CONSOLIDATED FINANCIAL REPORT

REAL SERVICES, INC. AND AFFILIATES

June 30, 2019 and 2018

CONTENTS

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CULLAR & ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of REAL Services, Inc. and Affiliates (the Organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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. 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 the Organization as of June 30, 2019 and 2018, 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.

Adoption of New Accounting Standard

As discussed in Note 1 to financial statements, in 2019 the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Cullen & Associates, P.C.

South Bend, Indiana
January 15, 2020

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
Assets:		
Cash and cash equivalents	$ 4,776,623	$ 6,312,970
Grants and contracts receivable	2,817,539	2,738,582
Investments	2,597,067	-
Prepaid expenses	7,583	6,907
Beneficial interest in assets held by Community Foundation	1,126,274	1,126,889
Property and equipment	2,280,080	2,342,791
Cash held in escrow for employee benefits	371,197	264,086
Investments held for deferred compensation plan benefits	200,071	192,500
Assets held for others under guardianship	203,329	83,488
Total assets	$ 14,379,763	$ 13,068,213
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,218,713	$ 1,197,912
Refundable advances	44,317	58,522
Deferred revenues	53,700	95,247
Accrued employee benefits	371,197	264,086
Accrued deferred compensation plan benefits	219,071	216,500
Liability for assets held under guardianships	203,329	83,488
Total liabilities	2,110,327	1,915,755
Net Assets:		
Without donor restrictions:		
Undesignated	7,180,359	6,073,688
Designated by Board for endowment	482,280	482,215
Invested in property and equipment	2,280,080	2,342,791
	9,942,719	8,898,694
With donor restrictions:		
Purpose restricted	1,826,717	1,753,764
Perpetual in nature	500,000	500,000
	2,326,717	2,253,764
Total net assets	12,269,436	11,152,458
Total liabilities and net assets	$ 14,379,763	$ 13,068,213

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, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue, Support, and Gains:						
Grants and contracts	$ 17,605,942	$ 200,880	$ 17,806,822	$ 17,384,052	$ 386,250	$ 17,770,302
Program service revenue	1,164,798	116,779	1,281,577	1,254,719	142,274	1,396,993
Contributions	462,971	415,063	878,034	543,013	585,848	1,128,861
Net investment return	161,213	31,368	192,581	25,690	30,872	56,562
Other	210,993	94,023	305,016	184,534	88,495	273,029
Change in value of beneficial interest in assets held by Community Foundation	65	(680)	(615)	18,584	23,261	41,845
Net assets released from restrictions	784,480	(784,480)	-	788,859	(788,859)	-
Total revenue, support, and gains	20,390,462	72,953	20,463,415	20,199,451	468,141	20,667,592
Expenses:						
Program services expenses:						
Alzheimer's and Dementia Services	279,624	-	279,624	380,146	-	380,146
Area Agency on Aging	744,040	-	744,040	779,793	-	779,793
Case Management	4,466,969	-	4,466,969	4,019,639	-	4,019,639
Community Services	716,904	-	716,904	553,040	-	553,040
Energy Assistance	6,683,601	-	6,683,601	7,446,362	-	7,446,362
Foster Grandparents	208,128	-	208,128	224,415	-	224,415
Guardianship	210,813	-	210,813	175,600	-	175,600
Home Health Care	1,832,655	-	1,832,655	1,992,298	-	1,992,298
Nutrition	2,282,977	-	2,282,977	2,128,296	-	2,128,296
Transportation	278,382	-	278,382	258,060	-	258,060
Weatherization	631,726	-	631,726	662,758	-	662,758
Total program services expenses	18,335,819	-	18,335,819	18,620,407	-	18,620,407
Supporting services expenses:						
Management and general	838,716	-	838,716	670,252	-	670,252
Development and fundraising	171,902	-	171,902	174,100	-	174,100
Total supporting services expenses	1,010,618	-	1,010,618	844,352	-	844,352
Total expenses	19,346,437	-	19,346,437	19,464,759	-	19,464,759
Change in net assets	1,044,025	72,953	1,116,978	734,692	468,141	1,202,833
Net assets, beginning of year	8,898,694	2,253,764	11,152,458	8,164,002	1,785,623	9,949,625
Net assets, end of year	$ 9,942,719	$ 2,326,717	$ 12,269,436	$ 8,898,694	$ 2,253,764	$ 11,152,458

