

CHILDREN'S HARBOR, INC.

Financial Statements

For the Years Ended June 30, 2017 and 2016

With the Independent Auditors' Report

CHILDREN'S HARBOR, INC.

Financial Statements

For the Years Ended June 30, 2017 and 2016

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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. (a non-profit organization) which comprise the statements of financial position as of June 30, 2017 and 2016 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.

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, 2017 and 2016, 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 25, 2017, 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Melamed & Karp, P.A.
Coral Springs, Florida

October 25, 2017

CHILDREN'S HARBOR, INC.

Statements of Financial Position June 30, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 1,251,004	\$ 734,317
Contracts receivable from agencies	325,340	268,882
Grants receivable	96,143	73,503
Due from a related party	4,000	-
Other current assets	1,461	2,463
Prepaid expenses	48,624	32,536
Total current assets	<u>1,726,572</u>	<u>1,111,701</u>
Property, plant and equipment, net	<u>483,726</u>	<u>511,439</u>
Other assets:		
Cash surrender value of life insurance	328,774	320,331
Deposits	6,732	4,360
Total other assets	<u>335,506</u>	<u>324,691</u>
Total assets	<u>\$ 2,545,804</u>	<u>\$ 1,947,831</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 125,403	\$ 112,948
Accrued payroll and payroll taxes	94,057	60,777
Tenants' deposits	9,160	-
Unearned revenue	77,891	48,136
Total current liabilities	<u>306,511</u>	<u>221,861</u>
Net assets:		
Unrestricted net assets	2,084,025	1,654,942
Temporarily restricted net assets	155,268	71,028
Total net assets	<u>2,239,293</u>	<u>1,725,970</u>
Total liabilities and net assets	<u>\$ 2,545,804</u>	<u>\$ 1,947,831</u>

See Independent Auditors' Report and Notes to the Financial Statements

CHILDREN'S HARBOR, INC.

Statements of Activities For the Years Ended June 30, 2017 and 2016

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Revenues				
Public and other support:				
Contracts revenue	\$ 2,249,989	\$ -	\$ 2,249,989	\$1,748,517
Contributions and grants	1,395,949	399,526	1,795,475	1,371,563
Fundraising events	222,074	120,177	342,251	217,235
Donated facilities	273,913	-	273,913	273,913
Medicaid income	168,578	-	168,578	92,473
Rental income	111,832	-	111,832	-
Other income	26,343	-	26,343	21,864
Interest income	11,944	-	11,944	11,296
In-kind contributions	5,260	-	5,260	3,925
Net assets released from restrictions	435,463	(435,463)	-	-
Total revenues	4,901,345	84,240	4,985,585	3,740,786
Expenses				
Program services:				
Residential	1,945,678	-	1,945,678	1,687,869
True north	981,100	-	981,100	614,074
Family strengthening	492,738	-	492,738	529,743
Transition to independent living	270,599	-	270,599	-
Others	218,634	-	218,634	151,310
Total program services	3,908,749	-	3,908,749	2,982,996
Support services:				
Fundraising	368,465	-	368,465	273,695
Management and general	195,048	-	195,048	202,291
Total support services	563,513	-	563,513	475,986
Total expenses	4,472,262	-	4,472,262	3,458,982
Increase (decrease) in net assets	429,083	84,240	513,323	281,804
Net assets, beginning	1,654,942	71,028	1,725,970	1,444,166
Net assets, ending (Note 5)	\$ 2,084,025	\$ 155,268	\$ 2,239,293	\$1,725,970

See Independent Auditors' Report and Notes to the Financial Statements

CHILDREN'S HARBOR, INC.

