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April 9, 2019

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

We have reviewed the audit report of Real Services, Inc. which was opined upon by Cullar & Associates, PC, Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. 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, 2018 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 the audit report in accordance with guidelines established by the State Board of Accounts.

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner

*CONSOLIDATED FINANCIAL AND COMPLIANCE REPORT*

**REAL SERVICES, INC. AND AFFILIATES**

June 30, 2018 and 2017

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

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

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of REAL Services, Inc. and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Supplementary Information*

Our 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*, and *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Government Sources* issued by the Indiana State Board of Accounts, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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 16, 2019, 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 16, 2019

**REAL SERVICES, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 6,312,970	\$ 6,141,070
Grants, contributions, and fees receivable	2,738,582	1,774,557
Prepaid expenses	6,907	3,566
Beneficial interests in assets held by community foundation	1,126,889	1,085,044
Property and equipment	2,342,791	2,209,213
Cash held in escrow for employee benefits	264,086	162,528
Cash held for deferred compensation plan benefits	192,500	143,500
Assets held for others under guardianship	<u>83,488</u>	<u>81,550</u>
<i>Total assets</i>	<u>\$ 13,068,213</u>	<u>\$ 11,601,028</u>
<b>Liabilities and Net Assets:</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,197,912	\$ 1,098,312
Refundable advances	58,522	63,392
Deferred revenues	95,247	78,121
Accrued employee benefits	264,086	162,528
Accrued deferred compensation plan benefits	216,500	167,500
Liability for assets held under guardianships	<u>83,488</u>	<u>81,550</u>
<i>Total liabilities</i>	<u>1,915,755</u>	<u>1,651,403</u>
Net Assets:		
Unrestricted:		
Undesignated	6,073,688	5,491,158
Designated by Board for endowment	482,215	463,631
Investment in property and equipment	<u>2,342,791</u>	<u>2,209,213</u>
<i>Total unrestricted net assets</i>	8,898,694	8,164,002
Temporarily restricted	1,753,764	1,285,623
Permanently restricted	<u>500,000</u>	<u>500,000</u>
<i>Total net assets</i>	<u>11,152,458</u>	<u>9,949,625</u>
<i>Total liabilities and net assets</i>	<u>\$ 13,068,213</u>	<u>\$ 11,601,028</u>

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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, 2018 and 2017

	2018				2017			
	<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>
<b>Revenues, Gains, Other Support:</b>								
Grants and fees	\$ 17,384,052	\$ 386,250	\$ -	\$ 17,770,302	\$ 14,525,874	\$ 313,995	\$ -	\$ 14,839,869
Program service revenue	1,254,719	142,274	-	1,396,993	919,534	179,298	-	1,098,832
Contributions	543,013	585,848	-	1,128,861	405,609	249,637	-	655,246
Investment income	25,690	30,872	-	56,562	28,341	30,648	-	58,989
Other	184,534	88,495	-	273,029	274,980	46,116	-	321,096
Change in value of beneficial interests in assets held by community foundation	18,584	23,261	-	41,845	29,534	38,869	-	68,403
Net assets released from restrictions	788,859	(788,859)	-	-	993,061	(993,061)	-	-
<i>Total revenues, gains, and other support</i>	<u>20,199,451</u>	<u>468,141</u>	<u>-</u>	<u>20,667,592</u>	<u>17,176,933</u>	<u>(134,498)</u>	<u>-</u>	<u>17,042,435</u>
<b>Expenses:</b>								
Nutrition	2,128,296	-	-	2,128,296	2,079,601	-	-	2,079,601
Foster Grandparents	224,415	-	-	224,415	215,776	-	-	215,776
Area Agency on Aging	779,715	-	-	779,715	1,381,645	-	-	1,381,645
Crime Victim	78	-	-	78	18,616	-	-	18,616
Energy Assistance	7,446,362	-	-	7,446,362	3,687,793	-	-	3,687,793
Case Management	4,019,639	-	-	4,019,639	3,633,177	-	-	3,633,177
Transportation	258,060	-	-	258,060	239,806	-	-	239,806
Weatherization	662,758	-	-	662,758	774,877	-	-	774,877
Community Services	553,040	-	-	553,040	660,047	-	-	660,047
Home Health Care	1,992,298	-	-	1,992,298	2,398,492	-	-	2,398,492
Guardianship	175,600	-	-	175,600	203,797	-	-	203,797
Alzheimer's and Dementia Services	380,146	-	-	380,146	468,878	-	-	468,878
<i>Total program services expenses</i>	<u>18,620,407</u>	<u>-</u>	<u>-</u>	<u>18,620,407</u>	<u>15,762,505</u>	<u>-</u>	<u>-</u>	<u>15,762,505</u>
Management and general	762,354	-	-	762,354	785,607	-	-	785,607
Development and fundraising	81,998	-	-	81,998	76,732	-	-	76,732
<i>Total expenses</i>	<u>19,464,759</u>	<u>-</u>	<u>-</u>	<u>19,464,759</u>	<u>16,624,844</u>	<u>-</u>	<u>-</u>	<u>16,624,844</u>
<b>Change in net assets</b>	734,692	468,141	-	1,202,833	552,089	(134,498)	-	417,591
Net assets, beginning of year	<u>8,164,002</u>	<u>1,285,623</u>	<u>500,000</u>	<u>9,949,625</u>	<u>7,611,913</u>	<u>1,420,121</u>	<u>500,000</u>	<u>9,532,034</u>
<i>Net assets, end of year</i>	<u>\$ 8,898,694</u>	<u>\$ 1,753,764</u>	<u>\$ 500,000</u>	<u>\$ 11,152,458</u>	<u>\$ 8,164,002</u>	<u>\$ 1,285,623</u>	<u>\$ 500,000</u>	<u>\$ 9,949,625</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, 2018

