

# **KVC Health Systems, Inc.**

Accountants' Report and Consolidated Financial Statements

June 30, 2012 and 2011

**KVC Health Systems, Inc.**  
**June 30, 2012 and 2011**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors  
KVC Health Systems, Inc.  
Olathe, Kansas

We have audited the accompanying consolidated statements of financial position of KVC Health Systems, Inc. as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KVC Health Systems, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual entities. 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.

*BKD, LLP*

Kansas City, Missouri  
December 6, 2012

**KVC Health Systems, Inc.**  
**Consolidated Statements of Financial Position**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,956,458	\$ 5,512,778
Accounts receivable, net of allowance; 2012 - \$940,000, 2011 - \$688,000	9,803,661	7,859,696
Grants receivable	314,883	131,187
Prepaid expenses	821,436	1,501,729
	<u>14,896,438</u>	<u>15,005,390</u>
<b>Property and Equipment, net</b>	<u>10,914,417</u>	<u>14,620,746</u>
<b>Other Assets</b>		
Goodwill	545,000	661,406
Deposits and other assets	510,857	323,322
	<u>1,055,857</u>	<u>984,728</u>
<b>Total assets</b>	<u><u>\$ 26,866,712</u></u>	<u><u>\$ 30,610,864</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 184,940	\$ 1,331,031
Accounts payable	2,608,491	4,570,893
Accrued salaries	1,469,226	3,727,873
Accrued compensated absences	804,982	1,227,823
Other accrued expenses	1,223,720	1,952,244
Deferred revenue	119,320	8,112,653
	<u>6,410,679</u>	<u>20,922,517</u>
<b>Long-term Debt</b>		
Capital lease obligations	21,922	206,862
	<u>21,922</u>	<u>206,862</u>
<b>Total liabilities</b>	<u>6,432,601</u>	<u>21,129,379</u>
<b>Net Assets</b>		
Unrestricted	20,434,111	9,481,485
<b>Total net assets</b>	<u>20,434,111</u>	<u>9,481,485</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 26,866,712</u></u>	<u><u>\$ 30,610,864</u></u>

**KVC Health Systems, Inc.**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Contract family preservation, reintegration and adoption	\$ 83,165,551	\$ 86,047,436
Child placing services	13,834,618	10,970,354
Inpatient services	14,465,541	13,632,818
Outpatient services	8,138,327	9,565,343
Contributions and grants	3,162,069	3,417,587
Interest income	13,056	13,193
Gain on disposition of assets	34,253	1,177,773
Miscellaneous	666,513	502,076
	<u>123,479,928</u>	<u>125,326,580</u>
<b>Operating Expenses</b>		
Client care	99,929,526	117,243,196
Administrative and general	12,367,054	13,010,862
Fund raising	230,722	206,844
	<u>112,527,302</u>	<u>130,460,902</u>
<b>Change in Unrestricted Net Assets</b>	10,952,626	(5,134,322)
<b>Change in Temporarily Restricted Net Assets</b>	<u>-</u>	<u>(3,000)</u>
<b>Change in Net Assets</b>	10,952,626	(5,137,322)
<b>Net Assets, Beginning of Year</b>	<u>9,481,485</u>	<u>14,618,807</u>
<b>Net Assets, End of Year</b>	<u>\$ 20,434,111</u>	<u>\$ 9,481,485</u>

**KVC Health Systems, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Change in net assets	\$ 10,952,626	\$ (5,137,322)
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	1,675,990	1,662,208
Gain on disposition of assets	(34,253)	(1,177,773)
Goodwill impairment loss	116,406	288,194
Changes in		
Accounts receivable	(1,943,965)	(184,714)
Grants receivable	(183,696)	32,172
Prepaid expenses	680,293	(953,528)
Other assets	(187,535)	(95,394)
Accounts payable	(1,962,402)	1,560,275
Accrued salaries	(2,258,647)	1,442,652
Accrued compensated absences	(422,841)	272,330
Other accrued expenses	(728,524)	(1,562,579)
Deferred revenue	(7,993,333)	8,061,514
	<u>(2,289,881)</u>	<u>4,208,035</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(811,108)	(4,155,848)
Proceeds from disposition of property and equipment	2,875,700	3,272,504
	<u>2,064,592</u>	<u>(883,344)</u>
<b>Financing Activities</b>		
Proceeds from issuance of long-term debt	-	1,113,835
Principal payments on long-term debt	(1,331,031)	(1,190,786)
	<u>(1,331,031)</u>	<u>(76,951)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(1,556,320)	3,247,740
<b>Cash and Cash Equivalents, Beginning of Year</b>	5,512,778	2,265,038
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 3,956,458</u>	<u>\$ 5,512,778</u>
<b>Supplemental Cash Flows Information</b>		
Capital lease obligations incurred for property and equipment	\$ -	\$ 15,992

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations and Principles of Consolidation***

KVC Health Systems, Inc. is the sole corporate member of the following affiliates, collectively referred to as the Organization:

KVC Behavioral HealthCare, Inc.

KVC Behavioral HealthCare, Inc. is a Kansas not-for-profit organization headquartered in Olathe, Kansas. It provides an integrated array of programs for emotionally and behaviorally impaired, abused, neglected, runaway and homeless youth, ages birth to twenty-one, and their families.

KVC Behavioral Healthcare West Virginia, Inc.

KVC Behavioral Healthcare West Virginia, Inc. is a West Virginia not-for-profit organization headquartered in Charleston, West Virginia whose mission and principal activities are to provide an integrated array of programs for emotionally and behaviorally impaired, abused, neglected, runaway and homeless youth, ages birth to twenty-one, and their families.

KVC Behavioral Healthcare Kentucky, Inc.

KVC Behavioral Healthcare Kentucky, Inc. is a Kentucky not-for-profit organization headquartered in Lexington, Kentucky whose mission and principal activities are to provide mental health, educational and case management services to children with mental health needs who are either placed in out-of-home care, hospitalized or who are facing imminent removal from their biological home in the state of Kentucky.

KVC Behavioral Healthcare Nebraska, Inc.

KVC Behavioral Healthcare Nebraska, Inc. is a Nebraska not-for-profit organization headquartered in Omaha, Nebraska whose mission and principal activities are to provide service coordination, foster care, family preservation, and supportive mental health services to the children and families of Nebraska. As further discussed in *Note 3*, two contracts representing a substantial portion of 2012 and 2011 revenues were terminated on June 30, 2012.

KVC Hospitals, Inc.

KVC Hospitals, Inc. is a Kansas not-for-profit organization headquartered in Olathe, Kansas, whose mission and principal activities are to provide psychiatric care to children and adolescents out of facilities in Kansas City, Kansas and Hays, Kansas.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

KVC Real Estate Holdings, Inc.

KVC Real Estate Holdings, Inc. is a Kansas not-for-profit organization in Olathe, Kansas. The organization was established to own and manage all the buildings and land that help support KVC Health Systems, Inc. and its affiliates.

KVC Foundation, Inc.

KVC Foundation, Inc. is a Kansas not-for-profit organization in Olathe, Kansas. The Foundation was created to establish an endowment and provide fundraising activities to support the programs of KVC Health Systems, Inc. and its affiliates.

