REHABILITATION CENTER FOR CHILDREN AND ADULTS, INC.

FINANCIAL STATEMENTS YEARS ENDED AUGUST 31, 2018 AND 2017

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Established in 1932
Divine Blalock Martin Sellari LLC
Your gain...our goal!

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rehabilitation Center for Children and Adults, Inc.

We have audited the accompanying financial statements of the Rehabilitation Center for Children and Adults, Inc. (a nonprofit organization) which comprise the statements of financial position as of August 31, 2018 and 2017 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the Rehabilitation Center for Children and Adults, Inc. as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note K to the financial statements, the Center has accepted responsibility for the misappropriation of retirement plan funds by the third party administrator. Management is of the opinion that a provision for the liability should be recorded in the financial statements despite the uncertainty of the amount. Our opinion is not modified with respect to that matter.

Divine, Blalock, Martin & Sellari, LLC

DIVINE, BLALOCK, MARTIN & SELLARI, LLC
January 22, 2019

REHABILITIATION CENTER FOR CHILDREN AND ADULTS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2018 AND 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,093,226	$ 1,999,745
Accounts receivable, net of allowance for doubtful accounts of $120,035 and $62,000	360,105	163,625
Estate gift receivable, net (Note B)	500,000	10,000,000
Investments (Note C)	17,663,072	12,831,380
Prepaid expenses	78,715	57,968
Accrued interest receivable	81,698	36,306
Total current assets	19,776,816	25,089,024
Property and equipment, net of accumulated depreciation	178,883	215,119
Total assets	$ 19,955,699	$ 25,304,143
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 28,306	$ 13,915
Deferred revenue	14,750	7,450
Accrued pension liability (Note K)	-	5,245,560
Total current liabilities	43,056	5,266,925
Net assets:		
Unrestricted	19,070,219	19,194,794
Permanently restricted	842,424	842,424
Total net assets	19,912,643	20,037,218
Total liabilities and net assets	$ 19,955,699	$ 25,304,143

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

REHABILITATION CENTER FOR CHILDREN AND ADULTS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

	2018	2017
Change in unrestricted net assets:		
Support and Revenue		
Contributions	$ 396,863	$ 528,335
Bequest (Note B)	-	10,000,000
Special events, net	142,072	149,037
Public and private grants	10,000	10,000
Patient and community service revenues, net	582,567	422,042
Interest and dividends	428,487	388,079
Insurance Proceeds	1,200,000	-
Realized and unrealized gain on investments (Note C)	84,978	1,351,137
Total support and revenue	2,844,967	12,848,630
Expenses		
Program expenses	2,536,527	2,356,128
Management and general	345,151	392,056
Fundraising	87,864	86,839
Total expenses	2,969,542	2,835,023
Change in unrestricted net assets	(124,575)	10,013,607
Net assets, beginning of year	20,037,218	10,023,611
Net assets, end of year	$ 19,912,643	$ 20,037,218

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

REHABILITATION CENTER FOR CHILDREN AND ADULTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

	Patient Community Services	Management and General	Fund Raising	Total
Salaries & related	$ 1,050,793	$ 85,561	$ 32,507	$ 1,168,861
Contract services	11,500	-	-	11,500
Health and disability insurance	172,987	15,596	5,925	194,508
Retirement benefits	147,311	12,193	4,633	164,137
Payroll taxes	78,211	6,518	2,476	87,205
	1,460,802	119,868	45,541	1,626,211
Advertising	4,997	-	3,000	7,997
Bad debt expense	165,233	-	-	165,233
Continuing professional education	3,038	-	-	3,038
Credit card fees	18,042	-	-	18,042
Fundraising expenses	-	-	13,550	13,550
Investment management fees	-	40,073	-	40,073
Management information system	38,481	1,519	-	40,000
Membership dues	907	243	-	1,150
Occupancy	331,582	45,873	2,946	380,401
Other	1,972	528	1,145	3,645
Postage	1,317	101	36	1,454
Printing	2,345	558	10,592	13,495
Professional fees	350,925	129,629	-	480,554
Repairs and maintenance	22,941	2,136	6,615	31,692
Retirement plan fees	1,562	129	49	1,740
Supplies	53,575	1,109	2,835	57,519
Telephone	28,093	2,165	762	31,020
Total expenses before depreciation	2,485,812	343,931	87,071	2,916,814
Depreciation expense	50,715	1,220	793	52,728
Total expenses	$ 2,536,527	$ 345,151	$ 87,864	$ 2,969,542

