ADOPT-A-FAMILY
OF THE PALM BEACHES, INC.

REPORT ON AUDIT OF
CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended June 30, 2014
(with comparable totals for 2013)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Adopt-A-Family
of the Palm Beaches, Inc.
Lake Worth, Florida

We have audited the accompanying consolidated financial statements of Adopt-A-Family of the Palm Beaches, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Adopt-A-Family of the Palm Beaches, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of Adopt-A-Family of the Palm Beaches, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Adopt-A-Family of the Palm Beaches, Inc.'s internal control over financial reporting and compliance.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. In addition, the consolidated schedule of program expenses is presented for purposes of additional analysis, and is not a required part of the basic consolidated financial statements. The schedule of expenditures of federal awards and consolidated schedule of program expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the June 30, 2013 financial statements, and our report dated February 7, 2014, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Holyfield & Thomas, LLC

West Palm Beach, Florida
December 19, 2014

ADOPT-A-FAMILY OF THE PALM BEACHES, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2014 ***(with comparable totals for 2013)***

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents - unrestricted	$ 504,942	$ 369,811
Cash and cash equivalents - restricted	1,121,270	222,378
Grants and allocations receivable	567,444	569,146
Contributions receivable, net	64,964	12,945
Prepaid expenses	25,533	51,027
Total current assets	2,284,153	1,225,307
Other assets	6,768	6,768
Property and equipment, net	4,480,360	4,590,854
Community land trust, net	1,878,672	1,952,328
Neighborhood stabilization program 2	-	146,500
Total assets	$ 8,649,953	$ 7,921,757
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 47,234	$ 87,608
Accrued expenses	113,163	91,172
Refundable advances	200,000	51,000
Resident deposits and escrow accounts	110,864	101,918
Line of credit	95,000	325,000
Current portion of obligation under capital lease	19,237	19,800
Current portion of loan payable	9,276	8,742
Total current liabilities	594,774	685,240
Non-current liabilities:		
Obligation under capital lease	81,758	31,350
Loan payable	188,971	198,247
Total liabilities	865,503	914,837
Net assets:		
Unrestricted:		
Equity in fixed assets	2,357,993	2,445,834
Equity in community land trust	1,783,672	1,627,328
Designated for contingencies	-	80,000
Undesignated	810,341	672,766
Total unrestricted	4,952,006	4,825,928
Temporarily restricted	2,832,444	2,180,992
Total net assets	7,784,450	7,006,920
Total liabilities and net assets	$ 8,649,953	$ 7,921,757

See accompanying notes to financial statements.

For the Year Ended June 30, 2014 ***(with comparable totals for 2013)***

	Unrestricted	Temporarily Restricted	2014 Totals	2013 Totals
Support and revenue:				
Grants and donations:				
Governmental grants	$ 2,710,155	$ 833,172	$ 3,543,327	$ 3,545,029
United Way allocations	334,849	135,470	470,319	438,617
Contributions	929,777	-	929,777	856,283
In-kind donations	28,487	-	28,487	38,493
Total grants and donations	4,003,268	968,642	4,971,910	4,878,422
Fundraising	694,183	118,908	813,091	531,560
Rents	406,280	-	406,280	367,754
Other Income	49,728	-	49,728	39,224
GROW Tuition	19,144	-	19,144	13,539
Investment Income	311	-	311	-
Total support and revenue	5,172,914	1,087,550	6,260,464	5,830,499
Net assets released from restriction	436,098	(436,098)	-	-
Expenses:				
Program services	4,554,730	-	4,554,730	5,691,806
General and administrative	342,247	-	342,247	347,378
Fundraising	585,957	-	585,957	432,163
Total expenses	5,482,934	-	5,482,934	6,471,347
Change in net assets	126,078	651,452	777,530	(640,848)
Net assets, beginning of year	4,825,928	2,180,992	7,006,920	7,647,768
Net assets, end of year	$ 4,952,006	$ 2,832,444	$ 7,784,450	$ 7,006,920

See accompanying notes to financial statements.

