

Consolidated Financial Statements

**TURNSTONE CENTER FOR CHILDREN
AND ADULTS WITH DISABILITIES, INC. AND AFFILIATES**

*Years ended June 30, 2018 and 2017
with Independent Auditor's Report*

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Consolidated Financial Statements

Years ended June 30, 2018 and 2017

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Independent Auditor's Report

The Board of Directors
Turnstone Center for Children and Adults with Disabilities, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Turnstone Center for Children and Adults with Disabilities, Inc. and affiliates, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, program and supporting services expenses, and cash flows for the years then ended, and the related notes to the 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. Those standards require that we plan and perform the audits 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 financial position of Turnstone Center for Children and Adults with Disabilities, Inc. and affiliates as of June 30, 2018 and 2017, 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.

Haines, Asenbarger & Skiba, LLC

Fort Wayne, Indiana
September 18, 2018

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Consolidated Statements of Financial Position

	June 30	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,265,645	\$ 992,019
Accounts receivable	160,932	220,901
Current portion of pledges receivable	999,991	1,428,993
Accrued interest and dividends receivable	5,533	3,997
Prepaid expenses and other current assets	111,273	94,541
Total current assets	<u>2,543,374</u>	<u>2,740,451</u>
Investments	2,850,680	2,773,134
Land and land improvements, building, and equipment:		
Land and land improvements	988,076	988,076
Building	19,293,194	19,297,320
Equipment	1,922,618	1,904,996
Construction in progress	6,075	-
	<u>22,209,963</u>	<u>22,190,392</u>
Less accumulated depreciation	5,866,155	5,015,990
Total land, building, and equipment	<u>16,343,808</u>	<u>17,174,402</u>
Other assets:		
Pledges receivable, less current portion	356,227	875,610
Note receivable	7,118,000	7,118,000
Beneficial interest in perpetual trust	507,146	488,510
Beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	214,427	203,819
Total other assets	<u>8,195,800</u>	<u>8,685,939</u>
Total assets	<u><u>\$29,933,662</u></u>	<u><u>\$31,373,926</u></u>

	June 30	
	2018	2017
Liabilities, net assets, and noncontrolling interest		
Current liabilities:		
Accounts payable	\$ 45,338	\$ 151,686
Accrued expenses	325,366	272,050
Deferred income	65,248	87,745
Total current liabilities	<u>435,952</u>	511,481
Long-term debt	<u>11,019,174</u>	11,772,617
Total liabilities	<u>11,455,126</u>	12,284,098
Turnstone net assets:		
Unrestricted	14,624,457	15,023,146
Temporarily restricted	1,185,205	1,426,414
Permanently restricted	2,669,401	2,640,157
Total Turnstone net assets	<u>18,479,063</u>	19,089,717
Noncontrolling interest	(527)	111
Total net assets and noncontrolling interest	<u>18,478,536</u>	19,089,828
Total liabilities, net assets, and noncontrolling interest	<u><u>\$29,933,662</u></u>	<u><u>\$31,373,926</u></u>

See accompanying notes.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Consolidated Statements of Activities and Changes in Net Assets

	Year ended June 30									
	2018					2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Noncontrolling Interest	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Noncontrolling Interest	Total
Support, revenues, and gains										
United Way	\$ 26,667	\$ 173,990	\$ -	\$ -	\$ 200,657	\$ 29,985	\$ 173,990	\$ -	\$ -	\$ 203,975
Contributions	1,220,311	1,113,345	-	-	2,333,656	1,042,623	1,169,187	-	-	2,211,810
Bequests	74,412	-	-	-	74,412	18,602	-	-	-	18,602
Contributed goods and services	116,718	-	-	-	116,718	165,780	-	-	-	165,780
Program service fees	1,414,929	-	-	-	1,414,929	1,308,900	-	-	-	1,308,900
Sponsorships	301,540	-	-	-	301,540	85,023	-	-	-	85,023
Concessions and merchandise income, net	16,260	-	-	-	16,260	4,826	-	-	-	4,826
Rental income	132,016	-	-	-	132,016	109,229	-	-	-	109,229
Special events, net	164,894	190,858	-	-	355,752	504,209	-	-	-	504,209
Interest and dividends, net	59,824	-	-	-	59,824	58,155	-	-	-	58,155
Interest on note receivable	72,097	-	-	-	72,097	71,793	-	-	-	71,793
Miscellaneous income	9,501	-	-	-	9,501	10,937	-	-	-	10,937
Realized and unrealized gain on investments	155,468	-	-	-	155,468	219,633	-	-	-	219,633
Gain on beneficial interest in perpetual trust	-	29,420	18,636	-	48,056	-	28,162	21,633	-	49,795
Gain (loss) on beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	-	9,980	10,608	-	20,588	-	34,171	(14,705)	-	19,466
	3,764,637	1,517,593	29,244	-	5,311,474	3,629,695	1,405,510	6,928	-	5,042,133
Net assets released from restrictions for operations	1,758,802	(1,758,802)	-	-	-	1,657,040	(1,657,040)	-	-	-
Total support, revenues, and gains	5,523,439	(241,209)	29,244	-	5,311,474	5,286,735	(251,530)	6,928	-	5,042,133
Expenses										
Program services	4,812,916	-	-	-	4,812,916	4,938,516	-	-	-	4,938,516
Supporting services:										
Management and general	404,204	-	-	-	404,204	541,482	-	-	-	541,482
Promotion/publicity	294,158	-	-	-	294,158	173,907	-	-	-	173,907
Fundraising	411,488	-	-	-	411,488	389,969	-	-	-	389,969
Total supporting services	1,109,850	-	-	-	1,109,850	1,105,358	-	-	-	1,105,358
Total expenses	5,922,766	-	-	-	5,922,766	6,043,874	-	-	-	6,043,874
Increase (decrease) in net assets	(399,327)	(241,209)	29,244	-	(611,292)	(757,139)	(251,530)	6,928	-	(1,001,741)
Excess (deficiency) of revenue over expenses attributable to noncontrolling interest	638	-	-	(638)	-	(1,072)	-	-	1,072	-
Net assets and noncontrolling interest at beginning of year	15,023,146	1,426,414	2,640,157	111	19,089,828	15,781,357	1,677,944	2,633,229	(961)	20,091,569
Net assets and noncontrolling interest at end of year	\$ 14,624,457	\$ 1,185,205	\$ 2,669,401	\$ (527)	\$ 18,478,536	\$ 15,023,146	\$ 1,426,414	\$ 2,640,157	\$ 111	\$ 19,089,828