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, 2019

	Alzheimer's and Dementia Services	Area Agency on Aging	Case Management	Community Services	Energy Assistance	Foster Grandparents	Guardian-ship	Home Health Care	Nutrition	Transpor-tation	Weather-ization	Management and General	Development and Fundraising	Totals
Personnel:														
Salaries and wages	$ 149,563	$ 411,643	$ 2,756,216	$ 268,404	$ 205,700	$ 58,318	$ 123,062	$ -	$ 786,709	$ 156,369	$ 165,688	$ 500,847	$ 70,870	$ 5,653,389
Retirement	5,607	16,103	114,551	20,282	7,515	2,577	6,063	-	24,633	4,323	7,787	23,078	3,388	235,907
Other benefits	26,406	39,472	680,532	65,892	22,228	16,008	50,879	-	121,218	10,643	25,555	81,825	786	1,141,444
Payroll taxes	11,002	29,726	199,597	19,279	15,628	4,291	7,997	-	59,909	12,210	12,692	37,526	5,386	415,243
Total personnel	192,578	496,944	3,750,896	373,857	251,071	81,194	188,001	-	992,469	183,545	211,722	643,276	80,430	7,445,983
Contract services	-	-	-	-	-	-	-	-	-	-	-	72,155	1,961	74,116
IT services	1,998	2,916	57,658	3,037	13,505	1,054	1,201	-	6,414	1,036	-	4,059	1,082	93,960
Food	113	112	24,051	99	-	42	8	7,303	728,786	-	-	278	111	760,903
Program supplies	10,086	8,560	11,892	229	-	1,547	78	-	91,812	669	379	582	2,691	128,525
Office supplies	933	1,816	23,494	1,869	13,239	467	681	-	4,320	581	2,430	6,145	867	56,842
Duplicating	2,110	2,055	13,925	3,736	649	269	424	-	3,439	1,392	489	3,129	7,099	38,716
Recognition	143	94	1,382	280	554	950	189	-	1,944	189	129	1,365	-	7,219
Communications	4,824	2,463	27,227	1,280	7,487	1,096	2,208	-	18,903	4,965	3,494	3,382	743	78,072
Postage	1,756	3,427	12,269	1,000	10,633	1,258	1,004	-	3,243	849	1,914	27,737	2,245	67,335
Occupancy	26,425	16,856	251,650	30,813	55,569	3,433	9,699	-	195,310	4,979	20,824	11,234	19,619	646,411
Insurance	5,003	1,787	18,169	1,741	3,431	844	675	-	11,223	798	6,606	2,421	154	52,852
Printing and														-
advertising	4,272	12,588	5,611	1,080	7,954	114	348	-	2,136	131	357	4,646	3,985	43,222
Vehicle expenses	-	2,589	10	-	-	2,595	174	-	41,440	40,485	5,372	-	-	92,665
Travel and														-
conferences	9,904	10,707	64,284	5,392	1,740	460	4,683	-	18,837	-	1,598	2,067	1,532	121,204
Dues and														-
subscriptions	2,266	19,714	13,870	5,651	1	1,676	501	-	678	1	-	311	2,338	47,007
Assistance to														-
individuals	14,472	150,989	142,187	283,122	6,288,542	110,957	302	1,823,403	57,208	685	376,733	-	-	9,248,600
Training	779	1,310	1,188	313	-	9	-	198	-	240	2,763	1,372	-	8,172
Equipment expense	293	3,402	44,983	4,366	17,569	68	614	-	21,417	62	(188)	2,870	483	95,939
Equipment														-
depreciation	-	-	-	-	-	-	-	-	67,119	37,471	1,585	32,639	-	138,814
Other	1,669	5,711	2,223	(961)	11,657	95	23	1,751	16,279	304	(4,481)	19,048	46,562	99,880
Totals	$ 279,624	$ 744,040	$ 4,466,969	$ 716,904	$ 6,683,601	$ 208,128	$ 210,813	$ 1,832,655	$ 2,282,977	$ 278,382	$ 631,726	$ 838,716	$ 171,902	$ 19,346,437

