



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B49869

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

April 11, 2018

Board of Directors
Real Services, Inc.
1151 S. Michigan St.
South Bend, IN 46634

We have reviewed the report prepared by Real Services, Inc. and opined upon by Cullar & Associates, PC, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Real Services, Inc. as of June 30, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Cullar & Associates, PC prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

CONSOLIDATED FINANCIAL AND COMPLIANCE REPORT

REAL SERVICES, INC. AND AFFILIATES

June 30, 2016 and 2015

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPORTING SCHEDULE.....	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of functional expenses	5-6
Consolidated statements of cash flows	7
Notes to consolidated financial statements.....	8-17
SUPPORTING SCHEDULE	
Consolidated schedule of expenditures of federal and nonfederal awards.....	18-19
Notes to consolidated schedule of expenditures of federal and nonfederal awards	20
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	21-22
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE.....	23-24
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	25-26
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	27

**INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPORTING SCHEDULE**

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of REAL Services, Inc. and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of REAL Services, Inc. and Affiliates as of June 30, 2016 and 2015, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supporting Schedule

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal and nonfederal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2017 on our consideration of REAL Services, Inc. and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering REAL Services, Inc. and Affiliates' internal control over financial reporting and compliance.

Cullen & Associates, P.C.

South Bend, Indiana
January 11, 2017

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	\$ 4,965,301	\$ 3,905,659
Grants, contributions, and fees receivable	1,893,264	2,482,459
Prepaid expenses	3,030	2,925
Long-term certificates of deposit	504,174	505,012
Beneficial interests in assets held by others	1,016,641	1,114,037
Property and equipment	2,296,703	2,497,050
Cash held in escrow for employee benefits	106,233	229,595
Cash held for deferred compensation plan benefits	95,500	47,500
Assets held for others under guardianship	<u>192,410</u>	<u>89,321</u>
<i>Total assets</i>	<u>\$ 11,073,256</u>	<u>\$ 10,873,558</u>
 Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,009,127	\$ 922,525
Refundable advances	33,365	32,856
Deferred revenues	80,587	73,210
Accrued employee benefits	106,233	229,595
Accrued deferred compensation plan benefits	119,500	71,500
Liability for assets held under guardianships	<u>192,410</u>	<u>89,321</u>
<i>Total liabilities</i>	<u>1,541,222</u>	<u>1,419,007</u>
 Net Assets:		
Unrestricted	7,611,913	7,668,973
Temporarily restricted	1,420,121	1,285,578
Permanently restricted	<u>500,000</u>	<u>500,000</u>
<i>Total net assets</i>	<u>9,532,034</u>	<u>9,454,551</u>
<i>Total liabilities and net assets</i>	<u>\$ 11,073,256</u>	<u>\$ 10,873,558</u>