See accompanying notes.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Consolidated Statements of Functional Expenses

	Year ended June 30					
	2018			2017		
	Program Services	Supporting Services	Total Expenses	Program Services	Supporting Services	Total Expenses
Salaries and related expenses						
Salaries and other human resources	\$ 2,546,475	\$ 584,244	\$ 3,130,719	\$ 2,621,927	\$ 490,298	\$ 3,112,225
Payroll taxes	184,351	43,262	227,613	192,410	35,543	227,953
Employment benefits	272,515	56,161	328,676	263,445	45,687	309,132
Total salaries and related expenses	3,003,341	683,667	3,687,008	3,077,782	571,528	3,649,310
Other expenses						
Conference/travel	13,042	8,684	21,726	9,288	5,386	14,674
Equipment assistance	39,317	-	39,317	37,199	-	37,199
Fundraising	-	56,094	56,094	39	80,872	80,911
Interest	153,510	47,504	201,014	170,323	55,967	226,290
Liability insurance	58,512	12,883	71,395	56,599	9,706	66,305
Local travel	9,205	7,520	16,725	24,710	4,826	29,536
Maintenance	46,585	10,140	56,725	49,581	14,591	64,172
Miscellaneous expense	7,096	68,338	75,434	15,483	69,149	84,632
Office supplies	14,693	4,909	19,602	14,276	3,179	17,455
Postage	3,435	5,091	8,526	2,815	3,591	6,406
Professional fees	60,375	64,433	124,808	60,137	121,677	181,814
Program supplies	204,998	864	205,862	200,803	2,325	203,128
Promotion and publicity	-	51,986	51,986	4,125	64,354	68,479
Publications/dues	7,777	5,515	13,292	6,057	5,136	11,193
Repair/replacement	64,128	6,422	70,550	95,383	8,484	103,867
Telephone	8,965	2,598	11,563	10,781	1,941	12,722
Transportation	109,593	-	109,593	91,847	-	91,847
Utilities	195,534	17,769	213,303	180,415	26,328	206,743
Total other expenses	996,765	370,750	1,367,515	1,029,861	477,512	1,507,373
Total expenses before depreciation	4,000,106	1,054,417	5,054,523	4,107,643	1,049,040	5,156,683
Depreciation	812,810	55,433	868,243	830,873	56,318	887,191
Total expenses	\$ 4,812,916	\$ 1,109,850	\$ 5,922,766	\$ 4,938,516	\$ 1,105,358	\$ 6,043,874

See accompanying notes.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Consolidated Statement of Program and Supporting Services Expenses

Year ended June 30, 2018

	Program Services							Supporting Services				Total Expenses
	Day Program—Children	Day Program—Adults	Sports and Recreation	Rehab Services	Health and Wellness	Other	Total	Management and General	Promotion/Publicity	Fundraising	Total	
Salaries and related expenses												
Salaries and other human resources	\$ 356,865	\$ 301,071	\$ 259,038	\$ 910,671	\$ 347,426	\$ 371,404	\$ 2,546,475	\$ 149,839	\$ 171,017	\$ 263,388	\$ 584,244	\$ 3,130,719
Payroll taxes	26,041	21,877	18,936	65,510	25,379	26,608	184,351	11,570	12,271	19,421	43,262	227,613
Employment benefits	51,627	22,505	21,385	98,516	36,535	41,947	272,515	9,420	24,826	21,915	56,161	328,676
Total salaries and related expenses	434,533	345,453	299,359	1,074,697	409,340	439,959	3,003,341	170,829	208,114	304,724	683,667	3,687,008
Other expenses												
Conference/travel	1,763	1,206	339	7,482	1,476	776	13,042	6,077	543	2,064	8,684	21,726
Equipment assistance	-	-	-	-	-	39,317	39,317	-	-	-	-	39,317
Fundraising	-	-	-	-	-	-	-	-	-	56,094	56,094	56,094
Interest	-	-	128,745	2,550	22,215	-	153,510	44,695	219	2,590	47,504	201,014
Liability insurance	8,218	6,590	6,256	22,363	8,715	6,370	58,512	4,734	3,500	4,649	12,883	71,395
Local travel	1,056	-	6,649	-	1,500	-	9,205	5,894	66	1,560	7,520	16,725
Maintenance	7,801	4,849	6,254	13,746	5,253	8,682	46,585	1,895	3,216	5,029	10,140	56,725
Miscellaneous expense	217	172	285	934	2,554	2,934	7,096	67,693	201	444	68,338	75,434
Office supplies	1,487	941	1,166	4,447	1,291	5,361	14,693	2,826	805	1,278	4,909	19,602
Postage	344	147	346	1,186	891	521	3,435	1,068	1,364	2,659	5,091	8,526
Professional fees	6,663	5,423	7,599	21,017	8,637	11,036	60,375	37,147	15,134	12,152	64,433	124,808
Program supplies	25,577	32,803	127,862	10,221	6,961	1,574	204,998	663	166	35	864	205,862
Promotion and publicity	-	-	-	-	-	-	-	163	50,989	834	51,986	51,986
Publications/dues	218	713	5,360	457	938	91	7,777	4,463	981	71	5,515	13,292
Repair/replacement	2,898	978	16,501	6,020	9,664	28,067	64,128	4,989	860	573	6,422	70,550
Telephone	1,127	878	1,089	3,174	1,204	1,493	8,965	668	753	1,177	2,598	11,563
Transportation	-	-	2,400	-	-	107,193	109,593	-	-	-	-	109,593
Utilities	6,042	6,649	62,914	29,588	19,390	70,951	195,534	15,268	1,033	1,468	17,769	213,303
Total other expenses	63,411	61,349	373,765	123,185	90,689	284,366	996,765	198,243	79,830	92,677	370,750	1,367,515
Total expenses before depreciation	497,944	406,802	673,124	1,197,882	500,029	724,325	4,000,106	369,072	287,944	397,401	1,054,417	5,054,523
Depreciation	40,866	33,164	401,402	89,934	126,270	121,174	812,810	35,132	6,214	14,087	55,433	868,243
Total expenses	\$ 538,810	\$ 439,966	\$ 1,074,526	\$ 1,287,816	\$ 626,299	\$ 845,499	\$ 4,812,916	\$ 404,204	\$ 294,158	\$ 411,488	\$ 1,109,850	\$ 5,922,766

