

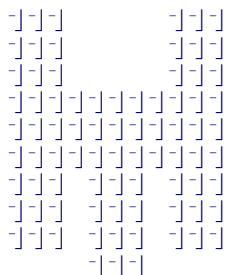
PALM BEACH HABILITATION CENTER, INC.

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2011
(with comparable totals for 2010)**

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5-6
Statement of Functional Expenses	7
NOTES TO FINANCIAL STATEMENTS	8-16
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17-18
SUPPLEMENTARY INFORMATION	
Schedule of Functional Revenues and Expenses	19-22



Holyfield & Thomas, LLC

Certified Public Accountants & Advisors

125 Butler Street • West Palm Beach, FL 33407

(561) 689-6000 • Fax (561) 689-6001 • www.holyfieldandthomas.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Palm Beach Habilitation Center, Inc. (a not-for-profit corporation) as of June 30, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Palm Beach Habilitation Center, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Palm Beach Habilitation Center, Inc.'s 2010 financial statements and, in our report dated December 29, 2010, we expressed an unqualified opinion on those financial statements.

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*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Palm Beach Habilitation Center, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011 on our consideration of Palm Beach Habilitation Center, Inc.'s internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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 19-22 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.

Holyfield & Thomas, LLC

West Palm Beach, Florida
December 12, 2011

PALM BEACH HABILITATION CENTER, INC.

STATEMENT OF FINANCIAL POSITION

*As of June 30, 2011**(with comparable totals for 2010)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Totals	2010 Totals
ASSETS					
Cash and cash equivalents	\$ 477,332	\$ 456,993	\$ -	\$ 934,325	\$1,620,361
Cash - designated	81,437	-	-	81,437	14,433
Investments	1,077,466	-	-	1,077,466	750
Government agency receivables	283,997	-	-	283,997	235,639
Workshop receivables, net	136,954	-	-	136,954	155,315
Client and other receivables	118,296	-	-	118,296	39,925
Prepaid expenses and other assets	42,686	-	-	42,686	31,843
Property and equipment, net	2,927,686	-	294,349	3,222,035	3,108,775
Total assets	<u>\$5,145,854</u>	<u>\$ 456,993</u>	<u>\$ 294,349</u>	<u>\$5,897,196</u>	<u>\$5,207,041</u>
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable	\$ 73,530	\$ -	\$ -	\$ 73,530	\$ 52,285
Agency payable	81,437	-	-	81,437	14,433
Accrued salaries and related	171,365	-	-	171,365	162,642
Accrued vacation	100,934	-	-	100,934	94,462
Accrued other	28,939	-	-	28,939	27,589
Total liabilities	<u>456,205</u>	<u>-</u>	<u>-</u>	<u>456,205</u>	<u>351,411</u>
Net assets:					
Unrestricted:					
Board designated	1,372,305	-	-	1,372,305	1,039,962
Other	3,317,344	-	-	3,317,344	3,194,535
Restricted	-	456,993	294,349	751,342	621,133
Total net assets	<u>4,689,649</u>	<u>456,993</u>	<u>294,349</u>	<u>5,440,991</u>	<u>4,855,630</u>
Total liabilities and net assets	<u>\$5,145,854</u>	<u>\$ 456,993</u>	<u>\$ 294,349</u>	<u>\$5,897,196</u>	<u>\$5,207,041</u>

See accompanying notes to financial statements.

