

# **KVC Health Systems, Inc.**

Auditor's Report and Consolidated Financial Statements  
(Including Reports Required Under OMB A-133)

June 30, 2013 and 2012

**KVC Health Systems, Inc.**  
**June 30, 2013 and 2012**

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# KVC Health Systems, Inc.

June 30, 2013 and 2012

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## Independent Auditor's Report on Financial Statements and Supplementary Information

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of KVC Health Systems, Inc., which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KVC Health Systems, Inc. as of June 30, 2013 and 2012, 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.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Supplementary Information, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KVC Health Systems, Inc.'s internal control over financial reporting and compliance.

***BKD, LLP***

Kansas City, Missouri  
December 10, 2013

**KVC Health Systems, Inc.**  
**Consolidated Statements of Financial Position**  
**June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,904,550	\$ 3,956,458
Accounts receivable, net of allowance; 2013 - \$969,000, 2012 - \$940,000	11,331,983	9,815,658
Contributions receivable	186,104	-
Grants receivable	2,364,725	302,886
Prepaid expenses	<u>463,465</u>	<u>821,436</u>
Total current assets	<u>16,250,827</u>	<u>14,896,438</u>
<b>Property and Equipment, net</b>	<u>10,684,510</u>	<u>10,914,417</u>
<b>Contributions Receivable</b>	<u>97,993</u>	<u>-</u>
<b>Other Assets</b>		
Goodwill	545,000	545,000
Deposits and other assets	<u>726,017</u>	<u>510,857</u>
	<u>1,271,017</u>	<u>1,055,857</u>
Total assets	<u>\$ 28,304,347</u>	<u>\$ 26,866,712</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 19,899	\$ 184,940
Accounts payable	3,205,195	2,608,491
Accrued salaries	1,474,007	1,469,226
Accrued compensated absences	1,094,194	804,982
Other accrued expenses	1,198,757	1,223,720
Deferred revenue	<u>94,119</u>	<u>119,320</u>
Total current liabilities	<u>7,086,171</u>	<u>6,410,679</u>
<b>Long-term Debt</b>		
Capital lease obligations	<u>12,128</u>	<u>21,922</u>
Total liabilities	<u>7,098,299</u>	<u>6,432,601</u>
<b>Net Assets</b>		
Unrestricted	20,813,598	20,434,111
Temporarily restricted	<u>392,450</u>	<u>-</u>
Total net assets	<u>21,206,048</u>	<u>20,434,111</u>
Total liabilities and net assets	<u>\$ 28,304,347</u>	<u>\$ 26,866,712</u>

**KVC Health Systems, Inc.**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Contract reintegration and adoption services	\$ 34,116,643	\$ 83,165,551
Child placing services	19,089,572	13,703,208
Inpatient services	17,346,778	14,465,541
Family preservation/ in-home services	12,201,654	8,279,737
Contributions and grants	2,228,621	3,162,069
Capital campaign contributions	23,892	-
Interest income	8,530	13,056
Gain (loss) on disposition of assets	(150,918)	34,253
Gain on forgiveness of debt	7,971	-
Miscellaneous	1,282,022	656,513
	<u>86,154,765</u>	<u>123,479,928</u>
Total unrestricted revenues, gains and other support		
<b>Operating Expenses</b>		
Client care	73,051,452	99,929,526
Administrative and general	12,492,231	12,367,054
Fund raising	231,595	230,722
	<u>85,775,278</u>	<u>112,527,302</u>
Total operating expenses		
<b>Change in Unrestricted Net Assets</b>	379,487	10,952,626
<b>Temporarily Restricted Net Assets</b>		
Capital campaign contributions	<u>392,450</u>	<u>-</u>
<b>Change in Net Assets</b>	771,937	10,952,626
<b>Net Assets, Beginning of Year</b>	<u>20,434,111</u>	<u>9,481,485</u>
<b>Net Assets, End of Year</b>	<u>\$ 21,206,048</u>	<u>\$ 20,434,111</u>

**KVC Health Systems, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Operating Activities</b>		
Change in net assets	\$ 771,937	\$ 10,952,626
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	1,495,573	1,675,990
(Gain) loss on disposition of assets	150,918	(34,253)
Gain on forgiveness of debt	(7,971)	-
Goodwill impairment loss	-	116,406
Contributions restricted for acquisition of long-lived assets	(392,450)	-
Changes in		
Accounts receivable	(1,516,325)	(1,943,965)
Grants receivable	(2,061,839)	(183,696)
Prepaid expenses	357,971	680,293
Other assets	(215,160)	(187,535)
Accounts payable	543,993	(1,962,402)
Accrued salaries	4,781	(2,258,647)
Accrued compensated absences	289,212	(422,841)
Other accrued expenses	(24,963)	(728,524)
Deferred revenue	(25,201)	(7,993,333)
	<u>(629,524)</u>	<u>(2,289,881)</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(1,390,489)	(811,108)
Proceeds from disposition of property and equipment	45,175	2,875,700
	<u>(1,345,314)</u>	<u>2,064,592</u>
<b>Financing Activities</b>		
Proceeds from contributions restricted for acquisition of long-lived assets	108,353	-
Principal payments on long-term debt	(185,423)	(1,331,031)
	<u>(77,070)</u>	<u>(1,331,031)</u>
<b>Decrease in Cash and Cash Equivalents</b>	(2,051,908)	(1,556,320)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,956,458</u>	<u>5,512,778</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,904,550</u>	<u>\$ 3,956,458</u>
<b>Supplemental Cash Flows Information</b>		
Property and equipment in accounts payable	\$ 52,711	\$ -
Capital lease obligations incurred for property and equipment	18,559	-



**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

**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 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 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 Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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, 2013 and 2012, cash equivalents consisted primarily of money market accounts with banks.

At June 30, 2013, the Organization's cash accounts exceeded federally insured limits by approximately \$1,012,000.

***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, 2013 and 2012**

***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.

***Temporarily Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. At June 30, 2013, temporarily restricted net assets consists of cash and contributions receivable for capital acquisitions.

***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.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

***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.

***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, 2013 and 2012, \$100,863 and \$395,495, 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 2010.

***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 2012 financial statements to conform to the 2013 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 Auditor's Report, which is the date the financial statements were available to be issued.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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

On July 1, 2009, the Organization was awarded a Foster Care Reintegration Services contract from a state agency to provide foster care services to the Kansas City Region 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 is through June 30, 2013.

