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January 9, 2020

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

We have reviewed the audit report of Family Ark, Inc., which was opined upon by Bowden & Wood, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Family Ark, 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.

We call your attention to the Emphasis-of-Matter paragraph included in the Independent Auditors' Report and further detailed in Note J.

In our opinion, Bowden & Wood prepared the audit report in accordance with guidelines established by the State Board of Accounts.

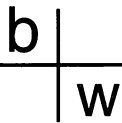
The report is filed with this letter in our office as a matter of public record.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

**FAMILY ARK, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

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# BOWDEN & WOOD

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CERTIFIED PUBLIC ACCOUNTANTS

E. A. BOWDEN, CPA (1908-1995)  
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ASSOCIATES  
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JOHN L. BUNTON, CPA

October 16, 2019

## 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 non-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in note J, the Organization has suffered recurring losses from operations. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in note J. Our opinion is not modified with respect to this matter.

Respectfully submitted,

*Bowden + Wood*

Bowden & Wood, PLLC  
Certified Public Accountants

FAMILY ARK, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31,

	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 76 023	\$ 166 082
Investments	277 203	360 961
Accounts receivable, less allowance for insurance adjustments of \$57,384 (\$34,321 in 2017)	284 122	295 116
Prepaid expenses	<u>18 078</u>	<u>6 526</u>
Total current assets	<u>655 426</u>	<u>828 685</u>
Property and equipment:		
Land	18 919	18 919
Buildings	656 760	656 760
Leasehold improvements	155 110	155 110
Furniture and fixtures	8 650	6 529
Computer and office equipment	229 114	226 126
Automobiles	<u>89 272</u>	<u>89 272</u>
	1 157 825	1 152 716
Less accumulated depreciation	<u>453 244</u>	<u>405 816</u>
	<u>704 581</u>	<u>746 900</u>
<b>Total assets</b>	<u><u>1 360 007</u></u>	<u><u>1 575 585</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	92 176	50 583
Accrued expenses	64 175	56 744
Note payable	<u>12 816</u>	<u>75 032</u>
Total current liabilities	<u>169 167</u>	<u>182 359</u>
Long-term liabilities:		
Note payable, non-current portion	<u>-0-</u>	<u>12 613</u>
Total liabilities	<u>169 167</u>	<u>194 972</u>
Net assets:		
Without donor restrictions	1 180 840	1 375 613
With donor restrictions	<u>10 000</u>	<u>5 000</u>
Total net assets	<u>1 190 840</u>	<u>1 380 613</u>
<b>Total liabilities and net assets</b>	<u><u>1 360 007</u></u>	<u><u>1 575 585</u></u>

See notes to financial statements.

FAMILY ARK, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31,

	Without donor restrictions	With donor restrictions	2018 Total	2017 Total
Revenues, gains and other support				
Program service fees:				
Inpatient - foster care	\$ 951 272		\$ 951 272	\$ 984 441
Outpatient - specialized treatment	<u>951 696</u>		<u>951 696</u>	<u>932 579</u>
Total program service fees	1 902 968		1 902 968	1 917 020
Contributions and grants	51 210	\$10 000	61 210	30 411
Special events	24 890		24 890	20 160
Investment income	7 864		7 864	11 232
Gain on sale of investments	8 906		8 906	3 964
Unrealized (loss) gain on investments	(46 933)		(46 933)	22 318
Other income	<u>4 517</u>		<u>4 517</u>	<u>8 023</u>
Total other revenues	50 454	10 000	60 454	96 108
Net assets released from restrictions	<u>5 000</u>	<u>(5 000)</u>		
Total revenues, gains and other support	1 958 422	5 000	1 963 422	2 013 128
Expenses				
Program services	1 915 682		1 915 682	1 839 321
General and administrative	235 970		235 970	338 353
Fund-raising	<u>1 543</u>		<u>1 543</u>	<u>3 045</u>
Total expenses	2 153 195		2 153 195	2 180 719
Net (decrease) increase in total net assets	(194 773)	5 000	(189 773)	(167 591)
Net assets at beginning of year	<u>1 375 613</u>	<u>5 000</u>	<u>1 380 613</u>	<u>1 548 204</u>
Net assets at end of year	<u><u>1 180 840</u></u>	<u><u>10 000</u></u>	<u><u>1 190 840</u></u>	<u><u>1 380 613</u></u>

See notes to financial statements.

