

# **KVC Health Systems, Inc.**

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

**June 30, 2014 and 2013**

**DHHR - Finance**

**APR 20 2015**

**Date Received**

**BKD**<sub>LLP</sub>  
**CPAs & Advisors**

**KVC Health Systems, Inc.**  
**June 30, 2014 and 2013**

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# KVC Health Systems, Inc.

June 30, 2014 and 2013

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## 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, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KVC Health Systems, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KVC Health Systems, Inc.'s internal control over financial reporting and compliance.

**BKD, LLP**

Kansas City, Missouri  
December 17, 2014

DHHR - Finance

APR 20 2015

Date Received

**KVC Health Systems, Inc.**  
**Consolidated Statements of Financial Position**  
**June 30, 2014 and 2013**

	2014	2013
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,055,539	\$ 1,904,550
Accounts receivable, net of allowance; 2014 - \$2,011,000, 2013 - \$969,000	13,707,988	11,331,983
Assets limited as to use - current	1,348,117	-
Contributions receivable	1,816,936	186,104
Grants receivable	2,020,101	2,364,725
Prepaid expenses and other	511,122	463,465
Total current assets	20,459,803	16,250,827
<b>Property and Equipment, Net</b>	12,624,678	10,684,510
<b>Contributions Receivable</b>	1,274,916	97,993
<b>Other Assets</b>		
Goodwill	545,000	545,000
Deposits and other assets	549,099	726,017
	1,094,099	1,271,017
Total assets	\$ 35,453,496	\$ 28,304,347
 <b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 112,692	\$ 19,899
Lines of credit	2,500,000	-
Accounts payable	2,545,713	3,205,195
Accrued salaries	2,091,368	1,474,007
Accrued compensated absences	1,569,014	1,094,194
Other accrued expenses	3,925,297	1,198,757
Deferred revenue	674,406	94,119
Total current liabilities	13,418,490	7,086,171
<b>Long-term Debt</b>		
Notes payable	730,270	-
Capital lease obligations	210,856	12,128
Total liabilities	14,359,616	7,098,299
<b>Net Assets</b>		
Unrestricted	16,653,911	20,813,598
Temporarily restricted	4,439,969	392,450
Total net assets	21,093,880	21,206,048
Total liabilities and net assets	\$ 35,453,496	\$ 28,304,347

**KVC Health Systems, Inc.**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Contract reintegration and adoption services	\$ 64,832,866	\$ 34,116,643
Child placing services	16,507,223	19,089,572
Inpatient services	18,113,460	17,346,778
Family preservation/in-home services	15,897,721	12,201,654
Contributions and grants	2,988,271	2,228,621
Capital campaign contributions	-	23,892
Interest income	5,917	8,530
Loss on disposition of assets	(9)	(150,918)
Gain on forgiveness of debt	-	7,971
Miscellaneous	532,569	1,282,022
	<u>118,878,018</u>	<u>86,154,765</u>
<b>Operating Expenses</b>		
Client care	107,741,584	73,051,452
Administrative and general	15,521,086	12,492,231
Fund raising	256,305	231,595
	<u>123,518,975</u>	<u>85,775,278</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	(4,640,957)	379,487
Net assets released from restrictions for property acquisitions	481,270	-
<b>Change in Unrestricted Net Assets</b>	(4,159,687)	379,487
<b>Temporarily Restricted Net Assets</b>		
Capital campaign contributions, net of assets released from restriction	4,047,519	392,450
<b>Change in Net Assets</b>	(112,168)	771,937
<b>Net Assets, Beginning of Year</b>	<u>21,206,048</u>	<u>20,434,111</u>
<b>Net Assets, End of Year</b>	<u>\$ 21,093,880</u>	<u>\$ 21,206,048</u>

**KVC Health Systems, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Change in net assets	\$ (112,168)	\$ 771,937
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	1,173,044	1,495,573
Loss on disposition of assets	9	150,918
Gain on forgiveness of debt	-	(7,971)
Contributions restricted for acquisition of long-lived assets	(4,528,789)	(392,450)
Changes in		
Accounts receivable	(2,376,005)	(1,516,325)
Grants receivable	344,624	(2,061,839)
Prepaid expenses	(47,657)	357,971
Other assets	176,918	(215,160)
Accounts payable	(1,063,643)	543,993
Accrued salaries	617,361	4,781
Accrued compensated absences	474,820	289,212
Other accrued expenses	2,726,540	(24,963)
Deferred revenue	580,287	(25,201)
	<u>(2,034,659)</u>	<u>(629,524)</u>
Net cash used in operating activities		
<b>Investing Activities</b>		
Purchase of property and equipment	(2,380,429)	(1,390,489)
Purchase of assets limited as to use	(1,348,117)	-
Proceeds from disposition of property and equipment	-	45,175
	<u>(3,728,546)</u>	<u>(1,345,314)</u>
Net cash used in investing activities		
<b>Financing Activities</b>		
Proceeds from contributions restricted for acquisition of long-lived assets	1,721,034	108,353
Proceeds from issuance of long-term debt	775,759	-
Principal payments on long-term debt	(82,599)	(185,423)
Net advances under line-of-credit agreement	2,500,000	-
	<u>4,914,194</u>	<u>(77,070)</u>
Net cash provided by (used in) financing activities		
<b>Decrease in Cash and Cash Equivalents</b>	(849,011)	(2,051,908)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,904,550</u>	<u>3,956,458</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,055,539</u>	<u>\$ 1,904,550</u>
<b>Supplemental Cash Flows Information</b>		
Property and equipment in accounts payable	\$ 456,872	\$ 52,711
Capital lease obligations incurred for property and equipment	328,631	18,559



**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**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, 2014 and 2013**

KVC Real Estate Holdings, Inc.

KVC Real Estate Holdings, Inc. is a Kansas not-for-profit organization in Olathe, Kansas. The organization was established to own and manage all the buildings and land that help support KVC Health Systems, Inc. and its affiliates. During the year ended June 30, 2014, KVC Real Estate Holdings, Inc.'s assets, liabilities and net assets were transferred to KVC Foundation, Inc. as resolved by the KVC Health Systems, Inc. Board of Directors and the organization was dissolved in August 2014.

KVC Foundation, Inc.

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

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

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, cash equivalents consisted primarily of money market accounts with banks.

At June 30, 2014, the Organization's cash accounts exceeded federally insured limits by approximately \$1,234,000.

***Assets Limited as to Use***

Assets limited as to use include cash and cash equivalents restricted by donors. Amounts required to meet current liabilities of the Organization are included in current assets.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

***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.

***Property and Equipment***

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

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

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

***Long-lived Asset Impairment***

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

***Temporarily Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. At June 30, 2014 and 2013, temporarily restricted net assets consists of cash and contributions receivable for capital acquisitions.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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

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

***Goodwill***

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

***In-Kind Contributions***

In addition to receiving cash contributions, the Organization receives in-kind contributions of goods and services from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended June 30, 2014 and 2013, \$142,102 and \$100,863, respectively, was received in in-kind contributions.

***Deferred Revenue***

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

***Income Taxes***

The Organizations are exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organizations are subject to federal income tax on any unrelated business taxable income. The Organizations file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organizations are no longer subject to U.S. federal examinations by tax authorities for years before 2011.

