PALM BEACH HABILITATION CENTER, INC.

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

For the Year Ended June 30, 2017
(*with comparable totals for 2016*)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Palm Beach Habilitation Center, Inc.
Lake Worth, Florida

We have audited the accompanying financial statements of Palm Beach Habilitation Center, Inc. (a not-for-profit corporation) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Palm Beach Habilitation Center, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional revenues and expenses on pages 20-23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Palm Beach Habilitation Center, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21,2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2017, on our consideration of Palm Beach Habilitation Center, 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 Palm Beach Habilitation Center, Inc.'s internal control over financial reporting and compliance.

Holyfield & Thomas, LLC

West Palm Beach, Florida
December 31, 2017

As of June 30, 2017 ***(with comparable totals for 2016)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Totals	2016 Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 104,635	$ 22,255	$ -	$ 126,890	$ 232,099
Investments	1,758,120	243,387	-	2,001,507	1,859,782
Government agency receivables	389,829	-	-	389,829	307,887
Workshop receivables, net	119,252	-	-	119,252	121,668
Client and other receivables, net	17,816	-	-	17,816	31,518
Prepaid expenses and other assets	50,534	-	-	50,534	45,998
Total current assets	2,440,186	265,642	-	2,705,828	2,598,952
Agency cash	109,843	-	-	109,843	106,197
Property and equipment, net	3,365,827	-	294,349	3,660,176	3,560,106
Total assets	$ 5,915,856	$ 265,642	$ 294,349	$ 6,475,847	$ 6,265,255
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable	$ 69,572	$ -	$ -	$ 69,572	$ 55,559
Accrued salaries and related expenses	260,633	-	-	260,633	241,243
Other accrued liabilities	29,464	-	-	29,464	31,441
Total current liabilities	359,669	-	-	359,669	328,243
Agency payable	109,843	-	-	109,843	106,197
Total liabilities	469,512	-	-	469,512	434,440
Net assets:					
Unrestricted:					
Board designated	1,758,120	-	-	1,758,120	1,758,120
Other	3,688,224	-	-	3,688,224	3,457,470
Restricted	-	265,642	294,349	559,991	615,225
Total net assets	5,446,344	265,642	294,349	6,006,335	5,830,815
Total liabilities and net assets	$ 5,915,856	$ 265,642	$ 294,349	$ 6,475,847	$ 6,265,255

See accompanying notes to financial statements.

For the Year Ended June 30, 2017 ***(with comparable totals for 2016)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Totals	2016 Totals
Support and revenue:					
Fees and grants - governmental agencies	$ 2,940,075	$ -	$ -	$ 2,940,075	$ 2,647,429
PBC BOCC (FAA-programs 1212/1434)	279,091	-	-	279,091	277,370
Contributions, gifts and special events	1,354,799	111,556	-	1,466,355	1,589,344
In-kind contributions	21,729	-	-	21,729	19,754
Sales, cafeteria and thrift store	195,263	-	-	195,263	201,730
Vocational activities	827,671	-	-	827,671	853,370
United Way grant allocations	315,000	-	-	315,000	292,000
Investment income, net	44,600	-	-	44,600	49,241
Realized and change in unrealized gain (loss), net	97,370	-	-	97,370	(30,506)
Client fees	195,664	-	-	195,664	234,328
Other revenue	7,856	-	-	7,856	32,218
Palm Beach County School Board grant	225,000	-	-	225,000	-
Total support and revenue	6,504,118	111,556	-	6,615,674	6,166,278
Net assets released from restrictions	166,790	(166,790)	-	-	-
Expenses:					
Program services	5,615,647	-	-	5,615,647	5,535,605
Supporting services:					
Thrift store and fundraising	512,724	-	-	512,724	539,735
Administration	311,783	-	-	311,783	284,407
Total supporting services	824,507	-	-	824,507	824,142
Total expenses	6,440,154	-	-	6,440,154	6,359,747
Change in net assets	230,754	(55,234)	-	175,520	(193,469)
Net assets, beginning of year	5,215,590	320,876	294,349	5,830,815	6,024,284
Net assets, ending of year	$ 5,446,344	$ 265,642	$ 294,349	$ 6,006,335	$ 5,830,815

See accompanying notes to financial statements.