	<u>Nutrition</u>	<u>Foster Grandparents</u>	<u>Area Agency on Aging</u>	<u>Crime Victim</u>	<u>Energy Assistance</u>	<u>Case Management</u>	<u>Transportation</u>	<u>Weatherization</u>	<u>Community Services</u>	<u>Home Health Care</u>	<u>Guardianship</u>	<u>Alzheimer's and Dementia Services</u>	<u>Management and General</u>	<u>Development and Fundraising</u>	<u>Totals</u>
Personnel	\$ 941,433	\$ 59,705	\$ 450,375	\$ -	\$ 237,491	\$ 3,318,937	\$ 186,522	\$ 222,335	\$ 326,966	\$ -	\$ 156,321	\$ 272,954	\$ 623,692	\$ 10,264	\$ 6,806,995
Contract services	-	-	-	-	-	-	-	-	-	-	-	-	43,670	-	43,670
IT services	8,245	1,218	7,289	2	10,733	45,552	1,217	-	3,109	-	1,106	2,389	4,915	417	86,192
Food	696,614	-	20,328	26	25	29,011	-	-	119	9,323	159	2,654	96	37	758,392
Program supplies	72,420	179	2,244	-	213	8,570	491	25	307	420	92	5,986	67	91	91,105
Office supplies	4,340	408	1,831	-	8,185	24,725	523	3,272	1,469	115	696	2,520	3,406	1,014	52,504
Duplicating	3,285	277	1,838	-	259	17,224	1,282	960	2,479	-	202	10,393	2,090	5,386	45,675
Recognition	318	2,113	191	-	331	725	242	76	153	-	265	986	703	-	6,103
Communications	17,743	984	2,261	-	7,957	27,352	3,578	3,435	1,097	-	2,216	4,981	3,132	863	75,599
Postage	2,635	1,545	3,088	-	5,773	13,425	837	1,355	1,103	39	1,126	3,004	27,793	5,713	67,436
Occupancy	188,665	2,805	14,069	-	45,813	235,928	3,956	23,982	22,943	-	7,786	27,541	12,765	15,922	602,175
Insurance	9,585	718	3,630	-	5,181	14,856	1,343	4,600	428	-	506	4,711	(1,219)	137	44,476
Printing and advertising	1,364	164	12,445	-	3,182	3,197	120	562	435	-	140	7,926	1,333	6,480	37,348
Vehicle expenses	42,534	29,433	2	-	-	398	38,006	6,737	-	-	-	-	-	-	117,110
Travel and conferences	19,262	340	9,260	-	1,567	75,094	72	3,217	3,824	504	4,490	8,783	1,968	906	129,287
Dues and subscriptions	553	150	16,246	-	-	21,275	-	-	5,134	-	300	707	519	1,931	46,815
Assistance to individuals	23,888	123,860	228,732	50	7,110,054	145,065	1,053	389,222	179,811	1,981,797	236	19,001	18,711	718	10,222,198
Training	40	16	694	-	3	3,547	67	24	1,475	100	(609)	3,188	6,121	2	14,668
Equipment expense	3,169	95	3,626	-	960	28,211	92	188	3,058	-	68	1,132	(8,875)	23	31,747
Equipment depreciation	81,080	-	-	-	-	-	18,449	2,718	-	-	-	-	19,381	-	121,628
Other	11,123	405	1,566	-	8,635	6,547	210	50	(870)	-	500	1,290	2,086	32,094	63,636
<b>Totals</b>	<b>\$ 2,128,296</b>	<b>\$ 224,415</b>	<b>\$ 779,715</b>	<b>\$ 78</b>	<b>\$ 7,446,362</b>	<b>\$ 4,019,639</b>	<b>\$ 258,060</b>	<b>\$ 662,758</b>	<b>\$ 553,040</b>	<b>\$ 1,992,298</b>	<b>\$ 175,600</b>	<b>\$ 380,146</b>	<b>\$ 762,354</b>	<b>\$ 81,998</b>	<b>\$ 19,464,759</b>

