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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

January 24, 2020


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, 2018 to June 30, 2019. 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, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention the finding on page 29. Please see the Schedule of Findings and Questioned Costs for complete details regarding the finding. Management's Corrective Action Plan appears on page 30.

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.


Paul D. Joyce, CPA
State Examiner

CONSOLIDATED FINANCIAL AND COMPLIANCE REPORT

REAL SERVICES, INC. AND AFFILIATES

June 30, 2019 and 2018

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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 (the Organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 the Organization as of June 30, 2019 and 2018, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

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

Report on 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 15, 2020, on our consideration of the Organization's 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 15, 2020

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

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

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

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

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

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, 2019 and 2018

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

Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:

| | | |
|---|---------------------|-------------------|
| Change in net assets | \$ 1,116,978 | \$ 1,202,833 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 203,330 | 190,726 |
| (Gain) on disposition of property and equipment | - | (25,082) |
| Investment (gains) | (74,341) | - |
| Donated property and equipment | - | (141,038) |
| Changes in assets and liabilities: | | |
| Grants and contracts receivable | (78,957) | (964,025) |
| Prepaid expenses | (676) | (3,341) |
| Beneficial interest in assets held by | | |
| Community Foundation | 615 | (41,845) |
| Accounts payable and accrued liabilities | 15,801 | 99,600 |
| Refundable advances | (14,205) | (4,870) |
| Deferred revenues | <u>(41,547)</u> | <u>17,126</u> |
| <i>Net cash provided by operating activities</i> | <u>\$ 1,126,998</u> | <u>\$ 330,084</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, 2019 and 2018

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of REAL Services, Inc. and its controlled affiliates, REAL Services Foundation, Inc. and REAL Services Housing, Inc. (collectively, the Organization, we, us, our). Our operations are supported primarily by grants and contracts from governmental agencies and contributions from the public.

REAL Services, Inc. is a tax-exempt, Indiana nonprofit corporation formed to assist in establishing a community in which older adults can maintain their independence to the maximum extent possible and find meaning and satisfaction throughout their lives. We also administer programs assisting low-income persons. REAL Services Foundation, Inc. is a tax-exempt, Indiana nonprofit corporation formed to solicit and administer contributions received for the benefit of REAL Services, Inc. REAL Services Housing, Inc. is a tax-exempt, Indiana nonprofit corporation formed to hold property for, and lease it to, REAL Services, Inc. We fulfill our mission by focusing our efforts in the following primary service areas:

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

Significant Accounting Policies:

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Use of Estimates:

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

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

Consolidation:

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

Net Asset Classes:

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

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

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Cash and Cash Equivalents:

We consider highly liquid financial instruments with original maturities of three months or less and that are neither held for nor restricted by donors for long-term purposes to be cash and cash equivalents. However, cash and cash equivalents held in escrow for employee benefits and held for others under guardianships are not included in cash and cash equivalents but are reported separately.

Grants and Contracts Receivable:

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

Investments:

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

Beneficial Interest in Assets Held by Community Foundation:

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

REAL SERVICES, INC. AND AFFILIATES
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Property and Equipment:

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

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

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

Revenue and Revenue Recognition:

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

We consider unconditional contributions to be available for unrestricted use unless specifically restricted by donor. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Contributions of goods and property are recorded at fair value at the date contributed. Contributions of the use of facilities at no charge or at below-market charge are recorded at fair value, less any charges. Contributions of services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated, are recorded at their fair value in the period received. No contributed services are recognized in the accompanying consolidated financial statements because the criteria for recognition were not met. However, a substantial number of volunteers donate significant amounts of time to us.

We use certain facilities for our Nutrition program without charge or at reduced charge, and the difference between the fair value for the use of these facilities and the cost is recorded as revenue and expense. For both of the years ended June 30, 2019 and 2018, we recognized \$145,048 for use of such facilities.

REAL SERVICES, INC. AND AFFILIATES
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Indiana Housing and Community Development Authority (IHCDA) makes energy assistance payments for participants in the Low Income Home Energy Assistance Program directly to the energy providers on behalf of all entities administering the program. Because we perform all intake functions and are liable for errors made in determining participant eligibility, such payments made by IHCDA to the providers are recorded as both grants revenue and financial assistance expense in the accompanying consolidated financial statements. We recognized \$5,892,995 and \$6,688,696 of revenue and expense for the years ended June 30, 2019 and 2018, respectively, for such payments made by IHCDA.

Functional Allocation of Expenses:

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

Income Taxes:

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

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Examples of tax positions include our tax-exempt status and positions related to the potential sources of unrelated business taxable income. We have not identified any uncertain tax positions taken or expected to be taken in a tax return, and there are no unrecognized tax benefits recorded as liabilities in the accompanying financial statements. We classify interest and penalties, if any, associated with uncertain tax positions as a component of income tax expense, and there was no accrued interest or any penalties related to unrecognized tax benefits at either June 30, 2019 or 2018, or any interest or penalties expense related to unrecognized tax benefits for the years then ended. We are no longer subject to examination by the Internal Revenue Service or the State of Indiana for years prior to June 30, 2016.