For the Year Ended June 30, 2017 ***(with comparable totals for 2016)***

	2017	2016
Cash flows from operating activities:		
Cash received from fees and grants - governmental agencies	$ 3,150,926	$ 3,063,266
Cash received from contributions, gifts and special events	1,466,355	1,589,344
Cash received from sales, cafeteria and thrift store	195,263	201,730
Cash received from vocational activities	830,087	901,390
Cash received from other grants and revenues	743,520	558,546
Cash paid for program services and supporting services	(6,145,419)	(6,087,056)
Investment income received, net	44,600	60,422
Interest paid	(3,396)	(4,301)
Net cash provided by operating activities	281,936	283,341
Cash flows from investing activities:		
Purchase of investments	(523,965)	(1,401,142)
Sales of investments	479,610	1,508,169
Purchase of property and equipment	(342,790)	(112,475)
Net cash used in investing activities	(387,145)	(5,448)
Cash flows from financing activities:		
(Payments) advances on line of credit, net	-	(246,789)
Net cash provided by (used in) financing activities	-	(246,789)
Change in cash and cash equivalents	(105,209)	31,104
Cash and cash equivalents, beginning of year	232,099	200,995
Cash and cash equivalents, end of year	$ 126,890	$ 232,099

See accompanying notes to financial statements.

For the Year Ended June 30, 2017 ***(with comparable totals for 2016)***

	2017	2016
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 175,520	$ (193,469)
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation	228,522	248,318
Realized and change in unrealized (gain) loss, net	(97,370)	30,506
Loss on disposal of fixed assets	14,198	-
(Increase) decrease in certain assets:		
Government agency receivables	(81,942)	95,834
Workshop receivables	2,416	48,020
Client and other receivables	13,702	42,633
Prepaid expenses and other assets	(4,536)	(8,764)
Increase (decrease) in certain liabilities:		
Accounts payable	14,013	(7,869)
Accrued salaries and related expenses	19,390	28,132
Other accrued liabilities	(1,977)	-
Net cash provided by operating activities	$ 281,936	$ 283,341

See accompanying notes to financial statements.

For the Year Ended June 30, 2017 ***(with comparable totals for 2016)***

	Program Services	Supporting Services: Thrift Store and Fundraising	Supporting Services: Administration	2017 Totals	2016 Totals
Salary and wages	$ 2,471,712	$ 186,095	$ 689,426	$ 3,347,233	$ 3,260,075
Client salaries	457,544	865	9,884	468,293	459,943
Payroll taxes	228,215	15,414	53,599	297,228	309,076
Employee benefits	452,376	41,781	113,830	607,987	629,550
	3,609,847	244,155	866,739	4,720,741	4,658,644
Advertising	2,267	2,863	3,686	8,816	2,163
Building maintenance and supplies	116,420	3,085	36,468	155,973	145,279
Equipment repair and maintenance	3,850	94	1,791	5,735	3,688
Fees, dues and reference materials	12,397	5,771	32,290	50,458	52,140
Freight and related expense	31,664	1,203	13,665	46,532	22,611
Fundraising venue and related	-	79,236	1,118	80,354	81,314
Insurance	160,300	19,875	45,261	225,436	219,240
Interest	-	-	3,396	3,396	4,301
Legal and audit fees	-	-	51,000	51,000	51,100
Material purchases and program supplies	259,684	15,939	27,724	303,347	323,331
Outside services	8,968	37,265	37,719	83,952	80,519
Printing, computer, and office supplies	34,817	12,621	14,446	61,884	51,299
Rent	33,980	5,152	6,705	45,837	50,508
Security service	16,600	733	441	17,774	14,590
Staff travel, screening, and development	84,698	1,489	21,999	108,186	104,262
Telephone	42,410	2,053	3,925	48,388	45,590
Utilities	125,400	8,239	9,587	143,226	141,691
Vehicles	40,032	2,327	8,238	50,597	59,159
Indirect overhead allocation	827,843	62,328	(890,171)	-	-
	5,411,177	504,428	296,027	6,211,632	6,111,429
Depreciation	204,470	8,296	15,756	228,522	248,318
Total expenses	$ 5,615,647	$ 512,724	$ 311,783	$ 6,440,154	$ 6,359,747

See accompanying notes to financial statements.

1. Business and Summary of Significant Accounting Policies

Organization and Purpose

Palm Beach Habilitation Center, Inc. (the "Center") was established in 1959 to provide adults with disabilities vocational training with meaningful employment opportunities. Since that time, a comprehensive service delivery system has been established which includes the following programs and services: vocational evaluation, employee development training, employment services, supported employment, workshop employment, computer and food service training, case management, residential options, including three group homes, a transitional home, and supported living, senior activity programs, and recreational opportunities.

Vocational contracts in the workshop and mobile work crews generate a portion of the Center's support and revenue. Support and revenue also include income generated from the operation of a resale thrift store, which principally sells donated furniture, home accessories, and clothing. To achieve its mission, the Center is committed to being the following:

- A premier provider of quality rehabilitation, employment, and training opportunities for people with barriers to employment and independence.
- Recognized as a community leader and partner, communicating closely and networking with key community groups to respond to ever-changing social problems and ensure wide use of community resources.
- A quality industrial work program, providing timely and quality delivery of products and services to community businesses and industry.

