

ADEC, INC.
Bristol, Indiana

FINANCIAL STATEMENTS
June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
ADEC, Inc.
Bristol, Indiana

Opinion

We have audited the financial statements of ADEC, Inc., which comprise the balance sheets as of June 30, 2022 and 2021, and the related statements of activities, program and administrative expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ADEC, Inc. as of June 30, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ADEC, Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ADEC, Inc.'s ability to continue as a going concern for one year from the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ADEC, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ADEC, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

A handwritten signature in black ink that reads "Crowe LLP". The signature is stylized, with the "C" being large and looping, and the "LLP" being written in a more straightforward, blocky style.

Crowe LLP

Indianapolis, Indiana
September 22, 2022

ADEC, INC.
BALANCE SHEETS
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 288,427	\$ 273,353
Accounts receivable, net	1,268,903	1,538,488
Inventories	104,794	105,872
Investments	26,151,279	28,570,142
Other assets	110,539	171,756
Land, buildings, and equipment, net	7,313,119	6,209,472
Right of use assets, net	<u>470,069</u>	<u>-</u>
 Total assets	 <u>\$ 35,707,130</u>	 <u>\$ 36,869,083</u>
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 204,995	\$ 258,263
Accrued salaries and related benefits	886,790	891,470
Accrued expenses and other liabilities	36,794	60,240
Right of use liabilities	<u>470,069</u>	<u>-</u>
Total liabilities	1,598,648	1,209,973
 Net assets		
Without donor restrictions	31,944,070	33,018,510
With donor restrictions	<u>2,164,412</u>	<u>2,640,600</u>
Total net assets	<u>34,108,482</u>	<u>35,659,110</u>
	 <u>\$ 35,707,130</u>	 <u>\$ 36,869,083</u>

See accompanying notes to financial statements.

ADEC, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Program service revenue						
Residential services	\$ 14,371,535	\$ -	\$ 14,371,535	\$ 13,042,442	\$ -	\$ 13,042,442
Family services	394,866	-	394,866	566,400	-	566,400
Adult training and vocational services	4,518,297	-	4,518,297	3,823,532	-	3,823,532
Transportation	264,199	-	264,199	165,629	-	165,629
	19,548,897	-	19,548,897	17,598,003	-	17,598,003
Local support	688,000	-	688,000	710,273	-	710,273
Contributions	580,889	285,611	866,500	109,233	285,596	394,829
Grant income	491,168	-	491,168	3,019,020	-	3,019,020
Investment return (loss)	(2,684,765)	(271,650)	(2,956,415)	3,957,609	363,272	4,320,881
Gain (loss) on disposal of equipment	(3,860)	-	(3,860)	22,866	-	22,866
Net assets released from restriction	490,149	(490,149)	-	234,038	(234,038)	-
Total revenue	19,110,478	(476,188)	18,634,290	25,651,042	414,830	26,065,872
Program and administrative expenses						
Residential services	11,901,605	-	11,901,605	10,857,835	-	10,857,835
Family services	468,263	-	468,263	555,632	-	555,632
Adult training and vocational services	4,288,161	-	4,288,161	3,568,302	-	3,568,302
Transportation	806,465	-	806,465	642,272	-	642,272
Total program expenses	17,464,494	-	17,464,494	15,624,041	-	15,624,041
Administrative	2,720,424	-	2,720,424	2,486,442	-	2,486,442
Total expenses	20,184,918	-	20,184,918	18,110,483	-	18,110,483
Change in net assets	(1,074,440)	(476,188)	(1,550,628)	7,540,559	414,830	7,955,389
Net assets at beginning of year	33,018,510	2,640,600	35,659,110	25,477,951	2,225,770	27,703,721
Net assets at end of year	<u>\$ 31,944,070</u>	<u>\$ 2,164,412</u>	<u>\$ 34,108,482</u>	<u>\$ 33,018,510</u>	<u>\$ 2,640,600</u>	<u>\$ 35,659,110</u>

See accompanying notes to financial statements.