***Functional Allocation of Expenses***

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

***Subsequent Events***

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

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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

On July 1, 2009, the Organization was awarded a Foster Care Reintegration Services contract from a state agency to provide foster care services to the Kansas City Region of the State of Kansas. The contract is for a term of four years, with an option to extend for additional years. The contract was through June 30, 2013.

On July 1, 2014, 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 \$68,231,022 and \$34,116,643, which represents 57% and 40% of the Organization's unrestricted revenues, gains and support for the years ended June 30, 2014 and 2013, respectively. Accounts receivable related to the foster care reintegration contract amounted to \$5,637,786 and \$2,967,328 at June 30, 2014 and 2013, respectively.

**Note 3: Revenue Concentrations – KVC Hospitals, Inc.**

KVC Hospitals, Inc. provides a substantial amount of its services under Medicaid billed through a state agency. During the years ended June 30, 2014 and 2013, fees from Medicaid totaled \$9,201,389 and \$11,721,443, which represents 8% and 14% of the Organization's total unrestricted revenue, gains and other support for the years ended June 30, 2014 and 2013, respectively. Accounts receivable related to Medicaid amounted to \$1,776,968 and \$1,044,761 at June 30, 2014 and 2013, respectively.

**Note 4: Contributions Receivable**

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

	<b>Temporarily Restricted</b>	
	<b>2014</b>	<b>2013</b>
Due within one year	\$ 1,821,929	\$ 206,782
Due in one to five years	1,598,819	128,124
	<u>3,420,748</u>	<u>334,906</u>
Less		
Allowance for uncollectible contributions	(13,357)	(43,100)
Unamortized discount	<u>(315,539)</u>	<u>(7,709)</u>
	<u>\$ 3,091,852</u>	<u>\$ 284,097</u>

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**Note 5: Property and Equipment**

Property and equipment at June 30 consists of:

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 1,373,701	\$ 1,373,701
Buildings and leasehold improvements	14,354,315	12,402,498
Furniture and equipment	5,045,811	4,765,430
Works of art	95,142	95,141
Computer equipment	4,159,993	3,631,088
Vehicles	183,596	166,709
Construction in progress	753,415	1,097,505
	<u>25,965,973</u>	<u>23,532,072</u>
Less accumulated depreciation and amortization	<u>13,341,295</u>	<u>12,847,562</u>
	<u>\$ 12,624,678</u>	<u>\$ 10,684,510</u>

**Note 6: Lines of Credit**

The Organization has \$7,000,000 in revolving bank lines of credit expiring in April 2015. At June 30, 2014 and 2013, there was \$2,500,000 and \$0, respectively, borrowed against these lines. The lines are collateralized by property and equipment. Interest was 4.25% on June 30, 2014 and is payable monthly.

**Note 7: Long-term Debt**

	<u>2014</u>	<u>2013</u>
Notes payable, bank (A)	\$ 764,997	\$ -
Capital lease obligations (B)	288,821	32,027
Less current maturities	<u>112,692</u>	<u>19,899</u>
	<u>\$ 941,126</u>	<u>\$ 12,128</u>

(A) Due February 1, 2017; payable \$6,377 monthly and one irregular last payment including interest at 5.5%; collateralized by real estate. This note was paid off early in August 2014.

(B) Capital leases include leases with varying imputed interest rates from 4.00% to 7.00%, due through 2016, collateralized by equipment.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2014 are:

	<b>Long-term Debt (Exc. Leases)</b>	<b>Capital Lease Obligations</b>
2015	\$ 34,728	\$ 88,295
2016	36,606	99,428
2017	693,663	97,273
2018	-	24,318
	\$ 764,997	309,314
Less amount representing interest		(20,493)
Present value of future minimum lease payments		\$ 288,821

Property and equipment include the following property under capital leases:

	<b>2014</b>	<b>2013</b>
Equipment	\$ 347,181	\$ 801,227
Less accumulated depreciation	75,168	770,585
	\$ 272,013	\$ 30,642

**Note 8: Defined Contribution Plan**

The Organization has a defined contribution plan (the Plan) covering all full-time employees who have at least one year of service and who are at least 21 years of age. Participants receive 20% vesting for each eligible year of service. Each year, the Board of Directors determines the amount of the contribution to the Plan. Total expenses for the years ended June 30, 2014 and 2013 were approximately \$223,000 and \$276,000, respectively.

**Note 9: Operating Leases**

Noncancellable operating leases for office space expire in various years through 2020. 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, 2014 and 2013 was \$3,044,041 and \$2,603,490, respectively.

**KVC Health Systems, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

Noncancellable operating leases for equipment expire in various years through 2018. Total rental expense for equipment leases for the years ended June 30, 2014 and 2013 was \$1,842,985 and \$608,419, respectively.

Future minimum lease payments at June 30, 2014 were:

	<u>Equipment</u>	<u>Property</u>	<u>Total</u>
2015	\$ 1,042,739	\$ 2,632,815	\$ 3,675,554
2016	571,561	1,885,168	2,456,729
2017	438,986	1,556,641	1,995,627
2018	1,085	282,101	283,186
2019	-	173,196	173,196
Thereafter	-	37,044	37,044
	<u>\$ 2,054,371</u>	<u>\$ 6,566,965</u>	<u>\$ 8,621,336</u>

**Note 10: Litigation**

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



## **Supplementary Information**

# KVC Health Systems, Inc.

## Consolidating Schedule of Financial Position

### June 30, 2014

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral HealthCare West Virginia, Inc.	KVC Behavioral HealthCare Kentucky, Inc.	KVC Behavioral HealthCare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Real Estate Holdings, Inc.	Eliminations	Consolidated
<b>Current Assets</b>										
Cash and cash equivalents	\$ 167,370	\$ 84,510	\$ 68,971	\$ 70,390	\$ 100,411	\$ 563,887	\$ -	\$ -	\$ -	\$ 1,055,539
Accounts receivable, net of allowance of \$2,011,000	101,039	6,302,531	526,994	434,763	1,148,615	5,194,046	-	-	-	13,707,988
Due to/from affiliate	(648,187)	-	-	-	-	-	-	-	-	-
Assets limited as to use - current	648,187	-	-	-	-	-	-	648,187	-	1,348,117
Contributions receivable	-	-	-	-	-	-	-	699,930	-	1,816,936
Grants receivable	191,466	449,715	20,632	1,358,288	-	-	-	1,816,936	-	2,020,101
Prepaid expenses and other	118,975	152,637	22,264	14,212	36,557	166,477	-	-	-	511,122
Total current assets	578,850	6,989,393	638,861	1,877,653	1,285,583	5,924,410	3,165,053	-	-	20,459,803
<b>Property and Equipment, Net</b>	955,791	1,562,781	34,452	28,901	70,111	766,919	9,205,723	-	-	12,624,678
<b>Contributions Receivable</b>	-	-	-	-	-	-	1,274,916	-	-	1,274,916
<b>Other Assets</b>										
Goodwill	317,538	158,862	9,795	545,000	19,645	5,900	-	-	-	545,000
Deposits and other assets	-	-	-	-	-	-	-	-	-	549,099
Total assets	\$ 1,852,179	\$ 8,711,036	\$ 683,108	\$ 2,471,199	\$ 1,393,053	\$ 6,697,229	\$ 13,645,692	\$ -	\$ -	\$ 35,453,496

