

KVC Health Systems, Inc.

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2019 and 2018



KVC Health Systems, Inc.
June 30, 2019 and 2018

Contents

Independent Auditor’s Report..... 1

Consolidated Financial Statements

Statements of Financial Position 3
Statements of Activities..... 4
Statements of Functional Expenses 5
Statements of Cash Flows 6
Notes to Financial Statements 7

Supplementary Information

Consolidating Schedule of Financial Position – June 30, 2019..... 20
Consolidating Schedule of Activities – Year Ended June 30, 2019 22
Consolidating Schedule of Financial Position – June 30, 2018..... 23
Consolidating Schedule of Activities – Year Ended June 30, 2018 25
Functional Expenses – KVC Health Systems, Inc..... 26
Functional Expenses – KVC Behavioral HealthCare, Inc..... 27
Functional Expenses – KVC Behavioral Healthcare West Virginia, Inc. 28
Functional Expenses – KVC Behavioral Healthcare Kentucky, Inc. 29
Functional Expenses – KVC Behavioral Healthcare Nebraska, Inc..... 30
Functional Expenses – KVC Hospitals, Inc. 31
Functional Expenses – KVC Foundation, Inc. 32
Functional Expenses – The Niles Home for Children, Inc..... 33
Schedule of Revenue and Expenses for Kansas Department for
Children and Families Reintegration/Foster Care/Adoption Services..... 34
Schedule of Revenue and Expenses for Kansas Department for
Children and Families Family Preservation Services..... 35
Schedule of Revenue and Expenses for Kansas Department for
Children and Families Kansas Child Placing Services..... 36

KVC Health Systems, Inc.

June 30, 2019 and 2018

Contents (Continued)

Schedule of System of Care Grant – G190230.....	37
Schedule of Expenditures of Federal Awards	38
Notes to the Schedule of Expenditures of Federal Awards	39
 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor’s Report.....	 40
 Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance – Independent Auditor’s Report	 42
 Schedule of Findings and Questioned Costs.....	 44
 Summary Schedule of Prior Audit Findings.....	 46

Independent Auditor's Report

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, 2019 and 2018, and the related consolidated statements of activities, functional expenses 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 consolidated financial position of KVC Health Systems, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 2* to the consolidated financial statements, in 2019, KVC Health Systems, Inc. adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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 as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 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 19, 2019, on our consideration of KVC Health Systems, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of KVC Health Systems, Inc.'s 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 19, 2019

KVC Health Systems, Inc.
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,151,951	\$ 4,212,047
Accounts receivable, net of allowance; 2019 - \$1,049,000, 2018 - \$1,152,000	16,378,594	16,944,259
Contributions receivable	1,353,999	1,670,000
Grants receivable	2,211,122	1,977,697
Prepaid expenses and other	<u>2,175,937</u>	<u>719,919</u>
Total current assets	<u>25,271,603</u>	<u>25,523,922</u>
Property and Equipment, Net	<u>33,108,266</u>	<u>25,383,610</u>
Contributions Receivable	<u>669,910</u>	<u>585,667</u>
Other Assets		
Goodwill	545,000	545,000
Deposits and other assets	<u>246,318</u>	<u>803,652</u>
	<u>791,318</u>	<u>1,348,652</u>
Total assets	<u>\$ 59,841,097</u>	<u>\$ 52,841,851</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 358,962	\$ 266,302
Line of credit	2,000,000	1,500,000
Accounts payable	5,129,017	2,896,261
Accrued salaries	4,320,186	3,976,880
Accrued compensated absences	2,087,962	2,191,596
Other accrued expenses	5,065,238	5,027,489
Deferred revenue	<u>1,424,394</u>	<u>1,738,441</u>
Total current liabilities	20,385,759	17,596,969
Long-term Debt	9,800,417	9,552,412
Net Pension Liability	<u>303,957</u>	<u>276,360</u>
Total liabilities	<u>30,490,133</u>	<u>27,425,741</u>
Net Assets		
Without donor restrictions	29,350,964	23,916,110
With donor restrictions	<u>-</u>	<u>1,500,000</u>
Total net assets	<u>29,350,964</u>	<u>25,416,110</u>
Total liabilities and net assets	<u>\$ 59,841,097</u>	<u>\$ 52,841,851</u>

KVC Health Systems, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, Gains and Other Support Without Donor Restrictions		
Contract reintegration and adoption services	\$ 100,215,084	\$ 91,560,023
Child placing services	20,898,704	19,067,076
Inpatient services	21,544,992	20,345,681
Family preservation/in-home services	24,358,231	22,105,877
Contributions and grants	3,483,295	4,355,732
Interest income	8,464	4,521
Miscellaneous	<u>2,583,405</u>	<u>1,766,056</u>
Total revenues, gains and other support without donor restrictions	<u>173,092,175</u>	<u>159,204,966</u>
Operating Expenses		
Client care	156,539,043	147,694,237
Administrative and general	15,026,204	13,938,706
Fundraising	<u>323,281</u>	<u>340,748</u>
Total operating expenses	<u>171,888,528</u>	<u>161,973,691</u>
Excess (Deficiency) of Revenues Over Expenses	1,203,647	(2,768,725)
Contributions received for property acquisitions	2,731,207	540,895
Net assets released from restrictions for property acquisitions	<u>1,500,000</u>	<u>375,000</u>
Change in Net Assets Without Donor Restrictions	5,434,854	(1,852,830)
Net Assets With Donor Restrictions		
Contributions received for property acquisitions	-	1,500,000
Net assets released from restrictions for property acquisitions	<u>(1,500,000)</u>	<u>(375,000)</u>
Change in Net Assets	3,934,854	(727,830)
Net Assets, Beginning of Year	<u>25,416,110</u>	<u>26,143,940</u>
Net Assets, End of Year	<u>\$ 29,350,964</u>	<u>\$ 25,416,110</u>

KVC Health Systems, Inc.
Consolidated Statements of Functional Expenses
Years Ended June 30, 2019 and 2018

	Client Care	Administrative and General	Fundraising	Total Expenses	2018 Total Expenses
Salaries and wages	\$ 56,854,267	\$ 7,321,794	\$ -	\$ 64,176,061	\$ 62,594,639
Payroll taxes	4,483,768	518,157	-	5,001,925	4,877,999
Employee benefits	8,976,714	750,858	-	9,727,572	8,181,091
Total salaries, wages and related expenses	70,314,749	8,590,809	-	78,905,558	75,653,729
Office supplies and printing	313,929	119,028	7,008	439,965	433,420
Copier and fax expense	254,656	44,197	-	298,853	257,602
Postage	125,611	32,394	1,382	159,387	141,538
Employee recruitment and advertising	49,896	154,659	150	204,705	284,192
Licenses and dues	490,826	724,479	5,820	1,221,125	948,507
Insurance	1,118,061	122,873	-	1,240,934	1,318,225
Travel	2,008,516	234,527	-	2,243,043	2,461,670
Telephone	1,239,883	152,261	-	1,392,144	1,226,873
Professional fees	304,403	1,697,229	-	2,001,632	808,525
Contract labor	1,168,808	31,719	-	1,200,527	1,161,167
Contract physicians	3,190,120	-	-	3,190,120	3,050,458
Contract unallowable expenses	169,295	12,153	-	181,448	201,440
Consulting and other contractual expenses	2,286,952	1,046,527	-	3,333,479	3,289,521
Staff development	299,417	384,114	-	683,531	816,702
Promotion	94,468	45,017	(50)	139,435	117,057
Office rent	4,112,036	623,413	-	4,735,449	4,548,967
Equipment expenses	352,043	274,288	-	626,331	925,992
Network services	260,673	358,223	-	618,896	637,091
Maintenance and repairs	504,973	104,778	-	609,751	702,428
Safety services and materials	279,245	39,170	-	318,415	269,415
Food	935,101	4,037	-	939,138	840,630
Food – outings	124,043	58,921	-	182,964	261,329
Housekeeping supplies	70,053	14,517	-	84,570	81,179
Miscellaneous housekeeping	705,179	99,491	-	804,670	751,934
Utilities	1,035,541	150,451	-	1,185,992	1,205,685
Payments to foster parents	28,468,902	(37)	-	28,468,865	26,105,526
Subcontractor – foster home payments	23,925,028	-	-	23,925,028	21,301,679
Foster family training	529,304	-	-	529,304	270,521
Child care payments	4,432,849	-	-	4,432,849	4,645,611
Incidentals	-	-	-	-	608
Medical supplies	933,819	-	-	933,819	877,319
Vehicle expenses and repairs	729,777	50,262	-	780,039	822,355
Vehicle rental	2,264,842	118,093	-	2,382,935	1,933,536
General program supplies	442,778	30,913	-	473,691	415,450
Clothing	944,573	-	-	944,573	956,741
Miscellaneous	94,192	44,267	163,613	302,072	346,856
Interest	-	663,875	-	663,875	418,226
Bad debts	(100,749)	-	131,758	31,009	324,962
Property tax expense	30,089	3,050	-	33,139	55,582
Cost of in-kind donated goods	127	-	-	127	3,763
Medicaid assessments	14,643	-	-	14,643	14,643
Flex fund	1,460,614	1,932	-	1,462,546	1,409,751
Loss on disposition of assets	-	-	-	-	597
Kids activity fund	161,681	-	-	161,681	120,778
Expenses before depreciation, amortization and intercompany fees	156,140,946	16,031,630	309,681	172,482,257	162,419,780
Depreciation and amortization	559,520	949,185	-	1,508,705	1,494,621
Intercompany management and residential fees	-	12,895,463	13,600	12,909,063	15,373,705
Eliminations	(161,423)	(14,850,074)	-	(15,011,497)	(17,314,415)
Totals, Year Ended June 30, 2019	\$ 156,539,043	\$ 15,026,204	\$ 323,281	\$ 171,888,528	\$ 161,973,691