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

REHABILITATION CENTER FOR CHILDREN AND ADULTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2017

	Patient Community Services	Management and General	Fund Raising	Total
Salaries & related	$ 1,093,239	$ 121,869	$ 32,507	$ 1,247,615
Contract services	11,500	-	-	11,500
Health and disability insurance	167,334	24,213	6,458	198,005
Retirement benefits	155,281	11,691	3,119	170,091
Payroll taxes	81,052	9,172	2,446	92,670
	1,508,406	166,945	44,530	1,719,881
Advertising	4,264	-	3,000	7,264
Continuing professional education	4,894	-	-	4,894
Credit card fees	18,535	-	-	18,535
Fundraising expenses	-	-	13,514	13,514
Investment management fees	-	56,564	-	56,564
Management information system	38,300	1,700	-	40,000
Membership dues	1,690	383	-	2,073
Occupancy	331,128	49,742	2,885	383,755
Other	1,910	590	200	2,700
Postage	1,552	174	36	1,762
Printing	1,157	321	12,381	13,859
Professional fees	282,230	106,726	-	388,956
Repairs and maintenance	15,082	2,454	5,993	23,529
Supplies	40,408	1,436	2,446	44,290
Telephone	26,426	2,963	608	29,997
Travel, conferences and meetings	453	140	-	593
Total expenses before depreciation	2,276,435	390,138	85,593	2,752,166
Depreciation expense	79,693	1,918	1,246	82,857
Total expenses	$ 2,356,128	$ 392,056	$ 86,839	$ 2,835,023

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

REHABILITATION CENTER FOR CHILDREN AND ADULTS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (124,575)	$ 10,013,607
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	52,728	82,857
Bad debt expense	165,233	-
Realized and unrealized gain on investments	(84,978)	(1,351,137)
Changes in operating non-cash assets & liabilities:		
Accounts receivable (net)	(196,480)	(37,203)
Estate gift receivable	9,500,000	(10,000,000)
Accrued interest receivable	-	93
Prepaid expenses	(20,747)	47,096
Accounts payable and acrrued expenses	14,391	(4,989)
Accrued pension liability	(5,245,560)	-
Deferred revenue	7,300	3,950
Net cash provided by (used in) operating activities	4,067,312	(1,245,726)
Cash flows from investing activities:		
Proceeds from sales of investments	9,074,357	6,533,791
Purchase of investments	(14,031,696)	(5,444,026)
Purchase of property and equipment	(16,492)	(51,786)
Net cash provided by (used in) investing activities	(4,973,831)	1,037,979
(Decrease) Increase in cash and cash equivalents	(906,519)	(207,747)
Cash and cash equivalents, beginning of year	1,999,745	2,207,492
Cash and cash equivalents, end of year	$ 1,093,226	$ 1,999,745

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

The Rehabilitation Center for Children and Adults, Inc. (the Center), located in the Town of Palm Beach, Florida, is a comprehensive outpatient rehabilitation facility that provides physical, occupational, and speech therapy and pre-school education. The Center renders services to the general public, substantially all of whom are residents of Palm Beach County, Florida. It is the Center's policy to provide services to those in need regardless of the patient's ability to pay. Services are also rendered to patients under agreements with third-party payers, including Medicare. Such agreements provide for payments to the Center at amounts substantially less than its established rates. The Center is significantly dependent upon gifts and contributions to assist in subsidizing predetermined service rate adjustments and major charitable care allowances.

