

REACHING MAXIMUM INDEPENDENCE, INC.

SAN ANTONIO, TEXAS

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

(WITH COMPARATIVE TOTALS FOR

THE YEAR ENDED JUNE 30, 2019)

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Independent Auditor's Report

Board of Trustees
Reaching Maximum Independence, Inc.
San Antonio, Texas

We have audited the accompanying financial statements of Reaching Maximum Independence, Inc. (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2020 and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended and related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

INDEPENDENT AUDITOR'S REPORT
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reaching Maximum Independence, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the comparative statements of Reaching Maximum Independence, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 25, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Brehm Havel and Company, L.L.P.
Certified Public Accountants

San Antonio, TX
August 25, 2020

REACHING MAXIMUM INDEPENDENCE, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020

(With Comparative Totals for June 30, 2019)

ASSETS		
	2020	2019
Cash	\$ 1,338,522	\$ 785,114
Accounts receivable (no allowance)	475,904	396,499
Prepays	10,440	13,470
Endowment funds	320,260	309,816
Note receivable	72,823	74,608
Officers' cash surrender value	4,355	4,777
Client funds	179,974	80,613
Property and equipment (net of accumulated depreciation of \$1,805,125 - 2020 and \$1,670,591 - 2019)	1,565,268	1,658,046
ICF License	100,000	60,000
Total assets	\$ 4,067,546	\$ 3,382,943
LIABILITIES AND NET ASSETS		
Liabilities:		
Credit card loans payable	\$ 46,817	\$ 42,940
Accounts payable	60,980	71,580
Accrued liabilities:		
Payroll taxes and withholding	57,543	28,255
Salaries	17,434	117,396
Compensated absences	88,781	80,041
Client funds held in trust	181,053	80,079
Prepaid rent and deferred revenue	3,455	3,455
Property tax and interest	3,216	2,218
Note payable - PPP loan	597,300	-
Notes payable	744,589	767,349
Total liabilities	1,801,168	1,193,313
Net assets:		
Without donor restrictions		
Undesignated	1,892,729	1,815,981
Board designated - replacement reserves	230,345	230,345
With donor restrictions	143,304	143,304
	2,266,378	2,189,630
	\$ 4,067,546	\$ 3,382,943

See accompanying notes and independent auditor's report

REACHING MAXIMUM INDEPENDENCE, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019
Revenue, gains and other support:				
Fees, subsidies and reimbursement	\$ 4,661,896	\$	\$ 4,661,896	\$ 4,075,994
Program service fees	193,711		193,711	237,335
Fundraising				
Other, interest and investment appreciation (depreciation)	256,641	10,444	267,085	416,765
Contributions, grants and other:				
Other donations and revenue	373,765		373,765	346,032
Net assets released from restrictions	10,444	(10,444)	-	-
Total revenues, gains and other support	<u>5,496,457</u>	<u>-</u>	<u>5,496,457</u>	<u>5,076,126</u>
Operating expenses:				
Program	5,019,985	-	5,019,985	4,665,849
Fundraising	59,983		59,983	23,800
Supporting services	339,741		339,741	313,598
Total operating expenses	<u>5,419,709</u>	<u>-</u>	<u>5,419,709</u>	<u>5,003,247</u>
Change in net assets for year ending June 30,	76,748	-	76,748	72,879
Net assets at beginning of year	<u>2,046,326</u>	<u>143,304</u>	<u>2,189,630</u>	<u>2,116,751</u>
Net assets at end of year	<u>\$ 2,123,074</u>	<u>\$ 143,304</u>	<u>\$ 2,266,378</u>	<u>\$ 2,189,630</u>

See accompanying notes and independent auditor's report

REACHING MAXIMUM INDEPENDENCE, INC.

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	Without Donor Restrictions		With Donor Restrictions	Total 2020	Total 2019
	Undesignated	Designated for Replacement Reserves			
Balances, July 1	\$ 1,815,981	\$ 230,345	\$ 143,304	\$ 2,189,630	\$ 2,116,751
Net change in net assets	76,748	-	-	76,748	72,879
Balances, June 30	<u>\$ 1,892,729</u>	<u>\$ 230,345</u>	<u>\$ 143,304</u>	<u>\$ 2,266,378</u>	<u>\$ 2,189,630</u>

See accompanying notes and independent auditor's report

REACHING MAXIMUM INDEPENDENCE, INC.

