PALM BEACH HABILITATION CENTER, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(*with comparable totals for 2017*)

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 31, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 February 13, 2019, 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
February 13, 2019

As of June 30, 2018 ***(with comparable totals for 2017)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Totals	2017 Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 123,366	$ 257,193	$ -	$ 380,559	$ 126,890
Investments	1,443,416		-	1,443,416	2,001,507
Government agency receivables	509,126	-	-	509,126	389,829
Workshop receivables, net	250,185	-	-	250,185	119,252
Client and other receivables, net	32,985	-	-	32,985	17,816
Prepaid expenses and other assets	35,078	7,945	-	43,023	50,534
Total current assets	2,394,156	265,138	-	2,659,294	2,705,828
Agency cash	94,956	-	-	94,956	109,843
Security deposit	36,000	-	-	36,000	-
Property and equipment, net	3,892,088	-	294,349	4,186,437	3,660,176
Total assets	$ 6,417,200	$ 265,138	$ 294,349	$ 6,976,687	$ 6,475,847
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable	$ 83,903	$ -	$ -	$ 83,903	$ 69,572
Accrued salaries and related expenses	264,894	-	-	264,894	260,633
Other accrued liabilities	32,062	-	-	32,062	29,464
Operating line of credit	243,453	-	-	243,453	-
Construction line of credit	395,000	-	-	395,000	-
Total current liabilities	1,019,312	-	-	1,019,312	359,669
Agency payable	94,956	-	-	94,956	109,843
Severance payable	142,585			142,585	160,585
Total liabilities	1,256,853	-	-	1,256,853	630,097
Net assets:					
Unrestricted:					
Board designated	1,758,120	-	-	1,758,120	1,758,120
Other	3,402,227	-	-	3,402,227	3,527,639
Restricted	-	265,138	294,349	559,487	559,991
Total net assets	5,160,347	265,138	294,349	5,719,834	5,845,750
Total liabilities and net assets	$ 6,417,200	$ 265,138	$ 294,349	$ 6,976,687	$ 6,475,847

See accompanying notes to financial statements.

For the Year Ended June 30, 2018 ***(with comparable totals for 2017)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Totals	2017 Totals
Support and revenue:					
Fees and grants - governmental agencies	$ 2,837,494	$ -	$ -	$ 2,837,494	$ 2,940,075
PBC BOCC (FAA-programs 1212/1434)	289,462	-	-	289,462	279,091
Palm Beach County School Board grant	225,000	-	-	225,000	225,000
Contributions, gifts and special events	1,432,667	-	-	1,432,667	1,466,355
In-kind contributions	35,473	-	-	35,473	21,729
Sales, cafeteria and thrift store	194,805	-	-	194,805	195,263
Vocational activities	865,133	-	-	865,133	827,671
United Way grant allocations	331,349	-	-	331,349	315,000
Investment income, net	51,287	-	-	51,287	44,600
Gain on sale of property	35,962			35,962	-
Realized and change in unrealized gain (loss) investments, net	31,201	-	-	31,201	97,370
Client fees	201,429	-	-	201,429	195,664
Other revenue	13,136	-	-	13,136	7,856
Total support and revenue	6,544,398	-	-	6,544,398	6,615,674
Net assets released from restrictions	504	(504)	-	-	-
Expenses:					
Program services	5,868,734	-	-	5,868,734	5,615,647
Supporting services:					
Thrift store and fundraising	538,764	-	-	538,764	512,724
Administration	262,816	-	-	262,816	472,368
Total supporting services	801,580	-	-	801,580	985,092
Total expenses	6,670,314	-	-	6,670,314	6,600,739
Change in net assets	(125,412)	(504)	-	(125,916)	14,935
Net assets, beginning of year, as restated	5,285,759	265,642	294,349	5,845,750	5,830,815
Net assets, ending of year	$ 5,160,347	$ 265,138	$ 294,349	$ 5,719,834	$ 5,845,750

See accompanying notes to financial statements.