See accompanying notes.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Consolidated Statement of Program and Supporting Services Expenses

Year ended June 30, 2017

	Program Services							Supporting Services				Total Expenses
	Day Program—Children	Day Program—Adults	Sports and Recreation	Rehab Therapy	Health and Wellness	Other	Total	Management and General	Promotion/Publicity	Fundraising	Total	
Salaries and related expenses												
Salaries and other human resources	\$ 352,698	\$ 293,701	\$ 266,167	\$ 930,536	\$ 398,325	\$ 380,500	\$ 2,621,927	\$ 186,802	\$ 80,139	\$ 223,357	\$ 490,298	\$ 3,112,225
Payroll taxes	26,117	21,717	19,330	68,272	28,831	28,143	192,410	13,590	5,798	16,155	35,543	227,953
Employment benefits	46,219	23,701	21,429	97,287	30,304	44,505	263,445	19,213	14,109	12,365	45,687	309,132
Total salaries and related expenses	425,034	339,119	306,926	1,096,095	457,460	453,148	3,077,782	219,605	100,046	251,877	571,528	3,649,310
Other expenses												
Conference/travel	670	642	1,980	4,073	1,241	682	9,288	4,416	201	769	5,386	14,674
Equipment assistance	-	-	-	-	-	37,199	37,199	-	-	-	-	37,199
Fundraising	5	4	4	10	6	10	39	3	1	80,868	80,872	80,911
Interest	-	-	142,845	2,830	24,648	-	170,323	52,850	243	2,874	55,967	226,290
Liability insurance	7,404	5,873	5,083	19,026	8,384	10,829	56,599	5,995	1,148	2,563	9,706	66,305
Local travel	761	234	23,674	-	41	-	24,710	4,741	-	85	4,826	29,536
Maintenance	6,401	4,699	3,961	13,577	7,306	13,637	49,581	9,662	1,630	3,299	14,591	64,172
Miscellaneous expense	4,461	171	10	4,630	230	5,981	15,483	68,412	55	682	69,149	84,632
Office supplies	2,001	1,289	1,198	4,076	1,990	3,722	14,276	1,811	410	958	3,179	17,455
Postage	372	144	309	961	623	406	2,815	1,401	31	2,159	3,591	6,406
Professional fees	6,096	4,494	3,832	23,552	8,773	13,390	60,137	97,567	7,379	16,731	121,677	181,814
Program supplies	30,366	23,261	128,061	10,371	6,637	2,107	200,803	1,734	185	406	2,325	203,128
Promotion and publicity	118	571	1,986	482	765	203	4,125	697	55,146	8,511	64,354	68,479
Publications/dues	221	677	3,959	543	445	212	6,057	4,170	805	161	5,136	11,193
Repair/replacement	4,951	6,131	17,127	12,117	10,468	44,589	95,383	5,341	1,035	2,108	8,484	103,867
Telephone	1,351	1,029	877	2,974	1,601	2,949	10,781	890	328	723	1,941	12,722
Transportation	-	-	5,926	4	4	85,913	91,847	-	-	-	-	91,847
Utilities	6,081	8,819	95,997	18,233	18,268	33,017	180,415	23,691	773	1,864	26,328	206,743
Total other expenses	71,259	58,038	436,829	117,459	91,430	254,846	1,029,861	283,381	69,370	124,761	477,512	1,507,373
Total expenses before depreciation	496,293	397,157	743,755	1,213,554	548,890	707,994	4,107,643	502,986	169,416	376,638	1,049,040	5,156,683
Depreciation	42,286	35,074	400,108	103,305	126,546	123,554	830,873	38,496	4,491	13,331	56,318	887,191
Total expenses	\$ 538,579	\$ 432,231	\$ 1,143,863	\$ 1,316,859	\$ 675,436	\$ 831,548	\$ 4,938,516	\$ 541,482	\$ 173,907	\$ 389,969	\$ 1,105,358	\$ 6,043,874

See accompanying notes.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Year ended June 30	
	2018	2017
Operating activities		
Decrease in net assets	\$ (611,292)	\$(1,001,741)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	868,243	887,191
Realized and unrealized gain on investments	(155,468)	(219,633)
Amortization of deferred financing costs	55,558	55,558
Loss on disposal of land, building, and equipment	-	1,650
Change in value of beneficial interest in perpetual trust	(18,636)	(21,633)
Change in value of beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	(10,608)	14,705
Changes in operating assets and liabilities:		
Accounts receivable	59,969	108,840
Pledges receivable	948,385	1,158,418
Accrued interest and dividends receivable	(1,536)	973
Prepaid expenses and other current assets	(16,732)	52,859
Accounts payable	(106,348)	(45,247)
Accrued expenses	53,316	59,375
Deferred income	(22,497)	(34,115)
Net cash provided by operating activities	<u>1,042,354</u>	<u>1,017,200</u>
Investing activities		
Additions to land and land improvements, building, and equipment	(37,649)	(298,471)
Purchase of investments	(901,418)	(1,318,329)
Proceeds from sale of investments	979,340	1,591,942
Net cash provided by (used in) investing activities	<u>40,273</u>	<u>(24,858)</u>
Financing activities		
Borrowings pursuant to line of credit arrangement	200,000	350,000
Payments on line of credit arrangement	(1,009,001)	(1,460,850)
Net cash used in financing activities	<u>(809,001)</u>	<u>(1,110,850)</u>
Increase (decrease) in cash and cash equivalents	273,626	(118,508)
Cash and cash equivalents at beginning of year	992,019	1,110,527
Cash and cash equivalents at end of year	<u>\$ 1,265,645</u>	<u>\$ 992,019</u>

See accompanying notes.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018

1. Organization

Since 1943, Turnstone Center for Children and Adults with Disabilities, Inc. (Turnstone) has continually evolved and expanded to respond to the needs and desires of people with disabilities and their families throughout northeast Indiana. Turnstone's mission is:

Turnstone empowers people with disabilities to achieve their highest potential by providing comprehensive services and programs.

