

CONSOLIDATED FINANCIAL AND COMPLIANCE REPORT

REAL SERVICES, INC. AND AFFILIATES

June 30, 2017 and 2016

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**INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

To the Board of Directors
REAL Services, Inc. and Affiliates
South Bend, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of REAL Services, Inc. and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits. We conducted our audits 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 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 consolidated financial position of REAL Services, Inc. and Affiliates as of June 30, 2017 and 2016, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal and nonfederal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Government Sources* issued by the Indiana State Board of Accounts, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2018, on our consideration of REAL Services, Inc. and Affiliates' 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 REAL Services, Inc. and Affiliates' internal control over financial reporting and compliance.

Cullen & Associates, P.C.

South Bend, Indiana
January 9, 2018

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 6,141,070 | \$ 4,965,301 |
| Grants, contributions, and fees receivable | 1,774,557 | 1,893,264 |
| Prepaid expenses | 3,566 | 3,030 |
| Long-term certificates of deposit | - | 504,174 |
| Beneficial interests in assets held by others | 1,085,044 | 1,016,641 |
| Property and equipment | 2,209,213 | 2,296,703 |
| Cash held in escrow for employee benefits | 162,528 | 106,233 |
| Cash held for deferred compensation plan benefits | 143,500 | 95,500 |
| Assets held for others under guardianship | <u>81,550</u> | <u>192,410</u> |
| <i>Total assets</i> | <u>\$ 11,601,028</u> | <u>\$ 11,073,256</u> |
| Liabilities and Net Assets: | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,098,312 | \$ 1,009,127 |
| Refundable advances | 63,392 | 33,365 |
| Deferred revenues | 78,121 | 80,587 |
| Accrued employee benefits | 162,528 | 106,233 |
| Accrued deferred compensation plan benefits | 167,500 | 119,500 |
| Liability for assets held under guardianships | <u>81,550</u> | <u>192,410</u> |
| <i>Total liabilities</i> | <u>1,651,403</u> | <u>1,541,222</u> |
| Net Assets: | | |
| Unrestricted | 8,164,002 | 7,611,913 |
| Temporarily restricted | 1,285,623 | 1,420,121 |
| Permanently restricted | <u>500,000</u> | <u>500,000</u> |
| <i>Total net assets</i> | <u>9,949,625</u> | <u>9,532,034</u> |
| <i>Total liabilities and net assets</i> | <u>\$ 11,601,028</u> | <u>\$ 11,073,256</u> |

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2017 and 2016

| | 2017 | | | | 2016 | | | |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals</u> |
| Revenues, Gains, Other Support: | | | | | | | | |
| Grants and fees | \$ 14,525,874 | \$ 313,995 | \$ - | \$ 14,839,869 | \$ 16,458,028 | \$ 397,881 | \$ - | \$ 16,855,909 |
| Program service revenue | 847,767 | 179,298 | - | 1,027,065 | 1,074,687 | 81,086 | - | 1,155,773 |
| Contributions | 405,609 | 249,637 | - | 655,246 | 331,785 | 278,349 | - | 610,134 |
| Investment income | 28,341 | 30,648 | - | 58,989 | 29,491 | 61,407 | - | 90,898 |
| Other | 346,747 | 46,116 | - | 392,863 | 276,039 | 24,040 | - | 300,079 |
| Change in value of beneficial interests in assets held by others | 29,534 | 38,869 | - | 68,403 | (28,015) | (69,381) | - | (97,396) |
| Net assets released from restrictions | 993,061 | (993,061) | - | - | 638,839 | (638,839) | - | - |
| <i>Total revenues, gains, and other support</i> | <u>17,176,933</u> | <u>(134,498)</u> | <u>-</u> | <u>17,042,435</u> | <u>18,780,854</u> | <u>134,543</u> | <u>-</u> | <u>18,915,397</u> |
| Expenses: | | | | | | | | |
| Nutrition | 2,079,601 | - | - | 2,079,601 | 2,149,574 | - | - | 2,149,574 |
| Foster Grandparents | 215,776 | - | - | 215,776 | 176,304 | - | - | 176,304 |
| Area Agency on Aging | 1,381,645 | - | - | 1,381,645 | 1,817,208 | - | - | 1,817,208 |
| Crime Victim | 18,616 | - | - | 18,616 | 34,797 | - | - | 34,797 |
| Energy Assistance | 3,687,793 | - | - | 3,687,793 | 5,665,318 | - | - | 5,665,318 |
| Case Management | 3,633,177 | - | - | 3,633,177 | 3,241,125 | - | - | 3,241,125 |
| Transportation | 239,806 | - | - | 239,806 | 206,524 | - | - | 206,524 |
| Weatherization | 774,877 | - | - | 774,877 | 734,465 | - | - | 734,465 |
| Community Services | 660,047 | - | - | 660,047 | 713,239 | - | - | 713,239 |
| Home Health Care | 2,398,492 | - | - | 2,398,492 | 2,167,204 | - | - | 2,167,204 |
| Guardianship | 203,797 | - | - | 203,797 | 193,365 | - | - | 193,365 |
| Alzheimer's and Dementia Services | 468,878 | - | - | 468,878 | 803,636 | - | - | 803,636 |
| <i>Total program service expenses</i> | <u>15,762,505</u> | <u>-</u> | <u>-</u> | <u>15,762,505</u> | <u>17,902,759</u> | <u>-</u> | <u>-</u> | <u>17,902,759</u> |
| Management and general | 785,607 | - | - | 785,607 | 837,029 | - | - | 837,029 |
| Development and fundraising | 76,732 | - | - | 76,732 | 98,126 | - | - | 98,126 |
| <i>Total expenses</i> | <u>16,624,844</u> | <u>-</u> | <u>-</u> | <u>16,624,844</u> | <u>18,837,914</u> | <u>-</u> | <u>-</u> | <u>18,837,914</u> |
| Change in net assets | 552,089 | (134,498) | - | 417,591 | (57,060) | 134,543 | - | 77,483 |
| Net assets, beginning of year | 7,611,913 | 1,420,121 | 500,000 | 9,532,034 | 7,668,973 | 1,285,578 | 500,000 | 9,454,551 |
| <i>Net assets, end of year</i> | <u>\$ 8,164,002</u> | <u>\$ 1,285,623</u> | <u>\$ 500,000</u> | <u>\$ 9,949,625</u> | <u>\$ 7,611,913</u> | <u>\$ 1,420,121</u> | <u>\$ 500,000</u> | <u>\$ 9,532,034</u> |