KVC Health Systems, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 3,934,854	\$ (727,830)
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	1,508,705	1,494,621
Loss on disposition of assets	-	597
Contributions received for property acquisitions	(2,731,207)	(2,040,895)
Provision and discounts on contributions receivable	(168,243)	(34,301)
Provision for uncollectible accounts	(99,000)	234,397
Changes in		
Accounts receivable	664,665	(2,545,252)
Grants receivable	(233,425)	(302,973)
Prepaid expenses	(1,456,018)	498,851
Other assets	557,334	(149,319)
Accounts payable	516,544	238,533
Accrued salaries	343,306	359,680
Accrued compensated absences	(103,634)	161,376
Other accrued expenses	37,749	(390,643)
Net pension liability	27,597	(92,214)
Deferred revenue	(314,047)	566,471
	<u>2,485,180</u>	<u>(2,728,901)</u>
Investing Activities		
Purchase of property and equipment	(7,545,149)	(6,560,783)
Proceeds from disposition of property and equipment	28,000	-
	<u>(7,517,149)</u>	<u>(6,560,783)</u>
Financing Activities		
Proceeds from contributions restricted for acquisition of long-lived assets	3,131,208	978,196
Proceeds from issuance of long-term debt	620,000	3,652,000
Principal payments on long-term debt	(279,335)	(262,348)
Net proceeds under line-of-credit agreements	500,000	1,500,000
	<u>3,971,873</u>	<u>5,867,848</u>
Decrease in Cash and Cash Equivalents	(1,060,096)	(3,421,836)
Cash and Cash Equivalents, Beginning of Year	<u>4,212,047</u>	<u>7,633,883</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,151,951</u>	<u>\$ 4,212,047</u>
Supplemental Cash Flows Information		
Property and equipment in accounts payable	\$ 1,862,350	\$ 146,138
Interest paid	663,875	418,226

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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.

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, 2019 and 2018

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 Niles Home for Children, Inc.

The Niles Home for Children, Inc. is a Missouri not-for-profit organization headquartered in Kansas City, Missouri, whose mission and principle activities are to provide mental health and education services to high-risk children and families, empowering them to become confident and contributing citizens.

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 and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts with banks.

At June 30, 2019, the Organization's cash accounts exceeded federally insured limits by approximately \$35,000.

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, 2019 and 2018

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. No asset impairment was recognized during the years ended June 30, 2019 and 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions. Net assets without donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements 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 revenue and net assets without donor restrictions.

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.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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.

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 consolidated financial statements.

Deferred Revenue

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

Professional Liability Coverage and Claims

The Organization purchases professional liability insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require an organization to accrue the expense of its share of professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents.

Based upon the Organization's claims experience, an accrual had been made for the Organization's estimated professional liability costs, including costs associated with litigating or settling claims, under its professional liability policy, amounting to \$837,692 and \$399,985 as of June 30, 2019 and 2018, respectively. It is reasonably possible that this estimate could change materially in the near term.

The Organization recorded in accounts receivables on the consolidated statements of financial position \$837,692 and \$399,985 as of June 30, 2019 and 2018, respectively, of professional liability reserve insurance coverage receivables.

Government Grants

Support funded by grants is recognized as the Organization performs the contracted service or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

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

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of activities include excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Note 2: Change in Accounting Principle

Presentation of Financial Statements of Not-For-Profit Entities

In the year ended June 30, 2019, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statements of Functional Expenses

- Expenses are reported by both nature and function in one location.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.

This change had no impact on previously reported total change in net assets.

Note 3: Revenue Concentrations – KVC Behavioral HealthCare, Inc.

On July 1, 2013, the Organization was awarded Foster Care Reintegration Services and Family Preservation Services contracts from a state agency to provide foster care and family preservation services to the Kansas City and East Regions of the State of Kansas. The contracts are for a term of four years, with two additional two-year renewal options.

Revenues for the contracts amounted to \$105,625,072 and \$97,040,281, which represents 61 percent of the Organization’s revenues, gains and support without donor restrictions for both years ended June 30, 2019 and 2018. Accounts receivable related to the foster care reintegration contract amounted to \$8,303,443 and \$9,357,003 at June 30, 2019 and 2018, respectively.

Note 4: Contributions Receivable

Contributions receivable consisted of the following at a discount rate of 5.00 percent:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 1,353,999	\$ 1,670,000
Due in one to five years	703,500	787,500
	<u>2,057,499</u>	<u>2,457,500</u>
Less		
Allowance for uncollectible contributions	-	(46,382)
Unamortized discount	(33,590)	(155,451)
	<u>\$ 2,023,909</u>	<u>\$ 2,255,667</u>

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 5: Property and Equipment

Property and equipment at June 30 consists of:

	2019	2018
Land and land improvements	\$ 1,409,201	\$ 1,437,201
Buildings and leasehold improvements	30,779,593	29,531,815
Furniture and equipment	5,724,175	5,632,568
Works of art	95,142	95,142
Computer equipment	6,045,320	5,554,693
Vehicles	232,427	250,444
Construction in progress	7,973,925	542,575
	52,259,783	43,044,438
Less accumulated depreciation and amortization	19,151,517	17,660,828
	\$ 33,108,266	\$ 25,383,610

Note 6: Line of Credit

The Organization has a \$9,000,000 revolving bank line of credit expiring in May 2020. At June 30, 2019 and 2018, there was \$2,000,000 and \$1,500,000, respectively, borrowed against this line. The line is collateralized by property and equipment. Interest payable monthly at prime subject to a floor rate of 4.125 percent which was 5.50 percent and 5.00 percent on June 30, 2019 and 2018, respectively.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 7: Long-term Debt

	<u>2019</u>	<u>2018</u>
Notes payable, bank (A)	\$ 640,725	\$ 668,468
Notes payable, bank (B)	5,322,013	5,520,473
Notes payable, bank (C)	841,885	869,773
Notes payable, bank (D)	2,747,797	2,760,000
Notes payable, bank (E)	606,959	-
	<u>10,159,379</u>	<u>9,818,714</u>
Less current maturities	<u>358,962</u>	<u>266,302</u>
	<u>\$ 9,800,417</u>	<u>\$ 9,552,412</u>

- (A) Due August 25, 2024; payable \$5,030 monthly and one irregular last payment, including interest at 4.88 percent; collateralized by real estate.
- (B) Due February 25, 2021; payable \$39,482 monthly and one irregular last payment, including interest at 5.00 percent; collateralized by real estate.
- (C) Due August 15, 2022; payable \$5,873 monthly and one irregular last payment, including interest at 4.90 percent; collateralized by real estate.
- (D) Due April 3, 2025; payable in monthly amounts ranging from \$13,202 to \$19,508 and one irregular last payment, including interest at 5.74 percent; collateralized by real estate.
- (E) Due September 28, 2023; payable \$4,415 monthly and one irregular last payment, including interest at 5.84 percent; collateralized by real estate.

