

**HIBISCUS CHILDREN'S CENTER, INC.
AND AFFILIATE,
HIBISCUS CHILDREN'S CENTER
FOUNDATION, INC.**

**Combined Financial Statements
with
Independent Auditors' Report**

Year Ended June 30, 2018
(With Corresponding Totals for June 30, 2017)

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KMETZ • NUTTALL • ELWELL • GRAHAM, PLLC
Certified Public Accountants

Independent Auditors' Report

To the Boards of Directors
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying combined financial statements of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc. (the "Organization"), which comprise the combined statement of financial position as of June 30, 2018, and the related combined statements of activities, functional expenses, and cash flows 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.

Auditors' 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.

To the Boards of Directors
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.
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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc. as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information and Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018, on our consideration of the Organizations' 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 the Organizations' internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Organizations' 2017 financial statements and our report, dated December 7, 2017, expressed an unmodified opinion on those audited financial statements. 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 those audited financial statements from which it has been derived.

Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants
September 27, 2018



Hibiscus Children's Center, Inc. and Affiliate
 Combined Statement of Financial Position
 June 30, 2018
 (With corresponding totals as of June 30, 2017)

	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,026,597	\$ 1,125,972
Accounts receivable, net	636,602	610,304
Contributions receivable, net	132,852	52,500
Prepays and other assets	81,686	52,823
Total current assets	1,877,736	1,841,599
Other Assets:		
Investments	3,797,816	3,545,308
Contributions receivable, net	188,456	120,956
Deposits	18,765	18,765
Total other assets	4,005,037	3,685,029
Property and equipment, net	3,272,518	2,967,974
Total assets	\$ 9,155,291	\$ 8,494,602
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 167,890	\$ 106,893
Accrued compensation and related expenses	481,559	516,931
Deferred revenue	1,000	17,300
Total current liabilities	650,449	641,124
Total liabilities	650,449	641,124
Net Assets:		
Unrestricted:		
Designated	3,199,356	2,985,685
Undesignated	4,475,217	4,174,643
Total unrestricted	7,674,573	7,160,328
Temporarily restricted	711,877	574,758
Permanently restricted	118,392	118,392
Total net assets	8,504,842	7,853,478
Total liabilities and net assets	\$ 9,155,291	\$ 8,494,602

See accompanying notes to financial statements.



Hibiscus Children's Center, Inc. and Affiliate
 Combined Statement of Activities and Changes in Net Assets
 For the Year ended June 30, 2018
 (With corresponding totals as of June 30, 2017)

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	All Funds Combined
Public Support and Revenue					
Grants and contracts for operations	\$ 4,466,362	\$ -	\$ -	\$ 4,466,362	\$ 3,589,936
Program service revenues	1,354,856	-	-	1,354,856	1,554,109
Donations	767,874	870,368	-	1,638,242	1,455,338
Thrift Shop	327,777	-	-	327,777	299,495
Fundraising events	859,513	-	-	859,513	874,431
Less direct costs of events	(204,769)	-	-	(204,769)	(173,519)
Investment income	211,534	-	-	211,534	336,056
Net assets released from restriction	733,249	(733,249)	-	-	-
Total public support and revenue	8,516,396	137,119	-	8,653,515	7,935,846
Expenses					
Program services					
Residential programs	4,593,183	-	-	4,593,183	3,701,600
Clinical	1,499,197	-	-	1,499,197	1,344,203
Support for families in crisis	212,237	-	-	212,237	141,326
Total program services	6,304,617	-	-	6,304,617	5,187,129
Thrift Shop	265,628	-	-	265,628	245,662
Fundraising activities	449,011	-	-	449,011	531,926
General and Administrative	982,894	-	-	982,894	927,446
Total program and supporting services	8,002,151	-	-	8,002,151	6,892,163
Increase in net assets	514,245	137,119	-	651,364	1,043,683
Net assets, beginning of year	7,160,328	574,758	118,392	7,853,478	6,809,795
Net assets, end of year	\$ 7,674,573	\$ 711,877	\$ 118,392	\$ 8,504,842	\$ 7,853,478

See accompanying notes to financial statements.