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017

| | <u>Nutrition</u> | <u>Foster Grandparents</u> | <u>Area Agency on Aging</u> | <u>Crime Victim</u> | <u>Energy Assistance</u> | <u>Case Management</u> | <u>Transportation</u> | <u>Weatherization</u> | <u>Community Services</u> | <u>Home Health Care</u> | <u>Guardianship</u> | <u>Alzheimer's and Dementia Services</u> | <u>Management and General</u> | <u>Development and Fundraising</u> | <u>Totals</u> |
|---------------------------|---------------------|----------------------------|-----------------------------|---------------------|--------------------------|------------------------|-----------------------|-----------------------|---------------------------|-------------------------|---------------------|--|-------------------------------|------------------------------------|----------------------|
| Personnel | \$ 898,579 | \$ 64,149 | \$ 656,554 | \$ 16,617 | \$ 221,018 | \$ 3,145,869 | \$ 186,157 | \$ 183,198 | \$ 422,490 | \$ 4,518 | \$ 179,985 | \$ 340,029 | \$ 681,117 | \$ 22,074 | \$ 7,022,354 |
| Contract services | - | - | - | - | - | - | - | - | - | - | - | - | 38,390 | - | 38,390 |
| IT services | 5,593 | 930 | 3,162 | 57 | 9,343 | 24,676 | 844 | 71 | 2,647 | - | 1,011 | 2,402 | 4,073 | 243 | 55,052 |
| Food | 684,023 | - | 1,473 | 1 | 6 | 3,655 | 48 | 26 | 73 | 11,230 | 54 | 1,697 | 97 | 41 | 702,424 |
| Program supplies | 69,412 | 1,279 | 3,967 | - | - | 8,601 | 347 | 14 | 26 | 60 | 44 | 17,780 | 15 | 588 | 102,133 |
| Office supplies | 5,054 | 492 | 2,587 | 23 | 8,660 | 28,324 | 744 | 3,757 | 2,754 | 57 | 534 | 1,438 | 4,663 | 1,115 | 60,202 |
| Duplicating | 2,241 | 685 | 2,569 | 1 | 441 | 14,569 | 871 | 768 | 3,443 | 75 | 350 | 10,262 | 1,782 | 2,398 | 40,455 |
| Recognition | 1,177 | 1,398 | 472 | - | 340 | 1,366 | 359 | 38 | 434 | - | 132 | 798 | 90 | 230 | 6,834 |
| Communications | 17,887 | 1,044 | 3,731 | 84 | 9,682 | 34,404 | 3,358 | 2,720 | 2,652 | 316 | 1,646 | 5,406 | 2,370 | 195 | 85,495 |
| Postage | 3,018 | 1,913 | 4,435 | 329 | 9,192 | 13,409 | 662 | 2,434 | 1,620 | - | 1,225 | 3,364 | 29,875 | 2,522 | 73,998 |
| Occupancy | 196,069 | 2,782 | 15,597 | 1,348 | 50,721 | 216,390 | 3,497 | 21,443 | 23,945 | 742 | 11,416 | 31,357 | 349 | 5,397 | 581,053 |
| Insurance | 9,515 | 613 | 2,824 | 120 | 4,655 | 15,992 | 433 | 2,842 | 1,499 | - | 667 | 3,693 | 1,644 | 122 | 44,619 |
| Printing and advertising | 3,077 | 226 | 10,129 | 7 | 6,135 | 2,680 | 350 | 910 | 2,662 | 13 | 548 | 7,531 | 263 | 4,457 | 38,988 |
| Vehicle expenses | 37,573 | 14,558 | 56 | - | - | 267 | 24,636 | 9,482 | - | - | - | - | - | - | 86,572 |
| Travel and conferences | 15,850 | 1,006 | 16,596 | 11 | 1,034 | 70,126 | 23 | 1,011 | 9,442 | 507 | 5,009 | 8,441 | 1,574 | 556 | 131,186 |
| Dues and subscriptions | 282 | 231 | 17,215 | 4 | 17 | 9,864 | 17 | - | 7,625 | - | 14 | 889 | 845 | 393 | 37,396 |
| Assistance to individuals | 27,062 | 122,712 | 636,085 | - | 3,361,301 | 32,266 | 1,405 | 535,482 | 172,612 | 2,378,777 | 954 | 25,668 | (1,105) | 9,118 | 7,302,337 |
| Training | - | 1,150 | 432 | - | - | 783 | 3,870 | 1,195 | 559 | 1,600 | - | 1,563 | 387 | - | 11,539 |
| Equipment expense | 11,485 | 119 | 2,378 | 14 | 5,248 | 9,224 | 277 | - | 5,489 | - | 110 | 5,509 | 6,011 | 165 | 46,029 |
| Equipment depreciation | 87,510 | - | - | - | - | - | 11,757 | 7,561 | - | - | - | 182 | 11,930 | - | 118,940 |
| Other | 4,194 | 489 | 1,383 | - | - | 712 | 151 | 1,925 | 75 | 597 | 98 | 869 | 1,237 | 27,118 | 38,848 |
| Totals | \$ 2,079,601 | \$ 215,776 | \$ 1,381,645 | \$ 18,616 | \$ 3,687,793 | \$ 3,633,177 | \$ 239,806 | \$ 774,877 | \$ 660,047 | \$ 2,398,492 | \$ 203,797 | \$ 468,878 | \$ 785,607 | \$ 76,732 | \$ 16,624,844 |