*For the Year Ended June 30, 2011**(with comparable totals for 2010)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Totals	2010 Totals
Support and revenue:					
Fees and grants - governmental agencies	\$ 2,505,505	\$ -	\$ -	\$ 2,505,505	\$ 2,478,043
Contributions, gifts and special events	1,259,793	225,565	-	1,485,358	1,550,645
In-kind contributions	160,264	-	-	160,264	74,751
Store sales	126,275	-	-	126,275	143,381
Vocational activities	816,400	-	-	816,400	763,200
United Way grants	219,017	-	-	219,017	223,817
Realized and change in unrealized gain, net	21,889	-	-	21,889	-
Other revenue, including client fees	374,411	-	-	374,411	315,258
Palm Beach County School Board grant	336,930	-	-	336,930	329,374
Total support and revenue	<u>5,820,484</u>	<u>225,565</u>	<u>-</u>	<u>6,046,049</u>	<u>5,878,469</u>
Net assets released from restrictions	<u>95,356</u>	<u>(95,356)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses:					
Program services	4,800,112	-	-	4,800,112	4,769,825
Supporting services:					
Thrift store and fundraising	445,698	-	-	445,698	402,054
Administration	214,879	-	-	214,879	197,415
Total supporting services	<u>660,577</u>	<u>-</u>	<u>-</u>	<u>660,577</u>	<u>599,469</u>
Total expenses	<u>5,460,688</u>	<u>-</u>	<u>-</u>	<u>5,460,688</u>	<u>5,369,294</u>
Change in net assets	455,152	130,209	-	585,361	509,175
Net assets, beginning	<u>4,234,497</u>	<u>326,784</u>	<u>294,349</u>	<u>4,855,630</u>	<u>4,346,455</u>
Net assets, ending	<u>\$ 4,689,649</u>	<u>\$ 456,993</u>	<u>\$ 294,349</u>	<u>\$ 5,440,991</u>	<u>\$ 4,855,630</u>

See accompanying notes to financial statements.

*For the Year Ended June 30, 2011**(with comparable totals for 2010)*

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from fees and grants - governmental agencies	\$ 2,440,652	\$ 2,502,432
Cash received from contributions, gifts and special events	1,423,482	1,550,645
Cash received from store sales	126,275	143,381
Cash received from vocational activities	832,761	732,394
Cash received from other grants and revenues	910,027	861,892
Cash paid for program services and supporting services	(5,166,515)	(5,180,876)
Interest income received	<u>20,331</u>	<u>6,557</u>
Net cash provided by operating activities	<u>587,013</u>	<u>616,425</u>
Cash flows from investing activities:		
Purchase of investments	(1,077,832)	-
Sales of investments	23,005	-
Purchase of property and equipment	<u>(218,222)</u>	<u>(224,021)</u>
Net cash used in investing activities	<u>(1,273,049)</u>	<u>(224,021)</u>
Change in cash and cash equivalents	(686,036)	392,404
Cash and cash equivalents, beginning of year	<u>1,620,361</u>	<u>1,227,957</u>
Cash and cash equivalents, end of year	<u>\$ 934,325</u>	<u>\$ 1,620,361</u>
Summary of cash and cash equivalents:		
Undesignated	\$ 934,325	\$ 1,620,361
Designated	<u>81,437</u>	<u>14,433</u>
	<u>\$ 1,015,762</u>	<u>\$ 1,634,794</u>

See accompanying notes to financial statements.

*For the Year Ended June 30, 2011**(with comparable totals for 2010)*

	<u>2011</u>	<u>2010</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 585,361	\$ 509,175
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Provision for allowance of uncollectible account	2,000	3,152
Depreciation	168,712	150,028
In-kind contributions	(160,264)	(59,256)
Realized and change in unrealized gain, net	(21,889)	-
(Increase) decrease in certain assets:		
Government agency receivables	48,156	30,299
Workshop receivables	16,361	(33,958)
Client and other receivables	(78,371)	(5,910)
Prepaid expenses and other assets	(10,843)	(14,854)
Increase (decrease) in certain liabilities:		
Accounts payable	21,245	22,562
Accrued salaries and related	8,723	14,227
Accrued vacation	6,472	22
Accrued other	1,350	938
Net cash provided by operating activities	<u>\$ 587,013</u>	<u>\$ 616,425</u>
Noncash investing activities:		
In-kind donation of transportation vehicles	<u>\$ 63,750</u>	<u>\$ 59,256</u>

See accompanying notes to financial statements.