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2016 and 2015

	2016				2015			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenues, Gains, Other Support:								
Grants and fees	\$ 16,458,028	\$ 397,881	\$ -	\$ 16,855,909	\$ 15,718,046	\$ 490,625	\$ -	\$ 16,208,671
Program service revenue	1,074,687	81,086	-	1,155,773	1,151,175	96,983	-	1,248,158
Contributions	331,785	278,349	-	610,134	469,999	179,028	-	649,027
Change in value of beneficial interests in assets held by others	(28,015)	(69,381)	-	(97,396)	(15,934)	(20,302)	-	(36,236)
Investment income	29,491	61,407	-	90,898	29,378	31,211	-	60,589
Other	276,039	24,040	-	300,079	225,516	23,789	-	249,305
Net assets released from restrictions	638,839	(638,839)	-	-	561,790	(561,790)	-	-
<i>Total revenues, gains, and other support</i>	<u>18,780,854</u>	<u>134,543</u>	<u>-</u>	<u>18,915,397</u>	<u>18,139,970</u>	<u>239,544</u>	<u>-</u>	<u>18,379,514</u>
Expenses:								
Nutrition	2,149,574	-	-	2,149,574	2,504,015	-	-	2,504,015
Foster Grandparents	176,304	-	-	176,304	264,857	-	-	264,857
Area Agency on Aging	1,817,208	-	-	1,817,208	1,745,164	-	-	1,745,164
Crime Victim	34,797	-	-	34,797	23,435	-	-	23,435
Energy Assistance	5,665,318	-	-	5,665,318	5,120,411	-	-	5,120,411
Case Management	3,241,125	-	-	3,241,125	3,691,908	-	-	3,691,908
Transportation	206,524	-	-	206,524	203,920	-	-	203,920
Weatherization	734,465	-	-	734,465	505,090	-	-	505,090
Community Services	713,239	-	-	713,239	779,514	-	-	779,514
Home Health Care	2,167,204	-	-	2,167,204	1,640,013	-	-	1,640,013
Guardianship	193,365	-	-	193,365	155,486	-	-	155,486
Alzheimer's and Dementia Services	803,636	-	-	803,636	638,194	-	-	638,194
<i>Total program service expenses</i>	<u>17,902,759</u>	<u>-</u>	<u>-</u>	<u>17,902,759</u>	<u>17,272,007</u>	<u>-</u>	<u>-</u>	<u>17,272,007</u>
Management and general	837,029	-	-	837,029	801,763	-	-	801,763
Development and fundraising	98,126	-	-	98,126	76,018	-	-	76,018
<i>Total expenses</i>	<u>18,837,914</u>	<u>-</u>	<u>-</u>	<u>18,837,914</u>	<u>18,149,788</u>	<u>-</u>	<u>-</u>	<u>18,149,788</u>
Change in net assets	(57,060)	134,543	-	77,483	(9,818)	239,544	-	229,726
Net assets, beginning of year	<u>7,668,973</u>	<u>1,285,578</u>	<u>500,000</u>	<u>9,454,551</u>	<u>7,678,791</u>	<u>1,046,034</u>	<u>500,000</u>	<u>9,224,825</u>
<i>Net assets, end of year</i>	<u>\$ 7,611,913</u>	<u>\$ 1,420,121</u>	<u>\$ 500,000</u>	<u>\$ 9,532,034</u>	<u>\$ 7,668,973</u>	<u>\$ 1,285,578</u>	<u>\$ 500,000</u>	<u>\$ 9,454,551</u>

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

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

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

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015

	Nutrition	Foster Grandparents	Area Agency on Aging	Crime Victim	Energy Assistance	Case Management	Transportation	Weatherization	Community Services	Home Health Care	Guardianship	Alzheimer's and Dementia Services	Management and General	Development and Fundraising	Totals
Personnel	\$ 1,013,489	\$ 80,712	\$ 1,026,586	\$ 19,690	\$ 282,898	\$ 3,294,094	\$ 155,043	\$ 138,099	\$ 550,128	\$ 35,314	\$ 129,394	\$ 449,445	\$ 614,839	\$ 20,450	\$ 7,810,181
Contract services	-	-	-	-	-	-	-	-	-	-	-	-	39,592	-	39,592
IT services	5,863	934	4,179	74	1,951	27,044	725	635	2,149	-	877	2,854	4,980	258	52,523
Food	864,888	2,322	17,498	-	-	358	-	-	13	4,632	-	6,630	(237)	-	896,104
Program supplies	86,359	7	5,876	(115)	-	91	338	-	154	244	190	10,597	17	94	103,852
Office supplies	5,957	691	6,557	106	7,638	29,647	1,082	2,910	2,784	173	540	3,675	7,019	270	69,049
Duplicating	4,235	441	6,354	(29)	1,116	12,883	1,155	1,111	2,593	-	430	6,883	(697)	46	36,521
Recognition	164	1,577	731	-	415	-	141	-	183	-	-	23	190	-	3,424
Communications	17,127	955	6,387	148	7,702	22,652	3,923	3,432	1,589	-	1,288	9,421	4,807	120	79,551
Postage	2,613	1,404	8,097	1,260	10,430	13,066	514	1,664	1,831	-	938	4,380	39,280	2,337	87,814
Occupancy	197,036	4,451	31,583	2,017	56,060	139,726	2,856	17,750	20,150	275	8,434	62,629	3,652	3,642	550,261
Insurance	10,858	716	3,200	60	2,217	14,245	503	11,344	1,083	-	510	4,943	2,229	104	52,012
Printing and advertising	4,079	409	37,411	42	5,299	2,443	383	1,407	1,296	-	612	4,101	13,592	3,988	75,062
Vehicle expenses	43,311	39,641	-	-	-	-	28,046	6,354	-	-	-	-	-	-	117,352
Travel and conferences	17,840	519	22,215	145	2,022	71,784	756	1,201	7,525	220	6,479	2,934	3,003	708	137,351
Dues and subscriptions	320	100	28,195	-	-	10,701	-	-	5,428	-	260	1,005	435	605	47,049
Assistance to individuals	146,185	124,861	521,756	15	4,732,730	4,232	248	295,924	180,620	1,598,250	231	21,766	-	-	7,626,818
Training	-	-	1,785	12	-	185	-	390	1,598	85	174	2,107	688	150	7,174
Equipment expense	2,857	522	3,684	10	3,498	42,540	1,173	11,134	287	-	5,056	35,871	1,254	215	108,101
Equipment depreciation	72,182	3,111	8,068	-	-	9,922	6,784	18,070	-	-	-	6,668	7,860	-	132,665
Other	8,652	1,484	5,002	-	6,435	(3,705)	250	(6,335)	103	820	73	2,262	59,260	43,031	117,332
Totals	\$ 2,504,015	\$ 264,857	\$ 1,745,164	\$ 23,435	\$ 5,120,411	\$ 3,691,908	\$ 203,920	\$ 505,090	\$ 779,514	\$ 1,640,013	\$ 155,486	\$ 638,194	\$ 801,763	\$ 76,018	\$ 18,149,788

