

Audited
Financial
Statements

June 30, 2017

SAFE HARBOUR, INC.

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SAFE HARBOUR, INC.
List of Report Distribution
June 30, 2017

Number of copies

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| 1 | Redevelopment Authority of the County of Cumberland
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Carlisle, Pennsylvania 17013-2445
Attention: Timothy Whelan, Executive Director |
| 2 | Cumberland County Community Service Department
16 West High Street
Carlisle, Pennsylvania 17013
Attention: Terry Barley |



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Safe Harbour, Inc.
Carlisle, Pennsylvania

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Safe Harbour, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets on a modified cash basis as of June 30, 2017 and 2016, and the related statements of support, revenue, expenses, and changes in net assets on a modified cash basis and functional expenses on a modified cash basis 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 assets, liabilities, and net assets of Safe Harbour, Inc. as of June 30, 2017 and 2016, and its support, revenue, expenses and changes in net assets for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017, on our consideration of Safe Harbour, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on effectiveness of Safe Harbour, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Safe Harbour, Inc.'s internal control over financial reporting and compliance.

Smith Elliott Keane & Company, LLC

Carlisle, Pennsylvania
November 10, 2017

SAFE HARBOUR, INC.
Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis
June 30, 2017 and 2016

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	\$ 159,850	\$ 152,811
Investments	75	75
Resident receivable	6,489	5,297
Total Current Assets	<u>166,414</u>	<u>158,183</u>
Assets Limited As To Use		
Tenant security deposits	11,308	9,194
Endowment fund	61,544	55,144
Total Assets Limited To Use	<u>72,852</u>	<u>64,338</u>
Other Assets		
Property and equipment, net of accumulated depreciation of \$ 858,825 for 2017 and \$ 805,370 for 2016	944,023	991,701
Total Other Assets	<u>944,023</u>	<u>991,701</u>
TOTAL ASSETS	<u>\$ 1,183,289</u>	<u>\$ 1,214,222</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term debt	\$ 6,035	\$ 5,955
Tenant security deposits	11,308	9,194
Prepaid rent	1,925	-
Payroll taxes and garnishments	2,160	5,190
Total Current Liabilities	<u>21,428</u>	<u>20,339</u>
Long-term Liabilities		
Long-term debt	72,274	78,456
Total Long-term Liabilities	<u>72,274</u>	<u>78,456</u>
Total Liabilities	<u>93,702</u>	<u>98,795</u>
Net Assets		
Unrestricted		
Undesignated	1,028,043	1,060,283
Board designated, Endowment	61,544	55,144
Total Net Assets	<u>1,089,587</u>	<u>1,115,427</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,183,289</u>	<u>\$ 1,214,222</u>

SAFE HARBOUR, INC.
Statements of Support, Revenue, Expenses, and
Changes in Net Assets – Modified Cash Basis
Years Ended June 30, 2017 and 2016

	2017	2016
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT		
Program fees/rents	\$ 137,841	\$ 139,833
Contributions	201,408	243,171
United Way	55,220	48,505
Grants	283,478	198,842
Net commercial rental income	3,853	5,629
Investment income	2,856	2,476
Unrealized gain/(loss) on investments	4,301	(2,036)
Other income	4,033	2,513
Total Revenues, Gains and Other Support	<u>692,990</u>	<u>638,933</u>
EXPENSES		
<i>Program Services:</i>		
Bridge Housing	221,932	236,698
Harbour Place	39,342	46,311
Wilson House	42,194	44,819
Emergency Shelter	286,128	304,801
Shelter Plus Care	17,200	19,430
<i>Total program services</i>	<u>606,796</u>	<u>652,059</u>
<i>Supporting Services:</i>		
Management and general	21,019	20,559
General fundraising	91,015	89,642
<i>Total supporting services</i>	<u>112,034</u>	<u>110,201</u>
Total Expenses	<u>718,830</u>	<u>762,260</u>
Decrease in net assets	(25,840)	(123,327)
UNRESTRICTED NET ASSETS - BEGINNING	<u>1,115,427</u>	<u>1,238,754</u>
UNRESTRICTED NET ASSETS - ENDING	<u>\$ 1,089,587</u>	<u>\$ 1,115,427</u>

SAFE HARBOUR, INC.
Statement of Functional Expenses – Modified Cash Basis
Year Ended June 30, 2017