Revenues for the contract amounted to \$34,116,643 and \$30,608,130, which represents 40% and 25% of the Organization's unrestricted revenues, gains and support for the years ended June 30, 2013 and 2012, respectively. Accounts receivable related to the foster care reintegration contract amounted to \$2,967,328 and \$2,611,742 at June 30, 2013 and 2012, 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 \$0 and \$52,557,421, which represents 0% and 43% of the Organization's unrestricted revenues, gains and support for the years ended June 30, 2013 and 2012, respectively. Accounts receivable related to the foster care reintegration contracts amounted to \$22,321 and \$145,132 at June 30, 2013 and 2012, 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, 2013 and 2012, fees from Medicaid totaled \$11,721,443 and \$10,783,766, which represents 14% and 9% of the Organization's total unrestricted revenue, gains and other support for the years ended June 30, 2013 and 2012, respectively. Accounts receivable related to Medicaid amounted to \$1,044,761 and \$1,169,398 at June 30, 2013 and 2012, respectively.

**Note 5: Revenue Concentrations – KVC Behavioral Healthcare Kentucky, Inc.**

On July 1, 2012, the Organization was awarded a Family Preservation Reunification Services and Diversification 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 current contract extension is through June 30, 2014.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

Revenues for the contract amounted to \$9,781,988 and \$4,146,438, which represents 11% and 3% of the Organization's unrestricted revenues, gains and support for the years ended June 30, 2013 and 2012, respectively. Accounts receivable related to the contract amounted to \$451,461 and \$1,003,582 at June 30, 2013 and 2012, respectively.

**Note 6: Contributions Receivable**

Contributions receivable consisted of the following at a discount rate of 4.25%:

	<b>Temporarily Restricted</b>	
	<b>2013</b>	<b>2012</b>
Due within one year	\$ 206,782	\$ -
Due in one to five years	128,124	-
	334,906	-
Less		
Allowance for uncollectible contributions	(43,100)	-
Unamortized discount	(7,709)	-
	\$ 284,097	\$ -

**Note 7: Conditional Gifts**

The Organization has received the following conditional promises to give at June 30 that are not recognized in the consolidated financial statements:

	<b>2013</b>	<b>2012</b>
Conditional promise to give upon the commencement of construction and for the three years thereafter	\$ 100,000	\$ -
Conditional promise to give upon raising \$5,000,000 in capital campaign contributions	1,050,000	-
Conditional promise to give upon raising \$6,000,000 in capital campaign contributions	750,000	-
	\$ 1,900,000	\$ -

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

**Note 8: Property and Equipment**

Property and equipment at June 30 consists of:

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 1,373,701	\$ 1,373,701
Buildings and leasehold improvements	12,402,498	12,898,704
Furniture and equipment	4,765,430	4,743,668
Works of art	95,141	95,142
Computer equipment	3,631,088	3,187,896
Vehicles	166,709	178,609
Contstruction in progress	1,097,505	188,729
	<u>23,532,072</u>	<u>22,666,449</u>
Less accumulated depreciation and amortization	<u>12,847,562</u>	<u>11,752,032</u>
	<u>\$ 10,684,510</u>	<u>\$ 10,914,417</u>

**Note 9: Lines of Credit**

The Organization has \$7,000,000 in revolving bank lines of credit expiring in April 2014. At June 30, 2013 and 2012, there were no borrowings against these lines. The lines are collateralized by property and equipment. Interest was 4.25% on June 30, 2013 and is payable monthly.

**Note 10: Long-term Debt**

	<u>2013</u>	<u>2012</u>
Capital lease obligations (A)	\$ 32,027	\$ 206,862
Less current maturities	<u>19,899</u>	<u>184,940</u>
Noncurrent portion	<u>\$ 12,128</u>	<u>\$ 21,922</u>

(A) Capital leases include leases with varying imputed interest rates from 3.00% to 17.00%, due through 2016, collateralized by equipment.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

Payments on capital lease obligations at June 30, 2013, are:

2014	\$ 20,838
2015	6,600
2016	<u>6,050</u>
	33,488
Less amount representing interest	<u>(1,461)</u>
Present value of future minimum lease payments	<u><u>\$ 32,027</u></u>

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

	<u>2013</u>	<u>2012</u>
Equipment	\$ 801,227	\$ 798,660
Less accumulated depreciation	<u>770,585</u>	<u>608,235</u>
	<u><u>\$ 30,642</u></u>	<u><u>\$ 190,425</u></u>

**Note 11: 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, 2013 and 2012 were approximately \$276,000 and \$451,000, respectively.

**Note 12: 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, 2013 and 2012 was \$2,603,490 and \$2,733,403, respectively.

Noncancellable operating leases for equipment expire in various years through 2016. Total rental expense for equipment leases for the years ended June 30, 2013 and 2012 was \$608,419 and \$350,457, respectively.



**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

Future minimum lease payments at June 30, 2013, were:

	<u>Equipment</u>	<u>Property</u>	<u>Total</u>
2014	\$ 918,380	\$ 2,336,021	\$ 3,254,401
2015	752,960	2,106,302	2,859,262
2016	461,919	1,605,670	2,067,589
2017	418,092	1,386,422	1,804,514
2018	-	130,500	130,500
Thereafter	-	59,125	59,125
	<u>\$ 2,551,351</u>	<u>\$ 7,624,040</u>	<u>\$ 10,175,391</u>

**Note 13: Subsequent Event**

On July 1, 2013, the Organization was awarded Family Preservation Services and Reintegration/Foster Care/Adoption Services contracts from a state agency to provide services to the Kansas City and East Regions of the State of Kansas. The contracts are for a term of four years, with an option to extend for additional years. The contracts include approximately \$18,000,000 base payments per year for the initial two years as well as monthly payment amounts per child served.