Hibiscus Children's Center, Inc. and Affiliate
 Combined Statement of Functional Expenses
 For the Year ended June 30, 2018
 (With corresponding totals as of June 30, 2017)

	2018				2018			2017	
	Residential Programs	Clinical	Support for Families In Crisis	Total Program Services	Thrift Store	Fundraising	General and Administrative	Total	All Funds Combined
Salaries and wages	\$ 2,782,017	\$ 976,263	\$ 133,914	\$ 3,892,194	\$ 128,474	\$ 208,610	\$ 617,661	\$ 4,846,939	\$ 4,280,694
Employee benefits	524,234	154,508	25,779	704,521	28,776	30,643	159,438	923,377	692,263
Payroll taxes	187,835	66,240	9,467	263,542	8,799	10,688	38,752	321,781	317,942
Total compensation and related expenses	3,494,085	1,197,012	169,160	4,860,257	166,048	249,941	815,850	6,092,097	5,290,899
Aid to families	12,232	-	11,729	23,962	-	-	-	23,962	8,245
Bad debt	-	73,307	-	73,307	-	-	-	73,307	(31,964)
Depreciation	185,668	6,484	-	192,153	105	-	16,173	208,431	208,983
Donor appreciation	-	-	-	-	-	9,324	-	9,324	880
Dues, licenses and subscriptions	2,494	375	140	3,009	140	14,933	4,227	22,308	25,319
Equipment rental and maintenance	118,479	14,865	4,220	137,563	2,309	20,385	12,692	172,950	159,287
General operating supplies	205,105	3,230	444	208,779	1,909	15,763	10,975	237,426	208,129
Insurance	109,492	14,786	2,108	126,386	5,418	2,177	15,342	149,323	158,152
Interest	-	-	-	-	-	-	-	-	292
Occupancy	100,203	29,379	6,535	136,116	62,616	19,108	25,838	243,678	235,673
Office expenses and miscellaneous	76,065	35,300	3,568	114,933	12,665	47,974	40,198	215,771	134,624
Printing and distribution	5,761	275	88	6,125	75	12,616	1,735	20,551	20,380
Professional services	58,682	53,833	1,944	114,459	4,773	5,014	16,644	140,891	141,312
Program expenses	98,676	8,187	500	107,363	-	5,820	-	113,183	76,503
Public education, advocacy and promotion	8,975	-	-	8,975	284	36,087	-	45,346	30,658
Telephone	34,230	21,536	4,752	60,518	3,029	5,342	7,621	76,510	71,361
Training	27,675	9,473	79	37,228	-	583	6,695	44,505	62,412
Travel and transportation	55,361	31,154	6,970	93,485	6,255	3,945	8,905	112,590	91,018
Total expenses	\$ 4,593,183	\$ 1,499,197	\$ 212,237	\$ 6,304,617	\$ 265,628	\$ 449,011	\$ 982,894	\$ 8,002,151	\$ 6,892,163

See accompanying notes to financial statements.



Hibiscus Children's Center, Inc. and Affiliate
 Combined Statement of Cash Flows
 For the Year ended June 30, 2018
 (With corresponding totals as of June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 651,364	\$ 1,043,683
Adjustments to reconcile increase in net assets to net cash flows provided by (used for) operating activities:		
Depreciation	208,431	208,983
Net realized and unrealized (gain) loss on investments	(244,971)	(355,892)
(Increase) decrease in:		
Accounts receivable	(26,298)	(214,705)
Contributions receivable	(147,852)	(89,168)
Prepays and other assets	(28,863)	(47,512)
Increase (decrease) in:		
Accounts payable	60,997	29,332
Accrued compensation and related expenses	(35,372)	157,387
Deferred revenue	(16,300)	13,305
Net cash provided by operating activities	421,137	745,413
Cash flows from investing activities		
Proceeds from sale of property and equipment	-	252,880
Purchase of property and equipment	(520,384)	(279,052)
Proceeds from sale of investments	3,786,861	604,619
Purchase of investments	(3,786,989)	(432,483)
Net cash provided by (used for) investing activities	(520,512)	145,964
Cash flows from financing activities:		
Payments on line of credit	-	(83,466)
Net cash used for financing activities	-	(83,466)
Net increase (decrease) in cash	(99,375)	807,911
Cash, beginning of year	1,125,972	318,061
Cash, end of year	\$ 1,026,597	\$ 1,125,972
Supplemental disclosure of cash flow information:		
Interest paid	\$ -	\$ 292

See accompanying notes to financial statements.

