

SOS Children's Villages – Florida, Inc.

Financial Statements
and Additional Information
For the Years Ended December 31, 2017 and 2016

SOS Children's Villages – Florida Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
SOS Children's Villages, Florida, Inc.
Coconut Creek, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of SOS Children's Villages, Florida, Inc. (a not-for-profit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the Organization as of December 31, 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 taken as a whole.

Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 the Organization's internal control over financial reporting and compliance.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
May 9, 2018

FINANCIAL STATEMENTS

SOS Children's Villages - Florida, Inc.
Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ 433,123	\$ 61,196
Investments	750	5,750
Contract and other receivables	309,782	314,074
Prepays and other assets	8,304	12,046
Property and equipment, less accumulated depreciation of \$ 3,623,536 and \$ 3,720,661, respectively	1,572,986	1,344,230
Beneficial interest in assets held by Community Foundation	50,000	-
	<u>2,374,945</u>	<u>1,737,296</u>
Total assets	\$ <u>2,374,945</u>	\$ <u>1,737,296</u>
Liabilities:		
Accounts payable	\$ 27,000	\$ 6,500
Accrued expenses	188,328	186,589
Capital leases payable	235,112	49,502
Notes payable	498,198	550,000
Line of credit	-	52,000
	<u>948,638</u>	<u>844,591</u>
Total liabilities	<u>948,638</u>	<u>844,591</u>
Net Assets:		
Without donor restrictions:		
Unrestricted	1,297,693	892,705
With donor restrictions:		
Purpose restrictions	78,614	-
Perpetual in nature	50,000	-
	<u>1,426,307</u>	<u>892,705</u>
Total net assets	<u>1,426,307</u>	<u>892,705</u>
Total liabilities and net assets	\$ <u>2,374,945</u>	\$ <u>1,737,296</u>

The accompanying notes to financial statements are an integral part of these statements.

SOS Children's Villages - Florida, Inc.
Statements of Activities
For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support and Gains:						
Governmental contracts and grants	\$ 1,789,284	\$ -	\$ 1,789,284	\$ 1,982,612	\$ -	\$ 1,982,612
Direct public support	2,031,657	478,017	2,509,674	1,390,018	-	1,390,018
Related organizations	28,810	-	28,810	10,827	-	10,827
Distributions from beneficial assets	51,538	-	51,538	53,068	-	53,068
In-kind contributions	108,579	-	108,579	131,085	-	131,085
Investment income	231	-	231	269	-	269
Other income (loss)	(16,123)	-	(16,123)	117,270	-	117,270
Net assets released from restrictions	349,403	(349,403)	-	-	-	-
Total public support and revenues	4,343,379	128,614	4,471,993	3,685,149	-	3,685,149
Expenses and losses:						
Program services	2,935,039	-	2,935,039	3,199,373	-	3,199,373
Supporting services:						
Management and general	292,489	-	292,489	280,848	-	280,848
Fundraising and development	710,863	-	710,863	507,536	-	507,536
Total supporting services	1,003,352	-	1,003,352	788,384	-	788,384
Total expenses	3,938,391	-	3,938,391	3,987,757	-	3,987,757
Change in net assets	404,988	128,614	533,602	(302,608)	-	(302,608)
Net Assets, beginning of year	892,705	-	892,705	1,121,111	-	1,121,111
Prior period adjustment (Note 17)	-	-	-	74,202	-	74,202
Net Assets, end of year	\$ 1,297,693	\$ 128,614	\$ 1,426,307	\$ 892,705	\$ -	\$ 892,705

The accompanying notes to financial statements are an integral part of these statements.