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016

| | Nutrition | Foster Grandparents | Area Agency on Aging | Crime Victim | Energy Assistance | Case Management | Transportation | Weatherization | Community Services | Home Health Care | Guardianship | Alzheimer's and Dementia Services | Management and General | Development and Fundraising | Totals |
|---------------------------|---------------------|---------------------|----------------------|------------------|---------------------|---------------------|-------------------|-------------------|--------------------|---------------------|-------------------|-----------------------------------|------------------------|-----------------------------|----------------------|
| Personnel | \$ 881,906 | \$ 38,686 | \$ 1,180,627 | \$ 31,462 | \$ 261,049 | \$ 2,917,751 | \$ 165,191 | \$ 149,334 | \$ 405,210 | \$ 18,696 | \$ 167,590 | \$ 601,794 | \$ 678,298 | \$ 20,969 | \$ 7,518,563 |
| Contract services | - | - | - | - | - | - | - | - | - | - | - | - | 40,852 | - | 40,852 |
| IT services | 5,454 | 563 | 8,230 | 81 | 10,370 | 22,073 | 639 | 283 | 2,865 | - | 964 | 3,893 | 3,832 | 230 | 59,477 |
| Food | 773,011 | - | 16,151 | - | 43 | 373 | - | 14 | 52 | 11,622 | 63 | 5,727 | (138) | 215 | 807,133 |
| Program supplies | 66,778 | 31 | 4,404 | - | - | 221 | 718 | 475 | 72 | 162 | 7 | 11,706 | - | 261 | 84,835 |
| Office supplies | 5,697 | 486 | 5,472 | 40 | 9,702 | 26,475 | 1,423 | 2,816 | 1,957 | 200 | 639 | 4,567 | 4,433 | 527 | 64,434 |
| Duplicating | 2,994 | 504 | 6,972 | 18 | 1,450 | 9,285 | 1,202 | 867 | 2,675 | - | 1,912 | 6,934 | 2,378 | 1,637 | 38,828 |
| Recognition | - | 2,000 | - | - | - | - | - | - | - | - | - | 94 | 307 | 50 | 2,451 |
| Communications | 16,903 | 1,232 | 7,293 | (98) | 9,291 | 23,686 | 3,798 | 3,389 | 3,051 | 129 | 1,303 | 8,693 | 2,417 | 146 | 81,233 |
| Postage | 2,896 | 1,508 | 7,367 | 1,347 | 8,589 | 11,223 | 1,004 | 2,943 | 1,901 | - | 1,579 | 3,492 | 34,420 | 2,904 | 81,173 |
| Occupancy | 208,134 | 2,780 | 45,600 | 1,817 | 53,534 | 131,970 | 3,844 | 16,957 | 25,542 | 191 | 14,549 | 67,067 | 29,830 | 5,667 | 607,482 |
| Insurance | 9,969 | 617 | 3,251 | 7 | 3,018 | 13,249 | 454 | 6,720 | 2,551 | - | 408 | 6,509 | 1,563 | 73 | 48,389 |
| Printing and advertising | 4,966 | 231 | 21,526 | 87 | 2,652 | 3,281 | 404 | 1,890 | 709 | - | 488 | 16,813 | 19,493 | 26,485 | 99,025 |
| Vehicle expenses | 34,147 | 16,250 | - | - | - | - | 20,136 | 6,717 | - | - | - | - | - | - | 77,250 |
| Travel and conferences | 14,902 | 1,524 | 18,316 | 17 | 2,674 | 67,455 | 140 | 622 | 7,319 | 478 | 3,511 | 6,027 | 2,791 | 1,231 | 127,007 |
| Dues and subscriptions | 630 | 42 | 16,353 | 5 | 152 | 10,176 | 17 | - | 6,475 | - | 285 | 1,305 | 966 | 29 | 36,435 |
| Assistance to individuals | 27,605 | 105,494 | 454,312 | - | 5,301,800 | 4,185 | 540 | 488,645 | 249,856 | 2,134,616 | 13 | 27,458 | - | - | 8,794,524 |
| Training | 1,235 | 200 | 372 | - | - | 155 | - | 169 | 1,089 | - | - | 3,302 | 330 | - | 6,852 |
| Equipment expense | 7,872 | 30 | 135 | 14 | 993 | 1,507 | 35 | (67) | 1,849 | - | 29 | 14,596 | 1,800 | 24 | 28,817 |
| Equipment depreciation | 72,199 | 3,111 | 8,068 | - | - | 9,922 | 6,784 | 18,070 | - | - | - | 6,668 | 7,020 | - | 131,842 |
| Other | 12,276 | 1,015 | 12,759 | - | 1 | (11,862) | 195 | 34,621 | 66 | 1,110 | 25 | 6,991 | 6,437 | 37,678 | 101,312 |
| Totals | \$ 2,149,574 | \$ 176,304 | \$ 1,817,208 | \$ 34,797 | \$ 5,665,318 | \$ 3,241,125 | \$ 206,524 | \$ 734,465 | \$ 713,239 | \$ 2,167,204 | \$ 193,365 | \$ 803,636 | \$ 837,029 | \$ 98,126 | \$ 18,837,914 |

