

**LAKESHORE FOUNDATION AND AFFILIATE**

**Consolidated Financial Statements and  
Supplementary Information**

**For the Years Ended  
September 30, 2018 and 2017**

## LAKESHORE FOUNDATION AND AFFILIATE

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## BORLAND | BENEFIELD

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Lakeshore Foundation and Affiliate

**Report on the Financial Statements**

We have audited the accompanying financial statements of Lakeshore Foundation and Affiliate (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lakeshore Foundation and Affiliate as of September 30, 2018 and 2017, 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.

## Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated schedules of revenue and support and the consolidated schedules of expenses are presented for purposes of additional analysis and are not a required part of the financial statements of Lakeshore Foundation and Affiliate. In addition, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2019, on our consideration of Lakeshore Foundation and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lakeshore Foundation and Affiliate's internal control over financial reporting and compliance.



Borland Benefield, P.C.  
Birmingham, Alabama  
January 7, 2019

**LAKESHORE FOUNDATION AND AFFILIATE**

**Consolidated Statements of Financial Position  
For the Years Ended September 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,110,526	\$ 816,532
Short-term investments	572,874	573,560
Pledges receivable - net of allowance for uncollectible pledges of \$5,000 in 2018 and \$1,000 in 2017	454,450	6,301
Account receivable - other	316,533	334,521
Interest receivable	78,225	83,639
Retirement plan assets	156,189	114,641
Prepaid expenses and other	60,426	72,727
Total Current Assets	2,749,223	2,001,921
<b>Long Term Assets</b>		
Investments	78,109,111	76,975,664
Restricted cash	1,539,302	122,272
Pledges receivable - long term - net of allowance for uncollectible pledges of \$20,000 in 2018 and \$0 in 2017	610,670	-
Property, plant and equipment, net	27,052,011	21,350,492
Initial cost of lease - net of accumulated amortization of \$7,582 in 2018 and \$5,798 in 2017	28,096	29,879
Total Long-Term Assets	107,339,190	98,478,307
<b>Total Assets</b>	<b>\$ 110,088,413</b>	<b>\$ 100,480,228</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	\$ 909,086	\$ 468,199
Other accrued liabilities	726,626	727,291
Accrued interest	41,306	77,068
Deferred revenue	114,805	140,282
Current portion of long-term debt	1,005,165	910,103
Total Current Liabilities	2,796,988	2,322,943
Long-term debt	8,841,119	6,708,583
<b>Total Liabilities</b>	11,638,107	9,031,526
<b>Net Assets</b>		
Unrestricted	95,488,349	91,016,405
Temporarily restricted	2,839,164	310,024
Permanently restricted	122,793	122,273
Total Net Assets	98,450,306	91,448,702
<b>Total Liabilities and Net Assets</b>	<b>\$ 110,088,413</b>	<b>\$ 100,480,228</b>

*See accompanying notes to financial statements.*

**LAKESHORE FOUNDATION AND AFFILIATE**

**Consolidated Statement of Activities and Change in Net Assets  
For the Year Ended September 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public Support and Revenues</b>				
Contributions, grants and sponsorships	\$ 5,193,713	\$ 2,643,992	\$ 520	\$ 7,838,225
Fundraising events	71,400	-	-	71,400
Memberships	711,054	-	-	711,054
Program fees and contracts	102,354	-	-	102,354
Rental income	3,942,839	-	-	3,942,839
Investment income	867,841	-	-	867,841
Unrealized gain on investments	3,284,745	-	-	3,284,745
Realized gain on sale of investments	1,068,314	-	-	1,068,314
Unrealized gain on retirement assets	6,549	-	-	6,549
Interest income	17,734	-	-	17,734
Other	8,212	-	-	8,212
Net assets released from restrictions	114,852	(114,852)	-	-
<b>Total Public Support and Revenues</b>	<u>15,389,607</u>	<u>2,529,140</u>	<u>520</u>	<u>17,919,267</u>
<b>Expenses</b>				
Program activities	5,772,606	-	-	5,772,606
Research	1,509,057	-	-	1,509,057
Policy and advocacy	378,422	-	-	378,422
Communications and memberships	692,312	-	-	692,312
Fundraising/development	580,393	-	-	580,393
General and administrative	1,502,244	-	-	1,502,244
Rental	242,206	-	-	242,206
Investment management fees	189,458	-	-	189,458
Loss on extinguishment of debt	50,965	-	-	50,965
<b>Total Expenses</b>	<u>10,917,663</u>	<u>-</u>	<u>-</u>	<u>10,917,663</u>
<b>Change in Net Assets</b>	4,471,944	2,529,140	520	7,001,604
<b>Net Assets, Beginning of Year</b>	<u>91,016,405</u>	<u>310,024</u>	<u>122,273</u>	<u>91,448,702</u>
<b>Net Assets, End of Year</b>	<u>\$ 95,488,349</u>	<u>\$ 2,839,164</u>	<u>\$ 122,793</u>	<u>\$ 98,450,306</u>