**Note 14: 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, 2013**

	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 Assets</b>										
Cash and cash equivalents	\$ 946,443	\$ 83,898	\$ 19,833	\$ 212,196	\$ 46,008	\$ 503,351	\$ 66,806	\$ 26,015		\$ 1,904,550
Accounts receivable, net of allowance of \$969,000	398,336	3,459,484	425,953	539,327	1,906,314	4,602,569	-	-		11,331,983
Due to/from affiliate	(41,547)	-	-	-	-	-	41,547	-		-
Contributions receivable	-	-	-	-	-	-	186,104	-		186,104
Grants receivable	190,132	331,206	-	1,771,637	-	71,750	-	-		2,364,725
Prepaid expenses	64,978	253,473	53,956	33,058	43,120	14,880	-	-		463,465
Total current assets	<u>1,558,342</u>	<u>4,128,061</u>	<u>499,742</u>	<u>2,556,218</u>	<u>1,995,442</u>	<u>5,192,550</u>	<u>294,457</u>	<u>26,015</u>		<u>16,250,827</u>
<b>Property and Equipment, net</b>	<u>899,838</u>	<u>1,265,359</u>	<u>62,952</u>	<u>7,289</u>	<u>88,970</u>	<u>845,500</u>	<u>-</u>	<u>7,514,602</u>		<u>10,684,510</u>
<b>Contributions Receivable</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,993</u>	<u>-</u>		<u>97,993</u>
<b>Other Assets</b>										
Goodwill	-	-	-	545,000	-	-	-	-		545,000
Deposits and other assets	419,462	158,512	17,988	19,645	104,510	5,900	-	-		726,017
	<u>419,462</u>	<u>158,512</u>	<u>17,988</u>	<u>564,645</u>	<u>104,510</u>	<u>5,900</u>	<u>-</u>	<u>-</u>		<u>1,271,017</u>
Total assets	<u>\$ 2,877,642</u>	<u>\$ 5,551,932</u>	<u>\$ 580,682</u>	<u>\$ 3,128,152</u>	<u>\$ 2,188,922</u>	<u>\$ 6,043,950</u>	<u>\$ 392,450</u>	<u>\$ 7,540,617</u>	<u>\$ -</u>	<u>\$ 28,304,347</u>

**KVC Health Systems, Inc.**  
**Consolidating Schedule of Financial Position (Continued)**  
**June 30, 2013**

	<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 Liabilities</b>										
Current maturities of long-term debt	\$ -	\$ -	\$ 19,899	\$ -	\$ -	\$ -	\$ -	\$ -		\$ 19,899
Accounts payable	276,245	1,573,905	422,714	59,741	453,056	419,496	-	38		3,205,195
Accrued salaries	208,563	488,316	70,652	307,582	103,164	295,730	-	-		1,474,007
Accrued compensated absences	233,136	355,552	67,683	169,924	64,733	203,166	-	-		1,094,194
Other accrued expenses	203,624	276,809	32,783	134,528	98,522	452,491	-	-		1,198,757
Deferred revenue	68,265	-	-	8,521	7,167	10,166	-	-		94,119
<b>Total current liabilities</b>	<b>989,833</b>	<b>2,694,582</b>	<b>613,731</b>	<b>680,296</b>	<b>726,642</b>	<b>1,381,049</b>	<b>-</b>	<b>38</b>		<b>7,086,171</b>
<b>Long-term Debt</b>										
Capital lease obligations	-	-	12,128	-	-	-	-	-		12,128
<b>Total liabilities</b>	<b>989,833</b>	<b>2,694,582</b>	<b>625,859</b>	<b>680,296</b>	<b>726,642</b>	<b>1,381,049</b>	<b>-</b>	<b>38</b>		<b>7,098,299</b>
<b>Net Assets</b>										
Unrestricted	1,887,809	2,857,350	(45,177)	2,447,856	1,462,280	4,662,901	-	7,540,579		20,813,598
Temporarily restricted	-	-	-	-	-	-	392,450	-		392,450
<b>Total net assets</b>	<b>1,887,809</b>	<b>2,857,350</b>	<b>(45,177)</b>	<b>2,447,856</b>	<b>1,462,280</b>	<b>4,662,901</b>	<b>392,450</b>	<b>7,540,579</b>		<b>21,206,048</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,877,642</b>	<b>\$ 5,551,932</b>	<b>\$ 580,682</b>	<b>\$ 3,128,152</b>	<b>\$ 2,188,922</b>	<b>\$ 6,043,950</b>	<b>\$ 392,450</b>	<b>\$ 7,540,617</b>	<b>\$ -</b>	<b>\$ 28,304,347</b>

**KVC Health Systems, Inc.**  
**Consolidating Schedule of Activities**  
**Year Ended June 30, 2013**

	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 reintegration and adoption services	\$ -	\$ 34,116,643	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,116,643
Child placing services	-	2,491,820	4,789,098	448,445	11,360,209	-	-	-	-	19,089,572
Inpatient services	-	-	-	-	-	17,346,778	-	-	-	17,346,778
Family preservation/ in-home services	-	978,950	404,470	9,781,987	870,945	165,302	-	-	-	12,201,654
Contributions and grants	796,270	947,902	89,430	3,348	11,087	263,699	116,885	-	-	2,228,621
Capital campaign contributions	-	-	-	-	-	-	23,892	-	-	23,892
Interest income	2,569	1,726	-	527	920	952	210	1,626	-	8,530
Gain (loss) on disposition of assets	-	-	-	-	(153,118)	-	2,200	-	-	(150,918)
Gain on forgiveness of debt	-	-	7,971	-	-	-	-	-	-	7,971
Miscellaneous	797,487	86,990	11,974	18,221	185,871	181,315	164	-	-	1,282,022
Management fee	8,041,250	360,000	-	51,000	-	6,000	-	-	(8,458,250)	-
Intercompany services	-	(6,000)	-	-	-	284,571	-	-	(278,571)	-
Intercompany rent	-	-	-	-	-	-	-	1,153,200	(1,153,200)	-
Total unrestricted revenues, gains and other support	<u>9,637,576</u>	<u>38,978,031</u>	<u>5,302,943</u>	<u>10,303,528</u>	<u>12,275,914</u>	<u>18,248,617</u>	<u>143,351</u>	<u>1,154,826</u>	<u>(9,890,021)</u>	<u>86,154,765</u>
<b>Operating Expenses</b>										
Client care	-	30,174,268	5,502,965	9,842,079	11,787,161	16,569,413	7,937	-	(832,371)	73,051,452
Administrative and general	9,056,779	5,582,392	769,424	1,395,645	1,529,873	2,832,046	-	382,522	(9,056,450)	12,492,231
Fund raising	229,514	-	-	-	-	-	3,281	-	(1,200)	231,595
Total operating expenses	<u>9,286,293</u>	<u>35,756,660</u>	<u>6,272,389</u>	<u>11,237,724</u>	<u>13,317,034</u>	<u>19,401,459</u>	<u>11,218</u>	<u>382,522</u>	<u>(9,890,021)</u>	<u>85,775,278</u>
<b>Operating Income (Loss)</b>	351,283	3,221,371	(969,446)	(934,196)	(1,041,120)	(1,152,842)	132,133	772,304	-	379,487
<b>Other Income (Expense)</b>										
Intercompany transfers	(751,974)	(2,423,881)	891,731	2,177,815	292,613	2,145,114	(175,218)	(2,156,200)	-	-
<b>Change in Unrestricted Net Assets</b>	(400,691)	797,490	(77,715)	1,243,619	(748,507)	992,272	(43,085)	(1,383,896)	-	379,487
<b>Temporarily Restricted Net Assets</b>										
Capital campaign contributions	-	-	-	-	-	-	392,450	-	-	392,450
<b>Change in Net Assets</b>	(400,691)	797,490	(77,715)	1,243,619	(748,507)	992,272	349,365	(1,383,896)	-	771,937
<b>Net Assets, Beginning of Year</b>	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>Net Assets (Deficit), End of Year</b>	<u>\$ 1,887,809</u>	<u>\$ 2,857,350</u>	<u>\$ (45,177)</u>	<u>\$ 2,447,856</u>	<u>\$ 1,462,280</u>	<u>\$ 4,662,901</u>	<u>\$ 392,450</u>	<u>\$ 7,540,579</u>	<u>\$ -</u>	<u>\$ 21,206,048</u>

