

**SENIOR CITIZENS HOME  
ASSISTANCE SERVICE, INC.  
AND SUBSIDIARIES**

**Consolidated Financial Statements**

**June 30, 2017 and 2016**

**(With Independent Auditors' Report Thereon)**

**LBMC**

MAKE A GOOD  
BUSINESS **BETTER**

SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors of  
Senior Citizens Home Assistance Service, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of Senior Citizens Home Assistance Service, Inc. and Subsidiaries (collectively the "Organization") which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the 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 the 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditors' 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 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 financial position of Senior Citizens Home Assistance Service, Inc. and Subsidiaries as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017, on our consideration of Senior Citizens Home Assistance Service, Inc. and Subsidiaries' 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 the 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 the Organization's internal control over financial reporting and compliance.

L BMC, PC

Knoxville, Tennessee  
November 9, 2017

SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

June 30, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
<b>Current assets:</b>		
Cash	\$ 19,336	\$ 13,614
Certificate of deposit	151,166	150,000
Accounts receivable, net of allowance for uncollectible accounts of \$2,499 as of June 30, 2017 and 2016	416,314	429,993
Other accounts receivable	133,280	-
Prepaid expenses and other current assets	<u>12,634</u>	<u>32,265</u>
<b>Total current assets</b>	<b>732,730</b>	<b>625,872</b>
<b>Assets restricted to acquisition of property and equipment:</b>		
Cash	6,235	90,467
Long-term pledges receivable, net of allowance for uncollectible pledges of \$3,900 and \$13,900 as of June 30, 2017 and 2016, respectively	<u>100</u>	<u>2,765</u>
	6,335	93,232
Property and equipment, net	6,754,315	6,771,880
Endowment investments	<u>107,805</u>	<u>76,301</u>
<b>Total assets</b>	<b>\$ <u>7,601,185</u></b>	<b>\$ <u>7,567,285</u></b>

Liabilities and Net Assets

<b>Current liabilities:</b>		
Accounts payable	\$ 122,993	\$ 74,054
Accrued liabilities	581,373	461,140
Client deposits	85,017	91,507
Current installments of bonds payable	1,513,915	88,605
Lines of credit	<u>215,832</u>	<u>177,304</u>
<b>Total current liabilities</b>	<b>2,519,130</b>	<b>892,610</b>
Bonds and notes payable, excluding current installments	<u>114,118</u>	<u>1,488,504</u>
<b>Total liabilities</b>	<b><u>2,633,248</u></b>	<b><u>2,381,114</u></b>
<b>Net assets:</b>		
Unrestricted	4,853,797	5,016,638
Temporarily restricted	<u>114,140</u>	<u>169,533</u>
<b>Total net assets</b>	<b><u>4,967,937</u></b>	<b><u>5,186,171</u></b>
<b>Total liabilities and net assets</b>	<b>\$ <u>7,601,185</u></b>	<b>\$ <u>7,567,285</u></b>

See accompanying notes to the consolidated financial statements.

SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Consolidated Statements of Activities

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Changes in unrestricted net assets:		
Unrestricted revenues, gains, and other support:		
Private pay client fees	\$ 1,431,901	\$ 930,022
Client fees from government agencies	3,889,586	4,201,025
Residency fees	1,039,639	1,104,392
Contributions and grants		
United Way	257,314	257,389
Grants	300,750	90,948
Local governments	56,612	51,296
Individuals	8,578	8,282
Special events	166,471	229,907
In-kind contributions	21,420	21,420
Dividends, interest and investment income, net	1,616	1,735
Net assets released from restrictions	<u>89,659</u>	<u>59,935</u>
	<u>7,263,546</u>	<u>6,956,351</u>
Expenses:		
Program services	6,714,764	6,450,850
Management and general	587,793	620,671
Fundraising	<u>123,830</u>	<u>132,059</u>
Total expenses	<u>7,426,387</u>	<u>7,203,580</u>
Decrease in unrestricted net assets	<u>(162,841)</u>	<u>(247,229)</u>
Changes in temporarily restricted net assets:		
Contributions and grants	24,452	13,467
Investment earnings in endowment investments, net	9,814	1,250
Net assets released from restrictions	<u>(89,659)</u>	<u>(59,935)</u>
Decrease in temporarily restricted assets	<u>(55,393)</u>	<u>(45,218)</u>
Decrease in net assets	<u>(218,234)</u>	<u>(292,447)</u>
Net assets at beginning of year	<u>5,186,171</u>	<u>5,478,618</u>
Net assets at end of year	<u>\$ 4,967,937</u>	<u>\$ 5,186,171</u>