*See accompanying notes to financial statements.*

**LAKESHORE FOUNDATION AND AFFILIATE**

**Consolidated Statement of Activities and Change in Net Assets  
For the Year Ended September 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public Support and Revenues</b>				
Contributions, grants and sponsorships	\$ 2,271,124	\$ 294,408	\$ 520	\$ 2,566,052
Fundraising events	69,314	-	-	69,314
Memberships	721,528	-	-	721,528
Program fees and contracts	191,038	-	-	191,038
Rental income	3,844,213	-	-	3,844,213
Investment income	883,359	-	-	883,359
Unrealized loss on investments	7,820,188	-	-	7,820,188
Realized gain on sale of investments	138,571	-	-	138,571
Unrealized gain on retirement assets	10,792	-	-	10,792
Interest income	1,198	-	-	1,198
Other	4,632	-	-	4,632
Net assets released from restrictions	191,639	(191,639)	-	-
<b>Total Public Support and Revenues</b>	<u>16,147,596</u>	<u>102,769</u>	<u>520</u>	<u>16,250,885</u>
<b>Expenses</b>				
Program activities	5,901,022	-	-	5,901,022
Research	1,512,317	-	-	1,512,317
Policy and advocacy	309,636	-	-	309,636
Communications and memberships	764,373	-	-	764,373
Fundraising/development	563,511	-	-	563,511
General and administrative	1,518,988	-	-	1,518,988
Rental	197,844	-	-	197,844
Investment management fees	163,985	-	-	163,985
<b>Total Expenses</b>	<u>10,931,676</u>	<u>-</u>	<u>-</u>	<u>10,931,676</u>
<b>Change in Net Assets</b>	5,215,920	102,769	520	5,319,209
<b>Net Assets, Beginning of Year</b>	<u>85,800,485</u>	<u>207,255</u>	<u>121,753</u>	<u>86,129,493</u>
<b>Net Assets, End of Year</b>	<u>\$ 91,016,405</u>	<u>\$ 310,024</u>	<u>\$ 122,273</u>	<u>\$ 91,448,702</u>

*See accompanying notes to financial statements.*

**LAKESHORE FOUNDATION AND AFFILIATE**

**Consolidated Statements of Cash Flows  
For the Years Ended September 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 7,001,604	\$ 5,319,209
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:		
Net amortization of debt issue costs and bond premiums and discount	17,194	15,806
Depreciation	1,077,342	1,069,661
Unrealized gain on investments	(3,284,745)	(7,820,189)
Unrealized gain on retirement plan assets	(6,548)	(791)
Realized gain on sale of investments	(1,068,314)	(138,568)
Loss on sale of property and equipment	25,335	10,890
Loss on extinguishment of debt	50,964	-
Permanently restricted contributions received	(520)	(520)
Restricted contributions for capital, net	(5,144,659)	-
Change in operating assets and liabilities:		
Pledges receivable, net	(80,038)	19,075
Accounts receivable - other	17,988	20,859
Interest receivable	5,414	(9,634)
Prepaid expenses and other	12,301	(19,553)
Accounts payable	(2,444)	37,932
Other accrued liabilities	(665)	(67,493)
Deferred revenue	(25,476)	(51,254)
Accrued interest payable	(35,762)	(6,451)
<b>Net Cash (Used) by Operating Activities</b>	<b>(1,441,029)</b>	<b>(1,621,021)</b>
 <b>Cash Flows from Investing Activities</b>		
Purchase of investments	(20,260,142)	(15,385,384)
Proceeds from sale of investments	23,479,755	18,082,208
Net change in short-term investments	686	184,526
Net change in restricted cash	(1,417,030)	(520)
Net change in retirement assets	(35,000)	(35,000)
Purchases of property and equipment	(6,360,922)	(1,227,548)
Proceeds from sale of property and equipment	57	11,175
<b>Net Cash (Used)/Provided by Investing Activities</b>	<b>(4,592,596)</b>	<b>1,629,457</b>

*See accompanying notes to financial statements.*



**LAKESHORE FOUNDATION AND AFFILIATE****Consolidated Statements of Cash Flows (continued)  
For the Years Ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Financing Activities</b>		
Repayment of principal amounts	(910,986)	(881,463)
Bond issuance proceeds	6,408,956	-
Bonds refunded	(3,305,000)	-
Bond issue costs - new	(96,533)	-
Capital lease proceeds	64,784	-
Permanently restricted contributions received	520	520
Restricted capital campaign, net proceeds	4,165,878	-
<b>Net Cash Provided/(Used) by Financing Activities</b>	<u>6,327,619</u>	<u>(880,943)</u>
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>	293,994	(872,507)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>816,532</u>	<u>1,689,039</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,110,526</u>	<u>\$ 816,532</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 271,640</u>	<u>\$ 285,309</u>
Construction in progress included in accounts payable	<u>\$ 653,978</u>	<u>\$ 210,647</u>

See accompanying notes to financial statements.

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements For the Years Ended September 30, 2018 and 2017

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#### Note 1 – Summary of Significant Accounting Policies

Nature of Operations – The consolidated financial statements of Lakeshore Foundation (the Foundation) include the accounts of Lakeshore Foundation and its affiliate, Lakeshore Support Organization.

Lakeshore Foundation is a nonprofit corporation organized to provide a comprehensive range of services and activities that benefit people with physically disabling and chronic health conditions and promote disability prevention programs. Lakeshore Foundation owns rehabilitation health care facilities in Jefferson County, Alabama. Lakeshore Foundation raises, manages and expends funds for these purposes. Lakeshore Support Organization holds and manages certain investments.

Basis of Financial Statement Preparation – The accompanying consolidated financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Consolidated Financial Statements – The financial statements include the accounts of the Lakeshore Foundation and the Lakeshore Support Organization, a related tax exempt entity. The organizations share common goals and Lakeshore Foundation's Board of Directors elects the Board of Directors for the Lakeshore Support Organization. All significant intercompany account balances and transactions have been eliminated upon consolidation.

Cash and Cash Equivalents – The Foundation considers certain highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Foundation maintains deposits and investments with various financial institutions that may, at times, exceed federally insured limits. However, the Foundation has not experienced any losses on such amounts nor does management believe these amounts are exposed to any significant risks.

Contributions – The Foundation reports gifts of cash and other assets, including unconditional promises to give, as restricted support if they are received with donor stipulations that limit the use of the donated assets, unless the restrictions are met in the same reporting periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

The Foundation reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets must be used and gifts of cash or other assets designated by the donor for the acquisition of long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Qualifying contributed services are recorded at their fair value in the period received.

Unrealized and realized gains and losses and dividends and interest from investing in income-producing assets may be included in either of these net assets classifications depending on donor restrictions.