Advertising:

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

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Financial Instruments and Credit Risk:

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

Recent Accounting Pronouncements and Accounting Changes:

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

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

Subsequent Events:

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

NOTE 2. LIQUIDITY AND AVAILABILITY

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

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

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

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

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

NOTE 3. GRANTS AND CONTRACTS RECEIVABLE

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

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

NOTE 4. INVESTMENTS INFORMATION

Investments consist of the following at June 30, 2019:

| | |
|-------------------------------------|---------------------|
| Mutual income funds | \$ 879,535 |
| Mutual equity funds | 1,626,388 |
| Mutual alternative investment funds | <u>91,144</u> |
| <i>Total investments</i> | <u>\$ 2,597,067</u> |

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

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

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NOTE 5. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

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

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

The portions of the funds attributable to contributions by other donors are not recognized as assets since other donors established them and granted variance power to Community Foundation. We periodically receive distributions in the form of grants from those portions of the funds. The total value of those portions of the funds at June 30, 2019 and 2018 was \$4,214,315 and \$4,187,659, respectively. We received distributions from those portions of the funds of \$176,736 and \$155,875 during the years ended June 30, 2019 and 2018, respectively, which are included in contributions revenue.

NOTE 6. PROPERTY AND EQUIPMENT

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

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

NOTE 7. FAIR VALUE MEASUREMENTS

We report certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs

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may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

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

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

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

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

Fair values for mutual funds that are readily marketable are determined by reference to quoted market prices. Fair value for the beneficial interest in assets held by Community Foundation is based on the fair value of the underlying assets, as provided by the community foundation that holds the assets and which approximates the present value of expected future distributions.

The following is a reconciliation of beginning and ending balances of the beneficial interest in assets held by community foundation that is measured by Level 3 inputs for the years ended June 30, 2019 and 2018, respectively:

REAL SERVICES, INC. AND AFFILIATES
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| | <u>2019</u> | <u>2018</u> |
|--------------------------|---------------------|---------------------|
| Beginning fair value | \$ 1,126,889 | \$ 1,085,044 |
| Distributions | (54,453) | (52,994) |
| Change in value | <u>53,838</u> | <u>94,839</u> |
| <i>Ending fair value</i> | <u>\$ 1,126,274</u> | <u>\$ 1,126,889</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, 2019 and 2018, respectively.

NOTE 8. DEBT INFORMATION

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

NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS

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

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

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

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

NOTE 10. ENDOWMENT INFORMATION

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

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

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

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

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

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

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

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

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

NOTE 11. LEASE INFORMATION

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

| | |
|---|-------------------|
| 2020 | \$ 87,771 |
| 2021 | 82,746 |
| 2022 | 61,925 |
| 2023 | 20,820 |
| 2024 | 20,820 |
| Thereafter | <u>1,735</u> |
| <i>Total minimum future rental payments</i> | <u>\$ 275,817</u> |

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

REAL SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 12. EMPLOYEE BENEFIT PLANS

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

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

We also maintain an executive retirement plan that is designed in accordance with Section 457(b) of the Internal Revenue Code. Participants are designated by the Board of Directors. We generally make discretionary annual contributions on a calendar year basis into the plan on behalf of each participant. The funds deposited into this plan remain assets of the Organization until such time that the participant withdraws the funds in accordance with the plan provisions. Assets held in this plan were \$200,071 and \$192,500 at June 30, 2019 and 2018, respectively, and corresponding liabilities, including unfunded estimated accrued amounts, are reported in the consolidated statements of financial position. Retirement plan expense under this plan was \$38,000 and \$48,000, respectively, for the years ended June 30, 2019 and 2018.

NOTE 13. CONCENTRATIONS

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

Financial instruments that expose us to concentrations of credit risk consist primarily of cash and cash equivalents and grants and contracts receivable. We have cash on deposit with financial institutions that, at times, may exceed the insurance limit of the Federal Deposit Insurance Corporation and are not otherwise collateralized. At June 30, 2019 we had approximately \$3,915,000 of cash on deposit with financial institutions that exceeded federal deposit insurance coverage and are not otherwise collateralized. In addition, grants and contracts receivable are due primarily from agencies of the State of Indiana, which represents a concentration of credit risk.