ADEC, INC.
STATEMENT OF PROGRAM AND ADMINISTRATIVE EXPENSES
Year ended June 30, 2022
With comparative totals for the year ended June 30, 2021

	Residential <u>Services</u>	Family <u>Services</u>	Adult Training and Vocational <u>Services</u>	<u>Transportation</u>	<u>Administrative</u>	<u>2022</u> <u>Total</u>	<u>2021</u> <u>Total</u>
PERSONNEL							
Salaries, taxes, and benefits	\$ 9,012,154	\$ 406,944	\$ 2,999,588	\$ 495,437	\$ 1,960,355	\$ 14,874,478	\$ 13,351,884
MATERIAL AND SUPPLIES	645,891	6,566	329,576	982	44,556	1,027,571	969,387
FLEET OPERATOINS	351,991	3,637	80,455	276,754	16,206	729,043	612,998
OCCUPANCY	605,856	21,982	578,282	11,657	160,969	1,378,746	1,224,186
EQUIPMENT	96,110	664	68,237	1,375	49,785	216,171	207,209
TECHNOLOGY	258,152	16,054	125,706	9,256	117,688	526,856	515,915
OTHER OPERATING							
Medicaid provider assessment	661,029	-	-	-	-	661,029	629,785
Professional fees	243,222	10,073	71,374	10,773	221,670	557,112	429,691
Other	27,200	2,343	34,943	231	149,195	213,912	169,428
	<u>\$ 11,901,605</u>	<u>\$ 468,263</u>	<u>\$ 4,288,161</u>	<u>\$ 806,465</u>	<u>\$ 2,720,424</u>	<u>\$ 20,184,918</u>	<u>\$ 18,110,483</u>

See accompanying notes to financial statements.

ADEC, INC.
STATEMENT OF PROGRAM AND ADMINISTRATIVE EXPENSES
Year ended June 30, 2021

	<u>Services</u>	<u>Services</u>	<u>Services</u>	<u>Transportation</u>	<u>Administrative</u>	<u>Total</u>
PERSONNEL						
Salaries, taxes, and benefits	\$ 8,293,577	\$ 492,782	\$ 2,391,219	\$ 373,176	\$ 1,801,130	\$ 13,351,884
MATERIAL AND SUPPLIES	564,340	3,896	355,213	2,979	42,959	969,387
FLEET OPERATOINS	287,518	4,677	67,297	243,872	9,634	612,998
OCCUPANCY	552,354	14,981	497,519	9,955	149,377	1,224,186
EQUIPMENT	93,094	593	64,233	731	48,558	207,209
TECHNOLOGY	248,819	19,803	124,345	8,128	114,820	515,915
OTHER OPERATING						
Medicaid provider assessment	629,785	-	-	-	-	629,785
Professional fees	170,347	12,611	31,007	2,943	212,783	429,691
Other	<u>18,001</u>	<u>6,289</u>	<u>37,469</u>	<u>488</u>	<u>107,181</u>	<u>169,428</u>
	<u>\$ 10,857,835</u>	<u>\$ 555,632</u>	<u>\$ 3,568,302</u>	<u>\$ 642,272</u>	<u>\$ 2,486,442</u>	<u>\$ 18,110,483</u>

See accompanying notes to financial statements.

ADEC, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (1,550,628)	\$ 7,955,389
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	705,441	695,704
(Gain) loss on disposal of equipment	3,860	(22,866)
Net realized and unrealized (gains) losses on investments	3,685,478	(3,752,772)
Restricted contributions received for endowment	(405)	(390)
Forgiveness of Paycheck Protection Program note payable	-	(1,995,717)
Changes in assets and liabilities		
Accounts receivable	269,585	(80,334)
Inventories	1,078	(2,980)
Other assets	61,217	(24,519)
Accounts payable	(53,268)	(71,030)
Accrued salaries and related benefits	(4,680)	170,604
Accrued expenses and other liabilities	(23,446)	(12,764)
Net cash from operating activities	3,094,232	2,858,325
Cash flows from investing activities		
Purchases of investments	(1,995,478)	(2,590,109)
Proceeds from sales of investments	728,863	567,987
Proceeds from sale of equipment	-	81,432
Purchases of buildings and equipment	(1,812,948)	(908,028)
Net cash from investing activities	(3,079,563)	(2,848,718)
Cash flows from financing activities		
Proceeds from restricted contributions	405	390
Principal payments on long term debt	-	(4,283)
Net cash from financing activities	405	(3,893)
Net change in cash and cash equivalents	15,074	5,714
Cash and cash equivalents, beginning of year	273,353	267,639
Cash and cash equivalents, end of year	<u>\$ 288,427</u>	<u>\$ 273,353</u>
Supplemental disclosures:		
Right of use assets obtained in exchange for lease obligations	\$ 648,308	\$ -
Cash paid for right of use operating lease liabilities	178,239	-