# KVC Health Systems, Inc.

## Consolidating Schedule of Financial Position (Continued)

### June 30, 2014

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral HealthCare West Virginia, Inc.	KVC Behavioral HealthCare Kentucky, Inc.	KVC Behavioral HealthCare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Real Estate Holdings, Inc.	Eliminations	Consolidated
<b>Current Liabilities</b>										
Current maturities of long-term debt	\$ 7,810	\$ 45,370	\$ 6,205	\$ -	\$ 5,608	\$ 12,971	\$ 34,728	\$ -	\$ -	\$ 112,692
Lines of credit	2,500,000	-	-	-	-	-	-	-	-	2,500,000
Accounts payable	262,708	1,169,825	299,801	48,266	236,955	256,996	271,162	-	-	2,545,713
Accrued salaries	227,340	992,640	76,049	320,428	96,035	378,876	-	-	-	2,091,368
Accrued compensated absences	226,106	729,824	66,859	214,583	61,209	270,433	-	-	-	1,569,014
Other accrued expenses	371,229	2,615,374	35,841	199,490	57,457	645,906	-	-	-	3,925,297
Deferred revenue	23,080	646,279	3,000	2,047	-	-	-	-	-	674,406
Total current liabilities	3,618,273	6,199,312	487,755	784,814	457,264	1,565,182	305,890	-	-	13,418,490
<b>Long-term Debt</b>										
Notes payable	22,881	129,157	5,923	-	15,322	37,573	730,270	-	-	730,270
Capital lease obligations	-	-	-	-	-	-	-	-	-	210,856
Total liabilities	3,641,154	6,328,469	493,678	784,814	472,586	1,602,755	1,036,160	-	-	14,359,616
<b>Net Assets</b>										
Unrestricted	(1,788,975)	2,382,567	189,430	1,686,385	920,467	5,094,474	8,169,563	-	-	16,653,911
Temporarily restricted	-	-	-	-	-	-	4,439,969	-	-	4,439,969
Total net assets	(1,788,975)	2,382,567	189,430	1,686,385	920,467	5,094,474	12,609,532	-	-	21,093,880
Total liabilities and net assets	\$ 1,852,179	\$ 8,711,036	\$ 683,108	\$ 2,471,199	\$ 1,393,053	\$ 6,697,229	\$ 13,645,692	\$ -	\$ -	\$ 35,453,496

# KVC Health Systems, Inc.

## Consolidating Schedule of Activities

### Year Ended June 30, 2014

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral HealthCare West Virginia, Inc.	KVC Behavioral HealthCare Kentucky, Inc.	KVC Behavioral HealthCare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Real Estate Holdings, Inc.	Eliminations	Consolidated
Unrestricted Revenues, Gains and Other Support	\$ -	\$ 64,832,866	\$ 4,966,020	\$ 461,573	\$ 9,755,074	\$ -	\$ -	\$ -	\$ -	\$ 64,832,866
Contract reintegration and adoption services	-	1,324,556	4,966,020	461,573	9,755,074	-	-	-	-	16,507,223
Child placing services	-	-	-	-	-	18,113,460	-	-	-	18,113,460
Inpatient services	-	4,518,739	347,325	10,090,235	883,435	57,987	-	-	-	15,897,721
Family preservation/in-home services	709,354	1,829,683	86,589	6,715	141,571	108,386	105,973	-	-	2,988,271
Contributions and grants	2,179	1,484	-	478	500	696	469	111	-	5,917
Interest income	-	-	-	-	-	-	-	-	-	-
Loss on disposition of assets	-	-	-	-	-	-	(9)	-	-	(9)
Miscellaneous	471,486	4,353	2,941	18,758	15,893	19,138	-	-	(9,706,500)	532,569
Management fee	9,361,500	294,000	-	51,000	-	-	-	-	(1,450,173)	-
Intercompany services	-	-	-	-	-	-	-	-	-	-
Intercompany rent	-	-	-	-	-	1,450,173	-	-	(1,278,200)	-
Total unrestricted revenues, gains and other support	10,544,519	72,805,681	5,402,875	10,628,759	10,796,473	19,749,840	711,933	672,811	(12,434,873)	118,878,018
Operating Expenses	-	-	-	-	-	-	-	-	-	-
Client care	10,318,188	68,324,625	5,136,891	9,943,381	9,794,825	16,688,595	240	-	(2,146,973)	107,741,584
Administrative and general	224,754	8,438,044	580,292	1,030,394	934,939	4,130,567	172,917	197,625	(10,281,900)	15,521,086
Fundraising	-	-	1,000	-	-	-	36,551	-	(6,000)	256,305
Total operating expenses	10,542,942	76,762,669	5,718,183	10,973,775	10,729,784	20,819,162	209,708	197,625	(12,434,873)	123,518,975
Operating Income (Loss)	1,577	(3,956,988)	(315,308)	(345,016)	66,689	(1,069,322)	502,225	475,186	-	(4,640,957)
Other Income (Expense)	-	-	-	-	-	-	-	-	-	-
Intercompany transfers	(3,678,361)	3,482,205	549,915	(416,455)	(608,502)	1,500,895	(354,511)	(475,186)	-	-
Excess (Deficiency) of Revenues Over Expenses	(3,676,784)	(474,783)	234,607	(761,471)	(541,813)	431,573	147,714	-	-	(4,640,957)
Net assets released from restrictions for property acquisitions	-	-	-	-	-	-	481,270	-	-	481,270
Net assets transferred between entities	-	-	-	-	-	-	7,540,579	(7,540,579)	-	-
Change in Unrestricted Net Assets	(3,676,784)	(474,783)	234,607	(761,471)	(541,813)	431,573	8,169,563	(7,540,579)	-	(4,159,687)
Temporarily Restricted Net Assets	-	-	-	-	-	-	-	-	-	-
Net capital campaign contributions	-	-	-	-	-	-	4,047,519	-	-	4,047,519
Change in Net Assets	(3,676,784)	(474,783)	234,607	(761,471)	(541,813)	431,573	12,217,082	(7,540,579)	-	(112,168)
Net Assets, Beginning of Year	1,887,809	2,857,350	(45,177)	2,447,856	1,462,280	4,662,901	392,450	7,540,579	-	21,206,048
Net Assets (Deficit), End of Year	(1,788,975)	(2,382,567)	189,430	1,686,385	920,467	5,094,474	12,609,532	-	-	21,093,880

# KVC Health Systems, Inc.

## Consolidating Schedule of Financial Position

### June 30, 2013

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral HealthCare West Virginia, Inc.	KVC Behavioral HealthCare Kentucky, Inc.	KVC Behavioral HealthCare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Real Estate Holdings, Inc.	Eliminations	Consolidated
<b>Current Assets</b>										
Cash and cash equivalents	\$ 946,443	\$ 83,898	\$ 19,833	\$ 212,196	\$ 46,008	\$ 503,351	\$ 66,806	\$ 26,015		\$ 1,904,550
Accounts receivable, net of allowance of \$969,000	398,336	3,459,484	425,953	539,327	1,906,314	4,602,569	-	-		11,331,983
Due to/from affiliate	(41,547)	-	-	-	-	-	41,547	-		-
Contributions receivable	190,132	331,206	-	1,771,637	-	71,750	186,104	-		186,104
Grants receivable	64,978	233,473	53,956	33,058	43,120	14,880	-	-		2,364,725
Prepaid expenses and other	1,558,342	4,128,061	499,742	2,556,218	1,995,442	5,192,550	294,457	26,015		16,250,827
<b>Total current assets</b>	899,838	1,265,359	62,952	7,289	88,970	845,500	-	7,514,602		10,684,510
<b>Property and Equipment, Net</b>										
Contributions Receivable	-	-	-	-	-	-	97,993	-		97,993
<b>Other Assets</b>										
Goodwill	419,462	158,512	17,988	545,000	104,510	5,900	-	-		545,000
Deposits and other assets	419,462	158,512	17,988	564,645	104,510	5,900	-	-		726,017
<b>Total assets</b>	\$ 2,877,642	\$ 5,551,932	\$ 580,682	\$ 3,128,152	\$ 2,188,922	\$ 6,043,950	\$ 392,450	\$ 7,540,617	\$ -	\$ 28,304,347