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

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

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

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, 2018 and 2017

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<b>Change in Cash and Cash Equivalents:</b>	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,202,833	\$ 417,591
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	190,726	187,445
(Gain) loss on disposition of property and equipment	(25,082)	303
Donated property and equipment	(141,038)	-
Changes in assets and liabilities:		
Grants, contributions, and fees receivable	(964,025)	118,707
Prepaid expenses	(3,341)	(536)
Beneficial interests in assets held by community foundation	(41,845)	(68,403)
Accounts payable and accrued liabilities	99,600	89,185
Refundable advances	(4,870)	30,027
Deferred revenues	17,126	(2,466)
<i>Net cash provided by operating activities</i>	<u>330,084</u>	<u>771,853</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(190,258)	(102,047)
Proceeds from the sale of property and equipment	32,074	1,789
Maturities of long-term certificates of deposit	-	504,174
<i>Net cash provided by (used in) financing activities</i>	<u>(158,184)</u>	<u>403,916</u>
<b>Net change in cash and cash equivalents</b>	171,900	1,175,769
Cash and cash equivalents, beginning of year	<u>6,141,070</u>	<u>4,965,301</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 6,312,970</u>	<u>\$ 6,141,070</u>
 <i>Supplemental Cash Flows Information:</i>		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ 1,555</u>	<u>\$ 400</u>

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

**REAL SERVICES, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**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 and contributions from the public.

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 government-funded 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 interest in assets held by community foundation, which is based on the value of the underlying assets, as provided by the community foundation that holds the assets and which approximates the present value of expected future distributions.
- The valuation of contributed facilities, which is based on rents for comparable facilities.
- The allocation of expenses among functions. Expenses that are directly identifiable with functions are charged to those functions. Expenses related to more than one function are allocated to functions based on estimates of employee time spent on functions, space used by function, and other factors driving costs.

**REAL SERVICES, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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*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 interest in assets held by community foundation:*

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.

The beneficial interest in assets held by community foundation are stated at fair value, 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. Changes in the value of the beneficial interest 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**  
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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 \$6,688,696 and \$3,190,789 of revenue and expense for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, the Organization recognized \$145,048 and \$148,759, 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

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

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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, 2018 or 2017, 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, 2015.

*Subsequent events:*

The date through which events occurring subsequent to June 30, 2018 have been evaluated for possible adjustment to the financial statements or disclosure is January 16, 2019, the date on which the financial statements were available to be issued.

**NOTE 2. GRANTS, CONTRIBUTIONS, AND FEES RECEIVABLE**

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

At June 30, 2018, the Organization had received approximately \$1,542,000 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.

**NOTE 3. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION**

The Organization is the beneficiary of three 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

**REAL SERVICES, INC. AND AFFILIATES**  
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donor (see Note 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 value of the portions of the funds attributable to the Organization's contributions was \$1,126,889 and \$1,085,044 at June 30, 2018 and 2017, respectively. The change in value of those portions, net of distributions, for the years ended June 30, 2018 and 2017 was \$41,845 and \$68,403, respectively, which is included in revenue in the accompanying consolidated statements of activities. The Organization received distributions from those portions of the funds of \$52,994 and \$53,091 during the years ended June 30, 2018 and 2017, 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, 2018 and 2017 was \$4,187,659 and \$3,628,146, respectively. The Organization received distributions from those portions of the funds of \$155,875 and \$40,591 during the years ended June 30, 2018 and 2017, respectively, which are included in contributions revenue.