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

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

Change in Cash and Cash Equivalents:	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 77,483	\$ 229,726
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	200,347	201,170
(Gain) on disposition of property and equipment	(3,534)	-
Changes in assets and liabilities:		
Grants, contributions, and fees receivable	589,195	(616,479)
Prepaid expenses	(105)	(738)
Long-term certificates of deposit	838	(5,012)
Beneficial interests in assets held by others	97,396	36,236
Accounts payable and accrued liabilities	86,602	(49,087)
Accrued unfunded deferred compensation plan benefits	-	24,000
Refundable advances	509	1,628
Deferred revenues	<u>7,377</u>	<u>18,550</u>
<i>Net cash provided by (used in) operating activities</i>	<u>1,056,108</u>	<u>(160,006)</u>
Cash Flows from Investing Activities:		
Proceeds from the sale of property and equipment	<u>3,534</u>	<u>-</u>
Net change in cash and cash equivalents	1,059,642	(160,006)
Cash and cash equivalents, beginning of year	<u>3,905,659</u>	<u>4,065,665</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 4,965,301</u>	<u>\$ 3,905,659</u>
 <i>Supplemental Cash Flows Information:</i>		
Interest paid	<u>\$ 57</u>	<u>\$ 86</u>
Income taxes paid	<u>\$ 3,790</u>	<u>\$ 3,122</u>

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

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Significant Accounting Policies:

Use of estimates:

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

Significant estimates used in the accompanying consolidated financial statements include-

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

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

Net asset classes:

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

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

Cash and cash equivalents:

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

Beneficial interests in assets held by others:

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

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

Gifts and grants:

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

The Organization reports gifts and grants of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

Fees for services:

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

Contributed energy assistance payments:

Indiana Housing and Community Development Authority (“IHCDA”) makes energy assistance payments for participants in the Low Income Home Energy Assistance Program directly to the energy providers on behalf of all entities administering the program. Because the Organization performs all intake functions and is liable for errors made in determining participant eligibility, such payments made by IHCDA to the providers are recorded as both grants revenue and financial assistance expense in the accompanying consolidated financial statements. The Organization recognized \$5,124,027 and \$4,525,939 of revenue and expense for the years ended June 30, 2016 and 2015, respectively, for such payments made by IHCDA.

