

SUNBEAM FAMILY SERVICES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED
JUNE 30, 2017 and 2016**

**TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

SUNBEAM FAMILY SERVICES, INC.
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June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sunbeam Family Services, Inc.
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sunbeam Family Services, Inc. ("Sunbeam") (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (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 consolidated 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 Sunbeam Family Services, 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.

HSPG & ASSOCIATES, PC

5400 N Grand Blvd, Suite 330 • Oklahoma City, Oklahoma 73112 • Phone: 405.844.9995 • Fax: 405.844.9975

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 2017 and 2016 supplementary statements of activities, 2017 supplementary Educare statement of revenues and expenses, and the supplementary schedule of state financial awards on pages 18 - 21, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. 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 also 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 December 11, 2017, on our consideration of Sunbeam Family Services, 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 Sunbeam Family Service, Inc's internal control over financial reporting and compliance.

HSPG & Associates, P.C.

December 11, 2017

SUNBEAM FAMILY SERVICES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 705,870	\$ 921,331
Receivables:		
Trade	62,239	26,985
Grants and contracts	1,371,316	1,799,921
Contributions receivable	1,416,388	1,605,818
Certificates of deposit	145,277	105,648
Prepaid expenses and other assets	177,305	169,873
Assets designated for investment in property and equipment:		
Cash	519,685	393,338
Investments, held at fair market value	1,841,442	1,571,293
Contributions receivable	100,000	1,122,876
Investments, designated for endowment	1,765,924	1,660,121
Beneficial interest in assets held by others	93,855	89,418
Property and equipment, net	16,257,332	16,784,684
TOTAL ASSETS	<u>\$ 24,456,633</u>	<u>\$ 26,251,306</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 347,728	\$ 957,086
Accrued salaries and related payables	303,454	286,424
Notes payable	683,917	1,420,432
TOTAL LIABILITIES	<u>1,335,099</u>	<u>2,663,942</u>
NET ASSETS		
Unrestricted		
Invested in property and equipment	15,573,415	15,364,252
Board-designated for property and equipment	2,461,127	3,087,507
Board-designated for endowment	1,859,779	1,749,539
Undesignated net assets	1,924,730	2,263,061
Total unrestricted net assets	<u>21,819,051</u>	<u>22,464,359</u>
Temporarily Restricted	1,302,483	1,123,005
TOTAL NET ASSETS	<u>23,121,534</u>	<u>23,587,364</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,456,633</u>	<u>\$ 26,251,306</u>

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

SUNBEAM FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017 (with comparative totals for 2016)

	Unrestricted	Temporarily Restricted	Total 2017	Comparative Total 2016
REVENUE AND SUPPORT				
Grants and contracts	\$ 10,987,856	\$ -	\$ 10,987,856	\$ 10,795,928
Contributions	523,917	412,016	935,933	1,228,300
Special event revenue	136,045	-	136,045	148,015
United Way	119,300	833,388	952,688	878,217
Client fees	282,624	-	282,624	425,977
Unrealized and realized gain (loss) on investments	309,533	-	309,533	7,244
Change in beneficial interest in assets held by others	7,859	-	7,859	345
Interest and dividends	70,020	-	70,020	85,615
Miscellaneous	74,780	-	74,780	20,119
Release from restrictions	1,065,926	(1,065,926)	-	-
Total revenue and support	13,577,860	179,478	13,757,338	13,589,760
EXPENSES				
Program services	11,980,151	-	11,980,151	11,440,302
Management and general	1,833,349	-	1,833,349	1,932,330
Costs of direct benefits to donors	66,617	-	66,617	69,125
Fundraising	343,051	-	343,051	284,889
Total expenses	14,223,168	-	14,223,168	13,726,646
Change in net assets	(645,308)	179,478	(465,830)	(136,886)
NET ASSETS, BEGINNING OF YEAR	22,464,359	1,123,005	23,587,364	23,724,250
NET ASSETS, END OF YEAR	\$ 21,819,051	\$ 1,302,483	\$ 23,121,534	\$ 23,587,364

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

SUNBEAM FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Grants and contracts	\$ 10,795,928	\$ -	\$ 10,795,928
Contributions	1,076,656	151,644	1,228,300
Special event revenue	148,015	-	148,015
United Way	5,399	872,818	878,217
Client fees	425,977	-	425,977
Unrealized and realized gain (loss) on investments	7,244	-	7,244
Change in beneficial interest in assets held by others	345	-	345
Interest and dividends	85,615	-	85,615
Miscellaneous	20,119	-	20,119
Release from restrictions	1,239,937	(1,239,937)	-
Total revenue and support	<u>13,805,235</u>	<u>(215,475)</u>	<u>13,589,760</u>
EXPENSES			
Program services	11,440,302	-	11,440,302
Management and general	1,932,330	-	1,932,330
Costs of direct benefits to donors	69,125	-	69,125
Fundraising	284,889	-	284,889
Total expenses	<u>13,726,646</u>	<u>-</u>	<u>13,726,646</u>
Change in net assets	78,589	(215,475)	(136,886)
NET ASSETS, BEGINNING OF YEAR	<u>22,385,770</u>	<u>1,338,480</u>	<u>23,724,250</u>
NET ASSETS, END OF YEAR	<u>\$ 22,464,359</u>	<u>\$ 1,123,005</u>	<u>\$ 23,587,364</u>

