TFI FAMILY SERVICES, INC. and AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2015

SWINDOLL
JANZEN
HAWK &
LOYD, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
TFI Family Services, Inc. and Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of TFI Family Services, Inc. and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 TFI Family Services, Inc. and Affiliates as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Swindoll, Janzen, Hawk & Loyd, LLC
Certified Public Accountants
Wichita, KS
June 29, 2016

sjhl.com

Hutchinson Office
129 W. 2nd, Ste. A • Hutchinson, KS 67504
P: 888.414.0123 • F: 620.662.3350

McPherson Office
123 S. Main • McPherson, KS 67460
P: 888.241.1826 • F: 620.241.6926

Wichita Office
220 W. Douglas, Ste. 300 • Wichita, KS 67202
P: 316.265.5600 • F: 316.265.8021

TFI Family Services, Inc. and Affiliates
Statement of Financial Position
June 30, 2015

Assets		Liabilities and Net Assets	
Current assets:		Current liabilities:	
Cash and cash equivalents	$ 7,969,933	Accounts payable and accrued liabilities	$ 1,106,684
Certificates of deposit	819,000	Wages payable	206,542
Accounts receivable, less allowance for		Payroll taxes payable	86,337
doubtful accounts	2,386,320	Current maturities of long-term debt	481,093
Investments	16,428	Total current liabilities	1,880,656
Prepaid expenses	60,810		
Total current assets	11,252,491		
Property and equipment:			
Buildings and land	12,084,614	Long-term liabilities:	
Equipment	4,840,194	Long-term debt, less current maturities	3,164,245
	16,924,808	Total long-term liabilities	3,164,245
Less: Accumulated depreciation	6,657,100		
Net property and equipment	10,267,708	Total liabilities	5,044,901
Other assets:			
Pledged certificate of deposit	2,086,056		
Other assets	123,784	Net assets:	
Other investments	664,743	Unrestricted and undesignated	19,349,881
Restricted cash	8,639	Temporarily restricted	8,639
Total other assets	2,883,222	Total net assets	19,358,520
Total assets	$ 24,403,421	Total liabilities and net assets	$ 24,403,421

See Notes to Financial Statements

TFI Family Services, Inc. and Affiliates
Statement of Activities
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and other support:			
Revenue:			
Program	$ 20,353,283	$ -	$ 20,353,283
Grant	255,765	-	255,765
Other	79,252	-	79,252
Interest income	8,672	-	8,672
Contributions	26,607	-	26,607
Investment loss	(202,913)		(202,913)
Total revenue and other support	20,520,666	-	20,520,666
Program expenses:			
Foster Care	15,040,924	-	15,040,924
PPCC (Shelter)	395,340	-	395,340
Independent Living	1,041,455	-	1,041,455
Psychiatric Residential Treatment Facilities	2,326,427	-	2,326,427
Grant	273,511	-	273,511
Total Program expenses	19,077,657	-	19,077,657
Administration and support expenses	4,991,798	-	4,991,798
Total expenses	24,069,455	-	24,069,455
Change in net assets	(3,548,789)	-	(3,548,789)
Net assets at beginning of year	22,898,670	8,639	22,907,309
Net assets at end of year	$ 19,349,881	$ 8,639	$ 19,358,520

See Notes to Financial Statements

TFI Family Services, Inc. and Affiliates
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Change in net assets	$ (3,548,789)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	615,779
Gain on sale of fixed assets	225,237
Loss on investment in subsidiary	202,913
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	34,342
Prepaid expenses	(32,344)
Other assets	(91,196)
(Decrease) increase in:	
Accounts payable and accrued liabilities	(94,166)
Wages payable	(43,994)
Payroll taxes payable	7,549
Total adjustments	824,120
Net cash used in operating activities	(2,724,669)
Cash flows from investing activities:	
Purchase of property, equipment and goodwill	(87,691)
Proceeds from sale of property and equipment	676,100
Purchase of other investments	(265,834)
Net cash used in investing activities	322,575
Cash flows from financing activities:	
Payments on notes and mortgages payable	(957,459)
Change in related party receivable	(10,321)
Net cash used in financing activities	(967,780)
Net change in cash and cash equivalents	(3,369,874)
Cash and cash equivalents at beginning of year	11,339,807
Cash and cash equivalents at end of year	$ 7,969,933
Supplemental disclosures of cash flow information:	
Interest paid	$ 255,470