KVC Hospitals, Inc. unconditionally guarantees the indebtedness of KVC Foundation, Inc. for all five outstanding notes payable.

Aggregate annual maturities of long-term debt and payments at June 30, 2019 are:

2020	\$ 358,962
2021	5,276,160
2022	171,346
2023	896,508
2024	657,640
Thereafter	<u>2,798,763</u>
	<u>\$ 10,159,379</u>

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 8: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 and 2018, comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets at year end		
Cash and cash equivalents	\$ 3,151,951	\$ 4,212,047
Accounts receivable, net of allowance	16,378,594	16,944,259
Contributions receivable	2,023,909	2,255,667
Grants receivable	<u>2,211,122</u>	<u>1,977,697</u>
Total financial assets	<u>23,765,576</u>	<u>25,389,670</u>
Less amounts due after one year		
Contributions receivable	<u>(669,910)</u>	<u>(585,667)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 23,095,666</u>	<u>\$ 24,804,003</u>

As part of the Organization's liquidity management plan, management reviews cash and investment balances regularly and compares those to monthly operational requirements. The Organization also has established a line of credit that can be utilized on a short term basis if needed.

Note 9: Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30 are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Purchase of property and equipment	\$ -	\$ 1,500,000

During 2019 and 2018, net assets were released from donor restrictions by purchasing property and equipment in the amounts of \$1,500,000 and \$375,000, respectively.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 10: 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 percent 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, 2019 and 2018 were approximately \$501,000 and \$456,000, respectively.

Note 11: Defined Benefit Plan

The Niles Home for Children, Inc. (Niles) has a noncontributory defined benefit pension plan (the Plan) covering all full time employees of Niles with one year or more of continuous service prior to the Plan being frozen effective February 28, 2005. The Organization’s funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Organization may determine to be appropriate from time to time. The Plan has a plan year which ends on December 31. The Organization expects to contribute \$18,000 to the Plan in the plan year ending December 31, 2019.

The Organization uses a December 31 measurement date for the Plan. Information about the Plan’s funded status follows:

	December 31, 2018	December 31, 2017
Benefit obligation	\$ (1,517,297)	\$ (1,696,400)
Fair value of plan assets	1,213,340	1,420,040
Funded status	\$ (303,957)	\$ (276,360)

The benefit obligation is calculated based on a discount rate of 4.1 percent and 3.5 percent for the periods ended December 31, 2018 and 2017, respectively. The expected return on plan assets of 8.0 percent for both periods ended December 31, 2018 and 2017 was calculated using the “building block” approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection Economic Assumptions for Measuring Pension Obligations. Plan assets consist of equity and fixed income investments.

Net benefit liability of \$303,957 and \$276,360 is recorded in the consolidated statements of financial position within noncurrent liabilities at June 30, 2019 and 2018, respectively, based on management’s opinion that there has not been a material change to the net benefit liability for the period December 31, 2018 to June 30, 2019 or December 31, 2017 to June 30, 2018.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 12: Operating Leases

Noncancellable operating leases for office space expire in various years through 2024. 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, 2019 and 2018 was \$2,633,014 and \$2,609,457, respectively.

Noncancellable operating leases for equipment expire in various years through 2023. Total rental expense for equipment leases for the years ended June 30, 2019 and 2018 was \$2,572,263 and \$2,080,565, respectively.

Future minimum lease payments at June 30, 2019 were:

	<u>Equipment</u>	<u>Property</u>	<u>Total</u>
2020	\$ 1,554,928	\$ 2,154,494	\$ 3,709,422
2021	1,001,796	628,014	1,629,810
2022	189,568	498,805	688,373
2023	30,603	360,635	391,238
2024	-	249,822	249,822
	<u>\$ 2,776,895</u>	<u>\$ 3,891,770</u>	<u>\$ 6,668,665</u>

Note 13: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Doubtful Accounts

Estimates of allowances for doubtful accounts are described in *Note 1*.

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.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 14: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). The Organization is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. The Organization is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

KVC Health Systems, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 15: Subsequent Events

Subsequent events have been evaluated through December 19, 2019, which is the date the consolidated financial statements were available to be issued.

Subsequent to year-end, the Kansas Department for Children and Families (DCF) restructured the contracts for Reintegration and Family Preservation. DCF changed from four to eight catchment areas for contracts to be awarded. Effective October 1, 2019, KVC Kansas was awarded two of the eight Reintegration catchment areas, compared to their previous contract for two of the four catchment areas. In September 2019, DCF announced the providers for Family Preservation in Kansas. As a result, KVC Kansas will continue to serve clients for Family Preservation through December 2020. These changes are expected to have an impact on future financial statements, but that impact is unknown at this time.

Supplementary Information

KVC Health Systems, Inc.
Consolidating Schedule of Financial Position
June 30, 2019

	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.	The Niles Home for Children, Inc.	Eliminations	Consolidated
Current Assets										
Cash and cash equivalents	\$ 283,521	\$ 256,408	\$ 190,038	\$ 432,121	\$ 562,813	\$ 620,837	\$ 184,106	\$ 622,107		\$ 3,151,951
Accounts receivable, net of allowance of \$1,049,000	859,717	8,660,027	1,893,219	486,049	918,534	3,288,538	1,899	270,611		16,378,594
Due to/from affiliate	3,755,014	(2,679,327)	(366,785)	(722,157)	(254,182)	(22,913)	(42,068)	332,418		-
Contributions receivable	-	-	-	-	-	1,209,000	144,999	-		1,353,999
Grants receivable	129,490	192,131	8,778	1,717,374	26,729	36,620	-	100,000		2,211,122
Prepaid expenses and other	786,499	490,504	109,875	189,352	56,549	500,018	13,103	30,037		2,175,937
Total current assets	<u>5,814,241</u>	<u>6,919,743</u>	<u>1,835,125</u>	<u>2,102,739</u>	<u>1,310,443</u>	<u>5,632,100</u>	<u>302,039</u>	<u>1,355,173</u>		<u>25,271,603</u>
Property and Equipment, Net	<u>902,255</u>	<u>941,236</u>	<u>94,183</u>	<u>12,481</u>	<u>40,410</u>	<u>9,002,968</u>	<u>18,309,641</u>	<u>3,805,092</u>		<u>33,108,266</u>
Contributions Receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>341,000</u>	<u>328,910</u>	<u>-</u>		<u>669,910</u>
Other Assets										
Goodwill	-	-	-	545,000	-	-	-	-		545,000
Deposits and other assets	-	201,990	274	19,054	-	20,000	5,000	-		246,318
	<u>-</u>	<u>201,990</u>	<u>274</u>	<u>564,054</u>	<u>-</u>	<u>20,000</u>	<u>5,000</u>	<u>-</u>		<u>791,318</u>
Total assets	<u>\$ 6,716,496</u>	<u>\$ 8,062,969</u>	<u>\$ 1,929,582</u>	<u>\$ 2,679,274</u>	<u>\$ 1,350,853</u>	<u>\$ 14,996,068</u>	<u>\$ 18,945,590</u>	<u>\$ 5,160,265</u>	<u>\$ -</u>	<u>\$ 59,841,097</u>

KVC Health Systems, Inc.
Consolidating Schedule of Financial Position (Continued)
June 30, 2019