SOS Children's Villages - Florida, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Supporting Services				Total 2017
	Program Services	Management and General	Fundraising and Development	Total Supporting Services	
Personnel Costs:					
Officers' compensation	\$ 35,260	\$ 35,260	\$ 190,700	\$ 225,960	\$ 261,220
Salaries	1,417,903	71,263	138,147	209,410	1,627,313
Employee benefits	107,070	8,029	14,980	23,009	130,079
Payroll taxes	112,700	7,748	22,703	30,451	143,151
Total personnel costs	1,672,933	122,300	366,530	488,830	2,161,763
Other Expenses:					
Professional services and consulting	27,709	60,395	39,558	99,953	127,662
Advertising and marketing	-	-	30,872	30,872	30,872
General office expenses	49,402	28,757	38,762	67,519	116,921
Computer expense	6,613	3,387	10,529	13,916	20,529
Occupancy	37,469	-	-	-	37,469
Travel expenses	75	955	2,012	2,967	3,042
Conference and meetings	2,182	1,258	5,590	6,848	9,030
Insurance	98,677	18,225	-	18,225	116,902
Home expenses	406,705	9,001	4,411	13,412	420,117
Children services	155,278	-	63	63	155,341
Vehicle expenses	139,808	1,865	4,522	6,387	146,195
Provision for depreciation	229,416	22,550	-	22,550	251,966
Interest expense	9,096	18,600	-	18,600	27,696
Maintenance service and supplies	80,381	-	225	225	80,606
Other event expenses	174	306	158,643	158,949	159,123
All other expenses	19,121	4,890	49,146	54,036	73,157
Total other expenses	1,262,106	170,189	344,333	514,522	1,776,628
Total expenses	\$ 2,935,039	\$ 292,489	\$ 710,863	\$ 1,003,352	\$ 3,938,391

The accompanying notes to financial statements are an integral part of these statements.

SOS Children's Villages - Florida, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services	Supporting Services			Total 2016
		Management and General	Fundraising and Development	Total Supporting Services	
Personnel Costs:					
Officers' compensation	\$ 182,248	\$ 14,388	\$ 21,364	\$ 35,752	\$ 218,000
Salaries	1,520,047	120,004	178,187	298,191	1,818,238
Pension plan expense	21,207	1,674	2,486	4,160	25,367
Employee benefits	152,070	12,006	17,826	29,832	181,902
Payroll taxes	133,334	10,527	15,630	26,157	159,491
Total personnel costs	<u>2,008,906</u>	<u>158,599</u>	<u>235,493</u>	<u>394,092</u>	<u>2,402,998</u>
Other Expenses:					
Professional services and consulting	37,485	6,169	34,775	40,944	78,429
Advertising and marketing	-	-	18,537	18,537	18,537
General office expenses	38,508	27,285	14,994	42,279	80,787
Computer expense	8,376	5,625	1,082	6,707	15,083
Occupancy	41,017	27,544	5,300	32,844	73,861
Conference and meetings	8,129	642	953	1,595	9,724
Insurance	94,143	2,942	981	3,923	98,066
Home expenses	403,493	4,174	2,491	6,665	410,158
Children services	95,464	2,769	4,248	7,017	102,481
Vehicle expenses	139,595	5,581	1,116	6,697	146,292
Provision for depreciation	208,879	23,726	-	23,726	232,605
Interest expense	8,250	14,142	16,892	31,034	39,284
Maintenance service and supplies	73,556	1,517	758	2,275	75,831
Other event expenses	-	133	169,707	169,840	169,840
All other expenses	33,572	-	209	209	33,781
Total other expenses	<u>1,190,467</u>	<u>122,249</u>	<u>272,043</u>	<u>394,292</u>	<u>1,584,759</u>
Total expenses	<u>\$ 3,199,373</u>	<u>\$ 280,848</u>	<u>\$ 507,536</u>	<u>\$ 788,384</u>	<u>\$ 3,987,757</u>

The accompanying notes to financial statements are an integral part of these statements.