*See independent auditor's report.*

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

For the Years Ended September 30, 2018 and 2017 (continued)

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

Pledges Receivable – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows and reflected as temporarily restricted net assets due to inherent time restriction. Estimated future cash flows to be received after one year are discounted using a discount rate of 3.5 percent. Amortization of the discounts is included in contribution revenue.

Accounts are classified as past due based on contractual terms and invoice dates. Allowances are established on pledges estimated to be uncollectible. Accounts are written off after all efforts of collection have been exhausted.

Short-term Investments – Short-term investments consist primarily of investments in commingled fund cash equivalents and mutual funds and are reported at fair value.

Investments – Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value. Investment income or loss (interest and dividends), realized gains and losses, and unrealized gains and losses on investments are included in the change in net assets unless the income or loss is restricted by donor or law. Investments in hedge funds and alternative investments are reported at cost, fair value, or net asset value. Investments are not actively traded, and management intends to hold investments. As a result, investments are reported as long-term in the Consolidated Statements of Financial Position. For investments where quoted market prices are not available, the investment is reported at cost (Note 4). Management reviews investments for other than temporary impairments on an annual basis and records any impairment as a transfer from unrealized to realized loss on investments. Long-term investments also include certain investments in hedge funds which are recorded at the estimated underlying net asset valuation for the fund for the units held.

Property, Plant and Equipment – Property, plant and equipment are recorded at cost if purchased or at fair market value if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Estimated useful lives of property, plant and equipment are as follows:

Land improvements	15-25 years
Major moveable equipment	3-20 years
Buildings and improvements	5-40 years
Fixed equipment	10-15 years

Upon sale, retirement or other disposition of these assets, the cost and related accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is recognized currently.

Impairment of Long-lived Assets – The Foundation recognizes the impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the asset's carrying amount. There was no impairment loss recorded for the year ended September 30, 2018.

Borrowing Costs – Interest costs, net of any related interest earnings, incurred on tax-exempt borrowings during the period of construction of capital assets were capitalized as a component of the cost of acquiring those assets.

*See independent auditor's report.*

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

For the Years Ended September 30, 2018 and 2017 (continued)

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

Debt issue costs are capitalized and amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest rate method.

Net Assets – The Foundation presents its activities and net assets in three classes as follows:

*Unrestricted Net Assets* – Unrestricted net assets generally result from revenues derived from providing services and receiving unrestricted contributions, less expenses incurred in providing services, raising contributions and performing administrative functions.

*Temporarily Restricted Net Assets* – Temporarily restricted net assets generally result from contributions and other receipts that are subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

*Permanently Restricted Net Assets* – Permanently restricted net assets generally result from contributions and other receipts that are subject to donor-imposed stipulations that the assets be maintained permanently by the Foundation.

Revenue Recognition – Public support is recognized by the Foundation as unrestricted revenue or temporarily restricted revenue when pledges are received based on any stipulations by the donors. Donated assets are recorded at estimated fair value on the date received. Rental income and revenues associated with programs and memberships are recognized when earned.

Allocation of Expenses – The Foundation allocates certain expenses, including insurance, interest expense, facility operations, and depreciation and amortization, to general and administrative, fundraising/development, communications and memberships, and programs based on the square footage used by each respective department.

Tax Status – Lakeshore Foundation and the Lakeshore Support Organization are nonprofit organizations exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC).

The Lakeshore Foundation and the Lakeshore Support Organization have determined that they do not have any tax positions at September 30, 2018 that they would be unable to substantiate. Tax returns for the Lakeshore Foundation and the Lakeshore Support Organization for the fiscal year 2014 and subsequent remain subject to examination.

Use of Estimates – The preparation of 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 of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Risk and Uncertainties – Investments are exposed to various risks; such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value in investment securities will occur in the near term, which could materially affect the Foundation's net assets.

*See independent auditor's report.*

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

For the Years Ended September 30, 2018 and 2017 (continued)

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

Fair Value Measurements - Fair value for financial reporting purposes is the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction between market participants at the measurement date (reporting date). Fair value is based on an exit price in the principal market or most advantageous market in which the reporting entity could transact. For each asset or liability required to be reported at fair value, management has identified the unit of account and valuation premise to be applied for purposes of measuring fair value. The unit of account is the level at which an asset or liability is aggregated or disaggregated. The valuation premise is a concept that determines whether an asset is measured on a stand-alone basis or in combination with other assets. The Foundation measures its assets and liabilities on a stand-alone basis, then aggregates assets and liabilities with similar characteristics for disclosure purposes.

The hierarchy for inputs used in measuring fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on observable inputs, including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, volatilities, and default rates, and inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

If the determination of fair value measurement for a particular asset or liability is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability measured.

The following is a description of the valuation methodologies used for assets measured at fair value at September 30, 2018 and 2017.

The fair value of investments is based on quoted market prices in an active market for identical assets and liabilities or other observable inputs as of the reporting date. The fair value of U.S. Government agencies, mortgages and leases, mutual funds, and some corporate obligations are categorized within Level 2 of the fair value hierarchy. The fair value of hedge funds and alternative investments, and some corporate obligations are categorized within Level 3 of the fair value hierarchy.

*See independent auditor's report.*

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

For the Years Ended September 30, 2018 and 2017 (continued)

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

Fair Value Measurements (continued) - The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management 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.

Some of the Foundation's financial instruments are not measured at fair value on a recurring basis. However, these instruments are carried at amounts that approximate fair value due to their liquid, or short-term, nature. Such financial assets and financial liabilities include pledges receivable, accounts receivable - other, interest receivable, accounts payable, and accrued interest. Long-term debt is recorded at cost, which approximates fair value as disclosed in Note 5.