Hibiscus Children’s Center, Inc. and Affiliate

Notes to Combined Financial Statements

For the Year ended June 30, 2018

Note 1 – Description of Organization

Hibiscus Children’s Center, Inc. (“Hibiscus”) is a Florida not-for-profit corporation organized and licensed by the Florida Department of Children and Families to operate a number of well-defined programs to meet the critical needs of Florida’s abused or neglected children and their families. These programs are varied in scope to focus directly on the needs of these troubled children and include high quality residential care, assistance to families in trouble, therapeutic services and support for foster families. Serving principally the Martin, Okeechobee, St. Lucie and Indian River counties of Florida, Hibiscus was incorporated on September 11, 1985 and opened the first shelter in October 1989. Hibiscus provided the following social, health and welfare services to the community during the fiscal year ended June 30, 2018:

Hibiscus Residential Programs provide a safe environment for newborns to 17- year olds with 24-hour supervision, medical and dental care, plus psychological counseling through facilities at its Jensen Beach Shelter, Vero Beach Children’s Village and St. Lucie Sanctuary4Kids Emergency Shelter. At these facilities, children live in a home-like environment where they can more naturally prepare for successful transition into foster or adoptive homes. Hibiscus is the only licensed residential child caring shelter on the Treasure Coast of Florida. The facilities care for children removed from their families by court order.

Hibiscus Clinical Programs provide a wide range of mental health services to residential and outpatient clients. These services include individual, family and group therapy, psychiatric evaluation, medication management and many more critical services that support children and their families in our community.

Hibiscus Support For Families in Crisis is a nationally recognized abuse prevention program for families who seek help voluntarily offering respite care, counseling, housing and mental health services.

Affiliated Corporation

The Hibiscus Children’s Center Foundation, Inc. (“Foundation”) was established for the purpose of conducting fundraising activities and for generating and maintaining endowment funds exclusively for Hibiscus. Both Hibiscus and the Foundation are related organizations with a majority of the same Board of Directors. The accompanying financial statements include the accounts of both entities. Inter-company transactions and balances have been eliminated.

Hibiscus Children's Center, Inc. and Affiliate

Notes to Financial Statements (continued)

Note 2 – Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles, using the accrual basis of accounting. Assets and related revenues are recorded when earned, and liabilities and related expenses are recognized as incurred. In applying generally accepted accounting principles to program service revenues, the legal and contractual requirements of the individual programs are used as guidance.

Basis of Presentation

Net assets, revenues expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Permanently Restricted

Represents an endowment whose principal must be maintained by the organization in perpetuity. The income earned on the principal may be used to further the operations of Hibiscus' activities.

Temporarily Restricted

Represents the portion of expendable funds that are restricted by the grantor or donor as to the way they may be utilized. Hibiscus uses this fund primarily to account for grant and donor funds received for specific purposes or for a time in the future.

Unrestricted

Represents the portion of net assets that are not subject to donor restriction and that are available for support of operations.

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions are considered temporarily restricted if a donor imposes a restriction that may be satisfied by the passage of time or the actions of the organization. A permanently restricted contribution stipulates that the contribution be maintained permanently but may allow the organization to use all of part of the income derived from the underlying asset for unrestricted purposes. When a donor restriction expires, that is, when a 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.

Cash Equivalents

Cash and cash equivalents include cash and investments that are readily convertible into cash and have original maturities of three months or less. Amounts held in individual financial institutions may exceed FDIC insured limits. Uninsured cash equivalent balances were \$485,747 and \$595,999 at June 30, 2018 and June 30, 2017, respectively. Hibiscus has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Hibiscus Children's Center, Inc. and Affiliate

Notes to Financial Statements (continued)

Note 2 – Summary of Significant Accounting Policies (continued)

Investments

Debt and equity securities with readily determinable fair values purchased for investment are recorded at fair value based on quoted market prices. Net appreciation (depreciation) in the fair value of investments, which includes realized gains and losses and unrealized appreciation (depreciation) on those investments, is reported in the statement of activities. Cost basis is determined on the date of purchase. Hibiscus, on occasion, receives short-term investments, generally consisting of stocks or bonds, from donors in satisfaction of pledges made. The organization sells the contributed investments as soon as is practical after receipt.