See Notes to Financial Statements

TFI Family Services, Inc. And Affiliates

Notes to Financial Statements

Nature of the Operations and Consolidation

The consolidated financial statements include the accounts of TFI Family Services, Inc. (Family) and its affiliates: Pathway Family Services LLC (Pathway); TFI Family Connections LLC (Connections); Texas Family Initiative LLC (Texas); Kansas Family and Children, Inc. (KS F&C); and KYDS, Inc. (KYDS).

Family is a not-for-profit health agency exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the 50% charitable contributions deduction for individual donors. Family provides a wide spectrum of youth services in Kansas, including foster care programs and attendant care programs.

Pathway is a not-for-profit corporation and an affiliate of Family. Pathway provides family living experience along with supervision, structure, and guidance for children in need of care.

Connections is a not-for-profit corporation and an affiliate of Family. Connections provides foster care programs in Oklahoma.

Texas is a not-for-profit corporation and an affiliate of Family. Texas provides foster care programs in Texas.

KS F&C and KYDS are for-profit corporations and affiliates of Community. KS F&C and KYDS were formed to engage in any act or activity for which corporations may be organized under Kansas General Corporation Code.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC 958), *Financial Statements of Not-for-Profit Organizations.* Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets based on donor restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Board of Directors may designate a portion of unrestricted net assets for specific purposes. All funds, of which, the Board of Directors has discretionary control, have been included within unrestricted net assets.

Basis of Accounting

The financial statements of Family and Affiliates (the Organization) have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues and expenses are recognized and recorded when earned or incurred.

Cash and Cash Equivalents

The Organization considers all cash, money market and highly-liquid debt instruments purchased with initial maturities of three months or less to be cash equivalents.

At June 30, 2015 money market funds consist of an Edward Jones Money Market Fund.

Certificates of Deposit

Certificates of deposit are stated at carrying value. The fair value of such instruments, using an income approach was determined to approximate carrying value, given the short term nature of these instruments using level 2 fair value methods.

Accounts and Grants Receivable and Concentration of Credit Risk

Accounts and Grants receivable represent amounts due from customers and granting agencies. All amounts are expected to be collected within one year. Management periodically reviews accounts receivable and charges off those amounts considered to be uncollectible. Management believes the allowance for doubtful accounts is sufficient to cover any potential bad debts upon an analysis of the doubtful accounts and historical experience. Allowance for doubtful accounts was $320,000 for the year ended June 30, 2015.

Accounts receivable at June 30, 2015 is represented by:

	2015
Kaw Valley	34%
St. Francis	21
Managed Care Organizations	23
Oklahoma DHS	15
Other	7
	100%

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives range from three to seven years for equipment and forty years for buildings and material improvements. Purchases under $2,500 are expensed currently. Management annually reviews fixed assets to determine whether carrying values have been impaired. As of June 30, 2015, no impairment has been recognized. Depreciation expense was $615,779 for the year ended June 30, 2015.

Fair value of financial instruments

The Organization applies the provisions of ASC topic 820 *"Fair Value Measurement and Disclosures" (ASC 820)* for their financial and non-financial assets and liabilities which the Organization has recognized or disclosed at fair value on a non-recurring basis. This topic, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements for financial assets and liabilities. This topic also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value.

The three levels of inputs used to measure fair value are as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value hierarchy gives the highest priority to quoted prices (Level 1) and lowest priority to unobservable inputs (Level 3).

Revenue recognition

The organizations provide foster care placement and family care programs based on contracted rates with participating organizations. Revenue is recognized at the time services have been provided. Revenue from programs is recorded as unrestricted revenue.