Nature of the Activities

Programs are currently provided in Palm Beach County, Florida. The Center operates a variety of programs and services and may add additional services to address unmet needs that may exist or arise in its service area. Brief descriptions of the Center's significant programs are as follows:

- *Residential* – The Center provides residential services at three locations that are licensed by the State of Florida Agency for Person with Disabilities. In addition to room and board, these facilities offer care and training that increases or maintains the level of independence of the clients. The Center provides Supporting Living Services to individuals who are able to live independently in the community.
    - JB's Ranch is located in Lake Worth and is currently licensed for ten adults.
    - Babbette Wolff Group Home is located in West Palm Beach and is currently licensed for seven adults.
    - Amy's House is located in the Town of Haverhill, Florida and is currently licensed for six female adults.

- *Supported Employment* – The Center provides supported employment services, which includes activities such as janitorial and food services, allows participants to work in our communities with "coaches" provided by the Center. This ongoing support enables the individuals to move toward greater independence.

1. <u>Business and Summary of Significant Accounting Policies</u>, continued

Nature of the Activities, continued

- *Thrift Store* – The Center has one thrift store located in Lake Worth, Florida. The Center collects donated items from the public and sells them in the thrift store for the benefit of its rehabilitative programs.

- *Adult Day Habilitation/Workshop* – The Center's largest program, offers an assortment of vocational training opportunities. Adults learn to perform packaging, light assembly, and fulfillment services for local businesses. Training opportunities are secured through contracts with local companies and are performed at the main campus in Lake Worth.

Financial Statement Presentation

The Center reports net assets and activity under Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. Under this standard, the Center is required to report 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.

- *Unrestricted net assets* – this classification includes those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Changes in net assets arising from exchange transactions (except income and gains on assets that are restricted by donors or by law) are included in the unrestricted by class.
- *Temporarily restricted net assets* – this classification includes those net assets whose use by the Center has been limited by donors to either a later period of time, after a specified date, or for a specified purpose.
- *Permanently restricted net assets* – this classification includes those net assets that must be maintained by the Center in perpetuity. Permanently restricted net assets increase when the Center receives contributions for which donor-imposed restrictions limit the Center's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the Center meeting certain requirements. As of June 30, 2017, the Center's permanently restricted net assets represented real estate donated by Palm Beach County for the main campus operations and the operation of a group home (see Note 7).

Method of Accounting

The accompanying financial statements of the Center have been prepared on the accrual basis of accounting, whereby support and revenues are recognized when earned, and expenses when the corresponding liability is incurred. State and local government and public grants are recorded as support when performance occurs under the terms of the grant agreement. The costs of providing the various programs and other activities have been detailed in the Statement of Functional Expenses. Expenses associated with a specific program are charged directly to that program. Expenses which benefit more than one program are allocated based on the relative benefit provided. Administrative expenses are allocated to various programs based on each program's relative salary expense.

1. __Business and Summary of Significant Accounting Policies__, continued

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Center considers all highly liquid investments available for current use with original maturities of three months or less to be cash equivalents. However, cash and cash equivalents maintained by the Center's investment managers are part of the Center's long-term investment policy and are classified as investments.

Investments

Investments include a balanced allocation of money market funds, fixed income obligations, equity securities, and mutual funds presented at fair value, with the resulting realized and change in unrealized gains and losses included in the Statement of Activities. Fair value is determined by quoted market prices as of June 30, 2017. Security transactions and related expenses are accounted for on a trade-date basis. Investment income attributable to temporarily restricted net assets is shown in the unrestricted column when the associated restrictions are met in the same reporting period as the income earned. Investment income is reported net of related expenses, such as investment management fees. Investment management fees for the year ended June 30, 2017 were approximately $10,000.

The Center's investment and cash management objectives and policies have been to provide: (a) sufficient liquidity to meet cash flow obligations, (b) sufficient income to meet budgeted requirements and, (c) preservation of capital. In order to meet its objectives (principally liquidity), the Center holds its investments in a combination of accounts. The Center retains the ability to revise its policy to specifically identify strategies and spending policies as they relate to the various designation and restricted categories. The Center appropriates funds from the various categories as funds are needed for the identified and designated purpose, or as the Board deems appropriate for program funding.