FAMILY ARK, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED DECEMBER 31,

			2018	2017
	Program services	General and administrative	Fund raising	Total expenses
			Total expenses	Total expenses
Salaries and employee benefits:				
Salaries	\$1 079 494	\$137 573	\$1 217 067	\$1 186 403
Employee benefits	93 774	25 253	119 027	121 358
Payroll taxes	<u>83 082</u>	<u>13 749</u>	<u>96 831</u>	<u>99 307</u>
Total salaries and employee benefits	1 256 350	176 575	1 432 925	1 407 068
Foster parent payments	323 610		323 610	359 967
Professional fees	30 967	22 737	53 704	27 216
Depreciation	41 585	5 843	47 428	45 270
Insurance	38 527	5 413	43 940	42 767
Bad debt	14 905		14 905	70 233
IT	25 347	3 562	28 909	20 908
Repairs and maintenance	35 139	4 937	40 076	22 799
Utilities	21 952	3 085	25 037	21 826
Travel	6 344	891	7 235	16 977
Telephone	18 944	2 662	21 606	19 402
Professional development	11 682	1 642	13 324	9 998
Interest	2 522	354	2 876	6 179
Supplies	3 776	530	4 306	4 676
Licensing	7 882	1 108	8 990	8 085
Investment fees	3 151	443	3 594	4 268
Recruitment	9 321	1 310	10 631	5 497
Dues and subscriptions	6 260	880	7 140	6 614
Program activities	5 228		5 228	3 388
Miscellaneous	9 575	1 345	10 920	4 672
Employment	4 443	624	5 067	28 317
Scholarship award	-0-		-0-	1 000
Advertising and marketing	2 512	353	2 865	212
Food	-0-		\$ 483	2 644
Grants	2 264	318	2 582	6 982
Postage	1 062	149	1 211	1 678
Banking fees	1 729	243	1 972	1 795
Foster parent training	1 583		1 583	1 197
Special events	-0-		1 060	1 025
Rent	2 061	290	2 351	2 183
Printing	4 815	676	5 491	4 424
Billing service	<u>22 146</u>	<u>          </u>	<u>22 146</u>	<u>21 452</u>
 Total expenses	 <u>1 915 682</u>	 <u>235 970</u>	 <u>1 543</u>	 <u>2 153 195</u>
			<u>2 180 719</u>	

See notes to financial statements.

FAMILY ARK, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from services provided	\$1 907 485	\$1 925 043
Cash paid to suppliers and employees	(2 055 347)	(2 208 624)
Contributions and grants received	86 100	50 571
Cash received from other income	4 517	8 023
Interest paid	<u>(2 876)</u>	<u>(6 179)</u>
Net cash used in operating activities	(60 121)	(231 166)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(5 109)	(18 826)
Purchases of investments	-0-	(322 588)
Proceeds from sales of investments	<u>50 000</u>	<u>765 119</u>
Net cash provided by investing activities	44 891	423 705
CASH FLOWS FROM IN FINANCING ACTIVITIES		
Principal payments on note payable	<u>(74 829)</u>	<u>(71 067)</u>
Net cash used in financing activities	<u>(74 829)</u>	<u>(71 067)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(90 059)	121 472
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>166 082</u>	<u>44 610</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>76 023</u></u>	<u><u>166 082</u></u>

See notes to financial statements

FAMILY ARK, INC.  
STATEMENTS OF CASH FLOWS (continued)  
FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
Reconciliation of net decrease in total net assets to net cash used in operating activities		
Net decrease in total net assets	<u>\$(189 773)</u>	<u>\$(167 591)</u>
Adjustments to reconcile net decrease in total net assets to net cash used in operating activities:		
Depreciation	47 428	45 270
Change in allowance accounts	(12 133)	22 456
Net investment income reinvested	7 864	(11 232)
Gain on sale of investments	(8 906)	(3 964)
Unrealized gain on investments	46 933	(22 318)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	10 994	(25 162)
Prepaid expenses	(11 552)	4 227
Increase (decrease) in liabilities:		
Accounts payable	41 593	(51 845)
Accrued expenses	<u>7 431</u>	<u>1 502</u>
Total adjustments	<u>48 466</u>	<u>(71 278)</u>
Net cash used in operating activities	<u>(60 121)</u>	<u>(208 657)</u>

See notes to financial statements.

FAMILY ARK, INC.  
NOTES TO FINANCIAL STATEMENTS

**A 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 of children and families in Southern Indiana.

**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.

**CONTRIBUTIONS**

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions.

**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. Approximately 74% of service fees in 2018 and 80% in 2017 were derived from services provided under contracts with the Indiana Department of Child Services (DCS). Receivables from the DCS total approximately 90% of the accounts receivable for services at December 31, 2018 and 89% at December 31, 2017. The current level of the Organization's program services may be impacted if the funding by the DCS 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.

FAMILY ARK, INC.  
NOTES TO FINANCIAL STATEMENTS (continued)

A DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 C 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.

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 years ended December 31, 2018 and 2017 were \$2,865 and \$212, respectively.

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, 2018, 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.

FAMILY ARK, INC.  
NOTES TO FINANCIAL STATEMENTS (continued)

A DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RECLASSIFICATIONS

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

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.

