# CHILDREN'S HARBOR, INC.

## Financial Statements

*For the Years Ended June 30, 2016 and 2015*

*With the Independent Auditors' Report*

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## Financial Statements

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MELAMED & KARP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

# 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. (a non-profit organization) which comprise the statements of financial position as of June 30, 2016 and 2015 and 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.

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**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, 2016 and 2015, 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.

**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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. 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 October 28, 2016, 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**
We have previously audited the Children's Harbor, Inc.'s June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 7, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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.
Coral Springs, Florida
October 28, 2016

# Statements of Financial Position
## June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 734,317** | $ 619,035 |
| Contracts receivable from government agencies | **268,882** | 242,737 |
| Grants receivable | **73,503** | 3,334 |
| Other current assets | **2,463** | - |
| Prepaid expenses | **32,536** | 25,638 |
| Total current assets | **1,111,701** | 890,744 |
| Property, plant and equipment, net | **511,439** | 438,806 |
| Other assets: | | |
| Cash surrender value of life insurance | **320,331** | 312,002 |
| Deposits | **4,360** | 1,034 |
| Total other assets | **324,691** | 313,036 |
| Total assets | **$ 1,947,831** | $ 1,642,586 |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | **$ 112,948** | $ 31,458 |
| Accrued payroll and payroll taxes | **60,777** | 113,795 |
| Unearned revenue | **48,136** | 53,167 |
| Total current liabilities | **221,861** | 198,420 |
| Net assets: | | |
| Unrestricted net assets | **1,654,942** | 1,423,358 |
| Temporarily restricted net assets | **71,028** | 20,808 |
| Total net assets | **1,725,970** | 1,444,166 |
| Total liabilities and net assets | **$ 1,947,831** | $ 1,642,586 |

## Statements of Activities
## For the Years Ended June 30, 2016 and 2015

| | 2016 | | | 2015 |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Total |
| **Revenues** | | | | |
| Public and other support: | | | | |
| Contract revenue | $ 1,748,517 | $ - | **$ 1,748,517** | $1,443,082 |
| Contributions and grants | 1,204,782 | 118,931 | **1,323,713** | 311,008 |
| Donated facilities | 273,913 | - | **273,913** | 273,913 |
| Fundraising events | 217,235 | 47,850 | **265,085** | 227,342 |
| Medicaid income | 92,473 | - | **92,473** | 84,190 |
| Other income | 21,864 | - | **21,864** | 2,920 |
| Interest income | 11,296 | - | **11,296** | 11,247 |
| In-kind contributions | 3,925 | - | **3,925** | 25,000 |
| Net assets released from restrictions | 116,561 | (116,561) | **-** | - |
| Total revenues | 3,690,566 | 50,220 | **3,740,786** | 2,378,702 |
| **Expenses** | | | | |
| Program services: | | | | |
| Residential | 1,839,666 | - | **1,839,666** | 1,548,928 |
| True north | 614,074 | - | **614,074** | - |
| Family strengthening | 529,378 | - | **529,378** | 448,933 |
| Total program services | 2,983,118 | - | **2,983,118** | 1,997,861 |
| Support services: | | | | |
| Management and general | 202,169 | - | **202,169** | 276,669 |
| Fundraising | 273,695 | - | **273,695** | 195,960 |
| Total support services | 475,864 | - | **475,864** | 472,629 |
| Total expenses | 3,458,982 | - | **3,458,982** | 2,470,490 |
| Increase (decrease) in net assets | 231,584 | 50,220 | **281,804** | (91,788) |
| Net assets, beginning | 1,423,358 | 20,808 | **1,444,166** | 1,535,954 |
| Net assets, ending *(Note 5)* | $ 1,654,942 | $ 71,028 | **$ 1,725,970** | $1,444,166 |