*For the Year Ended June 30, 2011**(with comparable totals for 2010)*

	Program Services	Supporting Services		2011 Totals	2010 Totals
		Thrift Store and Fundraising	Administration		
Salary and related	\$ 2,236,059	\$ 156,345	\$ 548,893	\$ 2,941,297	\$ 2,999,912
Client salaries	367,578	575	4,528	372,681	363,630
Payroll taxes	206,465	13,749	45,425	265,639	270,148
Employee benefits	286,103	23,267	83,415	392,785	387,138
	<u>3,096,205</u>	<u>193,936</u>	<u>682,261</u>	<u>3,972,402</u>	<u>4,020,828</u>
Advertising	867	68	420	1,355	1,637
Bad debts	2,000	-	-	2,000	3,152
Building maintenance and supplies	79,115	28,366	13,753	121,234	139,727
Equipment repair and maintenance	3,810	2,210	243	6,263	7,394
Fees, dues and reference materials	56,524	20,485	58,285	135,294	99,114
Freight and related expense	18,833	-	1,142	19,975	22,176
Fundraising venue and other related	-	41,324	-	41,324	38,452
Insurance	134,022	20,119	19,775	173,916	149,275
Legal and audit fees	2,590	-	31,050	33,640	26,875
Material purchases and program supplies	219,366	35,138	8,029	262,533	250,590
Outside services	77,567	17,475	25,504	120,546	94,411
Printing, computer and office supplies	41,548	12,357	10,718	64,623	51,824
Rent	42,577	4,102	6,876	53,555	37,225
Security service	8,024	1,112	423	9,559	10,097
Staff travel, screening and development	45,774	910	12,398	59,082	58,315
Telephone	20,545	1,330	2,077	23,952	22,889
Utilities	118,583	10,107	9,815	138,505	140,195
Vehicles	36,790	3,589	11,839	52,218	45,090
Indirect overhead allocation	662,726	46,338	(709,063)	-	-
	<u>4,667,466</u>	<u>438,966</u>	<u>185,545</u>	<u>5,291,976</u>	<u>5,219,266</u>
Depreciation	132,646	6,732	29,334	168,712	150,028
Total expenses	<u>\$ 4,800,112</u>	<u>\$ 445,698</u>	<u>\$ 214,879</u>	<u>\$ 5,460,688</u>	<u>\$ 5,369,294</u>

See accompanying notes to financial statements.

For the Year Ended June 30, 2011

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 two 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

Currently programs are located 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 two certified licensed assisted living facility locations. In addition to room and board, these facilities offer care and training that increases or maintains the level of independence of the clients. JB's Ranch in Lake Worth can house a maximum of ten adults. Babbette Wolff Group Home is located in West Palm Beach, and is currently licensed for seven residents. The Center has begun developing another residential facility in West Palm Beach which is known as Amy's House (see note 4). Amy's House is projected to house six adults and is anticipated to be completed in mid-2012.
- *Supported Employment* – This program, 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.
- *Thrift Store* – The Center has one thrift store located in Lake Worth. The Center collects donated items from the public and sells them in the thrift store for the benefit of rehabilitative programs.

For the Year Ended June 30, 2011

1. Business and Summary of Significant Accounting Policies, continued*Nature of the Activities, continued*

- *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. 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 and general expenses are allocated to various programs based on each program's relative salary expense.

- *Unrestricted Net Assets* - are resources over which the governing board has discretionary control, including Board designated net assets. It is used to account for resources that are available to carry out the purposes of the Center in accordance with the limitations of its by-laws.
- *Temporarily Restricted Net Assets* - are used to account for those net assets whose use by the Center has been limited by donors to either later period of time, or after specified dates, or for a specified purpose.
- *Permanently Restricted Net Assets* - are used to account for those funds subject to donor-imposed restrictions. Generally, the assets must be maintained in perpetuity; however, the donors of these types of assets may permit the Center to use all or part of the income earned on any related investments for general or specific purposes. As of June 30, 2011, 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 6).