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

SUNBEAM FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Early Childhood Services	Senior Services	Foster Care	Counseling	Total Program Services	Management and General	Costs of Direct Benefits to Donors	Fundraising	Total
Salaries	\$ 3,739,189	\$ 500,036	\$ 180,394	\$ 323,114	\$ 4,742,733	\$ 849,717	\$ -	\$ 180,598	\$ 5,773,048
Payroll taxes	322,838	41,711	16,209	28,109	408,867	91,119	-	14,217	514,203
Benefits	431,463	70,828	26,809	39,811	568,911	75,524	-	23,371	667,806
Professional fees	548,709	18,621	2,385	5,256	574,971	98,127	-	12,939	686,037
Office supplies and postage	99,010	7,437	4,017	10,288	120,752	47,709	-	21,367	189,828
Nutrition program	228,892	15,573	-	25	244,490	-	-	-	244,490
Communications	43,928	7,337	6,997	9,915	68,177	13,992	66,617	22,149	170,935
Occupancy	164,830	47,899	14,211	13,237	240,177	28,154	-	23,339	291,670
Printing and publications	12,026	2,175	1,357	1,852	17,410	6,030	-	19,867	43,307
Transportation	45,776	23,774	7,822	579	77,951	491	-	835	79,277
Conference and training	579,937	5,947	1,367	2,913	590,164	22,623	-	12,388	625,175
Partner services	-	509,937	-	-	509,937	-	-	-	509,937
Program supplies	94,561	-	1,009	-	95,570	-	-	836	96,406
Interest	-	-	-	-	-	16,507	-	-	16,507
Insurance	48,704	14,073	5,174	5,173	73,124	6,913	-	696	80,733
Specific assistance	3,608,447	50,100	2,448	184	3,661,179	13,863	-	10,449	3,685,491
Depreciation	560	-	-	-	560	562,580	-	-	563,140
Bad debts	-	-	-	(14,822)	(14,822)	-	-	-	(14,822)
Total expenses	<u>\$ 9,968,870</u>	<u>\$ 1,315,448</u>	<u>\$ 270,199</u>	<u>\$ 425,634</u>	<u>\$ 11,980,151</u>	<u>\$ 1,833,349</u>	<u>\$ 66,617</u>	<u>\$ 343,051</u>	<u>\$ 14,223,168</u>

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

SUNBEAM FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Early Childhood Services	Senior Services	Foster Care	Counseling	Total Program Services	Management and General	Costs of Direct Benefits to Donors	Fundraising	Total
Salaries	\$ 3,366,992	\$ 544,510	\$ 163,741	\$ 343,587	\$ 4,418,830	\$ 823,392	\$ -	\$ 145,454	\$ 5,387,676
Payroll taxes	273,999	53,019	16,821	32,983	376,822	44,674	-	11,440	432,936
Benefits	300,312	53,129	21,189	26,875	401,505	53,493	-	10,649	465,647
Professional fees	905,764	11,308	3,820	6,067	926,959	211,488	-	37,952	1,176,399
Office supplies and postage	225,589	15,510	8,495	11,159	260,753	110,103	-	7,489	378,345
Nutrition program	197,206	13,285	57	103	210,651	-	-	32	210,683
Communications	92,207	7,161	6,056	9,683	115,107	14,570	69,125	23,855	222,657
Occupancy	192,962	44,332	12,343	14,228	263,865	18,258	-	2,402	284,525
Printing and publications	14,387	3,481	3,207	1,558	22,633	5,375	-	16,118	44,126
Transportation	54,474	25,938	7,546	161	88,119	748	-	387	89,254
Conference and training	445,999	2,645	963	5,662	455,269	5,906	-	14,297	475,472
Partner services	-	441,582	-	-	441,582	-	-	-	441,582
Program supplies	627,523	-	-	-	627,523	-	-	-	627,523
Interest	-	-	-	-	-	61,521	-	-	61,521
Insurance	32,572	21,781	7,052	6,476	67,881	9,737	-	1,134	78,752
Specific assistance	2,691,651	47,244	3,915	2,814	2,745,624	13,075	-	13,628	2,772,327
Depreciation	560	627	287	836	2,310	550,030	-	52	552,392
Bad debts	-	-	-	14,869	14,869	9,960	-	-	24,829
Total expenses	<u>\$ 9,422,197</u>	<u>\$ 1,285,552</u>	<u>\$ 255,492</u>	<u>\$ 477,061</u>	<u>\$ 11,440,302</u>	<u>\$ 1,932,330</u>	<u>\$ 69,125</u>	<u>\$ 284,889</u>	<u>\$ 13,726,646</u>

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

SUNBEAM FAMILY SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (465,830)	\$ (136,886)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	563,140	552,392
Net realized and unrealized investment gains	(317,206)	(11,151)
Reinvested earnings	(50,313)	(51,108)
Non-cash contribution to reduce note payable	-	(502,751)
Change in value of beneficial interests	(7,859)	(345)
Change in operating assets and liabilities:		
Receivables	582,781	(1,532,168)
Prepaid expenses and other assets	(7,432)	(56,303)
Accounts payable and accrued liabilities	(609,358)	545,425
Accrued salaries and related payables	17,030	63,285
Deferred revenue	-	(21,451)
Net cash used in operating activities	<u>(295,047)</u>	<u>(1,151,061)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(35,788)	(202,241)
Proceeds from sale of investments	83,832	88,028
Purchases of investments	(131,894)	(1,508,923)
Change in contributions receivable designated for investment in property and equipment	1,022,876	1,274,540
Proceeds from note receivable	-	397,661
Transfer to beneficial interest in assets held by others	-	(36,132)
Distribution from interest in assets held by others	3,422	3,365
Net cash provided by investing activities	<u>942,448</u>	<u>16,298</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	-	111,231
Payment of note payable	(736,515)	(1,563,652)
Net cash used in financing activities	<u>(736,515)</u>	<u>(1,452,421)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(89,114)	(2,587,184)
CASH AND CASH EQUIVALENTS, Beginning of year	1,314,669	3,901,853
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,225,555</u>	<u>\$ 1,314,669</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents, unrestricted	\$ 705,870	\$ 921,331
Board designated cash	519,685	393,338
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,225,555</u>	<u>\$ 1,314,669</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	<u>\$ 16,507</u>	<u>\$ 61,521</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Reduction of note payable via contribution	<u>\$ -</u>	<u>\$ 502,751</u>

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

SUNBEAM FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of activities – Sunbeam Family Services, Inc. was organized as a nonprofit corporation in 1907 to provide services within the Oklahoma City metropolitan area. These services include fostering and strengthening family life and developing the capacities of individual adults, children, and family groups toward a satisfying and socially useful life. Sunbeam Family Services, Inc. is funded primarily by contracts with the United States Department of Health and Human Services, Corporation for National and Community Service, Oklahoma State Department of Education, Oklahoma Department of Human Services, and other federal and state agencies. Additionally, Sunbeam Family Services, Inc. receives contributions and grants from individuals, businesses, and other non-profit organizations.