	2014	2013
Cash flows from operating activities:		
Cash received from grants and donations	$ 5,042,106	$ 3,946,846
Cash received from fundraising	649,614	365,673
Cash received from rents and tuition	406,280	381,293
Cash received from sale of properties	135,674	709,714
Cash paid to suppliers and employees	(4,879,664)	(5,126,036)
Other income received	60,144	39,224
Interest expense paid	(22,027)	(26,269)
Net cash provided by operating activities	1,392,127	290,445
Cash flows from investing activities:		
Purchase of property and equipment	(106,987)	(92,212)
Collection of other assets	-	15,600
Net cash used in investing activities	(106,987)	(76,612)
Cash flows from financing activities:		
Advances from line of credit	50,000	-
Payments on line of credit	(280,000)	(25,000)
Change in resident deposits and escrow accounts	8,946	25,987
Principal payments on obligation under capital lease	(21,321)	(18,150)
Principal payments of loans payable	(8,742)	(10,145)
Net cash used in financing activities	(251,117)	(27,308)
Change in cash and cash equivalents	1,034,023	186,525
Cash and cash equivalents, beginning	592,189	405,664
Cash and cash equivalents, ending	1,626,212	592,189
Cash and cash equivalents - restricted	(1,121,270)	(222,378)
Cash and cash equivalents - unrestricted	$ 504,942	$ 369,811

See accompanying notes to financial statements.

	2014	2013
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 777,530	$ (640,848)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	371,342	373,486
Donated assets	-	(9,408)
Gain on disposal of asset	(9,039)	-
Neighborhood stabilization program 2:		
Property contributed	-	(772,302)
Property adjustment to fair value	10,826	744,153
Proceeds from sale of properties	135,674	709,714
(Increase) decrease in certain assets:		
Grants and allocations receivable	1,702	(175,872)
Contributions receivable	(52,019)	4,091
Prepaid expenses	25,494	1,834
Increase (decrease) in certain liabilities:		
Accounts payable	(40,374)	(12,215)
Accrued expenses	21,991	16,812
Refundable advances	149,000	51,000
Net cash provided by operating activities	$ 1,392,127	$ 290,445

Supplemental disclosure of non cash investing and financing activities:

During 2014, the Organization incurred debt of $100,995 in the form of a capital lease used to acquire new office equipment.

See accompanying notes to financial statements.

ADOPT-A-FAMILY
OF THE PALM BEACHES, INC.

CONSOLIDATED STATEMENT OF
FUNCTIONAL EXPENSES

For the Year Ended June 30, 2014 ***(with comparable totals for 2013)***

	Program Services	Management and General	Fundraising	2014 Totals	2013 Totals
Salaries	$ 1,482,221	$ 213,098	$ 286,575	$ 1,981,894	$ 1,810,108
Employee benefits	340,169	30,525	46,749	417,443	327,400
Payroll taxes	119,365	16,071	20,180	155,616	159,291
	1,941,755	259,694	353,504	2,554,953	2,296,799
Advertising and recruitment	4,248	5,377	472	10,097	6,692
Building maintenance	115,906	9,002	2,734	127,642	145,207
Direct fundraising costs	-	-	163,477	163,477	165,887
Equipment rental and purchases	1,315	1,954	51	3,320	23,381
Food service	5,219	-	-	5,219	11,274
Insurance expense	124,986	7,402	14,430	146,818	123,994
Interest expense	9,566	12,461	-	22,027	26,269
Membership dues	2,655	3,613	2,825	9,093	6,581
NSP2 expenses	146,500	-	-	146,500	1,453,867
Office supplies	31,850	3,252	6,545	41,647	19,725
Other expenses	12,911	12,686	44	25,641	36,067
Postage	3,425	195	454	4,074	3,306
Printing	-	270	3,957	4,227	1,975
Professional fees	62,050	7,430	7,969	77,449	101,097
Program supplies	22,973	-	-	22,973	15,229
Property and sales tax	32,844	1,421	621	34,886	25,719
Rent	144	516	-	660	630
Specific assistance	1,449,305	-	-	1,449,305	1,430,992
Telephone	31,933	2,557	3,706	38,196	38,369
Training and development	21,688	5,256	3,515	30,459	21,954
Travel and transportation	37,955	918	2,205	41,078	19,781
Utilities	142,386	2,842	6,623	151,851	123,066
	4,201,614	336,846	573,132	5,111,592	6,097,861
Depreciation	353,116	5,401	12,825	371,342	373,486
Total expenses	$ 4,554,730	$ 342,247	$ 585,957	$ 5,482,934	$ 6,471,347

See accompanying notes to financial statements.