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, 2018

	Alzheimer's and Dementia Services	Area Agency on Aging	Case Management	Community Services	Energy Assistance	Foster Grandparents	Guardian-ship	Home Health Care	Nutrition	Transpor-tation	Weather-ization	Management and General	Development and Fundraising	Totals
Personnel:														
Salaries and wages	$ 216,032	$ 354,302	$ 2,427,446	$ 224,245	$ 193,752	$ 47,477	$ 104,400	$ -	$ 743,834	$ 158,471	$ 172,088	$ 393,968	$ 90,766	$ 5,126,781
Retirement	7,916	14,442	106,229	20,846	7,108	2,183	5,211		20,309	5,548	10,824	30,589	4,485	235,690
Other benefits	32,793	55,126	608,544	64,461	21,557	6,420	39,820		119,187	9,793	26,299	73,116	173	1,057,289
Payroll taxes	16,213	26,505	176,718	17,414	15,074	3,625	6,890	-	58,103	12,710	13,124	33,917	6,942	387,235
Total personnel	272,954	450,375	3,318,937	326,966	237,491	59,705	156,321	-	941,433	186,522	222,335	531,590	102,366	6,806,995
Contract services	-	-	-	-	-	-	-	-	-	-	-	62,381	718	63,099
IT services	2,389	7,291	45,552	3,109	10,733	1,218	1,106	-	8,245	1,217	-	4,915	417	86,192
Food	2,654	20,354	29,011	119	25	-	159	9,323	696,614	-	-	96	37	758,392
Program supplies	5,986	2,244	8,570	307	213	179	92	420	72,420	491	25	67	91	91,105
Office supplies	2,520	1,831	24,725	1,469	8,185	408	696	115	4,340	523	3,272	3,406	1,014	52,504
Duplicating	10,393	1,838	17,224	2,479	259	277	202	-	3,285	1,282	960	2,090	5,386	45,675
Recognition	986	191	725	153	331	2,113	265	-	318	242	76	703	-	6,103
Communications	4,981	2,261	27,352	1,097	7,957	984	2,216	-	17,743	3,578	3,435	3,132	863	75,599
Postage	3,004	3,088	13,425	1,103	5,773	1,545	1,126	39	2,635	837	1,355	27,793	5,713	67,436
Occupancy	27,541	14,069	235,928	22,943	45,813	2,805	7,786	-	188,665	3,956	23,982	12,765	15,922	602,175
Insurance	4,711	3,630	14,856	428	5,181	718	506	-	9,585	1,343	4,600	(1,219)	137	44,476
Printing and														-
advertising	7,926	12,445	3,197	435	3,182	164	140	-	1,364	120	562	1,333	6,480	37,348
Vehicle expenses	-	2	398	-	-	29,433	-	-	42,534	38,006	6,737	-	-	117,110
Travel and														-
conferences	8,783	9,260	75,094	3,824	1,567	340	4,490	504	19,262	72	3,217	1,968	906	129,287
Dues and														-
subscriptions	707	16,246	21,275	5,134	-	150	300	-	553	-	-	519	1,931	46,815
Assistance to														-
individuals	19,001	228,782	145,065	179,811	7,110,054	123,860	236	1,981,797	23,888	1,053	389,222	-	-	10,202,769
Training	3,188	694	3,547	1,475	3	16	(609)	100	40	67	24	6,121	2	14,668
Equipment expense	1,132	3,626	28,211	3,058	960	95	68	-	3,169	92	188	(8,875)	23	31,747
Equipment														-
depreciation	-	-	-	-	-	-	-	-	81,080	18,449	2,718	19,381	-	121,628
Other	1,290	1,566	6,547	(870)	8,635	405	500	-	11,123	210	50	2,086	32,094	63,636
Totals	$ 380,146	$ 779,793	$ 4,019,639	$ 553,040	$ 7,446,362	$ 224,415	$ 175,600	$ 1,992,298	$ 2,128,296	$ 258,060	$ 662,758	$ 670,252	$ 174,100	$ 19,464,759