# KVC Health Systems, Inc.

## Consolidating Schedule of Financial Position (Continued)

### June 30, 2013

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

# KVC Health Systems, Inc.

## Consolidating Schedule of Activities

### Year Ended June 30, 2013

	KVC Health Systems, Inc.	KVC Behavioral HealthCare, Inc.	KVC Behavioral HealthCare West Virginia, Inc.	KVC Behavioral HealthCare Kentucky, Inc.	KVC Behavioral HealthCare Nebraska, Inc.	KVC Hospitals, Inc.	KVC Foundation, Inc.	KVC Real Estate Holdings, Inc.	Eliminations	Consolidated
<b>Unrestricted Revenues, Gains and Other Support</b>										
Contract reintegration and adoption services	\$ -	\$ 34,116,643	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,116,643
Child placing services	-	2,491,820	4,789,098	448,445	11,360,209	-	-	-	-	19,089,572
Inpatient services	-	-	-	-	-	17,346,778	-	-	-	17,346,778
Family preservation/in-home services	-	978,950	404,470	9,781,987	870,945	-	-	-	-	12,201,654
Contributions and grants	796,270	947,902	89,430	3,348	11,087	263,699	116,885	-	-	2,228,621
Capital campaign contributions	-	-	-	-	-	-	23,892	-	-	23,892
Interest income	2,569	1,726	-	527	920	952	210	1,626	-	8,530
Gain (loss) on disposition of assets	-	-	-	-	(153,118)	-	2,200	-	-	(150,918)
Gain on forgiveness of debt	-	-	7,971	-	-	-	-	-	-	7,971
Miscellaneous	797,487	86,990	11,974	18,221	185,871	181,315	164	-	-	1,282,022
Management fee	8,041,250	360,000	-	51,000	-	6,000	-	-	(8,458,250)	-
Intercompany services	-	(6,000)	-	-	-	284,571	-	-	(278,571)	-
Intercompany rent	-	-	-	-	-	-	-	-	(1,153,200)	-
Total unrestricted revenues, gains and other support	9,637,576	38,978,031	5,302,943	10,303,528	12,275,914	18,248,617	143,351	1,154,826	(9,890,021)	86,154,765
<b>Operating Expenses</b>										
Client care	-	30,174,268	5,502,965	9,842,079	11,787,161	16,569,413	7,937	-	(832,371)	73,051,452
Administrative and general	9,056,779	5,582,392	769,424	1,395,645	1,529,873	2,832,046	-	382,522	(9,056,450)	12,492,231
Fundraising	229,514	-	-	-	-	-	3,281	-	(1,200)	231,595
Total operating expenses	9,286,293	35,756,660	6,272,389	11,237,724	13,317,034	19,401,459	11,218	382,522	(9,890,021)	85,775,278
<b>Other Income (Expense)</b>	351,283	3,221,371	(969,446)	(934,196)	(1,041,120)	(1,152,842)	132,133	772,304	-	379,487
Intercompany transfers	(751,974)	(2,423,881)	891,731	2,177,815	292,613	2,145,114	(175,218)	(2,156,200)	-	-
<b>Excess (Deficiency) of Revenues Over Expenses</b>	(400,691)	797,490	(77,715)	1,243,619	(748,507)	992,272	(43,085)	(1,383,896)	-	379,487
<b>Temporarily Restricted Net Assets</b>										
Capital campaign contributions	-	-	-	-	-	-	392,450	-	-	392,450
Change in Net Assets	(400,691)	797,490	(77,715)	1,243,619	(748,507)	992,272	349,365	(1,383,896)	-	771,937
<b>Net Assets, Beginning of Year</b>	2,288,500	2,059,860	32,538	1,204,237	2,210,787	3,670,629	43,085	8,924,475	-	20,434,111
<b>Net Assets (Deficit), End of Year</b>	\$ 1,887,809	\$ 2,857,350	\$ (45,177)	\$ 2,447,856	\$ 1,462,280	\$ 4,662,901	\$ 392,450	\$ 7,540,579	\$ -	\$ 21,206,048

**KVC Health Systems, Inc.**  
**Consolidated Functional Expenses**  
**Year Ended June 30, 2014**  
**(with Comparative Totals for 2013)**

	Client Care	Administrative and General	Fund Raising	Total Expenses	2013 Total Expenses
Salaries and wages	\$ 38,231,438	\$ 6,435,813	\$ 128,443	\$ 44,795,694	\$ 33,363,612
Payroll taxes	3,463,877	476,624	10,966	3,951,467	3,036,121
Employee benefits	5,152,679	582,149	17,711	5,752,539	4,319,171
Total salaries, wages and related expenses	<u>46,847,994</u>	<u>7,494,586</u>	<u>157,120</u>	<u>54,499,700</u>	<u>40,718,904</u>
Office supplies and printing	407,654	93,294	7,456	508,404	334,407
Copier and fax expense	233,036	73,345	-	306,381	296,436
Postage	108,522	41,129	81	149,732	110,681
Employee recruitment and advertising	38,988	116,704	-	155,692	202,091
Licenses and dues	263,045	191,706	1,301	456,052	431,311
Insurance	65,078	785,859	-	850,937	667,158
Travel	2,054,331	185,027	-	2,239,358	2,041,403
Telephone	1,343,255	366,399	-	1,709,654	1,280,084
Professional fees	23,199	547,544	-	570,743	583,513
Contract labor	648,208	141,458	14,863	804,529	791,821
Contract physicians	1,865,561	-	-	1,865,561	1,818,038
Consulting and other contractual expenses	1,526,714	675,750	-	2,202,464	2,782,247
Staff development	208,420	293,108	-	501,528	550,623
Promotion	56,858	38,702	5,666	101,226	120,552
Office rent	3,787,952	651,950	9,036	4,448,938	3,771,271
Equipment expenses	423,287	147,707	12,183	583,177	416,636
Maintenance and repairs	372,786	100,060	-	472,846	309,752
Safety services and materials	182,058	20,164	-	202,222	110,631
Food	522,874	2,992	-	525,866	503,531
Food - outings	93,456	115,161	17,859	226,476	198,174
Housekeeping supplies	65,312	6,529	-	71,841	53,461
Miscellaneous housekeeping	455,565	43,739	-	499,304	363,107
Utilities	364,288	163,093	-	527,381	401,879
Payments to foster parents	19,054,407	-	-	19,054,407	17,707,321
Subcontractor - foster home payments	14,688,013	-	-	14,688,013	1,964,667
Foster family training	404,708	131,816	-	536,524	385,139
Subcontractor payments	2,876,657	-	-	2,876,657	1,236,814
Child care payments	3,304,685	-	-	3,304,685	1,337,607
Incidentals	16,618	-	-	16,618	8,067
Medical supplies	923,101	-	-	923,101	566,658
Vehicle expenses and repairs	818,394	21,334	-	839,728	273,775
Vehicle rental	1,711,602	27,622	-	1,739,224	496,309
General program supplies	265,552	35,433	-	300,985	188,603
Clothing	815,821	-	-	815,821	429,846
Miscellaneous	60,475	17,124	30,740	108,339	83,441
Interest	2,360	77,432	-	79,792	15,251
Bad debts	-	2,689,770	-	2,689,770	1,175,138
Property tax expense	671	-	-	671	22,769
Cost of in-kind donated goods	-	142,102	-	142,102	93,801
Medicaid assessments	14,643	-	-	14,643	14,643
Flex fund	926,173	-	-	926,173	542,535
Kids activity fund	86,866	-	-	86,866	32,810
Expenses before depreciation, amortization and intercompany fees	<u>107,929,187</u>	<u>15,438,639</u>	<u>256,305</u>	<u>123,624,131</u>	<u>85,432,905</u>
Depreciation and amortization	485,197	687,847	-	1,173,044	1,495,573
Intercompany management and residential fees	1,474,173	9,676,500	6,000	11,156,673	8,736,821
Eliminations	<u>(2,146,973)</u>	<u>(10,281,900)</u>	<u>(6,000)</u>	<u>(12,434,873)</u>	<u>(9,890,021)</u>
Totals, Year Ended June 30, 2014	<u>\$ 107,741,584</u>	<u>\$ 15,521,086</u>	<u>\$ 256,305</u>	<u>\$ 123,518,975</u>	<u>\$ 85,775,278</u>
Totals, Year Ended June 30, 2013	<u>\$ 73,051,452</u>	<u>\$ 12,492,231</u>	<u>\$ 231,595</u>	<u>\$ 85,775,278</u>	<u>\$ 85,775,278</u>