Contributed services and facilities:

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

The Organization uses certain facilities for its Nutrition program without charge or at reduced charge, and the difference between the fair value for the use of these facilities and the cost is recorded as revenue and expense. For the years ended June 30, 2016 and 2015, the Organization recognized \$156,264 and \$157,374, respectively, for use of such facilities.

Property and equipment:

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

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

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

Income taxes:

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

The Organization recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Examples of tax positions include the tax-exempt status of the Organization and positions related to the potential sources of unrelated business taxable income. Management has not identified any uncertain tax positions taken or expected to be taken in a tax return, and there are no unrecognized tax benefits recorded as liabilities in the accompanying financial statements. The Organization classifies interest and penalties, if any, associated with uncertain tax positions as a component of income tax expense. There was no accrued interest or penalties related to unrecognized tax benefits at either June 30, 2016 or 2015, or any interest or penalties expense related to unrecognized tax benefits for the years then ended. All three entities are no longer subject to examination by the Internal Revenue Service or the State of Indiana for years prior to June 30, 2013.

Reclassifications:

Certain expenses in the 2015 statement of functional expenses have been reclassified from the prior year presentation to conform with the 2016 presentation.

NOTE 2. GRANTS, CONTRIBUTIONS, AND FEES RECEIVABLE

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

At June 30, 2016, the Organization had received approximately \$1,373,000 in conditional promises to give in excess of allowable costs incurred under cost-reimbursement grants, which will be recognized as revenue if and when allowable costs are incurred.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3. BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS

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

The Organization has contributed \$851,075 to the funds, all of which were made prior to 2015. The value of the portions of the funds attributable to the Organization’s contributions was \$1,016,641 and \$1,114,037 at June 30, 2016 and 2015, respectively. The change in value of those portions of the funds, net of distributions, for the years ended June 30, 2016 and 2015 was \$(97,396) and \$(36,236), respectively, which is included in revenue in the accompanying consolidated statements of activities. The Organization received distributions from those portions of the funds of \$83,515 and \$54,162 during the years ended June 30, 2016 and 2015, respectively, which are included in investment income.

The portions of the funds attributable to contributions by other donors are not recognized as assets since other donors established them and granted variance power to Community Foundation. The Organization periodically receives distributions in the form of grants from those portions of the funds. The total value of those portions of the funds at June 30, 2016 and 2015 was \$774,498 and \$857,394, respectively. The Organization received distributions from those portions of the funds of \$72,308 and \$39,067 during the years ended June 30, 2016 and 2015, respectively, which are included in contributions revenue.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Land	\$ 182,930	\$ 182,930
Buildings	3,199,658	3,199,658
Leasehold improvements	48,411	48,411
Program equipment	222,827	222,827
Vehicles	580,081	601,354
Office equipment	<u>168,582</u>	<u>168,582</u>
	4,402,489	4,423,762
Less accumulated depreciation	<u>(2,105,786)</u>	<u>(1,926,712)</u>
<i>Net property and equipment</i>	<u>\$ 2,296,703</u>	<u>\$ 2,497,050</u>

NOTE 5. DEBT INFORMATION

The Organization maintains a \$500,000 bank line of credit, bearing interest at bank prime, which is collateralized by a mortgage on the Organization’s primary facilities. No borrowings

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

were outstanding on the line at either June 30, 2016 or 2015.

NOTE 6. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following periods or purposes at June 30, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
For next year:		
Alzheimer's programs	\$ -	\$ 225,000
Weatherization	-	25,000
Guardianship	20,000	-
Caregiver Connection	62,988	-
Case Management	25,000	-
For the following purposes:		
Meal Program	279,423	222,678
Local Crime Victims	32,999	32,999
Care transitions	17,666	17,666
Caregiver Connection	235,514	301,553
Client self-sufficiency programs	18,860	18,860
Utility assistance programs	18,954	25,195
Guardianship programs	97,021	78,542
Alzheimer's programs	292,833	90,515
Kitchen project	243,682	243,561
Transportation vans	53,000	-
Foster Grandparents	16,682	-
Other	<u>5,499</u>	<u>4,009</u>
<i>Total temporarily restricted net assets</i>	<u>\$ 1,420,121</u>	<u>\$ 1,285,578</u>

