

THE POVERELLO CENTER, INC.

FINANCIAL STATEMENTS

May 31, 2016

Charles A. Krblich, P.A.

*Certified Public Accountants*

## CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7
OTHER AUDITOR'S REPORTS	
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 <i>GOVERNMENT AUDITING STANDARDS</i>	18
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	20

# Charles A. Krblich, P.A.

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Poverello Center, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Poverello Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of May 31, 2016, and the related 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

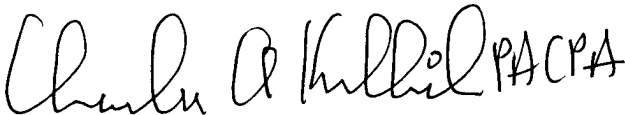
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Poverello Center, Inc. as of May 31, 2016, 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 October 20, 2016, on our consideration of The Poverello Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Poverello Center, Inc.'s internal control over financial reporting and compliance.



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Fort Lauderdale, Florida  
October 20, 2016

The Poverello Center, Inc.

STATEMENT OF FINANCIAL POSITION

May 31, 2016

ASSETS

Cash and cash equivalents	\$	781,397
Investments		122,583
Grants receivable		142,873
Donations receivable		75,102
Inventories		47,966
Property and equipment, net		4,944,920
Other assets, deposits, etc.		<u>82,820</u>
Total Assets	\$	<u>6,197,661</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$	185,040
Sales tax payable		2,139
Mortgage payable		<u>2,261,545</u>
Total Liabilities		2,448,724

COMMITMENTS AND CONTINGENCIES

-

NET ASSETS

Unrestricted		3,536,728
Temporarily restricted		<u>212,209</u>
Total Net Assets		<u>3,748,937</u>
Total Liabilities and Net Assets	\$	<u>6,197,661</u>

See accompanying notes to the financial statements.

The Poverello Center, Inc.

STATEMENT OF ACTIVITIES

For the year ended May 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>PUBLIC SUPPORT AND REVENUES</b>				
<b>PUBLIC SUPPORT</b>				
Thrift Store	\$ 1,033,811	\$ -	\$ -	\$ 1,033,811
Contributions	118,530	-	-	118,530
Non-cash Contributions	792,056	-	-	792,056
Fundraising events	83,660	-	-	83,660
Miscellaneous	1,750	-	-	1,750
Grant Support				
Governmental	520,720	127,692	-	648,412
Private	72,729	91,800	-	164,529
Net assets released from restriction	<u>199,783</u>	<u>(199,783)</u>	-	-
<b>Total Public Support</b>	<u>2,823,039</u>	<u>19,709</u>	<u>-</u>	<u>2,842,748</u>
<b>REVENUES</b>				
Interest and Dividend Income	1,752	-	-	1,752
Gain (loss) on investments	<u>(3,602)</u>	<u>-</u>	<u>-</u>	<u>(3,602)</u>
<b>Total Revenues</b>	<u>(1,850)</u>	<u>-</u>	<u>-</u>	<u>(1,850)</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUES</b>	<b>2,821,189</b>	<b>19,709</b>	<b>-</b>	<b>2,840,898</b>
<b>EXPENSES</b>				
<b>PROGRAM SERVICES</b>				
Food Bank	1,630,229	-	-	1,630,229
Fitness Center	<u>44,046</u>	<u>-</u>	<u>-</u>	<u>44,046</u>
<b>Total Program Services</b>	<u>1,674,275</u>	<u>-</u>	<u>-</u>	<u>1,674,275</u>
<b>SUPPORTING ACTIVITIES</b>				
Management and General	430,406	-	-	430,406
Fundraising	131,304	-	-	131,304
Thrift Store	<u>653,985</u>	<u>-</u>	<u>-</u>	<u>653,985</u>
<b>Total Supporting Activities</b>	<u>1,215,695</u>	<u>-</u>	<u>-</u>	<u>1,215,695</u>
<b>TOTAL EXPENSES</b>	<u>2,889,970</u>	<u>-</u>	<u>-</u>	<u>2,889,970</u>
<b>CHANGE IN NET ASSETS</b>	<b>(68,781)</b>	<b>19,709</b>	<b>-</b>	<b>(49,072)</b>
<b>NET ASSETS, beginning of year, as previously reported</b>	<b>3,605,509</b>	<b>837,080</b>	<b>-</b>	<b>4,442,589</b>
Prior period adjustment	<u>-</u>	<u>(644,580)</u>	<u>-</u>	<u>(644,580)</u>
<b>NET ASSETS, beginning of year, as restated</b>	<u>3,605,509</u>	<u>192,500</u>	<u>-</u>	<u>3,798,009</u>
<b>NET ASSETS, end of year</b>	<u>\$ 3,536,728</u>	<u>\$ 212,209</u>	<u>\$ -</u>	<u>\$ 3,748,937</u>

See accompanying notes to the financial statements.