*See Independent Auditors' Report and Notes to the Financial Statements*

## Statements of Functional Expenses
## For the Years Ended June 30, 2016 and 2015

| | PROGRAM SERVICES | | | SUPPORTING SERVICES | | | |
|---|---|---|---|---|---|---|---|
| | Residential | Family Strengthening | True North | Management and General | Fundraising | 2016 Total | 2015 Total |
| Salaries and related expenses | $ 1,172,318 | $ 423,942 | $ 307,045 | $ 100,953 | $ 143,173 | **$ 2,147,431** | $ 1,629,908 |
| Donated facilities | 228,261 | - | - | 45,652 | - | **273,913** | 273,913 |
| Contract labor | 49,113 | 2,854 | 128,187 | - | - | **180,154** | 8,304 |
| Residential flexible fund | 22,859 | 19,173 | 68,197 | - | - | **110,229** | 34,714 |
| Other costs | 27,541 | 5,102 | 1,878 | 7,205 | 20,505 | **62,231** | 35,454 |
| Staff training | 38,866 | 3,903 | 22,708 | 1,442 | - | **66,919** | 3,350 |
| General household expenses | 65,880 | - | - | - | - | **65,880** | 46,147 |
| Catering | - | - | - | - | 65,301 | **65,301** | 63,556 |
| Maintenance and repairs | 34,407 | 8,940 | 7,061 | 11,317 | - | **61,725** | 33,686 |
| Office supplies | 16,010 | 13,478 | 18,787 | 4,374 | 3,145 | **55,794** | 13,961 |
| Insurance | 37,479 | 8,914 | 500 | 2,969 | - | **49,862** | 48,209 |
| Utilities | 37,534 | 2,531 | 2,903 | 4,420 | 1,931 | **49,319** | 41,714 |
| Depreciation and amortization | 36,151 | 10,702 | - | 2,329 | - | **49,182** | 35,148 |
| Telephone | 20,361 | 12,407 | 2,393 | 3,245 | 2,376 | **40,782** | 32,465 |
| Travel and auto | 21,474 | 9,304 | 4,833 | 1,307 | 1,382 | **38,300** | 28,118 |
| Professional fees | 9,320 | 4,660 | 3,100 | 4,096 | - | **21,176** | 84,557 |
| Development activities | - | - | - | - | 16,593 | **16,593** | 8,676 |
| Professional development | 5,838 | 298 | 5,795 | 3,031 | - | **14,962** | 9,084 |
| Printing and publications | 634 | 84 | 3,639 | 56 | 15,164 | **19,577** | 11,823 |
| Rent | - | - | 28,813 | - | - | **28,813** | - |
| Office expenses | 2,402 | 604 | 4,183 | 6,679 | - | **13,868** | 7,628 |
| Dues and subscriptions | 6,250 | 213 | 2,085 | 1,457 | - | **10,005** | 5,417 |
| Postage and delivery | 889 | 353 | 769 | 718 | 2,306 | **5,035** | 5,062 |
| Equipment rental | 3,687 | 1,111 | 698 | 641 | 357 | **6,494** | 6,990 |
| Security monitoring | 2,392 | 805 | 500 | 278 | - | **3,975** | 2,606 |
| In-kind expense | - | - | - | - | 1,462 | **1,462** | - |
| Total expenses | $ 1,839,666 | $ 529,378 | $ 614,074 | $ 202,169 | $ 273,695 | **$ 3,458,982** | $ 2,470,490 |

*See Independent Auditors' Report and Notes to the Financial Statements*

# Statements of Cash Flows
## For the Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | **$ 281,804** | $ (91,788) |
| Adjustments to reconcile change in net assets to net cash flows provided by (used in) operating activities: | | |
| Depreciation and amortization expenses | **49,182** | 35,148 |
| Changes in operating assets and liabilities: | | |
| Contracts receivable from government agencies | **(26,145)** | (19,861) |
| Grants receivable | **(70,169)** | - |
| Other current assets | **(2,463)** | - |
| Prepaid expenses | **(6,898)** | 19,107 |
| Cash value of life insurance | **(8,329)** | (8,576) |
| Deposits | **(3,326)** | - |
| Accounts payable and accrued expenses | **81,490** | (30,097) |
| Accrued payroll and payroll taxes | **(53,018)** | 41,746 |
| Unearned revenue | **(5,031)** | 53,167 |
| **Net cash flows provided by (used in) operating activities** | **237,097** | (1,154) |
| **Cash flows from investing activities:** | | |
| Purchase of property and equipment | **(121,815)** | (57,591) |
| **Net cash flows used in investing activities** | **(121,815)** | (57,591) |
| **Net increase (decrease) in cash and cash equivalents** | **115,282** | (58,745) |
| **Cash and cash equivalents** | | |
| Beginning of year | **619,035** | 677,780 |
| End of year | **$ 734,317** | $ 619,035 |
| **Supplemental disclosure of noncash investing activities** | | |
| Property and equipment contributions in-kind | **$ -** | $ 25,000 |

*See Independent Auditors' Report and Notes to the 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 ("US GAAP").