Unconditional Promises to Give

Unconditional promises to give (contributions receivable) are recognized as revenue and as assets in the year the pledge is received. Unconditional promises to give that are scheduled to be collected in the succeeding twelve months are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give that are scheduled to be collected beyond the succeeding twelve months are reflected as long-term promises to give and are recorded at the present value of their net realizable value. Management considers the unconditional promises receivable at year-end to be fully collectible, therefore, an allowance for uncollectible promises has not been recorded.

Property and Equipment

Property and equipment acquisitions greater than \$1,000 are capitalized and are stated at cost. Donated property and equipment is recorded at the fair market value at the date of the gift. Depreciation is provided on a straight-line basis over the estimated useful life of the asset, which ranges from 3 - 40 years.

In-kind Contributions

Hibiscus records in-kind contributions of services requiring special skills that create or enhance the value of non-financial assets at their fair market values consistent with those amounts which would be paid for similar products and services.

Contributed Services

While Hibiscus receives a significant amount of donated services from unpaid volunteers that enhance the effectiveness of the programs or assist in fund-raising and administration, these services do not create or enhance non-financial assets nor do they require specialized skills that if not provided by a volunteer would be purchased. Accordingly, while these services contribute to the success of the programs, they do not meet the criteria for recognition under ASC 958-605-25-16 and have not been reflected in the accompanying financial statements.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Hibiscus Children's Center, Inc. and Affiliate

Notes to Financial Statements (continued)

Note 2 – Summary of Significant Accounting Policies (continued)

Income Taxes

Hibiscus and its affiliate are exempt from federal and state income tax as organizations described in Section 501(c)(3) of the Internal Revenue Code. Neither Hibiscus nor its affiliate Foundation are considered private foundations.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Prior Period Information

The financial statements include certain prior year corresponding totals intended to be read only in relation to the current period presentation. The corresponding information was derived from Hibiscus's audited financial statements for the year ended June 30, 2017, but herein, does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. The prior year corresponding totals may also reflect certain reclassifications of amounts to conform to current year presentations.

Note 3 – Contributions Receivable

Contributions receivable as of June 30, 2018 and 2017, consist of unconditional promises to give in future years as follows:

	2018	2017
Within one year	\$ 132,852	\$ 52,500
Within two to five years	130,000	60,000
Over five year	58,456	60,956
	<u>\$ 321,308</u>	<u>\$ 173,456</u>

Note 4 – Accounts Receivable

Accounts receivable of \$636,602 at June 30, 2018 and \$610,304 at June 30, 2017 consist primarily of vendor contracts from federal and state funding sources and Medicaid. The above amounts are reported net of an allowance of \$20,910 at June 30, 2018 and \$16,193 at June 30, 2017.

Hibiscus Children's Center, Inc. and Affiliate

Notes to Financial Statements (continued)

Note 5 – Investments

Investments, carried at fair value based on quoted prices in active markets (all Level 1 Measurements), consist of the following at June 30, 2018:

	Cost	Fair Market Value	Net Unrealized Gains (Losses)
Exchange traded products	\$ 3,449,975	\$ 3,633,288	\$ 183,313
Cash and cash alternatives	114,537	114,537	-
Fixed income products	49,991	49,991	-
	\$ 3,614,503	\$ 3,797,816	\$ 183,313

Investments, carried at fair value based on quoted prices in active markets (all Level 1 Measurements), consist of the following at June 30, 2017:

	Cost	Fair Market Value	Net Unrealized Gains (Losses)
Exchange traded products	\$ 3,188,279	\$ 3,384,670	\$ 196,391
Cash and cash alternatives	140,527	140,527	-
Corporate bonds	20,000	20,111	111
	\$ 3,348,806	\$ 3,545,308	\$ 196,502

The composition of investment return includes the following for the years ended June 30:

	2018	2017
Interest and dividend earnings	\$ 69,066	\$ 64,421
Net realized gain (loss) on investments	2,953	90,798
Net unrealized gain (loss) on investments	183,313	196,502
	\$ 255,332	\$ 351,721

Hibiscus maintains investment balances at a brokerage institution insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000, including a maximum \$250,000 for cash claims. SIPC protection would be triggered only in the event of the financial failure and liquidation of a participating securities affiliate and if Hibiscus' securities were not returned. This protection does not cover investment losses in customer accounts due to market fluctuation or other claims for losses incurred. Investments of \$3,683,279 and \$3,404,781 at June 30, 2018 and June 30, 2017, respectively, consist of exchange traded products and fixed income products which are subject to market risk of fluctuations in value.

Hibiscus Children’s Center, Inc. and Affiliate

Notes to Financial Statements (continued)

Note 6 – Fair Value Measurements

ASC topic 820, “Fair Value Measurements and Disclosures”, defines fair value, establishes guidelines for measuring fair value, and expands disclosure regarding fair value measurements. ASC Topic 820 established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. ASC Topic 820 establishes and prioritizes three levels of inputs that may be used to measure fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability.

Fair values of assets measured on a recurring basis at June 30, 2018 are as follows:

	Level 1	Level 2	Level 3
Exchange traded products	\$ 3,633,288	\$ -	\$ -
Fixed Income products	49,991	-	-
Contributions receivable	-	-	321,308
	\$ 3,683,279	\$ -	\$ 321,308

Fair values of assets measured on a recurring basis at June 30, 2017 are as follows:

	Level 1	Level 2	Level 3
Exchange traded products	\$ 3,384,670	\$ -	\$ -
Corporate bonds	20,111	-	-
Contributions receivable	-	-	173,456
	\$ 3,404,781	\$ -	\$ 173,456

Hibiscus Children's Center, Inc. and Affiliate

Notes to Financial Statements (continued)

Note 7 – Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30:

	2018	2017
Land and improvements	\$ 272,449	\$ 156,131
Building and improvements	3,979,559	3,982,259
Furniture and Equipment	391,496	354,496
Data processing equipment	123,577	154,022
Vehicles and improvements	263,037	263,037
Construction in Process	334,491	-
	5,364,609	4,909,945
Accumulated depreciation	(2,092,091)	(1,941,971)
	\$ 3,272,518	\$ 2,967,974

Note 8 – Line of Credit

Hibiscus Children's Center maintains a line of credit in an amount not to exceed \$600,000 with interest at the Wall Street Journal Prime Rate less 0.5%. The line of credit matures on January 15, 2019. At June 30, 2018 and 2017 the outstanding balance due was \$0 and \$0, respectively.

Note 9 – Lease Commitments

Hibiscus rents office space, a vehicle, and various equipment. Rent expense was approximately \$185,000 and \$172,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

Hibiscus has committed to various long-term vehicle and equipment leases with terms expiring through 2020. Future minimum rental payments under these agreements are as follows:

Fiscal year ending:	
2019	\$ 45,336
2020	\$ 16,358

Note 10 – Retirement Plan

Hibiscus Children's Center sponsors a 401(k) plan that covers all employees who have completed their initial 90 day probationary period. Employees deferring compensation into the plan receive up to a 100 percent match, on their first 3% contribution, which is optional at the discretion of the Board of Directors. For the years ended June 30, 2018 and June 30, 2017, the amount of pension expense was \$97,986 and \$93,827, respectively.

Hibiscus Children’s Center, Inc. and Affiliate

Notes to Financial Statements (continued)

Note 11 – Unrestricted, Board Designated Net Assets

Unrestricted net assets have been designated by the Board for the following purposes or sources at June 30:

	2018	2017
Board Designated endowment	\$ 3,199,356	\$ 2,985,685

Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets relate to contributed assets and related earnings, as applicable, which are restricted by the respective donors for a specified program or purpose. Temporarily restricted net assets are available for the following purposes or sources at June 30:

	2018	2017
Shelter Makeover Campaign	\$ 296,115	\$ -
Village Improvement Campaign	41,044	-
Capital funds	237,571	279,236
Residential and other programs	110,289	175,644
Graphic design center	18,352	100,000
Guilds	8,506	19,878
	\$ 711,877	\$ 574,758