See accompanying notes to financial statements.

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: ADEC, Inc. (the Organization) strives to promote an understanding of its mission and to encourage persons experiencing disabilities or other special challenges to maximize their potential. The Organization is a not-for-profit corporation which provides services primarily in Elkhart and St. Joseph Counties, Indiana.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial Statement Presentation: The financial statements report the changes in and totals of each net asset class based on the existence or absence of donor restrictions, as applicable. Net assets are classified as without donor restrictions or with donor restrictions and are detailed as follows:

Net assets without donor restrictions are net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the Organization.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature and will be met by actions of the Organization or by the passage of time. At June 30, 2022 and 2021, purpose or time restricted net assets consist of capital items of \$207,073 and \$338,381, respectively, whose restrictions are released as depreciation expense is recognized and unspent endowment earnings of \$309,211 and \$647,065, respectively, (Note 10). Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. Net assets reported as perpetually restricted within these financial statements represent donor-restricted support received by the Organization in connection with the endowment. The endowment was established to support future needs of those individuals requiring services within the scope of the Organization's mission. The principal is maintained in perpetuity of \$1,655,109 and \$1,654,704, respectively. The income generated by the endowment is available to support current operations.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$250,000. At times these amounts may exceed federally insured limits. Additionally, for purposes of the statements of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments: All investments are valued at their fair values in the balance sheets. Realized and unrealized gains and losses are included in the statements of activities. See Notes 3 and 9 for additional information on the nature of the Organization's investments.

Accounts Receivable: The accounts receivable balance represents the unpaid amounts billed to companies and third-party payors. Contractual adjustments, discounts, and an allowance for uncollectible accounts are recorded to report receivables for services at net realizable value. Past due receivables are determined based on contractual terms. The Organization does not accrue interest on any of its accounts receivables. Approximately 94% and 90% of the receivables related to residential and adult training services are from Medicaid at June 30, 2022 and 2021, respectively.

(Continued)

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Land, Buildings, and Equipment: Property and equipment are stated at cost or, if donated to the Organization, at fair value on the date of acquisition. Additions and improvements over \$500 are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method.

Gifts of long-lived assets such as land, buildings, and equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as purpose or time restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets: The Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. No impairment of long-lived assets was recognized during the years ended June 30, 2022 and 2021.

Program Service Revenue: Resident service revenue is reported at the estimated net realizable amounts from residents, third-party payors and others for services rendered. These amounts include retroactive adjustments due to audits. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the initial estimated amounts and final settlements are reported in operations in the year of settlement. Generally, the Organization bills the residents and third-party payors the month several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization and are measured when services are performed for the residents. At that point in time, revenue is recognized. The Organization determines the transaction price based on standard charges for services provided. A summary of the payment arrangements with Medicaid is as follows:

Resident Service: The Organization is reimbursed for services rendered to state-sponsored Medicaid beneficiaries on a prospective payment basis, with potential settlements made on the difference between initial estimated rates and final settlement rates determined by Medicaid. No additional settlement will be made on the difference between the initial estimated rates paid and actual costs. Retroactive adjustments are recorded in the period the final settlements are determined.