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

Net assets were released from restrictions by incurring expenses satisfying restricted purposes specified by donors as follows for the years ended June 30, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Care transitions	\$ -	\$ 68,943
Caregiver Connection	58,660	191,495
Meals on Wheels	7,434	4,871
Utility assistance programs	16,417	14,597
Guardianship programs	163,909	134,207
Foster Grandparents program	-	2,745
Alzheimer's Program	366,418	125,563
Meal Program	491	15,740
Internship program	510	3,629
Weatherization program	<u>25,000</u>	<u>-</u>
<i>Total net assets released from restrictions</i>	<u>\$ 638,839</u>	<u>\$ 561,790</u>

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 7. ENDOWMENT INFORMATION

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

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

The total endowment at June 30, 2016 and 2015 is \$934,097 and \$962,112, respectively, of which \$434,097 and \$462,112, respectively, is Board designated and \$500,000 for both years is donor-restricted for the Organization’s Caregiver Connection program. Changes in the endowment for the years ended June 30, 2016 and 2015, respectively, are as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 962,112	\$ 978,046
Investment earnings	55,500	38,228
Amounts expended	<u>(83,515)</u>	<u>(54,162)</u>
<i>Ending balance</i>	<u>\$ 934,097</u>	<u>\$ 962,112</u>

NOTE 8. LEASE INFORMATION

The Organization leases certain facilities and equipment under non-cancelable operating leases expiring in various months through January 2020. Minimum future rental payments under these leases as of June 30, 2016 for each of the next four years and in the aggregate are as follows:

2017	\$ 19,470
2018	8,720
2019	3,720
2020	<u>1,860</u>
<i>Total minimum future rental payments</i>	<u>\$ 33,770</u>

Total rent expense was \$106,490 and \$106,120 for the years ended June 30, 2016 and 2015, respectively.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 9. EMPLOYEE BENEFIT PLANS

The Organization maintains a defined-contribution tax-deferred annuity pension plan covering substantially all of its employees. Pension costs are funded in the period that they accrue. Pension expense was \$294,849 and \$286,825 for the years ended June 30, 2016 and 2015, respectively.

The Organization also maintains a self-funded medical plan for its full-time employees that is managed by a third-party administrator. The Organization has purchased a stop-loss insurance policy for the plan that reimburses the Organization for individual claims in excess of \$30,000 annually. The Organization funds a separate bank account that is restricted for payment of claims and insurance. The Organization has recorded accruals for its estimated portion of self-insured claims based on estimated claims incurred through June 30, 2016 and 2015, respectively.

In 2015, the Organization has established an executive retirement plan that is designed in accordance with Section 457(b) of the Internal Revenue Code. Participants are designated by the Board of Directors. The Organization generally makes discretionary annual contributions on a calendar year basis into the plan on behalf of each participant. The funds deposited into this plan remain assets of the Organization until such time that the participant withdraws the funds in accordance with the plan provisions. Assets held in this plan were \$95,500 and \$47,500 at June 30, 2016 and 2015, respectively, and corresponding liabilities, including unfunded estimated accrued amounts, are reported in the consolidated statements of financial position.

NOTE 10. FAIR VALUE MEASUREMENTS

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

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

The fair value of assets measured on a recurring basis at June 30, 2016 and 2015, respectively, is as follows:

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

<i>June 30, 2016:</i>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial interests in assets held by others	<u>\$ 1,016,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,016,641</u>
 <i>June 30, 2015:</i>				
Beneficial interests in assets held by others	<u>\$ 1,114,037</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,114,037</u>

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

The following is a reconciliation of beginning and ending balances of the fair value of assets measured by Level 3 inputs for the years ended June 30, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Beneficial interests in assets held by others:		
Beginning fair value	\$ 1,114,037	\$ 1,150,273
Distributions	(83,515)	(54,162)
Change in value	<u>(13,881)</u>	<u>17,926</u>
<i>Ending fair value</i>	<u>\$ 1,016,641</u>	<u>\$ 1,114,037</u>

The changes in value of the beneficial interests in assets held by others is reported as such in revenue in the accompanying consolidated statements of activities. All the above Level 3 changes in value are attributable to changes in the value of assets held by Community Foundation at June 30, 2016 and 2015, respectively.