SOS Children's Villages - Florida, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 533,602	\$ (302,608)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for depreciation	251,966	232,605
Loss of disposal of assets	19,373	-
Donated property and equipment	(64,000)	(97,513)
Extinguishment of debt	(50,000)	-
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Contract and other receivables	4,292	39,381
Prepays and other assets	3,742	52,026
Increase (decrease) in liabilities:		
Accounts payable	20,500	(78,999)
Accrued expenses	1,739	74,289
	<u>721,214</u>	<u>(80,819)</u>
Net cash provided by (used in) operating activities		
Cash Flows From Investing Activities:		
Proceeds from disposal of property and equipment	4,000	-
Proceeds from sale of investments	5,000	-
Contributions to Community Foundation	(50,000)	-
Purchases of property and equipment	(215,736)	(15,477)
	<u>(256,736)</u>	<u>(15,477)</u>
Net cash provided by (used in) investing activities		
Cash Flows from Financing Activities:		
Proceeds from line of credit	275,000	1,460,948
Proceeds from note payable	-	50,000
Payments on notes payable	(1,802)	-
Principal payments on capital leases payable	(38,749)	(31,049)
Payments on line of credit	(327,000)	(1,408,948)
	<u>(92,551)</u>	<u>70,951</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash and cash equivalents	371,927	(25,345)
Cash and Cash Equivalents, beginning of the year	<u>61,196</u>	<u>86,541</u>
Cash and Cash Equivalents, end of year	\$ <u><u>433,123</u></u>	\$ <u><u>61,196</u></u>

The accompanying notes to financial statements are an integral part of these statements.

Note 1 - Principal Activity and Significant Accounting Policies

SOS Children's Villages – Florida, Inc. (the "Organization") is incorporated as a not-for-profit corporation in the State of Florida. The Organization provides residential foster care and dependency case management services for children in an atmosphere that is equivalent to a family setting. Each home provides care for up to six children with a full-time staff who resides in the house with additional part time staff as needed.

The Organization is established and operated in accordance with the rules, regulations and criteria established by the SOS Kinderdorf International Herman Gmeiner Fund (SOS-KD1-HGFD) which is headquartered in Innsbruck, Austria, to the extent there is no conflict with any applicable federal or state laws or regulations.

The Organization fulfills its mission by focusing their efforts in three primary areas, Healing, Hope and Home.

Healing - Children are provided for by caring house parents and a team of staff who support and guide the children through the obstacles of everyday living as well as assisting with any conflicts from their past.

Hope – The Organization is determined to allow the children to live as children and grow up in a cherished, protected and comfortable environment to build fond memories that last a lifetime. A happy childhood is key to developing social skills and self-esteem. This is accomplished through extracurricular activities at home, school and during the summer.

Home - The Organization creates a safe and nurturing environment where the children can always feel at home. It is a top priority of the Organization to keep sibling families together.

Basis of presentation: Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Accounting Standards Update (FASB ASU) 2016-14 Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements for Not-for-Profit Entities*. Under FASB ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and cash equivalents: The Organization considers all highly liquid investments with a maturity of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature or other long-term purposes are excluded from this definition.

Contract and other receivables: Contract and other receivables consist primarily of uncollected allowable expenses under reimbursement contracts with governmental agencies. Management periodically reviews the contract and other receivables balances and provides an allowance for accounts which may be uncollectible. The amount is determined based upon historical experience, economic conditions and a review of subsequent collections. As of December 31, 2017, and 2016, management considers the contract and other receivables to be fully collectible within the current accounting period and no allowance for doubtful accounts has been established.

Note 1 - Principal Activity and Significant Accounting Policies (continued)

Investments: Investments are originally recorded at cost or, in the case of donated investments, at fair value at the date of the donation. The Organization's investments are comprised of securities carried at their fair market value based on quoted market prices when available and other methods when market prices are not available. Unrealized gains and losses in fair market values are recorded as increases or decreases to net assets with or without donor restrictions depending on the nature of the investment.