**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	39,406	3,284,513	578,036	1,045,210	1,599,440	3,269,053	-	-		9,815,658
Grants receivable	41,766	143,432	-	27,409	-	90,279	-	-		302,886
Prepaid expenses	104,538	177,124	70,653	63,866	303,408	94,292	-	7,555		821,436
Total current assets	<u>1,958,583</u>	<u>3,697,828</u>	<u>745,442</u>	<u>1,526,262</u>	<u>2,241,918</u>	<u>3,525,931</u>	<u>45,187</u>	<u>1,155,287</u>		<u>14,896,438</u>
<b>Property and Equipment, net</b>	<u>853,259</u>	<u>379,399</u>	<u>92,941</u>	<u>10,885</u>	<u>629,460</u>	<u>1,179,285</u>	<u>-</u>	<u>7,769,188</u>		<u>10,914,417</u>
<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
	<u>255,910</u>	<u>96,758</u>	<u>19,683</u>	<u>550,850</u>	<u>126,756</u>	<u>5,900</u>	<u>-</u>	<u>-</u>		<u>1,055,857</u>
Total assets	<u>\$ 3,067,752</u>	<u>\$ 4,173,985</u>	<u>\$ 858,066</u>	<u>\$ 2,087,997</u>	<u>\$ 2,998,134</u>	<u>\$ 4,711,116</u>	<u>\$ 45,187</u>	<u>\$ 8,924,475</u>	<u>\$ -</u>	<u>\$ 26,866,712</u>

**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
Total current liabilities	<u>779,252</u>	<u>2,114,125</u>	<u>803,606</u>	<u>883,760</u>	<u>787,347</u>	<u>1,040,487</u>	<u>2,102</u>	<u>-</u>		<u>6,410,679</u>
<b>Long-term Debt</b>										
Capital lease obligations	-	-	21,922	-	-	-	-	-		21,922
Total liabilities	<u>779,252</u>	<u>2,114,125</u>	<u>825,528</u>	<u>883,760</u>	<u>787,347</u>	<u>1,040,487</u>	<u>2,102</u>	<u>-</u>		<u>6,432,601</u>
<b>Net Assets</b>										
Unrestricted	<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>20,434,111</u>
Total net assets	<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>20,434,111</u>
Total liabilities and net assets	<u>\$ 3,067,752</u>	<u>\$ 4,173,985</u>	<u>\$ 858,066</u>	<u>\$ 2,087,997</u>	<u>\$ 2,998,134</u>	<u>\$ 4,711,116</u>	<u>\$ 45,187</u>	<u>\$ 8,924,475</u>	<u>\$ -</u>	<u>\$ 26,866,712</u>

**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 reintegration and adoption services	\$ -	\$ 30,608,130	\$ -	\$ -	\$ 52,557,421	\$ -	\$ -	\$ -	\$ -	\$ 83,165,551
Child placing services	-	3,085,747	5,837,712	367,016	4,412,733	-	-	-	-	13,703,208
Inpatient services	-	-	-	-	-	14,465,541	-	-	-	14,465,541
Family preservation/ in-home services	-	1,297,878	2,460,240	4,146,438	141,410	233,771	-	-	-	8,279,737
Contributions and grants	619,204	737,566	124,462	472,396	51,269	857,827	79,345	220,000	-	3,162,069
Interest income	5,481	1,698	-	522	1,654	1,393	95	2,213	-	13,056
Gain on disposition of assets	-	-	-	-	(124,178)	-	-	158,431	-	34,253
Miscellaneous	166,403	61,819	13,671	16,510	341,936	54,073	-	2,101	-	656,513
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.**  
**Consolidated Functional Expenses**  
**Year Ended June 30, 2013**  
**(with Comparative Totals for 2012)**