REAL SERVICES, INC. AND AFFILIATES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2019

| <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> |
|--|------------------------------------|---|--|-------------------------------|
| Federal Assistance | | | | |
| <i>Department of Housing and Urban Development:</i> | | | | |
| CDBG Entitlement Grants Cluster: | | | | |
| Passed-through City of Mishawaka: | | | | |
| Community Development Block Grant/ Entitlement Grants | 14.218 | n/a | \$ - | \$ 15,000 |
| Passed-through City of South Bend: | | | | |
| Community Development Block Grant/ Entitlement Grants | 14.218 | n/a | - | 82,048 |
| <i>Total CDBG Entitlement Grants Cluster</i> | | | | 97,048 |
| 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 | - | 94,620 |
| <i>Total Department of Housing and Urban Development</i> | | | | 191,668 |
| <i>Department of Energy:</i> | | | | |
| Passed-through Indiana Housing and Community Development Authority: | | | | |
| Weatherization Assistance for Low-Income Persons | 81.042 | WX-018-020 & WX-019-020 | - | 322,868 |
| <i>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 | 18518010 | - | 19,371 |
| Special Programs for the Aging-Title III, Part D- Disease Prevention and Health Promotion Services | | | | |
| | 93.043 | 18518010 | - | 38,769 |
| <i>Aging Cluster:</i> | | | | |
| Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers | | | | |
| | 93.044 | 18518010 | - | 225,123 |
| Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers | | | | |
| | 93.044 | 18518010 | 252,128 | 642,349 |
| Special Programs for the Aging-Title III, Part C- Nutrition Services | | | | |
| | 93.045 | 18518010 | 153,227 | 1,091,217 |
| Nutrition Services Incentive Program | 93.053 | 18518010 | - | 173,163 |
| <i>Total Aging Cluster</i> | | | | 405,355 |
| | | | | 2,131,852 |
| National Family Caregiver Support, Title III, Part E | 93.052 | 18518010 | - | 224,924 |
| Social Services Block Grant | 93.667 | 18518010 | - | 999,085 |
| <i>Medicaid Cluster:</i> | | | | |
| Medical Assistance Program | 93.778 | 18518010 | - | 24,392 |
| Medical Assistance Program | 93.778 | n/a | - | 379,221 |
| <i>Total Medicaid Cluster</i> | | | | 403,613 |
| Money Follows the Person Rebalancing Demonstration | 93.791 | 27976 | - | 79,394 |

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, 2019

| <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 | - | 9,153 |
| Passed-through Indiana Housing and Community Development Authority: | | | | |
| Low-Income Home Energy Assistance | 93.568 | LI-018-020 & LI-019-020 | - | 6,452,540 |
| Low-Income Home Energy Assistance | 93.568 | WL-018-020 & WL-019-020 | - | 306,095 |
| <i>Total low-income home energy assistance</i> | | | - | 6,758,635 |
| Passed-through Indiana Department of Insurance: | | | | |
| Affordable Care Act - Medicare Improvements for Patients and Providers | 93.518 | n/a | - | 910 |
| Passed-through Indiana Housing and Community Development Authority: | | | | |
| <i>477 Cluster:</i> | | | | |
| Community Services Block Grant | 93.569 | CS-018-020 & CS-019-020 | 193,681 | 836,335 |
| <i>Total Department of Health and Human Services</i> | | | 599,036 | 11,502,041 |
| <i>Corporation for National and Community Service:</i> | | | | |
| <i>Foster Grandparent/Senior Companion Cluster:</i> | | | | |
| Foster Grandparent Program | 94.011 | 15SFNIN005 | - | 184,197 |
| <i>Department of Homeland Security:</i> | | | | |
| Passed-Through Emergency Food and Shelter National Board: | | | | |
| Emergency Food and Shelter National Board Program | 97.024 | n/a | - | 5,000 |
| Total expenditures of federal awards | | | \$ 599,036 | \$ 12,205,774 |
| Nonfederal Assistance | | | | |
| <i>State of Indiana:</i> | | | | |
| <i>Passed-Through Indiana Family and Social Services Administration:</i> | | | | |
| CHOICE | | 21654 | \$ - | \$ 2,071,906 |
| Assisted Living Ombudsman | | 21654 | - | 14,320 |
| Older Hoosier Act | | 21654 | - | 168,341 |
| State Low Income Home Energy Assistance | | WS -018-020 | - | 307,755 |
| Low-Income Home Energy Assistance | | WS-018-020 & WS-019-020 | - | 56,754 |
| Medicaid reimbursements | | n/a | - | 2,707,952 |
| <i>Total expenditures of state awards</i> | | | - | 5,327,028 |
| <i>Local Area Agency:</i> | | | | |
| Area 12 Liaison | | n/a | - | 15,509 |
| Total expenditures of nonfederal awards | | | \$ - | \$ 5,342,537 |
| Total expenditures of federal and nonfederal awards | | | \$ 599,036 | \$ 17,548,311 |

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, 2019

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, 2019. 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 \$5,604,669 and \$288,326 are included in federal and nonfederal expenditures, respectively, 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, 2019, 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 15, 2020.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2019-001, that we consider to be a significant deficiency.