Basis of accounting

The Center's financial statements presented herein have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation

The Center prepares its financial statement in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). The Center is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

> ***Unrestricted Net Asset*** – Net assets available for the support of the Center's operations. The unrestricted net assets may be used at the discretion of the Center's management and the Board of Governors.
>
> ***Temporarily restricted Net Assets*** – Net assets subject to donor-imposed stipulations that limit the use of the donated assets. When a donor restriction expires, that is when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
>
> ***Permanently Restricted Net Assets*** – Net assets subject to donor-imposed stipulations to be maintained permanently by the Center. Generally, earnings from endowed contributions and investments are unrestricted or may also be restricted for specific purposes.

Cash and cash equivalents

Bank deposit accounts are maintained at high credit-facility financial institutions. The Center considers all demand deposit accounts and liquid investments available for current use with an initial maturity three months or less to be cash equivalents. Money market funds held by the custodian of the mutual funds are considered cash equivalents.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient service revenue

Patient service revenue is recognized as revenue in the period in which the related patient services are provided. Patient fees are recorded at the Center's standard rates and adjusted for estimated allowances and uncollectible amounts.

Revenue from Medicare accounted for approximately 78% of the net patient service revenue in 2018. Laws and regulations governing the Medicare program are complex and subject to interpretation. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare program.

Accounts receivable

Accounts receivable arising from patient services is reported at the estimated net realizable amounts due from patients, medicare and other third-party payers (private insurance). Charitable allowances and other amounts not collectable, such as insurance caps and limitations placed on medicare and private insurance reimbursements, are provided for when services are rendered. Patients' accounts receivable is also evaluated periodically and additional allowances are provided based on management's analysis of each account's delinquency status, a reassessment of the patient's ability to pay, and the probability of collection. Patient receivables, net of the allowance for uncollectible accounts, represents the amount expected to be collected in cash within the short term (not to exceed one year); therefore, the carrying amount of accounts receivable approximates the fair value. As of August 31, 2018, and 2017, accounts receivables were $360,105 and $163,625, respectively with both years reported net of allowance for doubtful accounts of $120,035 and $62,000.

During the fall of 2017, the Center implemented a new medical billing system. As a result Medicare required the Center to get recertified for billing. During the recertification process the Center was not able to bill medicare for services. These back billings were eventually billed to medicare in June, July & August 2018. Therefore the accounts receivables as of August 31, 2018 are substantially higher than as of August 31, 2017.

Estate gift receivable

Estate gifts that are due and not received as of the financial statement date are accrued as receivables when probate court has declared the will valid. The Center reduced the personal representative's estimate of the gift for additional fees and adverse market fluctuations.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Center carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statements of Financial Position. Realized gains and losses from security transactions are reported on the specific identification method based on the difference between the sales price of the security and its cost basis. Unrealized gains and losses are included in the in the accompanying Statements of Activities as increases or decreases in unrestricted net assets. Dividend income is accrued on the ex-dividend date and interest is recorded in the period earned.

The Center manages its investment risk by the ongoing monitoring efforts of a committee of Board members and the employment of an independent professional investment advisor.

Property and equipment

Property and all equipment acquisitions of $1,500 or more are capitalized while lesser amounts are expensed. Property items received as gifts are recorded at their estimated market value as of the date of the gift. Depreciation of property and equipment is calculated on the straight-line method over the estimated useful lives, as follows:

Buildings and improvements	19-40 years
Aquatic treatment center equipment	5-10 years
Other treatment equipment	5-10 years
Furniture, fixtures, and equipment	5-10 years
Computer equipment	3-5 years

Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets. Conditional promises to give are recognized when the conditions are substantially met. Support received under a local government grant is recorded over the contract's term, generally one year. Gifts of cash and other assets are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported in the statements of activity as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support.