**NOTE 4. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Land	\$ 182,930	\$ 182,930
Buildings	3,216,199	3,210,785
Leasehold improvements	48,411	48,411
Program equipment	235,257	222,827
Vehicles	840,675	652,650
Office equipment	<u>238,801</u>	<u>164,747</u>
	4,762,273	4,482,350
Less accumulated depreciation	<u>(2,419,482)</u>	<u>(2,273,137)</u>
<i>Net property and equipment</i>	<u>\$ 2,342,791</u>	<u>\$ 2,209,213</u>

**NOTE 5. 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.

**REAL SERVICES, INC. AND AFFILIATES**  
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- 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, 2018 and 2017, respectively, is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>June 30, 2018:</i>				
Beneficial interests in assets held by community foundation	\$ <u>1,126,889</u>	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>1,126,889</u>
 <i>June 30, 2017:</i>				
Beneficial interests in assets held by community foundation	\$ <u>1,085,044</u>	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>1,085,044</u>

Fair value for the beneficial interests in assets held by community foundation is based on the fair value of the underlying assets, as provided by the community foundation that holds the assets and which approximates the present value of expected future distributions.

The following is a reconciliation of beginning and ending balances of the beneficial interest in assets held by community foundation that is measured by Level 3 inputs for the years ended June 30, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Beginning fair value	\$ 1,085,044	\$ 1,016,641
Distributions	(52,994)	(53,091)
Change in value	<u>94,839</u>	<u>121,494</u>
<i>Ending fair value</i>	<u>\$ 1,126,889</u>	<u>\$ 1,085,044</u>

The change in value of the beneficial interest in assets held by community foundation is included in revenue in the accompanying consolidated statements of activities. All the above Level 3 changes in value are attributable to changes in the value of assets held by community foundation at June 30, 2018 and 2017, respectively.

**NOTE 6. DEBT INFORMATION**

The Organization maintains a \$500,000 bank line of credit, bearing interest at 35 basis points below prime (4.75% at June 30, 2018), collateralized by substantially all the Organization's assets except real estate. No borrowings were outstanding on the line at either June 30, 2018 or 2017.

**NOTE 7. RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following periods or purposes at June 30, 2018 and 2017, respectively:

**REAL SERVICES, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
For the following purposes:		
Meal Program	\$ 337,433	\$ 279,423
Weatherization	9,810	10,000
Local crime victims	32,999	32,999
Care transitions	17,666	17,666
Caregiver Connection	391,728	336,766
Client self-sufficiency programs	29,967	18,860
Utility assistance programs	29,816	29,816
Guardianship programs	137,581	89,953
Alzheimer's programs	127,340	160,765
Kitchen project	243,760	243,760
Transportation vans	48,082	23,000
Foster Grandparents	35,454	35,454
Case Management training	73,000	-
Case Management software	47,000	-
Food truck	185,000	-
Other	<u>7,128</u>	<u>7,161</u>
<i>Total temporarily restricted net assets</i>	<u>\$ 1,753,764</u>	<u>\$ 1,285,623</u>

Permanently restricted net assets of \$500,000 at both June 30, 2018 and 2017 consist of an endowment to benefit the Organization's Caregiver Connection program.

Net assets were released from restrictions by incurring expenses satisfying restricted purposes specified by donors as follows for the years ended June 30, 2018 and 2017, respectively:

Case Management	\$ 2,570	\$ 155,656
Caregiver Connection	31,134	64,837
Meals on Wheels	10,078	24,793
Utility assistance programs	-	14,180
Guardianship programs	150,709	145,502
Foster Grandparents program	-	17,965
Alzheimer's program	433,259	443,250
Aging in Place program	-	10,000
Meal program	64,671	41,753
Food truck	12,430	-
Transportation	29,430	73,125
Weatherization program	32,685	-
Client assistance programs	21,893	-
Sign conversion	-	2,000
<i>Total net assets released</i>	<u>\$ 788,859</u>	<u>\$ 993,061</u>

**NOTE 8. 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.

**REAL SERVICES, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2018 and 2017

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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, 2018 and 2017 is \$982,215 and \$963,631, respectively, of which \$482,215 and \$463,631, 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, 2018 and 2017, respectively, are as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 963,631	\$ 934,097
Investment earnings	71,578	82,625
Amounts expended	<u>(52,994)</u>	<u>(53,091)</u>
<i>Ending balance</i>	<u>\$ 982,215</u>	<u>\$ 963,631</u>

