



STATE OF INDIANA
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June 13, 2018

Board of Directors
Family Ark, Inc.
101 Noah's Lane
Jeffersonville, IN 47130

We have reviewed the report prepared by Family Ark, Inc. and opined upon by DMLO CPAs, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Family Ark, Inc. of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, DMLO CPAs 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

FAMILY ARK, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2016

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Independent Auditors' Report

To the Board of Directors
Family Ark, Inc.
Jeffersonville, Indiana

We have audited the accompanying financial statements of Family Ark, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 Family Ark, Inc. as of December 31, 2016, 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.

Deming, Malone, Linsay & Petroff

Louisville, Kentucky
March 22, 2017

FAMILY ARK, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2016

Assets

Current Assets

Cash and cash equivalents	\$ 44,610
Investments	765,978
Accounts receivable, less allowance for doubtful accounts of \$76,776	269,954
Prepaid expenses	<u>10,753</u>
Total current assets	<u>1,091,295</u>

Property and Equipment

Land	18,919
Buildings and improvements	795,092
Furniture and equipment	230,607
Automobiles	<u>89,272</u>
	1,133,890
Less accumulated depreciation	<u>360,599</u>
	<u>773,291</u>
Total assets	<u><u>\$ 1,864,586</u></u>

See Notes to Financial Statements.

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 102,428
Accrued expenses	55,242
Note payable	<u>70,856</u>

Total current liabilities 228,526

Long-Term Liabilities

Note payable, less current portion	<u>87,856</u>
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Total liabilities 316,382

Net Assets

Unrestricted	1,538,204
Temporarily restricted	<u>10,000</u>

Total net assets 1,548,204

Total liabilities and net assets \$ 1,864,586

FAMILY ARK, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Program service fees:			
Inpatient - foster care	\$ 875,415		\$ 875,415
Outpatient - specialized treatment	<u>612,978</u>		<u>612,978</u>
Total program service fees	<u>1,488,393</u>		<u>1,488,393</u>
Contributions and grants	30,301	\$ 85,491	115,792
Special events	21,716		21,716
Investment income	19,533		19,533
Loss on sale of investments	(1,636)		(1,636)
Unrealized gain on investments	23,124		23,124
Other income	<u>9,641</u>		<u>9,641</u>
Total other revenues	<u>102,679</u>	<u>85,491</u>	<u>188,170</u>
Net assets released from restrictions	<u>75,491</u>	<u>(75,491)</u>	
Total revenues and other support	<u>1,666,563</u>	<u>10,000</u>	<u>1,676,563</u>
Expenses			
Program services	1,920,764		1,920,764
General and administrative	223,981		223,981
Fund-raising	<u>96,586</u>		<u>96,586</u>
Total expenses	<u>2,241,331</u>		<u>2,241,331</u>
Net (decrease) increase in total net assets	(574,768)	10,000	(564,768)
Net assets at beginning of year	<u>2,112,972</u>		<u>2,112,972</u>
Net assets at end of year	<u>\$ 1,538,204</u>	<u>\$ 10,000</u>	<u>\$ 1,548,204</u>

See Notes to Financial Statements.