**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Health Systems, Inc.**  
**Year Ended June 30, 2014**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ -	\$ 5,231,176	\$ 128,443	\$ 5,359,619
Payroll taxes	-	371,837	10,966	382,803
Employee benefits	-	399,347	17,711	417,058
Total salaries, wages and related expenses	-	6,002,360	157,120	6,159,480
Office supplies and printing	-	73,968	4,008	77,976
Copier and fax expense	-	49,922	-	49,922
Postage	-	30,883	-	30,883
Employee recruitment and advertising	-	112,203	-	112,203
Licenses and dues	-	128,337	-	128,337
Insurance	-	66,848	-	66,848
Travel	-	159,902	-	159,902
Telephone	-	307,015	-	307,015
Professional fees	-	536,439	-	536,439
Contract labor	-	141,458	14,863	156,321
Contract physicians	-	-	-	-
Consulting and other contractual expenses	-	651,397	-	651,397
Staff development	-	279,527	-	279,527
Promotion	-	36,671	5,666	42,337
Office rent	-	575,525	9,036	584,561
Equipment expenses	-	138,772	12,183	150,955
Maintenance and repairs	-	93,557	-	93,557
Safety services and materials	-	16,673	-	16,673
Food	-	-	-	-
Food – outings	-	100,868	17,859	118,727
Housekeeping supplies	-	6,238	-	6,238
Miscellaneous housekeeping	-	42,936	-	42,936
Utilities	-	161,132	-	161,132
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	126,496	-	126,496
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	-	15,877	-	15,877
Vehicle rental	-	27,417	-	27,417
General program supplies	-	29,113	-	29,113
Clothing	-	-	-	-
Miscellaneous	-	10,555	4,019	14,574
Interest	-	56,041	-	56,041
Bad debts	-	-	-	-
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	-	9,978,130	224,754	10,202,884
Depreciation and amortization	-	340,058	-	340,058
Intercompany management and residential fees	-	-	-	-
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2014	\$ -	\$ 10,318,188	\$ 224,754	\$ 10,542,942