1. Business and Summary of Significant Accounting Policies

Presentation

The accompanying financial statements reflect the consolidated financial statements of Adopt-A-Family of the Palm Beaches, Inc. ("AAF") and LW NSP2, LLC ("LLC") (collectively the "Organization"). All significant inter-organization accounts and transactions have been eliminated.

Organization

Adopt-A-Family of the Palm Beaches, Inc. was incorporated in November 1984, as a not-for-profit corporation under Florida law. AAF is a non-profit 501(c)(3) organization dedicated to restoring families in crisis to stability and self-sufficiency by providing access to all-encompassing services to families and their children. LW NSP2, LLC was incorporated in December 2010, as a single member LLC with AAF as the only member. The LLC owns and operates various rental properties under the Neighborhood Stabilization Program 2. Some of the programs offered by the Organization include:

Project GROW

Project GROW is the agency's licensed afterschool/out-of-school program serving children ages five to twelve. Most children attending are formerly homeless and reside in one of the agency's housing programs. The program is customized to meet the unique needs of formerly homeless children and focuses on building the children's social, emotional, and educational skills.

A Place Called Home (A.P.C.H.)

A Place Called Home is a permanent supportive housing program for homeless families primarily funded by the U.S. Department of Housing and Urban Development (HUD). The program offers scattered site housing in Lake Worth to homeless families living with a disability. The program offers intensive case management and supportive services to all residents.

Bridges to Success

Bridges to Success is a permanent supportive housing program for homeless families funded by HUD. The program offers scattered site housing in western Palm Beach County to homeless families living with a disability. The program offers intensive case management and supportive services to all residents and is one of the only options for homeless families residing in Belle Glade, Pahokee, and others areas in western Palm Beach County. This is a collaborative program with other not-for-profit agencies for residents in Palm Beach County.

Project S.A.F.E. (Stable, Able, Family Environment)

Project SAFE is a permanent supportive housing program for homeless families partially funded by HUD. The program consists of 32 units of agency-owned housing and is currently the largest permanent housing program for homeless families living with a disability in Palm Beach County. The program offers intensive case management and supportive services to all residents.

1. Business and Summary of Significant Accounting Policies, continued

Organization, continued

Service Enriched Housing (S.E.H.)

The Service Enriched Housing program offers housing to low-income families who are on the path to home ownership. The program consists of 28 two-bedroom apartment units located adjacent to the Organization’s Family Resource Center. Rent is based on 30% of the family’s income. The Organization captures the first $500 as the base rent, all additional funds are placed in escrow and are used for credit repair, home ownership activities, and general wealth building.

Housing Stabilization Program

The Housing Stabilization Program provides homeless prevention services to families who are at imminent risk of becoming homeless. Families receive case management, financial assistance, and other supportive services to help them remain in their home.

Senator Philip D. Lewis Homeless Resource Center (HRC)

The Organization is a partner agency of Palm Beach County’s homeless resource center (HRC) opened in 2012. The HRC serves as Palm Beach County’s “front door” for access to homeless services. The Organization operates the family division and provides homeless families with assessments, case management, access to mainstream resources, vital shelter and housing services, and permanent housing.

Neighborhood Stabilization Program 2 (NSP2)

The Organization, in partnership with the Lake Worth Community Redevelopment Agency (CRA), was one of 56 awardees in 2010 to be awarded funding through HUD’s NSP2 funding competition. The goal of the program is to stabilize neighborhoods through the acquisition and rehabilitation of foreclosed properties. The Organization rehabbed and constructed a total of forty-one housing units in the City of Lake Worth as a result of this opportunity. As of June 30, 2014, a total of seventeen units were sold to income-qualified households and twenty-four units were retained by the Organization and are currently being used as rental properties for low-income families.

Community Land Trust Program/Wiley Reynolds Apartments

The Organization’s Community Land Trust Program combined with the Organization’s Wiley Reynolds Apartments provides affordable home ownership and rental opportunities to income qualified households. Home ownership opportunities use a land lease model in which the Organization retains ownership of the land while the purchaser owns the improvements. This permits the improvements to be sold at a reduced rate. Rental opportunities primarily consist of the nine-unit Wiley Reynolds Gardens apartments. The units were constructed in 2008 and offer low-income and homeless families housing that is priced below 50% of the fair market rent rates.