Government Agency, Workshop, Client, and Other Receivables

Government agency receivables consist of amounts due from government agencies, which contract with the Center for services and are recorded at net realizable value. In addition, the Center frequently extends credit to its workshop customers and its clients, substantially all of whom are located in Palm Beach County. An allowance for uncollectible accounts is based on historical experience, management's knowledge of the various accounts, and the probability of collection. As of June 30, 2017, an allowance for uncollectible accounts of approximately $23,000, is reflected in the Statement of Financial Position for these receivables.

Contributions

The Center accounts for contributions in accordance with the provisions of FASB ASC 958-605, *Not-for-Profit Entities, Revenue Recognition*. In accordance with this guidance, contributed goods and services, which meet certain criteria, are recorded as contributions at their estimated fair value at date of receipt.

1. <u>Business and Summary of Significant Accounting Policies</u>, continued

Contributions, continued

The Center reports gifts as unrestricted support unless they are received with donor stipulations that limit the use of the gift. When a donor restriction expires, that is, a stipulated time restriction ends or a purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. However, if the restriction is met in the same period as the restricted income is received, the Center classifies such income as unrestricted support. Approximately $22,000 of donated goods and services were included in contributions in the Statement of Activities for the year ended June 30, 2017.

Property and Equipment

Property and equipment are stated at cost if purchased, or at fair value if donated, and depreciated on the straight-line basis over the estimated useful lives of four to forty years. Donated property and equipment are reported as unrestricted support, unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, except for permanently restricted assets (see Note 7), the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service, as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time. Costs of major renewals and improvements in excess of $500 that extend the useful lives are capitalized. Maintenance and repairs are charged to expense as incurred.

Accrued Time Off

All full-time and part-time employees who work a regular schedule shall be granted paid time off (PTO) for purpose of vacations and personal business or family situations. The accrual is graded based on full-time or part-time status and on the number of years worked. Part-time employees are eligible at a pro-rated level upon completion of six consecutive month's tenure.

A maximum of 320 hours of unused PTO can be carried over from one year to the next. Upon resignation, in good standing, a maximum of 80 hours may be paid to regular full-time employees and a maximum of 40 hours may be paid to regular part-time employees. In the event of termination, no accrued PTO will be paid. As of June 30, 2017, approximately $102,000 of accrued PTO is reflected in accrued salaries and related expenses in the Statement of Financial Position.

Agency Payable - Intermediary Transactions

In connection with its supportive living programs, the Center follows FASB ASC 958-605, *Not-for-Profit Entities, Revenue Recognition,* to account for agency transaction funds with its clients. The Center has no discretionary powers over the funds and is to make payments as directed for the benefit of the client. In the acceptance of these funds, the Center recognized designated cash and an agency payable in the Statement of Financial Position.

1. <u>Business and Summary of Significant Accounting Policies</u>, continued

Contributed Services

Many unpaid volunteers have made significant contributions of their time to develop and maintain the Center's programs. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. Volunteers provided services throughout the year but are not recognized as contributions in the financial statements since the recognition criteria was not met.

Income Taxes

The Center is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A), and has been classified as an organization other than a private foundation under Section 509(a)(2). Amounts considered to be unrelated business income, if any, are taxed net of related expenses at corporate rates. The Center did not have any unrelated business income for the year ended June 30, 2017, and there is no provision for income taxes reflected in the accompanying financial statements.

The Center follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. This standard seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. It prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. An entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. The Center assesses its income tax positions based on management's evaluation of the facts, circumstances, and information available at the reporting date. The Center uses the prescribed more likely than not threshold when making its assessment. There are currently no open Federal or State tax years under audit.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparable Financial Information

The financial statements include certain prior-year summarized comparable information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2016, from which the summarized information was derived. Certain 2016 amounts may have been reclassified to conform to 2017 classifications. Such reclassifications would have no effect on the change in net assets as previously reported.

1. Business and Summary of Significant Accounting Policies, continued

Advertising Expense

The Center expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2017 was approximately $8,800 and consisted principally of job postings, workshop brochures, and business cards.

Recent Accounting Pronouncements

The Financial Accounting Standards Board recently issued several Accounting Standards Updates (ASUs) that affect the accounting and reporting of not-for-profit entities. The FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issue Costs (Topic 958)*, to alter the reporting of debt issue costs, which will be reported net against the related liability, versus the previous guidance that capitalized and reflected such costs as an intangible asset. This ASU is effective for the Center's current fiscal year and does not have a material effect on its financial accounting and reporting. ASU 2016-02, *Leases (Topic 842)*, does not take effect until the Center's fiscal year ending June 2021, and provides new guidance for leases, such that virtually all leases will be capitalized and create "right of use" assets along with associated liabilities. This standard will impact the interpretation of certain Center transactions, and management is evaluating the effect that the updated standard will have on the financial statements. ASU 2016-14, *Not-for-Profit Entities (Topic 958)*, imposes new requirements for the presentation and disclosure of not-for-profit financial statements, including a reduction in the number of net asset categories from 3 classes to 2 classes, a requirement to present a statement of functional expenses, a requirement to disclose the quantitative and qualitative aspects of its liquidity, in addition to other provisions. This ASU will be effective for the Center's fiscal year ending June 30, 2019, with early implementation permitted. As with the new guidance on leasing, management is evaluating the effect that this updated standard will have on the financial statements.

