



STATE OF INDIANA
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April 4, 2018

Board of Directors
Future Choices, Inc.
309 North High Street
Muncie, IN 47305

We have reviewed the report prepared by Future Choices, Inc. and opined upon by Barnes, Dennig & Co, Ltd. Independent Public Accountants, for the period October 1, 2015 to September 30, 2016. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Future Choices, Inc. as of September 30, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Barnes, Dennig & Co, Ltd. prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

Future Choices, Inc. and Subsidiary

**Consolidated Financial Statements
Years Ended September 30, 2016 and 2015, and
Independent Auditors' Report**

FUTURE CHOICES, INC AND SUBSIDIARY
September 30, 2016 and 2015

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Independent Auditors' Report

Board of Directors
Future Choices, Inc. and Subsidiary
Muncie, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Future Choices, Inc. and Subsidiary, (Future Choices), which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Future Choices as of September 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 15 - 18 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2017 on our consideration of the Future Choices' 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 Future Choices' internal control over financial reporting and compliance.

Barneo Denning + Co, Ltd.

January 12, 2017
Indianapolis, Indiana

FUTURE CHOICES, INC AND SUBSIDIARY

**Consolidated Statement of Financial Position
September 30, 2016**

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|--------------|---------------------------|--------------|
| Assets | | | |
| Cash | \$ 322,475 | \$ - | \$ 322,475 |
| Cash held as fiscal agent (Note 9) | 308,374 | - | 308,374 |
| Security deposits | 16,476 | - | 16,476 |
| Reserves (Note 8) | 113,638 | - | 113,638 |
| Funds held in escrow (Note 8) | 45,381 | - | 45,381 |
| Accounts receivable, net of allowance | 14,129 | - | 14,129 |
| Grants receivable | 83,767 | - | 83,767 |
| Prepaid expenses | 1,653 | - | 1,653 |
| Property and equipment, net (Note 5) | 1,825,046 | - | 1,825,046 |
| Other assets | 4,367 | - | 4,367 |
| Total assets | \$ 2,735,306 | \$ - | \$ 2,735,306 |
| Liabilities and Net Assets | | | |
| Liabilities | | | |
| Accounts payable | \$ 28,903 | \$ - | \$ 28,903 |
| Fiscal agent payable (Note 9) | 308,374 | - | 308,374 |
| Accrued wages and taxes | 8,978 | - | 8,978 |
| Accrued property taxes | 14,824 | - | 14,824 |
| Security deposits | 14,529 | - | 14,529 |
| Prepaid rent | 7,453 | - | 7,453 |
| Long-term debt (Note 6) | 445,671 | - | 445,671 |
| Total liabilities | 828,732 | - | 828,732 |
| Net assets | 1,906,574 | - | 1,906,574 |
| Total liabilities and net assets | \$ 2,735,306 | \$ - | \$ 2,735,306 |

See accompanying notes to financial statements.

FUTURE CHOICES, INC AND SUBSIDIARY

Consolidated Statement of Financial Position September 30, 2015

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|--------------|---------------------------|--------------|
| Assets | | | |
| Cash | \$ 304,297 | \$ - | \$ 304,297 |
| Cash held as fiscal agent (Note 9) | 314,157 | - | 314,157 |
| Security deposits | 19,220 | - | 19,220 |
| Reserves (Note 8) | 102,979 | - | 102,979 |
| Funds held in escrow (Note 8) | 43,914 | - | 43,914 |
| Accounts receivable, net of allowance | 48,840 | - | 48,840 |
| Grants receivable | 101,350 | - | 101,350 |
| Prepaid expenses | 1,636 | - | 1,636 |
| Property and equipment, net (Note 5) | 1,914,012 | - | 1,914,012 |
| Other assets | 5,710 | - | 5,710 |
| Total assets | \$ 2,856,115 | \$ - | \$ 2,856,115 |
| Liabilities and Net Assets | | | |
| Liabilities | | | |
| Accounts payable | \$ 10,090 | \$ - | \$ 10,090 |
| Fiscal agent payable (Note 9) | 314,157 | - | 314,157 |
| Accrued wages and taxes | 21,787 | - | 21,787 |
| Accrued property taxes | 14,281 | - | 14,281 |
| Security deposits | 13,220 | - | 13,220 |
| Prepaid rent | 3,669 | - | 3,669 |
| Long-term debt (Note 6) | 475,975 | - | 475,975 |
| Total liabilities | 853,179 | - | 853,179 |
| Net assets | 2,002,936 | - | 2,002,936 |
| Total liabilities and net assets | \$ 2,856,115 | \$ - | \$ 2,856,115 |

See accompanying notes to financial statements.