1. Business and Summary of Significant Accounting Policies, continued

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Consolidated Financial Statement Presentation

The Organization has adopted FASB Accounting Standard Codification (FASB ASC) 958-205. Under the standard, the Organization is required to report information regarding its activities according to three classifications of net assets: unrestricted, temporarily restricted, and permanently restricted.

The following paragraphs describe the three classes of net assets:

Unrestricted Net Assets: this classification includes those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Changes in net assets arising from exchange transaction (except income and gains on assets that are restricted by donors or by law) are included in the unrestricted by class.

Temporarily Restricted Net Assets: this classification includes those net assets whose use by the Organization has been limited by donors to either later periods of time, or after specified dates, or for a specified purpose.

Permanently Restricted Net Assets: this classification includes those net assets that must be maintained by the Organization in perpetuity. Permanently restricted net assets increase when the Organization receives contributions for which donor-imposed restrictions limiting the Organization's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the Organization meeting certain requirements. The Organization had no permanently restricted net assets as of June 30, 2014.

Estimates

The preparation of consolidated 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Comparative Financial Statement Information

The financial statements include certain prior-year summarized comparative 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 Organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

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

Fair Value of Financial Instruments

The Organization follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which provides a common definition of fair value, establishes a framework to measure fair value within accounting principles generally accepted in the United States of America, and expands the disclosures about fair value measurements. The standard does not create any new fair value measurements. Instead, it applies under existing accounting pronouncements that require or permit fair value measurements.

For assets and liabilities measured at fair value on a recurring basis, entities should disclose information that allows financial statement users to assess (1) the inputs used to develop such measurements, such as Level 1 (i.e., quoted price in an active market for an identical asset or liability), Level 2 (i.e., quoted price for similar assets or liabilities in active markets), or Level 3 (i.e., unobservable inputs); and (2) the effect on changes in net assets of recurring measurements that use significant unobservable (Level 3) inputs. The Organization's did not have financial instruments measured at fair value on a recurring basis.

The following methods and assumptions were used by the Organization in estimating fair value of financial instruments that are not disclosed under ASC 820-10.

> *Cash and Cash Equivalents*: The carrying amount reported approximates fair value.
>
> *Grants and Allocations and Contributions Receivable*: The carrying amount approximates fair value due to the short term of the receivables.
>
> *Accounts Payable and Accrued Expenses*: The carrying amount reported approximates fair value due to the short term duration of the instruments.
>
> *Capital Lease, Line of Credit and Loans Payable*: The carrying amount reported approximates fair value as the stated interest rates approximate market rates.

Cash and Cash Equivalents

Cash and cash equivalents include checking, savings, money market accounts, and petty cash. The Organization also considers short-term investments with a maturity of three months or less when purchased to be cash equivalents.

Grants and Allocations Receivable

Grants receivable are recorded when services have been rendered. If events or changes in circumstances indicate that specific receivable balances may be disallowed by the granting authority, the receivable balances are written-off as an operating expense. Allocations receivable that are unconditional are recorded at the time of receipt.

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

Promises to Give

Unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional promises to give noncash assets that are expected to be received in future years are recorded at the present value of the expected fair value of the underlying noncash assets expected to be received. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Any changes in the expected fair value of underlying noncash assets are reported as increases and decreases in contribution revenue in the period the change occurs. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment

Acquisitions of property and equipment in excess of $1,500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of the donation. Donations of property and equipment are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful life of the assets, ranging from 3 to 39 years.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Resident Deposits and Escrow Accounts

In connection with its various housing programs, the Organization receives and maintains deposits on rent and escrow funds for residents to be later returned to them or recorded as revenue.

Accrued Absences

Employees may accumulate unused vacation based upon the length of service. Accumulated vacation is payable to eligible employees upon termination or retirement at the current rate of pay, if employed more than 90 days. Accumulated unpaid vacation is accrued as a liability and charged to expense as incurred.

Refundable Advances

The Organization has reimbursement arrangements with various grantors whereby the Organization receives funds ahead of the expenditure. In accordance with the terms of these arrangements, any funds that are not spent within the contract period must be refunded to the grantors.

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

Designated for Contingencies

The Organization determined there was no current need for a specified contingency fund as of June 30, 2014.