Basis of consolidation – These consolidated financial statements (“financial statements”) include the following entities which, together with Sunbeam Family Services, Inc., are hereafter referred to as “Sunbeam”. All material intercompany accounts and transactions have been eliminated in consolidation.

Sunbeam Family Services, Inc. is the sole member of SFS, LLC (“SFS”) which was established to allow Sunbeam Family Services, Inc. to meet a requirement for coverage under their healthcare plan. Employees of SFS, including several management and administrative employees, are subject to the same employee policies and receive the same benefits as the Sunbeam employees. The board of Sunbeam Family Services, Inc. serves as the board of SFS.

The Foundation for Sunbeam Family Services (the “Foundation”) is a related organization of Sunbeam Family Services, Inc. The Foundation is organized to be a supporting organization of Sunbeam Family Services, Inc. whom appoints the board of directors of the Foundation, a majority of which must be a present or former member of the Sunbeam Family Services, Inc. board of directors. Due to Sunbeam Family Services, Inc.’s control of the appointment of board members and its direct economic interest, the Foundation is consolidated in these financial statements.

Oklahoma City Educare’s (“Educare”) sole remaining board member is also a board member of Sunbeam Family Services, Inc. who has managed Educare since its inception. Sunbeam Family Services, Inc.’s management has determined that it is appropriate to consolidate Educare in these financial statements in accordance with Accounting Standards Codification (“ASC”) relating to consolidation for not-for-profit entities as a result of control through contract or affiliation agreement in addition to Sunbeam Family Services, Inc.’s economic interest in Educare.

Basis of accounting – The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities. Revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation – The financial statements report information regarding Sunbeam’s financial position and activities according to three classes of net assets as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed or contract stipulations that may or will be met, either by actions of Sunbeam and/or the passage of time. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Sunbeam. Generally, donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. As of June 30, 2017 and 2016, Sunbeam has no permanently restricted net assets.

Cash and cash equivalents – For purposes of the statement of cash flows, Sunbeam considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents unless designated for investment purposes.

Revenue recognition – Sunbeam recognizes client fees revenue as services are provided. Federal and state grant revenue is recognized as the expenses to be reimbursed are incurred and the criteria for the grants have been met. Investment income is recognized as earned.

Contributions are recognized as revenues in the period unconditional promises to give are received and are reported as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. The standards also provide that if the governing body of an organization has the right to remove a donor restriction, the contributions should be classified as unrestricted.

Receivables and credit policies – Trade, grants, and contract accounts receivable are uncollateralized obligations generally requiring payment within 30 days from the invoice date. Interest and delinquency fees are not assessed. Discounts allowed for early payment or other contract provisions, if any, are charged against income when the payment is received. Payments of accounts receivable are allocated to the specific invoices identified, if unspecified, are applied to the earliest unpaid invoices. Unconditional promises to give are recognized as revenues or gains in the period received or unconditionally pledged. All unconditional promises to give are considered fully collectible.

The carrying amounts of accounts receivable are reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that will not be collected. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on historical collection trends and an assessment of the creditworthiness of current customers and donors. The adequacy of the allowance for doubtful accounts is evaluated periodically through an individual assessment of potential losses on customer accounts giving particular emphasis to accounts with invoices more than 90 days past the due date. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to trade accounts receivable. Recoveries on accounts previously written off are credited back to the allowance for doubtful accounts. Changes in the allowance for doubtful accounts have not been material to the financial statements.

Investments – Various investment managers oversee Sunbeam's securities and other investments. Investments are held under a master custodial arrangement by a financial institution. Cash equivalent funds are comprised of short-term, highly liquid investments that are readily convertible into known amounts of cash. Cash equivalent funds, mutual funds, and common stocks are reported at fair value in the accompanying financial statements. Fair values are based on quoted market prices as provided

by the financial institution. Realized gains and losses on sales of securities are computed based on specific identification. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying financial statements.

Certificates of deposit – Certificates of deposit are recorded at cost plus accrued interest.

Beneficial interest in assets held by others – Sunbeam follows the Accounting Standards Codification (“ASC”) guidance which requires a not-for-profit organization that transfers assets to a community foundation and specifies itself as the beneficiary to recognize its beneficial interest in the assets transferred (see Note 4). Sunbeam carries its beneficial interest in the assets held by the Oklahoma City Community Foundation, Inc. (“OCCF”), Communities Foundation of Oklahoma (“CFO”), and Tulsa Community Foundation (“TCF”) at fair value.

Property and equipment – Property and equipment are carried at cost or, if donated, at the approximate fair value, based on donor appraisal, at the date of donation. Sunbeam’s capitalization threshold is \$1,500 for assets acquired with an economic useful life greater than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are three to ten years for office equipment and furniture and fixtures and ten to forty years for buildings and land improvements.