FUTURE CHOICES, INC AND SUBSIDIARY

Consolidated Statement of Activities Year Ended September 30, 2016

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|--------------|---------------------------|--------------|
| Revenues and other support | | | |
| Grants and contracts | \$ 534,448 | \$ - | \$ 534,448 |
| Net rental income | 188,665 | - | 188,665 |
| Service fees | 30,000 | - | 30,000 |
| Program fees | 22,775 | - | 22,775 |
| Interest income | 183 | - | 183 |
| Gain on disposal of asset | 1,786 | - | 1,786 |
| Forgiveness of debt | 17,500 | - | 17,500 |
| Other income | 14,856 | - | 14,856 |
| Total revenue | 810,213 | - | 810,213 |
| Net assets released from restrictions | - | - | - |
| Total revenue | 810,213 | - | 810,213 |
| Expenses | | | |
| Salaries and wages | 343,782 | - | 343,782 |
| Payroll tax | 27,609 | - | 27,609 |
| Office expense | 8,862 | - | 8,862 |
| Utilities | 9,447 | - | 9,447 |
| Telephone | 8,400 | - | 8,400 |
| Conferences and meetings | 1,687 | - | 1,687 |
| Dues and subscriptions | 6,962 | - | 6,962 |
| Insurance | 36,659 | - | 36,659 |
| Automobile expense | 14,544 | - | 14,544 |
| Professional fees | 37,126 | - | 37,126 |
| Property expense | 3,092 | - | 3,092 |
| Repair and maintenance | 11,641 | - | 11,641 |
| Rental expense | 19,949 | - | 19,949 |
| Supplies | 13,579 | - | 13,579 |
| Travel | 17,472 | - | 17,472 |
| Miscellaneous | 19,720 | - | 19,720 |
| Rental management | 164,309 | - | 164,309 |
| Interest expense | 21,275 | - | 21,275 |
| Depreciation | 86,658 | - | 86,658 |
| Amortization | 1,343 | - | 1,343 |
| Bad debt | 52,459 | - | 52,459 |
| Total expenses | 906,575 | - | 906,575 |
| Change in net assets | (96,362) | - | (96,362) |
| Net assets - beginning of year | 2,002,936 | - | 2,002,936 |
| Net assets - end of year | \$ 1,906,574 | \$ - | \$ 1,906,574 |

See accompanying notes to financial statements.

FUTURE CHOICES, INC AND SUBSIDIARY

**Consolidated Statement of Activities
Year Ended September 30, 2015**

| | Unrestricted | Temporarily Restricted | Total |
|--|--------------|---------------------------|--------------|
| Revenues and other support | | | |
| Grants and contracts | \$ 197,017 | \$ - | \$ 197,017 |
| Net rental income | 143,077 | - | 143,077 |
| Service fees | 29,295 | - | 29,295 |
| Program fees | 18,135 | - | 18,135 |
| Interest income | 135 | - | 135 |
| Forgiveness of debt | 17,500 | - | 17,500 |
| Other income | 12,765 | - | 12,765 |
| | 417,924 | - | 417,924 |
| Total revenue | 417,924 | - | 417,924 |
| Net assets released from restrictions | 467,153 | (467,153) | - |
| | 885,077 | (467,153) | 417,924 |
| Expenses | | | |
| Salaries and wages | 371,072 | - | 371,072 |
| Payroll tax | 30,899 | - | 30,899 |
| Office expense | 8,225 | - | 8,225 |
| Utilities | 9,612 | - | 9,612 |
| Telephone | 8,822 | - | 8,822 |
| Conferences and meetings | 1,390 | - | 1,390 |
| Dues and subscriptions | 10,062 | - | 10,062 |
| Insurance | 26,078 | - | 26,078 |
| Automobile expense | 10,740 | - | 10,740 |
| Professional fees | 34,584 | - | 34,584 |
| Property expense | 2,305 | - | 2,305 |
| Repair and maintenance | 9,827 | - | 9,827 |
| Rental expense | 18,541 | - | 18,541 |
| Supplies | 10,804 | - | 10,804 |
| Travel | 16,843 | - | 16,843 |
| Miscellaneous | 6,101 | - | 6,101 |
| Rental management | 113,640 | - | 113,640 |
| Interest expense | 16,851 | - | 16,851 |
| Depreciation | 71,018 | - | 71,018 |
| Amortization | 1,003 | - | 1,003 |
| Bad debt | 48,280 | - | 48,280 |
| | 826,697 | - | 826,697 |
| Total expenses | 826,697 | - | 826,697 |
| Change in net assets | 58,380 | (467,153) | (408,773) |
| Net assets - beginning of year, | 1,174,397 | 467,153 | 1,641,550 |
| Addition of Daley Apartments net assets Note (11) | 770,159 | - | 770,159 |
| Net assets - end of year | \$ 2,002,936 | \$ - | \$ 2,002,936 |

See accompanying notes to financial statements.