**Statements of Functional Expenses
For the Years Ended June 30, 2017 and 2016**

	PROGRAM SERVICES					SUPPORTING SERVICES		2017 Total	2016 Total
	Residential	Family Strengthening	True North	Transition to Independent Living (TIL)	Others	Manangement and General	Fundraising		
Salaries and related expenses	\$ 1,289,264	\$ 429,483	\$ 557,102	\$ 151,796	\$ 172,168	\$ 92,978	\$ 218,884	\$ 2,911,675	2,150,285
Contract labor	10,542	-	269,946	-	450	-	-	280,938	177,300
Donated facilities	228,261	-	-	-	-	45,652	-	273,913	273,913
Other costs	28,925	1,165	2,151	9,914	7,081	6,872	41,834	97,942	62,231
Maintenance and repairs	36,440	4,912	5,821	31,627	3,294	9,938	-	92,032	61,725
Utilities	45,460	-	4,831	28,784	-	2,442	1,073	82,590	49,319
General household expenses	73,582	-	-	-	-	-	-	73,582	65,880
Residential flexible fund	16,823	11,515	26,321	8,895	5,939	-	-	69,493	110,229
Depreciation and amortization	52,619	6,850	-	-	-	8,279	-	67,748	49,182
Catering	-	-	-	-	-	-	63,940	63,940	65,301
Insurance	38,129	7,996	1,225	10,782	-	2,726	-	60,858	49,862
Telephone	24,754	6,815	2,902	3,737	14,611	3,674	2,438	58,931	40,782
Rent	-	-	45,939	-	9,000	-	-	54,939	28,813
Travel and auto	26,818	11,467	11,825	705	461	898	676	52,850	38,300
Staff training	28,278	2,011	12,390	596	637	1,049	-	44,961	66,919
Office supplies	7,158	5,046	7,945	6,780	4,211	9,188	2,251	42,579	55,794
Professional fees	8,742	4,371	5,000	13,196	-	1,457	-	32,766	21,176
Office expenses	1,005	136	19,491	-	-	5,339	-	25,971	13,868
Development activities	-	-	-	-	-	-	22,001	22,001	16,593
Professional development	8,907	516	6,006	-	704	729	-	16,862	14,962
Printing and publications	-	125	-	1,087	50	-	13,027	14,289	19,577
Dues and subscriptions	6,516	120	11	582	-	1,611	-	8,840	10,005
Equipment rental	3,598	-	1,799	807	-	1,259	540	8,003	6,494
In-kind expense	6,262	-	-	-	-	-	-	6,262	1,462
Security monitoring	2,585	-	225	1,240	-	478	-	4,528	3,975
Postage and delivery	1,010	210	170	71	28	479	1,801	3,769	5,035
Total expenses	\$ 1,945,678	\$ 492,738	\$ 981,100	\$ 270,599	\$ 218,634	\$ 195,048	\$ 368,465	\$ 4,472,262	\$ 3,458,982

See Independent Auditors' Report and Notes to the Financial Statements

CHILDREN'S HARBOR, INC.

Statements of Cash Flows For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 513,323	\$ 281,804
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization expenses	67,748	49,182
Changes in operating assets and liabilities:		
Contracts receivable from government agencies	(56,458)	(26,145)
Grants receivable	(22,640)	(70,169)
Other current assets	1,002	(2,463)
Prepaid expenses	(16,088)	(6,898)
Cash value of life insurance	(8,443)	(8,329)
Deposits	(2,372)	(3,326)
Accounts payable and accrued expenses	12,455	81,490
Accrued payroll and payroll taxes	33,280	(53,018)
Tenants' deposits	9,160	-
Unearned revenue	29,755	(5,031)
Net cash flows provided by operating activities	560,722	237,097
Cash flows from investing activities:		
Purchase of property and equipment	(40,035)	(121,815)
Advances to a related party	(4,000)	-
Net cash flows used in investing activities	(44,035)	(121,815)
Net increase in cash and cash equivalents	516,687	115,282
Cash and cash equivalents		
Beginning of year	734,317	619,035
End of year	<u>\$ 1,251,004</u>	<u>\$ 734,317</u>

See Independent Auditors' Report and Notes to the Financial Statements

CHILDREN'S HARBOR, INC.