Reclassifications – Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Recent Pronouncements - On August 18, 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance and cash flows. The provisions of the update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

In February 2016, the Financial Accounting Standards Board ("FASB" or "the Board") issued a new leasing standard in ASU 2016-02 ("Topic 842" or "the new standard") for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use ("ROU") assets and related lease liabilities on the balance sheet for all arrangements with terms longer than 12 months. The pattern of expense recognition in the income statement will depend on a lease's classification. The provision of this update are effective for fiscal years beginning after December 15, 2018. Management is evaluating the new accounting pronouncements and its applicability to the Organization.

#### Note 2 – Pledges Receivable

Pledges receivable at September 30 consist of the following:

	<u>2018</u>	<u>2017</u>
Unconditional promises to give	\$ 1,139,250	\$ 7,301
Less allowance for uncollectible accounts	25,000	1,000
Less adjustment for net present value	49,130	-
Net unconditional promises to give	<u>\$ 1,065,120</u>	<u>\$ 6,301</u>

The expected collection of pledges receivable at September 30, 2018, is as follows:

Less than one year	\$ 459,450
One to five years	679,800
Total unconditional promises to give	<u>\$ 1,139,250</u>

See independent auditor's report.

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

For the Years Ended September 30, 2018 and 2017 (continued)

#### Note 2 – Pledges Receivable (continued)

At September 30, 2018 the Foundation has a conditional pledge of \$400,000 contingent on Lakeshore's continued worthiness and the donor's ability to pay within its philanthropy guidelines. This is not reflected in the above balance.

#### Note 3 – Property, Plant and Equipment

Property, plant and equipment at September 30 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 211,176	\$ 211,176
Land improvements	1,594,441	1,511,071
Major moveable equipment	2,241,864	2,193,114
Buildings and improvements	42,216,957	39,084,114
Fixed equipment	6,691,094	6,801,094
Construction in progress	4,443,272	1,374,978
Total property and equipment	<u>57,398,804</u>	<u>51,175,547</u>
Less: Accumulated depreciation	<u>30,346,793</u>	<u>29,825,055</u>
Total Property and Equipment, Net	<u>\$ 27,052,011</u>	<u>\$ 21,350,492</u>

#### Note 4 – Investments

Short-term and long-term investments at September 30 consisted of the following:

	<u>2018</u>		<u>2017</u>	
	<u>Cost or Amortized Cost</u>	<u>Carrying Value</u>	<u>Cost or Amortized Cost</u>	<u>Carrying Value</u>
Short-term investments	\$ 572,874	\$ 572,874	\$ 573,560	\$ 573,560
Long-term investments:				
U.S. Government and agency securities	4,811,529	4,692,424	5,200,359	5,259,664
Corporate obligations	5,782,147	5,659,662	5,348,612	5,399,233
Equity mutual funds	32,477,997	42,562,486	35,175,265	42,190,996
Hedge fund and alternative investments	14,099,629	17,907,715	14,132,335	17,204,797
Fixed income mutual funds	5,578,459	5,566,156	4,809,828	4,841,296
Balanced mutual funds	1,741,752	1,720,668	1,976,411	2,079,678
Total Long-Term investments	<u>64,491,513</u>	<u>78,109,111</u>	<u>66,642,810</u>	<u>76,975,664</u>
Total Investments	<u>\$ 65,064,387</u>	<u>\$ 78,681,985</u>	<u>\$ 67,216,370</u>	<u>\$ 77,549,224</u>

See independent auditor's report.

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

#### For the Years Ended September 30, 2018 and 2017 (continued)

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##### Note 4 – Investments (continued)

The organization holds alternative investments reported above consisting of nine hedge/pooled funds at September 30, 2018 and ten hedge/pooled funds at September 30, 2017, which are limited partnerships or similar arrangements. The hedge/pooled fund investments are fund-of-funds investments and accordingly due to the structure, flexibility and lower level of regulatory oversight may create additional exposure to investment risk.

The fund managers hold these rated or unrated investments, which consist primarily of long/short equity hedge funds (domestic and international) (70 to 85%), with the balance invested in distressed/credit, sector or commodity related funds or other investment opportunities.

Included in the above alternative investments are four investments recorded at cost totaling \$654,128 whose fair market value is \$1,202,879, with a net unrealized gain of \$548,751 at September 30, 2018. Also, there are four investments recorded at cost totaling \$977,988 whose fair market value is \$2,045,420, with a net unrealized gain of \$1,067,432 at September 30, 2017.

Also, included in the above alternative investments are three securities recorded at fair market value totaling \$11,139,325 with a net unrealized gain of \$3,210,103 at September 30, 2018 and four securities recorded at fair market value totaling \$10,077,592 with a net unrealized gain of \$2,676,656 at September 30, 2017.

The alternative investments reported above also include two pooled fund investments recorded at net asset value per share totaling \$6,114,263 whose cost is \$5,516,189 at September 30, 2018. Also, there are two pooled fund investments recorded at net asset value per share totaling \$6,149,217 whose cost is \$5,753,412 at September 30, 2017.

The alternative investments have redemption notice periods that range from quarterly with 60 days of notice, to 120 days using the prior year's audit fair value, to the last business day of each fiscal year by providing notice to the investment manager no later than September 15<sup>th</sup> of the fiscal year. The fair values of these investments have been estimated using the net asset value per share of the investment. Unfunded commitments as of September 30, 2018 and September 30, 2017 totaled \$1,170,112 and \$1,654,341, respectively.

Included in the above equity mutual funds is one pooled fund investment recorded at net asset value per share totaling \$42,562,486 whose cost is \$32,477,997 at September 30, 2018. Also, included in the above equity mutual funds is one pooled fund investment recorded at net asset value per share totaling \$42,190,996 whose cost is \$35,175,265 at September 30, 2017.

The Fixed income mutual fund includes one pooled fund that the Foundation elected to be recorded at net asset value per share totaling \$4,292,271 whose cost is \$4,313,628 at September 30, 2018. Also included in the above Fixed income mutual fund is one pooled fund recorded at net asset value per share totaling \$4,338,548 whose cost is \$4,313,628 at September 30, 2017.