Adult Day Service: Day Program revenues represent non-residential waiver fees received for services provided on a per visit basis. The services primarily include adult habilitation at the Organization's five day service locations, as well as employment and family services including therapies and services to transport individuals to these programs.

(Continued)

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Under the terms of certain government reimbursed programs, providers of these services are subject to regulation by the program intermediaries. For Resident Service and Adult Day Service, payment for the services rendered is based upon "allowable cost" as defined by each program's regulations, and is subject to financial audit by the program intermediary. The residential group home programs reimbursed by the Indiana Family and Social Services Administration are subject to regulation and financial compliance review by the program intermediaries. Costs and reimbursements for the years ended June 30, 2019 through June 30, 2022 for certain programs remain subject to final financial compliance review by program intermediaries.

Contributions: Contributions received and unconditional promises to give are recorded as revenue without donor restrictions or revenue with donor restrictions depending on the existence of donor restrictions and the nature of such restrictions, if they exist. If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as without donor restrictions.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. For the years ended June 30, 2022 and 2021, fundraising expenses of \$33,279 and \$13,355, respectively, have been included in total administrative expense reported in the statements of activities.

Income Taxes: The Organization is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

U.S. GAAP requires that a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Organization's Form 990 has not been subject to examination by the Internal Revenue Service or the state of Indiana for the last three years. The Organization does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Organization recognizes interest and/or penalties related to income tax matters in income tax expense. The Organization did not have any amounts accrued for interest and penalties at June 30, 2022 and 2021.

Reclassifications: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on the change in net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2022 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2022. The Organization has evaluated subsequent events for recognition and disclosure through September 22, 2022, which is the date the financial statements were available to be issued.

(Continued)

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 the balance sheet date, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 288,427	\$ 273,353
Accounts receivable, net	1,268,903	1,538,488
Investments	26,151,279	28,570,142
Less net assets with donor restrictions	<u>(2,164,412)</u>	<u>(2,640,600)</u>
	<u>\$ 25,544,197</u>	<u>\$ 27,741,383</u>

As part of the Organization's liquidity management plan, management invests cash in excess of daily requirements in short-term investments, certificates of deposit, and money market funds. The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization typically collects most accounts receivable within two months of the date of service. Collections by payor type may vary based on payor source liquidity and timeliness of claims processing. In the event of an unanticipated liquidity need, the Organization also could draw upon its available line of credit (as further discussed in Note 5).

The Organization's endowment funds consists of donor-restricted endowments. Income from donor-restricted endowments is available for general use. Donor-restricted endowment funds are not available for general expenditure (Note 10).

(Continued)

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 3 - INVESTMENTS

The following is an analysis of fair value at June 30 by type of investment:

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 1,082,893	\$ 677,307
Certificates of deposit	1,315,854	1,388,407
U. S. Government obligations	4,224,635	2,665,478
Corporate bonds	2,069,493	1,006,402
Mutual funds:		
Equity	6,149,157	8,314,983
Fixed income	4,804,462	5,792,849
Common stocks:		
Consumer discretionary	813,236	906,856
Consumer staples	1,847,107	1,610,303
Energy	267,265	145,149
Financial	1,119,295	2,134,336
Industrials	698,126	791,829
Technology	913,838	1,140,018
Communications	701,961	1,717,069
Other	143,957	279,156
	<u>\$ 26,151,279</u>	<u>\$ 28,570,142</u>

Investment return is composed of the following for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 729,063	\$ 568,109
Net realized and unrealized gains (losses) on investments	<u>(3,685,478)</u>	<u>3,752,772</u>
	<u>\$ (2,956,415)</u>	<u>\$ 4,320,881</u>

The various investments in bonds, stocks, securities, mutual funds, and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Organization.

At June 30, 2022 and 2021, the Organization considers \$5,627,858 and \$4,858,342, respectively, of investments to be available for operating purposes, as needed.