Contributions of securities, goods and other in-kind assets are recorded at fair value and as unrestricted support unless the donor stipulates how the donated asset must be used. Contributions of long-lived assets with restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed services

A number of volunteers donate a substantial number of hours to the Center's fund-raising campaigns; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Members of the Center's Board of Governors also contribute a substantial amount of time to the Center's policy-making, management and administrative activities. The Center's Board members are not compensated for their services and no amounts have been provided to reflect the fair value of such.

Income Taxes

The Center qualifies as a tax-exempt Organization, other than a private Foundation, under Section 501(c) (3) of the Internal Revenue Code and therefore, has no provision for federal income taxes. The Center qualifies as a public charity under the Internal Revenue Code.

The Center files required income tax returns in the U.S. federal jurisdiction. With few exceptions, the Center is no longer subject to U.S. federal income tax examinations by tax authority's for years before 2014. The Center has concluded no material uncertain tax positions have been taken on any open tax returns. For the current year the Center believes all tax positions are fully supportable by existing Federal law and related interpretations and there are no uncertain tax positions to consider

Concentrations of credit risk

The Center, at times, has cash in banks in excess of FDIC insurance limits and places its temporary cash investments with high credit-quality financial institutions.

Functional Expenses

The Center allocates its expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their natural expenditure classification in the statement of activities. Other expenses that are common to several functions are allocated by various statistical bases.

Special Events, Net

The Center conducts special events for the purpose of raising money for operations and for the child care building. The Center had revenues of $193,617 and $207,165 less related expenses of $51,545 and $58,128 for the years ended August 31, 2018 and 2017, respectively.

Advertising

The Center uses advertising to promote its programs. Advertising costs are expensed as incurred. Advertising was $7,997 and $7,264 for years ending August 31, 2018 and 2017, respectively.

Reclassifications

Certain reclassifications have been made to the 2017 presentation to conform to the format used in 2018. Total net assets and changes in net assets are unchanged due to these reclassifications.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

NOTE B – ESTATE GIFT RECEIVABLE

At August 31, 2018, and 2017 the Center had received the following unconditional promise to give.

	2018	2017
Estate gift (personal representative's estimate)	$ 550,000	$ 10,111,784
Reduction for fees and market changes	(50,000)	(111,784)
Total estate gift receivable	$ 500,000	$ 10,000,000

NOTE C – INVESTMENTS

A single investment pool is maintained for investments held for general operational uses and for permanently endowed funds. Investments include funds permanently restricted by donors for patient care and amounts designated by the Board of Governors for contingencies and the possible lack of future earnings. The portion permanently restricted, $842,424 at August 31, 2018 and 2017, is stated at the original face amount of the endowment gift and has not been adjusted for earnings or for the appreciation or depreciation in value on the invested funds.

The following table summarizes the investment portfolio, at fair value, as of August 31, 2018 and 2017:

	2018	2017
Equity securities, options and other	$ 5,806,019	$ 6,252,712
Corporate, municipal and us treasury bonds	11,857,053	6,578,668
	$ 17,663,072	$ 12,831,380

As part of its routine investment strategy, the Center holds and writes call options in its equity portfolio for the purpose of hedging the risks of certain identifiable and anticipated transactions. Outstanding options were reported as marketable equity securities at a fair value of $(51,120) and $(57,350) as of August 31, 2018 and 2017, respectively. The changes in value of the options, as well as the change in value of the hedged items attributable to the risk being hedged are included in unrealized gains and losses. During 2018 and 2017, the Center realized net gains (losses) of $(87,661) and $(196,178), respectively, from option transactions.