The accompanying consolidated financial statements include the accounts of KVC Health Systems, Inc., and its affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of 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 revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents***

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, cash equivalents consisted primarily of money market accounts with banks.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At June 30, 2012, the Organization's cash accounts exceeded federally insured limits by approximately \$1,929,000.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

***Accounts Receivable***

Accounts receivable are stated at the net realizable value, which is the amount management expects to collect from outstanding balances. The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.



**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	5-40 years
Furniture and equipment	5-10 years
Computer equipment and vehicles	5 years

***Long-lived Asset Impairment***

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time 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 restrictions. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

***Goodwill***

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

***In-Kind Contributions***

In addition to receiving cash contributions, the Organization receives in-kind contributions of goods and services from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended June 30, 2012 and 2011, \$175,495 and \$126,072, respectively, was received in in-kind contributions.

***Deferred Revenue***

Revenue from contracts, grants and other miscellaneous fees is deferred and recognized over the periods in which the services are performed.

***Income Taxes***

The Organizations are exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organizations are subject to federal income tax on any unrelated business taxable income. The Organizations file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organizations are no longer subject to U.S. federal examinations by tax authorities for years before 2009.

***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on time expended, usage and other methods.

***Reclassifications***

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

**Note 2: Revenue Concentrations – KVC Behavioral HealthCare, Inc.**

On July 1, 2005, the Organization was awarded a Foster Care Reintegration Services contract from a state agency to provide foster care services to Region II of the State of Kansas. The contract is for a term of four years, with an option to extend for additional years. The current contract extension is through June 30, 2013.

Revenues for the contract amounted to \$30,608,130 and \$29,220,926, which represents 25% and 23% of the Organization's unrestricted revenues, gains and support for the years ended June 30, 2012 and 2011, respectively. Accounts receivable related to the foster care reintegration contract amounted to \$2,611,742 and \$2,495,234 at June 30, 2012 and 2011, respectively.

**Note 3: Revenue Concentrations – KVC Behavioral Healthcare Nebraska, Inc.**

KVC Behavioral Healthcare Nebraska, Inc. entered into two contracts with the Department of Health and Human Services of the state of Nebraska (DHHS) to provide foster care services in the regions known as the Eastern Service Area and the Southeast Service Area. Both contracts' original terms were November 1, 2009 through June 30, 2014. Both contracts were terminated as of June 30, 2012 in accordance with the termination clauses of the contracts.

Revenues for the contracts amounted to \$52,557,421 and \$56,826,510, which represents 43% and 45% of the Organization's unrestricted revenues, gains and support for the years ended June 30, 2012 and 2011, respectively. Accounts receivable related to the foster care reintegration contracts amounted to \$145,132 and \$54,559 at June 30, 2012 and 2011, respectively.

**Note 4: Revenue Concentrations – KVC Hospitals, Inc.**

KVC Hospitals, Inc. provides a substantial amount of its services under Medicaid billed through a state agency. During the years ended June 30, 2012 and 2011, fees from Medicaid totaled \$10,783,766 and \$11,484,587, respectively, which represents 9% of the Organization's total unrestricted revenue, gains and other support for both years. At June 30, 2012 and 2011, \$1,169,398 and \$1,708,113, respectively, due from Medicaid is included in accounts receivable.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

**Note 5: Property and Equipment**

Property and equipment at June 30 consists of:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 1,373,701	\$ 1,703,701
Buildings and leasehold improvements	12,898,704	15,094,877
Furniture and equipment	4,743,668	4,743,668
Works of art	95,142	95,142
Computer equipment	3,187,896	2,993,141
Vehicles	178,609	178,609
Contstruction in progress	188,729	-
	<u>22,666,449</u>	<u>24,809,138</u>
Less accumulated depreciation and amortization	<u>11,752,032</u>	<u>10,188,392</u>
	<u>\$ 10,914,417</u>	<u>\$ 14,620,746</u>

**Note 6: Line of Credit**

The Organization has a \$5,000,000 revolving bank line of credit expiring in April 2013. At June 30, 2012 and 2011, there were no borrowings against this line. The line is collateralized by property and equipment. Interest was 4.25% on June 30, 2012 and is payable monthly.

**Note 7: Long-term Debt**

	<u>2012</u>	<u>2011</u>
Note payable, bank (A)	\$ -	\$ 1,113,835
Capital lease obligations (B)	206,862	424,058
	<u>206,862</u>	<u>1,537,893</u>
Less current maturities	184,940	1,331,031
	<u>\$ 21,922</u>	<u>\$ 206,862</u>

(A) Due October 22, 2011; payable in one payment of all outstanding principal plus all accrued interest at 5.5% on the maturity date; secured by property and equipment. The note was paid off during 2012.

(B) Capital leases include leases with varying imputed interest rates from 3.00% to 17.00%, due through 2014, collateralized by equipment.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

Payments on capital lease obligations at June 30, 2012, are:

2013	\$	200,508
2014		25,780
		226,288
Less amount representing interest		19,426
		\$ 206,862

Property and equipment include the following property under capital leases at June 30:

	<b>2012</b>	<b>2011</b>
Equipment	\$ 798,660	\$ 800,870
Less accumulated depreciation	608,235	387,194
	\$ 190,425	\$ 413,676

**Note 8: Defined Contribution Plan**

The Organization has a defined contribution plan (the Plan) covering all full-time employees who have at least one year of service and who are at least 21 years of age. Participants receive 20% vesting for each eligible year of service. Each year, the Board of Directors determines the amount of the contribution to the Plan. Total expenses for the years ended June 30, 2012 and 2011 were approximately \$451,000 and \$115,000, respectively.

**Note 9: Operating Leases**

Noncancellable operating leases for office space expire in various years through 2019. These leases generally contain renewal options for periods ranging from one to five years and require the Organization to pay all executory costs (property taxes, maintenance and insurance). Total rental expense for property leases for the years ended June 30, 2012 and 2011 was \$2,733,403 and \$2,635,737, respectively.

Noncancellable operating leases for equipment expire in various years through 2016. Total rental expense for equipment leases for the years ended June 30, 2012 and 2011 was \$350,457 and \$226,482, respectively.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

Future minimum lease payments at June 30, 2012, were:

	<u>Equipment</u>	<u>Property</u>	<u>Total</u>
2013	\$ 300,130	\$ 1,683,540	\$ 1,983,670
2014	215,023	1,048,147	1,263,170
2015	92,860	243,697	336,557
2016	24,772	118,250	143,022
2017	-	118,250	118,250
Thereafter	-	167,521	167,521
	<u>\$ 632,785</u>	<u>\$ 3,379,405</u>	<u>\$ 4,012,190</u>

**Note 10: Current Economic Conditions**

The current protracted economic decline continues to present organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of assets, large declines in grants and contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization. Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, allowances for accounts receivable and the valuation of intangibles that could negatively impact the Organization's ability to maintain sufficient liquidity.

**Note 11: Subsequent Event**

On July 1, 2012, the Organization was awarded a Family Preservation Reunification Services (FPP) and Diversion Services contract from a state agency to provide services to the Big Sandy, Bluegrass Rural, Fayette, FIVCO, Gateway/Buffalo Trace, KIPDA Rural, KY River, and Northern Bluegrass areas of the State of Kentucky. The contract is for a term of two years, with an option to extend for additional years. The contract totals approximately \$8,600,000 per year for the initial two year term.