During the fiscal year, net assets were released from donor/grantor restrictions by incurring expenses satisfying restricted purposes or the passage of time as follows:

	2018	2017
Shelter Makeover Campaign	\$ 287,535	\$ -
Village Improvement Campaign	46,956	-
Capital funds	41,665	32,594
Residential and other programs	259,076	352,445
Graphic design center	81,648	-
Guilds	16,369	6,759
	\$ 733,249	\$ 391,798

Hibiscus Children’s Center, Inc. and Affiliate

Notes to Financial Statements (continued)

Note 13 –Endowment

Hibiscus has classified a substantial portion of its financial resources as endowment, which is invested to generate income to be used to support operating and strategic initiatives. These assets include pure endowment funds and funds functioning as endowment. Funds functioning as endowments are organization resources designated by the board as endowments and are invested for long-term appreciation and current income. These assets, however, remain available and may be spent at the board’s discretion. Funds functioning as endowments are recorded as unrestricted net assets.

Interpretation of Relevant Law

The State of Florida enacted the Uniform Prudent Management of Institutional Funds Act’s (UPMIFA) enhanced disclosures required by Accounting Standards Codification Endowments of Not-for-Profit Organizations, Net Assets Classification of Funds Subject to an Enacted Version of the UPMIFA, and Enhanced Disclosure for All Endowment Funds, which became effective July 1, 2012. The board of directors of the organization is requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary, which is a valid interpretation of UPMIFA.

As a result of this interpretation, the organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted is classified as temporarily restricted until those amounts are appropriated for expenditure by the Organization’s board.

Hibiscus considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Hibiscus and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Hibiscus
- The investment policies of Hibiscus

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Hibiscus policies requires to retain as a fund of perpetual duration. If this were to occur, Hibiscus would not expend any monies from the fund until the fair market value of the fund returns to a level above the principal. Hibiscus does not have any deficiencies as of June 30, 2018.

Hibiscus Children's Center, Inc. and Affiliate

Notes to Financial Statements (continued)

Note 13 –Endowment (continued)

Return Objectives and Risk Parameters

Hibiscus has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operations supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by Hibiscus, the endowment assets are invested in a manner that is intended to produce results that meet or exceed certain relevant market benchmark indexes while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

Hibiscus relies on a total return strategy in which returns are achieved through capital appreciation and current yield (interest and dividends). Hibiscus targets a diversified asset allocation that emphasizes a balance between equities and fixed income securities to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Hibiscus's spending policy, as authorized by the Board of Directors, is to consider expected rates of return on investments, restrictions on principal, requirements to support operations and special projects, maintenance of prudent reserves, tax code requirements, and allowances for market and economic uncertainties, as applicable. Transfers to operating accounts from the endowment funds earnings require appropriation by the Board or Executive Committee.

The permanent restrictions on net assets at June 30, 2018 consist of contributed assets restricted by the donors as endowments to provide an ongoing source of revenue for Hibiscus.

Endowment net asset composition as of June 30, 2018 is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment funds and and appreciation	\$ 3,199,356	\$ 7,984	\$ 118,392	\$ 3,325,732

Endowment net asset composition as of June 30, 2017 is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment funds and and appreciation	\$ 2,985,685	\$ -	\$ 118,392	\$ 3,104,077

Hibiscus Children's Center, Inc. and Affiliate

Notes to Financial Statements (continued)

Note 13 – Endowment (continued)

Changes in investment net assets, including endowment net assets, from June 30, 2018 through June 30, 2017 are as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Endowment Total	Unrestricted Investments	Total Investments
Investment net assets at June 30, 2017	\$ 2,985,685	\$ -	\$ 118,392	\$ 3,104,077	\$ 441,231	\$ 3,545,308
Contributions	-	-	-	-	-	-
Net investment activity	213,671	7,984	-	221,655	30,853	252,508
Appropriated for expenditure	-	-	-	-	-	-
Investment net assets at June 30, 2017	\$ 3,199,356	\$ 7,984	\$ 118,392	\$ 3,325,732	\$ 472,084	\$ 3,797,816