Method of Accounting

The Center follows standards of accounting and financial reporting prescribed for not-for-profit organizations. It uses the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred. State and local government and public grants are recorded as support when performance occurs under the terms of the grant agreement.

For the Year Ended June 30, 2011

1. Business and Summary of Significant Accounting Policies, continued*Method of Accounting, continued*

The costs of providing the various programs and other activities have been detailed in the Statement of Functional Expenses and summarized on a functional basis in the Statement of Activities. Salaries and other expenses that are associated with a specific program are charged directly to that program. Salaries and other expenses that benefit more than one program are allocated to the various programs based on the relative benefit provided.

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 market value, with the resulting realized and change in unrealized gains and losses included in the Statement of Activities. Market value is determined by quoted market prices as of June 30, 2011. Security transactions and related expenses are accounted for on a trade-date basis.

Government Agency, Workshop, Client, and Other Receivables

Government agency receivables consist of amounts due from state agencies and vendors, which contract with the Center for services. In addition, the Center frequently extends credit to its workshop customers and its clients, substantially all of whom are located in Palm Beach County for services. An allowance for uncollectible receivables is based on historical experience, management's knowledge of the various accounts, and the probability of collection. As of June 30, 2011, an allowance for workshop receivables of approximately \$20,000 is reflected in the Statement of Financial Position. Government agency and client receivables are considered fully collectible, and there is no allowance for doubtful accounts deemed necessary for these assets.

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 standard, contributed goods and services, which meet certain criteria, are recorded as contributions at their estimated fair value at date of receipt. Included in contributions in the year ended June 30, 2011 was approximately \$160,000 of donated goods and services.

For the Year Ended June 30, 2011

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, when a stipulated time restriction ends, or 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.

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 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 6), 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.

Intermediary Transactions

The Center entered into an agency transaction with an unrelated entity and maintains various accounts for the benefit of clients and follows FASB ASC 958-605, *Not-for-Profit Entities, Revenue Recognition*, to account for these funds. The Center has no discretionary powers over the funds and is to make payments as directed by the donor or for the benefit of the clients. 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. The value of the contributed time is not reflected in these financial statements since it is not subject to an objective measurement or valuation.

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, 2011. There is no provision for income taxes reflected in the accompanying financial statements.

For the Year Ended June 30, 2011

1. Business and Summary of Significant Accounting Policies, continued*Income taxes, continued*

The Center follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. This pronouncement 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, 2010, from which the summarized information was derived. Certain 2010 amounts may have been reclassified to conform to 2011 classifications. Such reclassifications, had 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, 2011 was approximately \$1,400.

Fair Value Measurements

The Center follows FASB ASC 820, *Fair Valuation and Disclosures*. 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 required expanded disclosures about fair value measurements of financial instruments.

For the Year Ended June 30, 2011**1. Business and Summary of Significant Accounting Policies, continued***Fair Value Measurements, continued*

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.

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.

Fair value estimates discussed herein are based upon certain market assumptions and the pertinent information available to management as of June 30, 2011. Following is a description of the valuation methodologies used for assets and/or liabilities measured at fair value. There have been no changes in the methodologies used as of June 30, 2011.

Financial instruments measured at fair value in these financial statements consist of investments, all of which are valued according to level 1.

2. Investments

Investments as of June 30, 2011, consisted of the following:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain</u>
Money market accounts	\$ 62,782	\$ 62,782	\$ -
U.S. Government obligations	155,550	154,566	984
Corporate obligations	566,527	566,462	65
Equity securities	216,481	195,524	20,957
Mutual funds-fixed income	76,126	75,000	1,126
	<u>\$ 1,077,466</u>	<u>\$ 1,054,334</u>	<u>\$ 23,132</u>

For the Year Ended June 30, 2011

3. Prepaid Expenses and Other assets

Prepaid expenses and other assets as of June 30, 2011, consisted of the following:

Prepaid insurance	\$ 23,221
Prepaid expenses	17,465
Other assets	2,000
	<u>\$ 42,686</u>

4. Property and Equipment

Property and equipment as of June 30, 2011, consisted of the following:

Land	\$ 468,048
Buildings	4,272,609
Paving and landscape	161,804
Furniture and fixtures	181,100
Equipment and machinery	677,487
Automobiles and trucks	443,154
Construction in process	107,074
	<u>6,311,276</u>
Less accumulated depreciation	<u>3,089,241</u>
	<u>\$ 3,222,035</u>

Construction in process consists of the development of another residential facility in West Palm Beach, which is known as Amy's House.