FUTURE CHOICES, INC AND SUBSIDIARY

Consolidated Statements of Cash Flows Year Ended September 30, 2016 and 2015

| | 2016 | 2015 |
|--|-------------|--------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ (96,362) | \$ (408,773) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 86,658 | 71,018 |
| Amortization | 1,343 | 1,003 |
| Gain on disposal of assets | (1,786) | - |
| Forgiveness of debt | (17,500) | (17,500) |
| Decrease (increase) in: | | |
| Accounts receivable | 34,711 | (32,941) |
| Accounts receivable - related party | (900) | - |
| Grants receivable | 17,583 | 365,803 |
| Fiscal agent cash | 5,783 | (16,469) |
| Security deposits | 2,744 | (1,842) |
| Operating reserves | (9) | (58) |
| Escrows | (1,467) | (18,222) |
| Other assets | (17) | 7,858 |
| Increases (decreases) in: | | |
| Accounts payable | 18,813 | (9,840) |
| Accounts payable - related party | (1,055) | - |
| Accrued interest payable | 1,955 | 38,575 |
| Accrued property taxes | 543 | 3,317 |
| Fiscal agent payable | (5,783) | 16,469 |
| Accrued wages | (12,809) | 1,348 |
| Security deposits | 1,309 | (867) |
| Prepaid rent | 3,784 | 1,247 |
| Net cash provided by (used in) operating activities | 37,538 | 126 |
| Cash Flows from Investing Activities | | |
| Deposits to replacement reserve | - | (7,985) |
| Withdrawals from replacement reserve | (10,650) | 15,844 |
| Proceeds from disposal of assets | 6,586 | - |
| Capital expenditures | (2,492) | (5,880) |
| Net cash provided by (used in) investing activities | (6,556) | 1,979 |
| Cash Flows from Financing Activities | | |
| Payment on debt | (12,804) | (8,150) |
| Net cash provided by (used in) financing activities | (12,804) | (8,150) |
| Change in cash | 18,178 | (6,045) |
| Cash - beginning of year | 304,297 | 310,342 |
| Cash - end of year | \$ 322,475 | \$ 304,297 |
| Interest paid during the year | \$ 20,738 | \$ 16,851 |
| Noncash Transactions: | | |
| Assumption of 100% of Daley Apartments, L.P. | \$ - | \$ 770,159 |

See accompanying notes to financial statements.

FUTURE CHOICES, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements

NOTE 1 NATURE OF THE ORGANIZATION

Future Choices, Inc. and Subsidiary (Future Choices) was organized in 1995 as a 501(C)(3) not-for-profit corporation for the purpose of providing access to services and to conduct activities to ensure that people in Delaware County, Indiana with special needs and their families are empowered to make personal choices from a wide range of acceptable options, which lead to the greatest level of independence. Future Choices is funded by a network of individuals, the Muncie community, the State of Indiana and Federal government.

Through community education, statewide collaboration, partnerships and outreach, Future Choices currently provides direct services in seven counties in Indiana. These counties are: Blackford, Delaware, Grant, Howard, Madison, Tipton, and Randolph as well as extended services in Henry County.

Future Choices is the sole member of Daley Apartments, LLC, the 99.9% limited partner of Daley Apartments, L.P. (Daley Apartments). The general partner, Daley Apartments, Inc., which has the remaining .1% ownership of Daley Apartments, L.P. is also a wholly-owned subsidiary of Future Choices.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements include the accounts of Future Choices and Daley Apartments. Future Choices has 100% ownership of Daley Apartments, L.P. through sole ownership of the general and limited partners as of December 31, 2014. All significant intercompany balances and transactions have been eliminated.

Net assets are classified according to donor-imposed restrictions. Unrestricted net assets include all assets over which Future Choices has full discretion as to use. Temporarily restricted net assets include net assets whose use is restricted by donor-imposed stipulations either as to use or timing. As the restrictions are met, the net assets are released from restrictions and included in unrestricted net assets. Permanently restricted net assets include net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of management. Future Choices does not have any permanently restricted net assets as of September 30, 2016 and 2015.

Future Choices received funding from the State of Indiana and the federal government to carry out certain program activities.

Future Choices follows the practice of capitalizing all expenditures in excess of \$1,000 for property and equipment at cost. The fair value of donated fixed assets is similarly capitalized. Depreciation is provided using the straight-line method over estimated useful lives of 5-40 years. The following is a summary of the lives for each class of asset:

| | |
|----------------------------------|--------------|
| Buildings/leasehold improvements | 5 - 40 years |
| Equipment | 3 - 7 years |
| Vehicles | 5 - 7 years |

FUTURE CHOICES, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

When property is sold, retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is credited or charged to income. Expenditures for maintenance and repairs are expensed when incurred.

Long-lived assets and certain identifiable intangibles held and used by Future Choices are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Future Choices is exempt from income taxation under Internal Revenue Code Section 501(c)(3); therefore, no expense or liability has been recognized for income taxes in the accompanying financial statements. Management believes that Future Choices has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities.

No provision for income taxes has been made in these financial statements for Daley Apartments since taxable income or losses pass through to, and are reported by, the individual partners. Management believes that Daley Apartments has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities.