See accompanying notes to the consolidated financial statements.

SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (218,234)	\$ (292,447)
Adjustments to reconcile changes in net assets to cash flows provided (used) by operating activities:		
Depreciation	281,216	279,915
Provision for bad debts	15,412	2,140
Amortization of loan costs	3,494	2,282
Net unrealized gain on endowment investments	(8,543)	(900)
Realized gains on endowment investments, net	(1,285)	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,733)	30,693
Other accounts receivable	(133,280)	-
Prepaid expenses and other current assets	19,631	(11,809)
Accounts payable	48,939	3,126
Accrued liabilities	120,233	2,118
Client deposits	(6,490)	35,036
Net cash provided by operating activities	<u>119,360</u>	<u>50,154</u>
Cash flows from investing activities:		
Purchases of property and equipment	(263,651)	(27,808)
Purchase of endowment investments	<u>(21,676)</u>	<u>(12,685)</u>
Net cash used by investing activities	<u>(285,327)</u>	<u>(40,493)</u>
Cash flows from financing activities:		
Borrowing from (repayments of) line of credit, net	38,528	(51,571)
Proceeds from notes payable	172,185	-
Principal payments of bonds payable	(88,435)	(86,433)
Payment of loan costs	(36,320)	-
Collection of pledges receivable	<u>2,665</u>	<u>36,868</u>
Net cash provided (used) by financing activities	<u>88,623</u>	<u>(101,136)</u>
Decrease in cash	(77,344)	(91,475)
Cash and cash equivalents at beginning of year	<u>254,081</u>	<u>345,556</u>
Cash and cash equivalents at end of year	<u>\$ 176,737</u>	<u>\$ 254,081</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 41,310</u>	<u>\$ 46,305</u>

See accompanying notes to the consolidated financial statements.

SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Consolidated Statements of Functional Expenses

Year ended June 30, 2017

	Program	Management and		
	<u>Services</u>	<u>General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries - office	\$ 1,643,047	\$ 333,892	\$ 55,526	\$ 2,032,465
Salaries - assistants	3,059,978	-	-	3,059,978
Salaries - training	80,882	-	-	80,882
Fringe benefits	150,265	15,994	-	166,259
Payroll taxes	335,603	55,273	-	390,876
Bad debts, net of recoveries	15,412	-	-	15,412
Conferences	1,308	5,064	-	6,372
Computer	9,010	26,699	-	35,709
Depreciation	283,671	1,039	-	284,710
Dues and memberships	11,341	5,074	-	16,415
Employment screenings	31,561	-	-	31,561
Professional services	18,661	36,460	-	55,121
Insurance	227,030	11,026	-	238,056
Maintenance	66,208	12,446	-	78,654
Occupancy	231,628	58,769	-	290,397
Postage	4,643	893	-	5,536
Printing	4,748	-	-	4,748
Community education	58,810	4,483	-	63,293
Supplies	82,009	-	-	82,009
Telephone	39,104	6,424	-	45,528
Training	7,527	-	-	7,527
Transportation	66,506	1,973	-	68,479
Special events	-	-	68,304	68,304
Interest expense	41,310	-	-	41,310
Other	13,366	12,284	-	25,650
Assisted living food and supplies	106,687	-	-	106,687
Contract services	<u>124,449</u>	<u>-</u>	<u>-</u>	<u>124,449</u>
Total	\$ <u>6,714,764</u>	\$ <u>587,793</u>	\$ <u>123,830</u>	\$ <u>7,426,387</u>

See accompanying notes to the consolidated financial statements.



SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Consolidated Statements of Functional Expenses

Year ended June 30, 2016

	Program <u>Services</u>	Management and <u>General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries - office	\$ 1,568,943	\$ 317,751	\$ 57,601	\$ 1,944,295
Salaries - assistants	2,951,010	-	-	2,951,010
Salaries - training	83,960	-	-	83,960
Fringe benefits	100,728	15,391	-	116,119
Payroll taxes	341,086	47,420	-	388,506
Bad debts, net of recoveries	2,140	-	-	2,140
Conferences	2,556	22,420	-	24,976
Computer	11,753	16,357	-	28,110
Depreciation	280,953	1,245	-	282,198
Dues and memberships	8,505	3,644	-	12,149
Employment screenings	43,841	-	-	43,841
Professional services	15,597	40,429	-	56,026
Insurance	219,328	10,699	-	230,027
Maintenance	87,848	9,610	-	97,458
Occupancy	234,004	59,061	-	293,065
Postage	5,563	399	-	5,962
Community education	15,918	60,614	-	76,532
Supplies	84,623	-	-	84,623
Telephone	40,956	6,566	-	47,522
Training	11,890	-	-	11,890
Transportation	68,400	958	-	69,358
Special events	-	-	74,458	74,458
Interest expense	46,305	-	-	46,305
Other	35	8,107	-	8,142
Assisted living food and supplies	103,843	-	-	103,843
Contract services	<u>121,065</u>	<u>-</u>	<u>-</u>	<u>121,065</u>
<b>Total</b>	<b>\$ <u>6,450,850</u></b>	<b>\$ <u>620,671</u></b>	<b>\$ <u>132,059</u></b>	<b>\$ <u>7,203,580</u></b>

See accompanying notes to the consolidated financial statements.

# SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

### (1) Nature of operations

Senior Citizens Home Assistance Service, Inc., a non-profit Tennessee corporation, was organized in 1970 through the efforts of the Knoxville Housing Authority and is licensed by the Tennessee Department of Mental Health and Developmental Disabilities.

The Organization is located in Knoxville, Tennessee and is governed by a voluntary Board of Directors. Its primary mission is to provide trained home aides for the senior citizens of Anderson, Blount, Bradley, Campbell, Claiborne, Cocke, Grainger, Hamblen, Jefferson, Knox, Loudon, McMinn, Meigs, Monroe, Morgan, Polk, Roane, Scott, Sevier, and Union Counties in Tennessee.

The Organization formed SCHAS, LLC, a single member Tennessee non-profit limited liability corporation in 2008. SCHAS, LLC manages Renaissance Terrace, which opened in December 2008. Renaissance Terrace is a 48 unit assisted living facility located in Knoxville, Tennessee. The operations of SCHAS, LLC are included in these financial statements.

The Organization formed SCHAS Claiborne, LLC, a single member Tennessee non-profit limited liability corporation in May 2016. SCHAS Claiborne, LLC was established to acquire a 9 unit apartment independent living facility located in Tazewell, Tennessee. The property was acquired on April 25, 2017. The operations of SCHAS Claiborne, LLC are included in these financial statements.

### (2) Summary of significant accounting policies

The financial statements of the Organization are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP"). The significant accounting policies followed are described below.

#### (a) Principles of consolidation

These consolidated financial statements include the accounts of the Organization and its affiliates, SCHAS, LLC and SCHAS Claiborne, LLC (the "Subsidiaries"). All significant intercompany accounts and transactions have been eliminated.

# SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

(b) Basis of presentation

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

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization does not currently have any permanently restricted net assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classifications. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

(c) Receivables and credit policies

Accounts receivable are uncollateralized client obligations due under normal trade terms requiring payment within 30 days from invoice date. Late or interest charges on delinquent accounts are not recorded until collected. The carrying amount of accounts receivable is reduced by a valuation allowance, if necessary, which reflects management's best estimate of the amounts that will not be collected. The allowance is estimated based on management's knowledge of its customers, historical loss experience and existing economic conditions.