	Program Services					Supporting Services		Total
	Bridge Housing	Harbour Place	Wilson House	Emergency Shelter	Shelter Plus Care	Management and General	Fundraising	
Salaries and wages	\$ 107,979	\$ 14,997	\$ 14,997	\$ 152,967	\$ -	\$ 8,998	\$ 40,590	\$ 340,528
Staff benefits	19,267	2,202	2,202	29,726	-	1,651	7,450	62,498
Payroll taxes	9,192	1,051	1,051	14,183	-	788	3,554	29,819
Legal and accounting fees	7,736	1,000	1,000	8,094	1,505	-	-	19,335
Office expense	3,024	-	-	3,644	-	741	-	7,409
Supplies	3,327	431	309	7,044	-	339	-	11,450
Telephone	3,939	-	1,055	4,527	-	-	-	9,521
Postage	1,041	-	-	-	-	-	-	1,041
Maintenance and repairs	8,616	870	357	3,256	953	-	-	14,052
Utilities	17,941	10,324	6,377	35,971	4,209	2,314	-	77,136
Outside services	10,555	879	2,789	9,610	1,183	-	-	25,016
Travel	-	-	-	-	-	2,036	-	2,036
Insurance	1,995	1,000	1,000	5,000	3,167	376	-	12,538
Depreciation	19,328	5,938	8,668	9,680	3,392	3,776	-	50,782
Interest expense	-	-	2,085	-	1,691	-	-	3,776
Furnishing and equipment	1,202	570	-	811	-	-	-	2,583
Permits and licensing	200	-	-	-	-	-	-	200
Dues and subscriptions	3,406	-	-	-	-	-	-	3,406
Miscellaneous	3,184	80	304	1,615	1,100	-	531	6,814
Fundraising	-	-	-	-	-	-	38,890	38,890
	<u>\$ 221,932</u>	<u>\$ 39,342</u>	<u>\$ 42,194</u>	<u>\$ 286,128</u>	<u>\$ 17,200</u>	<u>\$ 21,019</u>	<u>\$ 91,015</u>	<u>\$ 718,830</u>

SAFE HARBOUR, INC.
Statement of Functional Expenses – Modified Cash Basis
Year Ended June 30, 2016

	Program Services					Supporting Services		
	Bridge Housing	Harbour Place	Wilson House	Emergency Shelter	Shelter Plus Care	Management and General	Fundraising	Total
Salaries and wages	\$ 111,497	\$ 15,486	\$ 15,486	\$ 157,950	\$ -	\$ 9,290	\$ 33,915	\$ 343,624
Staff benefits	26,665	3,047	3,047	41,140	-	2,286	8,162	84,347
Payroll taxes	10,242	1,171	1,171	15,802	-	878	3,135	32,399
Legal and accounting fees	7,723	940	940	6,036	940	-	-	16,579
Office expense	4,845	-	-	2,875	-	858	-	8,578
Supplies	3,104	-	-	6,712	21	304	-	10,141
Telephone	4,348	-	1,212	3,776	-	-	-	9,336
Postage	1,415	-	-	-	-	-	-	1,415
Maintenance and repairs	4,194	2,284	3,310	6,688	2,466	-	1,474	20,416
Utilities	11,567	15,643	5,483	38,815	5,255	2,374	-	79,137
Outside services	14,334	682	2,660	9,416	2,678	-	-	29,770
Travel	-	-	-	-	-	2,268	-	2,268
Insurance	4,326	1,000	1,000	3,889	2,411	390	-	13,016
Depreciation	20,520	5,938	8,668	10,257	3,392	1,911	-	50,686
Interest expense	-	-	1,792	-	1,655	-	-	3,447
Furnishing and equipment	5,005	-	-	-	-	-	-	5,005
Permits and licensing	155	-	-	-	-	-	-	155
Dues and subscriptions	3,744	-	-	-	-	-	-	3,744
Miscellaneous	3,014	120	50	1,445	612	-	461	5,702
Fundraising	-	-	-	-	-	-	42,495	42,495
	<u>\$ 236,698</u>	<u>\$ 46,311</u>	<u>\$ 44,819</u>	<u>\$ 304,801</u>	<u>\$ 19,430</u>	<u>\$ 20,559</u>	<u>\$ 89,642</u>	<u>\$ 762,260</u>

SAFE HARBOUR, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Safe Harbour, Inc. is incorporated under Pennsylvania law as a nonprofit corporation. Located in Carlisle, Pennsylvania, the Organization provides shelter and counseling for the homeless through temporary housing, also called Bridge Housing; permanent housing, known as Harbour Place and Wilson House; a Shelter Plus Care Program for permanent housing and an emergency shelter for families with children and women. HUD Section 8 housing assistance is available for the permanent housing programs.