The grants receivable represent grants Future Choices has been awarded for the year ended and were awaiting reimbursement of services provided. A substantial majority of receivables are due from government sources. All amounts are considered collectible; therefore, no bad debt allowance is considered necessary.

Future Choices reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulation restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. If a restriction is fulfilled in the same time period in which the contribution is received, Future Choices reports the support as unrestricted.

Rental income is recognized as rental payments become due. Rental payments received in advance are deferred until earned. All leases between Daley Apartments and the tenants of the property are operating leases.

Common costs of Future Choices are allocated to benefitting programs using various allocation methods, depending on the type of joint cost being allocated. Common costs are those costs incurred for the common benefit of all agency programs, but which cannot be readily identified with a final cost objective. Costs that are attributable to a specific program are applied directly to that specific program.

The preparation of financial statements in conformity with generally accepted accounting principles 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 date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Certain prior year amounts have been reclassified to correspond to current year presentation. Such reclassifications have no effect on the change in net assets for either year.

FUTURE CHOICES, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

NOTE 3 CASH

Future Choices maintains its cash in bank deposit accounts that, at times, exceed federally insured limits. As of September 30, 2016 and 2015, excesses of approximately \$381,000 and \$396,000, respectively, exceeded federally insured limits. Future Choices has not experienced any losses in its accounts and management believes it is not exposed to any significant credit risk on cash.

NOTE 4 RELATED PARTY TRANSACTIONS

Future Choices is entitled to an incentive management fee of 70% of net cash flow, as defined in the partnership agreement, from Daley Apartments. The management fee, when combined with the base property management fee, is not to exceed 10% of gross rental income. No amounts were earned as of September 30, 2016 and 2015.

Future Choices and Daley Apartments entered into an agreement to provide social services consulting for a fee of \$7,000 per year. Both income and expenses were recognized in 2016 and 2015.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2016:

| | Basis | Accumulated Depreciation | Net Book Value |
|--------------------------|---------------------|-----------------------------|---------------------|
| Future Choices, Inc.: | | | |
| Land | \$ 2,703 | \$ - | \$ 2,703 |
| Buildings & Improvements | 90,400 | 29,307 | 61,093 |
| Leasehold Improvements | 7,476 | 7,476 | - |
| Furniture & fixtures | 71,568 | 62,915 | 8,653 |
| Vehicles | 20,622 | 15,021 | 5,601 |
| | <u>192,769</u> | <u>114,719</u> | <u>78,050</u> |
| Daley Apartments, L.P.: | | | |
| Land | 50,000 | - | 50,000 |
| Buildings & Improvements | 2,945,517 | 1,248,521 | 1,696,996 |
| Leasehold Improvements | 50,000 | 50,000 | - |
| Furniture & fixtures | 52,019 | 52,019 | - |
| | <u>3,097,536</u> | <u>1,350,540</u> | <u>1,746,996</u> |
| Total | <u>\$ 3,290,305</u> | <u>\$ 1,465,259</u> | <u>\$ 1,825,046</u> |

FUTURE CHOICES, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2015:

| | Basis | Accumulated Depreciation | Net Book Value |
|--------------------------|---------------------|-----------------------------|---------------------|
| Future Choices, Inc.: | | | |
| Land | \$ 2,703 | \$ - | \$ 2,703 |
| Buildings & Improvements | 90,400 | 25,922 | 64,478 |
| Leasehold Improvements | 7,476 | 7,476 | - |
| Furniture & fixtures | 69,076 | 58,479 | 10,597 |
| Vehicles | 29,621 | 14,021 | 15,600 |
| | <u>199,276</u> | <u>105,898</u> | <u>93,378</u> |
| Daley Apartments, L.P.: | | | |
| Land | 50,000 | - | 50,000 |
| Buildings & Improvements | 2,945,517 | 1,174,883 | 1,770,634 |
| Leasehold Improvements | 50,000 | 50,000 | - |
| Furniture & fixtures | 52,019 | 52,019 | - |
| | <u>3,097,536</u> | <u>1,276,902</u> | <u>1,820,634</u> |
| Total | <u>\$ 3,296,812</u> | <u>\$ 1,382,800</u> | <u>\$ 1,914,012</u> |

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following as of September 30, 2016:

| | Future Choices, Inc. | Daley Apartments | Total |
|--------------------------------|----------------------------|---------------------|-------------------|
| HOME Loan (1) - City of Muncie | \$ 40,625 | \$ - | \$ 40,625 |
| HOME Loan (2) - City of Muncie | 15,000 | - | 15,000 |
| Old National Bank Mortgage | - | 390,046 | 390,046 |
| Total | <u>\$ 55,625</u> | <u>\$ 390,046</u> | <u>\$ 445,671</u> |