NOTE C – INVESTMENTS (CONTINUED)

The net investment gain (loss) for the years ended August 31, 2018 and 2017 is summarized as follows:

	2018	2017
Realized gains (losses), net	$ 697,148	$ 876,724
Unrealized gain (losses), net	(612,170)	474,413
Net investment gain (loss)	$ 84,978	$ 1,351,137

Investment fees of $40,073 and $56,564 for the years ended August 31, 2018 and 2017, respectively, are included in investment management fees on the statements of functional expenses.

NOTE D - FAIR VALUE MEASUREMENTS

The Center uses a three-tier hierarchy established by the FASB ASC to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1: quoted prices in active markets for identical investments.
- Level 2: other significant observable inputs (including quoted prices for similar investments in active markets, interest rates and yield curves, prepayment speeds, credit risks, etc.)
- Level 3: significant unobservable inputs (including the Center's own assumptions in determining the fair value of investments).

The Center's financial instruments measured at fair market value include investments that are measured according to Level 1. Those financial instruments that are not disclosed under this hierarchy of fair value include cash equivalents, receivables, payables and accruals and the pension liability, all of which approximate fair value due to their short-term nature.

NOTE E – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment and related accumulated depreciation as of August 31, 2018 and 2017:

	2018	2017
Land	$ 78,726	$ 78,726
Buildings and improvements	2,085,408	2,085,408
Aquatic treatment center equipment	598,832	587,882
Other treatment equipment	309,194	303,652
Furniture, fixtures and equipment	158,269	158,269
Computer equipment	76,181	76,181
	3,306,610	3,290,118
Less accumulated depreciation	(3,127,727)	(3,074,999)
Property and equipment, net	$ 178,883	$ 215,119

NOTE F – PATIENT SERVICE REVENUE

Patient service revenue is summarized as follows for the years ended August 31, 2018 and 2017:

	2018	2017
Revenue at standard rates	$ 692,362	$ 838,679
Allowances and uncollectible accounts	(109,795)	(416,637)
Net patient service revenue	$ 582,567	$ 422,042

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, the normal fee is adjusted to allowances and uncollectible accounts. Allowances granted to patients amounted to 15.57% and 49.7% of total standard fees for 2018 and 2017, respectively.

NOTE G – ACCRUED PENSION LIABILITIY

Pursuant to the terms of a settlement agreement executed with claimants of the Center's target benefit plan, the Organization accrued $5,795,560 as of August 31, 2016, less $550,000 in recoveries received as of that date. The Center has since fully funded a Trust account with the entire balance needed to restore the plan assets. See Note K.

NOTE H – RETIREMENT PLANS

The Center offers an IRC *Section 403(b) tax-deferred retirement program* in which participants may contribute up to the maximum allowable by the Internal Revenue Service. All amounts contributed by the participants vest immediately and, at retirement, may be withdrawn in a variety of ways including, but not limited to, monthly, in a lump sum, or over a set period of time. The Center does not contribute to this 403(b) Plan.

Effective January 1, 2017, the Center initiated another IRC *Section 403(b) profit-sharing plan.* The plan covers all employees who have attained the age of 21 and completed 6 months of service. Employer contributions are discretionary and determined by the board. Employer contributions are 100% vested upon entering the plan. To be eligible for the employer matching, employees must complete 1,000 hours in the plan year, and there are no service requirements for the employer profit sharing portion of the plan. The Center's contribution to the plan was $164,137 and $170,091 for the yearS ended August 31, 2018 and 2017, respectively.

NOTE I – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS

The Center's endowment is established for the purposes expressed in the mission of the Center and consists of the donor-restricted endowment fund and funds designated by the Board to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. As of August 31, 2018, the Center's endowment consists solely of its permanently restricted net assets.

Funds with deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor requires the Center to retain as a fund of perpetual duration. Any losses are recorded as reductions in unrestricted net assets and restored with subsequent gains. As of August 31, 2018 and 2017, there are no funds with deficiencies.

Interpretation of relevant law

Effective July 1, 2012, the Center adopted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA). FUPMIFA requires the Board of Governors to use reasonable care, skill and caution as exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with FUPMIFA, the Board of Governors may expend so much of an endowment fund as the Board of Governors determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the purchasing power of the endowment fund.