(d) Pledges receivable

Unconditional pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the pledge is received. Amortization of the discount is included in contributions. Conditional promises to give are not recorded as support until such time as the conditions are substantially met.

# SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

(e) Property and equipment

Property and equipment are recorded at cost, or in the case of donated property, at the estimated fair value at the date of receipt. Depreciation is provided over the assets' estimated useful lives using the straight-line method, generally three to thirty-nine years.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When equipment is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

(f) Income taxes

The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements. SCHAS, LLC and SCHAS Claiborne, LLC are disregarded as entities for federal income tax purposes.

An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Organization has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

As of June 30, 2017, the Organization has accrued no interest and no penalties related to uncertain tax positions. It is the Organization's policy to recognize interest and/or penalties related to income tax matters in income tax expense. The Organization files a U.S. Federal nonprofit tax return annually. The Organization is subject to routine audits by the Internal Revenue Service, but no audits are ongoing at this time.

(g) Revenue recognition

Client and residency fees are recorded as services are provided. Contributions are recorded as support when received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted grants and contributions whose restrictions are met in the same reporting period as they are received are reported as unrestricted. Revenue from services is recognized when the service is rendered.

# SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

Contributions of property and equipment and other long-lived assets with explicit restrictions that specify how the assets are to be used, including cash contributed to acquire such assets, are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service.

Unpaid volunteers have donated their time to develop and staff certain of the Organization's programs. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under GAAP.

(h) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred, and totaled \$58,810 and \$15,918 for the years ended June 30, 2017 and 2016, respectively.

(i) Long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(j) Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly related to a specific function are charged to that function. Salaries and benefits are allocated based on an analysis of time spent on program services and other activities.

(k) Use of estimates

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

(l) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between June 30, 2017 and November 9, 2017, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

(3) Concentrations

The Organization occasionally maintains cash on deposit at banks in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

Approximately 70% and 72% of the Organization's fee revenue from government agencies for the years ended June 30, 2017 and 2016, respectively, was received through the State of Tennessee TennCare CHOICES in Long-term Care Program (formerly the Medicaid Waiver Program) ("CHOICES"). Accounts receivable from the CHOICES program was 16% and 33% of accounts receivable at June 30, 2017 and 2016, respectively.

(4) Pledges receivable

Pledges receivable were received in a prior year for the construction of Renaissance Terrace and are recorded at the present value of estimated future cash flows using a discount rate of 3.5%. Unconditional pledges receivable at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Currently due	\$ 4,000	\$ 16,665
Less allowance for uncollectible pledges	<u>(3,900)</u>	<u>(13,900)</u>
Net pledges receivable	<u>\$ 100</u>	<u>\$ 2,765</u>

(5) Endowment investments

The Board established an endowment fund to exist in perpetuity to support the programs, clients and residents of the Organization. The Board restricted these funds so that annual distributions to organizational recipients would not exceed 4% of fund assets, determined as of December 31 of the prior year. The endowment fund's investment policy sets a target rate of return at 2% achieved through preferred asset allocations of 50% equities, 45% fixed income and 5% cash and equivalents. A summary of the endowment fund's investments at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Equity mutual funds	\$ 77,386	\$ 53,171
Fixed income mutual funds	<u>30,419</u>	<u>23,130</u>
	<u>\$ 107,805</u>	<u>\$ 76,301</u>

SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

The following schedule summarizes the investment activities in the consolidated statements of activities for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 76,301	\$ 62,716
Contributions	24,303	12,000
Dividend income and realized gains (losses)	(492)	1,377
Unrealized gain on investments, net	8,543	900
Fees paid	<u>(850)</u>	<u>(692)</u>
Ending balance	\$ <u>107,805</u>	\$ <u>76,301</u>

During 2007, the state of Tennessee adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Organization intends to permit the use of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as temporarily restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