	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.	The Niles Home for Children, Inc.	Eliminations	Consolidated
Current Liabilities										
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 358,962	\$ -		\$ 358,962
Line of credit	2,000,000	-	-	-	-	-	-	-		2,000,000
Accounts payable	1,026,543	1,998,744	19,118	110,676	130,587	1,794,269	-	49,080		5,129,017
Accrued salaries	592,243	1,624,965	340,757	561,105	149,917	936,342	-	114,857		4,320,186
Accrued compensated absences	180,334	886,745	181,451	265,866	82,335	410,345	-	80,886		2,087,962
Other accrued expenses	1,156,037	2,672,837	313,612	157,510	197,131	517,614	25,787	24,710		5,065,238
Deferred revenue	-	1,331,918	-	1,540	5,536	5,000	80,400	-		1,424,394
Total current liabilities	4,955,157	8,515,209	854,938	1,096,697	565,506	3,663,570	465,149	269,533		20,385,759
Long-term Debt	-	-	-	-	-	-	9,800,417	-		9,800,417
Net Pension Liability	-	-	-	-	-	-	-	303,957		303,957
Total liabilities	4,955,157	8,515,209	854,938	1,096,697	565,506	3,663,570	10,265,566	573,490		30,490,133
Net Assets										
Without donor restrictions	1,761,339	(452,240)	1,074,644	1,582,577	785,347	11,332,498	8,680,024	4,586,775		29,350,964
Total net assets	1,761,339	(452,240)	1,074,644	1,582,577	785,347	11,332,498	8,680,024	4,586,775		29,350,964
Total liabilities and net assets	\$ 6,716,496	\$ 8,062,969	\$ 1,929,582	\$ 2,679,274	\$ 1,350,853	\$ 14,996,068	\$ 18,945,590	\$ 5,160,265	\$ -	\$ 59,841,097

KVC Health Systems, Inc.
Consolidating Schedule of Activities
Year Ended June 30, 2019

	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.	The Niles Home for Children, Inc.	Eliminations	Consolidated
Revenues, Gains and Other Support Without Donor Restrictions										
Contract reintegration and adoption services	\$ -	\$ 99,735,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 479,996	\$ -	\$ 100,215,084
Child placing services	-	1,179,614	12,593,544	820,235	6,305,311	-	-	-	-	20,898,704
Inpatient services	-	-	-	-	-	21,544,992	-	-	-	21,544,992
Family preservation/in-home services	-	6,836,962	849,547	10,999,620	4,300,231	-	-	1,371,871	-	24,358,231
Contributions and grants	16,337	1,208,705	79,668	737,094	353,767	60,435	521,225	506,064	-	3,483,295
Interest income	690	6,399	277	228	234	504	-	132	-	8,464
Miscellaneous	1,361,327	205,185	(105,915)	151,178	34,983	785,713	601	150,333	-	2,583,405
Management fee	12,782,900	-	126,162	-	-	-	-	-	(12,909,062)	-
Intercompany services	-	(3,387,201)	-	-	-	2,472,290	-	914,911	-	-
Intercompany rent	-	-	-	-	-	-	2,102,435	-	(2,102,435)	-
Total revenues, gains and other support without donor restrictions	14,161,254	105,784,752	13,543,283	12,708,355	10,994,526	24,863,934	2,624,261	3,423,307	(15,011,497)	173,092,175
Operating Expenses										
Client care	-	94,032,441	12,681,173	12,182,142	9,694,001	24,624,372	-	3,486,337	(161,423)	156,539,043
Administrative and general	14,184,442	8,764,000	927,968	883,767	709,079	1,800,000	2,352,007	255,015	(14,850,074)	15,026,204
Fundraising	-	-	-	-	-	-	323,281	-	-	323,281
Total operating expenses	14,184,442	102,796,441	13,609,141	13,065,909	10,403,080	26,424,372	2,675,288	3,741,352	(15,011,497)	171,888,528
Operating Income (Loss)	(23,188)	2,988,311	(65,858)	(357,554)	591,446	(1,560,438)	(51,027)	(318,045)	-	1,203,647
Other Income (Expense)										
Intercompany transfers	(665,000)	(2,310,000)	(1,358,000)	795,000	(472,000)	4,050,000	(60,000)	20,000	-	-
Excess (Deficiency) of Revenues Over Expenses	(688,188)	678,311	(1,423,858)	437,446	119,446	2,489,562	(111,027)	(298,045)	-	1,203,647
Contributions received for property acquisitions	-	-	-	-	-	2,731,207	-	-	-	2,731,207
Net assets released from restrictions for property acquisitions	-	-	-	-	-	1,500,000	-	-	-	1,500,000
Change in Net Assets Without Donor Restrictions	(688,188)	678,311	(1,423,858)	437,446	119,446	6,720,769	(111,027)	(298,045)	-	5,434,854
Net Assets With Donor Restrictions										
Net assets released from restrictions for property acquisitions	-	-	-	-	-	(1,500,000)	-	-	-	(1,500,000)
Change in Net Assets	(688,188)	678,311	(1,423,858)	437,446	119,446	5,220,769	(111,027)	(298,045)	-	3,934,854
Net Assets, Beginning of Year	2,449,527	(1,130,551)	2,498,502	1,145,131	665,901	6,111,729	8,791,051	4,884,820	-	25,416,110
Net Assets, End of Year	\$ 1,761,339	\$ (452,240)	\$ 1,074,644	\$ 1,582,577	\$ 785,347	\$ 11,332,498	\$ 8,680,024	\$ 4,586,775	\$ -	\$ 29,350,964

KVC Health Systems, Inc.
Consolidating Schedule of Financial Position
June 30, 2018

	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.	The Niles Home for Children, Inc.	Eliminations	Consolidated
Current Assets										
Cash and cash equivalents	\$ 740,567	\$ 789,302	\$ 485,673	\$ 81,573	\$ 401,983	\$ 427,451	\$ 377,347	\$ 908,151		\$ 4,212,047
Accounts receivable, net of allowance of \$1,152,000	442,854	9,695,966	1,622,949	525,419	888,949	3,406,412	-	361,710		16,944,259
Due to/from affiliate	2,484,083	(3,866,658)	1,255,390	(372,586)	(219,710)	1,372,207	(667,939)	15,213		-
Contributions receivable	-	-	-	-	-	1,500,000	170,000	-		1,670,000
Grants receivable	93,327	164,440	15,184	1,369,390	63,968	-	-	271,388		1,977,697
Prepaid expenses and other	365,849	123,443	69,606	42,179	29,589	78,720	7,923	2,610		719,919
Total current assets	4,126,680	6,906,493	3,448,802	1,645,975	1,164,779	6,784,790	(112,669)	1,559,072		25,523,922
Property and Equipment, Net	973,458	790,260	25,940	4,452	46,895	1,342,031	18,224,137	3,976,437		25,383,610
Contributions Receivable	-	-	-	-	-	-	585,667	-		585,667
Other Assets										
Goodwill	-	-	-	545,000	-	-	-	-		545,000
Deposits and other assets	565,377	171,689	11,735	19,054	9,597	26,200	-	-		803,652
	565,377	171,689	11,735	564,054	9,597	26,200	-	-		1,348,652
Total assets	\$ 5,665,515	\$ 7,868,442	\$ 3,486,477	\$ 2,214,481	\$ 1,221,271	\$ 8,153,021	\$ 18,697,135	\$ 5,535,509	\$ -	\$ 52,841,851

KVC Health Systems, Inc.
Consolidating Schedule of Financial Position (Continued)
June 30, 2018

	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.	The Niles Home for Children, Inc.	Eliminations	Consolidated
Current Liabilities										
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 266,302	\$ -		\$ 266,302
Line of credit	1,500,000	-	-	-	-	-	-	-		1,500,000
Accounts payable	400,390	1,624,997	16,455	133,994	266,889	390,889	-	62,647		2,896,261
Accrued salaries	328,629	1,771,179	353,014	492,669	159,410	774,163	-	97,816		3,976,880
Accrued compensated absences	207,923	889,661	207,745	258,515	88,451	471,503	-	67,798		2,191,596
Other accrued expenses	779,046	3,201,477	408,933	169,660	40,308	366,517	33,870	27,678		5,027,489
Deferred revenue	-	1,511,679	1,828	14,512	312	38,220	53,500	118,390		1,738,441
Total current liabilities	3,215,988	8,998,993	987,975	1,069,350	555,370	2,041,292	353,672	374,329		17,596,969
Long-term Debt	-	-	-	-	-	-	9,552,412	-		9,552,412
Net Pension Liability	-	-	-	-	-	-	-	276,360		276,360
Total liabilities	3,215,988	8,998,993	987,975	1,069,350	555,370	2,041,292	9,906,084	650,689		27,425,741
Net Assets										
Without donor restrictions	2,449,527	(1,130,551)	2,498,502	1,145,131	665,901	4,611,729	8,791,051	4,884,820		23,916,110
With donor restrictions	-	-	-	-	-	1,500,000	-	-		1,500,000
Total net assets	2,449,527	(1,130,551)	2,498,502	1,145,131	665,901	6,111,729	8,791,051	4,884,820		25,416,110
Total liabilities and net assets	\$ 5,665,515	\$ 7,868,442	\$ 3,486,477	\$ 2,214,481	\$ 1,221,271	\$ 8,153,021	\$ 18,697,135	\$ 5,535,509	\$ -	\$ 52,841,851