Note 14 – Support From Other Governmental Agencies

Hibiscus entered into various agreements during the year ended June 30, 2018 with The Children's Services Councils of St. Lucie County and Okeechobee County to receive local matching financial assistance necessary to qualify for federal and state grants. The following represents the revenues, donations and expenditures associated with each program and funding agency:

	Families in Crisis	Clinical	2018	2017
Children's Services Councils grant revenues serving:				
St. Lucie County	\$ 177,074	\$ -	\$ 177,074	\$ 131,106
Okeechobee County	-	32,333	32,333	16,666
	177,074	32,333	209,407	147,772
Program expenditures	(212,237)	(1,499,197)	\$(1,711,434)	(1,485,529)
Excess from other sources	\$ (35,164)	\$(1,466,864)	\$(1,502,027)	\$(1,337,757)

Note 15 – Disclosure of Subsequent Events

Management has evaluated subsequent events through September 27, 2018, the date the financial statements were available to be issued. Management is not aware of any events subsequent to the statement of financial position date which would require additional adjustments to, or disclosure in, the accompanying financial statements.

SUPPLEMENTARY INFORMATION

Hibiscus Children's Center, Inc. and A ffiliate
Combining Schedule of Financial Position
June 30, 2018
(With corresponding totals as of June 30, 2017)

	Hibiscus Children's Center, Inc.	Hibiscus Children's Center Foundation, Inc.	2018 Combined	2017 Combined
Assets				
Current Assets:				
Cash and cash equivalents	\$ 542,382	\$ 484,215	\$ 1,026,597	\$ 1,125,972
Accounts receivable, net	636,602	-	636,602	610,304
Contributions receivable, net	18,352	114,500	132,852	52,500
Prepays and other assets	78,214	3,472	81,686	52,823
Due from Foundation (due to Center)	464,633	(464,633)	-	-
Total current assets	1,740,183	137,553	1,877,736	1,841,599
Other Assets:				
Investments	-	3,797,816	3,797,816	3,545,308
Contributions receivable, net	69,500	118,956	188,456	120,956
Deposits	13,565	5,200	18,765	18,765
Total other assets	83,065	3,921,972	4,005,037	3,685,029
Property and equipment, net	3,272,518	-	3,272,518	2,967,974
Total assets	\$ 5,095,766	\$ 4,059,525	\$ 9,155,291	\$ 8,494,602
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable	\$ 166,897	\$ 993	\$ 167,890	\$ 106,893
Accrued compensation and related expenses	481,559	-	481,559	516,931
Deferred revenue	-	1,000	1,000	17,300
Line of credit	-	-	-	-
Total current liabilities	648,457	1,993	650,449	641,124
Total liabilities	648,457	1,993	650,449	641,124
Net Assets:				
Unrestricted:				
Designated	-	3,199,356	3,199,356	2,985,685
Undesignated	4,475,217	-	4,475,217	4,174,643
Total unrestricted	4,475,217	3,199,356	7,674,573	7,160,328
Temporarily restricted	137,147	574,730	711,877	574,758
Permanently restricted	-	118,392	118,392	118,392
Total net assets	4,447,310	4,057,533	8,504,842	7,853,478
Total liabilities and net assets	\$ 5,095,766	\$ 4,059,525	\$ 9,155,291	\$ 8,494,602

See accompanying notes to financial statements.

Hibiscus Children's Center, Inc. and Affiliate
Combining Schedule of Activities and Changes in Net Assets
For the Year ended June 30, 2018
(With corresponding totals as of June 30, 2017)