For the Year Ended June 30, 2018 ***(with comparable totals for 2017)***

	2018	2017
Cash flows from operating activities:		
Cash received from fees and grants - governmental agencies	$ 3,217,490	$ 3,150,926
Cash received from contributions, gifts and special events	1,432,667	1,466,355
Cash received from sales, cafeteria and thrift store	194,805	195,263
Cash received from vocational activities	734,200	830,087
Cash received from other grants and revenues	545,914	743,520
Cash paid for program services and supporting services	(6,424,100)	(6,145,419)
Investment income received, net	51,287	44,600
Interest paid	(7,870)	(3,396)
Net cash (used in)/provided by operating activities	(255,607)	281,936
Cash flows from investing activities:		
Purchase of investments	(1,039,127)	(523,965)
Sales of investments	1,628,419	479,610
Purchase of property and equipment (including construction in progress)	(732,469)	(342,790)
Proceeds from sale of property	50,000	-
Security deposit for construction	(36,000)	-
Net cash used in investing activities	(129,177)	(387,145)
Cash flows from financing activities:		
(Payments) advances on operating line of credit, net	243,453	-
Advances on construction line of credit	395,000	-
Net cash provided by financing activities	638,453	-
Change in cash and cash equivalents	253,669	(105,209)
Cash and cash equivalents, beginning of year	126,890	232,099
Cash and cash equivalents, end of year	$ 380,559	$ 126,890

See accompanying notes to financial statements.

For the Year Ended June 30, 2018 ***(with comparable totals for 2017)***

	2018	2017
Reconciliation of change in net assets to net cash (used in)/provided by operating activities:		
Change in net assets	$ (125,916)	$ 14,935
Adjustments to reconcile change in net assets to cash flows (used in)/provided by operating activities:		
Depreciation	197,914	228,522
Realized and change in unrealized (gain) loss, net	(31,201)	(97,370)
Loss on disposal of fixed assets	1,843	14,198
Gain on sale of property	(35,962)	-
In-kind donation of fixed asset	(7,587)	-
(Increase) decrease in certain assets:		
Government agency receivables	(119,297)	(81,942)
Workshop receivables	(130,933)	2,416
Client and other receivables	(15,169)	13,702
Prepaid expenses and other assets	7,511	(4,536)
Increase (decrease) in certain liabilities:		
Accounts payable	14,331	14,013
Accrued salaries and related expenses	4,261	19,390
Other accrued liabilities	2,598	(1,977)
Severance payable	(18,000)	160,585
Net cash (used in)/provided by operating activities	$ (255,607)	$ 281,936

See accompanying notes to financial statements.

For the Year Ended June 30, 2018 ***(with comparable totals for 2017)***

	Program Services	Supporting Services: Thrift Store and Fundraising	Supporting Services: Administration	2018 Totals	2017 Totals
Salary and wages	$ 2,664,049	$ 185,569	$ 643,233	$ 3,492,851	$ 3,348,164
Client salaries	451,245	324	10,510	462,079	463,286
Payroll taxes	257,494	15,675	53,462	326,631	301,294
Employee benefits	511,130	36,442	94,241	641,813	768,582
	3,883,918	238,010	801,446	4,923,374	4,881,326
Advertising	6,828	2,210	809	9,847	8,816
Building maintenance and supplies	117,890	5,674	63,390	186,954	155,973
Equipment repair and maintenance	6,393	40	148	6,581	5,735
Fees, dues and reference materials	14,772	7,485	30,942	53,199	50,258
Freight and related expense	23,160	780	1,432	25,372	46,532
Fundraising venue and related	98	94,136	-	94,234	80,354
Insurance	169,847	19,906	42,650	232,403	225,436
Interest	-	-	7,870	7,870	3,396
Legal and audit fees	100	35	57,542	57,677	51,200
Material purchases and program supplies	222,640	10,240	38,445	271,325	303,722
Outside services	14,110	68,609	22,898	105,617	83,952
Printing, computer, and office supplies	23,696	9,603	37,646	70,945	61,509
Rent	33,423	2,845	13,342	49,610	45,837
Security service	13,533	1,205	1,835	16,573	17,774
Staff travel, screening, and development	87,403	1,817	12,170	101,390	108,186
Telephone	50,832	2,023	3,967	56,822	48,868
Utilities	131,936	8,127	9,831	149,894	142,746
Vehicles	47,996	1,044	3,673	52,713	50,597
Indirect overhead allocation	842,794	58,706	(901,500)	-	-
	5,691,369	532,495	248,536	6,472,400	6,372,217
Depreciation	177,365	6,269	14,280	197,914	228,522
Total expenses	$ 5,868,734	$ 538,764	$ 262,816	$ 6,670,314	$ 6,600,739

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, 2018, 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. <u>Business and Summary of Significant Accounting Policies</u>, 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, 2018. 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, 2018 were approximately $9,000.