**Note 12: Litigation**

The Organization is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Organization. Events could occur that would change this estimate materially in the near term.

## **Supplementary Information**

**KVC Health Systems, Inc.**  
**Consolidating Schedule of Financial Position**  
**June 30, 2012**

	<b>KVC Health Systems, Inc.</b>	<b>KVC Behavioral HealthCare, Inc.</b>	<b>KVC Behavioral Healthcare West Virginia, Inc.</b>	<b>KVC Behavioral Healthcare Kentucky, Inc.</b>	<b>KVC Behavioral Healthcare Nebraska, Inc.</b>	<b>KVC Hospitals, Inc.</b>	<b>KVC Foundation, Inc.</b>	<b>KVC Real Estate Holdings, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Current Assets</b>										
Cash and cash equivalents	\$ 1,772,873	\$ 92,759	\$ 96,753	\$ 389,777	\$ 339,070	\$ 72,307	\$ 45,187	\$ 1,147,732		\$ 3,956,458
Accounts receivable, net of allowance of \$940,000	-	3,284,513	578,036	1,072,619	1,599,440	3,269,053	-	-		9,803,661
Grants receivable	81,172	143,432	-	-	-	90,279	-	-		314,883
Prepaid expenses	104,538	177,124	70,653	63,866	303,408	94,292	-	7,555		821,436
Total current assets	1,958,583	3,697,828	745,442	1,526,262	2,241,918	3,525,931	45,187	1,155,287		14,896,438
<b>Property and Equipment, net</b>	853,259	379,399	92,941	10,885	629,460	1,179,285	-	7,769,188		10,914,417
<b>Other Assets</b>										
Goodwill	-	-	-	545,000	-	-	-	-		545,000
Deposits and other assets	255,910	96,758	19,683	5,850	126,756	5,900	-	-		510,857
	255,910	96,758	19,683	550,850	126,756	5,900	-	-		1,055,857
Total assets	\$ 3,067,752	\$ 4,173,985	\$ 858,066	\$ 2,087,997	\$ 2,998,134	\$ 4,711,116	\$ 45,187	\$ 8,924,475	\$ -	\$ 26,866,712



**KVC Health Systems, Inc.**  
**Consolidating Schedule of Financial Position (Continued)**  
**June 30, 2012**

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral Healthcare West Virginia, Inc.	KVC Behavioral Healthcare Kentucky, Inc.	KVC Behavioral Healthcare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Real Estate Holdings, Inc.	Eliminations	Consolidated
<b>Current Liabilities</b>										
Current maturities of long-term debt	\$ 13,116	\$ 65,434	\$ 31,207	\$ -	\$ 29,744	\$ 45,439	\$ -	\$ -		\$ 184,940
Accounts payable	192,649	1,066,199	548,824	63,327	388,505	346,885	2,102	-		2,608,491
Accrued salaries	220,420	411,454	77,161	358,583	107,057	294,551	-	-		1,469,226
Accrued compensated absences	184,743	288,231	51,164	78,995	70,887	130,962	-	-		804,982
Other accrued expenses	168,324	282,807	95,250	372,855	182,821	121,663	-	-		1,223,720
Deferred revenue	-	-	-	10,000	8,333	100,987	-	-		119,320
<b>Total current liabilities</b>	<b>779,252</b>	<b>2,114,125</b>	<b>803,606</b>	<b>883,760</b>	<b>787,347</b>	<b>1,040,487</b>	<b>2,102</b>	<b>-</b>		<b>6,410,679</b>
<b>Long-term Debt</b>										
Capital lease obligations	-	-	21,922	-	-	-	-	-		21,922
	-	-	21,922	-	-	-	-	-		21,922
<b>Total liabilities</b>	<b>779,252</b>	<b>2,114,125</b>	<b>825,528</b>	<b>883,760</b>	<b>787,347</b>	<b>1,040,487</b>	<b>2,102</b>	<b>-</b>		<b>6,432,601</b>
<b>Net Assets</b>										
Unrestricted	2,288,500	2,059,860	32,538	1,204,237	2,210,787	3,670,629	43,085	8,924,475		20,434,111
<b>Total net assets</b>	<b>2,288,500</b>	<b>2,059,860</b>	<b>32,538</b>	<b>1,204,237</b>	<b>2,210,787</b>	<b>3,670,629</b>	<b>43,085</b>	<b>8,924,475</b>		<b>20,434,111</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,067,752</b>	<b>\$ 4,173,985</b>	<b>\$ 858,066</b>	<b>\$ 2,087,997</b>	<b>\$ 2,998,134</b>	<b>\$ 4,711,116</b>	<b>\$ 45,187</b>	<b>\$ 8,924,475</b>	<b>\$ -</b>	<b>\$ 26,866,712</b>

**KVC Health Systems, Inc.**  
**Consolidating Schedule of Activities**  
**Year Ended June 30, 2012**

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral Healthcare West Virginia, Inc.	KVC Behavioral Healthcare Kentucky, Inc.	KVC Behavioral Healthcare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Real Estate Holdings, Inc.	Eliminations	Consolidated
<b>Unrestricted Revenues, Gains and Other Support</b>										
Contract family preservation, reintegration and adoption	\$ -	\$ 30,608,130	\$ -	\$ -	\$ 52,557,421	\$ -	\$ -	\$ -	\$ -	\$ 83,165,551
Child placing services	-	3,085,747	5,837,712	367,016	4,544,143	-	-	-	-	13,834,618
Inpatient services	-	-	-	-	-	14,465,541	-	-	-	14,465,541
Outpatient services	-	1,297,878	2,460,240	4,146,438	-	233,771	-	-	-	8,138,327
Contributions and grants	619,204	737,566	124,463	472,396	51,269	857,826	79,345	220,000	-	3,162,069
Interest income	5,481	1,698	-	522	1,654	1,393	95	2,213	-	13,056
Gain (loss) on disposition of assets	-	-	-	-	(124,178)	-	-	158,431	-	34,253
Miscellaneous	166,403	61,819	13,670	16,510	351,936	54,074	-	2,101	-	666,513
Management fee	7,687,000	480,000	-	409,500	-	-	-	-	(8,576,500)	-
Intercompany services	-	-	-	-	-	665,652	-	-	(665,652)	-
Intercompany rent	-	-	-	-	-	-	-	1,373,200	(1,373,200)	-
Total unrestricted revenues, gains and other support	<u>8,478,088</u>	<u>36,272,838</u>	<u>8,436,085</u>	<u>5,412,382</u>	<u>57,382,245</u>	<u>16,278,257</u>	<u>79,440</u>	<u>1,755,945</u>	<u>(10,615,352)</u>	<u>123,479,928</u>
<b>Operating Expenses</b>										
Client care	-	27,199,683	8,538,564	5,046,673	46,386,367	14,191,691	-	-	(1,433,452)	99,929,526
Administrative and general	8,344,460	4,130,999	1,496,362	479,060	4,496,472	1,952,692	-	645,909	(9,178,900)	12,367,054
Fund raising	179,986	-	-	-	2,285	-	51,451	-	(3,000)	230,722
Total operating expenses	<u>8,524,446</u>	<u>31,330,682</u>	<u>10,034,926</u>	<u>5,525,733</u>	<u>50,885,124</u>	<u>16,144,383</u>	<u>51,451</u>	<u>645,909</u>	<u>(10,615,352)</u>	<u>112,527,302</u>
<b>Operating Income (Loss)</b>	(46,358)	4,942,156	(1,598,841)	(113,351)	6,497,121	133,874	27,989	1,110,036	-	10,952,626
<b>Other Income (Expense)</b>										
Intercompany transfers	(1,998,344)	(4,730,990)	996,638	467,279	7,115,710	64,101	5,642	(1,920,036)	-	-
<b>Change in Unrestricted Net Assets</b>	(2,044,702)	211,166	(602,203)	353,928	13,612,831	197,975	33,631	(810,000)	-	10,952,626
<b>Net Assets (Deficit), Beginning of Year</b>	4,333,202	1,848,694	634,741	850,309	(11,402,044)	3,472,654	9,454	9,734,475	-	9,481,485
<b>Net Assets, End of Year</b>	<u>\$ 2,288,500</u>	<u>\$ 2,059,860</u>	<u>\$ 32,538</u>	<u>\$ 1,204,237</u>	<u>\$ 2,210,787</u>	<u>\$ 3,670,629</u>	<u>\$ 43,085</u>	<u>\$ 8,924,475</u>	<u>\$ -</u>	<u>\$ 20,434,111</u>