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

| Change in Cash and Cash Equivalents: | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ 417,591 | \$ 77,483 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 187,445 | 200,347 |
| (Gain) loss on disposition of property and equipment | 303 | (3,534) |
| Changes in assets and liabilities: | | |
| Grants, contributions, and fees receivable | 118,707 | 589,195 |
| Prepaid expenses | (536) | (105) |
| Long-term certificates of deposit | - | 838 |
| Beneficial interests in assets held by others | (68,403) | 97,396 |
| Accounts payable and accrued liabilities | 89,185 | 86,602 |
| Refundable advances | 30,027 | 509 |
| Deferred revenues | (2,466) | 7,377 |
| <i>Net cash provided by operating activities</i> | <u>771,853</u> | <u>1,056,108</u> |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | (102,047) | - |
| Proceeds from the sale of property and equipment | 1,789 | 3,534 |
| Maturities of long-term certificates of deposit | 504,174 | - |
| <i>Net cash provided by financing activities</i> | <u>403,916</u> | <u>3,534</u> |
| Net change in cash and cash equivalents | 1,175,769 | 1,059,642 |
| Cash and cash equivalents, beginning of year | <u>4,965,301</u> | <u>3,905,659</u> |
| <i>Cash and cash equivalents, end of year</i> | <u>\$ 6,141,070</u> | <u>\$ 4,965,301</u> |
| <i>Supplemental Cash Flows Information:</i> | | |
| Interest paid | <u>\$ -</u> | <u>\$ 57</u> |
| Income taxes paid | <u>\$ 400</u> | <u>\$ 3,790</u> |

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

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of REAL Services, Inc. and its controlled affiliates, REAL Services Foundation, Inc. and REAL Services Housing, Inc. (collectively the “Organization”). The Organization’s operations are supported primarily by grants from governmental agencies.

The affiliates are organized and operated exclusively to carry out the purposes of REAL Services, Inc., and the Board of Directors of REAL Services, Inc. elects all members of the affiliates’ Boards. All material transactions and balances between the Organizations have been eliminated in these consolidated financial statements.

REAL Services, Inc. is an Indiana nonprofit corporation formed to assist in establishing a community in which older adults can maintain their independence to the maximum extent possible and find meaning and satisfaction throughout their lives. The Organization also administers programs assisting low-income persons. REAL Services Foundation, Inc. is an Indiana nonprofit corporation formed to solicit and administer contributions received for the benefit of REAL Services, Inc. REAL Services Housing, Inc. is an Indiana nonprofit corporation formed to hold property for, and lease it to, REAL Services, Inc.

Significant Accounting Policies:

Use of estimates:

The process of preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Significant estimates used in the accompanying consolidated financial statements include-

- Revenue earned from cost-reimbursement awards. The majority of the Organization’s revenue is earned on such awards from governmental agencies that are governed by cost principles and other administrative and programmatic regulations and are subject to audit by regulatory authorities. It is at least reasonably possible that revenue earned under such awards will be adjusted upon audit.
- The valuation of beneficial interests in assets held by others, which is based on the value of the underlying assets, as provided by the Community Foundation that holds the assets and which approximates the present value of expected future distributions.
- The valuation of contributed facilities, which is based on rents for comparable facilities.
- The allocation of expenses among functions. Expenses that are directly identifiable with functions are charged to those functions. Expenses related to more than one function are allocated to functions based on estimates of employee time spent on functions, space used by function, and other factors driving costs.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

Net asset classes:

The Organization reports its consolidated financial position and activities by the following classes of net assets-

- *Unrestricted net assets* are those currently available for use by the Organization.
- *Temporarily restricted net assets* are those received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities as net assets released from restrictions.
- *Permanently restricted net assets* are those received with permanent donor stipulations. Investment return on permanently restricted net assets that is available for distribution is recorded as unrestricted or temporarily restricted net assets, depending upon whether there are donor restrictions on investment return.

Cash and cash equivalents:

The Organization considers time deposits, certificates of deposit, and other highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. However, cash and cash equivalents held in escrow for employee benefits and held for others under guardianships are not included in cash and cash equivalents but are reported separately.

Beneficial interests in assets held by others:

The Organization recognizes its beneficial rights in assets held by others unless the donor has granted the recipient organization variance power. However, if the Organization is both the donor and the beneficiary of the assets, those rights are recognized even if the recipient organization has been granted variance power.

Beneficial interests in assets held by others are stated at fair value, based on the value of the underlying assets, as provided by the Community Foundation that holds the assets, which approximates the present value of expected future distributions. Changes in the value of the beneficial interests are included in revenues in the consolidated statements of activity.

Gifts and grants:

The majority of the Organization's revenue is earned under cost-reimbursement awards from government agencies. Revenues are recognized under such awards when costs allowable under the terms of the awards are incurred. Advances received in excess of allowable costs are reported as liabilities.

The Organization reports gifts and grants of cash and other assets as 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 a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contributions revenue. Conditional promises to give are not recognized as revenue until the conditions are substantially met.

Fees for services:

Fees for services are recognized as revenue when the services are substantially performed. Fees received in advance of substantial performance are reported as liabilities.

Contributed energy assistance payments:

Indiana Housing and Community Development Authority (“IHCDA”) makes energy assistance payments for participants in the Low Income Home Energy Assistance Program directly to the energy providers on behalf of all entities administering the program. Because the Organization performs all intake functions and is liable for errors made in determining participant eligibility, such payments made by IHCDA to the providers are recorded as both grants revenue and financial assistance expense in the accompanying consolidated financial statements. The Organization recognized \$3,190,789 and \$5,124,027 of revenue and expense for the years ended June 30, 2017 and 2016, respectively, for such payments made by IHCDA.