2. Fair Value Measurement

Fair Value Measurement and Disclosures

The Center follows FASB ASC 820, *Fair Valuation Measurement*. This standard defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements of financial instruments.

The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). If inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level of input that is significant to the fair value measurement of the instrument.

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Center has the ability to access.

2. <u>Fair Value Measurement</u>, continued

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities of similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The methods and assumptions used by the Center in measuring the fair value of financial instruments under FASB ASC 820 are presented below. There has been no change in the methodologies used as of June 30, 2017.

Financial instruments measured at fair value in these financial statements consist of the following:

- *Investments* – are valued based on quoted market prices according to Level 1.

The fair value of financial instruments is reported using the input guidance and valuation techniques on a recurring basis described above.

Investments as of June 30, 2017, consisted of the following:

Assets reported at fair value	Level 1 Fair Value	Cost	Unrealized Gain (loss)
Cash and cash equivalents	$ 27,052	$ 27,052	$ -
Corporate obligations	565,060	570,476	(5,416)
Indexed equity shares	801,395	708,738	92,657
Mutual funds-fixed income	608,000	601,390	6,610
	$ 2,001,507	$ 1,907,656	$ 93,851

The following methods and assumptions were used by the Center in estimating the fair value of financial instruments that are not disclosed under FASB ASC 820:

- *Current assets and liabilities* – the carrying amount for cash, government, workshop, client and other receivables, and accounts payable and accrued expenses approximates fair value due to the short-term nature of those instruments.
- *Line of credit* – the carrying amount approximates fair value because the interest rate attributable to that instrument is deemed to be a market rate.

3. <u>Government Agency, Workshop, and Client Receivables</u>

Government agency, workshop, and client receivables as of June 30, 2017 consisted of the following:

Government agency receivables	$ 389,829
Workshop receivables	$ 125,452
Less allowance for uncollectible accounts	6,200
	$ 119,252

3. Government Agency, Workshop, and Client Receivables, continued

Client and other receivables	$	34,316
Less allowance for uncollectible accounts		16,500
	$	17,816

4. Prepaid Expenses and Other Assets

Prepaid expenses and other assets as of June 30, 2017 consisted of the following:

Prepaid insurance	$	25,088
Other prepaid expenses		23,446
Other assets		2,000
	$	50,534

5. Property and Equipment

Property and equipment as of June 30, 2017, consisted of the following:

Land	$	468,049
Buildings		5,554,032
Paving and landscape		139,561
Furniture and fixtures		205,188
Equipment and machinery		858,543
Automobiles and trucks		573,816
		7,799,189
(Less) accumulated depreciation		(4,207,366)
Plus construction in process (not depreciated)		68,353
	$	3,660,176

Construction in process as of June 30, 2017 includes costs associated with the potable water and sewer connection to JB's Ranch. The Florida Agency for Persons with Disabilities (APD) is the primary funder on this project along with a roof project, that was completed during the year. APD has a mortgage lien in place until completion. On September 30, 2016, the Center signed a capital outlay grant contract with the Florida Agency for Persons with Disabilities (APD) for approximately $650,000. The purpose of the grant is to replace the roof on the Center's main Administration Building, and to bring potable water and sewer connection to JB's Ranch. To facilitate this grant, the Center provided a lien of 5 years to APD on all rights, title and interest in and to the Center's land and real properties: The Center, 4522 South Congress Avenue, Lake Worth, FL 33461 and JB's Ranch, 5203 Colbright Road, Lake Worth, FL 33467.

6. Line of Credit

The Center received a commitment from a financial institution for a $250,000 unsecured line of credit to be used for general short-term working capital requirements. Monthly interest only payments are due at prime rate, as published in the Wall Street Journal. The effective rate was 4.0% as of June 30, 2017. The unpaid principal balance plus accrued interest is due on demand or on September 10, 2018. There was no outstanding balance on this obligation as of June 30, 2017.

7. Board Designated and Restricted Net Assets

Board Designated

The Center's Board designates funds from time to time for a variety of purposes associated with preserving the Center or supporting a specific Center purpose.