Revenue Recognition

The Organization receives various grants from federal, local, and private agencies for program and supporting service expenses. These grants are generally on a cost reimbursement basis, including recoverable overhead. Revenues from grants are deemed earned and recognized in the Consolidated Statement of Activities when expenditures are made for the purpose specified. Funds that have been received but have not yet been expended for the purpose specified are reported as temporarily restricted revenue or refundable advance, as applicable.

Grants which are not awarded on a cost reimbursement basis are recorded as support in the year for which the grant was awarded and in which the conditions to the grant are met.

Support and Revenue

Foundation support, unconditional promises to give, and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when either the stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported in the Statements 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 Organization classifies such income as unrestricted support.

In-Kind Donations

The Organization records various types of in-kind support including contributed professional services and materials. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The total amount of donated goods during the year ended June 30, 2014, amounted to approximately $28,500. This amount is recognized as both revenue, under the caption of in-kind donations, and as various expenses in the Consolidated Statement of Activities and Consolidated Statement of Functional Expenses. There were no significant contributions of professional services for the year ended June 30, 2014.

In addition, the Organization relies on volunteers who donate significant time in the advancement of its goals; however, such services do not meet the criteria for financial statement recognition and are therefore not included herein.

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

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and according to natural classification in the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Specific Assistance

Specific assistance expense, as denoted on the Consolidated Statement of Functional Expenses, consists of direct financial assistance expended on behalf of the Organization's clients correlating to the mission of the respective programs.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense for the year ended June 30, 2014, amounted to approximately $5,480.

Income Taxes

Adopt-A-Family of the Palm Beaches, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. LW NSP2, LLC is a single member LLC and is treated as a disregarded entity for income tax purposes. Therefore, no provision for income taxes has been made in these consolidated financial statements. In addition, AAF qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Organization follows FASB ASC 740-10-00, "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 Organization assesses its income tax positions based on management's evaluation of the facts, circumstances and information available at the reporting date. The Organization uses the prescribed more likely than not threshold when making its assessment. The Organization has not accrued any interest expense or penalties related to tax positions for the year ended June 30, 2014, and there are currently no open Federal or State tax years under audit.

2. *Grants and Allocations Receivable*

A summary of grants and allocations receivable as of June 30, 2014 is as follows:

Palm Beach County	$ 275,946
Family Central	12,431
Housing and Urban Development (HUD)	109,201
United Way	139,266
Homeless Coalition	30,600
Total grants and allocations receivable	$ 567,444

Management believes that grants and allocation receivable are fully collectible in less than one year and, therefore, no allowance for uncollectible receivables was considered necessary.

3. *Contributions Receivable*

Contributions are recognized in the period an unconditional promise to give is received. Contributions receivable are recorded at face value if due in less than one year, or at net realizable value, discounted as appropriate to reflect the estimated timing of receipt for contributions, if due more than one year after the date of receipt. As of June 30, 2014 all remaining balances are expected to be collected in less than one year. The allowance for uncollectible contributions receivable is determined based on management's estimate.

The following is a summary of contributions receivable as of June 30, 2014:

Contributions receivable	$ 66,441
Allowance for uncollectible amounts	(1,477)
Net contributions receivable	$ 64,964

4. *Property and Equipment*

Details of the Organization's property and equipment as of June 30, 2014, are as follows:

Land	$ 856,033
Buildings	5,637,960
Building improvements	247,416
Equipment	427,163
Equipment under capital lease	100,995
Motor vehicles	140,677
	7,410,244
Less accumulated depreciation	2,929,884
Net property and equipment	$ 4,480,360

5. Community Land Trust Program/Wiley Reynolds Apartments

The Organization is operating a Community Land Trust (CLT) program that was established in order to make housing available to residents who cannot otherwise afford it while providing benefits to the local community. The land is held permanently by the Organization to ensure perpetual affordability; however, the homes are owned by those who live in them.

When the Organization sells a home, it leases the underlying land to the homeowners through a long-term (i.e., 99-year) renewable lease, and retains a right of first refusal to buy back the building.

During 2006, the Organization received a vacant lot donated by the City of Lake Worth located at 505 North K Street. During 2008, the Organization completed the construction of a single-family residence at a total cost of $196,454.