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, 2018, 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. Business and Summary of Significant Accounting Policies, 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 $35,000 of donated goods and services were included in contributions in the Statement of Activities for the year ended June 30, 2018 with approximately $28,000 for repairs and maintenance items including landscaping, pest control, and lift station maintenance, and the remaining $7,000 applied to the STARS building expansion, which was capitalized.

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 $1,000 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, 2018, approximately $110,000 of accrued PTO is reflected in accrued salaries and related expenses in the Statement of Financial Position.

1. __Business and Summary of Significant Accounting Policies__, continued

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.

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, 2018, 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.

1. Business and Summary of Significant Accounting Policies, continued

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, 2017, from which the summarized information was derived. Certain 2017 amounts may have been reclassified to conform to 2018 classifications. Such reclassifications would have no effect on the change in net assets as previously reported.

Advertising Expense

The Center expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2018 was approximately $9,800 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 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. 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.

2. Fair Value Measurement, continued

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.

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, 2018.

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, 2018, consisted of the following:

Assets reported at fair value	Level 1 Fair Value	Cost	Unrealized Gain (loss)
Cash and cash equivalents	$ 29,406	$ 29,406	$ -
Corporate obligations	99,952	104,533	(4,581)
Fixed income – EFT & mutual funds	649,300	653,356	(4,056)
Equities – ETF & mutual funds	664,758	580,529	84,229
	$ 1,443,416	$ 1,367,824	$ 75,592

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.
- *Lines of credit* – the carrying amount approximates fair value because the interest rate attributable to that instrument is deemed to be a market rate.

3. Government Agency, Workshop, and Client Receivables

Government agency, workshop, and client receivables as of June 30, 2018 consisted of the following:

Government agency receivables	$	509,126
Workshop receivables	$	256,385
Less allowance for uncollectible accounts		6,200
	$	250,185
Client and other receivables	$	49,485
Less allowance for uncollectible accounts		16,500
	$	32,985

4. Prepaid Expenses and Other Assets

Prepaid expenses and other assets as of June 30, 2018 consisted of the following:

Prepaid insurance	$	24,118
Other prepaid expenses		16,905
Other assets		2,000
	$	43,023

5. Property and Equipment

Property and equipment as of June 30, 2018, consisted of the following:

Land	$	841,991
Buildings		5,822,419
Paving and landscape		148,483
Furniture and fixtures		186,615
Equipment and machinery		796,891
Automobiles and trucks		571,901
		8,368,300
(Less) accumulated depreciation		(4,307,687)
Plus construction in process (not depreciated)		125,824
	$	4,186,437

Construction in process as of June 30, 2018 includes costs associated with the potable water and sewer connection to JB's Ranch, the PACE building, the new Memory Care Group Home, and website project. There is also a $36,000 security deposit associated with the construction of the New Group Home. The Florida Agency for Persons with Disabilities (APD) is the primary funder on the JB's Ranch project along with a roof project, that was completed during the prior 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. Lines 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 5.0% as of June 30, 2018. The unpaid principal balance plus accrued interest is due on demand or on September 10, 2019. As of June 30, 2018, there was approximately $6,500 of unused balance on this operating line of credit.

The Center also received a commitment from the Housing Finance Authority of Palm Beach County for a $1,000,000 line of credit to be used to fund the JB's Ranch Project and for the construction of the new Memory Care Group Home. Monthly interest only payments are due at a 1.0% annual rate, as long as the loan is repaid by June 30, 2019. Should the final maturity of the loan extend beyond that date, the loan shall bear interest at a rate of 2.0% annually, retroactive to the date of the initial advance. The collateral for this loan is the investments as reflected on the statement of financial position. As of June 30, 2018, there was approximately $605,000 of unused balance on this construction line of credit.