Depreciation expense in 2011 was approximately \$169,000. The 2011 assessed value of the Center's real estate and improvements is approximately \$3,752,000 based on the Palm Beach County property appraiser website.

5. 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 3.25% as of June 30, 2011. The unpaid principal balance plus accrued interest is due on demand, or on September 10, 2012. There was no outstanding balance on this obligation as of June 30, 2011.

For the Year Ended June 30, 2011

6. Restriction on Net Assets

On May 27, 1968, Palm Beach County (the "County") deeded to the Center land 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 amount of \$125,149 assigned to the land as a permanently restricted net asset.

On July 10, 2001, Palm Beach County deeded to the Center such land 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 amount of \$169,200 assigned to the land as a permanently restricted net asset.

7. 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 on their one-year anniversary date of employment. The Center will match the amount of employee contributions up to a maximum of 5% of compensation. The cost to the Center for this plan for the year ended June 30, 2011 was approximately \$81,000.

8. Leases

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

2012	\$ 52,600
2013	52,700
2014	48,500
2015	35,600
2016	36,100
Thereafter	<u>137,000</u>
	<u>\$ 362,500</u>

Rental expense for the year ended June 30, 2011 was approximately \$54,000.

9. Commitments 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 66% 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.

For the Year Ended June 30, 2011

9. Commitments and Contingencies, continued

With respect to credit risk associated with accounts receivable, Government agency and workshop receivables account for approximately 77% of outstanding receivables. The Center does not appear subject to significant credit risk as the principal account debtors are the Agency For Persons With Disabilities, which accounts for approximately 23% of the outstanding balance; the Department of Vocational Rehabilitation and Palm Beach County, which accounts for approximately 22% of the outstanding balance; and Respect of Florida, which accounts for approximately 11% of the outstanding balance. The remaining balance of its accounts receivable is owed by a variety of organizations or companies.

At various times during the year, the Center has funds on deposit at financial institutions, which exceed the \$250,000 insured by the Federal Deposit Insurance Corporation. As of June 30, 2011, the Center had approximately \$300,000 in excess of insured limits.

10. Board Designated Net Assets

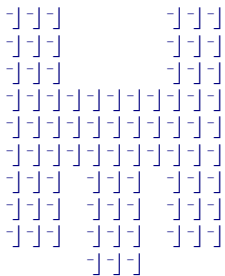
The Center's Board from time to time designates funds for a variety of purposes associated with preserving the Center or supporting a specific Center purpose.

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 designated funds 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 designated categories as funds are needed for the identified and designated purpose, or as the Board deems appropriate for re-designation to another area.

11. Subsequent Events

Date of Management Evaluation

Management has evaluated subsequent events through December 12, 2011, the date on which the financial statements were available to be issued, and determined that there were no further disclosures required to be presented in these financial statements.



Holyfield & Thomas, LLC

Certified Public Accountants & Advisors

125 Butler Street • West Palm Beach, FL 33407

(561) 689-6000 • Fax (561) 689-6001 • www.holyfieldandthomas.com

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 the financial statements of Palm Beach Habilitation Center, Inc. (a not-for-profit corporation) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 12, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Palm Beach Habilitation Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Palm Beach Habilitation Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Palm Beach Habilitation Center, Inc.'s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Palm Beach Habilitation Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Palm Beach Habilitation Center, Inc. in a separate letter dated December 12, 2011.