KVC Health Systems, Inc.
Consolidating Schedule of Activities
Year Ended June 30, 2018

	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.	The Niles Home for Children, Inc.	Eliminations	Consolidated
Revenues, Gains and Other Support Without Donor Restrictions										
Contract reintegration and adoption services	\$ -	\$ 91,156,849	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 403,174	\$ -	\$ 91,560,023
Child placing services	-	1,095,781	10,535,426	728,243	6,707,626	-	-	-	-	19,067,076
Inpatient services	-	-	-	-	-	20,345,681	-	-	-	20,345,681
Family preservation/in-home services	-	6,877,902	683,384	10,718,326	3,236,776	-	-	589,489	-	22,105,877
Contributions and grants	338,764	783,098	686,111	803,326	304,380	154,491	558,514	727,048	-	4,355,732
Interest income	446	2,044	363	608	358	542	-	160	-	4,521
Miscellaneous	449,760	188,939	144,537	(154,516)	48,153	852,909	-	236,274	-	1,766,056
Management fee	13,485,597	-	1,889,308	-	-	-	-	-	(15,374,905)	-
Intercompany services	-	(3,114,439)	-	-	-	3,035,839	-	78,600	-	-
Intercompany rent	-	-	-	-	-	-	1,939,510	-	(1,939,510)	-
Total revenues, gains and other support without donor restrictions	<u>14,274,567</u>	<u>96,990,174</u>	<u>13,939,129</u>	<u>12,095,987</u>	<u>10,297,293</u>	<u>24,389,462</u>	<u>2,498,024</u>	<u>2,034,745</u>	<u>(17,314,415)</u>	<u>159,204,966</u>
Operating Expenses										
Client care	-	89,551,674	12,390,669	11,634,431	8,996,618	22,881,464	-	2,440,091	(200,710)	147,694,237
Administrative and general	14,267,660	10,285,141	935,566	980,592	804,519	2,310,532	1,211,490	256,911	(17,113,705)	13,938,706
Fundraising	138,582	-	-	-	-	-	202,166	-	-	340,748
Total operating expenses	<u>14,406,242</u>	<u>99,836,815</u>	<u>13,326,235</u>	<u>12,615,023</u>	<u>9,801,137</u>	<u>25,191,996</u>	<u>1,413,656</u>	<u>2,697,002</u>	<u>(17,314,415)</u>	<u>161,973,691</u>
Operating Income (Loss)	(131,675)	(2,846,641)	612,894	(519,036)	496,156	(802,534)	1,084,368	(662,257)	-	(2,768,725)
Other Income (Expense)										
Intercompany transfers	(1,204)	(1,695,323)	718,594	(238,616)	(1,122,409)	1,567,210	(1,254,537)	2,026,285	-	-
Excess (Deficiency) of Revenues Over Expenses	(132,879)	(4,541,964)	1,331,488	(757,652)	(626,253)	764,676	(170,169)	1,364,028	-	(2,768,725)
Contributions received for property acquisitions	-	-	-	-	-	540,895	-	-	-	540,895
Net assets released from restrictions for property acquisitions	-	-	-	-	-	-	375,000	-	-	375,000
Change in Net Assets Without Donor Restrictions	(132,879)	(4,541,964)	1,331,488	(757,652)	(626,253)	1,305,571	204,831	1,364,028	-	(1,852,830)
Net Assets With Donor Restrictions										
Contributions received for property acquisitions	-	-	-	-	-	1,500,000	-	-	-	1,500,000
Net assets released from restrictions for property acquisitions	-	-	-	-	-	-	(375,000)	-	-	(375,000)
Change in Net Assets	(132,879)	(4,541,964)	1,331,488	(757,652)	(626,253)	2,805,571	(170,169)	1,364,028	-	(727,830)
Net Assets, Beginning of Year	2,582,406	3,411,413	1,167,014	1,902,783	1,292,154	3,306,158	8,961,220	3,520,792	-	26,143,940
Net Assets, End of Year	<u>\$ 2,449,527</u>	<u>\$ (1,130,551)</u>	<u>\$ 2,498,502</u>	<u>\$ 1,145,131</u>	<u>\$ 665,901</u>	<u>\$ 6,111,729</u>	<u>\$ 8,791,051</u>	<u>\$ 4,884,820</u>	<u>\$ -</u>	<u>\$ 25,416,110</u>

KVC Health Systems, Inc.
Functional Expenses – KVC Health Systems, Inc.
Year Ended June 30, 2019

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ -	\$ 6,924,558	\$ -	\$ 6,924,558
Payroll taxes	-	490,138	-	490,138
Employee benefits	-	674,346	-	674,346
Total salaries, wages and related expenses	-	8,089,042	-	8,089,042
Office supplies and printing	-	114,286	-	114,286
Copier and fax expense	-	43,622	-	43,622
Postage	-	31,119	-	31,119
Employee recruitment and advertising	-	154,633	-	154,633
Licenses and dues	-	679,261	-	679,261
Insurance	-	54,652	-	54,652
Travel	-	229,252	-	229,252
Telephone	-	132,851	-	132,851
Professional fees	-	691,400	-	691,400
Contract labor	-	31,719	-	31,719
Contract physicians	-	-	-	-
Contract unallowable expenses	-	-	-	-
Consulting and other contractual expenses	-	1,043,411	-	1,043,411
Staff development	-	380,700	-	380,700
Promotion	-	43,743	-	43,743
Office rent	-	597,477	-	597,477
Equipment expenses	-	257,686	-	257,686
Network services	-	356,960	-	356,960
Maintenance and repairs	-	104,714	-	104,714
Safety services and materials	-	36,699	-	36,699
Food	-	4,037	-	4,037
Food – outings	-	56,836	-	56,836
Housekeeping supplies	-	14,517	-	14,517
Miscellaneous housekeeping	-	97,006	-	97,006
Utilities	-	143,130	-	143,130
Payments to foster parents	-	40	-	40
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	-	49,787	-	49,787
Vehicle rental	-	118,849	-	118,849
General program supplies	-	28,876	-	28,876
Clothing	-	-	-	-
Miscellaneous	-	40,937	-	40,937
Interest	-	125,825	-	125,825
Bad debts	-	-	-	-
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Loss on disposition of assets	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	-	13,753,067	-	13,753,067
Depreciation and amortization	-	305,213	-	305,213
Intercompany management and residential fees	-	126,162	-	126,162
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2019	\$ -	\$ 14,184,442	\$ -	\$ 14,184,442

KVC Health Systems, Inc.
Functional Expenses – KVC Behavioral HealthCare, Inc.
Year Ended June 30, 2019