### 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 asset 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 purposes.

- 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, 2016 and 2015.

### 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 2015 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, 2015, 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 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 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 2016 or 2015.

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, 2016 and 2015, there were no receivables written off.

### 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 the period in which the building is used. The estimated fair rental value of the premises was $273,913 for the years ended June 30, 2016 and 2015.

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

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

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.

The Organization is the recipient of donated legal services from donors who are also members of the Board of Directors. The donated legal services are recorded at fair market value, if material, to the financial statements.

### 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.

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

**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.

**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, Plant 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:

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

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

### Property, Plant and Equipment *(continued)*

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, 2016 and 2015.

### Revenue Recognition

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

### Unearned Grant Revenue

During 2016 and 2015 fiscal years, the Organization was awarded an $89,292 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 U.S. generally accepted accounting principles, in which funds for expenditures not yet incurred are recorded as "Unearned grant revenue". As of June 30, 2016 and 2015, the unearned grants amounted to $40,636 and $53,167, 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 its 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.

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

### 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. Employees may carry half of their unused vacation into the next 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. Compensated absences accrual recorded at June 30, 2016 and 2015 was $34,713 and $22,346, respectively.

### Reclassification

Certain items in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

### 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

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, 2016 and 2015 was $320,331 and $312,002, 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, 2016 and 2015 were $11,803 and $13,105, respectively and included in "prepaid expenses" on the Statement of Financial Position.

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

The face amount of the policy at June 30, 2016 and 2015 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. 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 must 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, 2016 and 2015.

**Note 3. Property, Plant and Equipment**

Property, plant and equipment consisted of the following at June 30,

| | **2016** | 2015 |
|---|---|---|
| Computer equipment and software | **$ 29,046** | $ 4,979 |
| Furniture and equipment | **66,788** | 43,831 |
| Automobiles | **206,156** | 168,567 |
| Leasehold improvements | **343,758** | 324,808 |
| Director's residence | **180,000** | 180,000 |
| Subtotal | **825,748** | 722,185 |
| Less accumulated depreciation and amortization | **(314,309)** | (283,379) |
| Property, plant and equipment, net | **$ 511,439** | $ 438,806 |

Depreciation and amortization expenses was $49,182 and $35,148 for the years ended June 30, 2016 and 2015, respectively.

**Note 4. Contracts With Government Agencies**

Children's Harbor, Inc. entered into two annual contracts with ChildNet, a non-profit organization in South Florida. ChildNet is a pass-through provider under various contracts with the Florida Department of Children and Families whereby they received federal and state funds and pass them through to Children's Harbor, Inc. as a contracted provider of the residential sibling program. Children's Harbor, Inc. submits a monthly invoice for a fixed payment based on beds filled. Revenue received under this contract from federal funds for the years ended June 30, 2016 and 2015 were $420,080 and $476,059, respectively, and $271,132 and $153,474, respectively from state funds.

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

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 a monthly invoice for a fixed payment based on beds filled. Revenue received under this contract from federal funds for the years ended June 30, 2016 and 2015 were $327,744 and $324,858, respectively, and $211,536 and $104,728, respectively from state funds.

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 needs ("flexible funds"). Revenues received under this contract for the years ended June 30, 2016 and 2015 were $450,629 and $383,964, respectively, of which none were federal funds.

During the fiscal year 2016 Children's Harbor, Inc. was awarded a $5 million, 5 years grant from the Department of Health & Human Services for Healthy Marriage Promotion and Responsible Fatherhood Grants. The grant entitled True North will help 200 young adults in the age range of 18 to 23, who have been involved in the foster care system to forge pathways to healthy relationships and economic stability. Revenue received under this grant for the year ended June 30, 2016 was $664,422.

Federal and state contract funds provided approximately 47% and 61% of Children's Harbor, Inc.'s revenues for the years ended June 30, 2016 and 2015, respectively. Children's Harbor, Inc. has entered into similar contracts for the fiscal year ending June 30, 2017.

Children's Harbor, Inc. invoices Medicaid for some of the clients serviced. The income earned from Medicaid was $92,473 and $84,190, for the years ended June 30, 2016 and 2015, respectively.