The designated net assets consisted of the following as of June 30, 2017:

General reserve	$ 1,673,120
Hurricane reserve	85,000
	$ 1,758,120

Temporarily Restricted

In connection with the administration of programs, the Center receives donated funds, which are restricted either to a specified time period or for a specific purpose. Temporarily restricted net assets consisted of the following as of June 30, 2017:

Centurions – capital projects	$ 53,580
Hab-a-Hearts - events	46,111
Business ventures – entrepreneurial projects	60,677
Client assistance and other funds	105,274
	$ 265,642

Permanently Restricted

On May 27, 1968, Palm Beach County (the "County") deeded land to the Center on which its administrative office and workshop facilities are located. The County restricted the use of this land for providing educational and recreational activities to individuals with disabilities. The Center uses the property in accordance with the intended purpose and reports the land as a permanently restricted net asset.	$ 125,149
On July 10, 2001, the County deeded land to the Center to be used as a residential facility. The County restricted the use of the land such that the Center cannot sell, mortgage, or encumber it in any manner without approval from the County. The Center uses the property in accordance with the intended purpose and reports the land as a permanently restricted net asset.	169,200
	$ 294,349

8. Defined Contribution Annuity Plan

The Center established a tax-sheltered annuity on a non-qualified participatory basis under Section 403(b) of the Internal Revenue Code, effective January 1, 1996. Employees become eligible to participate in the plan's discretionary match on their one-year anniversary date of employment. The plan provides for a discretionary match by the Center of the amount of employee contributions up to a maximum of 5% of compensation; tiered for years of service. The Center's contribution to the plan for the year ended June 30, 2017 was approximately $56,000.

9. Leases

The Center leases certain equipment under operating leases. Future minimum rental payments under noncancelable operating leases for each year under lease are approximately:

2018	$	29,900
2019		27,200
2020		4,500
	$	61,600

Rental expense for the year ended June 30, 2017 was approximately $46,000.

10. Concentrations and Contingencies

The Center receives the majority of its funding from public sources and is dependent upon the availability of Federal, State, and County grants and awards for its continued existence. The Center currently receives approximately 78% of its governmental funding from the Agency For Persons With Disabilities and a combined 19% from the Department of Vocational Rehabilitation and Palm Beach County. A significant reduction in the level of this support, if it were to occur, would have a material effect on the Center's programs and activities.

The Center does not appear subject to significant credit risk with respect to its accounts receivable, as government agency receivables account for approximately 71% of outstanding receivables. Furthermore, principal account debtors are the Agency for Persons with Disabilities, which accounts for approximately 24% of the total outstanding balance, and the Department of Vocational Rehabilitation and Palm Beach County, which accounts for approximately 21% of the outstanding balance. The remaining balance of its receivables is owed by a variety of organizations or companies.

The Center maintains its cash balances in one financial institution located in Lake Worth, Florida. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of June 30, 2017, the Center had approximately $31,000 in excess of FDIC insured limits.

11. Subsequent Events

Date of Management Evaluation

Management has evaluated subsequent events through December 31, 2017, the date on which the financial statements were available to be issued, and determined that there were no events to disclose in these financial statements.

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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 of
Palm Beach Habilitation Center, Inc.
Lake Worth, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palm Beach Habilitation Center, Inc. (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Palm Beach Habilitation Center, 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 Palm Beach Habilitation Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Palm Beach Habilitation Center, 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 functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palm Beach Habilitation Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We did identify other matters that have been reported in a separate letter dated December 31, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Holyfield & Thomas, LLC

West Palm Beach, Florida
December 31, 2017

SUPPLEMENTARY INFORMATION

PALM BEACH HABILITATION CENTER, INC.