STATEMENTS OF CASH FLOWS

For The Year Ended June 30, 2020

(With Comparative Totals for The Year Ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 76,748	\$ 72,879
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation expense	195,918	172,365
Loss (gain) on sale of assets	(2,246)	3,576
Increase (Decrease) in:		
Accounts receivable	(79,405)	(13,371)
Prepays	3,030	(4,619)
(Increase) Decrease in:		
Accounts payable and credit cards payable	(6,723)	(3,595)
Deferred revenue	-	(22,053)
Accrued liabilities	40,038	(13,040)
Net cash provided (used) by operating activities	<u>227,360</u>	<u>192,142</u>
Cash flows from investing activities:		
Purchase of land and fixed assets (net of loans)	(80,961)	(327,044)
Change in client funds	(99,361)	18,081
Payment on note receivable	1,785	1,699
Change in endowment	(10,444)	(5,318)
Proceeds from sale of assets	4,395	64,729
Transfer of funds	-	(64,729)
Decrease (increase) in cash surrender value	422	(1,113)
Purchase of ICF license	(40,000)	(20,000)
Net cash provided (used) by investing activities	<u>(224,164)</u>	<u>(333,695)</u>
Cash flows from financing activities:		
New borrowings:		
PPP loan	597,300	-
Debt-reduction:		
Notes payable and long-term debt	(47,088)	(33,597)
Net cash provided (used) by financing activities	<u>550,212</u>	<u>(33,597)</u>
Net increase (decrease) in cash	553,408	(175,150)
Cash at beginning of year	<u>785,114</u>	<u>960,264</u>
Cash at end of year	<u>\$ 1,338,522</u>	<u>\$ 785,114</u>
Schedule of noncash investing and financing transactions:		
Cost of assets	\$ 24,328	\$ 522,265
Loan	24,328	360,000
Cash downpayment	<u>\$ -</u>	<u>\$ 162,265</u>
Schedule of supplemental information:		
Cash paid during the year for:		
Interest	\$ 46,262	\$ 37,484
Income taxes	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes and independent auditor's report

REACHING MAXIMUM INDEPENDENCE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For The Year Ended June 30, 2020
(With Comparative Totals for The Year Ended June 30, 2019)

	Program	Fundraising	Supporting Services	Total	
				2020	2019
Accounting, audit and consultants	\$ 12,653	\$ -	\$ 1,194	\$ 13,847	\$ 10,274
Automobile and transportation expenses	89,354	-	10,960	100,314	95,334
Bad debt expense	4,897	-	-	4,897	-
Cable television service	13,220	-	-	13,220	10,811
Client payroll and vocational rehab.	97,519	-	1,857	99,376	132,155
Contract and consulting services	837,425	-	3,935	841,360	826,117
Electricity and gas	39,818	-	863	40,681	35,151
Employee benefits	93,898	-	7,669	101,567	82,336
Food and household	174,095	-	1,883	175,978	159,152
Fundraising and grant expenses	-	9,983	-	9,983	23,800
Garbage collection	3,103	-	399	3,502	4,108
Inspections and permits	130,116	-	-	130,116	117,035
Insurance	73,070	-	3,214	76,284	73,641
Interest and finance charges	44,645	-	1,617	46,262	37,484
Office expenses	24,123	-	3,825	27,948	23,523
Personnel retention	12,956	-	991	13,947	19,252
Postage and shipping	5,010	-	312	5,322	3,476
Printing and publications	24,011	-	1,391	25,402	23,745
Property tax expense	373	-	-	373	339
Recreation	22,252	-	408	22,660	20,026
Rent expense - program houses	70,959	-	-	70,959	67,723
Repairs and maintenance	25,867	-	1,731	27,598	26,166
Residents' specific costs	2,148	-	-	2,148	6,942
Salaries and payroll taxes	2,943,314	50,000	217,217	3,210,531	2,876,250
Supplies	101,529	-	2,472	104,001	108,120
Telephone	37,468	-	1,333	38,801	35,036
Water and sewer service	16,643	-	71	16,714	12,886
Total expenses before depreciation	4,900,466	59,983	263,342	5,223,791	4,830,882
Depreciation	119,519		76,399	195,918	172,365
	<u>\$ 5,019,985</u>	<u>\$ 59,983</u>	<u>\$ 339,741</u>	<u>\$ 5,419,709</u>	<u>\$ 5,003,247</u>

See accompanying notes and independent auditor's report

REACHING MAXIMUM INDEPENDENCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 – Summary of Significant Accounting Policies

Nature of Organization – Reaching Maximum Independence, Inc. (RMI) promotes independent living alternatives for persons with mental retardation and other related disabilities through the development and management of residential alternatives in the San Antonio, Texas area. Originally incorporated in the state of Texas as a non-profit organization in 1978, RMI did not receive notification of public charity status under Internal Revenue Code Section 501(c)(3) until November 1, 1990, effective for the year ending June 30, 1991.