Turnstone is the only not-for-profit organization in the region that provides comprehensive services and programs including physical, occupational and speech therapy, inclusive child care, adult day care service, memory care program, wellness, adaptive sports, recreation, and facilities to persons with disabilities and their families.

This past year, ending June 30, 2018, Turnstone touched over 3,630 lives. Turnstone provided 45,864 hours of childcare, 31,234 hours of adult day care and memory care, 13,530 hours of physical, occupational, and speech therapies. Turnstone loaned 323 pieces of equipment, such as walkers, and wheelchairs at no charge. In addition, Turnstone hosted ten adaptive sports tournaments with a total of 3,533 individuals in attendance, which includes 1,411 athletes and coaches.

Of the individuals who benefit from Turnstone's programs and services, the majority received services at a reduced rate. Turnstone is the only organizations in northeast Indiana that provides therapeutic services on a sliding fee scale to persons with physical disabilities. Turnstone creates possibilities.

Turnstone's "Big Dream Project" (Project) expanded the sports, recreation, and wellness programming for people with disabilities by adding more than 125,000 square feet to its facility. The Plassman Athletic Center houses 4 collegiate-sized wood floor basketball courts with scoreboards and a 230 meter six lane track with long jump and pole vault pit, area for shot put and high jump equipment. The Plassman Athletic Center also has fieldhouse spectator capacity for 1,700 people; a concession stand and bistro seating area; nine administrative offices, three conference rooms, a fitness center with three group exercise rooms, and an elite athlete fitness area; a large warm water therapy pool with zero-depth entry, chair lift, transfer wall, and stairs; and fully accessible bathrooms, locker rooms, and showers. Additionally, the Plassman Athletic Center expansion served as a catalyst for growth and expansion in all programs including therapy, adult day services, and memory care.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization (continued)

On May 17, 2018, the United States Olympic Committee and Turnstone announced an agreement which will continue until December 2021 designating Turnstone as its seventh U.S. Paralympic Training Site. Turnstone's facilities, staff, and resources will provide an elite athlete training environment for current and aspiring Paralympic athletes, with a specialty in the sport of goalball, as well as developmental opportunities for athletes in other Paralympic sports.

Turnstone's goalball program already retains a reputation of excellence which adds to the Olympic family's 18 other training sites across the country. Through Turnstone's relationship with the United State Association of Blind Athletes (USABA), Turnstone is currently home to the Goalball Center of Excellence, the U.S. Men's and Women's Goalball Resident Program, and the internationally ranked U.S. Men's and Women's National Goalball teams. The designated training site footprint includes the Goalball Center of Excellence and the Plassman Athletic Center at Turnstone. The Goalball Center of Excellence includes a single, enclosed gymnasium with the only Taraflex goalball court in the United States, two standard goals and a high-performance strength & conditioning room adjacent to the gymnasium.

Turnstone Properties, LLC (Turnstone Properties), a not-for-profit corporation organized pursuant to the laws of Indiana, was established to purchase and make improvements to certain property located next to Turnstone's facilities. Turnstone is the sole corporate member of and holds a 100 percent interest in Turnstone Properties.

Turnstone is the sole corporate member of and holds 100 percent interest in Turnstone Fieldhouse, LLC (Turnstone Fieldhouse). Turnstone is a member of and holds a 85 percent interest in Turnstone Leverage Lender, LLC (Turnstone Leverage Lender). Turnstone Fieldhouse and Turnstone Leverage Lender, limited liability companies organized under the laws of Indiana, were established in conjunction with obtaining new market tax credits (see *Note 11*).

Turnstone is a nonprofit voluntary health and welfare organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies for the 50 percent charitable contributions deduction limitation. Turnstone has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code. Management believes Turnstone is no longer subject to examination by tax authorities for years before June 30, 2015.

The aforementioned LLCs are limited liability companies and, as such, are treated as pass-through entities for income tax purposes. No provisions have been made for income taxes as the income tax liability, if any, resides with the member or members. Their net income or loss is allocated among the member or members in accordance with the operating agreements.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization (continued)

Principles of Consolidation and Noncontrolling Interest

The consolidated financial statements include Turnstone Center for Children and Adults with Disabilities, Inc. and its affiliates, Turnstone Properties, LLC; Turnstone Fieldhouse, LLC; and Turnstone Leverage Lender, LLC (collectively Turnstone and affiliates). Significant interorganization accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents, excluding money market funds held for investment. All cash and cash equivalents are held at local financial institutions. Turnstone and affiliates periodically have cash and cash equivalents in excess of federally insured limits. Turnstone and affiliates performs periodic evaluations of the relative credit standing of those financial institutions that are considered in Turnstone and affiliates' investment strategy.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See *Note 7* for discussion of fair value measurements.

Purchases and sales are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Capital gain distributions are included in dividend income.

Net realized and unrealized investment gains or losses are determined by comparison of asset cost, using the specific identification method, to net proceeds received at the time of sale and changes in the difference between market values and cost, respectively.

Turnstone's investment portfolio consists of a diverse mix of investments, without concentration of risk by type, industry, or geographic area, which are managed by professional investment managers in compliance with the investment policy established by the Board of Directors. Investments are exposed to various risks, such as interest rate, market volatility, and credit risks.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments may occur in the near term and that such changes could materially affect account balances.

Land and Land Improvements, Building, and Equipment

Land and land improvements, building, and equipment are stated at cost or if donated, at fair market value at date of donation, except for land and land improvements, building, and equipment that have been impaired. For impaired assets, the carrying amount is reduced to the estimated fair market value. There were no impaired land and land improvements, building, or equipment assets as of June 30, 2018 or 2017. It is not Turnstone and affiliates' policy to imply time restrictions expiring over the useful life of donated assets. Turnstone and affiliates capitalize fixed assets which cost \$2,000 or more and have a useful life of one year or more. Depreciation is computed by the straight-line method over the following estimated useful lives:

Land improvements	20 years
Building	5-39.5 years
Equipment	5-7 years

Expenses for normal repairs and maintenance are expensed as incurred.