COST ALLOCATION

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Management believes the best allocation method is based on the percentage of compensation between the program services and General and Administrative expenses.

B INVESTMENTS

Cost and market value of investments consisted of the following as of December 31, 2018:

	Cost	Market value	Unrealized appreciation (depreciation)
Money market accounts	\$ 6 825	\$ 6 825	\$ -0-
Bond funds	251 722	215 063	(36 659)
Equity funds	<u>56 545</u>	<u>55 315</u>	<u>(1 230)</u>
Total investments	<u>315 092</u>	<u>277 203</u>	<u>(37 889)</u>

Cost and market value of investments consisted of the following as of December 31, 2017:

	Cost	Market value	Unrealized appreciation (depreciation)
Money market accounts	\$ 35 469	\$ 35 469	
Bond funds	14 066	13 996	\$ (70)
Equity funds	<u>288 072</u>	<u>311 496</u>	<u>23 424</u>
Total investments	<u>337 607</u>	<u>360 961</u>	<u>23 354</u>

FAMILY ARK, INC.  
NOTES TO FINANCIAL STATEMENTS (continued)

C 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, 2018 and December 31, 2017.

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,

	2018	2017
	Level 1	Level 1
Money market accounts	\$ 6 825	\$ 35 469
Bond funds	215 063	13 996
Equity funds	<u>55 315</u>	<u>311 496</u>
	<u>277 203</u>	<u>360 961</u>

FAMILY ARK, INC.  
NOTES TO FINANCIAL STATEMENTS (continued)

D PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31,

	2018	2017
Description		
Furniture and fixtures	\$ 8 650	\$ 6 529
Computer and office equipment	229 114	226 126
Vehicles	89 272	89 272
Leasehold improvements	155 110	155 110
Buildings	656 760	656 760
Land	18 919	18 919
	<u>1 157 825</u>	<u>1 152 716</u>
Less accumulated depreciation and amortization	<u>(453 244)</u>	<u>(405 816)</u>
Net property and equipment	<u>704 581</u>	<u>746 900</u>

Depreciation and amortization expense was \$47,428 and \$45,270 for the years ended December 31, 2018 and 2017, respectively.

E NOTE PAYABLE

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

	2018	2017
Mortgage note payable to WesBanco, stated interest rate of 5.59%, payable in monthly principal and interest payments of \$6,502 through February 2019. The note is secured by the real estate.	\$12 816	\$87 645
Less current maturities	<u>(12 816)</u>	<u>(75 032)</u>
	<u>-0-</u>	<u>12 613</u>

Total interest expense for the years ending December 31, 2018 and December 31, 2017 was \$2,876 and \$6,179, respectively.

FAMILY ARK, INC.  
NOTES TO FINANCIAL STATEMENTS (continued)

F. 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%. From July 1, 2017 to December 31, 2017, the Organization placed a freeze on their match. The Organization removed the freeze on January 1, 2018 and resumed the employer match through December 31, 2018. Total expense under the plan was \$9,503 and \$2,644 for the years ended December 31, 2018 and 2017, respectively.

G. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions during the year ended December 31, 2018 are as follows:

	Balance 12/31/17	Contributions/ grants	Released	Balance 12/31/18
Contributions restricted for:				
2018 operations	\$5 000		\$(5 000)	\$ -0-
Therapist equipment		\$10 000		10 000
	<u>5 000</u>	<u>10 000</u>	<u>(5 000)</u>	<u>10 000</u>

H. RENTAL INCOME

The Organization currently leases a portion of its property to an unrelated third party. Rental income for the years ended December 31, 2018 and 2017 was \$0 and \$6,760, respectively.

I. 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.

FAMILY ARK, INC.  
NOTES TO FINANCIAL STATEMENTS (continued)

**J OPERATIONS**

The Organization incurred a net loss of \$189,773 for the year ended December 31, 2018. Included in the net loss was \$46,933 unrealized loss on investments. Had these unrealized losses not been included, the net loss for 2018 would have been \$142,840. Additionally, the Organization used cash of approximately \$60,121 in 2018.

For December 31, 2017, the Organization incurred a net loss of \$167,591. Included in the 2017 net loss was unrealized gain on investments of \$22,318. Had these unrealized gains not been included, the net loss for 2017 would have been \$189,909. Additionally, the Organization used cash of approximately \$208,657 in 2017.

The Organization in 2019 contracted with the Indiana Department of Child Services for a new program which management believes will significantly increase revenues in the future. Also, with the recent appraisal of the property of \$2.4 million, the Organization will be able to utilize financing to meet their financial and cash flow needs over the next year from issue of these financial statements.

**K SUBSEQUENT EVENTS**

Subsequent events have been evaluated through the date of this report, which is the date the financial statements were available to be issued.