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

Change in Cash and Cash Equivalents:	2019	2018
Cash Flows from Operating Activities:		
Cash received from grants and contracts, program services, contributions, and others	$ 14,098,700	$ 12,617,555
Investment income received	125,720	56,562
Payments for salaries, benefits, and payroll taxes	(7,378,037)	(6,760,950)
Payments to vendors	(5,716,479)	(5,581,528)
Payments of income taxes	(2,906)	(1,555)
Net cash provided by operating activities	1,126,998	330,084
Cash Flows from Investing Activities:		
Purchase of property and equipment	(140,619)	(190,258)
Proceeds from the sale of property and equipment	-	32,074
Purchase of investments	(2,653,004)	-
Proceeds from sale of investments	130,278	-
Net cash (used in) investing activities	(2,663,345)	(158,184)
Net change in cash and cash equivalents	(1,536,347)	171,900
Cash and cash equivalents, beginning of year	6,312,970	6,141,070
Cash and cash equivalents, end of year	$ 4,776,623	$ 6,312,970

Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in net assets	$ 1,116,978	$ 1,202,833
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	203,330	190,726
(Gain) on disposition of property and equipment	-	(25,082)
Investment (gains)	(74,341)	-
Donated property and equipment	-	(141,038)
Changes in assets and liabilities:		
Grants and contracts receivable	(78,957)	(964,025)
Prepaid expenses	(676)	(3,341)
Beneficial interest in assets held by Community Foundation	615	(41,845)
Accounts payable and accrued liabilities	15,801	99,600
Refundable advances	(14,205)	(4,870)
Deferred revenues	(41,547)	17,126
Net cash provided by operating activities	$ 1,126,998	$ 330,084

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

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, we, us, our). Our operations are supported primarily by grants and contracts from governmental agencies and contributions from the public.

REAL Services, Inc. is a tax-exempt, 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. We also administer programs assisting low-income persons. REAL Services Foundation, Inc. is a tax-exempt, Indiana nonprofit corporation formed to solicit and administer contributions received for the benefit of REAL Services, Inc. REAL Services Housing, Inc. is a tax-exempt, Indiana nonprofit corporation formed to hold property for, and lease it to, REAL Services, Inc. We fulfill our mission by focusing our efforts in the following primary service areas:

- *Alzheimer's and Dementia Services* – Alzheimer's and Dementia Services provides families with support and education throughout the region.
- *Area Agency on Aging* – Designated as an Area Agency on Aging, we conduct needs assessments and contract for services that assist older adults in the region.
- *Case Management* – Care Managers assess older adults throughout the region to determine what the older adults need to remain safely living at home.
- *Community Services* – Our Community Services programs assists low-income families in the region to become financially self-sufficient.
- *Energy Assistance* – The Energy Assistance program helps low-income households in the region with their heating expenses during the winter months and cooling during the summer months.
- *Foster Grandparents* – Our Foster Grandparents program provides an opportunity for low-income seniors to support children in day care, and schools in Elkhart and St. Joseph Counties.
- *Guardianship* – REAL Services becomes legal guardian for incapacitated older adults in the region who have no other appropriate advocate to assist them.
- *Home Health Care* – The Area Agency on Aging subcontracts with home care agencies to help older adults throughout the region live at home for as long as possible.
- *Nutrition* - Our Nutrition program provides older adults with nutritious meals and activities at approximately thirty centers in the region.
- *Transportation* – Our Transportation program assists older adults by providing rides to the doctor, grocery, or bank in St. Joseph County
- *Weatherization* – The Weatherization program helps low-income households in the region to reduce fuel consumption.