**KVC Health Systems, Inc.**  
**Consolidating Schedule of Financial Position**  
**June 30, 2011**

	<b>KVC Health Systems, Inc.</b>	<b>KVC Behavioral HealthCare, Inc.</b>	<b>KVC Behavioral Healthcare West Virginia, Inc.</b>	<b>KVC Behavioral Healthcare Kentucky, Inc.</b>	<b>KVC Behavioral Healthcare Nebraska, Inc.</b>	<b>KVC Hospitals, Inc.</b>	<b>KVC Foundation, Inc.</b>	<b>KVC Real Estate Holdings, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Current Assets</b>										
Cash and cash equivalents	\$ 4,119,694	\$ 304,506	\$ 140,526	\$ 340,791	\$ 111,453	\$ 395,821	\$ 9,454	\$ 90,533		\$ 5,512,778
Accounts receivable, net of allowance of \$688,000	-	3,056,698	1,060,086	318,370	310,853	3,113,689	-	-		7,859,696
Grants receivable	44,453	25,363	-	-	-	61,371	-	-		131,187
Prepaid expenses	114,314	246,397	271,941	111,043	601,406	149,761	-	6,867		1,501,729
Total current assets	<u>4,278,461</u>	<u>3,632,964</u>	<u>1,472,553</u>	<u>770,204</u>	<u>1,023,712</u>	<u>3,720,642</u>	<u>9,454</u>	<u>97,400</u>		<u>15,005,390</u>
<b>Property and Equipment, net</b>	<u>721,916</u>	<u>452,327</u>	<u>139,038</u>	<u>14,481</u>	<u>1,381,323</u>	<u>1,156,049</u>	<u>-</u>	<u>10,755,612</u>		<u>14,620,746</u>
<b>Other Assets</b>										
Goodwill	-	-	116,406	545,000	-	-	-	-		661,406
Deposits and other assets	112,327	56,206	17,183	5,850	126,756	5,000	-	-		323,322
	<u>112,327</u>	<u>56,206</u>	<u>133,589</u>	<u>550,850</u>	<u>126,756</u>	<u>5,000</u>	<u>-</u>	<u>-</u>		<u>984,728</u>
Total assets	<u>\$ 5,112,704</u>	<u>\$ 4,141,497</u>	<u>\$ 1,745,180</u>	<u>\$ 1,335,535</u>	<u>\$ 2,531,791</u>	<u>\$ 4,881,691</u>	<u>\$ 9,454</u>	<u>\$ 10,853,012</u>	<u>\$ -</u>	<u>\$ 30,610,864</u>

**KVC Health Systems, Inc.**  
**Consolidating Schedule of Financial Position (Continued)**  
**June 30, 2011**

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral Healthcare West Virginia, Inc.	KVC Behavioral Healthcare Kentucky, Inc.	KVC Behavioral Healthcare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Real Estate Holdings, Inc.	Eliminations	Consolidated
<b>Current Liabilities</b>										
Current maturities of long-term debt	\$ 16,640	\$ 83,880	\$ 27,002	\$ -	\$ 36,205	\$ 53,469	\$ -	\$ 1,113,835		\$ 1,331,031
Accounts payable	130,878	978,112	262,435	45,999	2,841,037	309,262	-	3,170		4,570,893
Accrued salaries	353,570	667,245	323,774	324,683	1,476,675	581,926	-	-		3,727,873
Accrued compensated absences	152,440	253,350	133,494	82,245	429,385	176,909	-	-		1,227,823
Other accrued expenses	112,858	244,782	310,605	20,966	1,095,066	166,435	-	1,532		1,952,244
Deferred revenue	-	-	-	11,333	8,025,723	75,597	-	-		8,112,653
	<u>766,386</u>	<u>2,227,369</u>	<u>1,057,310</u>	<u>485,226</u>	<u>13,904,091</u>	<u>1,363,598</u>	<u>-</u>	<u>1,118,537</u>		<u>20,922,517</u>
<b>Long-term Debt</b>										
Capital lease obligations	13,116	65,434	53,129	-	29,744	45,439	-	-		206,862
	<u>13,116</u>	<u>65,434</u>	<u>53,129</u>	<u>-</u>	<u>29,744</u>	<u>45,439</u>	<u>-</u>	<u>-</u>		<u>206,862</u>
Total liabilities	<u>779,502</u>	<u>2,292,803</u>	<u>1,110,439</u>	<u>485,226</u>	<u>13,933,835</u>	<u>1,409,037</u>	<u>-</u>	<u>1,118,537</u>		<u>21,129,379</u>
<b>Net Assets (Deficit)</b>										
Unrestricted	4,333,202	1,848,694	634,741	850,309	(11,402,044)	3,472,654	9,454	9,734,475		9,481,485
Total net assets (deficit)	<u>4,333,202</u>	<u>1,848,694</u>	<u>634,741</u>	<u>850,309</u>	<u>(11,402,044)</u>	<u>3,472,654</u>	<u>9,454</u>	<u>9,734,475</u>		<u>9,481,485</u>
Total liabilities and net assets	<u>\$ 5,112,704</u>	<u>\$ 4,141,497</u>	<u>\$ 1,745,180</u>	<u>\$ 1,335,535</u>	<u>\$ 2,531,791</u>	<u>\$ 4,881,691</u>	<u>\$ 9,454</u>	<u>\$ 10,853,012</u>	<u>\$ -</u>	<u>\$ 30,610,864</u>