During 2007, the Organization purchased another vacant lot for approximately $100,000 located at 1715 3rd Ave North. The lot remains vacant.

During 2009, the Organization completed the construction of a nine-unit apartment complex located at 1736 2nd Avenue, named Wiley Reynolds Apartments, which was added to the CLT. The construction was partially funded by a Homeless Assistance Housing Grant, which requires that the units be reserved for homeless use for a minimum of ten years from the time of occupancy. The Organization is currently renting these units to low-income and homeless families.

The unrestricted net assets designated for the CLT as of June 30, 2014, consisted of the following:

Land	$ 296,669
Building	1,968,238
	2,264,907
Less accumulated depreciation	386,235
Total designated for CLT	$ 1,878,672

6. Neighborhood Stabilization Program 2 (NSP2)

The Organization, in partnership with the Lake Worth Community Redevelopment Agency, (CRA) was one of only 56 awardees of the U.S. Department of Housing and Urban Development's Neighborhood Stabilization Program 2 (NSP2) national grant competition.

Since 2010, the Organization has purchased and rehabilitated forty-one units of affordable housing. As of June 30, 2014, a total of seventeen units were sold to income-qualified households and twenty-four units were retained by the Organization and are currently being used as rentals for low-income families. In accordance with NSP2 guidelines, the units sold are deed restricted, protecting their affordability for a minimum of 15 years from the date of purchase. The rental units are also deed restricted, protecting their affordability, for 20 years from the date of completion of construction.

In addition, during the year ended June 30, 2014, the Organization sold two units owned under the NSP2 program that had a total book value of $146,500.

6. Neighborhood Stabilization Program 2 (NSP2), continued

The temporarily restricted net assets under the NSP2 program as of June 30, 2014, consisted of the following:

Rental properties (24 units)	$ 1,950,637
Less accumulated depreciation	127,512
Rental properties, net	1,823,125
Program income	833,172
Total restricted net assets under NSP2	$ 2,656,297

Rental properties owned under the NSP2 program are included in the Consolidated Statement of Financial Position under the caption of property and equipment.

7. Line of Credit

The Organization has a $350,000 line of credit with PNC Bank (Bank) that is collateralized by land, buildings, and improvements at 1712 2nd Avenue and 1717 3rd Avenue North. Interest is paid monthly at the Bank's prime rate, which was 3.25% as of June 30, 2014. The amount outstanding under the line of credit as of June 30, 2014 was $95,000.

8. Capital Lease

The Organization leases certain equipment under a capital lease that expires in September 2019. The assets and liabilities under the capital lease were recorded at the lower of the present value of minimum lease payments or the fair value of the assets. The assets are amortized over the lower of their lease terms or their estimated useful lives. Amortization of equipment under capital lease is included in depreciation expense in the accompanying consolidated financial statements. Depreciation of assets under capital leases charged to expense during the year ended June 30, 2014 was $20,790.

Minimum future lease payments under capital lease as of June 30, 2014 for each of the next five years and in the aggregate are:

Year	Amount
2015	$ 19,237
2016	19,237
2017	19,237
2018	19,237
2019	19,237
Thereafter	4,809
Total obligation under capital lease	100,995
Less current portion	19,237
Long-term portion	$ 81,758

9. Loan Payable

The following is a schedule of the Organization's loan payable:

Mortgage note payable to PNC Bank that is collateralized by land, buildings, and improvements at 1712 2nd Avenue, with interest rate adjusted annually, 5.95% as of June 30, 2014. The note requires monthly payments of principal and interest until June 30, 2028.	$ 198,247
Less current portion	9,276
Long-term portion	$ 188,971

The approximate future maturities of this installment obligation are as follows:

Year	Amount
2015	$ 9,276
2016	9,843
2017	10,446
2018	11,084
2019	11,762
Thereafter	145,836
	$ 198,247

10. Restriction on Net Assets

Unexpended temporarily restricted net assets are restricted for the following purposes as of June 30, 2014:

Housing Stabilization Program	$ 89,610
Project Grow	55,724
Service Enriched Housing	12,360
NSP2	2,656,297
Holiday/Season-to-Share	18,453
Total temporarily restricted net assets	$ 2,832,444

11. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses or purchasing assets satisfying the restricted purposes. Satisfaction of program restrictions for the year ended June 30, 2014 are as follows:

Housing Stabilization Program	$ 89,610
Project Grow	92,726
Service Enriched Housing	12,360
NSP2	210,256
Holiday/Season-to-Share	31,146
Total net assets released from restrictions	$ 436,098

12. Fundraising

The Organization participated in several fundraising events during the year. Fundraising revenues and expenses for the year ended June 30, 2014 were as follows:

	Revenues	Direct Expenses	Net
Tree Lighting	$ 423,808	$ 47,016	$ 376,792
Duck Derby	48,644	24,185	24,459
Season to Share	57,000	30,031	26,969
Golf Tournament	85,350	28,327	57,023
Capital Campaign	70,520	1,210	69,310
Others	127,769	32,708	95,061
Total	$ 813,091	$ 163,477	$ 649,614

13. Employee Tax Sheltered Retirement Plan and Other Employee Benefits

The Organization sponsors a salary reduction contribution plan pursuant to Section 403(b) of the Internal Revenue Code. All employees are eligible to participate upon completion of one hour of service. Under the plan, employees may contribute a specified percentage of their salary or a fixed dollar amount to the plan. The Organization contributes a discretionary amount to the plan. For the year ended June 30, 2014, the discretionary amount was defined as 2% of an eligible employee's annual salary, once the employee had completed one year of service. The Organization's contribution to the plan for the year ended June 30, 2014 was $26,162.

14. Concentrations

The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of June 30, 2014, there was approximately $372,500 of uninsured deposits held in bank. The Organization has not experienced any losses on such accounts and management believes the Organization is not exposed to any significant credit risk arising from such balances.

15. Subsequent Events

Management has evaluated subsequent events through December 19, 2014, the date on which the consolidated financial statements were available to be issued, and determined the following additional disclosure was required to be presented in these consolidated financial statements.

On October 29, 2014 the Organization finalized the purchase of a parcel of property in Lake Worth and also paid a deposit on additional parcels of property for sale that are also located in Lake Worth.

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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
Adopt-A-Family
of the Palm Beaches, Inc.
Lake Worth, Florida

We have audited the consolidated financial statements of Adopt-A-Family of the Palm Beaches, Inc., as of and for the year ended June 30, 2014, and have issued our report thereon dated December 19, 2014. 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 Adopt-A-Family of the Palm Beaches, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Adopt-A-Family of the Palm Beaches, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Adopt-A-Family of the Palm Beaches, 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 consolidated 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 Adopt-A-Family of the Palm Beaches, Inc.'s consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through agencies 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 19, 2014

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Adopt-A-Family
of the Palm Beaches, Inc.
Lake Worth, Florida

Report on Compliance for Each Major Federal Program

We have audited Adopt-A-Family of the Palm Beaches, Inc.'s compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Adopt-A-Family of the Palm Beaches, Inc.'s major federal programs for the year ended June 30, 2014. Adopt-A-Family of the Palm Beaches, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Adopt-A-Family of the Palm Beaches, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Adopt-A-Family of the Palm Beaches, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Adopt-A-Family of the Palm Beaches, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Adopt-A-Family of the Palm Beaches, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Adopt-A-Family of the Palm Beaches, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Adopt-A-Family of the Palm Beaches, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Adopt-A-Family of the Palm Beaches, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Holyfield & Thomas, LLC

West Palm Beach, Florida
December 19, 2014

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Consolidated Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to consolidated financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance on major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Major programs:	
CFDA Number(s)	14.235
Name of Federal Program or Cluster:	U.S. Department of Housing and Urban Development - Office of Community Planning and Development Supportive Housing Program
Dollar Threshold used to distinguish between type A and type B programs:	$ 300,000
Auditee qualified as a low-risk auditee?	No

SECTION II – CONSOLIDATED FINANCIAL STATEMENT FINDINGS

There are no findings or questioned costs reported for the year ended June 30, 2014, relative to financial reporting for Adopt-A-Family of the Palm Beaches, Inc.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no findings or questioned costs reported for the year ended June 30, 2014, relative to federal awards for Adopt-A-Family of the Palm Beaches, Inc.

CORRECTIVE ACTIION PLAN

There is no corrective action plan required, as there are no findings or question costs reported for the year ended June 30, 2014.