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 government-funded awards. The majority of our revenue is earned on such awards 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 interest in assets held by Community Foundation, 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.

Consolidation:

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.

Net Asset Classes:

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

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.
- *Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents:

We consider highly liquid financial instruments with original maturities of three months or less and that are neither held for nor restricted by donors for long-term purposes to be cash and 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.

Grants and Contracts Receivable:

Unconditional grants and contracts and other promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value, using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written-off when deemed uncollectable.

Investments:

Investment purchases are recorded at cost, or if donated, at fair value on the date donated. Thereafter, investments are reported at fair value in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income and realized and unrealized gains and losses, less external and direct internal investment expenses.

Beneficial Interest in Assets Held by Community Foundation:

We have established two endowments funds that are perpetual in nature (the funds) with Community Foundation of St. Joseph County, Inc. (Community Foundation) to which both we and others have contributed and named ourselves as beneficiary, and we are the beneficiary of a third fund that was established solely by other donors. We and the other donors granted variance power to Community Foundation, which allows Community Foundation to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in its sole judgment, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The funds are held and invested by Community Foundation for our benefit. The portions of the funds that are attributable to our contributions are reported at fair value in the statements of financial position based on the value of the underlying assets, as provided by Community Foundation that holds the assets and which approximates the present value of expected future distributions. Distributions and changes in fair value of those portions of the funds are recognized in the statements of activities. The portions of the funds attributable to contributions from others are not reported as an asset in the statements of financial positions, and distributions from those portions are included in contributions revenue in the statements of activities.

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

Most of our 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.

Revenue and Revenue Recognition:

Revenue is recognized when earned. Revenue from fee-for-service awards is recognized when eligible services are rendered under the terms of the awards. Revenue from cost-reimbursement awards is recognized when costs allowable under the terms of the awards are incurred. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

We consider unconditional contributions to be available for unrestricted use unless specifically restricted by donor. 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 statements of activities as net assets released from restrictions.

Contributions of goods and property are recorded at fair value at the date contributed. Contributions of the use of facilities at no charge or at below-market charge are recorded at fair value, less any charges. Contributions of services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated, are recorded at their fair value in the period received. 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 us.

We use certain facilities for our 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 both of the years ended June 30, 2019 and 2018, we recognized $145,048 for use of such facilities.

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 we perform all intake functions and are 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. We recognized $5,892,995 and $6,688,696 of revenue and expense for the years ended June 30, 2019 and 2018, respectively, for such payments made by IHCDA.

Functional Allocation of Expenses:

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function and report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, insurance, communications, office supplies, equipment maintenance, and others, which are allocated on the basis of estimates of time and effort or other factors driving expenses.

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).

We recognize 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 our tax-exempt status and positions related to the potential sources of unrelated business taxable income. We have 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. We classify interest and penalties, if any, associated with uncertain tax positions as a component of income tax expense, and there was no accrued interest or any penalties related to unrecognized tax benefits at either June 30, 2019 or 2018, or any interest or penalties expense related to unrecognized tax benefits for the years then ended. We are no longer subject to examination by the Internal Revenue Service or the State of Indiana for years prior to June 30, 2016.

Advertising:

Advertising costs are expensed when incurred. Advertising expense was $3,450 and $5,667 for the years ended June 30, 2019 and 2018.