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 27,311,812	\$ -	\$ -	\$ 27,311,812
Payroll taxes	2,201,797	-	-	2,201,797
Employee benefits	4,503,529	-	-	4,503,529
Total salaries, wages and related expenses	34,017,138	-	-	34,017,138
Office supplies and printing	118,603	-	-	118,603
Copier and fax expense	155,308	-	-	155,308
Postage	91,308	-	-	91,308
Employee recruitment and advertising	263	-	-	263
Licenses and dues	140,646	-	-	140,646
Insurance	546,074	-	-	546,074
Travel	1,075,266	-	-	1,075,266
Telephone	737,068	-	-	737,068
Professional fees	242,598	-	-	242,598
Contract labor	-	-	-	-
Contract physicians	332,161	-	-	332,161
Contract unallowable expenses	47,867	-	-	47,867
Consulting and other contractual expenses	810,654	-	-	810,654
Staff development	7,238	-	-	7,238
Promotion	17,666	-	-	17,666
Office rent	1,973,108	-	-	1,973,108
Equipment expenses	24,892	-	-	24,892
Network services	102,828	-	-	102,828
Maintenance and repairs	92,692	-	-	92,692
Safety services and materials	112,595	-	-	112,595
Food	112,321	-	-	112,321
Food – outings	28,900	-	-	28,900
Housekeeping supplies	27,845	-	-	27,845
Miscellaneous housekeeping	179,637	-	-	179,637
Utilities	331,488	-	-	331,488
Payments to foster parents	19,137,474	-	-	19,137,474
Subcontractor – foster home payments	23,925,028	-	-	23,925,028
Foster family training	335,768	-	-	335,768
Child care payments	4,432,849	-	-	4,432,849
Incidentals	-	-	-	-
Medical supplies	68,391	-	-	68,391
Vehicle expenses and repairs	546,380	-	-	546,380
Vehicle rental	1,871,717	-	-	1,871,717
General program supplies	103,634	-	-	103,634
Clothing	914,779	-	-	914,779
Miscellaneous	1,754	-	-	1,754
Interest	-	-	-	-
Bad debts	4,251	-	-	4,251
Property tax expense	30,013	-	-	30,013
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	997,475	-	-	997,475
Loss on disposition of assets	-	-	-	-
Kids activity fund	149,744	-	-	149,744
Expenses before depreciation, amortization and intercompany fees	93,845,421	-	-	93,845,421
Depreciation and amortization	187,020	-	-	187,020
Intercompany management and residential fees	-	8,764,000	-	8,764,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2019	\$ 94,032,441	\$ 8,764,000	\$ -	\$ 102,796,441

KVC Health Systems, Inc.
Functional Expenses – KVC Behavioral Healthcare West Virginia, Inc.
Year Ended June 30, 2019

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 5,401,549	\$ 60,118	\$ -	\$ 5,461,667
Payroll taxes	385,022	4,457	-	389,479
Employee benefits	901,551	11,241	-	912,792
Total salaries, wages and related expenses	6,688,122	75,816	-	6,763,938
Office supplies and printing	58,392	11	-	58,403
Copier and fax expense	36,719	539	-	37,258
Postage	6,836	312	-	7,148
Employee recruitment and advertising	22,110	-	-	22,110
Licenses and dues	39,239	-	-	39,239
Insurance	262,853	-	-	262,853
Travel	297,089	-	-	297,089
Telephone	141,882	1,045	-	142,927
Professional fees	195	-	-	195
Contract labor	-	-	-	-
Contract physicians	-	-	-	-
Contract unallowable expenses	1,204	-	-	1,204
Consulting and other contractual expenses	221,054	1,545	-	222,599
Staff development	68,184	-	-	68,184
Promotion	17,663	-	-	17,663
Office rent	499,613	-	-	499,613
Equipment expenses	85,888	12,505	-	98,393
Network services	41,935	-	-	41,935
Maintenance and repairs	69,686	-	-	69,686
Safety services and materials	27,643	10	-	27,653
Food	21,859	-	-	21,859
Food – outings	41,941	19	-	41,960
Housekeeping supplies	240	-	-	240
Miscellaneous housekeeping	30,937	-	-	30,937
Utilities	386,030	-	-	386,030
Payments to foster parents	3,005,299	-	-	3,005,299
Subcontractor – foster home payments	-	-	-	-
Foster family training	107,019	-	-	107,019
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	102,983	3	-	102,986
Vehicle rental	287,244	-	-	287,244
General program supplies	75,048	-	-	75,048
Clothing	29,794	-	-	29,794
Miscellaneous	5,008	-	-	5,008
Interest	-	-	-	-
Bad debts	(3,000)	-	-	(3,000)
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Loss on disposition of assets	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	12,676,709	91,805	-	12,768,514
Depreciation and amortization	4,464	351	-	4,815
Intercompany management and residential fees	-	835,812	-	835,812
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2019	\$ 12,681,173	\$ 927,968	\$ -	\$ 13,609,141

KVC Health Systems, Inc.
Functional Expenses – KVC Behavioral Healthcare Kentucky, Inc.
Year Ended June 30, 2019

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 7,919,950	\$ 252,347	\$ -	\$ 8,172,297
Payroll taxes	604,427	18,160	-	622,587
Employee benefits	1,214,808	43,478	-	1,258,286
Total salaries, wages and related expenses	9,739,185	313,985	-	10,053,170
Office supplies and printing	21,532	4,455	-	25,987
Copier and fax expense	753	36	-	789
Postage	2,053	960	-	3,013
Employee recruitment and advertising	7,425	26	-	7,451
Licenses and dues	30,283	45,073	-	75,356
Insurance	31,228	66,335	-	97,563
Travel	439,923	4,610	-	444,533
Telephone	157,293	15,435	-	172,728
Professional fees	20,000	5,829	-	25,829
Contract labor	-	-	-	-
Contract physicians	58,447	-	-	58,447
Contract unallowable expenses	61,683	4,928	-	66,611
Consulting and other contractual expenses	35,993	1,571	-	37,564
Staff development	145,975	3,374	-	149,349
Promotion	26,939	1,274	-	28,213
Office rent	304,935	16,936	-	321,871
Equipment expenses	76,135	4,097	-	80,232
Network services	2,988	922	-	3,910
Maintenance and repairs	17,655	64	-	17,719
Safety services and materials	2,639	2,337	-	4,976
Food	-	-	-	-
Food – outings	14,115	981	-	15,096
Housekeeping supplies	-	-	-	-
Miscellaneous housekeeping	29,199	2,485	-	31,684
Utilities	16,820	6,990	-	23,810
Payments to foster parents	402,371	-	-	402,371
Subcontractor – foster home payments	-	-	-	-
Foster family training	3,389	-	-	3,389
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	15,551	453	-	16,004
Vehicle rental	43,141	76	-	43,217
General program supplies	17,185	610	-	17,795
Clothing	-	-	-	-
Miscellaneous	3,602	275	-	3,877
Interest	-	-	-	-
Bad debts	(6,000)	-	-	(6,000)
Property tax expense	-	-	-	-
Cost of in-kind donated goods	127	-	-	127
Medicaid assessments	-	-	-	-
Flex fund	457,602	1,912	-	459,514
Loss on disposition of assets	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	12,180,166	506,029	-	12,686,195
Depreciation and amortization	1,976	-	-	1,976
Intercompany management and residential fees	-	377,738	-	377,738
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2019	<u>\$ 12,182,142</u>	<u>\$ 883,767</u>	<u>\$ -</u>	<u>\$ 13,065,909</u>

KVC Health Systems, Inc.
Functional Expenses – KVC Behavioral Healthcare Nebraska, Inc.
Year Ended June 30, 2019

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 2,280,561	\$ 84,771	\$ -	\$ 2,365,332
Payroll taxes	166,487	5,428	-	171,915
Employee benefits	319,243	21,793	-	341,036
Total salaries, wages and related expenses	2,766,291	111,992	-	2,878,283
Office supplies and printing	14,930	276	-	15,206
Copier and fax expense	16,289	-	-	16,289
Postage	17,448	3	-	17,451
Employee recruitment and advertising	224	-	-	224
Licenses and dues	17,029	145	-	17,174
Insurance	69,896	-	-	69,896
Travel	109,999	665	-	110,664
Telephone	81,696	2,930	-	84,626
Professional fees	107	-	-	107
Contract labor	-	-	-	-
Contract physicians	5,956	-	-	5,956
Contract unallowable expenses	4,145	7,225	-	11,370
Consulting and other contractual expenses	53,489	-	-	53,489
Staff development	29,321	40	-	29,361
Promotion	17,651	-	-	17,651
Office rent	373,618	-	-	373,618
Equipment expenses	4,499	-	-	4,499
Network services	7,926	341	-	8,267
Maintenance and repairs	2,650	-	-	2,650
Safety services and materials	3,966	124	-	4,090
Food	407	-	-	407
Food – outings	3,817	96	-	3,913
Housekeeping supplies	-	-	-	-
Miscellaneous housekeeping	5,206	-	-	5,206
Utilities	6,231	331	-	6,562
Payments to foster parents	5,923,758	(77)	-	5,923,681
Subcontractor – foster home payments	-	-	-	-
Foster family training	83,128	-	-	83,128
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	12,839	19	-	12,858
Vehicle rental	35,821	(832)	-	34,989
General program supplies	6,863	449	-	7,312
Clothing	-	-	-	-
Miscellaneous	1,433	2,981	-	4,414
Interest	-	-	-	-
Bad debts	(1,000)	-	-	(1,000)
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	5,537	20	-	5,557
Loss on disposition of assets	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	9,681,170	126,728	-	9,807,898
Depreciation and amortization	12,831	-	-	12,831
Intercompany management and residential fees	-	582,351	-	582,351
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2019	<u>\$ 9,694,001</u>	<u>\$ 709,079</u>	<u>\$ -</u>	<u>\$ 10,403,080</u>