Objectives and strategies employed

To satisfy its long-term rate-of-return objectives, the Center seeks to provide a moderate level of income flow with a capital appreciation objective. The emphasis is on capital appreciation.

Return objectives and risk parameters

The Center has adopted spending and investment policies for the endowment assets that attempt to provide a predictable stream of funding to the Center's operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets consist of funds that are to be held in perpetuity.

Spending policy

To accommodate its long-term investment and operating objectives, the Center intends to annually appropriate between 3% to 6% of the 3 year trailing average of the endowment as measured on August 31st of each year. The exact percentage to be determined annually in light of circumstances existing at that time.

NOTE J – LEGAL MATTERS

From time to time, the Center is subject to legal proceedings which arise in the ordinary course of its operations. Management believes that the final resolution of these matters will not have a material adverse effect on the Center's financial position, cash flows, or results of operations.

NOTE K - TARGET BENEFIT RETIREMENT PLAN

For many years the Center maintained an active Target Benefit Retirement Plan (the Plan) that covered all full-time employees who attained the age of 21 years and who completed at least 1,000 hours of service during the twelve-month period beginning on the first day of work. Vesting in the Plan's benefits commenced after three years of service in increments of 20% each year through year seven at which time benefits become fully vested. Benefits are payable in monthly installments. Normal retirement is the later of age 65, or the 10-year anniversary date after joining the Plan.

A target benefit plan is a defined contribution plan with similarities to a defined benefit plan in that the age of the participants, their current and projected income levels and length of employment are key factors in determining the amount of the Center's contribution to the plan on their behalf. Historically, the amounts of such annual contributions have been provided to the Center by the plan administrator. Unlike a defined benefit plan which promises to pay a specific benefit for a specified period, the ultimate benefit payable by a target benefit plan is limited to the value of the participant's account at the date of retirement. The target or assumed benefit is used only for determining the annual contribution. Under the Plan, the contributions are held by a third party trustee on behalf of the beneficiaries. The Center did not make any contributions to the plan or the years ended August 31, 2018 and 2017.

During the summer of 2016, the Board made inquiries of the plan administrator, a long-time board member, as to the financial status of the Plan. The plan administrator's responses were delayed and unsatisfactory and an inquiry directed to Transamerica Life Insurance and Annuity Company (the Custodian) disclosed a significant discrepancy between the assets reported by the plan administrator and those reported by the Custodian. The Center received routine notices of claims from Plan participants including current and former employees, but no lawsuits have been filed against the Center. The Board retained counsel to assist in the investigation of these matters. Beginning August 31, 2016, the Center ceased making contributions to the Plan. The Center maintains standard levels of insurance coverage for the acts of its directors and officers.

As of February 21, 2018, the Center settled with participant claimants to restore the Plan with $5,795,560. This liability was accrued as of August 31, 2016, net of $550K in recoveries received at that date. During the fiscal year ended August 31, 2018, the Center deposited the balance of the liability into a Trust account to in-substance defease the obligation. The Plan will be formally funded upon receipt of certain administrative and compliance approvals currently requested from the Internal Revenue Service. The Center received additional recoveries of $1.25 Million during the recent fiscal year and anticipates further recoupment from its insurance carrier and other parties, although an exact amount of recovery is uncertain as of this date.

NOTE L – SUBSEQUENT EVENTS

In the normal course of preparing the Center's financial statements, management reviews events that occur after the statement of financial position date, August 31, 2018, for potential recognition or disclosure in the financial statements. Management has evaluated subsequent events through January 22, 2019, which is the date the financial statements were available to be issued.

The Center has since received an additional $1.0 Million from its insurance company in connection with the pension matter, and has filed suit in Palm Beach County Circuit Court against the Plan Custodian for the balance of damages incurred.