(Continued)

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 4 - LAND, BUILDINGS, AND EQUIPMENT

At June 30, land, buildings, and equipment consist of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 622,116	\$ 622,116
Land improvements	782,563	438,156
Buildings and improvements	12,256,386	11,009,719
Equipment	2,866,537	2,973,888
Vehicles	1,165,621	1,186,856
Construction in progress	<u>5,134</u>	<u>719</u>
	17,698,357	16,231,454
Less: accumulated depreciation	<u>(10,385,238)</u>	<u>(10,021,982)</u>
	<u>\$ 7,313,119</u>	<u>\$ 6,209,472</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$705,441 and \$695,704, respectively.

NOTE 5 - LINE OF CREDIT

At June 30, 2022 and 2021, the Organization maintained an unsecured \$1,500,000 line of credit with a bank. The interest was at prime rate plus 0.25% with a floor of 4.00%, resulting in a rate of 5.00% at June 30, 2022 and 4.00% at June 30, 2021. The Organization had no outstanding borrowings on the line at June 30, 2022 and 2021. The line of credit expires on January 31, 2023.

(Continued)

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 6 - LEASE COMMITMENTS

At the inception of an arrangement, management determines whether the arrangement is or contains a lease based on the unique facts and circumstances present. Operating and finance leases are included in other long term assets, other current liabilities, and other liabilities in the Organization balance sheets.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the leases do not provide an implicit rate, the Organization has elected to use the practical expedient provided by ASC 842 and utilize the incremental borrowing rate in determining the present value of lease payments. The Organization uses the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Although separation of lease and non-lease components is required, certain practical expedients are available to entities. The Organization has lease agreements with lease and non-lease components, which are generally accounted for separately. Operating expenses and property taxes due for leased facilities are accounted for as non-lease components. Leases with a term greater than one year are recognized on the balance sheet as ROU assets and lease liabilities. The Organization has elected not to recognize on the balance sheet leases with terms of one year or less.

The Organization has entered into operating leases primarily for building, equipment, and vehicle rental, that have various expiration dates running through fiscal year 2026.

A summary of ROU asset and liabilities at June 30, 2022 are as follows:

Assets	
Operating ROU Asset	470,069
Total ROU assets	<u>470,069</u>
Liabilities	
Operating	<u>(470,069)</u>
Total ROU liabilities	<u>(470,069)</u>

These ROU assets are included within right of use assets and the ROU liabilities are included within right of use assets on the balance sheets.

Amortization of leased assets was \$178,239 for the year ended June 30, 2022. Total rent expense during the year ended June 30, 2021, was \$356,872.

The weighted average remaining lease terms is 2.04 years. The weighted average discount rate is 1.37%.

(Continued)

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 6 - LEASE COMMITMENTS (Continued)

The following schedule presents, by year, the future minimum lease payments under the noncancelable leases as of June 30, 2022:

2023	\$	224,777
2024		146,424
2025		83,754
2026		15,114
	\$	<u>470,069</u>

NOTE 7 - EMPLOYEE BENEFIT RETIREMENT PLAN

The Organization maintains a tax-sheltered annuity plan, provided for in Internal Revenue Code Section 403(b) for any employee who is expected to work 20 or more hours per week and 1,000 hours per year. The Organization's plan is subject to the audit requirements prescribed by the United States of America's Department of Labor. For the years ended June 30, 2022 and 2021, the amount of the contribution to the plan represents 50% of the employee's contribution up to 6% of the employee's gross pay. The Organization contributed \$143,970 and \$ 124,411 to the plan for the years ended June 30, 2022 and 2021, respectively.

NOTE 8 - SELF-FUNDED HEALTH INSURANCE

The Organization is liable for employee's healthcare claims up to \$60,000 per employee but unlimited in total for the year ended June 30, 2022. The Organization has third-party insurance coverage for any claims in excess of such amounts. Costs are accrued based on claims reported as of the balance sheet date as well as an estimated liability for claims incurred but not reported of \$127,358 and \$101,665 at June 30, 2022 and 2021, respectively. The expense for this plan, including health, life, and disability insurance coverage, for the years ended June 30, 2022 and 2021 was \$1,101,522 and \$813,114, respectively.

NOTE 9 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

A fair value hierarchy 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. The fair values of money market funds, mutual funds, real estate investment trusts, and common stocks that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges.