	Client Care	Administrative and General	Fund Raising	Total Expenses	2012 Total Expenses
Salaries and wages	\$ 27,787,550	\$ 5,467,579	\$ 108,483	\$ 33,363,612	\$ 40,834,331
Payroll taxes	2,592,321	434,361	9,439	3,036,121	3,792,206
Employee benefits	3,773,563	528,115	17,493	4,319,171	4,785,788
Total salaries, wages and related expenses	34,153,434	6,430,055	135,415	40,718,904	49,412,325
Office supplies and printing	225,308	90,293	18,806	334,407	348,786
Copier and fax expense	234,817	61,619	-	296,436	245,200
Postage	64,248	46,433	-	110,681	143,175
Employee recruitment and advertising	65,183	136,908	-	202,091	224,591
Licenses and dues	244,504	186,807	-	431,311	244,641
Insurance	-	667,158	-	667,158	647,115
Travel	1,891,317	150,086	-	2,041,403	3,476,153
Telephone	985,991	294,093	-	1,280,084	1,386,814
Professional fees	169,338	414,175	-	583,513	762,724
Contract labor	737,711	41,606	12,504	791,821	766,511
Contract physicians	1,818,038	-	-	1,818,038	1,670,717
Consulting and other contractual expenses	2,072,806	709,441	-	2,782,247	6,211,933
Staff development	271,652	278,971	-	550,623	349,344
Promotion	45,727	69,588	5,237	120,552	72,269
Office rent	3,107,390	649,300	14,581	3,771,271	4,333,159
Equipment expenses	243,906	170,554	2,176	416,636	510,386
Maintenance and repairs	219,475	90,277	-	309,752	287,720
Safety services and materials	79,043	31,588	-	110,631	114,164
Food	498,490	5,041	-	503,531	469,523
Food – outings	87,663	83,292	27,219	198,174	216,123
Housekeeping supplies	47,667	5,794	-	53,461	51,775
Miscellaneous housekeeping	315,550	47,557	-	363,107	473,465
Utilities	242,261	159,618	-	401,879	407,467
Payments to foster parents	17,707,321	-	-	17,707,321	18,019,617
Subcontractor – foster home payments	1,964,667	-	-	1,964,667	6,962,761
Foster family training	243,834	141,305	-	385,139	402,441
Subcontractor payments	1,236,814	-	-	1,236,814	8,739,076
Child care payments	1,337,607	-	-	1,337,607	1,139,784
Incidentals	8,067	-	-	8,067	(1,412)
Medical supplies	566,658	-	-	566,658	626,919
Vehicle expenses and repairs	250,675	23,100	-	273,775	302,428
Vehicle rental	477,045	19,264	-	496,309	701,506
General program supplies	172,441	16,162	-	188,603	149,667
Clothing	429,846	-	-	429,846	460,346
Miscellaneous	36,119	31,665	15,657	83,441	188,561
Interest	110	15,141	-	15,251	46,757
Bad debts	-	1,175,138	-	1,175,138	867,447
Property tax expense	161	22,608	-	22,769	12,218
Cost of in-kind donated goods	-	93,801	-	93,801	175,675
Medicaid assessments	14,643	-	-	14,643	46,283
Flex fund	542,535	-	-	542,535	400,779
Kids activity fund	32,810	-	-	32,810	41,173
Loss on impairment of assets	-	-	-	-	116,406
Expenses before depreciation, amortization and intercompany fees	72,842,872	12,358,438	231,595	85,432,905	112,224,512
Depreciation and amortization	756,380	739,193	-	1,495,573	1,675,990
Intercompany management and residential fees	284,571	8,451,050	1,200	8,736,821	9,242,152
Eliminations	(832,371)	(9,056,450)	(1,200)	(9,890,021)	(10,615,352)
Totals, Year Ended June 30, 2013	<u>\$ 73,051,452</u>	<u>\$ 12,492,231</u>	<u>\$ 231,595</u>	<u>\$ 85,775,278</u>	<u>\$ 112,527,302</u>
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>\$ 112,527,302</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Health Systems, Inc.**  
**Year Ended June 30, 2013**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ -	\$ 4,424,171	\$ 108,483	\$ 4,532,654
Payroll taxes	-	338,940	9,439	348,379
Employee benefits	-	374,781	17,493	392,274
Total salaries, wages and related expenses	-	5,137,892	135,415	5,273,307
Office supplies and printing	-	68,357	18,561	86,918
Copier and fax expense	-	40,739	-	40,739
Postage	-	30,993	-	30,993
Employee recruitment and advertising	-	132,521	-	132,521
Licenses and dues	-	157,616	-	157,616
Insurance	-	67,712	-	67,712
Travel	-	132,362	-	132,362
Telephone	-	211,339	-	211,339
Professional fees	-	401,802	-	401,802
Contract labor	-	41,606	12,504	54,110
Contract physicians	-	-	-	-
Consulting and other contractual expenses	-	648,713	-	648,713
Staff development	-	264,829	-	264,829
Promotion	-	45,276	5,237	50,513
Office rent	-	572,800	14,581	587,381
Equipment expenses	-	159,448	2,176	161,624
Maintenance and repairs	-	76,823	-	76,823
Safety services and materials	-	16,218	-	16,218
Food	-	91	-	91
Food – outings	-	70,593	27,219	97,812
Housekeeping supplies	-	5,774	-	5,774
Miscellaneous housekeeping	-	46,432	-	46,432
Utilities	-	157,202	-	157,202
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	140,342	-	140,342
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	-	17,203	-	17,203
Vehicle rental	-	17,672	-	17,672
General program supplies	-	14,796	-	14,796
Clothing	-	-	-	-
Miscellaneous	-	17,735	13,821	31,556
Interest	-	550	-	550
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	-	8,695,436	229,514	8,924,950
Depreciation and amortization	-	361,343	-	361,343
Intercompany management and residential fees	-	-	-	-
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2013	<u>\$ -</u>	<u>\$ 9,056,779</u>	<u>\$ 229,514</u>	<u>\$ 9,286,293</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral HealthCare, Inc.**  
**Year Ended June 30, 2013**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 9,906,955	\$ 520,400	\$ -	\$ 10,427,355
Payroll taxes	878,122	50,015	-	928,137
Employee benefits	1,468,126	79,684	-	1,547,810
Total salaries, wages and related expenses	<u>12,253,203</u>	<u>650,099</u>	-	<u>12,903,302</u>
Office supplies and printing	128,887	3,118	-	132,005
Copier and fax expense	113,214	4,233	-	117,447
Postage	48,536	2,472	-	51,008
Employee recruitment and advertising	3,523	-	-	3,523
Licenses and dues	28,802	1,290	-	30,092
Insurance	-	293,424	-	293,424
Travel	896,826	2,090	-	898,916
Telephone	290,572	3,644	-	294,216
Professional fees	7,378	-	-	7,378
Contract labor	2,572	-	-	2,572
Contract physicians	-	-	-	-
Consulting and other contractual expenses	648,867	-	-	648,867
Staff development	11,159	63	-	11,222
Promotion	27,019	-	-	27,019
Office rent	976,835	39,000	-	1,015,835
Equipment expenses	49,279	587	-	49,866
Maintenance and repairs	33,830	-	-	33,830
Safety services and materials	30,101	-	-	30,101
Food	15,574	-	-	15,574
Food – outings	24,258	2,347	-	26,605
Housekeeping supplies	12,951	-	-	12,951
Miscellaneous housekeeping	58,770	-	-	58,770
Utilities	62,418	-	-	62,418
Payments to foster parents	8,088,715	-	-	8,088,715
Subcontractor – foster home payments	1,953,709	-	-	1,953,709
Foster family training	133,468	-	-	133,468
Subcontractor payments	1,238,446	-	-	1,238,446
Child care payments	1,337,607	-	-	1,337,607
Incidentals	3,457	-	-	3,457
Medical supplies	22,633	-	-	22,633
Vehicle expenses and repairs	205,196	-	-	205,196
Vehicle rental	441,614	-	-	441,614
General program supplies	43,886	-	-	43,886
Clothing	387,192	-	-	387,192
Miscellaneous	13,006	807	-	13,813
Interest	110	1,430	-	1,540
Bad debts	-	128,019	-	128,019
Property tax expense	31	-	-	31
Cost of in-kind donated goods	-	68,846	-	68,846
Medicaid assessments	-	-	-	-
Flex fund	159,646	-	-	159,646
Kids activity fund	32,112	-	-	32,112
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>29,785,402</u>	<u>1,201,469</u>	-	<u>30,986,871</u>
Depreciation and amortization	104,295	14,923	-	119,218
Intercompany management and residential fees	284,571	4,366,000	-	4,650,571
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2013	<u>\$ 30,174,268</u>	<u>\$ 5,582,392</u>	<u>\$ -</u>	<u>\$ 35,756,660</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral Healthcare West Virginia, Inc.**  
**Year Ended June 30, 2013**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 1,591,546	\$ 155,941	\$ -	\$ 1,747,487
Payroll taxes	283,532	16,658	-	300,190
Employee benefits	197,449	21,121	-	218,570
Total salaries, wages and related expenses	<u>2,072,527</u>	<u>193,720</u>	-	<u>2,266,247</u>
Office supplies and printing	9,379	11,545	-	20,924
Copier and fax expense	20,486	11,287	-	31,773
Postage	2,039	4,586	-	6,625
Employee recruitment and advertising	20,971	2,361	-	23,332
Licenses and dues	34,499	21,044	-	55,543