**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:

| | **2016** | 2015 |
|---|---|---|
| Unrestricted net assets: | | |
| Designated net assets | **$ 320,331** | $ 312,002 |
| Undesignated net assets | **1,334,611** | 1,111,356 |
| Total unrestricted net assets | **$ 1,654,942** | $ 1,423,358 |

**Note 5. Net Assets *(Continued)***

*Temporarily*
Temporarily restricted net assets are for designated contributions restricted for use by the donor to a particular purpose or by the passage of time. Temporarily restricted net assets as of June 30, 2016 and 2015 amounted to $71,028 and $20,808, respectively and were designated by donors for various purposes.

**Note 6. Line of Credit**

Children's Harbor, Inc. has an unsecured $100,000 line of credit that expires on December 15, 2016. 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, 2016 and 2015, Children's Harbor, Inc. had no outstanding balances under the line of credit.

**Note 7. Commitment**

The Organization leased an office space under an operating lease with an unrelated party which required monthly lease payments of $2,356. The lease term will end in December 2016 with the option of a renewal term of one year. Rent expense for the year ended June 30, 2016 was $28,813.

**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, 2016 and 2015, the Organization had US bank accounts in excess of the FDIC limit of approximately $405,000 and $287,000, respectively. 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.

**Note 9 Subsequent Event**

Effective September 1, 2016, the Organization entered into a three-year sub-sublease agreement for portion of a space in a building with the City of Pembroke Pines for an annual rent and administrative fee of $301 per year. The purpose of the agreement is for the Organization to operate a program to provide transitional housing and coordination of support services to children who have been adjudicated dependent and who have aged out of the foster care program, or who have been placed by the State of Florida Department of Children and Family Services in relative or non-relative care placements. The program will also assist these children in making successful transitions to independence and becoming economically self-sufficient. The program will be funded by various non-profit organizations.

# CHILDREN'S HARBOR, INC.

## Supplementary Schedule
## and Required Reporting

*For the Year Ended June 30, 2016*

## CHILDREN'S HARBOR, INC.

### Schedule of Expenditures of Federal Awards
### For the Year Ended June 30, 2016

| 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 | | | | |
| Healthy Marriage Promotion and Responsible Fatherhood Grants | 93.086 | | $ 664,422 | $ - |
| Department of Health & Human Services | | | | |
| Pass-through: Department of Children & Families - ChildNet | | | | |
| Foster Care Title IV-E | 93.658 | CHH15RGC | $ 196,542 | $ - |
| Department of Health & Human Services | | | | |
| Pass-through: Department of Children & Families - ChildNet | | | | |
| Social Services Block Grant | 93.667 | CHH15RGC | $ 131,202 | $ - |
| Department of Health & Human Services | | | | |
| Pass-through: Department of Children & Families - ChildNet | | | | |
| Foster Care Title IV-E | 93.658 | CHH15RGC2 | $ 251,914 | $ - |
| Department of Health & Human Services | | | | |
| Pass-through: Department of Children & Families - ChildNet | | | | |
| Social Services Block Grant | 93.667 | CHH15RGC2 | $ 168,166 | $ - |
| **Total expenditures of federal awards** | | | **$ 1,412,246** | **$ -** |

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

# Notes to Schedule of Expenditures of Federal Awards
# For the Year Ended June 30, 2016

## 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.

### Basis 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, 2016. 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).

MELAMED & KARP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITORS' 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, 2016, and 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 October 28, 2016.

**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.
Coral Springs, Florida
October 28, 2016

MELAMED & KARP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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

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 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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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**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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Melamed & Karp, P.A.

Melamed & Karp, P.A.
Coral Springs, Florida
October 28, 2016

# Schedule of Findings and Questioned Costs
## For the Year Ended June 30, 2016

### 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 2 CFR 200.516(a)? | | yes | X | no |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 93.086 | Healthy Marriage Promotion and Responsible Fatherhood Grants |
| 93.667 | Social Services Block Grant |

| | | | | |
|---|---|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 750,000 | | | |
| Auditee qualified as low-risk auditee? | X | yes | | no |

*-Continued-*

# Schedule of Findings and Questioned Costs (C*ontinued* )
# For the Year Ended June 30, 2016

## 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*