FAMILY ARK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

	Program Services	General and Administrative	Fund-raising	Total Expenses
Salaries and employee benefits:				
Salaries	\$ 1,072,191	\$ 95,486	\$ 64,932	\$ 1,232,609
Employee benefits	89,679	36,927	5,275	131,881
Payroll taxes	69,547	28,637	4,091	102,275
Total salaries and employee benefits	1,231,417	161,050	74,298	1,466,765
Foster parent payments	327,735			327,735
Professional fees	65,532	2,023	450	68,005
Depreciation	36,765	8,484	1,885	47,134
Insurance	35,928	6,418	1,426	43,772
Bad debt	43,063			43,063
IT	24,797	5,722	1,272	31,791
Repairs and maintenance	25,002	5,034	1,119	31,155
Utilities	18,748	2,962	658	22,368
Travel	18,942	1,070	121	20,133
Telephone	14,119	2,784	492	17,395
Professional development	8,385	7,751	443	16,579
Interest	9,243	2,133	474	11,850
Supplies	9,155	963	423	10,541
Licensing	8,274	1,843	409	10,526
Investment fees	7,494	1,729	384	9,607
Recruitment	6,205	1,084	155	7,444
Dues and subscriptions	95	5,887	265	6,247
Program activities	5,655			5,655
Miscellaneous	3,411	1,067	877	5,355
Employment	3,597	1,328	190	5,115
Scholarship award	5,009			5,009
Advertising and marketing	3,699		828	4,527
Costs of direct benefits to donors			4,093	4,093
Food	1,097	1,345	541	2,983
Grants			2,876	2,876
Postage	2,126	491	191	2,808
Banking fees	1,767	408	336	2,511
Foster parent training	2,297			2,297
Special events			2,210	2,210
Rent		2,188		2,188
Printing	1,207	217	170	1,594
Total expenses	\$ 1,920,764	\$ 223,981	\$ 96,586	\$ 2,241,331

See Notes to Financial Statements.

FAMILY ARK, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2016

Cash Flows from Operating Activities	
Cash received from services provided	\$ 1,561,930
Cash paid to suppliers and employees	(2,113,204)
Contributions and grants received	137,508
Cash received from other income	9,641
Interest paid	<u>(11,850)</u>
Net cash used in operating activities	<u>(415,975)</u>
Cash Flows from Investing Activities	
Purchases of property and equipment	(43,775)
Purchases of investments	(306,088)
Proceeds from sales of investments	<u>714,403</u>
Net cash provided by investing activities	<u>364,540</u>
Cash Flows Used in Financing Activities	
Principal payments on note payable	<u>(66,961)</u>
Net decrease in cash and cash equivalents	(118,396)
Cash and cash equivalents at beginning of year	<u>163,006</u>
Cash and cash equivalents at end of year	<u><u>\$ 44,610</u></u>

See Notes to Financial Statements.

**Reconciliation of Net Decrease in Total Net Assets
to Net Cash Used in Operating Activities**

Net decrease in total net assets	<u>\$ (564,768)</u>
Adjustments to reconcile net decrease in total net assets to net cash used in operating activities:	
Depreciation	47,134
Change in allowance accounts	59,516
Net investment income reinvested	(9,926)
Loss on sale of investments	1,636
Unrealized gain on investments	(23,124)
Changes in assets and liabilities:	
Decrease in:	
Accounts receivable	16,716
Prepaid expenses	15,352
Increase in:	
Accounts payable	37,024
Accrued expenses	4,465
Total adjustments	<u>148,793</u>
Net cash used in operating activities	<u><u>\$ (415,975)</u></u>

**Supplemental Schedule of Noncash Investing and
Financing Transactions**

Purchases of property and equipment in accounts payable	<u><u>\$ 18,930</u></u>
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FAMILY ARK, INC

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Organization and Summary of Significant Accounting Policies

Description of organization:

Family Ark, Inc. (the Organization), located in Jeffersonville, Indiana, is a not-for-profit organization which operates facilities, develops programs and provides services for the care and rehabilitation of children under eighteen years of age who may be referred by any court or other competent authority having proper justification over such children. Currently, the Organization services fifteen counties in Southern Indiana.

During 2015, the Organization changed its fiscal year end from March 31 to December 31. As a result of the change, the Organization elected to only present financial activity for the year ended December 31, 2016, due to the prior year being a nine-month period ending December 31, 2015.

Summary of significant accounting policies:

This summary of significant accounting policies of Family Ark, Inc. is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Net asset classification:

Resources are classified for accounting and reporting purposes into the following net asset classes according to externally imposed restrictions:

Unrestricted net assets - Unrestricted net assets are not subject to any donor-imposed restrictions. Unrestricted net assets include assets designated by the board for particular purposes.