Net Assets

Net assets are allocated to and accounted for based upon the donor's intended purpose. Unrestricted net assets have no donor imposed restrictions placed upon them. In addition, Turnstone has received certain net assets for specific purposes or for later periods of time or after specified dates, and these amounts are reported as temporarily or permanently restricted net assets. Temporarily restricted net assets include amounts whose use is limited by donor imposed stipulations that can be met and removed by actions of Turnstone pursuant to those stipulations, occurrence of a stated event, or passage of a specified time period. When donor imposed restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Permanently restricted net assets include amounts whose use is limited by donor imposed restrictions which stipulate that resources be maintained permanently, but permits

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Turnstone to expend part or all of the income derived from the donated assets for either unrestricted or temporarily restricted purposes. Resources arising from the results of activities or assets set aside by the Board of Directors are not considered to be donor restricted.

Revenue and Accounts Receivable

Turnstone recognizes revenue upon delivery of diagnostic and therapeutic services or completion of a special event. Accordingly, funds received for such services or special events, including ticket sales and sponsorships, related to future periods are recorded as deferred income.

Turnstone grants credit for its services to persons with disabilities and their families in northeast Indiana and to third-party payers such as Medicaid, Indiana Family & Social Services Administration, commercial insurance companies, health maintenance organizations, and other payers.

Special events include an annual benefit gala, golf outing, casino night, Corvette raffle, and other events. Special event revenue includes the sale of donated items at the annual benefit gala. Special events revenue is presented in the statements of activities and changes in net assets net of direct benefits provided to donors and attendees.

Accounts receivable for services provided and special events are recorded net of allowances for uncollectible accounts which is based on historical collection experience and management's estimate of the losses that will be incurred in the collection of all receivables.

Contributions and Pledges Receivable

Turnstone recognizes gifts of cash or other assets as unrestricted support (revenue) if they are pledged or received without restrictions or stipulations. Contributions are reported as temporarily restricted or permanently restricted support if they are received with donor imposed stipulations that limit their use.

Contributions of assets other than cash are recorded at their fair market value. Contributions of services are recognized as revenue if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and typically need to be purchased if not provided by donation.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Contributions and Pledges Receivable (continued)

Pledges receivable represent unconditional and legally enforceable promises to give to Turnstone by donors. Conditional pledges received are recognized when the substantial conditions on which they depend are substantially met. Turnstone uses the allowance method to determine uncollectible pledges receivable. The allowance for uncollectible pledges receivable is based on historical collection experience and management's analysis of specific pledges receivable.

Government Program Revenue

Government program revenue is recognized as Turnstone performs the contracted services pursuant to grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Promotion and Publicity and Fundraising Expenses

Promotion and publicity costs are expensed when incurred. Fundraising costs are expensed when incurred or upon completion of the related fundraising event.

New Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958)*, to change the way a not-for-profit entity (NFP) classifies and presents net assets on the face of the consolidated financial statements, and presents information in the consolidated financial statements and notes about the NFP's liquidity, financial performance, and cash flows. The amendment changes the way a NFP reports classes of net assets, from the currently required three classes to two, by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions. The amendment also requires the NFP to provide enhanced disclosure about the nature, amounts and effects of the various types of donor-imposed restrictions, the NFP's management of its liquidity to meet short-term demands for cash, and the types of resources used and how they are allocated to carrying out the NFP's activities. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted. Turnstone is currently evaluating the impact of the adoption of the standard on its consolidated financial statements.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, to provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The amendments require that a consolidated statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. Turnstone is currently evaluating the impact of the adoption of the standard on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the consolidated statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. Turnstone adopted the provisions of ASU 2015-03, which require retrospective application, in the accompanying consolidated financial statements. Accordingly, the June 30, 2017 consolidated statement of financial position has been restated to reclassify \$275,401 of net deferred financing costs as a reduction of long-term debt.

Use of Estimates

Preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Functional Allocation of Expenses

The cost of providing the program and other activities has been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Reclassifications

Certain 2017 amounts have been reclassified to conform with the 2018 presentation.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Pledges Receivable

Unconditional promises to give to Turnstone are recorded as pledges receivable at the present value of future cash flows. The present value discount rate used was 2.45 percent at June 30, 2018. Turnstone's pledges receivable are as follows:

	June 30	
	2018	2017
Pledges receivable	\$ 1,389,066	\$ 2,320,171
Less unamortized discount	(27,848)	(10,568)
Less allowance for uncollectible pledges	(5,000)	(5,000)
	<u>\$ 1,356,218</u>	<u>\$ 2,304,603</u>
Amounts due in:		
Less than one year	\$ 999,991	\$ 1,428,993
One to five years	304,337	875,610
Thereafter	51,890	-
	<u>\$ 1,356,218</u>	<u>\$ 2,304,603</u>

Turnstone has received an indication of an intention to give in the amount of \$173,990 from the United Way of Allen County. The expected funding is to be used for operations during the fiscal year ended June 30, 2019 and has not been recorded as an asset as of June 30, 2018.

4. Investments

The fair value of investments is as follows:

	June 30	
	2018	2017
Money market funds	\$ 245,675	\$ 88,611
Common stock	924,907	924,555
Mutual funds	908,502	884,244
Exchange traded funds	472,559	589,972
Corporate and other bonds	299,037	285,752
Total investments, at fair value	<u>\$ 2,850,680</u>	<u>\$ 2,773,134</u>
Total investments, at historical cost	<u>\$ 2,370,553</u>	<u>\$ 2,311,096</u>

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

The composition of investment return recognized in the statements of activities and changes in net assets are as follows:

	Year ended June 30	
	2018	2017
Investment income:		
Interest and dividends	\$ 72,452	\$ 70,433
Net realized gain on investments	137,379	53,401
Net unrealized gain on investments	18,089	166,232
	<u>227,920</u>	<u>290,066</u>
Investment expenses	(12,628)	(12,278)
Net investment income	<u>\$ 215,292</u>	<u>\$ 277,788</u>

5. Beneficial Interest in Perpetual Trust

Turnstone has a beneficial interest in a perpetual trust administered by an outside party. Pursuant to the terms of the trust, Turnstone has the irrevocable right to receive income earned on the trust assets in perpetuity, but will never receive the assets held in trust. Distributions from the perpetual trust are recorded as temporarily restricted income based on the donor's restriction. The estimated value of Turnstone's beneficial interest in the perpetual trust was \$507,146 and \$488,510 at June 30, 2018 and 2017, respectively, which represents the fair market value of Turnstone's proportional interest in the trust assets. The change in the estimated value is recorded in permanently restricted net assets as a gain or loss in the beneficial interest in perpetual trust.