Financial Instruments and Credit Risk:

We manage deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. Credit risk associated with grants and contracts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies, local individuals, and others supportive of our mission. Investments are made by investment managers whose performance is monitored by us and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, we and the Board believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

Recent Accounting Pronouncements and Accounting Changes:

In 2019, we adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about liquidity, financial performance, and cash flows. The main provisions of this guidance include presentation of two net asset classes instead of the previous three; recognition of underwater endowment funds as a reduction of net assets with donor restrictions; and enhanced disclosures for board-designated amounts, composition of net assets without donor restrictions, and liquidity. There were no net asset reclassifications made as a result of adopting the new standard.

In addition, we have elected to change the presentation of the statement of cash flows from the indirect to the direct method, which we believe will provide more useful information to users of our financial statements. We also reclassified approximately $92,000 in personnel expenses from management and general to development and fundraising in the accompanying 2018 statements of activities and functional expenses to correct an error made in 2018 in allocating certain personnel, with no change in total expenses or the change in net assets.

Subsequent Events:

The date through which events occurring subsequent to June 30, 2019 have been evaluated for possible adjustment to the financial statements or disclosure is January 15, 2020, the date on which the financial statements were available to be issued.

NOTE 2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure (that is, without donor or other restrictions limiting their use) within one year of June 30, 2019 are as follows:

Cash and cash equivalents	$ 2,949,906
Grants and contracts receivable	2,817,539
Investments	2,597,067
Expected distributions from beneficial interest in assets held by Community Foundation	25,051
Total financial assets available for general expenditure	$ 8,389,563

We also maintain a $500,000 line of credit (see Note 8) to supplement our operating needs if necessary.

We are partially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, we must maintain sufficient resources to meet those responsibilities to our donors. Thus, financial assets may not be available for general expenditure within one year, and these have been excluded from the above amounts. As part of our liquidity management, we have a policy to structure our financial assets to be available as our general expenditures, liabilities, and other obligations come due. In addition, we may invest cash in excess of daily requirements in short-term investments.

Expected distributions from the beneficial interest in assets held by Community Foundation reflect expected distributions that are not restricted, based on Community Foundation’s historic 4-5% distribution rate.

NOTE 3. GRANTS AND CONTRACTS RECEIVABLE

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

At June 30, 2019, we received approximately $1,404,000 in conditional promises to give in excess of allowable costs incurred under cost-reimbursement awards, which will be recognized as revenue if and when allowable costs are incurred.

NOTE 4. INVESTMENTS INFORMATION

Investments consist of the following at June 30, 2019:

Mutual income funds	$ 879,535
Mutual equity funds	1,626,388
Mutual alternative investment funds	91,144
Total investments	$ 2,597,067

Net investment return consists of the following for the years ended June 30, 2019 and 2018, respectively:

	2019	2018
Interest on cash and cash equivalents	$ 18,476	$ 3,568
Interest and dividends on investments	52,791	-
Realized investment gains	35,423	-
Unrealized investment gains	38,918	-
Investment fees	(7,480)	-
Distributions from beneficial interest in assets held by Community Foundation	54,453	52,994
Net investment return	$ 192,581	$ 56,562

NOTE 5. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

We are the beneficiary of two funds held by Community Foundation of St. Joseph County, Inc. (Community Foundation), to which both we and others have contributed. One of the funds was established using funds that were permanently restricted by the donor (see Note 9). We are also the beneficiary of a third fund that was established solely by contributions by other donors. We and the other donors have granted Community Foundation variance power in the determination of annual distributions and transfer of the accounts to other community organizations in certain circumstances. Distributions to us are under the control of Community Foundation.

The value of the portions of the funds attributable to our contributions was $1,126,274 and $1,126,889 at June 30, 2019 and 2018, respectively. The change in value of those portions, net of distributions, for the years ended June 30, 2019 and 2018 was ($615) and $41,845, respectively, which is included in revenue in the accompanying consolidated statements of activities. We received distributions from those portions of the funds of $54,453 and $52,994 during the years ended June 30, 2019 and 2018, respectively, which are included in net investment return.