Contributed services and facilities:

Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such services are recorded at their estimated fair market value. No contributed services are recognized in the accompanying consolidated financial statements because the criteria for recognition were not met. However, a substantial number of volunteers donate significant amounts of time to the Organization.

The Organization uses certain facilities for its Nutrition program without charge or at reduced charge, and the difference between the fair value for the use of these facilities and the cost is recorded as revenue and expense. For the years ended June 30, 2017 and 2016, the Organization recognized \$148,759 and \$156,264, respectively, for use of such facilities.

Property and equipment:

Property and equipment is stated at cost, if acquired, or at fair value at the date of receipt, if donated, less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which are generally as follows:

| | |
|------------------------------|----------------------------------|
| Buildings | 40 years |
| Leasehold improvements | Lesser of lease term or 10 years |
| Program equipment | 10 years |
| Vehicles | 8 years |
| Office equipment | 5 to 8 years |

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

Most of the Organization's program equipment and vehicles have been purchased with governmental grant funds. Disposition of these assets, as well as the ownership of any sale proceeds, is subject to funding source and other regulatory directives. Because management expects such assets to be used in accordance with the funding source directives, the cost of such items has been recorded as assets when they were acquired.

Income taxes:

All three entities are exempt from income tax under Internal Revenue Code Section 501(c)(3) and a similar section of the Indiana Code, except for tax on unrelated business income. Consequently, the accompanying financial statements do not include any provision for income taxes except for tax on unrelated business income. The Internal Revenue Service classifies all three entities as other than private foundations under Internal Revenue Code Section 509(a)(1).

The Organization recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Examples of tax positions include the tax-exempt status of the Organization and positions related to the potential sources of unrelated business taxable income. Management has not identified any uncertain tax positions taken or expected to be taken in a tax return, and there are no unrecognized tax benefits recorded as liabilities in the accompanying financial statements. The Organization classifies interest and penalties, if any, associated with uncertain tax positions as a component of income tax expense. There was no accrued interest or penalties related to unrecognized tax benefits at either June 30, 2017 or 2016, or any interest or penalties expense related to unrecognized tax benefits for the years then ended. All three entities are no longer subject to examination by the Internal Revenue Service or the State of Indiana for years prior to June 30, 2014.

Subsequent events:

The date through which events occurring subsequent to June 30, 2017 have been evaluated for possible adjustment to the financial statements or disclosure is January 9, 2018, the date on which the financial statements were available to be issued.

NOTE 2. GRANTS, CONTRIBUTIONS, AND FEES RECEIVABLE

Grants, contributions, and fees receivable consist of reimbursements due under government cost-reimbursement awards, unconditional promises to give to the Organization, and fees earned under government contracts. All are due in the next year, and no allowance for uncollectibles is considered necessary.

At June 30, 2017, the Organization had received approximately \$2,130,000 in conditional promises to give in excess of allowable costs incurred under cost-reimbursement grants, which will be recognized as revenue if and when allowable costs are incurred.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 3. BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS

The Organization is the beneficiary of two funds held by Community Foundation of St. Joseph County, Inc. (“Community Foundation”), to which both the Organization and others have contributed. One of the funds was established using funds that were permanently restricted by the donor (see Notes 6 and 7). The Organization and the other donors have granted the Community Foundation variance power in the determination of annual distributions and transfer of the accounts to other community organizations in certain circumstances. Distributions to the Organization are under the control of the Community Foundation’s Board of Directors.

The Organization has contributed \$851,075 to the funds, all of which were made prior to 2016. The value of the portions of the funds attributable to the Organization’s contributions was \$1,085,044 and \$1,016,641 at June 30, 2017 and 2016, respectively. The change in value of those portions of the funds, net of distributions, for the years ended June 30, 2017 and 2016 was \$68,403 and \$(97,396), respectively, which is included in revenue in the accompanying consolidated statements of activities. The Organization received distributions from those portions of the funds of \$53,091 and \$83,515 during the years ended June 30, 2017 and 2016, respectively, which are included in investment income.

The portions of the funds attributable to contributions by other donors are not recognized as assets since other donors established them and granted variance power to Community Foundation. The Organization periodically receives distributions in the form of grants from those portions of the funds. The total value of those portions of the funds at June 30, 2017 and 2016 was \$875,705 and \$774,498, respectively. The Organization received distributions from those portions of the funds of \$40,591 and \$72,308 during the years ended June 30, 2017 and 2016, respectively, which are included in contributions revenue.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2017 and 2016, respectively:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|---------------------|---------------------|
| Land | \$ 182,930 | \$ 182,930 |
| Buildings | 3,210,785 | 3,199,658 |
| Leasehold improvements | 48,411 | 48,411 |
| Program equipment | 222,827 | 222,827 |
| Vehicles | 652,650 | 580,081 |
| Office equipment | <u>164,747</u> | <u>168,582</u> |
| | 4,482,350 | 4,402,489 |
| Less accumulated depreciation | <u>(2,273,137)</u> | <u>(2,105,786)</u> |
| <i>Net property and equipment</i> | <u>\$ 2,209,213</u> | <u>\$ 2,296,703</u> |

NOTE 5. DEBT INFORMATION

The Organization maintained a \$500,000 bank line of credit, bearing interest at bank prime that was collateralized by a mortgage on the Organization’s primary facilities and that expired

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

during the year ended June 30, 2017. No borrowings were outstanding on the line at either June 30, 2017 or 2016.