6. Beneficial Interest in Funds Held by the Community Foundation of Greater Fort Wayne Inc.

The beneficial interest in the funds held and invested by the Community Foundation of Greater Fort Wayne Inc. (Community Foundation) of \$214,427 and \$203,819 at June 30, 2018 and 2017, respectively, is the result of an agreement whereby Turnstone has transferred assets to the Community Foundation and has specified itself as the beneficiary of the assets. Turnstone may draw up to a certain percent of the value of the assets each year, subject to certain conditions and limitations, but may only obtain a return of the full value of the assets upon consent of the Community Foundation.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

6. Beneficial Interest in Funds Held by the Community Foundation of Greater Fort Wayne Inc. (continued)

Additionally, the Community Foundation holds funds, with a value of \$115,135 and \$103,641 at June 30, 2018 and 2017, respectively, for the benefit of Turnstone for which the Community Foundation has obtained variance power. Turnstone is precluded from recognizing these assets held by the Community Foundation because the donors explicitly granted variance power to the Community Foundation. Accordingly, Turnstone only recognizes its annual grants by the Community Foundation from these funds as contributions.

7. Fair Value Measurements

FASB ASC Topic 820 (ASC 820), *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Turnstone has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

Money market funds: Valued at quoted market prices in an exchange and active market, which represent the net asset values of shares held by Turnstone at year-end.

Common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by Turnstone are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by Turnstone are deemed to be actively traded.

Exchange traded funds: Exchange traded funds are open-end funds that can be bought and sold throughout the day on a stock exchange. The exchange traded funds held by Turnstone are deemed to be actively traded and valued at the closing price reported on the stock exchange on which the individual securities are traded.

Corporate and other bonds: Certain corporate and other bonds are valued at the closing price reported in the active market in which the obligation or bond is traded. Corporate and other bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar obligations or bonds, the obligation or bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Beneficial interest in perpetual trust: Turnstone's proportional interest in the trust assets is valued at the fair market value of the underlying investments as reported by the investment manager at year-end.

Beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.: Valued at the fair market value of the underlying investments as reported by the Community Foundation of Greater Fort Wayne Inc. at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Turnstone believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, Turnstone's assets at fair value as of June 30, 2018 and 2017:

	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 245,675	\$ -	\$ -	\$ 245,675
Common stock:				
Consumer discretionary	124,952	-	-	124,952
Consumer staples	60,378	-	-	60,378
Energy	54,715	-	-	54,715
Financial	143,015	-	-	143,015
Health care	116,526	-	-	116,526
Industrials	112,452	-	-	112,452
Information technology	228,020	-	-	228,020
Materials	35,105	-	-	35,105
Real estate	16,709	-	-	16,709
Telecommunication services	8,903	-	-	8,903
Utilities	24,132	-	-	24,132
	924,907	-	-	924,907
Mutual funds:				
Equity funds:				
Mid-cap growth	46,774	-	-	46,774
Mid-cap value	32,347	-	-	32,347
Small blend	18,088	-	-	18,088
Small growth	32,835	-	-	32,835
Diversified emerging markets	48,146	-	-	48,146
Foreign—large blend	267,803	-	-	267,803
Long-short	23,055	-	-	23,055
Multialternative—large blend	25,901	-	-	25,901
Fixed income funds:				
Bank loan fund	51,010	-	-	51,010
Intermediate term bond	260,289	-	-	260,289
Nontraditional bond	65,903	-	-	65,903
World bond	36,351	-	-	36,351
	908,502	-	-	908,502

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

	Assets at Fair Value as of June 30, 2018 (continued)			
	Level 1	Level 2	Level 3	Total
Exchange traded funds:				
Equity funds:				
Large cap growth	\$ 62,117	\$ -	\$ -	\$ 62,117
Large cap value	88,550	-	-	88,550
Large cap blend	75,961	-	-	75,961
Mid-cap growth	34,140	-	-	34,140
Mid-cap value	42,527	-	-	42,527
Diversified emerging markets	35,659	-	-	35,659
International hedged	67,689	-	-	67,689
Fixed income funds:				
Inflation protected bond	65,916	-	-	65,916
	472,559	-	-	472,559
Corporate and other bonds	-	299,037	-	299,037
Total investments at fair value	2,551,643	299,037	-	2,850,680
Beneficial interest in perpetual trust	-	507,146	-	507,146
Beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	-	214,427	-	214,427
Total other assets at fair value	-	721,573	-	721,573
Assets at fair value	\$ 2,551,643	\$ 1,020,610	\$ -	\$ 3,572,253

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 88,611	\$ -	\$ -	\$ 88,611
Common stock:				
Consumer discretionary	129,159	-	-	129,159
Consumer staples	80,806	-	-	80,806
Energy	49,558	-	-	49,558
Financial	155,522	-	-	155,522
Health care	113,797	-	-	113,797
Industrials	114,024	-	-	114,024
Information technology	191,722	-	-	191,722
Materials	38,234	-	-	38,234
Real estate	16,712	-	-	16,712
Telecommunication services	10,305	-	-	10,305
Utilities	24,716	-	-	24,716
	924,555	-	-	924,555
Mutual funds:				
Equity funds:				
Mid-cap growth	48,391	-	-	48,391
Mid-cap value	42,000	-	-	42,000
Small blend	18,634	-	-	18,634
Small growth	27,714	-	-	27,714
Diversified emerging markets	25,096	-	-	25,096
Foreign—large blend	285,669	-	-	285,669
Long-short	24,107	-	-	24,107
Multialternative—large blend	23,537	-	-	23,537
Fixed income funds:				
Bank loan fund	50,930	-	-	50,930
Intermediate term bond	236,332	-	-	236,332
Nontraditional bond	64,600	-	-	64,600
World bond	37,234	-	-	37,234
	884,244	-	-	884,244