Long-term debt consists of the following as of September 30, 2015:

| | Future Choices, Inc. | Daley Apartments | Total |
|--------------------------------|----------------------------|---------------------|-------------------|
| HOME Loan (1) - City of Muncie | \$ 53,125 | \$ - | \$ 53,125 |
| HOME Loan (2) - City of Muncie | 20,000 | - | 20,000 |
| Old National Bank Mortgage | - | 402,850 | 402,850 |
| Total | <u>\$ 73,125</u> | <u>\$ 402,850</u> | <u>\$ 475,975</u> |

FUTURE CHOICES, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

NOTE 6 LONG-TERM DEBT

Future Choices obtained a HOME loan from the City of Muncie, Indiana in the amount of \$250,000. The term of the HOME loan is twenty years which began on December 10, 1999, the date of the final disbursement of loan proceeds. As per the HOME loan agreement, these funds need not be paid back provided there is no default of any of the provisions of the agreement. As allowable by the agreement, the note is forgiven at the rate of 5% on each anniversary date of the final disbursement of loan proceeds and shall be forgiven in its entirety on the 20th anniversary date of such disbursements.

Future Choices also obtained a HOME loan from the City of Muncie, Indiana in the amount of \$50,000. The term of the HOME loan is ten years which began during the year ended September 30, 2010. As per the HOME loan agreement, these funds need not be paid back provided there is no default of any of the provisions of the agreement. As allowable by the agreement, the note is forgiven at the rate of 10% on each anniversary date (September 30) and shall be forgiven in its entirety on the 10th anniversary date.

Future Choices renewed a \$300,000 line of credit with Old National Bank on July 31, 2015. The interest rate on the line of credit is the prime rate as published by the Wall Street Journal plus .25% with the interest rate not to be less than 3.25% per annum. The line of credit matures on January 31, 2017. The agreement is secured by all assets of Future Choices and proceeds from the disposition of any such property. At September 30, 2016 and 2015 there was no amount outstanding.

The mortgage note payable to Old National Bank in the original amount of \$411,000 is collateralized by a mortgage on Daley Apartments real property and an assignment of leases. The note bears interest at the rate of 5.25% per annum. The note is payable in monthly installments of \$2,787, including interest, commencing February 1, 2015. The note matures January 1, 2020.

The future maturities on the mortgage only are as follows:

Year ending September 30,

| | | |
|------------|----|----------------|
| 2017 | \$ | 12,595 |
| 2018 | | 13,273 |
| 2019 | | 13,987 |
| 2020 | | 14,739 |
| 2021 | | 335,452 |
| Thereafter | | - |
| | \$ | <u>390,046</u> |

NOTE 7 CONCENTRATIONS

Daley Apartments' operations are concentrated in the multifamily real estate market. In addition, Daley Apartments operates in a heavily regulated environment. The operations are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies and are subject to change. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, if any, to comply with a change.

FUTURE CHOICES, INC AND SUBSIDIARY

**Notes to Consolidated Financial Statements
(Continued)**

NOTE 8 RESERVES AND ESCROW ACCOUNTS

The status of the reserves for Daley Apartments as of September 30, 2016, is as follows:

| | Operating Reserve | Replacement Reserve | Total |
|------------------------------|----------------------|------------------------|-------------------|
| Balance - January 1, 2015 | \$ 21,800 | \$ 88,980 | \$ 110,780 |
| Deposits | 58 | 7,985 | 8,043 |
| Withdrawals | - | (15,844) | (15,844) |
| Balance - September 30, 2015 | 21,858 | 81,121 | 102,979 |
| Deposits | 8 | 10,651 | 10,659 |
| Withdrawals | - | - | - |
| Balance - September 30, 2016 | <u>\$ 21,866</u> | <u>\$ 91,772</u> | <u>\$ 113,638</u> |

The partnership agreement required the Partnership to establish an operating reserve in the amount of \$80,000 from the final capital contribution of the limited partner.

The partnership agreement required the Partnership to fund the replacement reserve at an annual rate equal to \$200 per unit until 2004. The rate was adjusted on January 1, 2005, and January 1 of each fifth year thereafter, to the product of \$200 multiplied by the CPI adjustment as of the adjustment date. The general partner may withdraw funds from the replacement reserve for repairs and personal property replacement with the approval of the administrative limited partner.

The partnership has established an escrow account to be used to pay property taxes and property insurance. The balance in the account at September 30, 2016 and 2015 is \$45,381 and \$43,914, respectively.

NOTE 9 REPRESENTATIVE PAYEE ACCOUNTS

Future Choices serves as the representative payee, approved by the Social Security Administration (SSA), for various consumers who require assistance with their financial responsibilities. The SSA requires Future Choices to maintain a separate bank account into which the SSA makes direct deposits for each consumer. As these monies do not belong to Future Choices; Future Choices has recorded a current asset and an off-setting liability. At September 30, 2016 and 2015, the balance totaled \$308,374 and \$314,157, respectively.