(Continued)

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 9 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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. The fair values of certificates of deposit are determined through inquiries of financial institutions from which they originated. The fair values are typically the original principal value plus accrued interest earned with no discounts for credit quality or liquidity determined to be applicable. The fair values of the Organization's U.S. Government debt obligations and corporate bonds were determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark-quoted securities.

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 Organization has no financial instruments valued with Level 3 inputs.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Assets measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at June 30, 2022</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Money market funds	\$ 1,082,893	\$ -	\$ 1,082,893
Certificates of deposit	-	1,315,854	1,315,854
U.S. Government obligations	-	4,224,635	4,224,635
Corporate bonds	-	2,069,493	2,069,493
Mutual funds:			
Equity	6,149,157	-	6,149,157
Fixed income	4,804,462	-	4,804,462
Common stocks:			
Consumer discretionary	813,236	-	813,236
Consumer staples	1,847,107	-	1,847,107
Energy	267,265	-	267,265
Financial	1,119,295	-	1,119,295
Industrials	698,126	-	698,126
Technology	913,838	-	913,838
Communications	701,961	-	701,961
Other	143,957	-	143,957
Total investments	<u>\$ 18,541,297</u>	<u>\$ 7,609,982</u>	<u>\$ 26,151,279</u>

(Continued)

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 9 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

	Fair Value Measurements at June 30, 2021		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Money market funds	\$ 677,307	\$ -	\$ 677,307
Certificates of deposit	-	1,388,407	1,388,407
U.S. Government obligations	-	2,665,478	2,665,478
Corporate bonds	-	1,006,402	1,006,402
Mutual funds:			
Equity	8,314,983	-	8,314,983
Fixed income	5,792,849	-	5,792,849
Common stocks:			
Consumer discretionary	906,856	-	906,856
Consumer staples	1,610,303	-	1,610,303
Energy	145,149	-	145,149
Financial	2,134,336	-	2,134,336
Industrials	791,829	-	791,829
Technology	1,140,018	-	1,140,018
Communications	1,717,069	-	1,717,069
Other	279,156	-	279,156
Total investments	<u>\$ 23,509,855</u>	<u>\$ 5,060,287</u>	<u>\$ 28,570,142</u>

NOTE 10 - ENDOWMENT COMPOSITION

The Organization's endowment is primarily invested in mutual funds. As required by U.S. GAAP, net assets associated with the Organization's donor-restricted endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

<u>2022</u>	<u>Accumulated Earnings</u>	<u>Original Gift</u>	<u>Total</u>
Donor-restricted	\$ 309,211	\$ 1,655,109	\$ 1,964,320
Total endowment	<u>\$ 309,211</u>	<u>\$ 1,655,109</u>	<u>\$ 1,964,320</u>
<u>2021</u>	<u>Accumulated Earnings</u>	<u>Original Gift</u>	<u>Total</u>
Donor-restricted	\$ 647,065	\$ 1,654,704	\$ 2,301,769
Total endowment	<u>\$ 647,065</u>	<u>\$ 1,654,704</u>	<u>\$ 2,301,769</u>

(Continued)

ADEC, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 10 - ENDOWMENT COMPOSITION (Continued)

Changes in endowment net assets for years ended June 30, 2022 and 2021 were as follows:

<u>2022</u>	Accumulated <u>Earnings</u>	<u>Original Gift</u>	<u>Total</u>
Beginning balance	\$ 647,065	\$ 1,654,704	\$ 2,301,769
Interest and dividend income	66,990	-	66,990
Realized and unrealized gain on investments	(338,640)	-	(338,640)
Additions	-	405	405
Appropriations for expenditure	<u>(66,204)</u>	<u>-</u>	<u>(66,204)</u>
Total endowment	<u>\$ 309,211</u>	<u>\$ 1,655,109</u>	<u>\$ 1,964,320</u>