NOTE 11. CONCENTRATIONS

All of the Organization's programs and activities occur in Northern Indiana; consequently, its sources of support and revenue may be affected by conditions in that area. In addition, for the year ended June 30, 2016, approximately 89% of total revenues were from state and federal government sources, with approximately 39% of total revenues received from Indiana Housing and Community Development Authority and 34% received from Indiana Family and Social Services Administration. For the year ended June 30, 2015, approximately 86% of total revenues were from state and federal government sources, with approximately 36% of total revenues received from Indiana Housing and Community Development Authority and 37% received from Indiana Family and Social Services Administration.

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and grants and fees receivable. The Organization has cash on deposit with financial institutions that, at times, may exceed the insurance limit of the Federal Deposit Insurance Corporation and are not otherwise collateralized. At June 30, 2016 the Organization had approximately \$1,288,000 of cash and certificates of deposit with financial institutions that exceeded federal deposit insurance coverage and are not otherwise collateralized. In addition, grants and fees receivable are due primarily from agencies of the State of Indiana under contracts and cost-reimbursement grants, which represents a

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

concentration of credit risk.

NOTE 12. CONTINGENCIES

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

NOTE 13. SUBSEQUENT EVENTS INFORMATION

The date through which events occurring subsequent to June 30, 2016 have been evaluated for possible adjustment to the financial statements or disclosure is January 11, 2017 the date on which the financial statements were available to be issued. Management identified no such events.

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2016

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Expenditures</u>	<u>Expenditures to Subrecipients</u>
FEDERAL ASSISTANCE				
<i>U. S. Department of Housing and Urban Development:</i>				
<i>CDBG Entitlement Grants Cluster:</i>				
Passed-through City of Mishawaka:				
Community Development Block Grant/ Entitlement Grants	14.218	n/a	\$ 37,790	\$ -
Passed-through Indiana Housing and Community Development Authority:				
Community Development Block Grant/State's Programs and Non-Entitlement Grants in Hawaii	14.228	DR2OR-014-003	105,895	-
<i>Total U. S. Department of Housing and Urban Development</i>			<u>143,685</u>	<u>-</u>
<i>U.S. Department of Justice:</i>				
Passed-through Indiana Criminal Justice Institute:				
Crime Victim Assistance	16.575	D3-15-9695 & D3-16-10350	24,081	-
<i>U.S. Department of Energy:</i>				
Passed-through Indiana Housing and Community Development Authority:				
Weatherization Assistance for Low-Income Persons	81.042	WX-016-020	252,350	-
<i>U.S. Department of Health and Human Services:</i>				
Passed-through Indiana Family and Social Services Administration:				
Special Programs for the Aging-Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals	93.042	71-16-2V-1521-01	22,884	-
Special Programs for the Aging-Title III, Part D- Disease Prevention and Health Promotion Services	93.043	71-16-OV-1521-9	41,566	-
<i>Aging Cluster:</i>				
Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers	93.044	71-16-OV-1521-01	223,156	223,134
Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers	93.044	71-16-OV-1521-03	590,572	-
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045	71-16-OV-1521-05	1,123,259	190,038
Nutrition Services Incentive Program	93.053	71-16-02-1521-01	206,615	-
<i>Total Aging Cluster</i>			<u>2,143,602</u>	<u>413,172</u>
National Family Caregiver Support, Title III, Part E	93.052	71-16-OG-1521-01	249,759	-
Social Services Block Grant	93.667	71-16-70-1521-01	937,879	-
<i>Medicaid Cluster:</i>				
Medical Assistance Program	93.778	71-16-70-1521-01	524,648	-

The accompanying notes are an integral part of this schedule.