**KVC Health Systems, Inc.**  
**Consolidating Schedule of Activities**  
**Year Ended June 30, 2011**

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral Healthcare West Virginia, Inc.	KVC Behavioral Healthcare Kentucky, Inc.	KVC Behavioral Healthcare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Real Estate Holdings, Inc.	Eliminations	Consolidated
<b>Unrestricted Revenues, Gains and Other Support</b>										
Contract family preservation, reintegration and adoption	\$ -	\$ 29,220,926	\$ -	\$ -	\$ 56,826,510	\$ -	\$ -	\$ -	\$ -	\$ 86,047,436
Child placing services	-	4,215,138	5,459,734	46,483	1,248,999	-	-	-	-	10,970,354
Inpatient services	-	-	-	-	-	13,632,818	-	-	-	13,632,818
Outpatient services	-	67,054	5,407,262	2,995,609	-	1,095,418	-	-	-	9,565,343
Contributions and grants	451,802	285,171	80,888	493,441	21,479	396,605	38,201	1,650,000	-	3,417,587
Interest income	3,757	2,929	-	618	3,408	1,387	19	1,075	-	13,193
Gain on disposition of assets	-	-	-	-	-	-	-	1,177,773	-	1,177,773
Miscellaneous	266,070	112,536	101,731	9,452	6,212	-	-	5,955	120	502,076
Management fee	7,668,000	647,700	-	55,800	10,725	51,000	-	-	(8,433,225)	-
Intercompany services	-	-	-	-	-	818,765	-	-	(818,765)	-
Intercompany rent	-	-	-	-	-	-	-	1,393,200	(1,393,200)	-
Total unrestricted revenues, gains and other support	<u>8,389,629</u>	<u>34,551,454</u>	<u>11,049,615</u>	<u>3,601,403</u>	<u>58,117,333</u>	<u>15,995,993</u>	<u>38,220</u>	<u>4,228,003</u>	<u>(10,645,070)</u>	<u>125,326,580</u>
<b>Operating Expenses</b>										
Client care	-	24,469,398	9,214,369	4,032,034	64,997,076	16,173,364	-	-	(1,643,045)	117,243,196
Administrative and general	8,208,485	3,623,920	1,305,532	747,509	5,916,983	1,640,303	-	567,155	(8,999,025)	13,010,862
Fund raising	181,682	-	-	-	4,264	-	23,898	-	(3,000)	206,844
Total operating expenses	<u>8,390,167</u>	<u>28,093,318</u>	<u>10,519,901</u>	<u>4,779,543</u>	<u>70,918,323</u>	<u>17,813,667</u>	<u>23,898</u>	<u>567,155</u>	<u>(10,645,070)</u>	<u>130,460,902</u>
<b>Operating Income (Loss)</b>	(538)	6,458,136	529,714	(1,178,140)	(12,800,990)	(1,817,674)	14,322	3,660,848	-	(5,134,322)
<b>Other Income (Expense)</b>										
Intercompany transfers	4,129,604	(7,987,704)	(543,695)	704,071	3,640,949	3,574,055	(7,221)	(3,510,059)	-	-
<b>Change in Unrestricted Net Assets</b>	4,129,066	(1,529,568)	(13,981)	(474,069)	(9,160,041)	1,756,381	7,101	150,789	-	(5,134,322)
<b>Change in Temporarily Restricted Net Assets</b>	-	(3,000)	-	-	-	-	-	-	-	(3,000)
<b>Change in Net Assets</b>	4,129,066	(1,532,568)	(13,981)	(474,069)	(9,160,041)	1,756,381	7,101	150,789	-	(5,137,322)
<b>Net Assets (Deficit), Beginning of Year</b>	204,136	3,381,262	648,722	1,324,378	(2,242,003)	1,716,273	2,353	9,583,686	-	14,618,807
<b>Net Assets (Deficit), End of Year</b>	<u>\$ 4,333,202</u>	<u>\$ 1,848,694</u>	<u>\$ 634,741</u>	<u>\$ 850,309</u>	<u>\$ (11,402,044)</u>	<u>\$ 3,472,654</u>	<u>\$ 9,454</u>	<u>\$ 9,734,475</u>	<u>\$ -</u>	<u>\$ 9,481,485</u>

**KVC Health Systems, Inc.**  
**Consolidated Functional Expenses**  
**Year Ended June 30, 2012**  
**(with Comparative Totals for 2011)**

	Client Care	Administrative and General	Fund Raising	Total Expenses	2011 Total Expenses
Salaries and wages	\$ 35,208,491	\$ 5,528,476	\$ 97,364	\$ 40,834,331	\$ 46,507,973
Payroll taxes	3,302,198	481,420	8,588	3,792,206	4,002,735
Employee benefits	4,160,922	607,257	17,609	4,785,788	5,137,365
Total salaries, wages and related expenses	42,671,611	6,617,153	123,561	49,412,325	55,648,073
Office supplies and printing	252,362	93,988	2,436	348,786	463,168
Copier and fax expense	190,538	54,662	-	245,200	231,456
Postage	88,664	53,957	554	143,175	113,539
Employee recruitment and advertising	115,981	108,610	-	224,591	262,218
Licenses and dues	132,559	110,582	1,500	244,641	247,109
Insurance	-	647,115	-	647,115	606,405
Travel	3,349,274	126,879	-	3,476,153	4,010,913
Telephone	1,138,434	248,380	-	1,386,814	1,536,548
Professional fees	279,130	483,594	-	762,724	737,376
Contract labor	615,741	133,389	17,381	766,511	514,153
Contract psychiatrist	1,670,717	-	-	1,670,717	1,543,452
Consulting and other contractual expenses	5,765,560	446,373	-	6,211,933	10,554,948
Staff development	165,993	183,351	-	349,344	420,945
Promotion	29,259	36,626	6,384	72,269	91,767
Office rent	3,448,332	878,271	6,556	4,333,159	4,028,937
Equipment expenses	240,038	270,348	-	510,386	255,547
Maintenance and repairs	213,102	74,618	-	287,720	396,314
Safety services and materials	90,400	23,764	-	114,164	102,375
Food	462,632	6,891	-	469,523	549,496
Food – outings	141,771	51,238	23,114	216,123	153,349
Housekeeping supplies	45,745	6,030	-	51,775	83,080
Miscellaneous housekeeping	357,016	116,449	-	473,465	528,959
Utilities	278,382	129,085	-	407,467	446,541
Payments to foster parents	18,019,617	-	-	18,019,617	16,553,484
Subcontractor – foster home payments	6,962,761	-	-	6,962,761	12,520,065
Foster family training	284,819	117,622	-	402,441	351,055
Subcontractor payments	8,739,076	-	-	8,739,076	12,035,711
Child care payments	1,139,784	-	-	1,139,784	980,081
Incidentals	(1,412)	-	-	(1,412)	1,366
Medical supplies	626,919	-	-	626,919	603,005
Vehicle expenses and repairs	286,246	16,182	-	302,428	219,070
Vehicle rental	683,325	18,181	-	701,506	921,261
General program supplies	135,160	14,507	-	149,667	140,889
Clothing	460,346	-	-	460,346	532,136
Miscellaneous	112,513	26,812	49,236	188,561	131,446
Interest	306	46,451	-	46,757	148,205
Bad debts	-	867,447	-	867,447	485,236
Property tax expense	7,294	4,924	-	12,218	41,310
Cost of in-kind donated goods	180	175,495	-	175,675	126,072
Medicaid assessments	46,283	-	-	46,283	101,924
Flex fund	400,779	-	-	400,779	447,198
Kids activity fund	41,173	-	-	41,173	37,518
Loss on impairment of assets	-	116,406	-	116,406	288,194
Expenses before depreciation, amortization and intercompany fees	99,688,410	12,305,380	230,722	112,224,512	130,191,894
Depreciation and amortization	1,008,916	667,074	-	1,675,990	1,662,208
Intercompany management and residential fees	665,652	8,573,500	3,000	9,242,152	9,251,870
Eliminations	(1,433,452)	(9,178,900)	(3,000)	(10,615,352)	(10,645,070)
Totals, Year Ended June 30, 2012	<u>\$ 99,929,526</u>	<u>\$ 12,367,054</u>	<u>\$ 230,722</u>	<u>\$ 112,527,302</u>	<u>\$ 130,460,902</u>
Totals, Year Ended June 30, 2011	<u>\$ 117,243,196</u>	<u>\$ 13,010,862</u>	<u>\$ 206,844</u>	<u>\$ 130,460,902</u>	<u>\$ 130,460,902</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Health Systems, Inc.**  
**Year Ended June 30, 2012**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ -	\$ 4,137,313	\$ 97,364	\$ 4,234,677
Payroll taxes	-	347,101	8,588	355,689
Employee benefits	-	417,264	17,609	434,873
Total salaries, wages and related expenses	-	4,901,678	123,561	5,025,239
Office supplies and printing	-	71,212	2,436	73,648
Copier and fax expense	-	36,305	-	36,305
Postage	-	28,719	-	28,719
Employee recruitment and advertising	-	106,995	-	106,995
Licenses and dues	-	94,466	-	94,466
Insurance	-	53,167	-	53,167
Travel	-	86,747	-	86,747
Telephone	-	179,365	-	179,365
Professional fees	-	469,651	-	469,651
Contract labor	-	133,389	17,381	150,770
Contract psychiatrist	-	-	-	-
Consulting and other contractual expenses	-	368,762	-	368,762
Staff development	-	162,321	-	162,321
Promotion	-	20,653	6,384	27,037
Office rent	-	571,025	6,556	577,581
Equipment expenses	-	253,470	-	253,470
Maintenance and repairs	-	70,291	-	70,291
Safety services and materials	-	12,097	-	12,097
Food	-	67	-	67
Food – outings	-	36,685	23,114	59,799
Housekeeping supplies	-	5,884	-	5,884
Miscellaneous housekeeping	-	114,574	-	114,574
Utilities	-	126,531	-	126,531
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	113,759	-	113,759
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	-	7,326	-	7,326
Vehicle rental	-	17,606	-	17,606
General program supplies	-	13,717	-	13,717
Clothing	-	-	-	-
Miscellaneous	-	8,821	554	9,375
Interest	-	1,998	-	1,998
Bad debts	-	-	-	-
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	-	8,067,281	179,986	8,247,267
Depreciation and amortization	-	277,179	-	277,179
Intercompany management and residential fees	-	-	-	-
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2012	\$ -	\$ 8,344,460	\$ 179,986	\$ 8,524,446