For the Year Ended June 30, 2017

	Work Crews	ASAP	Case Management	Seniors
Support and revenues:				
Fees and grants - Government agencies	$ -	$ 164,094	$ 90,781	$ 146,396
PBC BOCC (FAA-programs 1385/1693)	-	-	-	208,200
Contributions, gifts and special events less capital contributions	82,344	-	-	2,150
In-kind contributions	-	-	-	-
Sales, cafeteria and thrift store	-	-	-	-
Vocational activities	492,181	-	-	-
United Way grant allocations	50,000	-	90,000	-
Investment income, net	-	-	-	-
Realized and change in unrealized gain (loss), net	-	-	-	-
Client fees		10,450	-	16,744
Other revenue	-	20	43	14
Palm Beach County School Board grant	-	-	-	-
Total support and revenues before capital contributions	624,525	174,564	180,824	373,504
Total support and revenues	624,525	174,564	180,824	373,504
Expenses:				
Salary and wages	216,058	141,650	158,123	147,954
Client salaries	187,872	-	-	-
Payroll taxes	35,907	12,466	13,546	12,279
Employee benefits & other related expenses	39,447	27,525	28,218	31,434
	479,284	181,641	199,887	191,667
Advertising	333	365	390	-
Building maintenance and supplies	10,852	7,896	2,815	5,176
Equipment repair and maintenance	27	206	309	483
Fees, dues and reference materials	211	613	343	573
Freight and related expense	1,226	670	535	804
Fundraising venue and other related	-	-	-	-
Insurance	19,625	5,772	5,110	32,660
Interest	-	-	-	-
Legal and audit fees	-	-	-	-
Material purchases and program supplies	14,423	8,855	1,254	21,535
Outside services	186	22	18	216
Printing, computer, and office supplies	196	2,782	1,235	2,661
Rent	414	1,149	2,464	497
Security service	31	317	226	491
Staff travel, screening, and development	2,228	643	785	2,003
Telephone	3,153	1,430	998	1,150
Utilities	3,061	6,949	4,351	6,738
Vehicles	14,277	-	713	7,516
Indirect overhead allocation	72,364	47,442	52,960	49,554
	621,891	266,752	274,393	323,724
Net excess (deficiency) before depreciation	2,634	(92,188)	(93,569)	49,780
Depreciation	8,965	12,255	3,257	4,881
Net excess (deficiency)	$ (6,331)	$ (104,443)	$ (96,826)	$ 44,899

See independent auditor's report.

SAMH	Supported Living	Supported Employment	Computer Lab	Evaluation	Work Production
$ 99,585	$ 124,424	$ 477,363	$ -	$ 51,570	$ 738,880
-	-	-	70,891	-	-
-	-	-	4,000	-	500
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	335,490
-	42,000	65,000	-	-	68,000
-	-	-	-	-	-
-	-	-	-	-	-
-	23,215	-	-	-	28,637
-	47	-	-	2	52
-	-	131,445	-	-	93,555
99,585	189,686	673,808	74,891	51,572	1,265,114
99,585	189,686	673,808	74,891	51,572	1,265,114
46,365	151,160	381,093	57,546	26,786	495,756
-	66	-	-	1,468	190,549
3,911	12,676	32,079	4,705	2,345	42,616
7,926	25,516	81,539	13,365	830	96,121
58,202	189,418	494,711	75,616	31,429	825,042
-	198	-	-	-	582
1,043	5,206	6,788	640	1,120	19,937
28	31	85	19	28	888
164	737	623	412	194	2,680
269	1,205	939	134	269	23,996
-	-	-	-	-	-
1,882	7,210	11,025	1,615	1,510	33,945
-	-	-	-	-	-
-	-	-	-	-	-
15	1,619	53	323	494	19,575
9	40	31	1,582	509	141
96	3,052	1,238	9,890	162	4,027
3,065	1,931	6,377	1,325	1,351	11,945
123	446	416	67	123	4,244
3,455	18,572	44,118	10	21	4,793
774	4,636	4,241	249	499	9,070
2,086	9,386	7,301	1,043	2,086	33,599
-	-	-	-	-	5,166
15,529	50,628	127,638	19,274	8,971	166,042
86,740	294,315	705,584	112,199	48,766	1,165,672
12,845	(104,629)	(31,776)	(37,308)	2,806	99,442
1,640	7,308	5,714	812	1,640	29,459
$ 11,205	$ (111,937)	$ (37,490)	$ (38,120)	$ 1,166	$ 69,983

See independent auditor's report.

PALM BEACH HABILITATION CENTER, INC.