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, 2018:

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, 2018:

Centurions – capital projects	$ 4,509
Hab-a-Hearts - events	32,399
Business ventures – entrepreneurial projects	30,780
Client assistance and other funds	197,450
	$ 265,138

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

7. Board Designated and Restricted Net Assets, continued

Permanently Restricted, continued

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 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, 2018 was approximately $50,000.

9. Severance Payable

In accordance with an approved agreement entered into in a prior fiscal year, the Center is obligated to pay their former Executive Director an additional retirement benefit in excess of payments received under the Center's 403(b) Plan. The Center is required to pay $1,500 a month for the remainder of the prior Executive Director's life, or $18,000 a year. A liability was added to the books as of the prior fiscal year end of June 30, 2017 at its estimated present. The 2017 financial statements were restated to reflect this liability on the books. See prior period adjustment at note 12.

10. Leases

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

2019	$ 20,000
2020	19,900
2021	18,600
2022	16,800
2023	9,800
	$ 85,100

Rental expense for the year ended June 30, 2018 was approximately $50,000.

11. 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 13% 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 63% of outstanding receivables. Furthermore, principal account debtors are the Agency for Persons with Disabilities, which accounts for approximately 31% of the total outstanding balance, and the Department of Vocational Rehabilitation and Palm Beach County, which accounts for approximately 20% 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, 2018, the Center had approximately $267,000 in excess of FDIC insured limits.

12. Prior Period Adjustment

During 2018, management determined it was necessary to restate prior year balances related to the severance payable at Note 9. The effect of correcting these amounts on the previously reported financial statements as of June 30, 2017, is presented in the table below:

	As Previously Reported	Adjustment	As Restated
Change in net assets	$ 175,520	$ (160,585)	$ 14,935
Net assets, unrestricted ending of year	5,446,344	(160,585)	5,285,759

13. Subsequent Events

Date of Management Evaluation

Management has evaluated subsequent events through February 13, 2019, 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, 2018, 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 February 13, 2019.

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*.

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
February 13, 2019

SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNCTIONAL REVENUES AND EXPENSES

For the Year Ended June 30, 2018

	Work Crews	ASAP	Case Management	Seniors
Support and revenues:				
Fees and grants - Government agencies	$ -	$ 143,634	$ 2,756	$ 165,618
PBC BOCC (FAA-programs 1385/1693)	-	-	-	213,847
Contributions, gifts and special events less capital contributions	126,926	-	-	8,100
In-kind contributions	-	-	-	7,587
Sales, cafeteria and thrift store	-	-	-	-
Vocational activities	455,084	-	-	-
United Way grant allocations	58,383	-	84,075	-
Investment income, net	-	-	-	-
Gain on sale of property	-	-	-	-
Realized and change in unrealized gain (loss) investments, net	-	-	-	-
Client fees		11,650	-	25,546
Other revenue	-	63	-	-
Palm Beach County School Board grant	-	-	-	-
Total support and revenues before capital contributions	640,393	155,347	86,831	420,698
Total support and revenues	640,393	155,347	86,831	420,698
Expenses:				
Salary and wages	203,247	140,038	165,981	170,239
Client salaries	186,713	-	-	-
Payroll taxes	35,659	12,615	13,799	14,213
Employee benefits & other related expenses	55,519	20,464	28,354	35,379
	481,138	173,117	208,134	219,831
Advertising	2,231	918	280	808
Building maintenance and supplies	21,800	5,780	2,089	5,501
Equipment repair and maintenance	-	248	131	283
Fees, dues and reference materials	270	618	359	622
Freight and related expense	50	7	-	-
Fundraising venue and other related	-	-	-	-
Insurance	20,195	6,359	6,166	30,080
Interest	-	-	-	-
Legal and audit fees	-	-	-	-
Material purchases and program supplies	1,257	3,956	193	18,827
Outside services	96	-	-	311
Printing, computer, and office supplies	158	2,082	3,003	2,883
Rent	2,252	2,164	2,964	253
Security service	116	193	154	308
Staff travel, screening, and development	2,434	1,413	178	953
Telephone	2,971	1,643	1,051	2,090
Utilities	2,607	7,832	4,525	6,528
Vehicles	18,612	-	292	6,731
Indirect overhead allocation	64,299	44,302	52,509	53,857
	620,486	250,632	282,028	349,866
Net excess (deficiency) before depreciation	19,907	(95,285)	(195,197)	70,832
Depreciation	7,908	11,030	2,509	3,763
Net excess (deficiency)	$ 11,999	$ (106,315)	$ (197,706)	$ 67,069

See independent auditor's report.