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral HealthCare, Inc.**  
**Year Ended June 30, 2012**

	<u>Client Care</u>	<u>Administrative and General</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 9,288,364	\$ 589,896	\$ -	\$ 9,878,260
Payroll taxes	843,275	56,650	-	899,925
Employee benefits	1,249,177	75,033	-	1,324,210
Total salaries, wages and related expenses	<u>11,380,816</u>	<u>721,579</u>	-	<u>12,102,395</u>
Office supplies and printing	92,311	3,767	-	96,078
Copier and fax expense	69,224	2,694	-	71,918
Postage	40,709	4,287	-	44,996
Employee recruitment and advertising	6,171	-	-	6,171
Licenses and dues	35,119	10	-	35,129
Insurance	-	147,942	-	147,942
Travel	797,209	1,932	-	799,141
Telephone	295,301	9,051	-	304,352
Professional fees	12,684	-	-	12,684
Contract labor	828	-	-	828
Contract psychiatrist	-	-	-	-
Consulting and other contractual expenses	593,774	-	-	593,774
Staff development	20,906	25	-	20,931
Promotion	21,354	-	-	21,354
Office rent	802,432	39,000	-	841,432
Equipment expenses	47,182	-	-	47,182
Maintenance and repairs	40,497	-	-	40,497
Safety services and materials	26,751	-	-	26,751
Food	14,092	-	-	14,092
Food – outings	50,837	2,092	-	52,929
Housekeeping supplies	13,784	109	-	13,893
Miscellaneous housekeeping	53,428	-	-	53,428
Utilities	95,364	-	-	95,364
Payments to foster parents	7,466,539	-	-	7,466,539
Subcontractor – foster home payments	1,962,197	-	-	1,962,197
Foster family training	108,073	-	-	108,073
Subcontractor payments	793,070	-	-	793,070
Child care payments	1,138,128	-	-	1,138,128
Incidentals	(1,412)	-	-	(1,412)
Medical supplies	16,890	-	-	16,890
Vehicle expenses and repairs	192,556	-	-	192,556
Vehicle rental	273,512	-	-	273,512
General program supplies	46,888	-	-	46,888
Clothing	323,775	-	-	323,775
Miscellaneous	6,489	4,286	-	10,775
Interest	306	5,977	-	6,283
Bad debts	-	-	-	-
Property tax expense	225	-	-	225
Cost of in-kind donated goods	-	129,089	-	129,089
Medicaid assessments	-	-	-	-
Flex fund	150,166	-	-	150,166
Kids activity fund	40,050	-	-	40,050
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>27,028,225</u>	<u>1,071,840</u>	-	<u>28,100,065</u>
Depreciation and amortization	150,398	17,159	-	167,557
Intercompany management and residential fees	21,060	3,042,000	-	3,063,060
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2012	<u>\$ 27,199,683</u>	<u>\$ 4,130,999</u>	<u>\$ -</u>	<u>\$ 31,330,682</u>