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. We periodically receive distributions in the form of grants from those portions of the funds. The total value of those portions of the funds at June 30, 2019 and 2018 was $4,214,315 and $4,187,659, respectively. We received distributions from those portions of the funds of $176,736 and $155,875 during the years ended June 30, 2019 and 2018, respectively, which are included in contributions revenue.

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2019 and 2018, respectively:

	2019	2018
Land	$ 182,930	$ 182,930
Buildings	3,216,199	3,216,199
Leasehold improvements	48,411	48,411
Program equipment	235,257	235,257
Vehicles	981,294	840,675
Office equipment	238,801	238,801
	4,902,892	4,762,273
Less accumulated depreciation	(2,622,812)	(2,419,482)
Net property and equipment	$ 2,280,080	$ 2,342,791

NOTE 7. FAIR VALUE MEASUREMENTS

We report certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

- 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.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset.

The fair value of assets measured on a recurring basis at June 30, 2019 and 2018, respectively, is as follows:

	Fair Value	Level 1	Level 2	Level 3
June 30, 2019:				
Mutual funds	$ 2,597,067	$2,597,067	$ -	$ -
Beneficial interest in assets held by Community Foundation	1,126,274	-	-	1,126,274
Totals	$ 3,723,341	$2,597,067	$ -	$ 1,126,274
June 30, 2018:				
Beneficial interest in assets held by Community Foundation	$ 1,126,889	$ -	$ -	$ 1,126,889

Fair values for mutual funds that are readily marketable are determined by reference to quoted market prices. Fair value for the beneficial interest in assets held by Community Foundation 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 beneficial interest in assets held by community foundation that is measured by Level 3 inputs for the years ended June 30, 2019 and 2018, respectively:

	2019	2018
Beginning fair value	$ 1,126,889	$ 1,085,044
Distributions	(54,453)	(52,994)
Change in value	53,838	94,839
Ending fair value	$ 1,126,274	$ 1,126,889

The change in value of the beneficial interest in assets held by Community Foundation is included 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, 2019 and 2018, respectively.

NOTE 8. DEBT INFORMATION

We maintain a $500,000 bank line of credit, bearing interest at 35 basis points below prime, collateralized by substantially all our assets except real estate. No borrowings were outstanding on the line at either June 30, 2019 or 2018.

NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following periods or purposes at June 30, 2019 and 2018, respectively:

	2019	2018
Subject to expenditure for specified purposes:		
Meal Program	$ 514,290	$ 337,433
Weatherization	15,020	9,810
Local crime victims	32,999	32,999
Care transitions	17,666	17,666
Caregiver Connection	393,156	391,728
Client self-sufficiency programs	29,967	29,967
Utility assistance programs	38,014	29,816
Guardianship programs	137,581	137,581
Alzheimer's programs	157,010	127,340
Kitchen project	243,760	243,760
Transportation vans	43,371	48,082
Foster Grandparents	36,003	35,454
Case Management training	73,000	73,000
Case Management software	47,000	47,000
Food truck	44,381	185,000
Other	3,499	7,128
	1,826,717	1,753,764
Not subject to spending policy or appropriation:		
Held by community foundation and restricted by donor for Caregiver Connection program	500,000	500,000
Total net assets with donor restrictions	$ 2,326,717	$ 2,253,764

Net assets were released from restrictions by incurring expenses satisfying restricted purposes specified by donors as follows for the years ended June 30, 2019 and 2018, respectively:

	2019	2018
Case Management	$ 18,757	$ 2,570
Caregiver Connection	61,741	31,134
Meals on Wheels	7,504	10,078
Utility assistance programs	20,752	-
Guardianship programs	193,027	150,709
Alzheimer’s program	301,379	433,259
Meal program	27,130	64,671
Food truck	140,619	12,430
Transportation	11,071	29,430
Weatherization program	-	32,685
Client assistance programs	-	21,893
Internship	2,500	-
Total net assets released	$ 784,480	$ 788,859

NOTE 10. ENDOWMENT INFORMATION

Our endowment (the Endowment) consists of two funds held by Community Foundation of St. Joseph County, Inc., one of which was established with net assets without donor restrictions that have been designated for endowment by our governing board, and one of which was established with net assets restricted by donors.