Basis of Accounting

As is the case of many organizations of this type, the accounts are maintained, and the financial statements are presented, on a modified cash basis. Therefore, receivables, payables, and accrued income and expense, which may be material in amount, are not reflected on the modified cash basis statements. Consequently, these statements are not intended to present the overall financial position or results of operations in accordance with generally accepted accounting principles.

Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net asset categories follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted – Net assets that are subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. No temporarily restricted net assets were held by the Organization during the years ended June 30, 2017 and 2016.

Permanently restricted – Net assets subject to donor-imposed restrictions that they must be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. No permanently restricted net assets were held by the Organization during the years ended June 30, 2017 and 2016.

SAFE HARBOUR, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

For purposes of the financial statements, the Organization considers all money market accounts and certificates of deposit to be cash equivalents.

Assets Limited as to Use

Assets limited as to use includes tenant security deposits and board-designated investments. The investments are held within the Organization's endowment fund, and can be designated by the board for various uses, as long as the requirements set forth in the Investment Policy, as described in Note 9, are followed.

Investments

Investments in debt and equity securities with readily determinable market values are reported at market value. Unrealized gains and losses are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law. Realized gains and losses, if any, on the sale or disposal of investments are computed on a specific identification basis and are also included as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation or by law.

Revenue and Support

All revenue and support are considered to be available for unrestricted use unless specifically restricted by the donor.

Donated Services and Materials

A significant amount of volunteer time and non-cash items are donated to the Organization throughout the year. For the years ended June 30, 2017 and 2016, non-cash donations were valued at \$ 70,252 and \$ 53,933, respectively. This balance is comprised of food, miscellaneous supplies, and Christmas gifts. This amount is not recognized as contributions in the financial statements under the modified cash basis of accounting. In addition, volunteer time is not valued for financial reporting purposes.

Functional Allocation of Expenses

The costs of providing the Organization's programs and activities have been summarized on a functional basis in the Statements of Support, Revenue, Expenses, and Changes in Net Assets – Modified Cash Basis, and in the Statements of Functional Expenses – Modified Cash Basis based on management's estimate of the time and expense spent for each of the functions. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SAFE HARBOUR, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 2 INCOME TAX

Safe Harbour, Inc. is a public charity, exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code.

It files a Form 990, "Return of Organization Exempt from Income Tax". The Forms 990 are generally subject to examination for a period of three years after the returns are filed.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Purchases in excess of \$ 1,000 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the individual assets. Depreciation expense for the years ended June 30, 2017 and 2016 was \$ 53,455 and \$ 53,354, respectively. The amount allocated to net commercial rental income was \$ 2,673 for 2017 and \$ 2,668 for 2016.

Property and equipment consists of the following at June 30:

	2017	2016
Land	\$ 78,566	\$ 78,566
Buildings	1,030,462	1,030,462
Improvements	482,568	482,568
Fixtures and equipment	<u>211,252</u>	<u>205,475</u>
	1,802,848	1,797,071
Less: Accumulated depreciation	<u>858,825</u>	<u>805,370</u>
Net property and equipment	<u>\$ 944,023</u>	<u>\$ 991,701</u>

SAFE HARBOUR, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 4 INVESTMENTS

The composition of investments in the Organization's investment portfolio at June 30, 2017 and 2016 is set forth in the following schedule:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Current Investments				
Common Stock	<u>\$ 75</u>	<u>\$ 75</u>	<u>\$ 75</u>	<u>\$ 75</u>
Board-designated investments (endowment fund)				
Cash and cash equivalents	\$ 3,037	\$ 3,037	\$ 1,829	\$ 2,721
Mutual Funds - Fixed income	22,269	22,026	20,716	18,708
Mutual Funds - Equities	28,667	36,481	27,992	33,715
	<u>\$ 53,973</u>	<u>\$ 61,544</u>	<u>\$ 50,537</u>	<u>\$ 55,144</u>

NOTE 5 GRANTS

Grant revenue consisted of the following during the years ended June 30:

	2017	2016
Bridge Housing - HAP	\$ 47,733	\$ 56,900
Bridge Housing - FEMA	3,000	3,000
Emergency Shelter- ESG	186,422	30,000
Emergency Shelter - CDBG	<u>46,323</u>	<u>108,942</u>
Total unrestricted grant revenue	<u>\$ 283,478</u>	<u>\$ 198,842</u>

NOTE 6 FUNDRAISING

The Organization conducted several fundraising activities during the year. Support received from these efforts for the years ended June 30, 2017 and 2016 was \$ 48,597 and \$ 56,554, respectively, and is included in contribution income on the financial statements. Total fundraising expenses for the years ended June 30, 2017 and 2016 were \$ 38,890 and \$ 42,495, respectively.