Temporarily restricted net assets - Temporarily restricted net assets include net assets whose use by the Organization is limited by donor-imposed restrictions that either expire by the passage of time or that can be fulfilled or removed by actions of the Organization pursuant to those stipulations.

NOTES TO FINANCIAL STATEMENTS

Service revenues:

Service revenues are reported at the estimated net realizable amounts from individuals and third-party payers for services rendered. The principal source of revenue to the Organization is appropriations received from Indiana for the counties served. The courts will appropriate funds for the care of each child who is sent to the Organization for placement in foster homes and home based services. Such funds are then used by the Organization to pay foster parents and operating overhead including staff and counselors' salaries. The Organization had two Indiana counties that accounted for approximately 66% of total service revenues. Approximately 90% of service fees were derived from services provided under contracts with the Indiana Department of Child Services (Department). Receivables from the Department total approximately 91% of the accounts receivable for services at December 31, 2016. The current level of the Organization's program services may be impacted if the funding by the Department significantly changes.

Cash and cash equivalents:

For purposes of the statements of cash flows, the Organization considers only unrestricted cash and investments with original maturities of three months or less, excluding those held in the investment portfolio, to be cash and cash equivalents.

Accounts receivable:

The valuation of accounts receivable is based upon a detailed analysis of past due accounts and the history of uncollectible accounts. The Organization periodically reviews doubtful accounts to determine if write-offs are necessary.

Investments:

Investments are recorded at fair market value. See Note 3 for discussion of fair value measurements.

Property and equipment:

Property and equipment are recorded at cost, if purchased, or at fair market value as of the date of donation, if donated. The Organization's policy is to capitalize asset purchases exceeding \$2,000. Depreciation is calculated using the straight-line and double-declining balance methods over the assets' useful lives.

NOTES TO FINANCIAL STATEMENTS

Compensated absences:

Employees of the Organization are entitled to paid leave, including vacation and sick time, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future sick pay, and accordingly, no liability has been recorded in the accompanying financial statements.

The Organization's policy is to recognize the costs of sick absences when actually paid to employees.

Contributions other than cash:

Contributions other than cash are recorded at their fair market value as of the date of donation. Contributed services must meet the specific expertise requirements and would normally have been purchased before they are recorded. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and donations of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the contributed or acquired long-lived assets are placed in service.

Advertising:

The Organization charges the costs of advertising to expense as incurred. Total advertising costs for the year ended December 31, 2016 were \$4,527.

Income taxes:

Family Ark, Inc. is exempt from federal, state and local income taxes as a not-for-profit corporation as described under Internal Revenue Code Section 501(c)(3). Family Ark, Inc. files an informational tax return in the U.S. federal jurisdiction. However, income from certain activities not directly related to the Organization's tax exempt purpose may be subject to taxation as unrelated business income.

As of December 31, 2016, the Organization did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the year then ended.

NOTES TO FINANCIAL STATEMENTS

Estimates:

The preparation of 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 date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Newly issued standards not yet effective:

The Financial Accounting Standards Board has issued accounting standards No. 2014-09, *Revenue from Contracts with Customers*, concerning the accounting for revenue recognition effective for years beginning after December 15, 2018 (per No. 2015-14) and No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* effective for years beginning after December 15, 2017. The Company is evaluating the impact that adoption of these standards will have on future financial position and results of operations.

Subsequent events:

Subsequent events have been evaluated through March 22, 2017, which is the date the financial statements were available to be issued.

Note 2. Investments

Cost and market value of investments consisted of the following as of December 31, 2016:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and cash equivalents	\$180,996	\$180,996	
Bond funds	14,107	13,642	\$ (465)
Equity funds	<u>564,814</u>	<u>571,340</u>	<u>6,526</u>
Total investments	<u>\$759,917</u>	<u>\$765,978</u>	<u>\$6,061</u>

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active or inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Organization's assets have been valued using a market approach. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2016.