Property and equipment: Property and equipment are carried at cost if purchased by the Organization and, if donated, at fair market value at the date of contribution. The Organization's policy is to provide for depreciation using the straight-line method over the estimated useful lives of the particular asset which are as follows:

Site development	15 years
Buildings and improvements	10-27.5 years
Furniture and equipment	5-7 years
Automotive equipment	5 years
Capitalized leases	Lease term

Donated property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash restricted by the donor for the purchase of property and equipment are reported as restricted support. Without donor stipulations as to how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the asset is placed in service, reclassifying temporarily restricted net assets to unrestricted net assets at that time. The Organization received \$ 64,000 and \$ 97,513 in donated property and equipment for the years ended December 31, 2017 and 2016, respectively.

Maintenance and repairs to property and equipment are charged to expense when incurred. It is the Organization's policy to capitalize property and equipment over \$ 1,000 and a useful life greater than one year.

Management reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and expected disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indications of asset impairment during the years ended December 31, 2017 and 2016.

Beneficial interest in assets held by Community Foundation: During 2002, the Organization established an endowment fund (the "fund") that is perpetual in nature with the Community Foundation of Broward, Inc., a Florida not-for-profit corporation (the "Foundation"). The Foundation is independent of the Organization and maintains total control over the assets within the requirements of the agreement. Variance power has been granted to the Foundation, which allows the Foundation to distribute the allowable funds to an organization of similar exempt purposes in the case of the Organization's dissolution. The Fund is held and invested by the Foundation for the Organization's benefit. The Organization recognizes a beneficial interest in the assets held by the Foundation for amounts contributed to the Foundation by the Organization (a reciprocal agreement). Under this method, the amount contributed is recognized as the value of the asset. A reciprocal agreement of \$ 50,000 was rendered in 2017.

Note 1 - Principal Activity and Significant Accounting Policies (continued)

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

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and revenue recognition: Revenue is recognized when earned. Program service fees, if any, and payments under cost-reimbursable contracts are recognized when the related services are performed or expenditures incurred. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated services and in-kind contributions: Volunteers contribute significant amounts of time to the Organization's services, administration, and fundraising and development activities. However, the financial statements do not reflect the value of those contributed services because they do not meet recognition criteria prescribed by generally accepted account principles. Contributed goods are recorded at fair value at the date of the donation. Donated professional services are recorded at their respective fair values of the services received.

For the years ended December 31, 2017 and 2016, the Organization received donated goods totaling \$ 108,579 and \$ 131,085, including \$ 64,000 and \$ 97,513 in donated property and equipment.

Functional allocation of expenses: The costs of program and supporting service activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Income taxes: The Organization is organized as a Florida not-for-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Section 170(b)(1)(A)(vi) and have been determined not to be private foundations under IRC Section 509(a)(1). The Organization is required to file the annual *Return of Organization Exempt from Income Tax* (Form 990) with the IRS. In addition, the Organization is subject to income tax on income that is derived from business activities that are unrelated to their exempt purposes. Management has determined that the Organization is not subject to unrelated business income tax for the years ended December 31, 2017 and 2016.

Note 1 - Principal Activity and Significant Accounting Policies (continued)

Joint costs of fundraising appeals: The Organization utilizes various pamphlets, brochures and informational methods to inform the general public of their activities and to solicit funds. These costs are charged to fundraising.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments and credit risk: Deposit concentration risk is managed by placing cash and money market funds with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Organization has not incurred any losses in any of these accounts. Credit risk associated with contract receivables is considered to be limited due to high historical collection rates and because substantial portion of the outstanding amounts are from governmental agencies

Reclassifications: Certain reclassifications have been made to previously reported amounts in the accompanying financial statements to maintain consistency between periods presented. The reclassifications have no impact on previously reported net assets.

Subsequent events: Subsequent events have been evaluated by management through May 9, 2018, which is the date the financial statements were issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 354,509	\$ 61,196
Contract and other receivables	<u>309,782</u>	<u>314,074</u>
	<u>\$ 664,291</u>	<u>\$ 375,270</u>

As part of the Organization's liquidity management plan, cash that exceeds the Organization's expected short-term requirements are invested in money market funds.