The Poverello Center, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended May 31, 2016

	Program Services			Supporting Activities			Total
	Food Bank	Fitness Center	Totals	Management and General	Fund-raising	Thrift Store	
Advertising/printing	\$ 512	\$ -	\$ 512	\$ 2,342	\$ 14,062	\$ 4,870	\$ 21,274
Amortization	1,406	-	1,406	1,092	-	2,121	3,213
Bank charges	-	-	-	157	-	-	157
Client assistance	6,471	-	6,471	-	-	-	-
Credit card fees	-	-	-	2,308	1,625	15,594	19,527
EBay transaction charges	-	-	-	-	-	1,156	1,156
Dues and subscriptions	182	-	182	5,656	2,110	1,833	9,781
Equipment and repairs	4,622	234	4,856	2,575	-	1,032	8,463
Food	1,144,583	-	1,144,583	-	-	-	1,144,583
Food vouchers	45,360	-	45,360	-	-	-	45,360
Food handling costs, donated food	2,386	-	2,386	-	-	-	2,386
Fundraising, direct expenses	-	-	-	-	51,442	-	51,442
Insurance	15,545	-	15,545	24,428	-	15,545	55,518
Interest	27,404	-	27,404	21,284	-	41,354	90,042
Internet	404	530	934	840	-	404	2,178
Legal and accounting	-	-	-	28,924	-	-	28,924
Licenses and fees	3,363	150	3,513	2,831	121	186	6,651
Miscellaneous	-	-	-	592	-	-	592
Office expense	2,187	332	2,519	14,752	-	289	17,560
Pest control	353	-	353	-	-	1,200	1,553
Postage	-	-	-	1,299	732	-	2,031
Printing	3,100	-	3,100	779	936	1,114	5,929
Property taxes	340	-	340	264	-	513	1,117
Rents and leases	3,496	31,598	35,094	2,243	-	3,893	41,230
Repairs and maintenance	21,062	245	21,307	8,115	-	23,351	52,773
Salaries, taxes and benefits	264,191	-	264,191	247,232	60,180	402,189	973,792
Seminars and meetings	4,778	-	4,778	3,086	-	-	7,864
Supplies	2,459	598	3,057	6,193	67	11,714	21,031
Telephone	3,304	1,191	4,495	326	-	3,303	8,124
Trash removal	4,197	-	4,197	-	-	9,975	14,172
Transportation expenses	4,047	-	4,047	6,406	29	8,363	18,845
Volunteer relations	-	-	-	7,642	-	-	7,642
Utilities	27,464	8,154	35,618	10,299	-	48,061	93,978
Total expenses before depreciation	1,593,216	43,032	1,636,248	401,665	131,304	588,060	2,767,277
Depreciation of property and equipment	37,013	1,014	38,027	28,741	-	55,925	122,693
Total expenses	\$ 1,630,229	\$ 44,046	\$ 1,674,275	\$ 430,406	\$ 131,304	\$ 653,985	\$ 2,889,970

See accompanying notes to the financial statements.

The Poverello Center, Inc.

STATEMENT OF CASH FLOWS

For the year ended May 31, 2016

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ (49,072)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	127,312
Unrealized loss on investments	3,602
(Increase) decrease in:	
Grants receivable	257,180
Donations receivable	(75,102)
Inventories	18,552
Other assets, deposits, etc.	4,169
(Decrease) increase in:	
Accounts payable and accrued expenses	46,117
Sales tax payable	<u>(2,720)</u>
Net cash provided by operating activities	<u>330,038</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	(405)
Purchase of property and equipment	<u>(16,359)</u>
Net cash used in investing activities	<u>(16,764)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Repayment of mortgage payable	<u>(56,988)</u>
Net cash used in financing activities	<u>(56,988)</u>
Net increase in cash and cash equivalents	256,286
Cash and cash equivalents at beginning of year	<u>525,111</u>
Cash and cash equivalents at end of year	\$ <u><u>781,397</u></u>
<b>Supplemental disclosures of cash flow information</b>	
Interest expense paid in cash	\$ <u><u>90,216</u></u>
Income taxes paid in cash	\$ <u><u>-</u></u>

See accompanying notes to the financial statements.