Allocated Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated financial statements. Expenses by function have been allocated among program and supporting services classifications on the basis of the number of employees and participants and on estimates made by the Organization's management.

Donated Material and Services

The Organization records the value of donated goods or services when there is an objective basis available to measure their value. Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

Advertising expense is charged to operations in the year incurred. During the year ended June 30, 2015, $445 was expensed to operations.

Income Taxes

Family, Pathway, Connections and Texas are not-for-profit organizations and are generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Income from unrelated activities is subject to income tax under the Internal Revenue Code. KS F&C and KYDS are subject to federal and state income taxes and accounts for income taxes using the asset and liability approach for financial accounting reporting.

The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, management believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. The Organization did not have any material uncertain tax positions as of June 30, 2015.

The Organization files income tax returns in the U.S. Federal and Kansas jurisdictions. The Organization is generally no longer subject to federal and state income tax examinations by taxing authorities for years before 2012. There are currently no examinations of the Organization's income tax returns in progress.

1. Cash and Restricted Cash

The Organization maintains cash and interest-bearing deposits with banking institutions. Such balances are insured by the Federal Deposit Insurance Corporation; however, balances may occasionally exceed the insured amount.

The Organization has restricted funds consisting of a grant for music lessons and musical instruments rental for foster children in Crawford County.

2. Purchases of Service Contract

Family, Connections, and Texas provides foster care and youth services throughout the state of Kansas, Oklahoma, Nebraska, and Texas. Family is a fee for services agency.

These programs receive revenue from the following sources:

	2015
Kaw Valley	35%
St. Francis	34
Managed Care Organizations	18
Oklahoma DHS	7
Other	6
	100%

Pathway operates a Psychiatric Residential Treatment Facility (PRTF) and a program called Teens Reaching Adult Independent Living (TRAIL) which provides onsite case management for supervised apartment living through a Transitional Living Program (TLP) and Community Integration Program (CIP).

These programs receive revenue from the following sources:

	2015		
	PRTF	TRAIL	Foster Care
Managed Care Organizations	71%	1%	-%
Juvenile Justice Authority	-	8	-
St. Francis	-	12	2
Kaw Valley	-	2	2
Other	2	-	-
	73%	23%	4%

3. **Investments**

The Company's short-term investments are comprised of mutual funds which invest in debt and equity securities, all of which are classified as trading securities and are carried at their fair value based on the quoted market prices of the securities at June 30, 2015. Net realized and unrealized gains and losses on trading securities are included in net earnings.

Fair value for these investments were determined by using level 1 valuation methods as defined by *ASC 820 "Fair Value"*, whereby the valuation methodology used was unadjusted quoted prices for identical assets in active markets.

The composition of trading securities, classified as current assets, is as follows at June 30, 2015:

Bond Funds	$ 1,216
Equity Funds	15,212
Total Investments	$16,428

4. **Other Investments**

TFI and EH (the supported organizations) have equal membership (50%) in NSI. NSI's employees consist of former employees from TFI and EH. The function of NSI is to conduct activities and provide services that are necessary to further the exempt purposes of the Supported Organizations. This investment is carried at cost. The aggregate cost of TFI's investment in NSI totaled $535,156 at June 30, 2015. This investment was not evaluated for impairment because TFI did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of this investment.

KYDS, Inc. owns a 70% interest in Foster Care Technologies, LLC. Foster Care Technologies was created in June 2014 to market and sell licensing rights to the ECAP software. KYDS, Inc. contributed $210,000 into Foster Care Technologies, LLC during the year ended June 30, 2015. This investment is accounted for under the equity method of accounting. The aggregate value of KYDS, Inc. ownership at June 30, 2015 was $129,587. During the year ended June 30, 2015, $202,913 was recognized as investment loss in the financial statements.

5. **Leases**

Family has entered into various operating leases for building and equipment. Future minimum rentals at June 30, 2015 for the leases with a stated term are as follows:

2016	$162,921
2017	29,095
Total	$192,016

The Organization had rental expense of $202,227 for the year ended June 30, 2015.