Note 3 - Investments

At December 31, 2017 and 2016, investments by type, at fair value, were as follows:

	<u>2017</u>	<u>2016</u>
Corporate bond	\$ -	\$ 5,000
Preferred stock	<u>750</u>	<u>750</u>
Total investments	<u>\$ 750</u>	<u>\$ 5,750</u>

Note 3 - Investments (continued)

Fair Value Measurements:

The Financial Accounting Standards Board in its Accounting Standards Codification (FASB ASC) No. 820, *Fair Value Measurements and Disclosures* established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The three levels of the fair value hierarchy are as follows:

- Level 1 – inputs are quoted market prices (unadjusted) in active markets for identical investments that the Organization has the ability to access at the measurement dates.
- Level 2 – inputs that are other than quoted prices included within Level 1 that are observable for the investments either directly or indirectly (e.g. quoted prices in active markets for similar securities, securities valuations based on commonly quoted benchmarks, interest rates and yield curves, and/or securities indices) or redeemable at net asset value as if the measurement date.
- Level 3 – inputs that are unobservable inputs for the investments (e.g. information about assumptions, including risk, market participants would use in pricing a security).

The fair value of investments by type for the year ended December 31, 2017 was as follows:

Investments in:	Level 1	Level 2	Level 3	Total 2017
Preferred stock	\$ -	\$ 750	\$ -	\$ 750
Total	\$ -	\$ 750	\$ -	\$ 750
Beneficial interest in assets held by Community Foundation	\$ -	\$ -	\$ 50,000	\$ 50,000
Total	\$ -	\$ -	\$ 50,000	\$ 50,000

The fair value of investments by type for the year ended December 31, 2016 was as follows:

Investments in:	Level 1	Level 2	Level 3	Total 2016
Corporate bond	\$ -	5,000	-	\$ 5,000
Preferred stock	-	750	-	750
Total	\$ -	\$ 5,750	\$ -	\$ 5,750

Note 3 - Investments (continued)

For the valuation of the corporate bond, and preferred stock at December 31, 2017 and 2016, the Organization used inputs that are other than quoted prices included within Level 1 that are observable for the investments either directly or indirectly as of the valuation date (Level 2). The beneficial interest in assets owned by the Community Foundation is with donor restrictions and perpetual in nature. All other investments of the Organization investments are without donor restrictions.

Note 4 - Grants and Contracts

Funding agreements for services to be provided are entered into on an annual basis. The release of funds are subject to monies being made available by the federal government, State of Florida, Broward County and certain other granting agencies. Certain of these agreements may be terminated by either party with thirty days written notice. The Organization's reimbursement contract with the State of Florida is customarily renewed every July 1st based on the State's fiscal year. Currently, no contract has been signed for the fiscal year ended June 30, 2018. The contract is being satisfied on a month-to-month basis.

Program expenditures made by the Organization are subject to additional audit by grantor agencies. As a result of such audits, the grantor may require that amounts be returned. In certain instances, the grantor may increase its grant of funds to the Organization to offset amounts which would otherwise be repayable based on audits. As of December 31, 2017 and 2016, the Organization had no amounts required to be returned as a result of such audits.

Note 5 - Property and Equipment

The following is a schedule of property and equipment at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land and site development	\$ 1,125,833	\$ 1,125,833
Buildings and improvements	3,510,159	3,359,113
Furniture and equipment	329,795	356,826
Automotive equipment	230,735	223,119
	<u>5,196,522</u>	<u>5,064,891</u>
Less accumulated depreciation	<u>3,623,536</u>	<u>3,720,661</u>
	<u>\$ 1,572,986</u>	<u>\$ 1,344,230</u>

Note 6 - Notes Payable

The Organization previously entered into a note payable agreement with SOS-USA (Note 8) for \$ 500,000. The note payable accrues interest at the rate of 3% per annum. The principal and all accrued interest on the note payable is due and payable on the maturity date of March 5, 2020. The Organization has begun to make payments on the accrued interest and has agreed with SOS-USA to apply donations received by SOS-USA designated for the Organization against the principal of the note payable. At December 31, 2017 and 2016, the total due to SOS-USA was \$ 519,078 and \$ 523,042, including accrued interest of \$ 20,880 and \$ 23,042, respectively.