The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2016

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Poverello Center, Inc. (“Poverello”, “Center”, or “Organization”) is a Florida non-profit organization whose purpose is to service the nutritional needs of indigent persons infected with HIV and/or Acquired Immune Deficiency Syndrome and their dependents, as well as to provide financial assistance for basic living requirements in emergency situations.

The significant accounting policies are as follows:

Basis of Accounting and Reporting

The financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Financial Statement Presentation

The Center prepares its financial statements in accordance with the Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC). The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restriction. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction. Accordingly, for reporting purposes, net assets of the Organization and changes therein are classified as follows:

Unrestricted – Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.

Temporarily Restricted – Net assets whose use by the Organization is limited by donor-imposed stipulations that can be fulfilled by either passage of time or by actions of the Organization pursuant to those stipulations. Temporarily restricted net assets consist of

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2016

NOTE A – CONTINUED

Financial Statement Presentation – continued

unexpended grant funds. See Note H.

Permanently Restricted – Net assets whose use by the Organization is limited by donor-imposed stipulations that are neither fulfilled with the passage of time nor otherwise removed by actions of the Organization. At May 31, 2016, the Organization had no permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Public Support, Revenue, and Operations

Agencies and organizations, volunteers, businesses, the general community, and others contribute substantial amounts of materials and services toward the fulfillment of the programs administered by Poverello. To the extent that contributions of materials are made under the control of Poverello, are objectively measurable, and represent program or support expenditures which would otherwise be incurred by Poverello personnel, they are reflected in both public support and program expense in the accompanying financial statements at their fair market value. Contributions received in the form of cash are primarily used for the purchase of food, while donations of furniture, clothes, and other goods are used to raise funds by selling them in the thrift store. Contributions, designated by donors for use primarily for client assistance, if any, are treated as restricted funds.

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2016

NOTE A – CONTINUED

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Those marketable securities and investments received as gifts or donations are recorded at their fair market value on the date received.

Property and Equipment and Depreciation

Property and equipment are recorded at cost or at estimated fair market value at the date of the gift, if donated. Depreciation is provided, using the straight-line method over the estimated useful life of the related asset. Management has a policy to capitalize items in excess of \$1,000.

The following useful lives are used in determining depreciation:

	<u>Estimated Useful Life</u>
Furniture	7 years
Equipment	5 years
Vehicles	5 years
Leasehold improvements	27.5 years
Real property	39 years

Functional Expenses

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers cash on deposit, cash on hand, money market funds and certificates of deposit with original maturities of less than three months, if any, to be cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2016

NOTE A – CONTINUED

Estimates – continued

revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Income taxes are not provided for in the financial statements since The Poverello Center, Inc. is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. Poverello is not classified as a private foundation.

The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are 2013-2015. The Organization evaluates all significant tax positions as required by generally accepted accounting principles in the United States. The Organization believes their estimates are appropriate based on current facts and circumstances. The Organization's policy on statement of activities classification of interest and penalties related to income tax obligations, if any, is to include such items as part of interest expense and miscellaneous expense, respectively.

Presentation of Sales Tax

The Organization collects sales tax on its thrift store sales and remits these amounts to the applicable taxing authority. The Organization's accounting policy is to exclude these taxes from revenues and expenses.

Advertising Costs

The Organization expenses the costs of advertising as incurred. For the year ended May 31, 2016, advertising expense was \$21,786.

Date of Management Review

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 20, 2016. That date is the date the financial statements were available to be issued.

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2016

NOTE B – INVENTORIES

Inventories are stated at the lower of cost or market, except donated inventory items, which are stated at market value. At May 31, 2016, inventories were composed of the following:

Food	\$ 13,961
Food vouchers on hand	4,005
Thrift Store	30,000
Total inventories	<u>\$ 47,966</u>

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment at May 31, 2016 consisted of the following:

Land, buildings and improvements	\$ 5,600,020
Furniture, fixtures and equipment	155,401
Vehicles	93,276
	<u>5,848,697</u>
Less accumulated depreciation	903,777
Property and equipment, net	<u>\$ 4,944,920</u>

Depreciation expense for the year ended May 31, 2016 was \$122,693.

NOTE D – OTHER ASSETS

At May 31, 2016 other assets, deposits, etc. consisted of the following:

Prepaid insurance	\$ 11,925
Other prepaid expenses	3,667
Prepaid rent	9,863
Loan costs, less accumulated amortization of \$6,543	39,644
Deposits on leased space, utilities, and others	17,721
Total other assets, deposits, etc.	<u>\$ 82,820</u>

Amortization expense for the year ended May 31, 2016 was \$4,619.