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral HealthCare, Inc.**  
**Year Ended June 30, 2014**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 20,016,802	\$ 697,580	\$ -	\$ 20,714,382
Payroll taxes	1,890,918	66,962	-	1,957,880
Employee benefits	2,790,926	108,251	-	2,899,177
Total salaries, wages and related expenses	<u>24,698,646</u>	<u>872,793</u>	-	<u>25,571,439</u>
Office supplies and printing	324,064	5,264	-	329,328
Copier and fax expense	151,696	4,146	-	155,842
Postage	98,915	2,273	-	101,188
Employee recruitment and advertising	12,569	-	-	12,569
Licenses and dues	56,695	410	-	57,105
Insurance	64,149	435,622	-	499,771
Travel	1,164,407	1,914	-	1,166,321
Telephone	704,220	1,781	-	706,001
Professional fees	1,707	-	-	1,707
Contract labor	73,444	-	-	73,444
Contract physicians	-	-	-	-
Consulting and other contractual expenses	606,701	333	-	607,034
Staff development	20,981	613	-	21,594
Promotion	37,586	1,000	-	38,586
Office rent	2,157,871	39,000	-	2,196,871
Equipment expenses	265,859	1,547	-	267,406
Maintenance and repairs	121,244	-	-	121,244
Safety services and materials	131,128	-	-	131,128
Food	41,974	36	-	42,010
Food – outings	55,743	3,186	-	58,929
Housekeeping supplies	41,308	-	-	41,308
Miscellaneous housekeeping	162,957	-	-	162,957
Utilities	164,347	-	-	164,347
Payments to foster parents	10,259,462	-	-	10,259,462
Subcontractor – foster home payments	14,688,013	-	-	14,688,013
Foster family training	294,434	-	-	294,434
Subcontractor payments	2,876,657	-	-	2,876,657
Child care payments	3,304,685	-	-	3,304,685
Incidentals	12,492	-	-	12,492
Medical supplies	80,740	-	-	80,740
Vehicle expenses and repairs	769,172	-	-	769,172
Vehicle rental	1,677,645	-	-	1,677,645
General program supplies	148,913	-	-	148,913
Clothing	783,525	-	-	783,525
Miscellaneous	34,027	1,025	-	35,052
Interest	2,360	3,533	-	5,893
Bad debts	-	143,328	-	143,328
Property tax expense	239	-	-	239
Cost of in-kind donated goods	-	123,383	-	123,383
Medicaid assessments	-	-	-	-
Flex fund	449,253	-	-	449,253
Kids activity fund	86,366	-	-	86,366
Expenses before depreciation, amortization and intercompany fees	<u>66,626,194</u>	<u>1,641,187</u>	-	<u>68,267,381</u>
Depreciation and amortization	248,258	10,857	-	259,115
Intercompany management and residential fees	1,450,173	6,786,000	-	8,236,173
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2014	<u>\$ 68,324,625</u>	<u>\$ 8,438,044</u>	<u>\$ -</u>	<u>\$ 76,762,669</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral HealthCare, Inc.**  
**Year Ended June 30, 2014**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 1,435,947	\$ 156,197	\$ -	\$ 1,592,144
Payroll taxes	134,345	10,996	-	145,341
Employee benefits	180,332	21,395	-	201,727
Total salaries, wages and related expenses	<u>1,750,624</u>	<u>188,588</u>	<u>-</u>	<u>1,939,212</u>
Office supplies and printing	12,773	9,294	-	22,067
Copier and fax expense	2,326	14,343	-	16,669
Postage	2,493	3,160	-	5,653
Employee recruitment and advertising	11,787	1,284	-	13,071
Licenses and dues	24,930	46,351	-	71,281
Insurance	929	38,106	-	39,035
Travel	185,855	10,856	-	196,711
Telephone	102,587	17,780	-	120,367
Professional fees	-	-	-	-
Contract labor	-	-	-	-
Contract physicians	5,682	-	-	5,682
Consulting and other contractual expenses	1,029	16,403	-	17,432
Staff development	7,709	6,160	-	13,869
Promotion	7,674	-	-	7,674
Office rent	258,683	15,825	-	274,508
Equipment expenses	6,340	803	-	7,143
Maintenance and repairs	2,434	1,134	-	3,568
Safety services and materials	4,591	1,803	-	6,394
Food	9,208	2,956	-	12,164
Food – outings	-	-	-	-
Housekeeping supplies	337	291	-	628
Miscellaneous housekeeping	20,961	-	-	20,961
Utilities	26,366	-	-	26,366
Payments to foster parents	2,580,506	-	-	2,580,506
Subcontractor – foster home payments	-	-	-	-
Foster family training	57,440	5,320	-	62,760
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	7,704	2,981	-	10,685
Vehicle rental	10,653	165	-	10,818
General program supplies	3,664	6,273	-	9,937
Clothing	30,348	-	-	30,348
Miscellaneous	937	4,376	1,000	6,313
Interest	-	939	-	939
Bad debts	-	12,926	-	12,926
Property tax expense	321	-	-	321
Cost of in-kind donated goods	-	17,673	-	17,673
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>5,136,891</u>	<u>425,790</u>	<u>1,000</u>	<u>5,563,681</u>
Depreciation and amortization	-	28,502	-	28,502
Intercompany management and residential fees	-	126,000	-	126,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2014	<u>\$ 5,136,891</u>	<u>\$ 580,292</u>	<u>\$ 1,000</u>	<u>\$ 5,718,183</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral Healthcare Kentucky, Inc.**  
**Year Ended June 30, 2014**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 6,377,501	\$ 288,142	\$ -	\$ 6,665,643
Payroll taxes	527,595	22,704	-	550,299
Employee benefits	908,968	39,249	-	948,217
Total salaries, wages and related expenses	<u>7,814,064</u>	<u>350,095</u>	-	<u>8,164,159</u>
Office supplies and printing	13,385	4,349	-	17,734
Copier and fax expense	4,247	4,934	-	9,181
Postage	1,968	3,268	-	5,236
Employee recruitment and advertising	5,797	24	-	5,821
Licenses and dues	36,414	275	-	36,689
Insurance	-	46,275	-	46,275
Travel	440,736	9,635	-	450,371
Telephone	252,543	18,484	-	271,027
Professional fees	-	-	-	-
Contract labor	-	-	-	-
Contract physicians	124,057	-	-	124,057
Consulting and other contractual expenses	21,896	3,498	-	25,394
Staff development	139,981	6,768	-	146,749
Promotion	3,625	1,531	-	5,156
Office rent	264,985	21,600	-	286,585
Equipment expenses	3,322	3,255	-	6,577
Maintenance and repairs	1,931	5,230	-	7,161
Safety services and materials	655	1,688	-	2,343
Food	-	-	-	-
Food – outings	6,116	10,834	-	16,950
Housekeeping supplies	172	-	-	172
Miscellaneous housekeeping	4,927	803	-	5,730
Utilities	15,050	1,961	-	17,011
Payments to foster parents	246,414	-	-	246,414
Subcontractor – foster home payments	-	-	-	-
Foster family training	7,622	-	-	7,622
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	8,692	2,476	-	11,168
Vehicle rental	6,481	40	-	6,521
General program supplies	17,014	-	-	17,014
Clothing	-	-	-	-
Miscellaneous	24,367	825	-	25,192
Interest	-	-	-	-
Bad debts	-	12,500	-	12,500
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	1,046	-	1,046
Medicaid assessments	-	-	-	-
Flex fund	476,920	-	-	476,920
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>9,943,381</u>	<u>511,394</u>	-	<u>10,454,775</u>
Depreciation and amortization	-	12,000	-	12,000
Intercompany management and residential fees	-	507,000	-	507,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2014	<u>\$ 9,943,381</u>	<u>\$ 1,030,394</u>	<u>\$ -</u>	<u>\$ 10,973,775</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Behavioral Healthcare Kentucky, Inc.**  
**Year Ended June 30, 2014**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 2,278,481	\$ 62,718	\$ -	\$ 2,341,199
Payroll taxes	181,764	4,125	-	185,889
Employee benefits	331,550	13,907	-	345,457
Total salaries, wages and related expenses	<u>2,791,795</u>	<u>80,750</u>	<u>-</u>	<u>2,872,545</u>
Office supplies and printing	13,871	419	-	14,290
Copier and fax expense	47,101	-	-	47,101
Postage	2,844	1,545	-	4,389
Employee recruitment and advertising	7,908	3,193	-	11,101
Licenses and dues	3,684	16,293	-	19,977
Insurance	-	65,413	-	65,413
Travel	232,572	2,720	-	235,292
Telephone	113,929	21,339	-	135,268
Professional fees	4,225	-	-	4,225
Contract labor	-	-	-	-
Contract physicians	-	-	-	-
Consulting and other contractual expenses	458	4,119	-	4,577
Staff development	17,347	40	-	17,387
Promotion	2,529	(500)	-	2,029
Office rent	395,713	-	-	395,713
Equipment expenses	49,128	3,330	-	52,458
Maintenance and repairs	2,690	139	-	2,829
Safety services and materials	3,637	-	-	3,637
Food	891	-	-	891
Food – outings	6,750	273	-	7,023
Housekeeping supplies	20	-	-	20
Miscellaneous housekeeping	1,431	-	-	1,431
Utilities	-	-	-	-
Payments to foster parents	5,968,025	-	-	5,968,025
Subcontractor – foster home payments	-	-	-	-
Foster family training	45,212	-	-	45,212
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	1,366	-	-	1,366
Vehicle rental	143	-	-	143
General program supplies	9,456	47	-	9,503
Clothing	155	-	-	155
Miscellaneous	250	123	-	373
Interest	-	716	-	716
Bad debts	-	-	-	-
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	<u>9,723,130</u>	<u>199,959</u>	<u>-</u>	<u>9,923,089</u>
Depreciation and amortization	71,695	-	-	71,695
Intercompany management and residential fees	-	735,000	-	735,000
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2014	<u>\$ 9,794,825</u>	<u>\$ 934,959</u>	<u>\$ -</u>	<u>\$ 10,729,784</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Hospitals, Inc.**  
**Year Ended June 30, 2014**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ 8,122,707	\$ -	\$ -	\$ 8,122,707
Payroll taxes	729,255	-	-	729,255
Employee benefits	940,903	-	-	940,903
Total salaries, wages and related expenses	<u>9,792,865</u>	<u>-</u>	<u>-</u>	<u>9,792,865</u>
Office supplies and printing	43,561	-	-	43,561
Copier and fax expense	27,666	-	-	27,666
Postage	2,302	-	-	2,302
Employee recruitment and advertising	927	-	-	927
Licenses and dues	141,322	-	-	141,322
Insurance	-	109,984	-	109,984
Travel	30,761	-	-	30,761
Telephone	169,976	-	-	169,976
Professional fees	17,267	5,150	-	22,417
Contract labor	574,764	-	-	574,764
Contract physicians	1,735,822	-	-	1,735,822
Consulting and other contractual expenses	896,630	-	-	896,630
Staff development	22,402	-	-	22,402
Promotion	5,444	-	-	5,444
Office rent	710,700	-	-	710,700
Equipment expenses	98,638	-	-	98,638
Maintenance and repairs	244,487	-	-	244,487
Safety services and materials	42,047	-	-	42,047
Food	470,801	-	-	470,801
Food – outings	24,847	-	-	24,847
Housekeeping supplies	23,475	-	-	23,475
Miscellaneous housekeeping	265,289	-	-	265,289
Utilities	158,525	-	-	158,525
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	4,126	-	-	4,126
Medical supplies	842,361	-	-	842,361
Vehicle expenses and repairs	31,460	-	-	31,460
Vehicle rental	16,680	-	-	16,680
General program supplies	86,505	-	-	86,505
Clothing	1,793	-	-	1,793
Miscellaneous	654	220	-	874
Interest	-	1,697	-	1,697
Bad debts	-	2,521,016	-	2,521,016
Property tax expense	111	-	-	111
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	14,643	-	-	14,643
Flex fund	-	-	-	-
Kids activity fund	500	-	-	500
Expenses before depreciation, amortization and intercompany fees	<u>16,499,351</u>	<u>2,638,067</u>	<u>-</u>	<u>19,137,418</u>
Depreciation and amortization	165,244	-	-	165,244
Intercompany management and residential fees	24,000	1,492,500	-	1,516,500
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2014	<u>\$ 16,688,595</u>	<u>\$ 4,130,567</u>	<u>\$ -</u>	<u>\$ 20,819,162</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Foundation, Inc.**  
**Year Ended June 30, 2014**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ -	\$ -	\$ -	\$ -
Payroll taxes	-	-	-	-
Employee benefits	-	-	-	-
Total salaries, wages and related expenses	-	-	-	-
Office supplies and printing	-	-	3,448	3,448
Copier and fax expense	-	-	-	-
Postage	-	-	81	81
Employee recruitment and advertising	-	-	-	-
Licenses and dues	-	-	1,301	1,301
Insurance	-	9,838	-	9,838
Travel	-	-	-	-
Telephone	-	-	-	-
Professional fees	-	5,955	-	5,955
Contract labor	-	-	-	-
Contract physicians	-	-	-	-
Consulting and other contractual expenses	-	-	-	-
Staff development	-	-	-	-
Promotion	-	-	-	-
Office rent	-	-	-	-
Equipment expenses	-	-	-	-
Maintenance and repairs	-	-	-	-
Safety services and materials	-	-	-	-
Food	-	-	-	-
Food – outings	-	-	-	-
Housekeeping supplies	-	-	-	-
Miscellaneous housekeeping	-	-	-	-
Utilities	-	-	-	-
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	-	-	-	-
Vehicle rental	-	-	-	-
General program supplies	-	-	-	-
Clothing	-	-	-	-
Miscellaneous	240	-	25,721	25,961
Interest	-	14,506	-	14,506
Bad debts	-	-	-	-
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	240	30,299	30,551	61,090
Depreciation and amortization	-	130,118	-	130,118
Intercompany management and residential fees	-	12,500	6,000	18,500
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2014	<u>\$ 240</u>	<u>\$ 172,917</u>	<u>\$ 36,551</u>	<u>\$ 209,708</u>