**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral Healthcare West Virginia, Inc.**  
**Year Ended June 30, 2012**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 3,257,588	\$ 261,171	\$ -	\$ 3,518,759
Payroll taxes	429,902	28,708	-	458,610
Employee benefits	383,277	34,731	-	418,008
Total salaries, wages and related expenses	<u>4,070,767</u>	<u>324,610</u>	<u>-</u>	<u>4,395,377</u>
Office supplies and printing	28,123	15,141	-	43,264
Copier and fax expense	28,982	9,418	-	38,400
Postage	4,146	5,924	-	10,070
Employee recruitment and advertising	16,587	1,369	-	17,956
Licenses and dues	30,650	5,950	-	36,600
Insurance	-	68,678	-	68,678
Travel	389,231	4,689	-	393,920
Telephone	94,953	29,144	-	124,097
Professional fees	-	9,119	-	9,119
Contract labor	-	-	-	-
Contract psychiatrist	135,325	-	-	135,325
Consulting and other contractual expenses	19,554	72,119	-	91,673
Staff development	31,748	16,248	-	47,996
Promotion	431	3,747	-	4,178
Office rent	396,836	21,239	-	418,075
Equipment expenses	36,677	11,702	-	48,379
Maintenance and repairs	3,724	1,778	-	5,502
Safety services and materials	10,846	9,283	-	20,129
Food	14,656	6,453	-	21,109
Food – outings	-	-	-	-
Housekeeping supplies	1,920	37	-	1,957
Miscellaneous housekeeping	42,362	81	-	42,443
Utilities	32,706	197	-	32,903
Payments to foster parents	2,979,686	-	-	2,979,686
Subcontractor – foster home payments	-	-	-	-
Foster family training	62,273	3,863	-	66,136
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	4,482	3,336	-	7,818
Vehicle rental	567	-	-	567
General program supplies	5,011	62	-	5,073
Clothing	40,950	-	-	40,950
Miscellaneous	16,662	11,744	-	28,406
Interest	-	15,465	-	15,465
Bad debts	-	141,256	-	141,256
Property tax expense	7,069	4,101	-	11,170
Cost of in-kind donated goods	-	46,406	-	46,406
Medicaid assessments	31,640	-	-	31,640
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Loss on impairment of assets	-	116,406	-	116,406
Expenses before depreciation, amortization and intercompany fees	<u>8,538,564</u>	<u>959,565</u>	<u>-</u>	<u>9,498,129</u>
Depreciation and amortization	-	49,297	-	49,297
Intercompany management and residential fees	-	487,500	-	487,500
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2012	<u>\$ 8,538,564</u>	<u>\$ 1,496,362</u>	<u>\$ -</u>	<u>\$ 10,034,926</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral Healthcare Kentucky, Inc.**  
**Year Ended June 30, 2012**

	<u>Client Care</u>	<u>Administrative and General</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 3,591,043	\$ 257,337	\$ -	\$ 3,848,380
Payroll taxes	288,750	20,940	-	309,690
Employee benefits	444,337	38,022	-	482,359
Total salaries, wages and related expenses	<u>4,324,130</u>	<u>316,299</u>	-	<u>4,640,429</u>
Office supplies and printing	7,033	3,336	-	10,369
Copier and fax expense	992	6,404	-	7,396
Postage	3,582	2,860	-	6,442
Employee recruitment and advertising	-	246	-	246
Licenses and dues	19,881	1,347	-	21,228
Insurance	-	44,611	-	44,611
Travel	129,124	1,915	-	131,039
Telephone	61,713	19,290	-	81,003
Professional fees	-	4,824	-	4,824
Contract labor	1,793	-	-	1,793
Contract psychiatrist	81,212	-	-	81,212
Consulting and other contractual expenses	8,287	3,692	-	11,979
Staff development	22,455	3,773	-	26,228
Promotion	1,448	-	-	1,448
Office rent	93,688	14,368	-	108,056
Equipment expenses	4,225	248	-	4,473
Maintenance and repairs	2,413	2,252	-	4,665
Safety services and materials	1,172	2,384	-	3,556
Food	-	-	-	-
Food – outings	18,207	10,013	-	28,220
Housekeeping supplies	70	-	-	70
Miscellaneous housekeeping	6,244	1,761	-	8,005
Utilities	6,488	2,322	-	8,810
Payments to foster parents	184,379	-	-	184,379
Subcontractor – foster home payments	-	-	-	-
Foster family training	4,021	-	-	4,021
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	10,343	2,210	-	12,553
Vehicle rental	16,062	44	-	16,106
General program supplies	13,124	-	-	13,124
Clothing	-	-	-	-
Miscellaneous	6,425	824	-	7,249
Interest	-	-	-	-
Bad debts	-	7,691	-	7,691
Property tax expense	-	750	-	750
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	18,162	-	-	18,162
Kids activity fund	-	-	-	-
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>5,046,673</u>	<u>453,464</u>	-	<u>5,500,137</u>
Depreciation and amortization	-	3,596	-	3,596
Intercompany management and residential fees	-	22,000	-	22,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2012	<u>\$ 5,046,673</u>	<u>\$ 479,060</u>	<u>\$ -</u>	<u>\$ 5,525,733</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral Healthcare Nebraska, Inc.**  
**Year Ended June 30, 2012**

	<u>Client Care</u>	<u>Administrative and General</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 12,498,601	\$ 282,759	\$ -	\$ 12,781,360
Payroll taxes	1,142,592	28,021	-	1,170,613
Employee benefits	1,341,064	42,207	-	1,383,271
Total salaries, wages and related expenses	<u>14,982,257</u>	<u>352,987</u>	<u>-</u>	<u>15,335,244</u>
Office supplies and printing	77,085	532	-	77,617
Copier and fax expense	74,555	(159)	-	74,396
Postage	35,893	12,167	-	48,060
Employee recruitment and advertising	89,248	-	-	89,248
Licenses and dues	13,370	8,309	-	21,679
Insurance	-	212,161	-	212,161
Travel	1,975,306	31,596	-	2,006,902
Telephone	567,965	11,530	-	579,495
Professional fees	204,204	-	-	204,204
Contract labor	-	-	-	-
Contract psychiatrist	32,990	-	-	32,990
Consulting and other contractual expenses	4,216,918	500	-	4,217,418
Staff development	65,316	984	-	66,300
Promotion	1,212	12,226	-	13,438
Office rent	1,468,323	12,639	-	1,480,962
Equipment expenses	84,686	4,928	-	89,614
Maintenance and repairs	4,519	297	-	4,816
Safety services and materials	10,100	-	-	10,100
Food	8,734	371	-	9,105
Food – outings	42,961	2,448	-	45,409
Housekeeping supplies	1,226	-	-	1,226
Miscellaneous housekeeping	14,326	33	-	14,359
Utilities	21,636	-	-	21,636
Payments to foster parents	7,389,013	-	-	7,389,013
Subcontractor – foster home payments	5,000,564	-	-	5,000,564
Foster family training	110,452	-	-	110,452
Subcontractor payments	7,946,006	-	-	7,946,006
Child care payments	1,656	-	-	1,656
Incidentals	-	-	-	-
Medical supplies	74,026	-	-	74,026
Vehicle expenses and repairs	56,633	3,310	-	59,943
Vehicle rental	385,151	531	-	385,682
General program supplies	7,391	728	-	8,119
Clothing	71,974	-	-	71,974
Miscellaneous	76,188	315	2,285	78,788
Interest	-	3,539	-	3,539
Bad debts	-	97,500	-	97,500
Property tax expense	-	-	-	-
Cost of in-kind donated goods	180	-	-	180
Medicaid assessments	-	-	-	-
Flex fund	232,336	-	-	232,336
Kids activity fund	-	-	-	-
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>45,344,400</u>	<u>769,472</u>	<u>2,285</u>	<u>46,116,157</u>
Depreciation and amortization	397,375	-	-	397,375
Intercompany management and residential fees	644,592	3,727,000	-	4,371,592
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2012	<u>\$ 46,386,367</u>	<u>\$ 4,496,472</u>	<u>\$ 2,285</u>	<u>\$ 50,885,124</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Hospitals, Inc.**  
**Year Ended June 30, 2012**