<u>2021</u>	Accumulated <u>Earnings</u>	<u>Original Gift</u>	<u>Total</u>
Beginning balance	\$ 349,981	\$ 1,654,314	\$ 2,004,295
Interest and dividend income	47,763	-	47,763
Realized and unrealized gain on investments	315,509	-	315,509
Additions	-	390	390
Appropriations for expenditure	<u>(66,188)</u>	<u>-</u>	<u>(66,188)</u>
Total endowment	<u>\$ 647,065</u>	<u>\$ 1,654,704</u>	<u>\$ 2,301,769</u>

Interpretation of UPMIFA: The Organization has interpreted Indiana's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and if applicable (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

(Continued)

NOTE 10 - ENDOWMENT COMPOSITION (Continued)

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce real portfolio growth which is reflective of the investment opportunities available in the market place, which exceed the underlying inflationary rate.

Strategies Employed for Achieving Objectives: The purpose of the endowment fund is to facilitate donors' desires to make substantial long-term gifts to the Organization to develop a significant source of revenue to support the endeavors of the Organization.

Spending Policy and How the Investment Objectives Relate to Spending Policy: Distributions shall not exceed 4% of the average principal balance of the previous fiscal year unless approved by the Finance Committee and the Board of Directors.

Fund with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donors require the Organization to maintain. Cumulative deficiencies of this nature that are in excess of related purpose or time restricted amounts are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2022 and 2021.

NOTE 11 - RECENT EVENTS

In December 2019, a novel strain of coronavirus surfaced and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Organization could be materially adversely affected. Significant estimates as disclosed in Note 1, including valuation of investments, may be materially adversely impacted by national events designed to contain the coronavirus.

The Bureau of Developmental Disabilities created the Sustainability Grant to provide support to Home and Community Based Service (HCBS) Waiver and Omnibus Budget Reconciliation Act (OBRA) Providers who provide Adult Day, Facility Hab Waivers or OBRA programs that had to close or suspend services due to the coronavirus. During the year ended June 30, 2022 and 2021, the Organization recognized \$486,209 and \$733,050 in various sustainability grants in grant income in the statements of activities.

As a result of the economic uncertainty stemming from the impact of the COVID-19 pandemic, during April 2020, the Company received a Paycheck Protection Program (PPP) loan in the principal amount of \$2,000,000 from the US Small Business Administration (SBA). The PPP loan has a stated interest rate of 1% per annum and no payments of principal or interest are required until the end of a statutorily provided deferral period, which occurs when the SBA concludes on the amount of the loan that will be forgiven. Under the terms of the Paycheck Protection Program, a PPP loan provides for conditional forgiveness if the Company utilizes the loan proceeds on admissible expenses, including qualifying payroll, rent, and utility expenses, and maintains employment and compensation levels for a specified period of time.

The Company has elected to account for the loan proceeds under Topic ASC 958. During the year ended June 30, 2021, \$1,995,717 was forgiven and the remaining balance was paid in cash. The amount forgiven was recorded in grant income in the statement of activities.

SUPPLEMENTARY INFORMATION

ADEC, INC.
SCHEDULE OF PROGRAM SERVICE REVENUE
Year ended June 30, 2022
With comparative totals for the year ended June 30, 2021

	Residential <u>Services</u>	Family <u>Services</u>	Adult Training and Vocational <u>Services</u>	<u>Transportation</u>	<u>2022</u> <u>Total</u>	<u>2021</u> <u>Total</u>
Day programs	\$ 82,097	\$ 373,154	\$ 3,551,827	\$ 231,421	\$ 4,238,499	\$ 3,833,969
Residential programs	14,244,296	-	-	-	14,244,296	12,763,247
Industrial Services	-	-	813,888	-	813,888	755,948
Other	<u>45,142</u>	<u>21,712</u>	<u>152,582</u>	<u>32,778</u>	<u>252,214</u>	<u>244,839</u>
	<u>\$ 14,371,535</u>	<u>\$ 394,866</u>	<u>\$ 4,518,297</u>	<u>\$ 264,199</u>	<u>\$ 19,548,897</u>	<u>\$ 17,598,003</u>

See accompanying notes to financial statements.