PALM BEACH HABILITATION CENTER, INC.

(with comparable totals for 2017)

SAMH	Supported Living	Supported Employment	Computer Lab	Evaluation	Work Production
$ 84,585	$ 162,698	$ 443,403	$ -	$ 54,957	$ 823,006
-	-	-	75,615	-	-
-	2,017	-	4,000	-	4,112
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	410,049
-	42,000	65,000	-	-	75,987
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	25,169	-	-	-	37,529
-	1	-	-	-	6,285
-	-	124,496	-	-	100,504
84,585	231,885	632,899	79,615	54,957	1,457,472
84,585	231,885	632,899	79,615	54,957	1,457,472
49,530	182,505	372,867	60,997	31,897	546,786
-	-	9,443	-	1,907	178,355
4,119	15,690	31,866	4,973	2,876	53,088
8,562	28,664	87,106	14,131	4,032	100,639
62,211	226,859	501,282	80,101	40,712	878,868
-	-	1,224	-	164	889
860	3,985	3,094	552	860	23,783
9	39	154	4	9	445
172	927	601	197	208	3,778
-	-	113	30	54	21,487
-	-	-	-	-	98
2,221	8,952	11,847	1,296	1,808	37,276
-	-	-	-	-	-
-	-	-	-	-	-
-	1,095	432	-	391	19,567
-	66	795	858	-	-
3	1,226	1,421	2,418	747	2,792
1,506	2,512	5,746	801	1,174	10,955
116	116	482	77	116	2,620
3,750	20,860	44,740	28	928	3,221
776	4,685	4,315	262	526	9,069
2,175	9,791	7,615	1,087	2,175	35,048
-	50	-	-	-	8,499
15,669	57,737	117,960	19,297	10,091	172,980
89,468	338,900	701,821	107,008	59,963	1,231,375
(4,883)	(107,015)	(68,922)	(27,393)	(5,006)	226,097
1,258	5,633	4,391	964	1,258	23,854
$ (6,141)	$ (112,648)	$ (73,313)	$ (28,357)	$ (6,264)	$ 202,243

See independent auditor's report.

SCHEDULE OF FUNCTIONAL REVENUES AND EXPENSES

For the Year Ended June 30, 2018

	Cafeteria	JB's Ranch Group Home	Babbette Wolff Group Home	Amy's House Group Home
Support and revenues:				
Fees and grants - Government agencies	$ -	$ 433,582	$ 307,987	$ 215,268
PBC BOCC (FAA-programs 1385/1693)	-	-	-	-
Contributions, gifts and special events less capital contributions	102,724	2,400	300	-
In-kind contributions	-	-	-	-
Sales, cafeteria and thrift store	51,386	-	-	-
Vocational activities	-	-	-	-
United Way grant allocations	5,904	-	-	-
Investment income, net	-	-	-	-
Gain on sale of property	-	-	-	35,962
Realized and change in unrealized gain, net	-	-	-	-
Client fees	12,363	85,329	2,388	1,455
Other revenue	-	2	-	-
Palm Beach County School Board grant	-	-	-	-
Total support and revenues before capital contributions	172,377	521,313	310,675	252,685
Total support and revenues	172,377	521,313	310,675	252,685
Expenses:				
Salary and wages	80,807	260,810	275,253	123,092
Client salaries	74,827	-	-	-
Payroll taxes	11,622	22,481	24,186	10,307
Employee benefits	14,266	53,666	46,119	14,229
	181,522	336,957	345,558	147,628
Advertising	-	-	314	-
Building maintenance and supplies	8,839	18,488	10,424	11,835
Equipment repair and maintenance	1,383	1,450	1,803	435
Fees, dues and reference materials	1,685	1,521	2,173	1,641
Freight and related expense	81	1,150	-	188
Fundraising venue and other related	-	-	-	-
Insurance	7,798	12,587	13,392	9,870
Interest	-	-	-	-
Legal and audit fees	-	-	-	100
Material purchases and program supplies	87,828	40,310	27,404	21,380
Outside services	581	9,665	1,679	59
Printing, computer and office supplies	2,793	2,180	434	1,556
Rent	3,096	-	-	-
Security service	501	2,618	1,567	4,549
Staff travel, screening, and development	881	2,520	4,130	1,367
Telephone	3,623	6,278	8,444	5,099
Utilities	16,323	12,176	15,551	8,503
Vehicles	-	4,462	5,681	3,669
Indirect overhead allocation	25,564	82,509	87,079	38,941
	342,498	534,871	525,633	256,820
Net excess (deficiency) before depreciation	(170,121)	(13,558)	(214,958)	(4,135)
Depreciation	7,599	36,597	38,625	31,976
Net excess (deficiency)	$ (177,720)	$ (50,155)	$ (253,583)	$ (36,111)