FUTURE CHOICES, INC AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

NOTE 10 FUNCTIONAL EXPENSES

Functional expenses as of September 30, 2016 are as follows:

| | |
|-------------------------------|-------------------|
| Program: | |
| Rental housing | \$ 268,650 |
| Independent living assistance | <u>574,133</u> |
| Total program expenses | 842,783 |
| General and administrative | <u>63,793</u> |
| Total expenses | <u>\$ 906,575</u> |

Functional expenses as of September 30, 2015 are as follows:

| | |
|-------------------------------|-------------------|
| Program: | |
| Rental housing | \$ 179,214 |
| Independent living assistance | <u>582,735</u> |
| Total program expenses | 761,949 |
| General and administrative | <u>64,748</u> |
| Total expenses | <u>\$ 826,697</u> |

NOTE 11 ADDITION OF DALEY APARTMENTS NET ASSETS

Effective December 31, 2014, the investor and administrative limited partners of Daley Apartments, L.P. were replaced by Daley Apartments, LLC, whose sole member is Future Choices. As a result, Future Choices now owns 100% of Daley Apartments, L.P. The current period adjustment in 2015 of \$770,159 reflects the capital accounts assumed by Future Choices.

NOTE 12 SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 12, 2017, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTAL INFORMATION

FUTURE CHOICES, INC AND SUBSIDIARY

Consolidated Statement of Financial Position September 30, 2016

| | Future Choices, Inc. | | | Daley Apartments | Eliminations | Total |
|---|----------------------|---------------------------|-------------------|---------------------|--------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | | | |
| Assets | | | | | | |
| Cash | \$ 268,846 | \$ - | \$ 268,846 | \$ 53,629 | \$ - | \$ 322,475 |
| Cash held as fiscal agent (Note 9) | 308,374 | - | 308,374 | - | - | 308,374 |
| Security deposits | - | - | - | 16,476 | - | 16,476 |
| Reserves (Note 8) | - | - | - | 113,638 | - | 113,638 |
| Funds held in escrow (Note 8) | - | - | - | 45,381 | - | 45,381 |
| Accounts receivable, net of allowance | 10,425 | - | 10,425 | 3,704 | - | 14,129 |
| Grants receivable | 83,767 | - | 83,767 | - | - | 83,767 |
| Accounts receivable - related party | 13,805 | - | 13,805 | - | (13,805) | - |
| Prepaid expenses | - | - | - | 1,653 | - | 1,653 |
| Investment in partnership | 41,604 | - | 41,604 | - | (41,604) | - |
| Property and equipment, net (Note 5) | 78,050 | - | 78,050 | 1,746,996 | - | 1,825,046 |
| Other assets | - | - | - | 4,367 | - | 4,367 |
| Total assets | \$ 804,871 | \$ - | \$ 804,871 | \$ 1,985,844 | \$ (55,409) | \$ 2,735,306 |
| Liabilities and Net Assets | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 22,014 | \$ - | \$ 22,014 | \$ 6,889 | \$ - | 28,903 |
| Accounts payable - related party (Note 6) | - | - | - | - | - | - |
| Fiscal agent payable (Note 9) | 308,374 | - | 308,374 | - | - | 308,374 |
| Accrued interest payable | - | - | - | 368,063 | (368,063) | - |
| Accrued wages and taxes | 8,978 | - | 8,978 | - | - | 8,978 |
| Accrued property taxes | - | - | - | 14,824 | - | 14,824 |
| Security deposits | - | - | - | 14,529 | - | 14,529 |
| Prepaid rent | - | - | - | 7,453 | - | 7,453 |
| Note payable (Note 6) | 55,625 | - | 55,625 | 651,896 | (261,850) | 445,671 |
| Total liabilities | 394,991 | - | 394,991 | 1,063,654 | (629,913) | 828,732 |
| Net assets | 409,880 | - | 409,880 | 922,190 | 574,504 | 1,906,574 |
| Total liabilities and net assets | \$ 804,871 | \$ - | \$ 804,871 | \$ 1,985,844 | \$ (55,409) | \$ 2,735,306 |