NOTE 6. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following periods or purposes at June 30, 2017 and 2016, respectively:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| For next year: | | |
| Guardianship | \$ - | \$ 20,000 |
| Caregiver Connection | - | 62,988 |
| Case Management | - | 25,000 |
| For the following purposes: | | |
| Meal Program | 279,423 | 279,423 |
| Weatherization | 10,000 | - |
| Local Crime Victims | 32,999 | 32,999 |
| Care transitions | 17,666 | 17,666 |
| Caregiver Connection | 336,766 | 235,514 |
| Client self-sufficiency programs | 18,860 | 18,860 |
| Utility assistance programs | 29,816 | 18,954 |
| Guardianship programs | 89,953 | 97,021 |
| Alzheimer's programs | 160,765 | 292,833 |
| Kitchen project | 243,760 | 243,682 |
| Transportation vans | 23,000 | 53,000 |
| Foster Grandparents | 35,454 | 16,682 |
| Other | <u>7,161</u> | <u>5,499</u> |
| <i>Total temporarily restricted net assets</i> | <u>\$ 1,285,623</u> | <u>\$ 1,420,121</u> |

Permanently restricted net assets consist of an endowment to benefit the Organization's Caregiver Connection program (see Note 7).

Net assets were released from restrictions by incurring expenses satisfying restricted purposes specified by donors as follows for the years ended June 30, 2017 and 2016, respectively:

| | | |
|----------------------------------|-------------------|-------------------|
| Case Management | \$ 155,656 | \$ - |
| Caregiver Connection | 64,837 | 58,660 |
| Meals on Wheels | 24,793 | 7,434 |
| Utility assistance programs | 14,180 | 16,417 |
| Guardianship programs | 145,502 | 163,909 |
| Foster Grandparents program | 17,965 | - |
| Alzheimer's program | 443,250 | 366,418 |
| Aging in Place program | 10,000 | - |
| Meal program | 41,753 | 491 |
| Internship program | - | 510 |
| Transportation | 73,125 | - |
| Weatherization program | - | 25,000 |
| Sign conversion | <u>2,000</u> | <u>-</u> |
| <i>Total net assets released</i> | <u>\$ 993,061</u> | <u>\$ 638,839</u> |

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7. ENDOWMENT INFORMATION

As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Indiana enacted the *Uniform Prudent Management of Institutional Funds Act of 2006* (“UPMIFA”) effective July 1, 2007, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors and management have determined that certain net assets meet the definition of endowment funds under UPMIFA. These consist of beneficial interests in assets held by the Community Foundation discussed in Note 3, which were funded by both unrestricted and restricted net assets. Funds held at Community Foundation are subject to Community Foundation’s investment and spending policies and are subject to Community Foundation’s variance power, as discussed in Note 3.

The total endowment at June 30, 2017 and 2016 is \$963,631 and \$934,097, respectively, of which \$463,631 and \$434,097, respectively, is Board designated, and \$500,000 for both years is donor-restricted for the Organization’s Caregiver Connection program. Changes in the endowment for the years ended June 30, 2017 and 2016, respectively, are as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------------|-------------------|-------------------|
| Beginning balance | \$ 934,097 | \$ 962,112 |
| Investment earnings | 82,625 | 55,500 |
| Amounts expended | <u>(53,091)</u> | <u>(83,515)</u> |
| <i>Ending balance</i> | <u>\$ 963,631</u> | <u>\$ 934,097</u> |

NOTE 8. LEASE INFORMATION

The Organization leases certain facilities and equipment under non-cancelable operating leases expiring in various months through January, 2022. Minimum future rental payments under these leases as of June 30, 2017 for each of the next five years and in the aggregate are as follows:

| | | |
|---|----|-------------------|
| 2018 | \$ | 69,520 |
| 2019 | | 66,318 |
| 2020 | | 52,546 |
| 2021 | | 43,926 |
| 2022 | | <u>36,605</u> |
| <i>Total minimum future rental payments</i> | | <u>\$ 286,915</u> |

Total rent expense was \$122,186 and \$106,490 for the years ended June 30, 2017 and 2016, respectively.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 9. EMPLOYEE BENEFIT PLANS

The Organization maintains a defined-contribution tax-deferred annuity pension plan covering substantially all of its employees. Pension costs are funded in the period that they accrue. Pension expense was \$220,315 and \$246,849 for the years ended June 30, 2017 and 2016, respectively.

The Organization also maintains a self-funded medical plan for its full-time employees that is managed by a third-party administrator. The Organization has purchased a stop-loss insurance policy for the plan that reimburses the Organization for individual claims in excess of \$30,000 annually. The Organization funds a separate bank account that is restricted for payment of claims and insurance. The Organization has recorded accruals for its estimated portion of self-insured claims based on estimated claims incurred through June 30, 2017 and 2016, respectively.

In 2015, the Organization has established an executive retirement plan that is designed in accordance with Section 457(b) of the Internal Revenue Code. Participants are designated by the Board of Directors. The Organization generally makes discretionary annual contributions on a calendar year basis into the plan on behalf of each participant. The funds deposited into this plan remain assets of the Organization until such time that the participant withdraws the funds in accordance with the plan provisions. Assets held in this plan were \$143,500 and \$95,500 at June 30, 2017 and 2016, respectively, and corresponding liabilities, including unfunded estimated accrued amounts, are reported in the consolidated statements of financial position. Retirement plan expense under this plan was \$48,000 for both years ended June 30, 2017 and 2016, respectively.

NOTE 10. FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an entity's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Such principles establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of assets measured on a recurring basis at June 30, 2017 and 2016, respectively, is as follows:

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

| | Fair Value | Level 1 | Level 2 | Level 3 |
|--|---------------------|-------------|-------------|---------------------|
| <i>June 30, 2017:</i> | | | | |
| Beneficial interests in assets held by others | <u>\$ 1,085,044</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,085,044</u> |
| <i>June 30, 2016:</i> | | | | |
| Beneficial interests in assets held by others | <u>\$ 1,016,641</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,016,641</u> |

Fair value for the beneficial interests in assets held by others (the Community Foundation funds discussed in Note 3) is based on the fair value of the underlying assets, as provided by the Community Foundation that holds the assets and which approximates the present value of expected future distributions.