See independent auditor's report.

(with comparable totals for 2017)

Total Program Services	Thrift Store	Fundraising	Administration	Total Supporting Services	2018 Totals	2017 Totals
$ 2,837,494	$ -	$ -	$ -	$ -	$ 2,837,494	$ 2,940,075
289,462	-	-	-	-	289,462	279,091
250,579	455	1,141,328	40,305	1,182,088	1,432,667	1,466,355
7,587	-	-	27,886	27,886	35,473	21,729
51,386	143,419	-	-	143,419	194,805	195,263
865,133	-	-	-	-	865,133	827,671
331,349	-	-	-	-	331,349	315,000
-	-	51,287	-	51,287	51,287	44,600
35,962	-	-	-	-	35,962	-
-	-	-	31,201	31,201	31,201	97,370
201,429	-	-	-	-	201,429	195,664
6,351	-	1,427	5,358	6,785	13,136	7,856
225,000	-	-	-	-	225,000	225,000
5,101,732	143,874	1,194,042	104,750	1,442,666	6,544,398	6,615,674
5,101,732	143,874	1,194,042	104,750	1,442,666	6,544,398	6,615,674
2,664,049	71,189	114,380	643,233	828,802	3,492,851	3,348,164
451,245	324	-	10,510	10,834	462,079	463,286
257,494	6,445	9,230	53,462	69,137	326,631	301,294
511,130	10,522	25,920	94,241	130,683	641,813	768,582
3,883,918	88,480	149,530	801,446	1,039,456	4,923,374	4,881,326
6,828	1,003	1,207	809	3,019	9,847	8,816
117,890	4,282	1,392	63,390	69,064	186,954	155,973
6,393	31	9	148	188	6,581	5,735
14,772	4,493	2,992	30,942	38,427	53,199	50,258
23,160	188	592	1,432	2,212	25,372	46,532
98	-	94,136	-	94,136	94,234	80,354
169,847	16,033	3,873	42,650	62,556	232,403	225,436
-	-	-	7,870	7,870	7,870	3,396
100	-	35	57,542	57,577	57,677	51,200
222,640	3,313	6,927	38,445	48,685	271,325	303,722
14,110	-	68,609	22,898	91,507	105,617	83,952
23,696	2,465	7,138	37,646	47,249	70,945	61,509
33,423	1,410	1,435	13,342	16,187	49,610	45,837
13,533	1,128	77	1,835	3,040	16,573	17,774
87,403	816	1,001	12,170	13,987	101,390	108,186
50,832	1,497	526	3,967	5,990	56,822	48,868
131,936	5,952	2,175	9,831	17,958	149,894	142,746
47,996	1,044	-	3,673	4,717	52,713	50,597
842,794	22,521	36,185	(901,500)	(842,794)	-	-
5,691,369	154,656	377,839	248,536	781,031	6,472,400	6,372,217
(589,637)	(10,782)	816,203	(143,786)	661,635	71,998	243,457
177,365	5,010	1,259	14,280	20,549	197,914	228,522
$ (767,002)	$ (15,792)	$ 814,944	$ (158,066)	$ 641,086	$ (125,916)	$ 14,935

See independent auditor's report.