FUTURE CHOICES, INC AND SUBSIDIARY

Consolidating Statement of Financial Position September 30, 2015

| | Future Choices, Inc. | | | Daley Apartments | Eliminations | Total |
|--|----------------------|---------------------------|-------------------|---------------------|--------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | | | |
| Assets | | | | | | |
| Cash | \$ 244,023 | \$ - | \$ 244,023 | \$ 60,274 | \$ - | \$ 304,297 |
| Cash held as fiscal agent (Note 9) | 314,157 | - | 314,157 | - | - | 314,157 |
| Security deposits | - | - | - | 19,220 | - | 19,220 |
| Reserves (Note 8) | - | - | - | 102,979 | - | 102,979 |
| Funds held in escrow (Note 8) | - | - | - | 43,914 | - | 43,914 |
| Accounts receivable, net of allowance | 43,288 | - | 43,288 | 5,552 | - | 48,840 |
| Grants receivable | 101,350 | - | 101,350 | - | - | 101,350 |
| Accounts receivable - related party | 12,905 | - | 12,905 | - | (12,905) | - |
| Prepaid expenses | - | - | - | 1,636 | - | 1,636 |
| Investment in partnership | 41,604 | - | 41,604 | - | (41,604) | - |
| Property and equipment, net (Note 5) | 93,378 | - | 93,378 | 1,820,634 | - | 1,914,012 |
| Other assets | - | - | - | 5,710 | - | 5,710 |
| Total assets | \$ 850,705 | \$ - | \$ 850,705 | \$ 2,059,919 | \$ (54,509) | \$ 2,856,115 |
| Liabilities and Net Assets | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 6,159 | \$ - | \$ 6,159 | \$ 3,931 | \$ - | 10,090 |
| Accounts payable - related party (Note 6) | - | - | - | 1,055 | (1,055) | - |
| Fiscal agent payable (Note 9) | 314,157 | - | 314,157 | - | - | 314,157 |
| Accrued interest payable | - | - | - | 512,739 | (512,739) | - |
| Accrued wages and taxes | 21,787 | - | 21,787 | - | - | 21,787 |
| Accrued property taxes | - | - | - | 14,281 | - | 14,281 |
| Security deposits | - | - | - | 13,220 | - | 13,220 |
| Prepaid rent | - | - | - | 3,669 | - | 3,669 |
| Deferred revenue | - | - | - | - | - | - |
| Note payable (Note 6) | 73,125 | - | 73,125 | 839,700 | (436,850) | 475,975 |
| Total liabilities | 415,228 | - | 415,228 | 1,388,595 | (950,644) | 853,179 |
| Net assets | 435,477 | - | 435,477 | 671,324 | 896,135 | 2,002,936 |
| Total liabilities and assets | \$ 850,705 | \$ - | \$ 850,705 | \$ 2,059,919 | \$ (54,509) | \$ 2,856,115 |

FUTURE CHOICES, INC AND SUBSIDIARY

Consolidating Statement of Activities Year Ended September 30, 2016

| | Unrestricted | Temporarily Restricted | Total | Daley Apartments | Eliminations | Total |
|---------------------------------------|-------------------|---------------------------|-------------------|---------------------|-------------------|---------------------|
| Revenues and other support | | | | | | |
| Grants and contracts | \$ 534,448 | \$ - | \$ 534,448 | \$ - | \$ - | \$ 534,448 |
| Net rental income | - | - | - | 188,665 | - | 188,665 |
| Service fees | 30,000 | - | 30,000 | - | - | 30,000 |
| Program fees | 22,775 | - | 22,775 | - | - | 22,775 |
| Interest income | 51 | - | 51 | 132 | - | 183 |
| Forgiveness of debt | 17,500 | - | 17,500 | 351,829 | (351,829) | 17,500 |
| Gain on disposal of asset | 1,786 | - | 1,786 | - | - | 1,786 |
| Other income | 5,768 | - | 5,768 | 9,088 | - | 14,856 |
| Total revenue | 612,328 | - | 612,328 | 549,714 | (351,829) | 810,213 |
| Net assets released from restrictions | - | - | - | - | - | - |
| Total revenue | 612,328 | - | 612,328 | 549,714 | (351,829) | 810,213 |
| Expenses | | | | | | |
| Salaries and wages | 343,782 | - | 343,782 | - | - | 343,782 |
| Payroll tax | 27,609 | - | 27,609 | - | - | 27,609 |
| Office expense | 8,862 | - | 8,862 | - | - | 8,862 |
| Utilities | 9,447 | - | 9,447 | - | - | 9,447 |
| Telephone | 8,400 | - | 8,400 | - | - | 8,400 |
| Conferences and meetings | 1,687 | - | 1,687 | - | - | 1,687 |
| Dues and subscriptions | 6,962 | - | 6,962 | - | - | 6,962 |
| Insurance | 36,659 | - | 36,659 | - | - | 36,659 |
| Automobile expense | 14,544 | - | 14,544 | - | - | 14,544 |
| Professional fees | 37,126 | - | 37,126 | - | - | 37,126 |
| Property expense | 3,092 | - | 3,092 | - | - | 3,092 |
| Repair and maintenance | 11,641 | - | 11,641 | - | - | 11,641 |
| Rental expense | 19,949 | - | 19,949 | - | - | 19,949 |
| Supplies | 13,579 | - | 13,579 | - | - | 13,579 |
| Travel | 17,472 | - | 17,472 | - | - | 17,472 |
| Miscellaneous | 19,720 | - | 19,720 | - | - | 19,720 |
| Rental management | - | - | - | 164,309 | - | 164,309 |
| Interest expense | - | - | - | 51,473 | (30,198) | 21,275 |
| Partnership management fee | - | - | - | - | - | - |
| Depreciation | 13,020 | - | 13,020 | 73,638 | - | 86,658 |
| Amortization | - | - | - | 1,343 | - | 1,343 |
| Bad debt | 44,374 | - | 44,374 | 8,085 | - | 52,459 |
| Total expenses | 637,925 | - | 637,925 | 298,848 | (30,198) | 906,575 |
| Change in net assets | (25,597) | - | (25,597) | 250,866 | (321,631) | (96,362) |
| Net assets - beginning of year | 435,477 | - | 435,477 | 671,324 | 896,135 | 2,002,936 |
| Net assets - end of year | \$ 409,880 | \$ - | \$ 409,880 | \$ 922,190 | \$ 574,504 | \$ 1,906,574 |