NOTE E – INVESTMENTS

At May 31, 2016, the value of the Center's investments was as follows:

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2016

NOTE E – CONTINUED

Certificate of deposit, at cost plus interest	\$101,588
U.S. Equities, at fair value	19,117
Fixed Income, at fair value	1,878
	<u>\$122,583</u>

The following schedule summarizes the Center's investment return for the year ended May 31, 2016:

Interest and dividends	\$ 1,752
Unrealized losses	(3,602)
Total investment return	<u>\$(1,850)</u>

NOTE F – MORTGAGE PAYABLE

The Center has a mortgage note payable to a bank collateralized by the building. The mortgage is payable in monthly installments \$12,267, including of principal and interest, at 3.87 percent, until December 19, 2019. Commencing on January 20, 2020 until and including the maturity date, December 19, 2024, the interest rate will be a fixed per annum rate equal to the bank choice of index plus two hundred twenty-five basis points. Any outstanding balance is due on the maturity date.

The scheduled principal payments under arrangements existing at May 31, 2016 are:

2017	\$ 60,822
2018	63,218
2019	65,709
2020	68,297
2021	70,988
Thereafter	1,932,511
	<u>\$2,261,545</u>

Interest expense incurred for the year ended May 31, 2016 is \$90,042.

NOTE G – DONATED SERVICES AND FOOD

The Organization receives a significant amount of donated services from unpaid volunteers who assist in the food bank, thrift store, office, fundraising, and special projects. No amounts have been recognized in the Statement of Activities because the criteria for recognition have not been satisfied. The Poverello Center, Inc. estimates that it receives in excess of 62,000 volunteer hours per year. Included in the Statement of

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2016

NOTE G – CONTINUED

Activities are non-cash contributions for donated food, totaling \$792,056, which were valued at their estimated fair value at the date of contribution.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

As of May 31, 2016, the Center had temporarily restricted net assets of \$212,209, of which \$63,435 is restricted for the purchase of food for the food bank and \$148,774 is restricted for the purchase of food vouchers.

NOTE I – GRANTS FROM GOVERNMENT AGENCIES

The Organization receives approximately twenty-three percent of its support from the federal and local government. The majority of the funds are received through Broward County, Health Care Management Division which administers programs under Part A of the Ryan White HIV/AIDS Treatment Modernization Act, as amended and re-authorized in 2006. For the year ended June 30, 2016 the Organization had expenditures under this grant totaling \$666,375, consisting of food bank expenditures of \$610,110, food vouchers of \$53,199 and equipment of \$3,067. In addition, the Organization has unspent bulk purchase funding of \$152,864 included in temporarily restricted net assets, see Note H. The funds received in under this agreement were spent in accordance with the agreement. The following table summarizes cash received and revenue under this grant.

Program Title	Accrued Revenue 6/1/2015	Cash Receipts	Accrued Revenue 5/31/16	Total Revenue
Broward County Ryan White Part A 2015-16 Funding	\$ (394,180)	\$881,495	\$127,692	\$615,007
2016-17 Funding	-	-	15,181	15,181
Emergency Food Assistance	(5,872)	13,548	-	7,676
State of Florida	-	10,548	-	10,548
Totals	<u>\$ (400,052)</u>	<u>\$905,591</u>	<u>\$142,873</u>	<u>\$648,412</u>

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2016

NOTE J – PENSION PLAN

The Organization provides a 401(k) defined contribution pension plan for all of its employees who meet the age and years of service eligibility. The Organization contributes an amount equal to the first three percent of the employee's elective deferral and fifty percent of the elective deferral between three and five percent of the employee's compensation. Included in compensation and related expenses is the employer's matching contribution expense for the year ending May 31, 2016, of \$18,674.

NOTE K – FAIR VALUE MEASUREMENTS

U.S. GAAP defines fair value as the price that would be received upon the sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. U.S. GAAP specifies a hierarchy of inputs to valuation techniques, which categorizes inputs to fair value measurements that reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The following summarizes the fair value hierarchy:

- Level 1 – Unadjusted quoted market prices for identical assets and liabilities in an active market.
- Level 2 – Inputs other than quoted prices in active markets that are directly or indirectly observable.
- Level 3 – Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurement.

U.S. GAAP requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level with which the fair value measurement is categorized is based on the lowest input that is significant to the fair value measurement.