Note 6 - Notes Payable (continued)

In addition, the Organization previously entered into a noninterest bearing note with a board member (Note 8) in the amount of \$ 50,000. During 2017, the board member elected to contribute the balance to the Organization in lieu of repayment. The contribution was recorded as direct public support for the year ended December 31, 2017.

Note 7 - Line of Credit

The Organization has a \$ 150,000 revolving line of credit with a bank, secured by inventory, unencumbered equipment, general intangibles and fixtures. Borrowings against the line of credit bear interest at the bank prime rate plus .50% or a minimum of 3.75% (5.00% at December 31, 2017). Principal and interest are due at maturity (September 30, 2018). At December 31, 2017 and 2016, there was no outstanding balance and \$ 52,000, respectively.

Note 8 - Related Party Transactions

SOS-USA was organized as a separate entity to operate as the coordinating body for all the principles of SOS-KDI-HGFD, as indicated in Note 1. For the years ended December 31, 2017 and 2016, the Organization received direct funding from SOS-USA totaling \$ 28,810, and \$ 10,827, respectively. In the event of the Organization's dissolution, the assets of the Organization will revert to SOS-USA.

During the year ended December 31, 2015, the Organization entered into a note payable agreement with SOS-USA for \$ 500,000 (Note 6).

During the year ended December 31, 2016, the Organization entered into a note payable agreement with a Board member for \$ 50,000, which was forgiven in the current fiscal year ended December 31, 2017 (Note 6).

Note 9 - Lease Commitments

Capital leases: The Organization previously entered into a lease agreement for vehicles that was classified as a capital lease. This lease requires monthly payments of \$ 2,695, including principal and interest at approximately 18% through March 2018. The cost of the vehicles under this capital lease is \$ 223,119 with accumulated depreciation on the leased vehicles at December 30, 2016 of \$ 152,465. In December 2017, the Organization entered into new lease agreements for its vehicle, replacing the former lease agreements, that were also classified as capital leases. The new leases require a monthly payment of \$ 5,967, including principal and interest at an interest rate of approximately 12.4%, through October 2021. The cost of the vehicles under the new capital lease is \$ 230,735 with accumulated depreciation of \$ 4,807 at December 31, 2017.

Note 9 - Lease Commitments (continued)

The Organization previously entered into a lease agreement for furniture that was classified as a capital lease. The lease requires monthly payments of \$ 626, including interest at 9.5% through July 2019. The cost of the furniture under this capital lease is \$ 30,018 with accumulated depreciation of the leased furniture at December 31, 2017 and 2016 of \$ 19,512 and \$ 13,508, respectively.

The future principal lease payments under these capital leases as of December 31, 2017 are as follows:

<u>Year Ending December 31,</u>		
2018	\$	59,990
2019		58,259
2020		60,454
2021		56,409
Thereafter		-
	\$	<u><u>235,112</u></u>

Operating leases: During 2016 and 2017, the Organization entered into three other vehicle leases that did not meet the criteria of a capital lease and have been accounted for as operating leases. The monthly lease payments for these three vehicles are approximately \$ 700.

The future lease payments under these operating leases are as follows:

<u>Year Ending December 31,</u>		
2018	\$	8,000
2019		3,142
2020		1,125
Thereafter		-
	\$	<u><u>12,267</u></u>

Rent expense for the years ended December 31, 2017 and 2016 totaled \$ 17,782 and \$ 11,274, respectively.

Note 10 - Employee Benefit Plan

The Organization has a 401(k) Retirement Plan which covers all employees who meet certain age and years of service requirements. During the year ended December 31, 2016, the Organization ceased their matching contribution to employees. Employees however, may contribute to the plan at their discretion. The Organization does plan to reinstate their matching policy at a future date. Plan expense relative to the Organization for the year ended December 31, 2016, was approximately \$ 25,400.