##### Note 5 – Long-term Debt

The Foundation issued \$5,867,500 of Lease Revenue Bonds (Series 2013 Bonds) in November 2013, through the Medical Clinic Board of the City of Homewood. These bonds were issued to refinance the 2005 debt and have been designated as qualified tax-exempt obligations under Section 265(b)(3) of the IRC. Principal and interest of the Series 2013 Bonds are payable monthly beginning on December 1, 2013. All amounts are required to be paid in full on or before November 1, 2024.

*See independent auditor's report.*



## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

For the Years Ended September 30, 2018 and 2017 (continued)

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#### Note 5 – Long-term Debt (continued)

In December 2017, the Foundation issued \$3,305,000 of Lease Revenue Bonds (Series 2017-A Bonds), through the Medical Clinic Board of the City of Homewood to refund the Series 2009 Bonds. The Series 2017-A Bonds were not designated as qualified tax-exempt obligations under Section 265(b)(3) of the IRC. Principal of the Series 2017-A Bonds is payable annually beginning on November 1, 2018, and interest is payable semi-annually beginning May 1, 2018. All amounts are required to be paid in full on or before November 1, 2024.

In December 2017, the Foundation issued the Series 2017-B Bonds to finance up to \$10,000,000 of the costs of constructing and equipping additional facilities located on campus. During the Advance Period of the loan, interest will accrue at a variable rate. The aggregate principal amount of advances on the loan will convert to a fixed rate at the sooner of (i) the end of the Advance Period (18 months) or (ii) notification from the Foundation to the lender that no additional draws will be necessary. Interest is payable monthly until the end of the Advance Period, followed by semi-annual interest payments thereafter. The principal of the Series 2017-B Bond is payable beginning on November 1, 2019. The Series 2017-B Bonds mature on November 1, 2033.

Advances under the Series 2017-B Bonds may be prepaid without penalty during the 18-month Advance Period. Once converted to a term loan, the principal advanced during the Advance Period may be prepaid with proceeds from capital campaign funds with a 1% premium payable to the lender. After year 7 of the term loan period, prepayment can be made without penalty. The Foundation must maintain total unrestricted investments of no less than 1.5 times the outstanding aggregate principal amount of the Bonds.

In September 2018, Lakeshore entered into a capital lease for equipment payable at \$1,314 per month for 60 months.

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*See independent auditor's report.*

**LAKESHORE FOUNDATION AND AFFILIATE**

**Notes to Financial Statements**

**For the Years Ended September 30, 2018 and 2017 (continued)**

**Note 5 – Long-term Debt (continued)**

Long-term debt at September 30 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital lease through the Medical Clinic Board of the City of Homewood - Lease Revenue Bonds, Series 2009, with interest at 2.0% to 5.0%, payments due annually through 2024	\$ -	\$ 3,700,000
Capital lease through the Medical Clinic Board of the City of Homewood - Lease Revenue Bonds, Series 2013, with interest at 2.65%, payments due annually through 2024	3,501,332	4,016,436
Capital lease through the Medical Clinic Board of the City of Homewood - Lease Revenue Bonds, Series 2017-A, with interest at 2.33%, payments due annually through 2024	3,390,500	-
Capital lease through the Medical Clinic Board of the City of Homewood - Lease Revenue Bonds, Series 2017-B, with interest at 1.77% to 2.33%, payments beginning November 2019 due annually through 2024	3,018,456	-
Capital lease of equipment	<u>63,902</u>	<u>-</u>
Total Debt	9,974,190	7,716,436
Unamortized debt issuance costs	(127,906)	(116,912)
Unamortized bond discount/premium, net	<u>-</u>	<u>19,162</u>
Total Debt, net	9,846,284	7,618,686
Less current portion	<u>1,005,165</u>	<u>910,103</u>
Total Long-Term Debt, net	<u>\$ 8,841,119</u>	<u>\$ 6,708,583</u>

Future principal maturities of long term debt at September 30, 2018, and for the next 5 years and thereafter are as follows:

2019	\$ 1,005,165
2020	1,384,209
2021	1,412,599
2022	1,445,827
2023	1,476,799
Thereafter	<u>3,249,591</u>
Total Debt	<u>\$ 9,974,190</u>

*See independent auditor's report.*

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

#### For the Years Ended September 30, 2018 and 2017 (continued)

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##### Note 5 – Long-term Debt (continued)

The fair market value of bonds payable, which is estimated using current trade rates, was approximately \$8,841,119 and \$7,716,436 at September 30, 2018 and 2017, respectively.

Interest cost expensed for the years ended September 30, 2018 and 2017, was \$261,319 and \$305,880, respectively.

##### Note 6 – Rentals Under Operating Leases

The Foundation has entered into various rentals under operating leases as follows:

The Foundation leases approximately 138,000 square feet of buildings and equipment to a subsidiary of Encompass Health Corporation under a noncancelable operating lease that expires on September 30, 2034. The lessee has four options to renew the lease term for five additional years each.

The Foundation leases 17,690 square feet of office and lab space located in the Wallace Building to the University of Alabama at Birmingham. The ten year lease commenced August 1, 2018. The lessee has two options to renew the lease term for five additional years each.

The Foundation leases 4,172 square feet of office and clinical space located in the Magnolia Building to The Children's Hospital of Alabama. The five year lease commenced February 1, 2018. The lessee has the option to renew the lease term for an additional five years.

The Foundation leases tennis facilities to an individual under a non-cancelable lease that expires on September 30, 2020.

The Foundation's lease with the Alabama Department of Rehabilitation Services for 14,059 square feet of classroom and office space expired on September 30, 2018. The Alabama Department of Rehabilitation Services expects to continue to lease the building on a month to month basis through early 2019.