The following is a reconciliation of beginning and ending balances of the fair value of assets measured by Level 3 inputs for the years ended June 30, 2017 and 2016, respectively:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Beneficial interests in assets held by others: | | |
| Beginning fair value | \$ 1,016,641 | \$ 1,114,037 |
| Distributions | (53,091) | (83,515) |
| Change in value | <u>121,494</u> | <u>(13,881)</u> |
| <i>Ending fair value</i> | <u>\$ 1,085,044</u> | <u>\$ 1,016,641</u> |

The changes in value of the beneficial interests in assets held by others is reported as such in revenue in the accompanying consolidated statements of activities. All the above Level 3 changes in value are attributable to changes in the value of assets held by Community Foundation at June 30, 2017 and 2016, respectively.

NOTE 11. CONCENTRATIONS

All of the Organization's programs and activities occur in Northern Indiana; consequently, its sources of support and revenue may be affected by conditions in that area. In addition, for the year ended June 30, 2017, approximately 85% of total revenues were from state and federal government sources, with approximately 33% of total revenues received from Indiana Housing and Community Development Authority, 38% received from Indiana Family and Social Services Administration, and 10% from Indiana Medicaid. For the year ended June 30, 2016, approximately 89% of total revenues were from state and federal government sources, with approximately 39% of total revenues received from Indiana Housing and Community Development Authority and 34% received from Indiana Family and Social Services Administration.

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and grants and fees receivable. The Organization has cash on deposit with financial institutions that, at times, may exceed the insurance limit of the Federal Deposit Insurance Corporation and are not otherwise collateralized. At June 30, 2017 the Organization had approximately \$1,478,000 of cash and certificates of deposit with financial institutions that exceeded federal deposit insurance coverage and are not otherwise collateralized. In addition, grants and fees receivable are due primarily from agencies of the

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

State of Indiana under contracts and cost-reimbursement grants, which represents a concentration of credit risk.

NOTE 12. CONTINGENCIES

The Organization is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Organization's financial position or results of operations.

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2017

| <u>Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Total Expenditures</u> | <u>Expenditures to Subrecipients</u> |
|---|------------------------------------|---|-------------------------------|--|
| FEDERAL ASSISTANCE | | | | |
| <i>U. S. Department of Housing and Urban Development:</i> | | | | |
| <i>CDBG Entitlement Grants Cluster:</i> | | | | |
| Passed-through City of Mishawaka: | | | | |
| Community Development Block Grant/ Entitlement Grants | 14.218 | n/a | \$ 88,210 | \$ - |
| Passed-through City of South Bend: | | | | |
| Community Development Block Grant/ Entitlement Grants | 14.218 | n/a | 100,000 | - |
| <i>Total CDBG Entitlement Grants Cluster</i> | | | 188,210 | - |
| Passed-through Indiana Housing and Community Development Authority: | | | | |
| Community Development Block Grants/State's Programs and Non-Entitlement Grants in Hawaii | 14.228 | DR2OR-016-006/7 | 313,075 | - |
| <i>Total U. S. Department of Housing and Urban Development</i> | | | 501,285 | - |
| <i>U.S. Department of Justice:</i> | | | | |
| Passed-through Indiana Criminal Justice Institute: | | | | |
| Crime Victim Assistance | 16.575 | D3-16-10350 | 936 | - |
| <i>U.S. Department of Energy:</i> | | | | |
| Passed-through Indiana Housing and Community Development Authority: | | | | |
| Weatherization Assistance for Low-Income Persons | 81.042 | WX-016-020 & WX-017-020 | 312,826 | - |
| <i>U.S. Department of Health and Human Services:</i> | | | | |
| Passed-through Indiana Family and Social Services Administration: | | | | |
| Special Programs for the Aging-Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals | 93.042 | 71-16-OV-1521 | 20,189 | - |
| Special Programs for the Aging-Title III, Part D- Disease Prevention and Health Promotion Services | 93.043 | 71-16-OV-1521 | 41,443 | - |
| <i>Aging Cluster:</i> | | | | |
| Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers | 93.044 | 71-16-OV-1521 | 811,305 | 229,329 |
| Special Programs for the Aging-Title III, Part C - Nutrition Services | 93.045 | 71-16-OV-1521 | 1,123,148 | 172,112 |
| Nutrition Services Incentive Program | 93.053 | 71-16-O2-1521 | 206,615 | - |
| <i>Total Aging Cluster</i> | | | 2,141,068 | 401,441 |
| National Family Caregiver Support, Title III, Part E | 93.052 | 71-16-OV-1521 | 249,016 | - |
| Social Services Block Grant | 93.667 | 71-16-OV-1521 | 937,999 | - |
| <i>Medicaid Cluster:</i> | | | | |
| Medical Assistance Program | 93.778 | 71-16-OV-1521 | 45,340 | - |
| Medical Assistance Program - Waiver Intake | 93.778 | n/a | 386,241 | - |
| <i>Total Medicaid Cluster</i> | | | 431,581 | - |
| Money Follows the Person Rebalancing Demonstration | 93.791 | n/a | 39,087 | - |

The accompanying notes are an integral part of this schedule.