For the Year Ended June 30, 2017

	Cafeteria	JB's Ranch Group Home	Babbette Wolff Group Home	Amy's House Group Home
Support and revenues:				
Fees and grants - Government agencies	$ -	$ 384,550	$ 294,888	$ 215,552
PBC BOCC (FAA-programs 1385/1693)	-	-	-	-
Contributions, gifts and special events less capital contributions	219,656	25,000	-	50,050
In-kind contributions	-	-	-	-
Sales, cafeteria and thrift store	69,388	-	-	-
Vocational activities	-	-	-	-
United Way grant allocations	-	-	-	-
Investment income, net	-	-	-	-
Realized and change in unrealized gain, net	-	-	-	-
Client fees	8,678	100,396	6,068	1,476
Other revenue	-	78	100	103
Palm Beach County School Board grant	-	-	-	-
Total support and revenues before capital contributions	297,722	510,024	301,056	267,181
Total support and revenues	297,722	510,024	301,056	267,181
Expenses:				
Salary and wages	78,842	247,561	195,792	127,026
Client salaries	77,589	-	-	-
Payroll taxes	6,488	21,490	16,993	10,714
Employee benefits	7,961	47,822	26,551	18,121
	170,880	316,873	239,336	155,861
Advertising	399	-	-	-
Building maintenance and supplies	12,409	14,529	15,677	12,332
Equipment repair and maintenance	575	341	765	65
Fees, dues and reference materials	1,455	1,381	1,355	1,656
Freight and related expense	1,604	-	-	13
Fundraising venue and other related	-	-	-	-
Insurance	7,958	10,753	10,213	11,022
Interest	-	-	-	-
Legal and audit fees	-	-	-	-
Material purchases and program supplies	104,064	40,336	24,218	22,920
Outside services	340	4,017	1,808	49
Printing, computer and office supplies	833	3,811	2,959	1,875
Rent	3,462	-	-	-
Security service	826	2,347	3,500	3,443
Staff travel, screening, and development	1,359	2,691	2,846	1,174
Telephone	3,430	3,581	5,913	3,286
Utilities	15,741	11,847	13,181	8,031
Vehicles	-	4,035	4,748	3,577
Indirect overhead allocation	26,406	82,915	65,576	42,544
	351,741	499,457	392,095	267,848
Net excess (deficiency) before depreciation	(54,019)	10,567	(91,039)	(667)
Depreciation	9,784	42,628	41,779	34,348
Net excess (deficiency)	$ (63,803)	$ (32,061)	$ (132,818)	$ (35,015)

See independent auditor's report.

SCHEDULE OF FUNCTIONAL REVENUES AND EXPENSES

(with comparable totals for 2016)

Total Program Services	Thrift Store	Fundraising	Administration	Total Supporting Services	2017 Totals	2016 Totals
$ 2,788,083	$ -	$ -	$ 151,992	$ 151,992	$ 2,940,075	$ 2,647,429
279,091	-	-	-	-	279,091	277,370
383,700	-	1,041,021	41,634	1,082,655	1,466,355	1,589,344
-	-	21,729	-	21,729	21,729	19,754
69,388	125,875	-	-	125,875	195,263	201,730
827,671	-	-	-	-	827,671	853,370
315,000	-	-	-	-	315,000	292,000
-	-	44,600	-	44,600	44,600	49,241
-	-	-	97,370	97,370	97,370	(30,506)
195,664	-	-	-	-	195,664	234,328
459	192	4,795	2,410	7,397	7,856	32,218
225,000	-	-	-	-	225,000	-
5,084,056	126,067	1,112,145	293,406	1,531,618	6,615,674	6,166,278
5,084,056	126,067	1,112,145	293,406	1,531,618	6,615,674	6,166,278
2,471,712	71,578	114,517	689,426	875,521	3,347,233	3,260,075
457,544	865	-	9,884	10,749	468,293	459,943
228,215	6,143	9,271	53,599	69,013	297,228	309,076
452,376	13,835	27,946	113,830	155,611	607,987	629,550
3,609,847	92,421	151,734	866,739	1,110,894	4,720,741	4,658,644
2,267	-	2,863	3,686	6,549	8,816	2,163
116,420	3,676	(591)	36,468	39,553	155,973	145,279
3,850	75	19	1,791	1,885	5,735	3,688
12,397	3,527	2,244	32,290	38,061	50,458	52,140
31,664	934	269	13,665	14,868	46,532	22,611
-	-	79,236	1,118	80,354	80,354	81,314
160,300	16,613	3,262	45,261	65,136	225,436	219,240
-	-	-	3,396	3,396	3,396	4,301
-	-	-	51,000	51,000	51,000	51,100
259,684	1,351	14,588	27,724	43,663	303,347	323,331
8,968	30	37,235	37,719	74,984	83,952	80,519
34,817	616	12,005	14,446	27,067	61,884	51,299
33,980	3,624	1,528	6,705	11,857	45,837	50,508
16,600	620	113	441	1,174	17,774	14,590
84,698	249	1,240	21,999	23,488	108,186	104,262
42,410	1,554	499	3,925	5,978	48,388	45,590
125,400	6,153	2,086	9,587	17,826	143,226	141,691
40,032	2,327	-	8,238	10,565	50,597	59,159
827,843	23,973	38,355	(890,171)	(827,843)	-	-
5,411,177	157,743	346,685	296,027	800,455	6,211,632	6,111,429
(327,121)	(31,676)	765,460	(2,621)	731,163	404,042	54,849
204,470	6,656	1,640	15,756	24,052	228,522	248,318
$ (531,591)	$ (38,332)	$ 763,820	$ (18,377)	$ 707,111	$ 175,520	$ (193,469)

See independent auditor's report.