Sunbeam reports gifts of property and equipment as unrestricted support unless explicit donor restrictions 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 restrictions about how long those long-lived assets must be maintained, Sunbeam reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Concentration of credit risk – Sunbeam maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. As of June 30, 2017 and 2016, Sunbeam’s deposit balances with financial institutions subject to FDIC coverage exceeded such coverage by \$555,727 and \$477,465, respectively. Sunbeam has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash or cash equivalents. Sweep accounts are used to reduce exposure which are not provided protection by FDIC coverage. Balances deposited in sweep accounts at June 30, 2017 and 2016 totaled \$293,943 and \$390,326, respectively. See Note 10 for concentrations of credit risk associated with grants receivable.

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 the reported amounts of assets and liabilities and disclosures 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.

Fair value measurements – Fair value is defined as 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 date. Fair value measurements accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels except for investments measured using Net Asset Value (“NAV”) per share as a practical expedient which are exempt from level classification. The following is a brief description of those three levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs that are derived principally from or corroborated by observable market data.
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

Financial assets carried at fair value include investments and beneficial interest in assets held by others (see Note 5). Sunbeam has no liabilities carried at fair value on a recurring basis and no assets or liabilities carried at fair value on a non-recurring basis at June 30, 2017 or 2016.

Compensated absences – Employee rights to receive compensation for future absences are recognized in the period such rights are earned.

Board designated endowment funds – Sunbeam adopted the standard "Endowments of Not-for-Profit Organizations" which among other things enhances disclosures for endowment funds maintained by not-for-profit organizations. Sunbeam has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The endowment assets are to be sufficiently diversified to minimize the risk of material loss. High risk or speculative investments are to be avoided. To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation's board of trustees annually determines the amount of the endowment to distribute to support Sunbeam's operations.

Functional expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among program services, management and general, costs of direct benefits to donors and fundraising. Management and general expenses includes those expenses that are not directly identifiable with another specific function, but provide for the overall support and direction of Sunbeam.

Income taxes – Sunbeam is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for any income that Sunbeam generates from an unrelated trade or business which is subject to federal corporate taxes on income. With few exceptions, Sunbeam is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years beginning before June 30, 2014.

Donated services – Donated services are recognized by Sunbeam if they create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically be purchased if not provided by donation. In-kind donations of goods and services are recorded in the financial statements at the estimated value of such goods or services.

Sunbeam also receives significant volunteer services in conjunction with the Head Start and Early Head Start Programs. These services qualify for in-kind matching based on the guidelines of the Department of Health and Human Services programs, but do not meet the requirements for recognition in the financial statements.

Reclassifications – Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. Such reclassifications did not affect net assets or change in net assets as of and for the year ended June 30, 2016.

Subsequent Events – Sunbeam has evaluated subsequent events through December 11, 2017, which is the date the financial statements were available to be issued. There are no subsequent events requiring recognition or disclosure in the 2017 financial statements.

Recent accounting pronouncements – In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 “Revenue from Contracts with Customers (Topic 606).” This authoritative guidance includes a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The FASB has since issued several additional amendments to this guidance. In July 2015, the FASB approved a one-year deferral of the effective date of the new standard. The effective date of the amended standard will begin in periods beginning after December 15, 2018 and early adoption is permitted but no earlier than for reporting periods beginning after December 15, 2016.

In February 2016, the FASB issued ASU No. 2016-02 “Leases (Topic 842).” The purpose of the guidance is to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet as well as providing additional disclosure requirements related to leasing arrangements. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, though early adoption is permitted.

In August 2016, the FASB issued ASU No. 2016-14, “Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities”. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. The amendments in the standard are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018.

Management is currently evaluating the impact that adopting the above recent accounting pronouncements will have on Sunbeam’s financial statements in future reporting periods.

2. CONTRIBUTIONS RECEIVABLE

At June 30, 2017 and 2016, contributions receivable are considered fully collectible and are due as follows:

	2017	2016
Due in less than one year	\$ 1,516,388	\$ 2,128,694
Due in one to five years	-	600,000
	\$ 1,516,388	\$ 2,728,694

At June 30, 2017 and 2016, contributions receivable totaling \$1,516,388 and \$2,555,818 are from three and five donors, respectively.

3. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 17,137,002	\$ 17,137,002
Office equipment	1,146,619	1,110,830
Land	<u>781,103</u>	<u>781,103</u>
	19,064,724	19,028,935
Less: accumulated depreciation	<u>(2,807,392)</u>	<u>(2,244,251)</u>
Net property and equipment	<u>\$ 16,257,332</u>	<u>\$ 16,784,684</u>

Inasmuch Foundation (“Inasmuch”) was instrumental in the formation of Educare. Based on a memorandum of understanding between Educare and Sunbeam Family Services, Inc. dated April 21, 2014, as Educare amends and restates its by-laws, it is expected that Inasmuch will reserve certain rights to approve the use of existing property or building that is currently used by Educare’s preschool and early childhood education programs for any future use other than how it is currently being utilized. Such rights are expected to terminate no later than June 30, 2019. As of June 30, 2017 and 2016, the carrying value of Educare’s building and land is \$7,068,090 and \$7,287,232, respectively.