Notes to Financial Statements June 30, 2017 and 2016

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 and Dade Counties. 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, 2017 and 2016.

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 2016 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, 2016, from which it was derived.

CHILDREN'S HARBOR, INC.

Notes to Financial Statements June 30, 2017 and 2016

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 2017 or 2016.

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.

CHILDREN'S HARBOR, INC.

Notes to Financial Statements June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016.

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.

CHILDREN'S HARBOR, INC.

Notes to Financial Statements June 30, 2017 and 2016

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

CHILDREN'S HARBOR, INC.

Notes to Financial Statements June 30, 2017 and 2016

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, 2017 and 2016.

Revenue Recognition

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

Rental income is recognized over the lease term as it becomes receivable according to the provision of the respective lease.

Unearned Grant Revenue

During 2017 fiscal year, the Organization was awarded a total of \$260,600 grant from three grantors to fund the Achievement and Life Skills Program and the Grounded for Life 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, and Grounded for Life Program, which provides mentors to improve academic success in foster children in high schools in Broward County. The grants are 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, 2017, the unearned grants amounted to \$77,891.

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.

CHILDREN'S HARBOR, INC.

Notes to Financial Statements June 30, 2017 and 2016

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, 2017 and 2016 was \$51,650 and \$34,713, respectively.

Reclassification

Certain items in the 2016 financial statements have been reclassified to conform to the 2017 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, 2017 and 2016 was \$328,774 and \$320,331, 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, 2017 and 2016 were \$10,532 and \$11,803, respectively and included in "prepaid expenses" on the Statement of Financial Position.

CHILDREN'S HARBOR, INC.

Notes to Financial Statements June 30, 2017 and 2016

Note 2. Cash Value of Life Insurance (Continued)

The face amount of the policy at June 30, 2017 and 2016 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, 2017 and 2016.

Note 3. Property, Plant and Equipment

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

	<u>2017</u>	<u>2016</u>
Computer equipment and software	\$ 29,046	\$ 29,046
Furniture and equipment	73,264	66,788
Automobiles	227,281	206,156
Leasehold improvements	356,192	343,758
Director's residence	180,000	180,000
Subtotal	<u>865,783</u>	<u>825,748</u>
Less accumulated depreciation and amortization	<u>(382,057)</u>	<u>(314,309)</u>
Property, plant and equipment, net	<u>\$ 483,726</u>	<u>\$ 511,439</u>

Depreciation and amortization expenses was \$67,748 and \$49,182 for the years ended June 30, 2017 and 2016, respectively.

Note 4. Contracts with 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, 2017 and 2016 were \$594,002 and \$420,080, respectively, and \$0 and \$271,132, respectively from state funds.

CHILDREN'S HARBOR, INC.

Notes to Financial Statements June 30, 2017 and 2016

Note 4. Contracts with 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, 2017 and 2016 were \$570,986 and \$327,744, respectively, and \$0 and \$211,536, 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, 2017 and 2016 were \$440,955 and \$450,629, 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 years ended June 30, 2017 and 2016 were \$981,100 and \$664,422, respectively.

During the fiscal year 2017 Children's Harbor, Inc. entered into a two year agreement with ChildNet, Inc. to implement the Grounded for Life program. The Grounded for Life program seek to support the aspirations of a cohort of youth in foster care to graduate from high school through innovative, evidence-based, student-centered solutions. Through the program, Children's Harbor, Inc. will provide one-on-one graduation coaches, academic enrichment and small learning communities to help the selected foster youth overcome barriers build confidence and inspire lifelong learnings. Revenue received under this agreement for the year ended June 30, 2017 was \$90,000.