FUTURE CHOICES, INC AND SUBSIDIARY

**Consolidating Statement of Activities
Year Ended September 30, 2015**

| | Unrestricted | Temporarily Restricted | Total | Daley Apartments | Eliminations | Total |
|--|-------------------|---------------------------|-------------------|---------------------|-------------------|---------------------|
| Revenues and other support | | | | | | |
| Grants and contracts | \$ 197,017 | \$ - | \$ 197,017 | \$ - | \$ - | \$ 197,017 |
| Net rental income | - | - | - | 143,077 | - | 143,077 |
| Service fees | 29,295 | - | 29,295 | - | - | 29,295 |
| Program fees | 18,135 | - | 18,135 | - | - | 18,135 |
| Interest income | 38,575 | - | 38,575 | 135 | (38,575) | 135 |
| Forgiveness of debt | 17,500 | - | 17,500 | - | - | 17,500 |
| Other income | 27,015 | - | 27,015 | 1,595 | (15,845) | 12,765 |
| Total revenue | 327,537 | - | 327,537 | 144,807 | (54,420) | 417,924 |
| Net assets released from restrictions | 467,153 | (467,153) | - | - | - | - |
| Total revenue | 794,690 | (467,153) | 327,537 | 144,807 | (54,420) | 417,924 |
| Expenses | | | | | | |
| Salaries and wages | 371,072 | - | 371,072 | - | - | 371,072 |
| Payroll tax | 30,899 | - | 30,899 | - | - | 30,899 |
| Office expense | 8,225 | - | 8,225 | - | - | 8,225 |
| Utilities | 9,612 | - | 9,612 | - | - | 9,612 |
| Telephone | 8,822 | - | 8,822 | - | - | 8,822 |
| Conferences and meetings | 1,390 | - | 1,390 | - | - | 1,390 |
| Dues and subscriptions | 10,062 | - | 10,062 | - | - | 10,062 |
| Insurance | 26,078 | - | 26,078 | - | - | 26,078 |
| Automobile expense | 10,740 | - | 10,740 | - | - | 10,740 |
| Professional fees | 34,584 | - | 34,584 | - | - | 34,584 |
| Property expense | 2,305 | - | 2,305 | - | - | 2,305 |
| Repair and maintenance | 9,827 | - | 9,827 | - | - | 9,827 |
| Rental expense | 18,541 | - | 18,541 | - | - | 18,541 |
| Supplies | 10,804 | - | 10,804 | - | - | 10,804 |
| Travel | 16,843 | - | 16,843 | - | - | 16,843 |
| Miscellaneous | 6,101 | - | 6,101 | - | - | 6,101 |
| Rental management | - | - | - | 113,640 | - | 113,640 |
| Interest expense | - | - | - | 55,426 | (38,575) | 16,851 |
| Partnership management fee | - | - | - | 15,845 | (15,845) | - |
| Depreciation | 13,290 | - | 13,290 | 57,728 | - | 71,018 |
| Amortization | - | - | - | 1,003 | - | 1,003 |
| Bad debt | 48,280 | - | 48,280 | - | - | 48,280 |
| Total expenses | 637,475 | - | 637,475 | 243,642 | (54,420) | 826,697 |
| Change in net assets | 157,215 | (467,153) | (309,938) | (98,835) | - | (408,773) |
| Net assets - beginning of year | 278,262 | 467,153 | 745,415 | - | 896,135 | 1,641,550 |
| Addition of Daley Apartments net assets | - | - | - | 770,159 | - | 770,159 |
| Net assets - end of year | \$ 435,477 | \$ - | \$ 435,477 | \$ 671,324 | \$ 896,135 | \$ 2,002,936 |



Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Directors
Future Choices, Inc. and Subsidiary
Muncie, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Future Choices, Inc. and Subsidiary (Future Choices), which comprise the statement of financial position as of September 30, 2016 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 12, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Future Choices, Inc. and Subsidiary 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 Future Choices, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Future Choices, Inc. and Subsidiary'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 material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 audits 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 Future Choices, Inc. and Subsidiary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

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

Barnes, Penning & Co., Ltd.

January 12, 2017
Indianapolis, Indiana