Note 11 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Subject to expenditure for specific purpose:		
Next Steps program	\$ 72,000	\$ -
Computer equipment	4,000	-
Vacation fund	1,500	-
Disaster relief	1,000	-
Property renovation	<u>114</u>	<u>-</u>
	<u>78,614</u>	<u>-</u>
Not subject to spending policy or appropriation:		
Beneficial interest in Community Foundation	<u>50,000</u>	<u>-</u>
Total	<u>\$ 128,614</u>	<u>\$ -</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended:

	<u>2017</u>	<u>2016</u>
Satisfaction of purpose restrictions:		
Property renovation	\$ 236,478	\$ -
Next Steps program	96,000	-
Clothing	16,200	-
Swimming lessons	<u>725</u>	<u>-</u>
	<u>\$ 349,403</u>	<u>\$ -</u>

Note 12 - Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, salaries and wages, employee benefits, payroll taxes, professional services, office supplies and expense, information technology, insurance and other expenses which are allocated on the basis of estimates of time and effort.

Note 13 - Contingencies

Litigation: The Organization is subject to claims and litigations arising in the normal course of operations. At December 31, 2017, the Organization is not aware of any reported claims or instances that management believes would give rise to any claims.

Economic dependence: The Organization is economically dependent upon the receipt of funds from the State of Florida for its programs. During the years ended December 31, 2017 and 2016, the Organization received grants and/or other funding from the State of Florida Department of Children and Families totaling \$ 1,789,284 and \$ 1,982,612, respectively. Contract receivables related to these revenues totaled \$ 309,259 and \$ 314,074 at December 31, 2017 and 2016, respectively.

A significant reduction in the level of this support would have an adverse effect on the Organization's programs and activities and its ability to satisfy their financial and program obligations and commitments.

Grant contracts: The grant revenue amounts received are subject to audit and adjustment. If any expenditures or expenses are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Organization. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and state laws and regulations.

Note 14 - Endowment Fund

The Organization previously entered into an agreement with the Community Foundation of Broward, Inc., a Florida non-profit corporation (the "Foundation") to create a designated fund to serve as an endowment on behalf of the Organization. The funds are the property of the Foundation. It is the general policy of the Foundation to make distributions to the Organization from the endowment at least once annually. The Organization took a distribution of \$ 51,538 and \$ 53,068 from the Foundation in 2017 and 2016, respectively. The ending asset value of the endowment at December 31, 2017 and 2016 was approximately \$ 1,123,474 and \$ 976,055, respectively.

Note 15 - Supplemental Cash Flow Information

Supplemental Disclosure of Cash Flow Information:

	<u>2017</u>	<u>2016</u>
Cash received during the year for - Interest income	\$ <u>231</u>	\$ <u>269</u>
Cash paid during the year for - Interest expense	\$ <u>23,472</u>	\$ <u>432</u>

Note 16 - Supplemental Cash Flow Information (continued)

Noncash Investing and Financing Activities:

	<u>2017</u>	<u>2016</u>
Acquisition of property and equipment -		
Cost of property and equipment	\$ 510,471	\$ 112,990
Less financed property and equipment	230,735	-
Less donated property and equipment	<u>64,000</u>	<u>97,513</u>
Cash paid for property and equipment	\$ <u><u>215,736</u></u>	\$ <u><u>15,477</u></u>
Extinguishment of debt	\$ <u><u>50,000</u></u>	<u><u>-</u></u>

Note 17 - Prior Period Adjustment

Capital lease obligation: Certain vehicle lease terms on the prior years' financial statements were not properly taking into account all items of the lease consideration. Therefore, the beginning net assets at January 1, 2016 were adjusted to properly record the capitalization of these leases in the amount of \$ 74,202.