SAFE HARBOUR, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 7 LONG-TERM DEBT

Safe Harbour, Inc. had the following long-term notes payable outstanding at June 30:

	Collateral	Net Book Value of Collateralized Property at June 30, 2017	Interest Rate	2017	2016
Orrstown Bank - Note currently requires monthly payments of \$ 586 including interest and principal. The interest rate is variable based on a rate of .25% above prime. This note is due in December 2025.	Real Estate (Wilson House)	261,823	4.50%	\$ 45,643	\$ 50,521
Farmers and Merchants Trust Company - Note requires 48 monthly payments of \$ 863 including principal and interest. The payment was adjusted to \$ 243 per month in September 2014. Interest is calculated on the unpaid principal balance at a rate of 5%. Payment will adjust in June 2018 with interest based on the prime rate plus 1% with a floor of 4.5%. This note is due May 2023.	Real Estate (Shelter Care Plus)	54,456	5.00%	<u>32,666</u>	<u>33,890</u>
<i>Total long-term debt</i>				78,309	84,411
<i>Less current portion</i>				<u>6,035</u>	<u>5,955</u>
<i>Long-term portion</i>				<u>\$ 72,274</u>	<u>\$ 78,456</u>

Maturities of long-term notes payable are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2018	\$ 6,035
2019	6,157
2020	6,448
2021	6,752
2022	7,069
Thereafter	<u>45,848</u>
	<u>\$ 78,309</u>

These notes contain no significant covenants other than to pay taxes, insurance, and maintain the properties in good working order.

SAFE HARBOUR, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 7 LONG-TERM DEBT (CONTINUED)

The Organization also has an unsecured line-of-credit for \$ 200,000. The line of credit is due on demand and bears interest at the prime rate. The Organization had no draws on this line of credit at June 30, 2017 and 2016.

NOTE 8 LEASES

The Organization leases a portion of the Bridge Housing property to commercial tenants on an annual basis with monthly rental payments. Rental income from the commercial properties was \$ 11,382 and related rental expenses were \$ 7,529 for the year ended June 30, 2017. Rental income from the commercial properties was \$ 18,827 and related rental expenses were \$ 13,198 for the year ended June 30, 2016.

NOTE 9 ENDOWMENTS

The Organization's endowment was established to accumulate a pool of assets sufficient to build capital for future projects and support current operating needs. The Organization's endowment consists of board-designated endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Commonwealth of Pennsylvania has not adopted the Uniform Prudent Management of Institutional Funds Act of 2006. Guidance for the administration of endowment funds in Pennsylvania is provided in Act 141, which was passed by the Pennsylvania legislature in 1998. Under Act 141, Pennsylvania not-for-profit organizations are permitted to elect an annual amount that may be used from their endowment funds based on an annual spending rate between 2% and 7%. Act 141 permits the spending of accumulated principal and income from an endowment fund if the amount withdrawn is less than or equal to the annually elected percentage. The Organization's interpretation of Act 141 classifies all interest income, dividends, and capital appreciation earned by board-designated endowment fund investments as unrestricted activity. As a result of this interpretation, Safe Harbour, Inc. classifies as unrestricted – board designated net assets, the original value of gifts donated to the endowment and all earnings thereon.

Safe Harbour, Inc. considers several factors when making a determination to appropriate or accumulate board-designated endowment funds. These factors include the duration and preservation of the fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of Safe Harbour, Inc. and the investment policy of the Organization.

Safe Harbour, Inc. has adopted an investment policy and strategies to achieve the greatest return possible for the amount of risk assumed by the Endowment. Under this policy, assets are invested in a manner intended to produce results that exceed the spending rate plus inflation, as measured by the Consumer Price Index. Actual returns in any year may vary from these goals.

SAFE HARBOUR, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 9 ENDOWMENTS (CONTINUED)

To satisfy the long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment targets a diversified asset allocation that places a greater emphasis on equity and debt-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization's investment policy includes specific guidance on the maximum amounts that may be withdrawn from the endowment each year. Each year the Finance Committee can recommend to the Board of Directors, a spending rate for the upcoming year, based upon the budget, not to exceed 5% of the principal value of the Endowment. This approach is consistent with the provisions of Act 141. In the event that additional funds are needed to cover the cost of operations, distributions greater than 5% of the principal value of the Endowment may be authorized by the Board of Directors.