KVC Health Systems, Inc.
Functional Expenses – KVC Hospitals, Inc.
Year Ended June 30, 2019

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 11,816,086	\$ -	\$ -	\$ 11,816,086
Payroll taxes	958,363	-	-	958,363
Employee benefits	1,760,454	-	-	1,760,454
Total salaries, wages and related expenses	14,534,903	-	-	14,534,903
Office supplies and printing	86,338	-	-	86,338
Copier and fax expense	39,945	-	-	39,945
Postage	6,390	-	-	6,390
Employee recruitment and advertising	19,361	-	-	19,361
Licenses and dues	226,236	-	-	226,236
Insurance	172,524	-	-	172,524
Travel	84,952	-	-	84,952
Telephone	89,987	-	-	89,987
Professional fees	38,346	-	-	38,346
Contract labor	1,091,234	-	-	1,091,234
Contract physicians	2,735,938	-	-	2,735,938
Contract unallowable expenses	53,842	-	-	53,842
Consulting and other contractual expenses	1,130,638	-	-	1,130,638
Staff development	38,592	-	-	38,592
Promotion	13,943	-	-	13,943
Office rent	960,762	-	-	960,762
Equipment expenses	147,600	-	-	147,600
Network services	102,050	-	-	102,050
Maintenance and repairs	260,637	-	-	260,637
Safety services and materials	106,102	-	-	106,102
Food	696,340	-	-	696,340
Food – outings	33,948	-	-	33,948
Housekeeping supplies	33,875	-	-	33,875
Miscellaneous housekeeping	415,751	-	-	415,751
Utilities	225,880	-	-	225,880
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	843,109	-	-	843,109
Vehicle expenses and repairs	46,578	-	-	46,578
Vehicle rental	19,157	-	-	19,157
General program supplies	216,011	-	-	216,011
Clothing	-	-	-	-
Miscellaneous	13,563	-	-	13,563
Interest	-	-	-	-
Bad debts	(93,000)	-	-	(93,000)
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	14,643	-	-	14,643
Flex fund	-	-	-	-
Loss on disposition of assets	-	-	-	-
Kids activity fund	11,485	-	-	11,485
Expenses before depreciation, amortization and intercompany fees	24,417,660	-	-	24,417,660
Depreciation and amortization	206,712	-	-	206,712
Intercompany management and residential fees	-	1,800,000	-	1,800,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2019	\$ 24,624,372	\$ 1,800,000	\$ -	\$ 26,424,372

KVC Health Systems, Inc.
Functional Expenses – KVC Foundation, Inc.
Year Ended June 30, 2019

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ -	\$ -	\$ -	\$ -
Payroll taxes	-	-	-	-
Employee benefits	-	-	-	-
Total salaries, wages and related expenses	-	-	-	-
Office supplies and printing	-	-	7,008	7,008
Copier and fax expense	-	-	-	-
Postage	-	-	1,382	1,382
Employee recruitment and advertising	-	-	150	150
Licenses and dues	-	-	5,820	5,820
Insurance	-	1,886	-	1,886
Travel	-	-	-	-
Telephone	-	-	-	-
Professional fees	-	1,000,000	-	1,000,000
Contract labor	-	-	-	-
Contract physicians	-	-	-	-
Contract unallowable expenses	-	-	-	-
Consulting and other contractual expenses	-	-	-	-
Staff development	-	-	-	-
Promotion	-	-	(50)	(50)
Office rent	-	9,000	-	9,000
Equipment expenses	-	-	-	-
Network services	-	-	-	-
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	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	-	-	-	-
Vehicle rental	-	-	-	-
General program supplies	-	-	-	-
Clothing	-	-	-	-
Miscellaneous	-	-	163,613	163,613
Interest	-	538,050	-	538,050
Bad debts	-	-	131,758	131,758
Property tax expense	-	3,050	-	3,050
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Loss on disposition of assets	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	-	1,551,986	309,681	1,861,667
Depreciation and amortization	-	643,621	-	643,621
Intercompany management and residential fees	-	156,400	13,600	170,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2019	\$ -	\$ 2,352,007	\$ 323,281	\$ 2,675,288

KVC Health Systems, Inc.
Functional Expenses – The Niles Home for Children, Inc.
Year Ended June 30, 2019

	Client Care	Administrative and General	Fundraising	Total Expenses
Salaries and wages	\$ 2,124,309	\$ -	\$ -	\$ 2,124,309
Payroll taxes	167,672	(26)	-	167,646
Employee benefits	277,129	-	-	277,129
Total salaries, wages and related expenses	2,569,110	(26)	-	2,569,084
Office supplies and printing	14,134	-	-	14,134
Copier and fax expense	5,642	-	-	5,642
Postage	1,576	-	-	1,576
Employee recruitment and advertising	513	-	-	513
Licenses and dues	37,393	-	-	37,393
Insurance	35,486	-	-	35,486
Travel	1,287	-	-	1,287
Telephone	31,957	-	-	31,957
Professional fees	3,157	-	-	3,157
Contract labor	77,574	-	-	77,574
Contract physicians	57,618	-	-	57,618
Contract unallowable expenses	554	-	-	554
Consulting and other contractual expenses	35,124	-	-	35,124
Staff development	10,107	-	-	10,107
Promotion	606	-	-	606
Office rent	-	-	-	-
Equipment expenses	13,029	-	-	13,029
Network services	2,946	-	-	2,946
Maintenance and repairs	61,653	-	-	61,653
Safety services and materials	26,300	-	-	26,300
Food	104,174	-	-	104,174
Food – outings	1,322	989	-	2,311
Housekeeping supplies	8,093	-	-	8,093
Miscellaneous housekeeping	44,449	-	-	44,449
Utilities	69,092	-	-	69,092
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	22,319	-	-	22,319
Vehicle expenses and repairs	5,446	-	-	5,446
Vehicle rental	7,762	-	-	7,762
General program supplies	24,037	978	-	25,015
Clothing	-	-	-	-
Miscellaneous	68,832	74	-	68,906
Interest	-	-	-	-
Bad debts	(2,000)	-	-	(2,000)
Property tax expense	76	-	-	76
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Loss on disposition of assets	-	-	-	-
Kids activity fund	452	-	-	452
Expenses before depreciation, amortization and intercompany fees	3,339,820	2,015	-	3,341,835
Depreciation and amortization	146,517	-	-	146,517
Intercompany management and residential fees	-	253,000	-	253,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2019	\$ 3,486,337	\$ 255,015	\$ -	\$ 3,741,352

KVC Health Systems, Inc.
Schedule of Revenue and Expenses for
Kansas Department for Children and Families
Reintegration/Foster Care/Adoption Services
Year Ended June 30, 2019

	<u>Region 1</u>	<u>Region 2</u>	<u>Total</u>
Revenue			
DCF contract	\$ 45,007,529	\$ 54,727,559	\$ 99,735,088
Contributions	23,141	20,260	43,401
Miscellaneous	83,267	64,210	147,477
Total revenue	<u>45,113,937</u>	<u>54,812,029</u>	<u>99,925,966</u>
Expenses			
Salaries and wages (including taxes and benefits)			
Administration	960,892	1,544,590	2,505,482
Case management	8,807,802	9,976,288	18,784,090
Total salaries and wages	<u>9,768,694</u>	<u>11,520,878</u>	<u>21,289,572</u>
Placement costs			
Related party Child Placing Agency	10,357,791	11,923,978	22,281,769
Nonrelated party Child Placing Agency (maintenance)	2,981,050	5,392,021	8,373,071
Nonrelated party Child Placing Agency (administration)	1,999,085	3,277,368	5,276,453
Residential and other	8,353,848	9,179,543	17,533,391
Total placement costs	<u>23,691,774</u>	<u>29,772,910</u>	<u>53,464,684</u>
Other costs			
Operating expenses	5,628,574	7,038,924	12,667,498
Mental health	569,210	189,869	759,079
Independent living	23,344	20,206	43,550
Child care	2,454,132	1,978,716	4,432,848
Clothing	411,280	501,260	912,540
Transportation	1,562,328	2,715,932	4,278,260
Other - flex funds and miscellaneous	336,374	457,691	794,065
Other - school and recreational	167,921	224,778	392,699
Other - unallowable	19,402	22,814	42,216
Total other costs	<u>11,172,565</u>	<u>13,150,190</u>	<u>24,322,755</u>
Total expenses	<u>44,633,033</u>	<u>54,443,978</u>	<u>99,077,011</u>
Revenues over expenses	<u>\$ 480,904</u>	<u>\$ 368,051</u>	<u>\$ 848,955</u>