Children's Harbor, Inc. entered into a three year agreement with Our Kids of Miami-Dade/Monroe, Inc. to provide foster care services. Children's Harbor, Inc. submits a monthly invoice for a fixed payment based on beds filled. Revenue received under this contract for the years ended June 30, 2017 and 2016 were \$528,744 and \$67,396, respectively.

Federal and state contract funds provided approximately 43% and 47% of Children's Harbor, Inc.'s revenues for the years ended June 30, 2017 and 2016, 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 \$168,578 and \$92,473, for the years ended June 30, 2017 and 2016, respectively.

CHILDREN'S HARBOR, INC.

Notes to Financial Statements June 30, 2017 and 2016

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:

	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Designated net assets	\$ 328,774	\$ 320,331
Undesignated net assets	<u>1,755,251</u>	<u>1,334,611</u>
Total unrestricted net assets	<u>\$ 2,084,025</u>	<u>\$ 1,654,942</u>

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, 2017 and 2016 amounted to \$155,268 and \$71,028, respectively and were designated by donors for various purposes.

Note 6. Line of Credit

Children's Harbor, Inc. has an unsecured \$200,000 line of credit that expires on December 15, 2017. 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, 2017 and 2016, 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 \$2,408. The lease term will end on January 31st, 2019. Rent expense for the years ended June 30, 2017 and 2016 were \$28,659 and \$28,813, respectively.

The future minimum lease payments under operating leases at June 30, 2017 were as follows:

Minimum Lease Payments	
2018	\$ 19,910
2019	<u>11,881</u>
Total minimum payments	<u>\$ 31,791</u>

CHILDREN'S HARBOR, INC.

Notes to Financial Statements June 30, 2017 and 2016

Note 8. Related party transactions

During the year ended June 30, 2017, the Organization advanced \$4,000 to Brown's Harbor, Inc. to cover operating expenses. Brown's Harbor, Inc. was created by the Organization to oversee the Transition to Independent Living program once it attains 501(c)(3) status. As of the date of the independent auditors' report, Brown's Harbor, Inc. application for 501(c)(3) status was still in process.

Note 9. 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, 2017 and 2016, the Organization had US bank accounts in excess of the FDIC limit of approximately \$510,000 and \$405,000, 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.

CHILDREN'S HARBOR, INC.

**Supplementary Schedule
and Required Reporting**

For the Year Ended June 30, 2017

CHILDREN'S HARBOR, INC.

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Transfers to Subrecipients</u>
Department of Health & Human Services Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086		\$ 981,100	\$ -
Department of Health & Human Services Pass-through: Department of Children & Families - ChildNet Foster Care Title IV-E	93.658	CHH16RGC	\$ 429,480	\$ -
Department of Health & Human Services Pass-through: Department of Children & Families - ChildNet Social Services Block Grant	93.667	CHH16RGC	\$ 141,506	\$ -
Department of Health & Human Services Pass-through: Department of Children & Families - ChildNet Foster Care Title IV-E	93.658	CHH16RGC2	\$ 446,792	\$ -
Department of Health & Human Services Pass-through: Department of Children & Families - ChildNet Social Services Block Grant	93.667	CHH16RGC2	\$ 147,210	\$ -
			<u>\$ 2,146,088</u>	<u>\$ -</u>

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

CHILDREN'S HARBOR, INC.

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2017

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, 2017. 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, 2017, 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 25, 2017.

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 25, 2017

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, 2017. 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, 2017.

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 25, 2017

CHILDREN'S HARBOR, INC.

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified?	<u> </u> yes	<u> X </u> no
Significant deficiency identified?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards

Internal control over major programs:

Material weakness identified?	<u> </u> yes	<u> X </u> no
Significant deficiency identified?	<u> </u> yes	<u> X </u> 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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.086	Healthy Marriage Promotion and Responsible Fatherhood Grants
93.658	Foster Care Title IV-E

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes no

CHILDREN'S HARBOR, INC.

**Schedule of Findings and Questioned Costs (*Continued*)
For the Year Ended June 30, 2017**

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