Insurance	-	44,195	-	44,195
Travel	222,577	7,135	-	229,712
Telephone	109,490	17,051	-	126,541
Professional fees	-	-	-	-
Contract labor	-	-	-	-
Contract physicians	9,785	-	-	9,785
Consulting and other contractual expenses	3,208	55,633	-	58,841
Staff development	5,660	5,472	-	11,132
Promotion	752	12,841	-	13,593
Office rent	295,311	15,900	-	311,211
Equipment expenses	4,133	811	-	4,944
Maintenance and repairs	1,626	392	-	2,018
Safety services and materials	5,700	13,699	-	19,399
Food	11,215	4,950	-	16,165
Food – outings	-	-	-	-
Housekeeping supplies	1,008	20	-	1,028
Miscellaneous housekeeping	20,079	-	-	20,079
Utilities	24,384	861	-	25,245
Payments to foster parents	2,529,206	-	-	2,529,206
Subcontractor – foster home payments	-	-	-	-
Foster family training	47,934	963	-	48,897
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	4,766	2,535	-	7,301
Vehicle rental	4,210	482	-	4,692
General program supplies	4,014	1,366	-	5,380
Clothing	36,000	-	-	36,000
Miscellaneous	2,006	11,257	-	13,263
Interest	-	10,703	-	10,703
Bad debts	-	29,999	-	29,999
Property tax expense	-	353	-	353
Cost of in-kind donated goods	-	22,715	-	22,715
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>5,502,965</u>	<u>503,876</u>	-	<u>6,006,841</u>
Depreciation and amortization	-	48,548	-	48,548
Intercompany management and residential fees	-	217,000	-	217,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2013	<u>\$ 5,502,965</u>	<u>\$ 769,424</u>	<u>\$ -</u>	<u>\$ 6,272,389</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral Healthcare Kentucky, Inc.**  
**Year Ended June 30, 2013**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 6,313,920	\$ 264,790	\$ -	\$ 6,578,710
Payroll taxes	538,111	21,254	-	559,365
Employee benefits	832,554	35,277	-	867,831
Total salaries, wages and related expenses	<u>7,684,585</u>	<u>321,321</u>	-	<u>8,005,906</u>
Office supplies and printing	23,506	7,126	-	30,632
Copier and fax expense	5,281	5,360	-	10,641
Postage	3,849	3,032	-	6,881
Employee recruitment and advertising	-	2,026	-	2,026
Licenses and dues	50,355	-	-	50,355
Insurance	-	53,169	-	53,169
Travel	456,776	2,180	-	458,956
Telephone	217,035	57,293	-	274,328
Professional fees	200	12,373	-	12,573
Contract labor	5,628	-	-	5,628
Contract physicians	109,042	-	-	109,042
Consulting and other contractual expenses	15,053	5,095	-	20,148
Staff development	219,969	8,318	-	228,287
Promotion	4,400	10,971	-	15,371
Office rent	253,382	21,600	-	274,982
Equipment expenses	95,901	9,708	-	105,609
Maintenance and repairs	6,532	7,012	-	13,544
Safety services and materials	984	1,671	-	2,655
Food	-	-	-	-
Food – outings	33,750	10,157	-	43,907
Housekeeping supplies	977	-	-	977
Miscellaneous housekeeping	4,650	1,125	-	5,775
Utilities	12,871	1,555	-	14,426
Payments to foster parents	205,735	-	-	205,735
Subcontractor – foster home payments	-	-	-	-
Foster family training	1,917	-	-	1,917
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	10,005	3,362	-	13,367
Vehicle rental	16,365	1,110	-	17,475
General program supplies	12,762	-	-	12,762
Clothing	-	-	-	-
Miscellaneous	4,216	1,132	-	5,348
Interest	-	-	-	-
Bad debts	-	107,113	-	107,113
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	2,240	-	2,240
Medicaid assessments	-	-	-	-
Flex fund	386,353	-	-	386,353
Kids activity fund	-	-	-	-
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>9,842,079</u>	<u>656,049</u>	-	<u>10,498,128</u>
Depreciation and amortization	-	3,596	-	3,596
Intercompany management and residential fees	-	736,000	-	736,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2013	<u>\$ 9,842,079</u>	<u>\$ 1,395,645</u>	<u>\$ -</u>	<u>\$ 11,237,724</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral Healthcare Nebraska, Inc.**  
**Year Ended June 30, 2013**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 2,425,151	\$ 102,277	\$ -	\$ 2,527,428
Payroll taxes	197,791	7,494	-	205,285
Employee benefits	349,253	17,252	-	366,505
Total salaries, wages and related expenses	<u>2,972,195</u>	<u>127,023</u>	<u>-</u>	<u>3,099,218</u>
Office supplies and printing	17,085	147	-	17,232
Copier and fax expense	68,209	-	-	68,209
Postage	5,412	5,350	-	10,762
Employee recruitment and advertising	34,007	-	-	34,007
Licenses and dues	5,484	6,857	-	12,341
Insurance	-	76,265	-	76,265
Travel	256,314	6,319	-	262,633
Telephone	237,066	4,766	-	241,832
Professional fees	60,288	-	-	60,288
Contract labor	-	-	-	-
Contract physicians	-	-	-	-
Consulting and other contractual expenses	19,202	-	-	19,202
Staff development	14,131	289	-	14,420
Promotion	4,285	500	-	4,785
Office rent	883,162	-	-	883,162
Equipment expenses	246	-	-	246
Maintenance and repairs	4,405	-	-	4,405
Safety services and materials	2,694	-	-	2,694
Food	634	-	-	634
Food – outings	8,110	195	-	8,305
Housekeeping supplies	92	-	-	92
Miscellaneous housekeeping	2,060	-	-	2,060
Utilities	4,335	-	-	4,335
Payments to foster parents	6,883,665	-	-	6,883,665
Subcontractor – foster home payments	10,958	-	-	10,958
Foster family training	60,515	-	-	60,515
Subcontractor payments	(1,632)	-	-	(1,632)
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	1,025	-	-	1,025
Vehicle rental	905	-	-	905
General program supplies	1,262	-	-	1,262
Clothing	(348)	-	-	(348)
Miscellaneous	1,981	383	-	2,364
Interest	-	938	-	938
Bad debts	-	156,525	-	156,525
Property tax expense	-	21,816	-	21,816
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	(3,488)	-	-	(3,488)
Kids activity fund	(60)	-	-	(60)
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>11,554,199</u>	<u>407,373</u>	<u>-</u>	<u>11,961,572</u>
Depreciation and amortization	232,962	-	-	232,962
Intercompany management and residential fees	-	1,122,500	-	1,122,500
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2013	<u>\$ 11,787,161</u>	<u>\$ 1,529,873</u>	<u>\$ -</u>	<u>\$ 13,317,034</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Hospitals, Inc.**  
**Year Ended June 30, 2013**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 7,549,978	\$ -	\$ -	\$ 7,549,978
Payroll taxes	694,765	-	-	694,765
Employee benefits	926,181	-	-	926,181
Total salaries, wages and related expenses	9,170,924	-	-	9,170,924
Office supplies and printing	46,451	-	-	46,451
Copier and fax expense	27,627	-	-	27,627
Postage	4,412	-	-	4,412
Employee recruitment and advertising	6,174	-	-	6,174
Licenses and dues	125,364	-	-	125,364
Insurance	-	109,693	-	109,693
Travel	58,824	-	-	58,824
Telephone	131,828	-	-	131,828
Professional fees	101,472	-	-	101,472
Contract labor	729,511	-	-	729,511
Contract physicians	1,699,211	-	-	1,699,211
Consulting and other contractual expenses	1,386,476	-	-	1,386,476
Staff development	20,733	-	-	20,733
Promotion	9,271	-	-	9,271
Office rent	698,700	-	-	698,700
Equipment expenses	94,347	-	-	94,347
Maintenance and repairs	173,082	-	-	173,082
Safety services and materials	39,564	-	-	39,564
Food	471,067	-	-	471,067
Food – outings	21,545	-	-	21,545
Housekeeping supplies	32,639	-	-	32,639
Miscellaneous housekeeping	229,991	-	-	229,991
Utilities	138,253	-	-	138,253
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	4,610	-	-	4,610
Medical supplies	544,025	-	-	544,025
Vehicle expenses and repairs	29,683	-	-	29,683
Vehicle rental	13,951	-	-	13,951
General program supplies	110,517	-	-	110,517
Clothing	7,002	-	-	7,002
Miscellaneous	7,564	351	-	7,915
Interest	-	1,520	-	1,520
Bad debts	-	753,482	-	753,482
Property tax expense	47	-	-	47
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	14,643	-	-	14,643
Flex fund	24	-	-	24
Kids activity fund	758	-	-	758
Loss on impairment of assets	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	16,150,290	865,046	-	17,015,336
Depreciation and amortization	419,123	-	-	419,123
Intercompany management and residential fees	-	1,967,000	-	1,967,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2013	<u>\$ 16,569,413</u>	<u>\$ 2,832,046</u>	<u>\$ -</u>	<u>\$ 19,401,459</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Foundation, Inc.**  
**Year Ended June 30, 2013**