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2017

| <u>Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Total Expenditures</u> | <u>Expenditures to Subrecipients</u> |
|---|------------------------------------|---|-------------------------------|--|
| Passed-through Indiana Association of Area Agencies on Aging: | | | | |
| Special Programs for the Aging-Title IV and Title II Discretionary Projects | 93.048 | n/a | 19,435 | - |
| Passed-through Indiana Housing and Community Development Authority: | | | | |
| Low-Income Home Energy Assistance | 93.568 | LI-016-020 & LI-017-020 | 3,713,194 | - |
| Low-Income Home Energy Assistance | 93.568 | WL-016-020 & WL-017-020 | 435,211 | - |
| <i>Total low-income home energy assistance</i> | | | <u>4,148,405</u> | - |
| Passed-through Indiana Department of Insurance: | | | | |
| Affordable Care Act - Medicare Improvements for Patients and Providers | 93.518 | n/a | 630 | - |
| Passed-through Indiana Housing and Community Development Authority: | | | | |
| 477 Cluster: | | | | |
| Community Services Block Grant | 93.569 | CS-016-020 & CS-017-020 | 689,635 | 151,454 |
| <i>Total U.S. Department of Health and Human Services</i> | | | <u>8,718,488</u> | <u>552,895</u> |
| Corporation for National and Community Service: | | | | |
| <i>Foster Grandparent/Senior Companion Cluster:</i> | | | | |
| Foster Grandparent Program | 94.011 | 15SFNIN005 | 211,668 | - |
| U.S. Department of Homeland Security: | | | | |
| <i>Passed-Through Emergency Food and Shelter National Board:</i> | | | | |
| Emergency Food and Shelter National Board Program | 97.024 | 277600-019 | 3,900 | - |
| <i>Total federal expenditures</i> | | | <u>9,749,103</u> | <u>\$ 552,895</u> |
| NONFEDERAL ASSISTANCE | | | | |
| Indiana Family and Social Services Administration: | | | | |
| CHOICE | | 71-16-10-1521-01 | 2,460,279 | |
| Assisted Living Ombudsman | | 71-16-2V-1521-01 | 14,141 | |
| Older Hoosier Act | | 71-16-OM-1521-01 | 170,100 | |
| State Low Income Home Energy Assistance | | WS -016-020 | 169,793 | |
| Low-Income Home Energy Assistance | | WS -016-020 & WS-017-020 | 59,159 | |
| Medicaid reimbursements | | n/a | 1,754,207 | |
| Indiana Supreme Court - VASIA | | n/a | 75,000 | |
| <i>Total State expenditures</i> | | | <u>4,702,679</u> | |
| Local Area Agency: | | | | |
| Area 12 Liaison | | n/a | 15,293 | |
| Total expenditures of federal and nonfederal awards | | | <u>\$ 14,467,075</u> | |

The accompanying notes are an integral part of this schedule.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND
NONFEDERAL AWARDS
Year Ended June 30, 2017

NOTE 1. BASIS OF PRESENTATION

The accompanying consolidated schedule of expenditures of federal and nonfederal awards (the "Schedule") includes the federal and nonfederal grant activities of Real Services, Inc. and Affiliates (the "Organization"). The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the Organization's operations, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Organization.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indiana Housing and Community Development Authority ("IHCDA") makes energy assistance payments for participants in the Low Income Home Energy Assistance Program, CFDA Number 93.568, directly to the energy providers on behalf of all entities administering the program. Previously, such payments were made by the Organization to the providers and the Organization was reimbursed by IHCDA. Because the Organization performs all intake functions and is liable for errors made in determining participant eligibility, such payments made by IHCDA to the providers totaling \$3,190,789 are included in federal expenditures in the accompanying Schedule.

The Organization has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
REAL Services, Inc. and Affiliates
South Bend, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of REAL Services, Inc. and Affiliates (the “Organization”), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated January 9, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s consolidated 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*.

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.

Cullen & Associates, P.C.

South Bend, Indiana
January 9, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
REAL Services, Inc. and Affiliates
South Bend, Indiana

Report on Compliance for Each Major Federal Program

We have audited REAL Services, Inc. and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of REAL Services, Inc. and Affiliates' major federal programs for the year ended June 30, 2017. REAL Services, Inc. and Affiliates' 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of REAL Services, Inc. and Affiliates' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 REAL Services, Inc. and Affiliates' 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 REAL Services, Inc. and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, REAL Services, Inc. and Affiliates 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, 2017.

Report on Internal Control over Compliance

Management of REAL Services, Inc. and Affiliates 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 REAL Services, Inc. and Affiliates' 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 the Uniform Guidance, 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 REAL Services, Inc. and Affiliates' 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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cullen & Associates, P.C.

South Bend, Indiana
January 9, 2018

REAL SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Section 1 – Summary of Auditor’s Results

FINANCIAL STATEMENTS

| | |
|---|---------------|
| Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America- | Unmodified |
| Internal control over financial reporting- | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | None reported |
| Noncompliance material to the consolidated financial statements noted? | No |

FEDERAL AWARDS

| | |
|--|---------------|
| Internal control over major federal programs- | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | None reported |
| Type of auditor’s report issued on compliance for major federal programs- | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |

Identification of major federal programs-

CFDA Number

Name of Federal Program or Cluster

81.042

Weatherization Assistance for Low-Income Persons

93.044, 93.045, 93.053

Aging Cluster

Dollar threshold used to distinguish between type A and type B programs-

\$750,000

Auditee qualified as low-risk auditee?

Yes

REAL SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Section II - Financial Statement Findings

There were no financial statement findings.

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs in the major federal award programs audit.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS



There were no findings in the June 30, 2016 audit.

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574.232.4121
Help: 888.303.0180
Fax: 574.232.4235

Community Services

574.284.2060

Energy Assistance

574.232.6501
800.225.3367
Fax: 574.236.4891

Meals on Wheels Nutrition Services

574.256.1649

Case Management Offices

Elkhart Co.
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574.269.1173
LaPorte Co.
219.324.4199
Marshall Co.
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