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior audit findings or questioned costs for the year ended June 30, 2013, relative to federal awards requiring action on the part of the auditee for that fiscal year.

SUPPLEMENTARY

INFORMATION

Federal Grantor/Pass-Through Grantor Program or Cluster Title	CFDA Number / Award Number	Federal Expenditures
U.S. Department of Housing and Urban Development - Office of Community Planning and Development		
Supportive Housing Program:	14.235 /	
Project SAFE II	FL0288L4D051205	$ 142,679
Project SAFE II	FL0288L4D051306	50,345
Bridges to Success	FL0275B4D051103	44,971
Bridges to Success	FL0275L4D051204	174,952
A Place Called Home	FL0393B4D051000	37,417
A Place Called Home	FL0393L4D051201	142,711
Passed through from Palm Beach County Housing and Community Development:		
Emergency Solutions Grants Program:	14.231 /	
Emergency Solutions Grant	R2012-1405	33,432
Emergency Solutions Grant	R2013-1395	70,128
Emergency Solutions Grant 2	R2013-0460	130,006
Total federal expenditures		$ 826,641

See independent auditor's report and accompanying notes to Schedule of Expenditures of Federal Awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Adopt-A-Family of the Palm Beaches, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

For the Year Ended June 30, 2014

	Project GROW	A Place Called Home	Bridges to Success	Project S.A.F.E.
Salaries	$ 228,785	$ 63,957	$ 11,970	$ 232,271
Employee benefit	54,288	12,367	1,516	56,934
Payroll taxes	18,309	5,008	848	19,500
	301,382	81,332	14,334	308,705
Advertising and recruitment	1,061	13	2	1,207
Building maintenance	3,807	12,882	3	41,903
Equipment rental and purchases	62	17	-	561
Food service	2,334	25	-	75
Insurance expense	18,742	4,739	32	19,975
Interest expense	-	-	-	-
Membership dues	402	143	21	390
NSP2 direct expense	-	-	-	-
Office supplies	4,883	1,562	127	9,577
Other expenses	22	198	-	215
Postage	552	160	-	593
Professional fees	10,328	3,546	85	11,507
Program supplies	22,939	-	-	34
Property and sales tax	687	249	-	8,993
Rent	-	-	-	54
Specific assistance	345	126,153	201,174	40,960
Telephone	2,985	1,894	127	7,536
Training and development	2,851	1,290	259	3,205
Travel and transportation	13,734	894	18	4,070
Utilities	7,625	3,070	-	66,643
	394,741	238,167	216,182	526,203
Depreciation	14,878	3,375	-	82,919
Total expenses	$ 409,619	$ 241,542	$ 216,182	$ 609,122

See independent auditor's report.

Service Enriched Housing	Housing Stabilization Program	Homeless Resource Center	NSP2	CLT / Wiley Reynolds Apartments	Total Program Expenses
$ 94,131	$ 166,762	$ 621,293	$ 42,977	$ 20,075	$ 1,482,221
21,060	34,757	143,525	11,809	3,913	340,169
7,298	13,258	49,408	4,257	1,479	119,365
122,489	214,777	814,226	59,043	25,467	1,941,755
805	156	659	302	43	4,248
15,149	2,280	2,714	30,344	6,824	115,906
27	43	89	11	505	1,315
41	2,723	-	21	-	5,219
8,479	12,455	31,369	27,164	2,031	124,986
-	-	-	-	9,566	9,566
521	249	805	96	28	2,655
-	-	-	146,500	-	146,500
2,738	4,693	7,371	545	354	31,850
201	33	345	11,704	193	12,911
255	350	1,263	210	42	3,425
4,966	7,133	21,246	2,512	727	62,050
-	-	-	-	-	22,973
7,305	523	-	12,413	2,674	32,844
54	36	-	-	-	144
536	305,093	774,431	301	312	1,449,305
2,204	2,702	12,813	1,110	562	31,933
1,081	2,498	9,473	647	384	21,688
2,766	1,786	14,500	135	52	37,955
37,865	6,280	2,052	5,914	12,937	142,386
207,482	563,810	1,693,356	298,972	62,701	4,201,614
103,732	10,800	-	63,756	73,656	353,116
$ 311,214	$ 574,610	$ 1,693,356	$ 362,728	$ 136,357	$ 4,554,730

See independent auditor's report.