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

	Assets at Fair Value as of June 30, 2017 (continued)			
	Level 1	Level 2	Level 3	Total
Exchange traded funds:				
Equity funds:				
Large cap growth	\$ 56,656	\$ -	\$ -	\$ 56,656
Large cap value	113,617	-	-	113,617
Large cap blend	86,024	-	-	86,024
Mid-cap growth	39,305	-	-	39,305
Mid-cap value	42,177	-	-	42,177
Diversified emerging markets	34,501	-	-	34,501
International hedged	151,449	-	-	151,449
Fixed income funds:				
Inflation protected bond	66,243	-	-	66,243
	<u>589,972</u>	<u>-</u>	<u>-</u>	<u>589,972</u>
Corporate and other bonds	-	285,752	-	285,752
Total investments at fair value	<u>2,487,382</u>	<u>285,752</u>	<u>-</u>	<u>2,773,134</u>
Beneficial interest in perpetual trust	-	488,510	-	488,510
Beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	-	203,819	-	203,819
Total other assets at fair value	<u>-</u>	<u>692,329</u>	<u>-</u>	<u>692,329</u>
Assets at fair value	<u>\$ 2,487,382</u>	<u>\$ 978,081</u>	<u>\$ -</u>	<u>\$ 3,465,463</u>

8. Endowment Funds

ASC 958, *Not-for-Profit Entities*, requires certain net asset classification changes for institutional endowment funds under Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Indiana General Assembly has adopted UPMIFA.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Endowment Funds (continued)

Turnstone may hold donor restricted endowment funds where the gift instrument clearly stipulates that Turnstone is not to spend the principal or some other portion of the gift, in which case such gift instrument will supersede Turnstone's ability to spend the whole fund. ASC 958 requires the classification of a portion of a donor restricted endowment fund of perpetual duration to be classified as permanently restricted.

Turnstone's endowment consists of several individual donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Turnstone has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, Turnstone classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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, Turnstone considers 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 Turnstone 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 (depreciation) of investments.
- Other resources of Turnstone.
- The investment policies of Turnstone.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Endowment Funds (continued)

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 507,146	\$ 507,146
Beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	-	-	214,427	214,427
Other	-	-	1,947,828	1,947,828
	-	-	2,669,401	2,669,401
Board-designated endowment funds	888,713	-	-	888,713
Total funds	\$ 888,713	\$ -	\$ 2,669,401	\$ 3,558,114

Changes in endowment net assets for the year ended June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 811,246	\$ -	\$ 2,640,157	\$ 3,451,403
Investment return:				
Interest and dividends, net	57,575	-	-	57,575
Realized and unrealized gain on investments	156,338	-	-	156,338
Gain on beneficial interest in perpetual trust	-	-	48,056	48,056
Gain on beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	-	-	20,588	20,588
Total investment return	213,913	-	68,644	282,557
Other changes:				
Distribution from perpetual trust	-	29,420	(29,420)	-
Distribution from Community Foundation of Greater Fort Wayne Inc.	-	9,980	(9,980)	-
Distribution of endowment funds for operating purposes	(136,446)	(39,400)	-	(175,846)
Endowment net assets at end of year	\$ 888,713	\$ -	\$ 2,669,401	\$ 3,558,114

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Endowment Funds (continued)

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 488,510	\$ 488,510
Beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	-	-	203,819	203,819
Other	-	-	1,947,828	1,947,828
	-	-	2,640,157	2,640,157
Board-designated endowment funds	811,246	-	-	811,246
Total funds	\$ 811,246	\$ -	\$ 2,640,157	\$ 3,451,403

Changes in endowment net assets for the year ended June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 665,269	\$ -	\$ 2,633,229	\$ 3,298,498
Investment return:				
Interest and dividends, net	52,081	-	-	52,081
Realized and unrealized gain on investments	226,530	-	-	226,530
Gain on beneficial interest in perpetual trust	-	-	49,795	49,795
Gain on beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	-	-	19,466	19,466
Total investment return	278,611	-	69,261	347,872
Other changes:				
Distribution from perpetual trust	-	28,162	(28,162)	-
Distribution from Community Foundation of Greater Fort Wayne Inc.	-	34,171	(34,171)	-
Distribution of endowment funds for operating purposes	(132,634)	(62,333)	-	(194,967)
Endowment net assets at end of year	\$ 811,246	\$ -	\$ 2,640,157	\$ 3,451,403

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Endowment Funds (continued)

Return Objectives and Risk Parameters

Turnstone has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of certain investment benchmark indices while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Turnstone relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Turnstone targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Turnstone's Board of Directors has approved a spending policy whereby distributions from the permanently restricted portion of the endowment fund are determined by the Finance/Investment Committee to the extent they do not reduce the fund balance below the amount of cumulative original contributions. Approval from the Board of Directors is required for distributions of greater than 5 percent of the permanently restricted portion of the endowment funds.

In establishing this policy, Turnstone considered the long-term expected return on its endowment. Accordingly, over the long-term, Turnstone expects the current spending policy to allow its endowment to grow. This is consistent with Turnstone's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Net Assets

Temporarily restricted net assets are to be used for the following purposes:

	June 30	
	2018	2017
Future operations	\$ 950,000	\$ 1,065,000
Program services	235,205	361,414
	<u>\$ 1,185,205</u>	<u>\$ 1,426,414</u>

Temporarily restricted net assets released from donor restrictions as a result of incurring expenses or costs to satisfy the restricted purposes, time restrictions expiring, or occurrence of other events specified by donors were as follows:

	Year ended June 30	
	2018	2017
Satisfaction of program requirements	\$ 958,802	\$ 997,040
Expiration of time restrictions	800,000	660,000
	<u>\$ 1,758,802</u>	<u>\$ 1,657,040</u>

Permanently restricted net assets consist of funds provided for:

	June 30	
	2018	2017
Therapeutic services, including transportation	\$ 658,512	\$ 629,268
Children's programs	5,000	5,000
Scholarships	25,000	25,000
Operations	1,980,889	1,980,889
	<u>\$ 2,669,401</u>	<u>\$ 2,640,157</u>

The earnings from certain of the permanently restricted net assets are restricted for therapeutic services, children's programs, and scholarships.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

10. Debt Arrangements

Long-term debt consists of the following:

	June 30	
	2018	2017
Term loan payable to bank with interest payable quarterly, commencing on March 31, 2018, until December 31, 2020, on which date all outstanding principal and accrued interest shall be due and payable. Interest is calculated at the daily London Interbank Offered Rate (LIBOR) plus 3 percent (5.09% at June 30, 2018)	\$ 1,399,017	\$ -
Borrowings pursuant to the original line of credit arrangement	-	2,208,018
Borrowings by Turnstone Fieldhouse pursuant to new market tax credit financing (see <i>Note 11</i>)	9,840,000	9,840,000
	11,239,017	12,048,018
Unamortized deferred financing costs, net	(219,843)	(275,401)
	\$ 11,019,174	\$ 11,772,617

Pursuant to a revolving line of credit arrangement (original arrangement) dated April 21, 2015 with three banks, Turnstone was able to borrow up to \$6,000,000 for the aforementioned construction project through June 30, 2016 (draw period) subject to certain collateral value limitations, terms, conditions, and covenants. This original arrangement was secured by all business assets and was based on Turnstone's eligible pledges receivable and endowment account. The line of credit bore interest at Turnstone's option based on LIBOR plus 3 percent or base rate plus 2 percent. The base rate was the highest of (i) the prime rate, (ii) the Federal Funds open rate plus .5 percent, and (iii) the Daily LIBOR Rate plus 1 percent.

On January 17, 2018, the original arrangement was converted to a term loan. Similar to the original arrangement, Turnstone, is required to make monthly principal payments in the amount equal to pledges received in the immediately preceding month less the amount that was applied to the payment of interest. The principal balance of the term loan is to be reduced to \$1,250,000 by no later than September 30, 2019.

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

10. Debt Arrangements (continued)

The aforementioned original arrangement was amended to include, after the draw period, a revolving credit facility to Turnstone not to exceed \$350,000. Pursuant to this revolving line of credit arrangement with a bank, Turnstone may borrow up to \$350,000 subject to certain terms and conditions. This line of credit arrangement expires on December 31, 2018. The line of credit arrangement bears interest at the prime rate (5 percent at June 30, 2018), which is due and payable monthly beginning with the accrued interest payment due on January 31, 2018. There were no borrowings pursuant to this line of credit arrangement at June 30, 2018 and 2017.

The debt arrangements contain customary representations, warranties, covenants, and other terms and conditions. The term loan and revolving line of credit arrangement is secured by Turnstone's endowment investments, accounts and pledges receivable, inventories and certain other assets.

Amortization of deferred financing costs was \$55,558 for the years ended June 30, 2018 and 2017 and is included in miscellaneous expense.

11. New Markets Tax Credit

In April 2015, Turnstone and affiliates entered into a New Markets Tax Credit (NMTC) financing transaction to fund a portion of the cost of construction of the aforementioned 125,000 square foot addition to its facility (The Plassman Athletic Center) in Fort Wayne, Indiana. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (Act) and is intended to induce capital investment in qualified low-income communities. The Act permits taxpayers to claim credits against their Federal income taxes for up to 39% of qualified investments in the equity of Community Development Entities (CDE). A CDE is a privately managed investment institution that is certified to make qualified low-income community investments (QILIC) loans. The NMTC structure includes Turnstone and affiliates (through Turnstone Leverage Lender), as a leverage lender, and the tax credit investor is PNC New Markets Investment Partners, LLC, an entity formed for purposes of this transaction by PNC Bank, N.A.

In April 2015, PNC New Markets Investments Partners, LLC made a \$3,042,000 capital contribution to Turnstone Investments Fund, LLC, a qualified equity investment fund. At the same time, Turnstone Leverage Lender made a \$7,118,000 leverage loan to the same investment fund. In turn Turnstone Investment Fund, LLC made a \$10,000,000 capital contribution to FWNMRF CDE IV LLC (Sub-CDE I) and PNC CDE 56, LP (Sub-CDE II), each recognized as a qualified community development entity (noted above), or Sub-CDE in this structure. After

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

11. New Markets Tax Credit (continued)

deducting certain fees associated with the transaction, each made with two QLICI loans to Turnstone Fieldhouse for a combined total of \$9,840,000. In this structure, Turnstone Fieldhouse is designated as a qualified active low-income community benefit entity (QALICB). The QLICI loans bear interest at a rate of 1.13% and mature in 2045. Interest-only payments due quarterly are made during the first seven years of the notes.

The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. Turnstone and affiliates are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, could require Turnstone and affiliates to indemnify the investors for any loss or recapture of NMTCs related to the financing until such time as Turnstone and affiliates obligation to deliver tax benefits is relieved. Turnstone and affiliates do not anticipate any credit recaptures in connection with this arrangement. This transaction includes a put/call provision that becomes effective at the end of the seven year compliance/recapture period. Under the put/call provision, Turnstone and affiliates may be obligated or entitled to purchase the investor's interest in Turnstone Investment Fund, LLC. Turnstone and affiliates believe the investors will exercise the put option in April 2022 at the end of the compliance/recapture period. The value attributed to the put/call provision is de minimis.

12. Contributed Goods and Services

During the years ended June 30, 2018 and 2017, the fair market value of contributed goods and services recognized as revenue in the accompanying statements of activities and changes in net assets consisted of the following:

	Year ended June 30	
	2018	2017
Maintenance and supplies	\$ 71,632	\$ 128,773
Buildings and equipment	27,376	21,000
Professional services	17,710	16,007
	\$ 116,718	\$ 165,780

Turnstone Center for Children and Adults with Disabilities, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

13. Government Program Revenue

Government program funds received for services rendered are included in program services fees in the consolidated statements of activities and changes in net assets and consisted of the following:

	Year ended June 30	
	2018	2017
Indiana Family & Social Service Administration: CHOICE (community and home options to institutional care for the elderly and disabled)	\$ 30,887	\$ 15,110
Department of Veterans Affairs: Adult day program and transportation services	46,291	31,497
	\$ 77,178	\$ 46,607

14. Employee Retirement Plan

Turnstone sponsors a Section 403(b) plan (Plan). All full time employees who have attained age 21 are eligible to participate in the Plan. Turnstone may make discretionary matching contributions to the Plan. Turnstone's contribution to the Plan was \$48,261 and \$47,379 for the years ended June 30, 2018 and 2017, respectively.

15. Related Party Transactions

Certain members of the Board of Directors are employed by organizations that have provided goods and services for Turnstone and affiliates. The fees and costs paid for these goods and services were based on customary and reasonable rates for such services.

16. Subsequent Events

Management has evaluated subsequent events through September 18, 2018, the date on which the financial statements were available to be issued.