The following is a schedule by year of minimum future rentals on non-cancelable operating leases as of September 30, 2018:

2019	\$ 4,051,652
2020	4,134,228
2021	4,172,540
2022	4,257,333
2023	4,304,716
Thereafter	<u>50,267,838</u>
Total future minimum rentals:	<u>\$ 71,188,307</u>

*See independent auditor's report.*

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

For the Years Ended September 30, 2018 and 2017 (continued)

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#### Note 6 – Rentals Under Operating Leases (continued)

The following schedule provides a summary of the Foundation's investment in property under operating leases by major classes as of September 30:

	<u>2018</u>	<u>2017</u>
Land improvements	\$ 998,892	\$ 998,892
Major moveable equipment	272,866	288,944
Buildings and improvements	12,773,044	9,700,823
Fixed equipment	<u>6,195,285</u>	<u>6,195,285</u>
Total property and equipment	20,240,087	17,183,944
Less: Accumulated depreciation	<u>16,618,636</u>	<u>16,905,948</u>
Total Property And Equipment, Net	<u>\$ 3,621,451</u>	<u>\$ 277,996</u>

#### Note 7 – Net Assets

##### *Temporarily Restricted Net Assets*

Temporarily restricted net assets consisting of cash and pledges receivable are available for the following purposes at September 30:

	<u>2018</u>	<u>2017</u>
Purpose restrictions:		
Capital projects	\$ 2,448,419	\$ -
Fund programs for the disabled	212,589	25,032
Research grant funding	<u>178,156</u>	<u>284,992</u>
Total Temporarily Restricted Net Assets	<u>\$ 2,839,164</u>	<u>\$ 310,024</u>

The above restricted net assets include \$1,065,120 of net pledges receivable also restricted for time as of September 30, 2018 and \$6,301 at September 30, 2017.

##### *Permanently Restricted Net Assets*

Permanently restricted net assets consist of endowment funds on which earnings are used to fund scholarships for members.

#### Note 8 – Fair Value Measurements

The Foundation records certain assets and liabilities at fair value based upon a fair value hierarchy. See Note 1 for a discussion of the Foundation's policies regarding this hierarchy. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

*Cash Equivalents and Short-Term Investments* - For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

*See independent auditor's report.*

**LAKESHORE FOUNDATION AND AFFILIATE**

**Notes to Financial Statements**

**For the Years Ended September 30, 2018 and 2017 (continued)**

**Note 8 – Fair Value Measurements (continued)**

*Investments* - Fair values are based on quoted market prices or dealer quotes.

Level 3 investments consist primarily of investments in common trust funds whereby the underlying investments are equity investments in common stocks or hedge funds and alternative investments. Such funds are not publicly traded, and pricing is not available to the public, which results in a Level 3 classification.

As of September 30, 2018 the Foundation had four investments recorded at cost totaling \$654,128 with a fair value of \$1,202,879 and four pooled fund investments recorded at net asset value per share totaling \$52,969,020.

The following fair value hierarchy table presents information about the Foundation's assets measured or disclosed at fair value on a recurring basis as of September 30, 2018:

<u>Assets</u>	<u>Fair Value</u>	<b>Fair Value Measurement at Report Date Using</b>		
		<b>Quoted Prices in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
Investments:				
U.S. Government agencies	\$ 2,127,145	\$ -	\$ 2,127,145	\$ -
Mortgages and leases	2,565,279	-	2,565,279	-
Corporate obligations	5,659,662	-	5,659,662	-
Balanced mutual funds	1,720,668	1,720,668	-	-
Fixed income - mutual funds	1,273,885	1,233,108	40,777	-
Hedge funds and alternative investments	11,139,325	-	5,931,135	5,208,190
Short-term investments	<u>572,874</u>	<u>572,874</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<b><u>\$ 25,058,838</u></b>	<b><u>\$ 3,526,650</u></b>	<b><u>\$ 16,323,998</u></b>	<b><u>\$ 5,208,190</u></b>

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 investment assets for the year ended September 30, 2018:

	<b><u>Level 3 Assets</u></b>
Beginning balance - October 1, 2017	\$ 4,346,922
Purchases	147,223
Sales	-
Transfers in (out) of Level 3	587,225
Unrealized gains for instruments held at the reporting date	<u>126,820</u>
Ending balance - September 30, 2018	<b><u>\$ 5,208,190</u></b>

*See independent auditor's report.*

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

For the Years Ended September 30, 2018 and 2017 (continued)

#### Note 8 – Fair Value Measurements (continued)

The following fair value hierarchy table presents information about the Foundation's assets measured or disclosed at fair value on a recurring basis as of September 30, 2017:

<u>Assets</u>	<u>Fair Value</u>	Fair Value Measurement at Report Date Using		
		<u>Quoted Prices in Active Markets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Investments:				
U.S. Government agencies	\$ 2,837,294	\$ -	\$ 2,837,294	\$ -
Mortgages and leases	2,422,370	-	2,422,370	-
Corporate obligations	5,399,233		5,399,233	-
Balanced mutual funds	2,079,677	2,079,677	-	-
Fixed income- mutual funds	502,748	502,748	-	-
Hedge funds and alternative investments	9,880,838	-	5,533,916	4,346,922
Short-term investments	573,560	323,971	249,589	-
<b>Total Assets</b>	<b>\$ 23,695,720</b>	<b>\$ 2,906,396</b>	<b>\$ 16,442,402</b>	<b>\$ 4,346,922</b>

As of September 30, 2017 the Foundation had four investments recorded at cost totaling \$1,067,432 with fair value of \$2,045,420 and four pool fund investments recorded at net asset value per share totaling \$52,875,516 which are not reflected in the above amounts.