4. COMMUNITY FOUNDATION FUNDS

Sunbeam is the designated beneficiary of donor advised funds at Oklahoma City Community Foundation (“OCCF”), Communities Foundation of Oklahoma (“CFO”), and Tulsa Community Foundation (“TCF”) (collectively referred to as the “Community Foundations”). These funds were contributed to the Community Foundations by Sunbeam and other third party contributors. The Community Foundations have variance power over all contributions. Sunbeam follows the standard, "Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others" to account for these funds. Assets transferred by Sunbeam remain on the statements of financial position as beneficial interests in assets held by others. Contributions from third parties are disclosed below, but not recognized as assets of Sunbeam. Sunbeam receives a distribution from funds held at OCCF and CFO each year based on a percentage of the average fair market value of the funds over the previous eight quarters. Distributions are received from TCF as determined at the discretion of the donors. The balance of the funds at June 30, 2017 and 2016 was as follows:

	<u>2017</u>		<u>2016</u>	
	Beneficial Interest in Assets Held by Others	Donated by third parties (disclosure only)	Beneficial Interest in Assets Held by Others	Donated by third parties (disclosure only)
OCCF	\$ 72,144	\$ 291,141	\$ 68,848	\$ 276,391
CFO	21,711	5,366	20,570	5,027
TCF	-	381,575	-	491,923
	<u>\$ 93,855</u>	<u>\$ 678,082</u>	<u>\$ 89,418</u>	<u>\$ 773,341</u>

5. FAIR VALUE MEASUREMENTS

Financial assets measured at fair value on a recurring basis are classified within the fair value hierarchy at June 30, 2017 as follows:

	Carrying Value	Total Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
ASSETS					
Investments:					
Cash Equivalents	\$ 30,536	\$ 30,536	\$ 30,536	\$ -	\$ -
Common stock	732,470	732,470	732,470	-	-
Mutual Funds:					
Equity	1,581,255	1,581,255	1,581,255	-	-
Fixed Income	<u>1,263,105</u>	<u>1,263,105</u>	<u>1,263,105</u>	<u>-</u>	<u>-</u>
Total Investments	3,607,366	3,607,366	3,607,366	-	-
Beneficial interest is assets held by others					
	<u>93,855</u>	<u>93,855</u>	<u>-</u>	<u>-</u>	<u>93,855</u>
	<u>\$ 3,701,221</u>	<u>\$ 3,701,221</u>	<u>\$ 3,607,366</u>	<u>\$ -</u>	<u>\$ 93,855</u>

As of June 30, 2016, assets measure at fair value on a recurring basis are classified within the fair value hierarchy is as follows:

	Carrying Value	Total Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
ASSETS					
Investments:					
Cash Equivalents	\$ 222,320	\$ 222,320	\$ 222,320	\$ -	\$ -
Common stock	625,928	625,928	625,928	-	-
Mutual Funds:					
Equity	1,342,055	1,342,055	1,342,055	-	-
Fixed Income	<u>1,041,111</u>	<u>1,041,111</u>	<u>1,041,111</u>	<u>-</u>	<u>-</u>
Total Investments	3,231,414	3,231,414	3,231,414	-	-
Beneficial interest is assets held by others					
	<u>89,418</u>	<u>89,418</u>	<u>-</u>	<u>-</u>	<u>89,418</u>
	<u>\$ 3,320,832</u>	<u>\$ 3,320,832</u>	<u>\$ 3,231,414</u>	<u>\$ -</u>	<u>\$ 89,418</u>

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant observable inputs (level 3) for the years ended June 30, 2017 and 2016.

	2017	2016
Balance at beginning of year	\$ 89,418	\$ 92,236
Purchases / contributions	-	-
Investment return, net	7,859	547
Distributions	<u>(3,422)</u>	<u>(3,365)</u>
Balance at end of year	<u>\$ 93,855</u>	<u>\$ 89,418</u>

The summary of changes in fair value of level 3 assets has been prepared to reflect the activity in the same categories as those provided by the Community Foundations. Net investment performance includes realized and unrealized gains (losses) on investments, investment income, and administrative fees and is included in change in beneficial interest in assets held by others in the accompanying

statements of activities. Typically, distributions decrease Sunbeam’s respective financial asset and increase cash at the time of distribution.

The following methods and assumptions were used to estimate the fair value of assets and liabilities reported at fair market value in the accompanying financial statements.

Investments: Investments are stated at fair value, and are based on quoted market prices, when available, or the best estimate of fair value as determined by the fund and/or investment manager. Generally, quoted market prices are available for mutual funds and common stocks and, as such, are classified as Level 1 in the fair value hierarchy.

Beneficial interest in assets held by others: The fair value of Sunbeam’s beneficial interest in assets held by others is based on the fair value of fund investments as reported by the Community Foundations. These are considered to be level 3 financial assets.

6. BOARD DESIGNATED ENDOWMENT FUNDS

As of June 30, 2017 and 2016, the board of directors has designated funds held in the Foundation and beneficial interest in assets held by others as endowments to support the operations of Sunbeam. Since the endowments resulted from an internal designation and are not donor-restricted, they are classified as unrestricted net assets. Composition of and changes in unrestricted endowment net assets for the year ended June 30, 2017 and 2016, is as follows:

	2017	2016
Endowment net assets, beginning of year	\$ 1,749,539	\$ 1,804,935
Investment return	197,365	(195)
Contributions	-	37,159
Appropriation of endowment assets for expenditure	(87,125)	(92,360)
Endowment net assets, end of year	<u>\$ 1,859,779</u>	<u>\$ 1,749,539</u>

7. NOTES PAYABLE

Inasmuch Foundation note payable – Educare entered into a promissory note payable to Inasmuch Foundation ("Inasmuch"). The balance of the note is \$683,917 at June 30, 2017 and 2016, and bears interest at .23% per annum. Inasmuch is one of the community organizations instrumental in establishing the Oklahoma City Educare program. The note was intended to provide flexibility during the construction of the Educare building and subsequent collection of contributions to the project. The current promissory note with Inasmuch required repayment by September 30, 2015. A renewal promissory note is in process which is expected to have repayment terms consistent with Inasmuch’s expected payment of contributions receivable to Sunbeam (see Note 11).

Midfirst Bank note payable – Sunbeam entered into a promissory note with Midfirst Bank in August 2013 with an initial principal of \$4,620,000. Through subsequent modifications, this note bears an annual interest rate of 3.459%, requires monthly payments in the amount of \$19,088 through November 19, 2019, and is secured by the Sunbeam property and capital campaign pledges whether collected or receivable, identified in the accompanying consolidated statements of financial position as assets designated for investment in property and equipment. This note was repaid during fiscal year 2017. The balance on the loan at June 30, 2016 was \$736,515.