**KVC Health Systems, Inc.**  
**Functional Expenses – KVC Real Estate Holdings, Inc.**  
**Year Ended June 30, 2014**

	Client Care	Administrative and General	Fund Raising	Total Expenses
Salaries and wages	\$ -	\$ -	\$ -	\$ -
Payroll taxes	-	-	-	-
Employee benefits	-	-	-	-
Total salaries, wages and related expenses	-	-	-	-
Office supplies and printing	-	-	-	-
Copier and fax expense	-	-	-	-
Postage	-	-	-	-
Employee recruitment and advertising	-	-	-	-
Licenses and dues	-	40	-	40
Insurance	-	13,773	-	13,773
Travel	-	-	-	-
Telephone	-	-	-	-
Professional fees	-	-	-	-
Contract labor	-	-	-	-
Contract physicians	-	-	-	-
Consulting and other contractual expenses	-	-	-	-
Staff development	-	-	-	-
Promotion	-	-	-	-
Office rent	-	-	-	-
Equipment expenses	-	-	-	-
Maintenance and repairs	-	-	-	-
Safety services and materials	-	-	-	-
Food	-	-	-	-
Food – outings	-	-	-	-
Housekeeping supplies	-	-	-	-
Miscellaneous housekeeping	-	-	-	-
Utilities	-	-	-	-
Payments to foster parents	-	-	-	-
Subcontractor – foster home payments	-	-	-	-
Foster family training	-	-	-	-
Subcontractor payments	-	-	-	-
Child care payments	-	-	-	-
Incidentals	-	-	-	-
Medical supplies	-	-	-	-
Vehicle expenses and repairs	-	-	-	-
Vehicle rental	-	-	-	-
General program supplies	-	-	-	-
Clothing	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
Bad debts	-	-	-	-
Property tax expense	-	-	-	-
Cost of in-kind donated goods	-	-	-	-
Medicaid assessments	-	-	-	-
Flex fund	-	-	-	-
Kids activity fund	-	-	-	-
Expenses before depreciation, amortization and intercompany fees	-	13,813	-	13,813
Depreciation and amortization	-	166,312	-	166,312
Intercompany management and residential fees	-	17,500	-	17,500
Eliminations	-	-	-	-
Totals, Year Ended June 30, 2014	\$ -	\$ 197,625	\$ -	\$ 197,625



**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, 2014**

	<u>Region 1</u>	<u>Region 2</u>	<u>Total</u>
<b>Revenue</b>			
DCF contract	\$ 30,507,057	\$ 34,325,809	\$ 64,832,866
Contributions	138,103	122,615	260,718
Miscellaneous	980	1,191	2,171
Total revenue	<u>30,646,140</u>	<u>34,449,615</u>	<u>65,095,755</u>
<b>Expenses</b>			
Salaries and wages (including taxes and benefits)			
Administration	1,570,487	1,820,743	3,391,230
Case management	7,250,513	8,264,059	15,514,572
Total administration	<u>8,821,000</u>	<u>10,084,802</u>	<u>18,905,802</u>
Placement costs			
Related party Child Placing Agency	8,279,539	4,193,754	12,473,293
Nonrelated party Child Placing Agency (maintenance)	2,227,256	7,030,088	9,257,344
Nonrelated party Child Placing Agency (administration)	1,347,187	4,072,070	5,419,257
Residential and other	2,668,286	2,776,393	5,444,679
Total placement costs	<u>14,522,268</u>	<u>18,072,305</u>	<u>32,594,573</u>
Other costs			
Operating expenses	4,081,564	4,536,404	8,617,968
Mental health	577,699	179,422	757,121
Independent living	12,715	9,156	21,871
Child care	1,721,475	1,583,211	3,304,686
Clothing	378,414	405,111	783,525
Transportation	1,775,646	2,022,834	3,798,480
Other - flex funds & miscellaneous	269,031	248,677	517,708
Total other	<u>8,816,544</u>	<u>8,984,815</u>	<u>17,801,359</u>
Total expenses	<u>32,159,812</u>	<u>37,141,922</u>	<u>69,301,734</u>
Revenues under expenses	<u>\$ (1,513,672)</u>	<u>\$ (2,692,307)</u>	<u>\$ (4,205,979)</u>