	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	-	-	245	245
Copier and fax expense	-	-	-	-
Postage	-	-	-	-
Employee recruitment and advertising	508	-	-	508
Licenses and dues	-	-	-	-
Insurance	-	-	-	-
Travel	-	-	-	-
Telephone	-	-	-	-
Professional fees	-	-	-	-
Contract labor	-	-	-	-
Contract physicians	-	-	-	-
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	7,346	-	1,836	9,182
Interest	-	-	-	-
Bad debts	-	-	-	-
Property tax expense	83	-	-	83
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	7,937	-	2,081	10,018
Depreciation and amortization	-	-	-	-
Intercompany management and residential fees	-	-	1,200	1,200
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2013	<u>\$ 7,937</u>	<u>\$ -</u>	<u>\$ 3,281</u>	<u>\$ 11,218</u>



**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Real Estate Holdings, Inc.**  
**Year Ended June 30, 2013**

	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	-	-	-	-
Insurance	-	22,700	-	22,700
Travel	-	-	-	-
Telephone	-	-	-	-
Professional fees	-	-	-	-
Contract labor	-	-	-	-
Contract physicians	-	-	-	-
Consulting and other contractual expenses	-	-	-	-
Staff development	-	-	-	-
Promotion	-	-	-	-
Office rent	-	-	-	-
Equipment expenses	-	-	-	-
Maintenance and repairs	-	6,050	-	6,050
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	-	-	-	-
Interest	-	-	-	-
Bad debts	-	-	-	-
Property tax expense	-	439	-	439
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	-	29,189	-	29,189
Depreciation and amortization	-	310,783	-	310,783
Intercompany management and residential fees	-	42,550	-	42,550
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2013	<u>\$ -</u>	<u>\$ 382,522</u>	<u>\$ -</u>	<u>\$ 382,522</u>