Income Taxes – Starting with the year ended June 30, 1991, RMI is exempt from federal income taxes (except on unrelated business income) under Section 501(c)(3) of the Internal Revenue Code and operates as a publicly supported organization under Section 509(a)(2). It is also exempt from Texas franchise tax under the Texas Non-Profit Corporation Act. RMI, generally, is no longer subject to income tax examinations by federal authorities for years prior to June 30, 2016.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Comparative Presentation – The financial statements include certain prior-year summarized comparative information in total but not by net asset or liability class or activities and net assets. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Property and Equipment – Acquired property and equipment are carried at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Depreciation is computed using the straight-line and double declining methods over the estimated useful life of the assets. Asset lives are from three to thirty-two years. RMI follows the practice of capitalizing at cost all expenditures for fixed assets more than \$2,000. The net fixed asset balance has been recorded as a separate component in net assets without donor restriction.

Donated Services – Donated services have not been reflected in the accompanying financial statements since no objective basis is available to measure the value of such services.

Functional Expenses – Expenses are charged to the organization's program based on direct expenditures incurred. Any expenditure not completely chargeable to the program is allocated between program and supporting services classifications based on estimates made by the organization's management.

Advertising – Advertising costs, except for costs associated with direct-response advertising are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. There were no advertising costs incurred during the year ended June 30, 2020.

REACHING MAXIMUM INDEPENDENCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 – Summary of Significant Accounting Policies – (continued)

Cash Equivalents and FDIC Limits – Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase. Cash deposits in two of the bank accounts, exceeded the FDIC insured limit of \$250,000 for parts of the fiscal year ended June 30, 2020.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments – The carrying amount of RMI’s cash and cash equivalents, receivables, prepaids, other assets, accounts payable, accrued expense, and Officers’ Cash Surrender Value (CSV) approximates fair value primarily because of the short maturity of these instruments. The Officers’ CSV is a life insurance policy on the Director of Operations at net surrender value as of June 15, 2020.

Basis of Presentation – RMI follows the reporting requirements of GAAP, which required that resource be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restriction. **Without Donor Restrictions** - includes normal operations of RMI and includes gifts/donations received without restrictions (including those designated by the Board of Trustees) whose donor-imposed restrictions (if any) were met during the fiscal year, as well as previously restricted gifts and grants for building and equipment that have been placed in service. **With Donor Restrictions** – includes net assets subject to donor-imposed restrictions that will be met either by actions of RMI or the passage of time, and those net assets that are permanently maintained by RMI.

With Donor Restrictions Net Assets – Prior to the current year, donors contributed \$143,304 (Note 7) to be used to supplement, enhance and/or support the creation of new programs by RMI or the operations of the new program for a period not to exceed one year. The intent for the initial contribution, was that the net earnings from the investments were to be used for the purpose indicated above.

Note 2 – Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The standard proscribes a single model for revenue recognition, with a set of principles to be used for determining when revenue should be recognized. It also requires expanded disclosures about the nature, amount, and timing of revenue and cash flows. This standard became effective on January 1, 2019. The adoption of this new guidance will not have a material impact on RMI’s financial statements.

REACHING MAXIMUM INDEPENDENCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 3 – Accounts Receivable and Credit Risk Concentration

Accounts receivable are due primarily from the Texas Department of Human Services, a state agency that receives federal funding, relevant to the revenue described in Note 6. There is no allowance for bad debt.

In May 2012, RMI sold one of their houses and took an \$85,000 note receivable with interest at 5.0% and monthly payments of \$456 through May 2042 as partial payment on the sale. The note is collateralized by the property sold. The balance was \$72,823 as of June 30, 2020. Other details of the sale have been omitted.

Note 4 – Operating Leases

RMI leases seven copiers on month to month lease plans with monthly payments of \$1,430. Total lease and other related costs for these leases for the fiscal year ended June 30, 2020 was \$20,293. Future minimum rental payments under these leases are \$15,540 for the fiscal years June 30, 2021 through June 30, 2022, and \$3,885 for the fiscal years ending June 30, 2023.

Note 5 – Fees, Subsidies and Reimbursements from Governmental Agencies

Residents living in the RMI houses qualify for rent subsidies and program fees from various state and federal government agencies. Program revenue from these agencies totaled \$4,661,896 during the year ended June 30, 2020, as follows:

Medicaid	<u>\$4,661,896</u>
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Note 6 – Sale and Leaseback of Residential Properties

During February 2008 RMI sold two of their residential properties to Foundation for the Challenged with the understanding that RMI would lease them back for a period of five years (initial term) with two five year renewal terms. Total monthly rent for these two properties was \$2,875. Total payment during the year ended June 30, 2020 totaled \$34,571

REACHING MAXIMUM INDEPENDENCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 7 – Long -Term Debt

Long-term debt consists of the following at June 30, 2020:

Six notes payable to a local bank, secured by six residential real properties, payable \$6,464 monthly including interest at 5.24% on four of the notes, and 6.079% and 6.329% on the other two, with maturities through December, 2031 on three of the notes, and maturities on February 2032, July 2033, and January 2034 on the other three notes.