8. NET ASSETS RESTRICTIONS

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following:

	<u>2017</u>	<u>2016</u>
Counseling services	\$ 15,562	\$ 4,642
Educare	156,311	171,501
Senior Shelter	17,499	10,000
Caregiver Fundamentals	37,826	52,521
Infant mental health program	221,802	-
Friends of Sunbeam	15,272	5,827
Time restricted for subsequent period	833,388	872,818
Other	4,823	5,696
	<u>\$ 1,302,483</u>	<u>\$ 1,123,005</u>

9. EMPLOYEE RETIREMENT PLAN

Sunbeam provides a defined contribution retirement plan for their full-time employees and other part-time employees over 21 years of age who work more than 1,000 hours in one year's time with one year of uninterrupted service. Employees may contribute to the Plan up to the maximum excludable IRS allowance. Sunbeam's match of employee deferrals is discretionary. Employer contributions on behalf of individuals are fully vested when the employee completes three years of service. Sunbeam's contribution to the plan for the years ended June 30, 2017 and 2016 was \$145,610 and \$102,464, respectively.

10. ECONOMIC DEPENDENCY

Sunbeam receives a significant portion of its revenue from funds provided through multiple federal and state grants. The grant amounts are appropriated each year at the federal and/or state level. If significant budget cuts are made at the federal and/or state level, the amount of funds Sunbeam receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds Sunbeam will receive in the next fiscal year. Significant concentrations include funding received for the Head Start and Early Head Start programs which totaled \$8,619,777 and \$8,159,761 during the years ended June 30, 2017 and 2016, respectively. Grants receivable from Head Start and Early Head Start programs totaled \$1,092,461 and \$1,594,745 at June 30, 2017 and 2016, respectively.

11. RELATED PARTY TRANSACTIONS

A Sunbeam board member is also a member of management for Inasmuch. Sunbeam has a contribution receivable from Inasmuch totaling \$583,000 as of June 30, 2017 and 2016. Sunbeam also has a note payable to Inasmuch totaling \$683,917 at June 30, 2017 and 2016, respectively. Management expects to use the Inasmuch contribution receivable to repay the Inasmuch note payable.

12. COMMITMENTS AND CONTINGENCIES

In the normal course of operations, Sunbeam receives contract funds from various federal and state grantor agencies. The programs are subject to audit by the granting authority, the purpose of which is to ensure compliance with conditions imposed by the granting agency. Any reimbursement, which may arise as the result of the audit of contract funds, is not believed to be material.

* * * * *

SUPPLEMENTARY INFORMATION

SUNBEAM FAMILY SERVICES, INC.
SUPPLEMENTARY STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Early Childhood Services	Senior Services	Foster Care	Counseling	Total Program Services	Management and General	Special Event Revenue and Costs of Direct Benefits to Donors	Fundraising	Foundation	Total
REVENUE AND SUPPORT										
Grants and contracts	\$ 9,874,159	\$ 799,031	\$ 314,666	\$ -	\$ 10,987,856	\$ -	\$ -	\$ -	\$ -	\$ 10,987,856
Contributions:										
Restricted	351,839	171,125	3,150	1,790	527,904	85,132	-	174,982	(83,703)	704,315
Unrestricted	193,525	24,915	5,117	8,061	231,618	-	-	-	-	231,618
Special event revenue	-	-	-	-	-	-	136,045	-	-	136,045
United Way	394,300	294,000	53,103	194,000	935,403	17,285	-	-	-	952,688
Client fees	42,671	24,196	-	215,757	282,624	-	-	-	-	282,624
Unrealized and realized gain (loss)										
on investments	-	-	-	-	-	951	-	144,785	163,797	309,533
Change in beneficial interest in										
assets held by others	-	-	-	-	-	-	-	7,859	-	7,859
Interest and dividends	-	-	-	-	-	3,104	-	32,535	34,381	70,020
Miscellaneous	5,971	-	-	-	5,971	40,445	-	28,364	-	74,780
Total revenue and support	10,862,465	1,313,267	376,036	419,608	12,971,376	146,917	136,045	388,525	114,475	13,757,338
EXPENSES										
Salaries	3,739,189	500,036	180,394	323,114	4,742,733	849,717	-	180,598	-	5,773,048
Payroll taxes	322,838	41,711	16,209	28,109	408,867	91,119	-	14,217	-	514,203
Benefits	431,463	70,828	26,809	39,811	568,911	75,524	-	23,371	-	667,806
Professional fees	548,709	18,621	2,385	5,256	574,971	89,456	-	12,939	8,671	686,037
Office supplies and postage	99,010	7,437	4,017	10,288	120,752	47,709	-	21,367	-	189,828
Nutrition program	228,892	15,573	-	25	244,490	-	-	-	-	244,490
Communications	43,928	7,337	6,997	9,915	68,177	13,992	66,617	22,149	-	170,935
Occupancy	164,830	47,899	14,211	13,237	240,177	28,154	-	23,339	-	291,670
Printing and publications	12,026	2,175	1,357	1,852	17,410	6,030	-	19,867	-	43,307
Transportation	45,776	23,774	7,822	579	77,951	491	-	835	-	79,277
Conference and training	579,937	5,947	1,367	2,913	590,164	22,623	-	12,388	-	625,175
Partner services	-	509,937	-	-	509,937	-	-	-	-	509,937
Program supplies	94,561	-	1,009	-	95,570	-	-	836	-	96,406
Interest	-	-	-	-	-	16,507	-	-	-	16,507
Insurance	48,704	14,073	5,174	5,173	73,124	6,913	-	696	-	80,733
Specific assistance	3,608,447	50,100	2,448	184	3,661,179	13,863	-	10,449	-	3,685,491
Depreciation	560	-	-	-	560	562,580	-	-	-	563,140
Bad debts	-	-	-	(14,822)	(14,822)	-	-	-	-	(14,822)
Management and general	913,681	131,423	27,020	42,563	1,114,687	(1,114,687)	-	-	-	-
Total expenses	10,882,551	1,446,871	297,219	468,197	13,094,838	709,991	66,617	343,051	8,671	14,223,168
Change in net assets	\$ (20,086)	\$ (133,604)	\$ 78,817	\$ (48,589)	\$ (123,462)	\$ (563,074)	\$ 69,428	\$ 45,474	\$ 105,804	\$ (465,830)

See independent auditor's report.