**NOTE 9. INVESTMENT INCOME**

Investment income consists of the following for the years ended June 30, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Interest on cash and cash equivalents	\$ 3,568	\$ 5,898
Distributions from beneficial interest in assets held by community foundation	<u>52,994</u>	<u>53,091</u>
<i>Investment income</i>	<u>\$ 56,562</u>	<u>\$ 58,989</u>

**NOTE 10. LEASE INFORMATION**

The Organization leases certain facilities and equipment under non-cancelable operating leases expiring in various months through January, 2022. Minimum future rental payments under these leases as of June 30, 2018 for each of the next four years and in the aggregate are as follows:

2019	\$ 84,318
2020	57,046
2021	43,926
2022	<u>36,605</u>
<i>Total minimum future rental payments</i>	<u>\$ 221,895</u>

Total rent expense was \$128,135 and \$122,186 for the years ended June 30, 2018 and 2017, respectively.

**REAL SERVICES, INC. AND AFFILIATES**  
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**NOTE 11. 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 \$235,690 and \$220,315 for the years ended June 30, 2018 and 2017, respectively.

The Organization 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, 2018 and 2017, respectively.

The Organization also maintains 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 \$192,500 and \$143,500 at June 30, 2018 and 2017, respectively, and corresponding liabilities, including unfunded estimated accrued amounts, are reported in the consolidated statements of financial position. Retirement plan expense under this plan was \$48,000 for both years ended June 30, 2018 and 2017.

**NOTE 12. 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, 2018, approximately 84% of total revenues were from state and federal government sources, with approximately 43% of total revenues received from Indiana Housing and Community Development Authority, and 30% received from Indiana Family and Social Services Administration. For the year ended June 30, 2017, approximately 85% of total revenues were from state and federal government sources, with approximately 33% of total revenues received from Indiana Housing and Community Development Authority, 38% received from Indiana Family and Social Services Administration, and 10% from Indiana Medicaid.

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, 2018 the Organization had approximately \$3,158,000 of cash on 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 concentration of credit risk.

**REAL SERVICES, INC. AND AFFILIATES**  
**CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS**  
Year Ended June 30, 2018

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Provided Through to Subrecipients</u>	<u>Total Expenditures</u>
<b>FEDERAL ASSISTANCE</b>				
<b><i>U. S. Department of Housing and Urban Development:</i></b>				
<i>CDBG Entitlement Grants Cluster:</i>				
Passed-through City of Mishawaka:				
Community Development Block Grant/ Entitlement Grants	14.218	n/a	\$ -	\$ 12,000
Passed-through City of South Bend:				
Community Development Block Grant/ Entitlement Grants	14.218	n/a	-	133,692
<i>Total CDBG Entitlement Grants Cluster</i>			-	145,692
Passed-through Indiana Housing and Community Development Authority:				
Community Development Block Grants/State's Programs and Non-Entitlement Grants in Hawaii	14.228	DR2OR-016-006/7	-	93,830
<b><i>Total U. S. Department of Housing and Urban Development</i></b>			-	239,522
<b><i>U.S. Department of Energy:</i></b>				
Passed-through Indiana Housing and Community Development Authority:				
Weatherization Assistance for Low-Income Persons	81.042	WX-017-020 & WX-018-020	-	277,781
<b><i>U.S. Department of Health and Human Services:</i></b>				
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	18518010	-	22,751
Special Programs for the Aging-Title III, Part D- Disease Prevention and Health Promotion Services	93.043	18518010	-	39,172
<i>Aging Cluster:</i>				
Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers	93.044	18518010	241,326	828,463
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045	18518010	170,460	1,139,280
Nutrition Services Incentive Program	93.053	18518010	-	189,747
<i>Total Aging Cluster</i>			411,786	2,157,490
National Family Caregiver Support, Title III, Part E	93.052	18518010	-	256,281
Social Services Block Grant	93.667	18518010	-	1,047,083
<i>Medicaid Cluster:</i>				
Medical Assistance Program	93.778	18518010	-	38,689
Medical Assistance Program - Waiver Intake	93.778	n/a	-	475,887
<i>Total Medicaid Cluster</i>			-	514,576
Money Follows the Person Rebalancing Demonstration	93.791	n/a	-	93,293

