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November 22, 2019

Board of Directors
Family Works, Inc.
3266 N. Meridian Street, Suite 802
Indianapolis, IN 46208

We have reviewed the audit report of Family Works, Inc. which was opined upon by Haywood Henn, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Family Works, Inc. as of December 31, 2018 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Haywood Henn prepared the audit report in accordance with 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 WORKS, INC.

**AUDITED FINANCIAL STATEMENTS
MODIFIED CASH BASIS**

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Family Works, Inc.
Indianapolis, Indiana

We have audited the accompanying financial statements of Family Works, Inc., which comprise the statements of assets, liabilities, and stockholders' deficit - modified cash basis as of December 31, 2018 and 2017, and the related statements of revenues, expenses and retained deficit - modified cash basis and statements of cash flows - modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 evaluation 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 assets, liabilities, and stockholders' deficit of Family Works, Inc. as of December 31, 2018 and 2017, and the results of operations for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

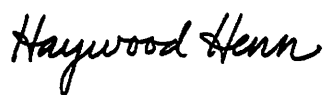
We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to above as a whole. Schedules I and II on pages 9 and 10 are presented for purposes of additional analysis and are 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 Matter

We have also issued a report dated September 6, 2019 on our consideration of Family Works, Inc.'s internal control structure and on its compliance with laws and regulations. This report can be found on page 11.



September 6, 2019
Indianapolis, Indiana

FAMILY WORKS, INC.
 STATEMENTS OF ASSETS, LIABILITIES AND DEFICIT - MODIFIED CASH BASIS
 December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,270	\$ 12,198
Employee Advances	<u>1,991</u>	<u>1,991</u>
TOTAL CURRENT ASSETS	5,261	14,189
PROPERTY AND EQUIPMENT		
Machinery and equipment	82,969	82,969
Less accumulated depreciation	<u>(78,728)</u>	<u>(78,560)</u>
	<u>4,241</u>	<u>4,409</u>
	<u>\$ 9,502</u>	<u>\$ 18,598</u>

	<u>2018</u>	<u>2017</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Line of credit	\$ 55,975	\$ 43,075
Current portion of long-term debt	14,735	-
Credit card payable	48,504	52,647
Related party note payable	-	15,000
Pension liability payable	-	3,560
Payroll tax liability payable	3,632	10,148
Accrued payroll	<u>29,054</u>	<u>31,327</u>
TOTAL CURRENT LIABILITIES	151,900	155,757
LONG-TERM DEBT	14,311	-
STOCKHOLDERS' DEFICIT		
Common stock, 1,500 shares, no par value, authorized, issued, and outstanding	1,500	1,500
Retained deficit	<u>(158,209)</u>	<u>(138,659)</u>
	<u>(156,709)</u>	<u>(137,159)</u>
	<u>\$ 9,502</u>	<u>\$ 18,598</u>

FAMILY WORKS, INC.
 STATEMENTS OF REVENUES, EXPENSES AND RETAINED DEFICIT - MODIFIED CASH BASIS
 Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
PROGRAM REVENUES	\$ 1,573,245	\$ 1,491,606
OPERATING EXPENSES		
Direct program expense	1,058,945	1,050,114
General & administrative expense	<u>456,825</u>	<u>401,946</u>
INCOME FROM OPERATIONS	57,475	39,546
OTHER INCOME (EXPENSE)		
Interest expense	<u>(13,425)</u>	<u>(10,605)</u>
NET INCOME	44,050	28,941
BEGINNING RETAINED DEFICIT	(138,659)	(91,400)
Distributions	<u>(63,600)</u>	<u>(76,200)</u>
ENDING RETAINED DEFICIT	<u>\$ (158,209)</u>	<u>\$ (138,659)</u>

FAMILY WORKS, INC.
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,573,245	\$ 1,491,606
Cash paid to suppliers and employees	(1,532,094)	(1,439,167)
Interest paid	(13,425)	(10,605)
	<u>27,726</u>	<u>41,834</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	-
	<u>-</u>	<u>-</u>
NET CASH USED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Draws on line of credit	61,000	10,000
Repayments on line of credit	(5,025)	(1,925)
Loans to employees	-	(1,991)
Repayments on term debt	(14,029)	-
Proceeds from related party notes payable	-	50,000
Repayments on related party notes payable	(15,000)	(35,000)
Distributions to stockholders	(63,600)	(76,200)
	<u>(36,654)</u>	<u>(55,116)</u>
NET CASH USED BY FINANCING ACTIVITIES		
NET DECREASE IN CASH	(8,928)	(13,282)
CASH AT BEGINNING OF YEAR	<u>12,198</u>	<u>25,480</u>
CASH AT END OF YEAR	<u>\$ 3,270</u>	<u>\$ 12,198</u>