This report is intended for the information of the board of directors, management, awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holyfield & Thomas, LLC

West Palm Beach, Florida
December 12, 2011

**SUPPLEMENTARY
INFORMATION**

PALM BEACH HABILITATION CENTER, INC.

For the Year Ended June 30, 2011

	Work Crews	ASAP	Case Management	Seniors
Support and revenues:				
Fees and grants:				
Government agencies	\$ -	\$ 156,836	\$ -	\$ 308,777
Palm Beach County Commission	-	-	-	-
Contributions, gifts and special events				
less capital contributions	2,500	15,000	-	5,500
In-kind contributions	-	-	-	-
Store sales	-	-	-	-
Vocational activities	379,270	-	-	-
United Way grants	-	-	79,200	-
Realized and change in unrealized gain, net	-	-	-	-
Other revenue, including client fees	2,609	15,300	-	5,652
Palm Beach County School Board grant	-	-	-	-
Total support and revenues	<u>384,379</u>	<u>187,136</u>	<u>79,200</u>	<u>319,929</u>
Capital contributions	-	-	-	-
Capital purchases released from restriction	-	-	-	-
Total support and revenues	<u>384,379</u>	<u>187,136</u>	<u>79,200</u>	<u>319,929</u>
Salary and related	155,226	141,903	173,753	137,395
Client salaries	131,546	-	-	-
Payroll taxes	22,888	12,578	15,026	12,276
Employee benefits	20,252	19,228	19,478	19,634
	<u>329,912</u>	<u>173,709</u>	<u>208,257</u>	<u>169,305</u>
Expenses:				
Advertising	23	38	80	70
Bad debts	-	-	-	-
Building maintenance and supplies	2,073	2,733	1,698	3,416
Equipment repair and maintenance	9	16	13	322
Fees, dues and reference materials	9,136	2,795	3,488	2,531
Freight and related expense	-	-	-	50
Fundraising venue and other related	-	-	-	-
Insurance	17,608	3,731	3,651	30,975
Legal and audit fees	2,590	-	-	-
Material purchases and program supplies	11,519	7,329	345	15,933
Outside services	303	381	589	610
Printing, computer and office supplies	609	875	2,259	651
Rent	2,160	990	3,229	144
Security service	159	265	212	318
Staff travel, screening and development	1,058	395	796	742
Telephone	1,884	665	574	1,129
Utilities	3,369	5,758	4,635	6,738
Vehicles	12,163	-	20	4,342
Indirect overhead allocation	46,006	42,057	51,497	40,721
	<u>440,581</u>	<u>241,737</u>	<u>281,343</u>	<u>277,997</u>
Net excess (deficiency) before depreciation	(56,202)	(54,601)	(202,143)	41,932
Depreciation	3,852	5,760	2,988	4,488
Net excess (deficiency)	<u>\$ (60,054)</u>	<u>\$ (60,361)</u>	<u>\$ (205,131)</u>	<u>\$ 37,444</u>

See independent auditor's report.

SCHEDULE OF FUNCTIONAL REVENUES AND EXPENSES

(with comparable totals for 2010)