(6) Property and equipment

A summary of property and equipment as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 463,505	\$ 463,505
Buildings and improvements	7,794,515	7,540,276
Furniture and equipment	825,723	824,523
Computer equipment	212,556	211,020
Automobiles	43,710	37,035
Office equipment	<u>21,816</u>	<u>21,816</u>
	9,361,825	9,098,175
Accumulated depreciation	<u>(2,607,510)</u>	<u>(2,326,295)</u>
	<u>\$ 6,754,315</u>	<u>\$ 6,771,880</u>

(7) Lines of credit

The Organization has a \$250,000 revolving line of credit with a bank that matures December 28, 2017. The line of credit bears interest at the bank's index rate, not less than 3.75% (4.25% at June 30, 2017). The line of credit is secured by accounts receivable and equipment. The Organization had an outstanding balance of \$177,304 at June 30, 2016 and no balance outstanding under the line at June 30, 2017. This line of credit and the Revenue Bond (Note 8) include a cross default provision.

The Organization has a \$150,000 revolving line of credit with a bank that matures December 28, 2017. The line of credit bears interest at a fixed rate of 2.5%. The line of credit is secured by a \$150,000 certificate of deposit. The Organization had an outstanding balance of \$130,000 and \$37,000 at June 30, 2017 and 2016 under the line, respectively. This line of credit and the Revenue Bond (Note 8) include a cross default provision.

The Organization has a \$133,280 non-revolving line of credit with a bank that matures April 25, 2018. The line of credit bears interest at the bank's index rate (4.00% at June 30, 2017). The line of credit is secured by accounts receivable. The Organization had an outstanding balance of \$85,832 at June 30, 2017.



SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

(8) Long-term debt

The Industrial Development Board of Knox County, Tennessee (the "Issuer") issued a Revenue Bond, Series 2013 (the "Revenue Bond") that is secured by a Bond Purchase Agreement between the Issuer and a bank (the "Purchaser"). The Revenue Bond matures June 15, 2033, but the Purchaser has the option to accelerate the maturity on June 15, 2018, June 15, 2023 and June 15, 2028. While there has been no indication the Purchaser will exercise its option to accelerate the Revenue Bond on June 15, 2018, the debt is presented as current in the statement of financial position as the contingency is beyond the Organization's control. Based on current interest rates for secured borrowings, management of the Organization believes it would be able to refinance at a reasonable interest rate if maturity is accelerated.

Principal and interest payments of \$10,232 are due monthly. Interest accrues at a fixed rate of 2.15% through June 15, 2018, and adjusts to a rate of 70% of the T-Bill Index plus 5.00% at each optional acceleration date. The applicable interest rate adjusts to 4.44% retroactively upon a determination of taxability as defined in the agreement. The Revenue Bond is secured by Renaissance Terrace. The Organization had an outstanding balance of \$1,527,480 and \$1,577,109 at June 30, 2017 and 2016, respectively, under the bond.

The note may be prepaid at any time in whole or in part. Any prepayment will be applied first to accrued interest due and the remainder will be applied to principal in inverse order of maturity.

The provisions of the Revenue Bond and related agreements place certain restrictions and limitations upon the Organization. These include maintenance of a debt service coverage ratio to be calculated annually and limitations on additional borrowings. The Revenue Bond contains a cross default provision with any other debt of the Organization.

SCHAS Claiborne, LLC has a note payable with a bank that matures November 25, 2022. The note bears interest at the bank's index rate (4.00% at June 30, 2017). The note payable is secured by a building. The Organization had an outstanding balance of \$172,185 at June 30, 2017.

A summary of future maturities of long-term debt as of June 30, 2017 is as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 1,550,438
2019	34,437
2020	34,437
2021	34,437
2022 and later years	<u>45,916</u>
	<u>\$ 1,699,665</u>

SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

(9) Board designated assets

During 2014, the Organization's Board of Directors designated \$375,000 of contributions to be set aside for the debt service on the Revenue Bond (Note 8). The Organization made additional debt service payments of \$88,435 and \$86,433 from these funds during the years ended June 30, 2017 and 2016, respectively. The Board designated amounts total \$40,483 at June 30, 2017, and are included in unrestricted net assets on the statement of financial position.