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, 2018

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Provided Through to Subrecipients</u>	<u>Total Expenditures</u>
Passed-through Indiana Association of Area Agencies on Aging:				
Special Programs for the Aging, Title IV and Title II, Discretionary Projects	93.048	n/a	-	7,148
Passed-through Indiana Housing and Community Development Authority:				
Low-Income Home Energy Assistance	93.568	LI-017-020 & LI-018-020	-	7,289,567
Low-Income Home Energy Assistance	93.568	WL-017-020 & WL-018-020	-	360,402
<i>Total low-income home energy assistance</i>			-	<u>7,649,969</u>
Passed-through Indiana Department of Insurance:				
Affordable Care Act - Medicare Improvements for Patients and Providers	93.518	n/a	-	<u>1,710</u>
Passed-through Indiana Housing and Community Development Authority:				
<i>477 Cluster:</i>				
Community Services Block Grant	93.569	CS-017-020 & CS-018-020	<u>147,247</u>	<u>674,698</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>559,033</u>	<u>12,464,171</u>
<b>Corporation for National and Community Service:</b>				
<i>Foster Grandparent/Senior Companion Cluster:</i>				
Foster Grandparent Program	94.011	15SFNIN005	-	<u>211,668</u>
<b>U.S. Department of Homeland Security:</b>				
Passed-Through Emergency Food and Shelter National Board:				
Emergency Food and Shelter National Board Program	97.024	n/a	-	<u>3,900</u>
<b>Total expenditures of federal awards</b>			<u>\$ 559,033</u>	<u>\$ 13,197,042</u>
<b>NONFEDERAL ASSISTANCE</b>				
<b>State of Indiana:</b>				
<i>Passed-Through Indiana Family and Social Services Administration:</i>				
CHOICE		18518010		\$ 2,062,266
Assisted Living Ombudsman		18518010		976
Older Hoosier Act		18518010		168,843
State Low Income Home Energy Assistance		WS -017-020		191,485
Low-Income Home Energy Assistance		WS-017-020 & WS-018-020		56,463
Medicaid reimbursements		n/a		<u>1,763,755</u>
<i>Total expenditures of state awards</i>				4,243,788
<b>Local Area Agency:</b>				
Area 12 Liaison		n/a		<u>14,091</u>
<b>Total expenditures of nonfederal awards</b>				<u>\$ 4,257,879</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, 2018

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**NOTE 1. BASIS OF PRESENTATION**

The accompanying consolidated schedule of expenditures of federal and nonfederal awards (the "Schedule") includes the federal and nonfederal award activities of Real Services, Inc. and Affiliates under programs of the federal and nonfederal governments for the year ended June 30, 2018. 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 operations of Real Services, Inc. and Affiliates it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of Real Services, Inc. and Affiliates.

**NOTE 2. SUMMARY OF 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.

The Indiana Housing and Community Development Authority ("IHCDA") makes energy assistance payments for participants in the Low-Income Home Energy Assistance Program, CFDA #93.568, directly to the energy providers on behalf of 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, totaling \$6,688,696, are included in federal expenditures in the accompanying Schedule.

**NOTE 3. INDIRECT COST RATE**

Real Services, Inc. and Affiliates has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of REAL Services, Inc. and Affiliates (the “Organization”), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated January 16, 2019.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization’s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 16, 2019

**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, 2018. REAL Services, Inc. and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, REAL Services, Inc. and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## Report on Internal Control over Compliance

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

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

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

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

*Cullen & Associates, P.C.*

South Bend, Indiana  
January 16, 2019

**REAL SERVICES, INC. AND AFFILIATES**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2018

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**Section I - Summary of Auditor's Results**

*FINANCIAL STATEMENTS*

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

*FEDERAL AWARDS*

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

Identification of major federal programs-

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.568	Low-Income Home Energy Assistance
93.569	477 Cluster: Community Services Block Grant

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, 2018

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**Section II - Financial Statement Findings**

There were no financial statement findings.

**Section III – Federal Award Findings and Questioned Costs**

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



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2018



There were no findings in the June 30, 2017 audit.

Real Services, Inc.  
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Toll Free: 800.552.2916  
Fax: 574.284.2642

Alzheimer's &  
Dementia Services  
574.232.4121  
Help: 888.303.0180  
Fax: 574.232.4235

Community Services  
574.284.2060

Energy Assistance  
574.232.6501  
800.225.3367  
Fax: 574.236.4891

Meals on Wheels  
Nutrition Services  
574.256.1649

Case Management  
Offices  
Elkhart Co.  
574.322.4185  
Kosciusko Co.  
574.269.1173  
LaPorte Co.  
219.324.4199  
Marshall Co.  
574.936.3175  
St. Joseph Co.  
574.284.2644  
800.552.7928 (Indiana)

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