?		yes	X	no
Significant deficiency identified?		yes	X	none reported
Noncompliance material to financial statements noted?		yes	X	no

Federal Awards

Internal control over major programs:				
Material weakness identified?		yes	X	no
Significant deficiency 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 510(a) of OMB Circular A-133?		yes	X	no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.658	Foster Care - Title IV-E

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000			
Auditee qualified as low-risk auditee?	X	yes		no

-Continued-

Schedule of Findings and Questioned Costs (C*ontinued*)
For the Year Ended June 30, 2013

Section II - Financial Statement Findings

Current Year Findings

None

Prior Year Findings

None

Section III - Federal Award Findings and Questioned Costs

Current Year Findings

None

Prior Year Findings

None