ADDITIONAL INFORMATION

SOS Children's Villages - Florida, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Contract/ Agreement Number</u>	<u>Expenditures</u>	<u>Transfers to Subrecipients</u>
Federal Awards:				
Indirect Programs:				
United States Department of Health and Human Services - Passed through Florida Department of Children and Families - Passed through ChildNet, Inc.				
Foster Care - Title IV-E	93.658	SOS16RGC	\$ 1,105,330	\$ -
	93.658	SOS16DCM	<u>178,703</u>	<u>-</u>
			<u>1,284,033</u>	<u>-</u>
Social Services Block Grant	93.667	SOS16RGC	364,187	-
Temporary Assistance for Needy Families	93.558	SOS16DCM	89,434	-
Adoption Assistance	93.659	SOS16DCM	37,774	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	SOS16DCM	12,199	-
Promoting Safe and Stable Families	93.556	SOS16DCM	<u>1,657</u>	<u>-</u>
Total expenditures of federal awards			\$ <u><u>1,789,284</u></u>	\$ <u><u>-</u></u>

See notes schedule of expenditures and federal awards.

**SOS Children’s Villages – Florida, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of SOS Children’s Villages – Florida, Inc. (the “Organization”) under programs of federal government for the year ended December 31, 2017. and is presented on the accrual basis of accounting. The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, and/or OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement, as applicable.

Note 3 - Indirect Cost Rate

The Organization did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4 - Contingency

The grant and contract revenue amounts received are subject to audit and adjustment. If any expenditures or expenses are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor/contract agencies becomes a liability of SOS Children’s Villages- Florida, Inc. In the opinion of management, all grant and contract expenditures are in compliance with the terms of the agreement and applicable federal, state, and local laws and regulations.

INTERNAL CONTROLS AND COMPLIANCE

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

To the Board of Directors
SOS Children's Villages – Florida, Inc.
Coconut Creek, 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 SOS Children's Villages – Florida, Inc. (a nonprofit organization) (the "Organization"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated May 9, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control over financial reporting. 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 the Organization's financial statements are free of 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.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
May 9, 2018

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

To the Board of Directors
SOS Children's Villages – Florida, Inc.
Coconut Creek, Florida

Report on Compliance for Each Major Federal Program

We have audited SOS Children's Villages – Florida, Inc.'s (a not-for-profit organization) (the "Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement*, that could have a direct and material effect on the Organization's major federal programs for the year ended December 31, 2017. The Organization'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization'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 (CFR) 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 the Organization'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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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 December 31, 2017.

Report on Internal Control over Compliance

Management of the Organization 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, we considered the Organization'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 the 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 the Organization'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. 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.

Purpose of this Report

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.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
May 9, 2018

**SOS Children’s Villages – Florida Inc.
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2017**

A. Summary of Auditor’s Results

1. The auditor’s report expresses an unmodified opinion on whether the financial statements of SOS Children’s Villages – Florida, Inc. were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of SOS Children’s Villages – Florida, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal programs are reported in the Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control over Compliance required by the Uniform Guidance.
5. The auditor’s report on compliance for the major federal programs for SOS Children’s Villages – Florida, Inc. expresses an unmodified opinion on all major federal programs.
6. There are no audit findings relative to the major federal programs for SOS Children’s Villages – Florida, Inc., reported in Part C of this schedule.
7. The program tested as a major program is as follows:

Federal Program	Federal CFDA No.
United States Department of Health and Human Services Foster Care - Title IV-E	93.658

8. The threshold for distinguishing Types A and B programs was \$ 750,000.
9. SOS Children’s Villages – Florida, Inc. was determined to be a low-risk auditee.

B. Findings - Financial Statement Audit

No matters were reported.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

No matters were reported.

SOS Children's Villages – Florida Inc.
Schedule of Findings and Questioned Costs (continued)
For the Year Ended December 31, 2017

D. Other Issues

1. No management letter is required because there were no findings required to be reported in a separate management letter.
2. No summary schedule of prior audit findings and questioned costs is required because there were no prior audit findings and questioned costs related to federal programs.
3. No corrective action plan is required because there were no findings reported under the Uniform Guidance.