Our governing board has interpreted the State of Indiana Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, we retain in perpetuity a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment, and b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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

The investment and spending policies for the Endowment are under the control of Community Foundation of St. Joseph County, Inc.

The Endowment was composed of the following net asset classes at June 30, 2019 and 2018, respectively:

	Without Donor Restrictions	With Donor Restrictions	Total
At June 30, 2019			
Funds functioning as endowment	$ 482,280	$ -	$ 482,280
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donors	-	500,000	500,000
Totals	$ 482,280	$ 500,000	$ 982,280
At June 30, 2018			
Funds functioning as endowment	$ 482,215	$ -	$ 482,215
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donors	-	500,000	500,000
Totals	$ 482,215	$ 500,000	$ 982,215

Changes in the Endowment for the years ended June 30, 2018 and 2019, respectively, are as follows:

Balances June 30, 2017	$ 463,631	$ 500,000	$ 963,631
Investment return	40,706	30,872	71,578
Distributions by Community Foundation	(22,122)	(30,872)	(52,994)
Balances June 30, 2018	482,215	500,000	982,215
Investment return	23,149	30,688	53,837
Distributions by Community Foundation	(23,084)	(30,688)	(53,772)
Balances June 30, 2019	$ 482,280	$ 500,000	$ 982,280

NOTE 11. LEASE INFORMATION

We lease certain facilities and equipment under non-cancelable operating leases expiring in various months through July 2024. Minimum future rental payments under these leases as of June 30, 2019 for each of the next five years and in the aggregate are as follows:

2020	$ 87,771
2021	82,746
2022	61,925
2023	20,820
2024	20,820
Thereafter	1,735
Total minimum future rental payments	$ 275,817

Total rent expense for these and other short-term leases was $124,385 and $128,135 for the years ended June 30, 2019 and 2018, respectively.

NOTE 12. EMPLOYEE BENEFIT PLANS

We maintain a defined-contribution tax-deferred annuity pension plan covering substantially all of our employees. Pension costs are funded in the period that they accrue. Pension expense was $235,907 and $235,690 for the years ended June 30, 2019 and 2018, respectively.

We maintain a self-funded medical plan for our full-time employees that is managed by a third-party administrator. We have purchased a stop-loss insurance policy for the plan that reimburses us for individual claims in excess of $30,000 annually. We fund a separate bank account that is restricted for payment of claims and insurance. We have recorded accruals for our estimated portion of self-insured claims based on estimated claims incurred through June 30, 2019 and 2018, respectively.

We also maintain 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. We generally make 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 $200,071 and $192,500 at June 30, 2019 and 2018, 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 $38,000 and $48,000, respectively, for the years ended June 30, 2019 and 2018.

NOTE 13. CONCENTRATIONS

All of our programs and activities occur in Northern Indiana; consequently, our sources of support and revenue may be affected by conditions in that area. In addition, for the year ended June 30, 2019, approximately 86% of total revenues were from state and federal government sources, with approximately 41% of total revenues from Indiana Housing and Community Development Authority, 30% from Indiana Family and Social Services Administration, and 13% from Indiana Medicaid. For the year ended June 30, 2018, approximately 84% of total revenues were from state and federal government sources, with approximately 43% of total revenues from Indiana Housing and Community Development Authority, and 30% from Indiana Family and Social Services Administration.

Financial instruments that expose us to concentrations of credit risk consist primarily of cash and cash equivalents and grants and contracts receivable. We have 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, 2019 we had approximately $3,915,000 of cash on deposit with financial institutions that exceeded federal deposit insurance coverage and are not otherwise collateralized. In addition, grants and contracts receivable are due primarily from agencies of the State of Indiana, which represents a concentration of credit risk.