	<b>Client Care</b>	<b>Administrative and General</b>	<b>Fund Raising</b>	<b>Total Expenses</b>
Salaries and wages	\$ 6,572,895	\$ -	\$ -	\$ 6,572,895
Payroll taxes	597,679	-	-	597,679
Employee benefits	743,067	-	-	743,067
Total salaries, wages and related expenses	<u>7,913,641</u>	<u>-</u>	<u>-</u>	<u>7,913,641</u>
Office supplies and printing	47,810	-	-	47,810
Copier and fax expense	16,785	-	-	16,785
Postage	4,334	-	-	4,334
Employee recruitment and advertising	3,975	-	-	3,975
Licenses and dues	33,539	-	-	33,539
Insurance	-	90,403	-	90,403
Travel	58,404	-	-	58,404
Telephone	118,502	-	-	118,502
Professional fees	62,242	-	-	62,242
Contract labor	613,120	-	-	613,120
Contract psychiatrist	1,421,190	-	-	1,421,190
Consulting and other contractual expenses	927,027	-	-	927,027
Staff development	25,568	-	-	25,568
Promotion	4,814	-	-	4,814
Office rent	687,053	-	-	687,053
Equipment expenses	67,268	-	-	67,268
Maintenance and repairs	161,949	-	-	161,949
Safety services and materials	41,531	-	-	41,531
Food	425,150	-	-	425,150
Food – outings	29,766	-	-	29,766
Housekeeping supplies	28,745	-	-	28,745
Miscellaneous housekeeping	240,656	-	-	240,656
Utilities	122,188	-	-	122,188
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	536,003	-	-	536,003
Vehicle expenses and repairs	22,232	-	-	22,232
Vehicle rental	8,033	-	-	8,033
General program supplies	62,746	-	-	62,746
Clothing	23,647	-	-	23,647
Miscellaneous	6,749	822	-	7,571
Interest	-	5,467	-	5,467
Bad debts	-	621,000	-	621,000
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	14,643	-	-	14,643
Flex fund	115	-	-	115
Kids activity fund	1,123	-	-	1,123
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>13,730,548</u>	<u>717,692</u>	<u>-</u>	<u>14,448,240</u>
Depreciation and amortization	461,143	-	-	461,143
Intercompany management and residential fees	-	1,235,000	-	1,235,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2012	<u>\$ 14,191,691</u>	<u>\$ 1,952,692</u>	<u>\$ -</u>	<u>\$ 16,144,383</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Foundation, Inc.**  
**Year Ended June 30, 2012**

	<b>Client Care</b>	<b>Administrative and General</b>	<b>Fund Raising</b>	<b>Total Expenses</b>
Salaries and wages	\$ -	\$ -	\$ -	\$ -
Payroll taxes	-	-	-	-
Employee benefits	-	-	-	-
Total salaries, wages and related expenses	-	-	-	-
Office supplies and printing	-	-	-	-
Copier and fax expense	-	-	-	-
Postage	-	-	554	554
Employee recruitment and advertising	-	-	-	-
Licenses and dues	-	-	1,500	1,500
Insurance	-	-	-	-
Travel	-	-	-	-
Telephone	-	-	-	-
Professional fees	-	-	-	-
Contract labor	-	-	-	-
Contract psychiatrist	-	-	-	-
Consulting and other contractual expenses	-	-	-	-
Staff development	-	-	-	-
Promotion	-	-	-	-
Office rent	-	-	-	-
Equipment expenses	-	-	-	-
Maintenance and repairs	-	-	-	-
Safety services and materials	-	-	-	-
Food	-	-	-	-
Food – outings	-	-	-	-
Housekeeping supplies	-	-	-	-
Miscellaneous housekeeping	-	-	-	-
Utilities	-	-	-	-
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	-	-	-	-
Vehicle rental	-	-	-	-
General program supplies	-	-	-	-
Clothing	-	-	-	-
Miscellaneous	-	-	46,397	46,397
Interest	-	-	-	-
Bad debts	-	-	-	-
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	-	-	48,451	48,451
Depreciation and amortization	-	-	-	-
Intercompany management and residential fees	-	-	3,000	3,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2012	\$ -	\$ -	\$ 51,451	\$ 51,451

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Real Estate Holdings, Inc.**  
**Year Ended June 30, 2012**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ -	\$ -	\$ -	\$ -
Payroll taxes	-	-	-	-
Employee benefits	-	-	-	-
Total salaries, wages and related expenses	-	-	-	-
Office supplies and printing	-	-	-	-
Copier and fax expense	-	-	-	-
Postage	-	-	-	-
Employee recruitment and advertising	-	-	-	-
Licenses and dues	-	500	-	500
Insurance	-	30,153	-	30,153
Travel	-	-	-	-
Telephone	-	-	-	-
Professional fees	-	-	-	-
Contract labor	-	-	-	-
Contract psychiatrist	-	-	-	-
Consulting and other contractual expenses	-	1,300	-	1,300
Staff development	-	-	-	-
Promotion	-	-	-	-
Office rent	-	220,000	-	220,000
Equipment expenses	-	-	-	-
Maintenance and repairs	-	-	-	-
Safety services and materials	-	-	-	-
Food	-	-	-	-
Food – outings	-	-	-	-
Housekeeping supplies	-	-	-	-
Miscellaneous housekeeping	-	-	-	-
Utilities	-	35	-	35
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	-	-	-	-
Vehicle rental	-	-	-	-
General program supplies	-	-	-	-
Clothing	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	14,005	-	14,005
Bad debts	-	-	-	-
Property tax expense	-	73	-	73
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	-	266,066	-	266,066
Depreciation and amortization	-	319,843	-	319,843
Intercompany management and residential fees	-	60,000	-	60,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2012	\$ -	\$ 645,909	\$ -	\$ 645,909

**KVC Health Systems, Inc.**  
**Schedule of Revenue and Expenses for**  
**Kansas Department of Social and Rehabilitation Services**  
**Reintegration/Foster Care Services – Region 2**  
**Year Ended June 30, 2012**

**Revenue**

SRS contract	\$ 30,608,130
Contributions	448,576
Other - interest and miscellaneous	116,179
Total revenue	<u>31,172,885</u>

**Expenses**

<b>Administration</b>	
Salaries and wages (including taxes and benefits)	1,459,846
Rent and utilities	217,856
Contractual	169,688
Other	479,946
Total administration	<u>2,327,336</u>
<b>Case management</b>	
Salaries and wages (including taxes and benefits)	7,858,974
Other - all other case management expenses	1,803,725
Total case management	<u>9,662,699</u>
Mental health	365,342
Independent living	13,491
Child care	1,138,128
<b>Residential</b>	
Foster care and relatives	5,969,244
Diversion foster care	4,230,690
Level IV and emergency shelters	800,191
Total residential	<u>11,000,125</u>
<b>Other</b>	
Clothing	322,064
Transportation	1,006,587
Other - depreciation and amortization	113,768
Total other	<u>1,442,419</u>
Total expenses	<u>25,949,540</u>
Revenues over expenses	<u>\$ 5,223,345</u>

**KVC Health Systems, Inc.**  
**Schedule of System of Care Grant**  
**Year Ended June 30, 2012**

**Revenue**

Grant revenue	\$ 59,138
Total revenue	<u>59,138</u>

**Expenses**

Salaries and wages	38,662
Taxes and benefits	8,221
Office supplies and expenses	2,822
Indirect administrative expenses	5,376
Other (telephone, utilities, etc.)	<u>4,057</u>
Total expenses	<u>59,138</u>

Revenues over expenses	<u><u>\$ -</u></u>
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