KVC Health Systems, Inc.
Schedule of Revenue and Expenses for
Kansas Department for Children and Families
Family Preservation Services
Year Ended June 30, 2019

	<u>Region 1</u>	<u>Region 2</u>	<u>Total</u>
Revenue			
DCF contract	\$ 3,181,863	\$ 2,708,121	\$ 5,889,984
Contributions	1,489	916	2,405
Other - billable services	2,205	314	2,519
Other - miscellaneous	187	178	365
Total revenue	<u>3,185,744</u>	<u>2,709,529</u>	<u>5,895,273</u>
Expenses			
Salaries and wages (including taxes and benefits)			
Administration	123,763	109,101	232,864
Case management	2,333,670	2,077,426	4,411,096
Total salaries and wages	<u>2,457,433</u>	<u>2,186,527</u>	<u>4,643,960</u>
Other costs			
Operating expenses	676,602	714,144	1,390,746
Mental health	1,850	7,490	9,340
Clothing	139	816	955
Other - flex funds and miscellaneous	53,542	131,932	185,474
Other - unallowable	1,123	1,137	2,260
Total other costs	<u>733,256</u>	<u>855,519</u>	<u>1,588,775</u>
Total expenses	<u>3,190,689</u>	<u>3,042,046</u>	<u>6,232,735</u>
Revenues under expenses	<u>\$ (4,945)</u>	<u>\$ (332,517)</u>	<u>\$ (337,462)</u>

KVC Health Systems, Inc.
Schedule of Revenue and Expenses for
Kansas Department for Children and Families
Kansas Child Placing Services
Year Ended June 30, 2019

Revenue

Child placing revenue - intracompany	\$ 22,281,769
Child placing revenue - other	1,171,678
Contributions	123,758
Miscellaneous	200,995
Total revenue	<u>23,778,200</u>

Expenses

Salaries and wages (including taxes and benefits)	
Administration	674,241
Case management	3,031,939
Total salaries and wages	<u>3,706,180</u>
Placement costs	
Kansas City region	6,318,293
East region	8,135,192
Noncontract	859,633
Total placement costs	<u>15,313,118</u>
Other costs	
Operating expenses	2,399,195
Clothing	1,284
Other - school and recreational	106,625
Other - flex funds and miscellaneous	16,289
Other - unallowable	5,573
Total other costs	<u>2,528,966</u>
Total expenses	<u>21,548,264</u>
Revenues over expenses	<u>\$ 2,229,936</u>

KVC Health Systems, Inc.
Schedule of System of Care Grant
Agreement Number – G190230
Year Ended June 30, 2019

Revenue

Grant revenue	\$ 60,000
---------------	-----------

Expenses

Salaries and wages	45,797
--------------------	--------

Taxes and benefits	12,626
--------------------	--------

Rent	1,160
------	-------

Telephone	1,021
-----------	-------

Unallowable	20,052
-------------	--------

Total expenses	<u>80,656</u>
----------------	---------------

Revenues under expenses	<u>\$ (20,656)</u>
-------------------------	--------------------

KVC Health Systems, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Program or Cluster Title	Federal Grantor/Pass-Through Grantor	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Amount
Child Nutrition Cluster					
School Breakfast Program	U.S. Department of Agriculture passed through the Kansas State Department of Education	10.553	X0925	\$ -	\$ 77,722
National School Lunch Program	U.S. Department of Agriculture passed through the Kansas State Department of Education	10.555	X0925	-	130,567
After School Snack Program	U.S. Department of Agriculture passed through the Kansas State Department of Education	10.555	X0925	-	16,668
Total CFDA # 10.555				-	147,235
Total Child Nutrition Cluster				-	224,957
Kansas Serves Substance Affected Families	U.S. Department of Health and Human Services passed through the University of Kansas Center for Research, Inc.	93.087	90CU0077-04-00/ 90CU0077-05-00	-	149,991
Kansas Serves Native American Families	U.S. Department of Health and Human Services passed through the University of Kansas Center for Research, Inc.	93.087	90CU0079/ 90CU0079-02-00	-	166,493
Total CFDA # 93.087				-	316,484
Nebraska System of Care Expansion and Sustainability Grant	U.S. Department of Health and Human Services passed through Region VI Behavioral Health Administration	93.104	SM063392	-	338,710
Kansas Adoption Permanency Project	U.S. Department of Health and Human Services passed through the University of Kansas Center for Research, Inc.	93.652	90CO1120-05-00/ 90CO1120-04-02	-	103,090
Kansas Strong for Children and Families	U.S. Department of Health and Human Services passed through the University of Kansas Center for Research, Inc.	93.652	90CO1139-01-00	-	13,208
Total CFDA # 93.652				-	116,298
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 1800001966	-	1,359,932
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	1801KYFPSS	-	4,485
Promoting Safe and Stable Families	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.556	EVT0001559	-	11,133
Total CFDA # 93.556				-	1,375,550

KVC Health Systems, Inc.
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2019

Program or Cluster Title	Federal Grantor/Pass-Through Grantor	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Amount
TANF Cluster					
Temporary Assistance for Needy Families (TANF) State Programs	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.558	EVT001558/ EVT0001559	\$ -	\$ 10,418,194
Foster Care - Title IV-E	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.658	EVT001558/ EVT0001559	-	10,113,348
Foster Care - Title IV-E	U.S. Department of Health and Human Services passed through the Kentucky Department for Community Based Services	93.658	PON2 736 800001797	-	656,508
Foster Care - Title IV-E	U.S. Department of Health and Human Services passed through the Nebraska Department of Health and Human Services	93.658	G-1901NEFOST	-	187,024
Total CFDA # 93.658				-	10,956,880
Child Welfare Social Services IV-B	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.645	EVT001559	-	31,460
Social Services Block Grant	U.S. Department of Health and Human Services passed through the Kansas State Department for Children and Families	93.667	EVT001558/ EVT0001559	-	5,995,447
				\$ -	\$ 29,773,980

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of KVC Health Systems, Inc. under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Independent Auditor's Report

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. (the Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses 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 19, 2019, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 consolidated 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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from 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 consolidated 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*.

Purpose of this Report

The purpose of this report 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 on compliance. This report 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 19, 2019

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited KVC Health Systems, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. 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

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, KVC Health Systems, Inc. complied, in all material respects, with the types of 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, 2019.

Report on Internal Control Over Compliance

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 types of 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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 a 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 or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Kansas City, Missouri
December 19, 2019

KVC Health Systems, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Summary of Auditor's Results

Consolidated Financial Statements

1. The type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

3. Noncompliance considered material to the consolidated financial statements was disclosed by the audit? Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

5. The opinions expressed in the independent auditor's report on compliance for major federal awards were:

Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? Yes No

7. The Organization's major programs were:

Program	CFDA Number
Promoting Safe and Stable Families TANF Cluster:	93.556
Temporary Assistance for Needy Families (TANF) State Programs	93.558
Foster Care - Title IV-E	93.658
Social Services Block Grant	93.667

8. The threshold used to distinguish between Type A and Type B programs was \$893,219.

9. The Organization qualified as a low-risk auditee? Yes No

KVC Health Systems, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
-----------------------------	----------------

No matters are reportable.

Findings Required to be Reported by Uniform Guidance

Reference Number	Finding
-----------------------------	----------------

No matters are reportable.

KVC Health Systems, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Reference Number	Summary of Finding	Status
-----------------------------	---------------------------	---------------

No matters are reportable.