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 investment assets for the year ended September 30, 2017:

	<u>Level 3 Assets</u>
Beginning balance - October 1, 2016	\$ 8,958,978
Purchases	169,817
Sales	-
Transfers in (out) of Level 3	(4,858,381)
Unrealized gains for instruments held at the reporting date	76,508
Ending balance - September 30, 2017	<u>\$ 4,346,922</u>

#### Note 9 – Related Party Transaction

The Foundation owns the hospital in which a subsidiary of Encompass Health (Encompass) leases from the Foundation. The President of the Southeastern Region of Encompass is a member of the Foundation's Board of Directors. The total amount of lease payments received from Encompass in 2018 was \$3,501,986.

See independent auditor's report.

## LAKESHORE FOUNDATION AND AFFILIATE

### Notes to Financial Statements

For the Years Ended September 30, 2018 and 2017 (continued)

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#### Note 9 – Related Party Transaction (continued)

The Foundation entered into a contract for campus construction projects with Hoar Construction. The President of Hoar Holdings, LLC is also a member of the Foundation's Board of Directors. The total amount paid to Hoar during fiscal year 2018 was \$4,947,861.

The Foundation leases a portion of the Magnolia Building to The Children's Hospital of Alabama (Children's). The Chief Operating Officer of Children's is the Chairman of the Foundation's Board of Directors. The total amount of lease payments received from Children's in 2018 was \$61,189.

The Foundation paid legal fees to two law firms where partners, retired partners or counsel are also members of the Foundation's Board of Directors. The total amount of the legal fees paid to the law firms in 2018 totaled \$96,481 (\$45,000 for bond counsel, \$19,775 for borrower and lender counsel fees and \$31,706 for general services).

The Foundation paid Regions Financial Corporation (Regions) for bond issuance and trustee fees in the amount of \$23,531, interest of \$135,003 and investment fees of \$29,106. A Senior Executive Vice-President of Regions is a member of the Foundation's Board of Directors.

The Foundation also has transactions with utility, telecommunications and health insurance companies which occur in the normal course of business. Executives from these companies serve as members of the Foundation's Board of Directors.

#### Note 10 – Line of Credit

In 2017 Lakeshore Foundation entered into an operating line of credit agreement with a banking institution which provided that the Foundation could borrow up to \$8,000,000. Under the agreement, the Foundation is required to pay any interest due on the credit line in monthly installments. Interest is calculated at a variable rate based on the one month London Interbank Offered Rate (LIBOR) plus 1.19 percentage points. The Foundation must maintain minimum unrestricted investments of 1.5 times the outstanding balance on the line of credit. As of September 30, 2018 there was no outstanding debt on the line of credit. The original line of credit expired on October 5, 2018, and was renewed for borrowing up to \$6,837,823 with an expiration and due date of October 31, 2019.

#### Note 11 – Subsequent Events

The Foundation has evaluated subsequent events through January 7, 2019, the date the financial statements were available to be issued.

**LAKESHORE FOUNDATION AND AFFILIATE**

**Consolidated Schedules of Revenue and Support  
For the Years Ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Contributions, Grants and Scholarships</b>		
Unrestricted contributions, grants and scholarships:		
Contributions and sponsorships	\$ 591,242	\$ 646,735
Governmental grants	298,662	260,714
Capital gifts and pledges	3,189,714	-
Research grants	1,114,095	1,363,744
Temporarily restricted contributions:		
Contributions and sponsorships	195,573	9,417
Capital gifts and pledges	2,448,419	-
Research grants	-	284,922
Permanently restricted contributions:		
Contributions to scholarship funds	520	520
<b>Total Contributions, Grants and Scholarships</b>	<u>7,838,225</u>	<u>2,566,052</u>
<b>Fundraising Events</b>	71,400	69,314
<b>Membership Revenue, net of scholarships and bad debts</b>	711,054	721,528
<b>Program Fees and Contracts</b>		
Athletics	40,910	64,990
Training site	24,185	42,640
Athletic events	23,428	69,267
Recreation	8,846	7,564
Other	4,985	6,577
<b>Total Program Fees and Contracts</b>	<u>102,354</u>	<u>191,038</u>
<b>Rental Income</b>		
Rehabilitation hospital	3,501,987	3,433,320
Vocational rehabilitation building	222,694	218,336
Wallace Building	65,895	98,020
Magnolia Hall	61,189	8,766
Other	91,074	85,771
<b>Total Rental Income</b>	<u>3,942,839</u>	<u>3,844,213</u>
<b>Other Revenue</b>		
Investment income	867,841	883,359
Unrealized gains on investments, net	3,284,745	7,820,188
Realized gains on sale of investments, net	1,068,314	138,571
Unrealized gain on retirement assets	6,549	10,792
Interest income	17,734	1,198
Other	8,212	4,632
<b>Total Other Revenue</b>	<u>5,253,395</u>	<u>8,858,740</u>
<b>Total Revenue and Support</b>	<u>\$ 17,919,267</u>	<u>\$ 16,250,885</u>

*See independent auditor's report.*



**LAKESHORE FOUNDATION AND AFFILIATE**

**Consolidated Schedules of Expenses  
For the Years Ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Program Activities</b>		
Salaries and benefits	\$ 2,111,058	\$ 2,149,744
Athletics	212,743	182,113
Training site	67,451	79,415
Athletic events	61,856	88,590
Recreation	89,254	109,673
Aquatics	15,371	15,744
Fitness	25,307	25,659
Military initiative	182,810	180,809
Other programs	13,637	16,036
Depreciation and facility operations	2,750,000	2,769,088
Interest expense and amortization of bond issue costs	<u>243,119</u>	<u>284,151</u>
<b>Total Program Activities</b>	<u>5,772,606</u>	<u>5,901,022</u>
<b>Research</b>		
Lakeshore Research Fund		
Salaries and benefits	271,927	170,049
Other expenses	196,362	94,860
Grants awarded	-	<u>3,386</u>
Total Lakeshore Research Fund	<u>468,289</u>	<u>268,295</u>
Research Grants		
Salaries and benefits	779,545	937,905
Research grant expenses	<u>126,665</u>	<u>182,995</u>
Total Research Grants	<u>906,210</u>	<u>1,120,900</u>
Depreciation and facility operations	123,629	111,664
Interest expense and amortization of bond issue costs	<u>10,929</u>	<u>11,458</u>
<b>Total Research</b>	<u>1,509,057</u>	<u>1,512,317</u>
<b>Policy and Advocacy</b>		
Salaries and benefits	219,330	148,170
General expenses	12,479	12,134
Business meals and travel	48,959	45,929
Purchased services and public awareness	69,219	54,154
Advocacy and policy grants	23,566	45,223
Depreciation and facility operations	4,474	3,651
Interest expense and amortization of bond issue costs	<u>395</u>	<u>375</u>
<b>Total Policy and Advocacy</b>	<u>378,422</u>	<u>309,636</u>