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income	\$ 44,050	\$ 28,941
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	168	167
Increase (decrease) in:		
Credit card liability	(4,143)	16,141
Payroll tax liability	(6,516)	(2,346)
Accrued payroll	(2,273)	1,259
Pension withholdings	(3,560)	(2,328)
	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 27,726</u>	<u>\$ 41,834</u>

FAMILY WORKS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of business

Family Works, Inc., (the "Company") was formed in September of 1990 for the purpose of providing family and individual diagnostic, evaluation and counseling services in the metropolitan Indianapolis area. The Company provides all of its services as one program. These services include: 1) therapy; 2) case management; 3) family functioning assessments; 4) sex offender/sex abuse treatment; and 5) visitation facilitation. The Company's primary contracts are with the Indiana Department of Child Services ("DCS") and Choices, Inc. The Company serves customers in Marion, Hamilton, Hancock and Hendricks County.

Basis of accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under that basis, certain revenues and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. Consequently, the Company has not recognized accounts receivable from third party agencies, accounts payable due to vendors, or any settlements due as a result of DCS audits, and their related effects on earnings in the accompanying financial statements.

Cash and cash equivalents

The Company classifies as cash all investments with an original maturity of less than three months or investments purchased within three months of maturity. All other investments are classified as short-term investments.

Property and equipment

Property and equipment is stated at cost. Depreciation is provided using the double-declining method over the estimated useful lives of the respective items. Expenditures extending the useful life of existing items are capitalized and depreciated. Maintenance and repairs are charged to operations when incurred. When items are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

FAMILY WORKS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

The Company, with the consent of its stockholders, has elected to be taxed under sections of the federal and state income tax laws, which provide that, in lieu of corporate income taxes, the shareholders individually account for the Company's items of income, deduction, losses and credits within their individual income tax returns. Corporate federal and state income tax returns of the Company are subject to examination by the tax authorities, depending upon each jurisdiction's statute of limitations, generally for three years after they are filed.

Management use of estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CONCENTRATIONS, PROGRAM REVENUES

During the years ended December 31, 2018 and 2017, the Company's significant program revenues were derived from contracts with the DCS and Choices, Inc. The Company serves customers in Marion, Hamilton, Hancock and Hendricks Counties.

NOTE 3 - PENSION PLAN

The Company sponsors a SIMPLE salary reduction pension plan. Eligible employees can defer up to the maximum amount, set annually by the Internal Revenue Service, of their compensation into the Plan. During 2018 and 2017 the Company funded discretionary matching contributions of \$11,145 and \$10,430, respectively.

NOTE 4 - REVOLVING LINE OF CREDIT AGREEMENT

The Company has a revolving line of credit payable to a bank. Under this agreement, the maximum amount that can be advanced is \$100,000 and any outstanding balance bears interest at a rate of prime plus 1.880%. The prime lending rate at December 31, 2018 was 5.50%. This agreement matures in November 2024 and is guaranteed by the Company's stockholders and collateralized by all corporate assets.

FAMILY WORKS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT

The Company has a term loan payable to a bank. Under this agreement, monthly payments of approximately \$1,337 are required until the loan is retired. The loan bears interest at a fixed rate of 5.47%. The outstanding balance at December 31, 2018 was \$29,046, of which \$14,735 is scheduled to be repaid in 2019 and the remaining balance of \$14,311 during 2020. This agreement matures in November of 2020 and is guaranteed by the Company's stockholders and collateralized by all corporate assets.

NOTE 6 - RELATED PARTY NOTE PAYABLE

During 2017, the Company borrowed \$50,000 from an employee's family member and repaid \$35,000 prior to year end. The remaining \$15,000 was repaid during 2018. The loan was non-interest bearing.

NOTE 7 - FAIR VALUE OF INSTRUMENTS

The Company's financial instruments are cash and cash equivalents, current liabilities and financing arrangements with a bank (term debt and line of credit). The recorded values of cash and cash equivalents approximate their fair values based on their short-term nature. The recorded values of current liabilities and notes payable approximate their fair values.