**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, 2013**

**Revenue**

SRS contract	\$ 34,116,643
Contributions	498,321
Other - interest and miscellaneous	1,191,203
Total revenue	<u>35,806,167</u>

**Expenses**

Administration	
Salaries and wages (including taxes and benefits)	2,063,562
Rent and utilities	286,908
Contractual	326,309
Other	893,321
Total administration	<u>3,570,100</u>

Case management	
Salaries and wages (including taxes and benefits)	9,505,372
Other - all other case management expenses	2,216,848
Total case management	<u>11,722,220</u>

Mental health	555,888
Independent living	18,144
Child care	1,337,607

Placement costs	
Foster care and relatives	6,793,231
Diversion foster care	4,825,093
Residential facilities	1,504,872
Total placement costs	<u>13,123,196</u>

Other	
Clothing	386,691
Transportation	1,311,702
Other - depreciation and amortization	80,056
Total other	<u>1,778,449</u>

Total expenses	<u>32,105,604</u>
Revenues over expenses	<u>\$ 3,700,563</u>

**KVC Health Systems, Inc.**  
**Schedule of System of Care Grant**  
**Year Ended June 30, 2013**

<b>Revenue</b>	
Grant revenue	\$ 60,000
Other	189
Total revenue	<u>60,189</u>
 <b>Expenses</b>	
Salaries and wages	48,164
Taxes and benefits	9,262
Office supplies	289
Travel	4,193
Rent	1,428
Telephone	737
Staff development	411
Indirect administrative expenses	9,308
Total expenses	<u>73,792</u>
Revenues over expenses	<u><u>\$ (13,603)</u></u>

**KVC Health Systems, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2013**

Cluster / Program	Federal Agency/Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount
<b>Child Nutrition Cluster</b>				
School Breakfast Program	U.S. Department of Agriculture passed through the Kansas State Department of Education	10.553	X0925	\$ 48,124
National School Lunch Program	U.S. Department of Agriculture passed through the Kansas State Department of Education	10.555	X0925	<u>80,532</u>
Total child nutrition cluster				<u>128,656</u>
Health Care and Other Facilities	U.S. Department of Health and Human Services	93.887	10C76HF19835	48,521
Initiative to Reduce Long-Term Foster Care	U.S. Department of Health and Human Services passed through the University of Kansas Center for Research, Inc.	93.648	90CT0152/01	630,742
Promoting Safe and Stable Families	U.S. Department of Health and Human Services passed through the Kentucky Cabinet for Health and Family Services	93.556	PON2 736 1200003288 1	1,234,306
Substance Abuse and Mental Health Services	U.S. Department of Health and Human Services passed through New York University School of Medicine	93.243	1 U79 SM061280-01	<u>25,079</u>
				<u>\$ 2,067,304</u>

**Notes to Schedule**

1. This schedule includes the federal awards activity of KVC Health Systems, Inc., KVC Behavioral HealthCare, Inc., KVC Behavioral Healthcare Kentucky, Inc. and KVC Hospitals, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The Organization did not provide federal awards to subrecipients during the year ended June 30, 2013.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of KVC Health Systems, Inc., which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 10, 2013.

***Internal Control Over Financial Reporting***

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

### **Compliance**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Other Matters**

We noted certain matters that we reported to the Organization's management in a separate letter dated December 10, 2013.

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

**BKD, LLP**

Kansas City, Missouri  
December 10, 2013

**Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control Over Compliance  
in Accordance with OMB Circular A-133**

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

### **Report on Compliance for Each Major Federal Program**

We have audited the compliance of KVC Health Systems, Inc. with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of KVC Health Systems, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

### ***Opinion on Each Major Federal Program***

In our opinion, KVC Health Systems, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control Over Compliance**

The management of KVC Health Systems, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*BKD, LLP*

Kansas City, Missouri  
December 10, 2013



**KVC Health Systems, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2013**

**Summary of Auditor's Results**

1. The opinion expressed in the independent auditor's report was:  
 Unmodified     Qualified     Adverse     Disclaimer
  
2. The independent auditor's report on internal control over financial reporting disclosed:  

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?  
 Yes     No
  
4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:  

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
  
5. The opinion expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was:  
 Unmodified     Qualified     Adverse     Disclaimer
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?  
 Yes     No
  
7. The Organization's major programs were:

Program	CFDA Number
Promoting Safe and Stable Families	93.556

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
  
9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?  
 Yes     No

**KVC Health Systems, Inc.**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2013**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Findings Required to be Reported by OMB Circular A-133**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**KVC Health Systems, Inc.**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2013**

Reference Number	Summary of Finding	Status
12-01	<p><b>Criteria or Specific Requirement</b> - Identification of Federal Funds</p> <p><b>Condition</b> – The Organization received and expended federal funds during the fiscal year. During our testing, we inquired of management as to the existence of federal fund revenues and expenditures. At that time, management did not identify any federal fund revenues or expenditures exceeding \$500,000 in aggregate as designated by the Office of Management and Budget (OMB) Circular A-133, for the fiscal year.</p> <p><b>Context</b> – Management did not properly identify the audit requirement for organizations which expend more than \$500,000 in federal rewards in aggregate during the fiscal year.</p> <p><b>Effect</b> – Single Audit requirement was not timely identified.</p> <p><b>Recommendation</b> – We recommend that management review all significant agreements to ascertain whether federal funds are being received or expended to determine if a Single Audit is required.</p>	Corrected, no similar findings noted in current year