*See independent auditor's report.*

**LAKESHORE FOUNDATION AND AFFILIATE**

**Consolidated Schedules of Expenses (continued)  
For the Years Ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Communications and Memberships</b>		
Salaries and benefits	\$ 536,282	\$ 531,483
General expenses	15,856	18,779
Publications and public awareness	108,325	162,850
Member related expenses	17,386	31,100
Depreciation and facility operations	13,288	18,285
Interest expense and amortization of bond issue costs	<u>1,175</u>	<u>1,876</u>
<b>Total Communications and Memberships</b>	<u>692,312</u>	<u>764,373</u>
<b>Fundraising/Development</b>		
Salaries and benefits	362,610	407,652
General expenses	74,629	35,635
Capital Campaign expenses	93,288	57,425
Event expenses	18,630	25,815
Depreciation and facility operations	28,699	33,542
Interest expense and amortization of bond issue costs	<u>2,537</u>	<u>3,442</u>
<b>Total Fundraising/Development</b>	<u>580,393</u>	<u>563,511</u>
<b>General and Administrative</b>		
Salaries and benefits	1,212,867	1,139,287
Supplies	57,082	79,921
Business meals and travel	22,554	18,910
Purchased services	170,788	231,684
Depreciation and facility operations	35,789	44,608
Interest expense and amortization of bond issue costs	<u>3,164</u>	<u>4,578</u>
<b>Total General and Administrative</b>	<u>1,502,244</u>	<u>1,518,988</u>
<b>Rental</b>	242,206	197,844
<b>Investment management fees</b>	189,458	163,985
<b>Loss on extinguishment of debt</b>	<u>50,965</u>	<u>-</u>
<b>Total Expenses</b>	<u>\$ 10,917,663</u>	<u>\$ 10,931,676</u>

See independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
Lakeshore Foundation and Affiliate

**Report on Compliance for Each Major Federal Program**

We have audited Lakeshore Foundation and Affiliate's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Lakeshore Foundation and Affiliate's major federal programs for the year ended September 30, 2018. Lakeshore Foundation and Affiliate's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lakeshore Foundation and Affiliate's compliance.

**Opinion on Each Major Federal Program**

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

## Report on Internal Control Over Compliance

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

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

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

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



Borland Benefield, P.C.  
Birmingham, AL  
January 7, 2019

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

To the Board of Directors of  
Lakeshore Foundation and Affiliate

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lakeshore Foundation and Affiliate (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 7, 2019.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lakeshore Foundation and Affiliate's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Borland Benefield P.C.*

Borland Benefield, P.C.  
Birmingham, AL  
January 7, 2019

LAKESHORE FOUNDATION AND AFFILIATE

Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program or Title</u>	<u>CFDA Number</u>	<u>Pass-Through/ Local Grantor Number</u>	<u>Total Expended</u>
<b>U.S. Department of Health &amp; Human Services</b>			
University of Alabama at Birmingham			
National Institute on Disability and Rehabilitation Research	84.133A	164965	\$ 893,292
Child Health and Human Development Extramural Research	93.865	164965	93,470
Scaling the National Diabetes Prevention Program to Priority Populations	93.261	1NU58DP006363-01-00	91,782
Trans-NIH Research Support	93.310	OT2OD023206	<u>36,000</u>
<b>Total U.S. Department of Health &amp; Human Services</b>			<u>1,114,544</u>
<b>U.S. Department of Veteran Affairs</b>			
Veterans Adaptive Sports Programs for Disabled Veterans			
VA Assistance to U.S. Paralympic Integrated Adaptive Sports Program - Operation Endurance	64.034	2018-ASG-45	24,850
VA Assistance to U.S. Paralympic Integrated Adaptive Sports Program - Operation Perseverance	64.034	2017-ASG-46	<u>47,176</u>
<b>Total U.S. Department of Veteran Affairs</b>			<u>72,026</u>
<b>U.S. Department of Defense</b>			
University of Alabama at Birmingham			
Military Medical Research and Development	12.420	164965	<u>10,403</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,196,973</u>

**LAKESHORE FOUNDATION AND AFFILIATE**

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2018**

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**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Foundation under programs of the federal government for the year ended September 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets, or the cash flows of the Foundation.

**Note 2 – Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3 – Indirect Cost Rate**

The Foundation has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



LAKESHORE FOUNDATION AND AFFILIATE

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2018

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

**Financial Statements**

Type of auditor's report issued: unmodified

Internal control over financial reporting:  
Material weakness(es) identified?        yes   X   no

Significant deficiencies identified that are not considered to be material weaknesses?        yes   X   no

Noncompliance material to financial statements noted?        yes   X   no

**Federal Awards**

Internal control over major programs:  
Material weakness(es) identified?        yes   X   no

Significant deficiencies identified that are not considered to be material weaknesses?        yes   X   no

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) of the Uniform Guidance?        yes   X   no

Identification of major programs:  
U.S. Department of Health & Human Services  
CFDA# 84.133A - National Institute on Disability Rehabilitation Research

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   yes        no

**Section II - Financial Statement Findings**

None Reported

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

None Reported