NOTE 8 - LEASE INFORMATION

The Company signed a lease agreement for the current location effective September 1, 2013. Under the terms of the lease, the Company must bear the cost of real estate taxes, insurance, utilities and any other costs associated with occupying the facility. The Company signed an amended lease agreement for the current location effective March 9, 2015. The amended lease agreement increased the office space to 4,180 square feet, extended the length of the lease and adjusted the monthly cost. Per the lease, the first three months were rent free. Rent expense of \$47,609 and \$47,991 has been included in the income statements for the years ended December 31, 2018 and 2017, respectively.

FAMILY WORKS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LEASE INFORMATION (CONTINUED)

The Company also entered into two operating leases for vehicles. One vehicle lease requires a monthly payment of \$354 and the other a monthly payment of \$410. One lease expired in November of 2018 and the other will expire in November of 2019. Neither lease contains a bargain purchase option; the Company may purchase each vehicle at the expiration of each lease term for the fair market value of each vehicle as agreed to at the inception of each lease. Lease expense of \$9,049 and \$9,168 has been included in the statements of revenues and expenses for the years ended December 31, 2018 and 2017, respectively.

The total minimum lease payments required for the above leases at December 31, 2018 is as follows:

2019	\$	54,670
2020		50,160
		<u>\$ 104,830</u>

NOTE 9 - COMMITMENTS

During 2018 the Company closed two separate Department of Child Services inquiries. The first audit was settled for a one-time repayment of \$5,700 (paid in June of 2018). The second audit was settled for eighteen monthly repayments of \$919 (total settlement amount of \$16,546). The first monthly repayment was remitted in October 2018 (final monthly repayment due in March 2020). At December 31, 2018, \$13,788 was owed according to the terms of the second audit settlement.

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 6, 2019, the date on which the financial statements were available to be issued.

FAMILY WORKS, INC.
 SCHEDULE I - DIRECT PROGRAM EXPENSES - MODIFIED CASH BASIS
 Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Salaries and wages	\$ 790,390	\$ 790,916
Seminars and training	19,463	9,876
Health insurance-group	63,908	70,587
Liability insurance	20,157	15,423
Payroll taxes	60,887	60,745
Criminal background check	1,357	1,882
Mileage	<u>102,783</u>	<u>100,685</u>
TOTAL DIRECT PROGRAM EXPENSES	<u>\$ 1,058,945</u>	<u>\$ 1,050,114</u>

FAMILY WORKS, INC.

SCHEDULE II - GENERAL & ADMINISTRATIVE EXPENSES - MODIFIED CASH BASIS

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Salaries and wages	\$ 139,000	\$ 112,500
Postage and delivery	286	228
Computer services	82,111	74,705
Contributions	3,808	1,590
Depreciation expense	168	167
Dues and subscriptions	12,096	7,196
Health insurance-group	10,908	9,763
Liability insurance	3,440	2,133
Officer's life insurance	7,912	7,912
Accounting and legal	32,842	21,651
Miscellaneous	1,979	1,914
Office expense	8,485	13,499
Office supplies	14,965	14,397
Outside labor	19,183	27,069
Pension expense	11,145	10,430
Printing and books expense	12,008	9,568
Rent	47,609	47,991
Repair and maintenance	2,959	381
Real estate taxes	749	566
Payroll taxes	10,393	8,401
Telephone	26,106	19,645
Meals	8,673	10,240
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 456,825</u>	<u>\$ 401,946</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS

To the Board of Directors
Family Works, Inc.
Indianapolis, Indiana

We have audited the modified cash basis financial statements of Family Works, Inc., as of and for the years ended December 31, 2018 and 2017, and have issued our report thereon dated September 6, 2019. We conducted our audits in accordance with generally accepted auditing standards in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether Family Works, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements of Family Works, Inc., as of and for the years ended December 31, 2018 and 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Family Works, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management, and the Indiana State Board of Accounts and is not intended to be and should not be used by anyone other than these specified parties.

Haywood Henn

Indianapolis, Indiana
September 6, 2019

FAMILY WORKS, INC.

Exit Conference

On September 25, 2019, an exit conference was conducted with the officers and other members of management of Family Works, Inc. They concurred with the audit results.