6. Line of Credit

Family has a line of credit dated July 1, 2014 from CoreFirst Bank & Trust for $2,000,000. The line is secured by certificates of deposit at CoreFirst Bank & Trust and matures in July 2018. There was no outstanding balance at June 30, 2015.

7. Long-Term Debt

Long term debt consisted of the following at June 30, 2015

Variable rate mortgage to Capital City Bank, currently 5.71%, due in monthly payments of $25,507 (including principal and interest), final payment of outstanding principal and interest due June 2016 collateralized by real estate in Topeka, Kansas. Management is working to refinance this loan with Capital City Bank on similar terms	$2,158,028
Variable rate mortgage to a bank, currently 5.625%, due in monthly payments of $3,526 (including principal and interest), final payment of outstanding principal and interest due May 23, 2020, collateralized by real estate in Wichita, Kansas	345,399
6.25% mortgage to Bank of America, due in monthly payments of $8,284 (including principal and interest), final payment due May 2025, collateralized by real estate in Topeka, Kansas	726,020
6.50% mortgage to Bank of America, due in monthly payments of $6,740 (including principal and interest), final payment due February 2026, collateralized by real estate in Pittsburg, Kansas	68,093
5.45% mortgage to Core First Bank and Trust, due in monthly payments of $13,585 (including principal and interest), final payment due October 2021, collateralized by real estate in Kansas City and Lawrence, Kansas	345,798
	3,643,338
Less: Current portion	481,093
Total long-term debt	$3,164,245

The aggregate maturities on the above debt are as follows:

Year Ending June 30:	
2016	$ 481 093
2017	437 529
2018	342 653
2019	316,325
2020	551,914
Thereafter	1,515,825
Total	$ 3,643,338

8. Employee Benefits

Cafeteria Plan

A cafeteria plan exists which allows employees to annually elect to contribute a portion of their pre-tax compensation to a plan which will provide them health and life insurance, employee child care reimbursement, and medical reimbursements. The plan is voluntary. No employer contributions were made to the plan.

401(k) Plan

The Organization has a 401(k) plan for eligible employees. The Organization contributes 50% of an employee's contributions up to 5% of compensation. The Organization's contribution was $81,997 for the year ended June 30, 2015.

403(b) Plan

The Organization offers a 403(b) plan to employees. The employer does not contribute to the plan.

9. Compensated Absences

The Organization's policy on paid leave permits full-time employees to earn leave time based on their position and length of service. The paid leave must be used by the individual employee's employment anniversary date.

Any unused paid leave at the employment anniversary date is transferred into a sick leave reserve pool, which can only be used for illness-related leave after all current paid leave is exhausted. Upon termination of employment, no compensation is paid for the unused paid leave or the sick leave reserve pool.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the Pritchett Music Fund. Monies are restricted to use for music lessons and instrument rental for foster kids in Crawford County, Kansas.

11. Fundraising

The Organization holds two special events each year, a Foster Jam in Pittsburg, KS and a Holiday Auction in Emporia, KS. The funds associated with these events are used to enhance the lives of kids in foster care. The revenue generated from these events in 2015 is recorded in other income and was $19,813. The expense to hold these events in 2015 is recorded in Administration and Support and was $15,227.

12. Contingencies

Contracting agencies reserve the right to conduct additional audits of the Organization's programs which may result in modifications to amounts reported by the Organization. However, management does not believe such audits would result in any modifications that would be material to the Organization's financial position at June 30, 2015.

13. Related Parties

During the year ended June 30, 2015, TFI paid $3,633,655 to NSI for services. As an ASO, NSI provides the following services to TFI: administrative, accounting, financial, human resources, information technology, intake and admissions, data, marketing, software, training, legal and performance improvement and other similar services. The balance due to NSI at June 30, 2015 was $134,105.

14. Subsequent Events

Management has evaluated subsequent events through the date the consolidated financial statements were available to be issued. No significant items were noted during this evaluation that would require disclosure in the consolidated financial statements.