Bond and equity funds – valued based on quoted prices for similar assets from observable pricing sources.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value as of December 31, 2016:

	<u>Level 1</u>
Cash and cash equivalents	\$180,996
Bond funds	13,642
Equity funds	<u>571,340</u>
	<u>\$765,978</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Note Payable

The note payable consists of the following as of December 31, 2016:

Mortgage note payable to WestBanco, stated interest rate of 5.59%, payable in monthly principal and interest payments of \$6,502 through February 2019. The note is secured by real estate with a net book value of \$592,882.	\$158,712
Less current maturities	<u>(70,856)</u>
	<u>\$ 87,856</u>

Future principal maturities on the note payable as of December 31, 2016 are as follows:

Year ending December 31, 2017	\$ 70,856
2018	74,978
2019	<u>12,878</u>
	<u>\$158,712</u>

Total interest expense for the year ending December 31, 2016 was \$11,850.

Note 5. Retirement Plan

The Organization has a 403(b) plan, which allows employees to defer a percentage of their wages and covers substantially all employees who meet certain requirements. The Organization matches 50% of employee deferrals up to 4% of the employee's wages for a maximum match of 2%. Total pension expense under this plan was \$6,097 for the year ended December 31, 2016.

NOTES TO FINANCIAL STATEMENTS

Note 6. Changes in Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during the year ended December 31, 2016 are as follows:

	<u>Balance</u> <u>12-31-15</u>	<u>Contributions/</u> <u>Grants</u>	<u>Released</u>	<u>Balance</u> <u>12-31-16</u>
Contributions restricted for:				
Kitchen renovation		\$ 9,628	\$ (9,628)	
Vehicle		10,000	(10,000)	
Telephone system		42,000	(42,000)	
Community workshops		5,863	(5,863)	
Therapist		8,000	(8,000)	
Playground renovations		<u>10,000</u>	<u> </u>	<u>\$10,000</u>
		<u>\$85,491</u>	<u>\$(75,491)</u>	<u>\$10,000</u>

Cash and cash equivalents of \$10,000 are restricted for the above purposes.

Note 7. Rental Income

The Organization currently leases a portion of its property to an unrelated third party. Rental income for the year ended December 31, 2016 was \$3,250.

Note 8. Concentration of Credit Risk

The Organization has significant investments in bond and equity funds held by an investment manager and are, therefore, subject to concentrations of credit risk. Investments are made by the investment manager and the investments are monitored by the Board of Directors. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Organization.

NOTES TO FINANCIAL STATEMENTS

Note 9. Operations

The Organization incurred a net loss of \$564,768 during the year ended December 31, 2016. For the nine-month period ended December 31, 2015, the Organization incurred a net loss of \$357,213. Additionally, during 2016, the Organization used, rather than provided, cash in its operations of \$415,975. Approximately \$400,000 was withdrawn from the Organization's investment account to fund operations. Those factors create an uncertainty about the Organization's ability to continue as a going concern through March 22, 2018 (one year after issuance of the accompanying financial statements).

Management has determined that these factors are significant as they relate to the ability of the Organization to meet its financial obligations. Therefore, management has developed a plan which alleviates the uncertainty about the Organization's ability to continue as a going concern. The plan includes mitigating losses for 2017 by cutting operating expenses and increasing program revenue. The plan includes increasing productivity in Home-Based Services and the Behavioral Health Center via changes in and addition to personnel; increasing capacity of foster homes; hiring a nurse practitioner to increase utilization and reduce expenses of the behavioral health program; outsourcing billing for the Behavioral Health Center to improve cash flow; and assessment of the Behavioral Health Center to determine feasibility of continuing this program. Additionally, investments funds will be utilized to fund operations to the extent required by cash flow needs.