Endowment net assets consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Board designated endowment funds	<u>\$ 61,544</u>	<u>\$ 55,144</u>

The changes in endowment net assets for the years ended June 30, 2017 and 2016 were as follows:

	<u>Unrestricted</u>
Endowment net assets at July 1, 2015	<u>\$ 55,843</u>
Investment return:	
Investment income	1,823
Unrealized depreciation	<u>(2,036)</u>
Total investment return	<u>(213)</u>
Appropriation of endowment assets for expenditure	<u>(486)</u>
Endowment net assets at June 30, 2016	<u>55,144</u>
Investment return:	
Investment income	2,630
Unrealized appreciation	<u>4,301</u>
Total investment return	<u>6,931</u>
Appropriation of endowment assets for expenditure	<u>(531)</u>
Endowment net assets at June 30, 2017	<u>\$ 61,544</u>

NOTE 10 FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements. The established framework includes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those investments included in each are as follows:

Level 1 – Represented by quoted prices available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products, and exchange traded equities.

Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligation of states, and political subdivisions, and certain corporate asset backed securities, swap agreements, mutual funds traded at net asset value, and internally developed values with little uncertainty.

Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement including the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and internally developed values with significant uncertainty.

The following is a description of the valuation methodologies used for instruments measured at fair value on the Organization's statement of assets, liabilities, and net assets – modified cash basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, securities are classified within Level 2 and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed securities, obligations of states and political subdivisions and certain corporate, asset backed, and other securities. In certain cases, where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

SAFE HARBOUR, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

Mutual Funds

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price

The fair values of the assets measured on a recurring basis as of June 30, 2017 and 2016 are as follows:

<u>At June 30, 2017</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Money market funds	\$ 3,037	\$ 3,037	\$ -	\$ -
Fixed income mutual funds:				
Intermediate term bond fund	6,739	6,739	-	-
Short term bond fund	15,287	15,287	-	-
Total fixed income mutual funds	<u>22,026</u>	<u>22,026</u>	<u>-</u>	<u>-</u>
Equity mutual funds:				
Large cap fund	22,235	22,235	-	-
Mid cap fund	5,630	5,630	-	-
Small cap fund	4,323	4,323	-	-
Foreign large cap fund	4,293	4,293	-	-
Total equity mutual funds	<u>36,481</u>	<u>36,481</u>	<u>-</u>	<u>-</u>
Common stock	<u>75</u>	<u>75</u>	<u>-</u>	<u>-</u>
	<u>\$ 61,619</u>	<u>\$ 61,619</u>	<u>\$ -</u>	<u>\$ -</u>

SAFE HARBOUR, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

<u>At June 30, 2016</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Money market funds	\$ 2,721	\$ 2,721	\$ -	\$ -
Fixed income mutual funds:				
Intermediate term bond fund	5,795	5,795	-	-
Short term bond fund	12,913	12,913	-	-
Total fixed income mutual funds	18,708	18,708	-	-
Equity mutual funds:				
Large cap fund	20,537	20,537	-	-
Mid cap fund	4,705	4,705	-	-
Small cap fund	4,104	4,104	-	-
Foreign large cap fund	2,750	2,750	-	-
Specialty fund	1,619	1,619	-	-
Total equity mutual funds	33,715	33,715	-	-
Common stock	75	75	-	-
	<u>\$ 55,219</u>	<u>\$ 55,219</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 11 CONTINGENCIES

For the years ending June 30, 2017 and 2016, 78% and 77%, respectively, of the Organization's total revenue was from contributions and grants. A reduction in this funding could have a significant negative impact on the Organization.

NOTE 12 SUBSEQUENT EVENTS

The Organization has evaluated events and transactions subsequent to June 30, 2017 through November 10, 2017, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has not identified any events that occurred subsequent to June 30, 2017 that require recognition or disclosure in the financial statement



**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***

Board of Directors
Safe Harbour, Inc.
Carlisle, Pennsylvania

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 Safe Harbour, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets on a modified cash basis as of June 30, 2017, and the related statements of support, revenue, expenses, and changes in net assets on a modified cash basis, and functional expenses on a modified cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Safe Harbour, 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 Safe Harbour, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Safe Harbour, Inc.'s internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we 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 Safe Harbour, Inc.'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 result of that testing, and not to provide an opinion of the effectiveness of Safe Harbour, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Carlisle, Pennsylvania
November 10, 2017

SAFE HARBOUR, INC.
Report on Status of Prior Year's Findings
and Recommendations
Year Ended June 30, 2017

FINDINGS – FINANCIAL STATEMENTS AUDIT

2016-001

Condition: The Organization's security deposit subsidiary ledger and bank account did not agree to the corresponding general ledger accounts.

Status: As of June 30, 2017, the condition above has been resolved. Management has reconciled the bank account, tenant accounts ledger, and the general ledger balance during the fiscal year 2017.