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*.

Organization's Response to Findings

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 15, 2020



**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, 2019. 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, 2019.

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 15, 2020

REAL SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

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? | Yes |
| 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> |
|------------------------|--|
| 93.044, 93.045, 93.053 | Aging Cluster: Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers; Special Programs for the Aging-Title II, Part C-Nutrition Services; Nutrition Services Incentive Program |
| 93.667 | Social 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, 2019

Section II - Financial Statement Findings

SIGNIFICANT DEFICIENCY

FINDING 2019-001- ACCOUNTING FOR PAYMENTS MADE ON THE ORGANIZATION'S BEHALF

Criteria: §200.302(b)(2) of the Uniform Guidance requires that the financial management system of each non-Federal entity must provide for accurate, current, and complete disclosure of the financial results of each Federal award or program.

Condition: An audit adjustment was proposed, and was made by management, to correct the amount revenue and expenses recorded for energy assistance payments made directly by a funding source on the Organization's behalf.

Cause: The relevant grant year did not coincide with the Organization's fiscal year, and when the calculation was made to record the payments made by the grantor, an error was made in not deducting payments made prior to the beginning of the Organization's fiscal year, and the error was not detected.

Effect or potential effect: Revenue and expenses were both overstated by approximately \$1.9 million, but did not affect net assets or the change in net assets. The overstatement did not affect the auditor's selection of major programs.

Recommendation: We recommend that accounting personnel obtain a better understanding of the parameters of the "EAP Weekly Call-In Report" that reports information for the grant period, which generally differs from the fiscal year, when generating information to record in the financial statements and the schedule of expenditures of federal and nonfederal awards, and that a system be developed to ensure that only expenditures made during the Organization's fiscal year be recorded.

Views of Responsible Officials and Planned Corrective Actions: A system is now in place to include only the 12 months of the Agency's fiscal year in the "EAP Weekly Call-In Report." We will be sure to capture the in-kind payments only for the months of July through June to avoid reporting any incorrect amounts of revenue and expenses in the financial statements and the schedule of federal and nonfederal awards for the year ending June 30.

REAL Service completed the proposed adjustments on December 30, 2019 and has taken measures to ensure this oversight does not take place in the future.

Section III – Federal Award Findings and Questioned Costs

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



CORRECTIVE ACTION PLAN

REAL Services, Inc. and Affiliates respectfully submits the following corrective plan for the year ended June 30, 2019.



Name and address of independent public accounting firm: Cullar & Associates, PC, CPA's, 218 West Washington Street, Suite 200, South Bend, IN 46601.

Audit period: July 1, 2018 to June 30, 2019.

Real Services, Inc.
1151 S. Michigan St.
P.O. Box 1835
South Bend, IN 46634
Phone: 574.233.8205
Toll Free: 800.552.2916
Fax: 574.284.2642

The findings from the June 30, 2019 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in that schedule.

Financial Statement Findings

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

SIGNIFICANT DEFICIENCY

FINDING 2019-001- ACCOUNTING FOR PAYMENTS MADE ON THE ORGANIZATION'S BEHALF

Community Services
574.284.2060

Recommendations: The auditor recommends that accounting personnel obtain a better understanding of the parameters of the "EAP Weekly Call-In Report" that reports information for the grant period, which generally differs from the fiscal year, when generating information to record in the financial statements and the schedule of expenditures of federal and nonfederal awards, and that a system be developed to ensure that only expenditures made during the Organization's fiscal year be recorded.

Energy Assistance
574.232.6501
800.225.3367
Fax: 574.236.4891

Action Taken: A system is now in place to include only the 12 months of the Agency's fiscal year in the "EAP Weekly Call-In Report." We will be sure to capture the in-kind payments only for the months of July through June to avoid reporting any incorrect amounts of revenue and expenses in the financial statements and the schedule of federal and nonfederal awards for the year ending June 30.

Meals on Wheels Nutrition Services
574.256.1649

REAL Service completed the proposed adjustments on December 30, 2019 and has taken measures to ensure this oversight does not take place in the future.

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)

If there are questions regarding this plan, please contact Rebecca Zaseck, Executive Director, at either (574) 233-8205 x7101 or bzaseck@realservices.org.

Sincerely,

Rebecca Zaseck
Executive Director



**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**



There were no findings in the June 30, 2018 audit.

Real Services, Inc.
1151 S. Michigan St.
P.O. Box 1835
South Bend, IN 46634
Phone: 574.233.8205
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
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LaPorte Co.
219.324.4199
Marshall Co.
574.936.3175
St. Joseph Co.
574.284.2644
800.552.7928 (Indiana)