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2016

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Expenditures</u>	<u>Expenditures to Subrecipients</u>
<i>Passed-through Indiana Association of Area Agencies on Aging:</i>				
Special Programs for the Aging-Title IV and Title II Discretionary Projects	93.048	n/a	2,250	-
<i>Passed-through Indiana Housing and Community Development Authority:</i>				
Low-Income Home Energy Assistance	93.568	LI015-020 & LI-016-020	5,617,116	-
Low-Income Home Energy Assistance	93.568	WL-016-020	<u>467,275</u>	-
<i>Total low-income home energy assistance</i>			<u>6,084,391</u>	-
Community Services Block Grant	93.569	CS-015-020 & CS-016-020	<u>719,199</u>	<u>148,740</u>
<i>Total U.S. Department of Health and Human Services</i>			<u>10,726,178</u>	<u>561,912</u>
<i>Corporation for National and Community Service:</i>				
<i>Foster Grandparent/Senior Companion Cluster:</i>				
Foster Grandparent Program	94.011	15SFNIN005	<u>185,907</u>	-
<i>U.S. Department of Homeland Security:</i>				
<i>Passed-Through Emergency Food and Shelter National Board:</i>				
Emergency Food and Shelter National Board Program	97.024	277600-019	<u>3,900</u>	-
<i>Total federal expenditures</i>			<u>11,336,101</u>	<u>\$ 561,912</u>
NONFEDERAL ASSISTANCE				
<i>Indiana Family and Social Services Administration:</i>				
CHOICE		71-16-10-1521-01	2,810,222	
Assisted Living Ombudsman		71-16-2V-1521-01	21,744	
Older Hoosier Act		71-16-OM-1521-01	170,092	
State Low Income Home Energy Assistance		WS -016-020	182,627	
Low-Income Home Energy Assistance - 2		IR-016-020	29,006	
Medicaid reimbursements		n/a	2,067,289	
Indiana Supreme Court - VASIA		n/a	<u>126,750</u>	
<i>Total State expenditures</i>			<u>5,407,730</u>	
<i>Local Area Agency:</i>				
Area 12 Liaison		n/a	<u>9,557</u>	
Total expenditures of federal and nonfederal awards			<u>\$ 16,753,388</u>	

The accompanying notes are an integral part of this schedule.

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND
NONFEDERAL AWARDS
Year Ended June 30, 2016

NOTE 1. BASIS OF PRESENTATION

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

Indiana Housing and Community Development Authority ("IHCDA") makes energy assistance payments for participants in the Low Income Home Energy Assistance Program, CFDA Number 93.568, directly to the energy providers on behalf of all entities administering the program. Previously, such payments were made by the Organization to the providers and the Organization was reimbursed by IHCDA. Because the Organization performs all intake functions and is liable for errors made in determining participant eligibility, such payments made by IHCDA to the providers totaling \$5,124,027 are included in federal expenditures in the accompanying Schedule.

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of REAL Services, Inc. and Affiliates (the “Organization”), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, 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, and have issued our report thereon dated January 11, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cullen & Associates, P.C.

South Bend, Indiana
January 11, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited REAL Services, Inc. and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of REAL Services, Inc. and Affiliates major federal programs for the year ended June 30, 2016. REAL Services, Inc. and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of REAL Services, Inc. and Affiliates' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about REAL Services, Inc. and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of REAL Services, Inc. and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, REAL Services, Inc. and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Cullen & Associates, P.C.

South Bend, Indiana
January 11, 2017

REAL SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Section 1 – Summary of Auditor’s Results

Financial Statements

Type of report auditor issued on whether the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America-	Unmodified
Internal control over financial reporting-	
Material weaknesses identified?	No
Significant deficiencies identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs-	
Material weaknesses identified?	No
Significant deficiencies identified?	No
Type of auditor’s report issued on compliance for major federal programs-	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.568	Low-Income Home Energy Assistance
93.667	Social Services Block Grant
93.778	Medicaid Cluster – Medical Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs-	\$750,000
Auditee qualified as low-risk auditee?	Yes

REAL SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Section II – Financial Statements Findings

There were no findings in the financial statements audit.

Section III – Federal Award Findings and Questioned Costs

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

REAL SERVICES, INC. AND AFFILIATES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2016

There were no findings regarding federal awards in the June 30, 2015 audit.