**KVC Health Systems, Inc.**  
**Schedule of Revenue and Expenses for**  
**Kansas Department for Children and Families**  
**Family Preservation Services**  
**Year Ended June 30, 2014**

	<u>Region 1</u>	<u>Region 2</u>	<u>Total</u>
<b>Revenue</b>			
DCF contract	\$ 1,702,156	\$ 1,696,000	\$ 3,398,156
Contributions	3,130	3,065	6,195
Miscellaneous	816	-	816
Total revenue	<u>1,706,102</u>	<u>1,699,065</u>	<u>3,405,167</u>
<b>Expenses</b>			
Salaries and wages (including taxes and benefits)			
Administration	80,309	69,349	149,658
Case management	1,195,690	1,035,649	2,231,339
Total administration	<u>1,275,999</u>	<u>1,104,998</u>	<u>2,380,997</u>
Other costs			
Operating expenses	433,441	404,820	838,261
Other - flex funds & miscellaneous	31,889	73,704	105,593
Total other	<u>465,330</u>	<u>478,524</u>	<u>943,854</u>
Total expenses	<u>1,741,329</u>	<u>1,583,522</u>	<u>3,324,851</u>
Revenues over (under) expenses	<u>\$ (35,227)</u>	<u>\$ 115,543</u>	<u>\$ 80,316</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, 2014**

**Revenue**

Child placing revenue - intercompany	\$ 12,473,293
Child placing revenue - other	1,206,248
Contributions	50,523
Miscellaneous	120,195
Total revenue	<u>13,850,259</u>

**Expenses**

Salaries and wages (including taxes and benefits)	
Administration	607,672
Case management	2,362,685
Total administration	<u>2,970,357</u>

Placement costs

Kansas City region	5,380,500
East region	2,887,469
Noncontract	851,714
Total placement costs	<u>9,119,683</u>

Other Costs

Operating expenses	1,185,608
Independent living	200
Transportation	37,171
Other - flex funds & miscellaneous	7,040
Total other	<u>1,230,019</u>

Total expenses	<u>13,320,059</u>
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Revenues over expenses	<u><u>\$ 530,200</u></u>
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**KVC Health Systems, Inc.**  
**Schedule of System of Care Grant**  
**Agreement Number – G140030**  
**Year Ended June 30, 2014**

**Revenue**

Grant revenue	\$ 60,000
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**Expenses**

Salaries and wages	47,403
Taxes and benefits	10,384
Office supplies	120
Travel	3,344
Rent	600
Telephone	663
Indirect administrative expenses	6,602
Total expenses	<u>69,116</u>

Revenues under expenses	<u><u>\$ (9,116)</u></u>
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**KVC Health Systems, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2014**

Cluster / Program	Federal Agency/Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount
<b>Child Nutrition Cluster</b>				
School Breakfast Program	U.S. Department of Agriculture passed through the Kansas State Department of Education	10.553	X0925	\$ 48,709
National School Lunch Program	U.S. Department of Agriculture passed through the Kansas State Department of Education	10.555	X0925	83,731
After School Snack Program	U.S. Department of Agriculture passed through the Kansas State Department of Education	10.555	X0925	<u>4,274</u>
Total child nutrition cluster				136,714
Distance Learning and Telemedicine Grant	U.S. Department of Agriculture	10.855	KS 728-A17	4,670
Initiative to Reduce Long-Term Foster Care	U.S. Department of Health and Human Services passed through the University of Kansas Center for Research, Inc.	93.648	90CT0152/01	1,139,159
Kansas Adoption Permanency Project	U.S. Department of Health and Human Services passed through the University of Kansas Center for Research, Inc.	93.652	90CO1120-01-01	41,981
Promoting Safe and Stable Families	U.S. Department of Health and Human Services passed through the Kentucky Cabinet for Health and Family Services	93.556	PON2 736 1200003288 1	1,375,437
Substance Abuse and Mental Health Services	U.S. Department of Health and Human Services passed through New York University School of Medicine	93.243	1 U79 SM061280-01	46,997
Temporary Assistance for Needy Families Block Grant	U.S. Department of Health and Human Services passed through Kansas State Department for Children and Families	93.558	EVT001558/EVT0001559	9,701,344
Title IV-E Foster Care	U.S. Department of Health and Human Services passed through Kansas State Department for Children and Families	93.658	EVT001558/EVT0001559	7,484,467
Social Services Block Grant	U.S. Department of Health and Human Services passed through Kansas State Department for Children and Families	93.667	EVT001558/EVT0001559	<u>6,220,710</u>
				<u>\$ 26,151,479</u>

**Notes to Schedule**

1. This schedule includes the federal awards activity of KVC Health Systems, Inc., KVC Behavioral HealthCare, Inc. and KVC Behavioral Healthcare Kentucky, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The Organization did not provide federal awards to subrecipients during the year ended June 30, 2014.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of KVC Health Systems, Inc., which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 17, 2014.

***Internal Control Over Financial Reporting***

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

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

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

**Compliance and Other Matters**

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

We noted certain matters that we reported to the Organization's management in a separate letter dated December 17, 2014.

**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 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 17, 2014

DHHR - Finance

APR 20 2015

Date Received

## 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 the compliance of KVC Health Systems, Inc. with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. 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 the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. 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, 2014.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

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

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

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

*BKD, LLP*

Kansas City, Missouri  
December 17, 2014

DHHR - Finance

APR 20 2015

Date Received

**KVC Health Systems, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2014**

**Summary of Auditor's Results**

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

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?  
 Yes     No
  
4. The independent auditor's report on internal control over compliance disclosed:  

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

Program	CFDA Number
Temporary Assistance for Needy Families Block Grant	93.558
Title IV-E Foster Care	93.658
Social Services Block Grant	93.667

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$784,544.
  
9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?  
 Yes     No

**KVC Health Systems, Inc.**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2014**

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

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

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

Reference Number	Finding	Questioned Costs
2014-001	<p><b>U.S. Department of Health and Human Services passed through Kansas State Department for Children and Families; Temporary Assistance for Needy Families Block Grant – 93.558, Title IV-E Foster Care – 93.658 and Social Services Block Grant – 93.667 Program Year 2014</b></p> <p><b>Criteria or Specific Requirement</b> – Allowable costs</p> <p><b>Condition</b> – The Organization did not maintain reports reflecting the distribution of actual activity for employees that work on multiple programs.</p> <p><b>Context</b> – The Organization has six employees that work on the programs in addition to others. We tested all six employees’ payroll for the year and noted that allocation records were not maintained.</p> <p><b>Effect</b> – Potential incorrect allocation of expenses to the program.</p> <p><b>Recommendation</b> – We recommend that management implement procedures to maintain these records for each pay period.</p> <p><b>Management’s Response</b> – Management concurs with the finding and processes have been put in place subsequent to year end to assure corroborating evidence of percentage allocations to various programs of personnel who perform services for more than one program is available.</p>	\$307,303

**KVC Health Systems, Inc.**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2014**

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