SUNBEAM FAMILY SERVICES, INC.
SUPPLEMENTARY STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Early Childhood Services	Senior Services	Foster Care	Counseling	Total Program Services	Management and General	Special Event Revenue and Costs of Direct Benefits to Donors	Fundraising	Foundation	Total
REVENUE AND SUPPORT										
Grants and contracts	\$ 9,559,484	\$ 906,975	\$ 329,469	\$ -	\$ 10,795,928	\$ -	\$ -	\$ -	\$ -	\$ 10,795,928
Contributions	459,271	139,614	1,480	25,979	626,344	129,238	-	560,745	(88,027)	1,228,300
Special event revenue	-	-	-	-	-	-	148,015	-	-	148,015
United Way	315,613	287,500	55,898	200,000	859,011	19,206	-	-	-	878,217
Client fees	60,991	177,421	-	187,565	425,977	-	-	-	-	425,977
Unrealized and realized gain (loss) on investments	-	-	-	-	-	(2,020)	-	56,925	(47,661)	7,244
Change in beneficial interest in assets held by others	-	-	-	-	-	-	-	345	-	345
Interest and dividends	-	-	-	-	-	19,623	-	10,212	55,780	85,615
Miscellaneous	-	-	-	-	-	20,119	-	-	-	20,119
Total revenue and support	10,395,359	1,511,510	386,847	413,544	12,707,260	186,166	148,015	628,227	(79,908)	13,589,760
EXPENSES										
Salaries	3,366,992	544,510	163,741	343,587	4,418,830	823,392	-	145,454	-	5,387,676
Payroll taxes	273,999	53,019	16,821	32,983	376,822	44,674	-	11,440	-	432,936
Benefits	300,312	53,129	21,189	26,875	401,505	53,493	-	10,649	-	465,647
Professional fees	905,764	11,308	3,820	6,067	926,959	202,888	-	37,952	8,600	1,176,399
Office supplies and postage	225,589	15,510	8,495	11,159	260,753	110,103	-	7,489	-	378,345
Nutrition program	197,206	13,285	57	103	210,651	-	-	32	-	210,683
Communications	92,207	7,161	6,056	9,683	115,107	14,570	69,125	23,855	-	222,657
Occupancy	192,962	44,332	12,343	14,228	263,865	18,258	-	2,402	-	284,525
Printing and publications	14,387	3,481	3,207	1,558	22,633	5,375	-	16,118	-	44,126
Transportation	54,474	25,938	7,546	161	88,119	748	-	387	-	89,254
Conference and training	445,999	2,645	963	5,662	455,269	5,906	-	14,297	-	475,472
Partner services	-	441,582	-	-	441,582	-	-	-	-	441,582
Program supplies	627,523	-	-	-	627,523	-	-	-	-	627,523
Interest	-	-	-	-	-	61,521	-	-	-	61,521
Insurance	32,572	21,781	7,052	6,476	67,881	9,737	-	1,134	-	78,752
Specific assistance	2,691,651	47,244	3,915	2,814	2,745,624	13,075	-	13,628	-	2,772,327
Depreciation	560	627	287	836	2,310	550,030	-	52	-	552,392
Bad debts	-	-	-	14,869	14,869	9,960	-	-	-	24,829
Management and general	930,540	127,551	25,370	47,323	1,130,784	(1,163,137)	-	32,353	-	-
Total expenses	10,352,737	1,413,103	280,862	524,384	12,571,086	760,593	69,125	317,242	8,600	13,726,646
Change in net assets	\$ 42,622	\$ 98,407	\$ 105,985	\$ (110,840)	\$ 136,174	\$ (574,427)	\$ 78,890	\$ 310,985	\$ (88,508)	\$ (136,886)

See independent auditor's report.

SUNBEAM FAMILY SERVICES, INC.
SUPPLEMENTARY EDUCARE STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

REVENUE AND SUPPORT

Grants and contracts	\$ 2,868,473
Contributions *	492,719
United Way	409,514
Client fees	40,058
Miscellaneous	1,212
	<hr/>
Total revenue and support	<u>3,811,976</u>

EXPENSES

Salaries	2,297,399
Payroll taxes	203,316
Benefits	277,468
Professional fees	199,065
Office supplies and postage	25,820
Nutrition program	179,645
Communications	11,443
Occupancy	139,522
Printing and publications	7,011
Transportation	13,412
Conference and training	39,716
Program supplies	44,077
Insurance	35,747
Specific assistance	7,559
Depreciation	560
Management and general **	374,111
	<hr/>
Total expenses	<u>3,855,871</u>
	<hr/>
Change in net assets	<u>\$ (43,895)</u>

* Contributions included in this statement include unrestricted contributions and restricted contributions for which the restrictions were met in the current year regardless of when the actual contribution was originally received by Sunbeam. Contributions received to repay Educare related debt are not included.

** Management and general expenses are allocated at a rate of 10% of other total program expenses in accordance with Uniform Guidance.

See independent auditor's report.