ADM	Supported Living	Supported Employment	Computer Lab	Evaluation	Workshop
\$ 72,512	\$ 102,792	\$ 377,045	\$ 69,922	\$ 85,988	\$ 702,741
-	-	-	-	-	-
-	-	12,665	35,000	-	475
-	-	-	-	-	-
-	-	-	-	-	-
-	-	5,311	-	-	347,581
-	47,875	73,542	-	-	18,400
-	-	-	-	-	-
-	11,764	-	-	-	86,168
-	-	72,305	-	-	264,625
<u>72,512</u>	<u>162,431</u>	<u>540,868</u>	<u>104,922</u>	<u>85,988</u>	<u>1,419,990</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>72,512</u>	<u>162,431</u>	<u>540,868</u>	<u>104,922</u>	<u>85,988</u>	<u>1,419,990</u>
62,484	79,626	472,663	35,784	39,069	462,464
-	-	-	-	2,796	200,093
5,482	7,187	40,830	3,127	3,359	41,455
12,440	8,341	58,688	5,808	3,262	67,347
<u>80,406</u>	<u>95,154</u>	<u>572,181</u>	<u>44,719</u>	<u>48,486</u>	<u>771,359</u>
15	68	53	8	15	391
-	-	-	-	-	2,000
832	3,758	3,828	640	832	18,667
6	14	90	3	6	992
<u>1,166</u>	<u>1,867</u>	<u>7,917</u>	<u>610</u>	<u>4,001</u>	<u>10,668</u>
-	-	-	-	-	18,769
-	-	-	-	-	-
1,554	4,904	8,096	832	1,291	32,172
-	-	-	-	-	-
112	994	975	373	1,740	21,775
<u>152</u>	<u>985</u>	<u>648</u>	<u>3,832</u>	<u>652</u>	<u>9,286</u>
669	1,496	2,218	22,798	699	6,259
4,399	1,957	8,870	2,287	1,789	14,851
106	476	370	53	106	2,640
<u>7,515</u>	<u>10,448</u>	<u>13,289</u>	<u>43</u>	<u>378</u>	<u>2,818</u>
284	2,391	943	167	284	5,730
2,246	10,107	7,861	1,123	2,246	33,832
-	-	45	-	-	6,081
<u>18,519</u>	<u>23,600</u>	<u>140,088</u>	<u>10,606</u>	<u>11,579</u>	<u>137,066</u>
<u>117,981</u>	<u>158,219</u>	<u>767,472</u>	<u>88,094</u>	<u>74,104</u>	<u>1,095,356</u>
(45,469)	4,212	(226,604)	16,828	11,884	324,634
<u>1,500</u>	<u>6,732</u>	<u>5,244</u>	<u>744</u>	<u>1,500</u>	<u>24,468</u>
<u>\$ (46,969)</u>	<u>\$ (2,520)</u>	<u>\$ (231,848)</u>	<u>\$ 16,084</u>	<u>\$ 10,384</u>	<u>\$ 300,166</u>

(continued)

See independent auditor's report.

PALM BEACH HABILITATION CENTER, INC.

For the Year Ended June 30, 2011

(continued)

	Cafeteria	JB's Ranch	BW Group Home	Total Program Services
Support and revenues:				
Fees and grants:				
Government agencies	\$ -	\$ 377,546	\$ 251,346	\$ 2,505,505
Palm Beach County Commission	-	-	-	-
Contributions, gifts and special events				
less capital contributions	100,547	91,212	-	262,899
In-kind contributions	-	-	-	-
Store sales	-	-	-	-
Vocational activities	84,238	-	-	816,400
United Way grants	-	-	-	219,017
	-	-	-	-
Other revenue, including client fees	-	126,890	35,220	283,603
Palm Beach County School Board grant	-	-	-	336,930
Total support and revenues	<u>184,785</u>	<u>595,648</u>	<u>286,566</u>	<u>4,424,354</u>
Capital contributions	-	-	-	-
Capital purchases released from restriction	-	-	-	-
	-	-	-	-
Total support and revenues	<u>184,785</u>	<u>595,648</u>	<u>286,566</u>	<u>4,424,354</u>
Salary and related	77,725	291,712	106,255	2,236,059
Client salaries	33,143	-	-	367,578
Payroll taxes	6,794	25,618	9,845	206,465
Employee benefits	6,971	34,174	10,480	286,103
	<u>124,633</u>	<u>351,504</u>	<u>126,580</u>	<u>3,096,205</u>
Expenses:				
Advertising	90	8	8	867
Bad debts	-	-	-	2,000
Building maintenance and supplies	7,064	11,889	21,685	79,115
Equipment repair and maintenance	1,812	686	(159)	3,810
Fees, dues and reference materials	1,903	6,656	3,786	56,524
Freight and related expense	-	-	14	18,833
Fundraising venue and other related	-	-	-	-
Insurance	6,150	21,490	1,568	134,022
Legal and audit fees	-	-	-	2,590
Material purchases and program supplies	73,854	53,901	30,516	219,366
Outside services	2,931	49,897	7,301	77,567
Printing, computer and office supplies	1,123	724	1,168	41,548
Rent	1,158	719	24	42,577
Security service	635	1,071	1,613	8,024
Staff travel, screening and development	3,755	2,335	2,202	45,774
Telephone	1,708	2,707	2,079	20,545
Utilities	13,476	14,253	12,939	118,583
Vehicles	-	8,078	6,061	36,790
Indirect overhead allocation	23,036	86,458	31,492	662,726
	<u>263,328</u>	<u>612,376</u>	<u>248,877</u>	<u>4,667,466</u>
Net excess (deficiency) before depreciation	<u>(78,543)</u>	<u>(16,728)</u>	<u>37,689</u>	<u>(243,112)</u>
Depreciation	8,976	31,234	35,160	132,646
Net excess (deficiency)	<u>\$ (87,519)</u>	<u>\$ (47,962)</u>	<u>\$ 2,529</u>	<u>\$ (375,758)</u>