(10) Temporarily restricted net assets

Temporarily restricted net assets as of June 30, 2017 and 2016 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Restricted for the new corporate offices and assisted living facility:		
Cash	\$ 6,235	\$ 90,467
Net pledges receivable	<u>100</u>	<u>2,100</u>
	6,335	92,567
Restricted endowment investments:		
Investments	107,805	76,301
Net pledges receivable	<u>-</u>	<u>665</u>
	<u>107,805</u>	<u>76,966</u>
	<u>\$ 114,140</u>	<u>\$ 169,533</u>

(11) Retirement plan

The Organization has a 401(k) plan covering substantially all employees. The Organization matches employee contributions up to 2% of their compensation, once the employee has completed one year of service with at least 1,000 hours of service. Benefits fully vest after 3 years of service. The Organization made contributions totaling \$37,806 and \$37,788 for the years ended June 30, 2017 and 2016, respectively.

Additionally, the Organization has a simplified employee pension plan that covers all employees who have worked at least 1,040 hours for the year. Contributions to the Plan were made at the rate of 5% of each eligible employee's compensation. Effective April 1, 2009, the Plan was amended to cease employer contributions for any participation after March 31, 2009.

(12) Lease commitments

The Organization leases office facilities in various locations. Rent expense under these leases amounted to \$80,520 and \$81,420 in 2017 and 2016, respectively.

# SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

A portion of the rent expense consists of donated use of facilities. The value of donated use of facilities meeting the requirements for recognition in the financial statements was \$21,420 for each of the years ended June 30, 2017 and 2016, and related primarily to rent and other occupancy expense.

It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the expense for 2017.

### (13) Assets and liabilities measured at fair value

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Organization does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2017.

#### (a) Financial instruments

The carrying amount of financial instruments, consisting of cash, trade accounts receivable, pledges receivable, trade accounts payable, and the current installments of long-term debt approximate their fair value due to their relatively short maturities. Long-term debt is carried at amortized cost, which approximates fair value. Investments are carried at fair value, based on quoted prices in an active market.

#### (b) Non-financial assets

The Organization's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Organization is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at the fair value. During the years ended June 30, 2017 and 2016, there were no triggering events that prompted an asset impairment test of the Organization's non-financial assets. Accordingly, the Organization did not measure any non-recurring, non-financial assets or recognize any amounts in the statements of activities related to changes in fair value for non-financial assets for the year ended June 30, 2017.

SENIOR CITIZENS HOME ASSISTANCE SERVICE, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2017 and 2016

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017 and 2016:

Fair Value Measurements as of  
June 30, 2017 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Endowment investments:				
Equity mutual funds	\$ 77,386	\$ 77,386	\$ -	\$ -
Fixed income mutual funds	<u>30,419</u>	<u>30,419</u>	<u>-</u>	<u>-</u>
Total	\$ <u>107,805</u>	\$ <u>107,805</u>	\$ <u>-</u>	\$ <u>-</u>

Fair Value Measurements as of  
June 30, 2016 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Endowment investments:				
Equity mutual funds	53,171	53,171	-	-
Fixed income mutual funds	<u>23,130</u>	<u>23,130</u>	<u>-</u>	<u>-</u>
Total	\$ <u>76,301</u>	\$ <u>76,301</u>	\$ <u>-</u>	\$ <u>-</u>

Independent Auditors' 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*

The Board of Directors of  
Senior Citizens Home Assistance Service, Inc. and Subsidiaries:

We have audited 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, the statements of financial position, activities, functional expenses and cash flows of Senior Citizens Home Assistance Service, Inc. and Subsidiaries (the "Organization"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated November 9, 2017.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 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.

*LBMC, PC*

Knoxville, Tennessee  
November 9, 2017