The carrying values of cash and cash equivalents, certificates of deposit, accounts receivable, prepaid expenses, accounts payable and accrued liabilities approximate their fair values due to the short maturity of these financial instruments. The fair values of equity securities and fixed income securities totaling \$20,995 are calculated at quoted market prices in active markets as of May 31, 2016, which is a Level 1 measurement. There are no changes in methods or assumptions during the year ended May 31, 2016, and there are no transfers between Levels.



The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2016

NOTE L – COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk are primarily cash and cash equivalents. The Organization invests its excess cash in deposits with major financial institutions and the carrying value approximates fair value. Deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At May 31, 2016, the Organization had approximately \$625,700 in excess of federally insured amounts (FDIC). The Poverello Center, Inc. has not experienced losses related to these investments.

Receivables are primarily from governmental institutions arising from cost reimbursement contracts. The Organization believes it is not exposed to any significant credit risk related to these receivables.

During the year ended May 31, 2016, two food vendors accounted for eighty-five percent of all food purchases and ten percent of total expenditures.

Lease agreements

The Poverello Center leases its gym facility located in Wilton Manors, Florida, as well as certain equipment. Rent expense for the year ended May 31, 2016 was \$41,230. Future minimum equipment rental payments for the years ended May 31, are as follows:

2017	\$	41,069
2018	\$	38,769
2019	\$	31,883
2020	\$	18,598

In January 2015, the Center entered into a seven year lease for a facility to open a second thrift store with a rent commencement date sixty days after the date the landlord delivers the premises to the Center. The opening of the store has been delayed due to municipal code restrictions and the Center has not taken delivery of the premises. Annual rent under the terms of the lease, when rent commences are as follows:

Year 1	\$	86,592
Year 2	\$	90,200
Year 3	\$	93,808
Year 4	\$	97,416
Year 5	\$	101,024
Thereafter	\$	202,048

There was no rent expense associated with this lease for the year ended May 31, 2016.

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2016

NOTE L – CONTINUED

Legal Matters

A former employee has claimed that the Center breached an employment agreement. The Poverello Center, Inc. is vigorously defending itself and has filed a counterclaim. At this time it is not possible to predict the outcome.

NOTE M – PRIOR PERIOD ADJUSTMENT

A restatement of previously reported balances for grants receivable and temporarily restricted net assets is required to correct a prior period accrual of the unspent balance on a cost-reimbursement grant. The restatement had the following effects:

	<u>Grants Receivable</u>	<u>Temporarily Restricted Net Assets</u>
Balances on May 31, 2015 as previously reported	\$ 1,044,632	\$ 837,080
Adjustment to correct balances	<u>(644,580)</u>	<u>(644,580)</u>
Balances on May 31, 2015 as restated	<u>\$ 400,052</u>	<u>\$ 192,500</u>

## OTHER AUDITOR'S REPORTS

# Charles A. Krblich, P.A.

*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

Board of Directors  
The Poverello Center, 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 United States, the financial statements of The Poverello Center, Inc. (a nonprofit organization), which comprise the statement of financial position as May 31, 2016, and the related 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 October 20, 2016.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Poverello Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Poverello Center, Inc.'s internal control. Accordingly, we do not express an opinion of the effectiveness of The Poverello Center, Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 were not 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 identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, Finding 2016-01.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Poverello Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Poverello Center, Inc.'s Response to Findings**

The Poverello Center, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Poverello Center, Inc.'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.



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Fort Lauderdale, Florida  
October 20, 2016

The Poverello Center, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended May 31, 2016

2016-01 Financial Closing and Reporting

- **Criteria:** Financial statements should be prepared in accordance with generally accepted accounting principles.
- **Condition:** A number of adjustments were required in order for the financial statements to be in accordance with generally accepted accounting principles. The prior year audit adjustments were not recorded in the general ledger and the procedures for the conversion from cash to accrual were inconsistent.
- **Context:** The Poverello Center, Inc. keeps their books on the cash basis during the year and adjusts to accrual basis at year end. Some subsidiary ledgers and schedules necessary for conversion to accrual were provided by Poverello staff but others were not prepared and had to be developed during the audit.
- **Effect:** The financial statements as presented were not in accordance with generally accepted accounting principles and required a significant number of adjustments.
- **Cause:** The Center does not have comprehensive procedures for the year end closing process.
- **Recommendation:** The Center should develop period closing procedures, such as a check list, detailing all subsidiary ledgers or schedules that need to be prepared. The procedures should address identifying, capturing and recording non-routine transactions and should include steps to record audit adjustments.
- **Views of responsible officials and planned corrective actions:** Management will work with the bookkeeper to develop financial closing and reporting procedures.