\$ 727,971

A capital lease with Dell Financial Services related to the purchase of office equipment, payable \$729 monthly including interest at 4.993%, maturing in June 2022.

16,618

744,589

Less amount due in one year

(50,218)

Long-term portion

\$ 694,371

Future principal maturities of long-term debt is as follows:

Year Ending June 30,

2021	\$ 50,218
2022	53,061
2023	47,116
2024	49,836
2025	52,714
Thereafter	<u>491,644</u>
	<u><u>\$ 744,589</u></u>

Interest expense on these and other notes for the year ended June 30, 2020 (including those paid off during the year) was \$44,022. (Subsequent to year end, RMI refinanced the six notes payable with the local bank, resulting in a saving of approximately \$7,000 in interest expense as compared to the fiscal year ended June 30, 2020 – a reduction of almost 16% from the prior year.)

REACHING MAXIMUM INDEPENDENCE, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020

Note 8 – With Donor Restrictions

During the year ended June 30, 2006, RMI recognized an endowment held and managed by the San Antonio Area Foundation (The Foundation). The fair value of this endowment was \$320,260 at June 30, 2020 and has been provided to us by the Foundation with no specifics of individual investments. According to the restrictions of the contributor, distributions are only to be made to supplement, enhance and/or support the creation of new programs by RMI or the operations of the new program for a period not to exceed one year. According to records supplied by The Foundation, actual donor contributions were \$143,304 (with donor restrictions), earnings, additional contributions (\$64,729 in 2019), and appreciation through June 30, 2020 totaled \$176,956. Total earnings/loss and appreciation for the year ended June 30, 2020 was a net increase of \$10,444. All investments, distributions, and other management decisions are performed by The Foundation. (Investment and management fees of \$1,526 for the fiscal year ended June 30, 2020 have been netted against the earnings/loss and appreciation noted above.) (Since RMI has opened several homes in the current and prior years, all restrictions have been satisfied.)

Fair value of the endowment was provided by San Antonio Area Foundation and is categorized as a Level 1 input.

Following is the fair value hierarchy of the investment as of June 30, 2020:

	Level 1	Level 2	Total
Investments measured at net asset value – Endowment Funds	<u>\$ 320,260</u>	<u>\$ -</u>	<u>\$ 320,260</u>

Note 9 – Deferred Compensation Plan

RMI sponsors the Reaching Maximum Independence 401(K) Plan (Plan) for its full-time employees. All employees employed for at least ninety days are eligible to participate. Each employee can contribute up to the IRS designated maximum dollar amount for this type of plan. RMI’s contribution is discretionary. RMI’s contribution into the plan was \$34,021 for the period ended June 30, 2020. These amounts are included in the accompanying Statement of Functional Expenses under “Employee benefits”. (Other details of the Plan have been omitted.)

Note 10 – Payroll Protection Program Loan (PPP)

During 2020, RMI applied for and received funding from the Federal PPP loan program of \$597,300 which is included in the Statement of Financial Position as “Note Payable -PPP loan”, to reimburse them for payroll and other expenses during the Covid 19 Pandemic. The loan may be forgiven if RMI properly incurs and reports the expenses as required by the federal government. Interest of 1% has been accrued on the note for the period ending June 30, 2020. (Other data related to this loan has been omitted.)

REACHING MAXIMUM INDEPENDENCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 – Liquidity and Availability

As of June 30, 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expense and capital construction costs not financed with debt, were as follows:

Cash and cash equivalents	\$ 1,338,522
Accounts receivable - net	<u>475,904</u>
Total	<u>\$ 1,814,426</u>

RMI entered an unsecured revolving line of credit on April 10, 2020 with a local bank, which bears interest at prime plus 1.25%. The line of credit matures on April 9, 2021. As of June 30, 2020, RMI has not borrowed any funds on the line of credit. (RMI believes current operations should be adequate to satisfy most obligations.) RMI's cash flows have seasonal variations since there are a few fundraising events and timing of collections from state agencies.

Note 12 – Impairment of Long-Lived Assets

RMI reviews its real and personal property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the year ended June 30, 2020.

Note 13 – Functional Classification of Expenses

RMI reports certain categories of expense that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and insurance, which are allocated on a square-footage basis, as well as salaries, wages, and employee benefits, which are allocated based on estimates of time and effort.

Note 14 – FASB ASC 606 New Accounting Guidance Implementation

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The standard proscribes a single model for revenue recognition, with a set of principles to be used for determining when revenue should be recognized. It also requires expanded disclosures about the nature, amount, and timing of revenue and cash flows. This standard became effective on January 1, 2019. The adoption of this new guidance will not have a material impact on RMI's financial statements.

Note 15 – Subsequent Events

The Organization has evaluated subsequent events through August 25, 2020, the date the financial statements were available to be issued.