	Hibiscus Children's Center, Inc.	Hibiscus Children's Center Foundation, Inc.	2018 Combined	2017 Combined
Public Support and Revenue				
Grants and contracts for operations	\$ 4,466,362	\$ -	\$ 4,466,362	\$ 3,589,936
Program service revenues	1,354,856	-	1,354,856	1,554,109
Donations	747,937	890,305	1,638,242	1,455,338
Thrift Shop	327,777	-	327,777	299,495
Fundraising events	-	859,513	859,513	874,431
Less direct costs of events	-	(204,769)	(204,769)	(173,519)
Investment income	(41,280)	252,814	211,534	336,056
Total public support and revenue	6,855,652	1,797,863	8,653,515	7,935,846
Expenses				
Program services				
Residential programs	4,593,183	-	4,593,183	3,701,600
Clinical	1,499,197	-	1,499,197	1,344,203
Support for families in crisis	212,237	-	212,237	141,326
Total program services	6,304,617	-	6,304,617	5,187,129
Thrift Shop	265,628	-	265,628	245,662
Fundraising activities	151,872	297,139	449,011	531,926
General and Administrative	982,894	-	982,894	927,446
Total program and supporting services	7,705,011	297,139	8,002,151	6,892,163
Change in net assets before transfers	(849,360)	1,500,724	651,364	1,043,683
Transfer from Foundation to Center	1,166,001	(1,166,001)	-	-
Change in net assets after transfers	316,642	334,723	651,364	1,043,683
Net assets, beginning of year	4,130,668	3,722,810	7,853,478	6,809,795
Net assets, end of year	\$ 4,447,310	\$ 4,057,533	\$ 8,504,842	\$ 7,853,478

See accompanying notes to financial statements.



KMETZ • NUTTALL • ELWELL • GRAHAM, PLLC
Certified Public Accountants

**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 Boards of Directors of
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.

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 Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc., which comprise the combined statement of financial position as of June 30, 2018, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Hibiscus Children's Center, Inc. and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of Hibiscus Children's Center, Inc. and Affiliate'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did not identify deficiencies in internal control that we considered to be a material weakness. However, we did identify deficiencies in internal controls that we considered to be significant deficiencies, as follows:

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2018-01 Identification of Donor Restricted Funds

Criteria: Temporarily restricted net asset activity was not complete.

Condition: Schedule requested for audit on temporarily restricted net assets was missing donor restricted funding to the capital campaigns currently underway for renovations to the Shelter and Village. Likewise, releases of restricted funding were not complete.

Effect: Donor restrictions might not be properly captured or released and donor restricted net assets misstated.

Cause: Limited understanding and tracking of donor restrictions versus internal designations, which is aggravated by the imperfect interface between the accounting software and the development software.

Recommendation: We recommend that the organization refresh its understanding and diligence regarding net asset classifications, and of other compliance issues in accounting for the receipt and release of donor restricted funding.

Management Response:

Management agrees with the auditor's recommendation to review and enhance the agency's understanding of its net asset classification and its systems' capabilities of properly tracking donor restricted funds. The agency routinely captured and reported donor restrictions, revenue and related expenditures utilizing FE (Financial Edge/Blackbaud) accounting system as projects and recognizes there are limitations with the current accounting system.

2018-02 Debit and Credit Card Purchase Authorization and Review

Criteria: All purchases, no matter method of payment, should be documented, approved and coded for input.

Condition: During our testing, 16% of our disbursement sample of 45 selections did not have complete documentation and/or supervisory authorization. All of the exception items consisted of debit and credit card purchases. Current purchasing authorization, documentation, and review procedures pertain to check disbursements, but debit, credit card, and petty cash purchases do not follow the same protocol. HCC maintains \$60,000 worth of purchasing limits across 23 cards.

Effect: Potentially exposes the organization to unauthorized use of funds and inability to support certain expenses for benefit of residents.

Cause: Lack of oversight and review.

Recommendation: All credit card, debit card, and petty cash purchases should be substantiated by receipt and coded for purpose. The summary spreadsheet currently used for coding should be consistently prepared and fully completed to include preparer and supervisor initials and date.

Management Response:

Management agrees with auditor's recommendation to review and supplement its credit card and petty cash purchases approvals and policies and procedures. Debit cards were used for a brief time as a test process and terminated for the same reason as the audit finding. The credit card approval process was in place throughout the year with approval consistency reinstated with the new CEO in place in June.

Compliance and Other Matters

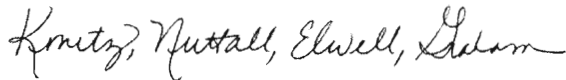
As part of obtaining reasonable assurance about whether Hibiscus Children’s Center, Inc. and Affiliate’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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 test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Hibiscus Children’s Center and Affiliate’s Response to Findings

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

Purpose of this Report

The purpose of this report is 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.



Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants

September 27, 2018