SUNBEAM FAMILY SERVICES, INC.
SUPPLEMENTARY SCHEDULE OF STATE FINANCIAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>State Grantor / Program Title</u>	<u>Contract Number</u>	<u>Award Period</u>	<u>Award Amount</u>	<u>Total State Revenues and Expenditures Recognized</u>
<u>Oklahoma State Department of Education</u>				
Passed through Community Action Project of Tulsa County, Inc. Oklahoma Early Childhood Program		July 1, 2016 - June 30, 2017	\$ 599,665	\$ 599,665
<u>Oklahoma Department of Human Services</u>				
Supported Foster Care Homes	16014577	July 1, 2016 - June 30, 2017	314,666	314,666
Child Care Subsidy Payments	20533	July 1, 2016 - June 30, 2017	78,489	78,489
Emergency Senior Shelter Program Passed-through Area-Wide Agency	2016 - 2017	July 1, 2016 - June 30, 2017	12,500	12,500
National Family Caregiver Support, Title III, Part E	15004956	July 1, 2016 - June 30, 2017	37,412	37,412
<u>Oklahoma Department of Commerce</u>				
Passed-through Area-Wide Agency Community Expansion of Nutrition Assistance		July 1, 2016 - June 30, 2017	10,000	10,000
				<u>\$ 1,052,732</u>

See independent auditor's report.

REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND THE UNIFORM GUIDANCE



**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
Sunbeam Family Services, Inc.
Oklahoma City, Oklahoma

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 consolidated financial statements of Sunbeam Family Services, Inc. ("Sunbeam") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated 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 December 11, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Sunbeam'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 Sunbeam's internal control. Accordingly, we do not express an opinion on the effectiveness of Sunbeam'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. See Finding 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sunbeam'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

HSPG & ASSOCIATES, PC

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*.

Sunbeam's Response to Findings

Sunbeam's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Sunbeam's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is intended 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 Sunbeam's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sunbeam's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HSPG & Associate, P.C.

December 11, 2017



**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
Sunbeam Family Services, Inc.
Oklahoma City, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Sunbeam Family Services, Inc.'s ("Sunbeam") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Sunbeam's major federal programs for the year ended June 30, 2017. Sunbeam'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 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 each of Sunbeam'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 Sunbeam'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 Sunbeam's compliance.

Opinion on Each Major Federal Program

In our opinion, Sunbeam 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.

HSPG & ASSOCIATES, PC

Report on Internal Control Over Compliance

Management of Sunbeam 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 Sunbeam'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 Sunbeam'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.

HSPG & Associates, P.C.

December 11, 2017

SUNBEAM FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Federal Grantor / Pass- Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed through to Sub-Recipients</u>	<u>Total Federal Expenditures</u>
<u>United States Department of Health and Human Services</u>				
Head Start Cluster:				
Early Head Start - Child Care Partnership	93.600	06HP0035	\$ 1,203,534	\$ 6,138,352
Early Head Start - Child Care Partnership Expansion	93.600	06HP0035	-	112,799
Early Head Start	93.600	06CH7107	-	1,556,292
Passed-through Community Action Agency of Oklahoma City and Oklahoma/Canadian Counties, Inc.				
Head Start	93.600	06CH7196	-	812,334
Head Start cluster total			<u>1,203,534</u>	<u>8,619,777</u>
Passed-through Area-Wide Agency :				
National Family Caregiver Support, Title III, Part E	93.052	15004956	-	122,081
Total U.S. Department of Health and Human Services			<u>1,203,534</u>	<u>8,741,858</u>
<u>Corporation for National and Community Service</u>				
Foster Grandparents / Senior Companion Cluster:				
Senior Companion Program	94.016	16SCWOK001	-	377,454
Foster Grandparent Program	94.011	14SFWOK001	-	223,891
Foster Grandparents / Senior Companion cluster total			<u>-</u>	<u>601,345</u>
<u>United States Department of Agriculture</u>				
Passed-through Oklahoma State Department of Education:				
Child & Adult Care Food Program	10.558	DC-55-240	-	207,249
			<u>\$ 1,203,534</u>	<u>\$ 9,550,452</u>

See notes to the schedule of expenditures of federal awards.

SUNBEAM FAMILY SERVICES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Sunbeam Family Services, Inc. (“Sunbeam”) under programs of the federal government for 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”). Because the schedule presents only a selected portion of the operations of Sunbeam, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Sunbeam.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATES

Sunbeam has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SUNBEAM FAMILY SERVICES, 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(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? yes no

Identification of major programs:

<u>Program / Cluster</u>	<u>CFDA Number</u>
Head Start cluster	93.600

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

Auditee qualified as low-risk auditee? yes no

Section II-Findings Required to be Reported in Accordance with *Government Auditing Standards*:
 See Finding 2017-001.

Section III-Findings Required to be Reported in Accordance with the Uniform Guidance:
 None to report for the June 30, 2017 period.

SUNBEAM FAMILY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

2017-001

Finding: Unconditional Promises to Give

Criteria: Unconditional promises to give are to be recorded when a not-for-profit organization receives verifiable documentation of such awards.

Condition: Sunbeam received an unconditional promise to give from a donor in June 2016 which was recorded as contribution revenue as of June 30, 2016. This same gift was recorded as revenue again in 2017 as contribution payments were received.

Cause: Sunbeam originally recorded the contribution receivable as fiscal year 2017 revenue before it was determined to be fiscal year 2016 revenue during the 2016 audit. Subsequent entries to remove the contribution receivable recorded as of June 30, 2016 were offset to net assets rather than contribution revenue.

Effect: Sunbeam's contribution revenue for the year ended June 30, 2017 was overstated by \$872,818.

Recommendation: Internal controls should be developed to ensure that entries are not recorded to net assets. Procedures should be implemented to ensure net assets roll-forward properly each period.

Response and Corrective Action Plan: Management of Sunbeam agrees with the finding and recommended procedures have been implemented.