See independent auditor's report.

SCHEDULE OF FUNCTIONAL REVENUES AND EXPENSES

(with comparable totals for 2010)

Thrift Store	Fundraising	Administration	Total Supporting Services	2011 Totals	2010 Totals
\$ -	\$ -	\$ -	\$ -	\$ 2,505,505	\$ 2,478,043
-	-	-	-	-	-
4,572	1,091,937	62,200	1,158,709	1,421,608	1,491,389
-	146,628	13,636	160,264	160,264	74,751
126,275	-	-	126,275	126,275	143,381
-	-	-	-	816,400	763,200
-	-	-	-	219,017	223,817
-	-	43,778	21,889	21,889	-
950	20,456	138,654	90,808	374,411	315,258
-	-	-	-	336,930	329,374
131,797	1,259,021	258,268	1,557,945	5,982,299	5,819,213
-	63,750	-	63,750	63,750	59,256
-	(63,750)	63,750	-	-	-
-	-	63,750	63,750	63,750	59,256
131,797	1,259,021	322,018	1,621,695	6,046,049	5,878,469
55,970	100,375	548,893	705,238	2,941,297	2,999,912
575	-	4,528	5,103	372,681	363,630
4,966	8,783	45,425	59,174	265,639	270,148
10,892	12,375	83,415	106,682	392,785	387,138
72,403	121,533	682,261	876,197	3,972,402	4,020,828
53	15	420	488	1,355	1,637
-	-	-	-	2,000	3,152
8,473	19,893	13,753	42,119	121,234	139,727
22	2,188	243	2,453	6,263	7,394
5,809	14,676	58,285	78,770	135,294	99,114
-	-	1,142	1,142	19,975	22,176
-	41,324	-	41,324	41,324	38,452
18,162	1,957	19,775	39,894	173,916	149,275
-	-	31,050	31,050	33,640	26,875
1,968	33,170	8,029	43,167	262,533	250,590
533	16,942	25,504	42,979	120,546	94,411
791	11,566	10,718	23,075	64,623	51,824
2,313	1,789	6,876	10,978	53,555	37,225
1,006	106	423	1,535	9,559	10,097
19	891	12,398	13,308	59,082	58,315
1,046	284	2,077	3,407	23,952	22,889
7,861	2,246	9,815	19,922	138,505	140,195
3,574	15	11,839	15,428	52,218	45,090
16,588	29,749	(709,063)	(662,725)	-	-
140,621	298,344	185,545	624,511	5,291,976	5,219,266
(8,824)	960,677	136,473	997,184	754,073	659,203
5,232	1,500	29,334	36,066	168,712	150,028
\$ (14,056)	\$ 959,177	\$ 107,139	\$ 961,118	\$ 585,361	\$ 509,175

See independent auditor's report.