Financial Statements
For the Years Ended
December 31, 2018 and 2017

Kindred Family Focus

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Kindred Family Focus
Plymouth, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of Kindred Family Focus, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Kindred Family Focus as of December 31, 2018 and 2017, 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.

Eide Bailly LLP

Minneapolis, Minnesota
June 5, 2019

	2018	2017
Current Assets		
Cash and cash equivalents	$ 321,565	$ 174,297
Accounts receivable	1,051,314	1,016,705
Other receivables	106,085	147,038
Prepaid expenses	19,138	21,806
Total current assets	1,498,102	1,359,846
Noncurrent Assets		
Property and equipment, net	30,922	49,521
Other	5,238	8,189
Total noncurrent assets	36,160	57,710
Total assets	$ 1,534,262	$ 1,417,556
Current Liabilities		
Accounts payable	$ 338,476	$ 422,128
Due to affiliates	2,276,186	1,789,986
Accrued salaries and benefits	308,668	337,409
Other accrued expenses	24,159	17,363
Total current liabilities	2,947,489	2,566,886
Net Assets		
Without donor restrictions	(1,463,812)	(1,151,203)
With donor restrictions	50,585	1,873
Total net assets	(1,413,227)	(1,149,330)
Total liabilities and net assets	$ 1,534,262	$ 1,417,556

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Support			
Contract revenue, net	$ 8,700,717	$ -	$ 8,700,717
Contribution and grant revenue	151,186	447,682	598,868
Other	1,563	-	1,563
Net assets released from restrictions	398,970	(398,970)	-
Total revenue, gains, and support	9,252,436	48,712	9,301,148
Expenses			
Program services expense	8,320,025	-	8,320,025
Supporting services expense			
Management and general	1,242,041	-	1,242,041
Fundraising	2,979	-	2,979
Total expense	9,565,045	-	9,565,045
Change in Net Assets	(312,609)	48,712	(263,897)
Net Assets, Beginning of Year	(1,151,203)	1,873	(1,149,330)
Net Assets, End of Year	$ (1,463,812)	$ 50,585	$ (1,413,227)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Support			
Contract revenue, net	$ 8,618,982	$ -	$ 8,618,982
Contribution and grant revenue	158,775	310,296	469,071
Other	554	469	1,023
Net assets released from restrictions	397,881	(397,881)	-
Total revenue, gains, and support	9,176,192	(87,116)	9,089,076
Expenses			
Program services expense	8,442,419	-	8,442,419
Supporting services expense			
Management and general	1,174,406	-	1,174,406
Fundraising	10,844	-	10,844
Total expense	9,627,669	-	9,627,669
Change in Net Assets	(451,477)	(87,116)	(538,593)
Change in Net Assets Due to Merger (Note 10)	94,529	3,697	98,226
Net Assets, Beginning of Year	(794,255)	85,292	(708,963)
Net Assets, End of Year	$ (1,151,203)	$ 1,873	$ (1,149,330)

	Total Program Services	Management and General	Fundraising	Total
Salaries and Wages	$ 2,491,133	$ 405,211	$ -	$ 2,896,344
Employee Benefits and Payroll Taxes	726,345	117,363	-	843,708
Total personnel cost	3,217,478	522,574	-	3,740,052
Administrative Fees	-	361,665	-	361,665
Auto and Travel	226,275	28,858	154	255,287
Building Rent	179,156	25,571	-	204,727
Client Recreation Expense	23,634	-	-	23,634
Consulting	-	28,939	-	28,939
Contract Labor	-	33,113	-	33,113
Contributions	69,161	5,040	-	74,201
Depreciation	-	26,524	-	26,524
Event Fees	-	-	2,545	2,545
Foster Care Services	4,397,370	-	-	4,397,370
Hiring Expense	-	1,190	-	1,190
Insurance	36,936	49,415	-	86,351
Licenses, Dues and Fees	3,220	87,113	-	90,333
Maintenance	2,252	162	-	2,414
Office Expense	54,153	16,158	243	70,554
Professional Services Fees	19,216	46,590	37	65,843
Staff Development	11,231	650	-	11,881
Utilities	79,943	8,479	-	88,422
Total expense	$ 8,320,025	$ 1,242,041	$ 2,979	$ 9,565,045

	Total Program Services	Management and General	Fundraising	Total
Salaries and Wages	$ 2,579,903	$ 412,387	$ 632	$ 2,992,922
Employee Benefits and Payroll Taxes	624,796	95,445	53	720,294
Total personnel cost	3,204,699	507,832	685	3,713,216
Administrative Fees	-	364,095	82	364,177
Auto and Travel	265,436	34,323	111	299,870
Bad Debts	-	-	-	-
Building Rent	183,162	29,609	-	212,771
Client Recreation Expense	19,492	-	-	19,492
Consulting	-	7,182	-	7,182
Contract Labor	-	10,764	-	10,764
Contributions	62,902	5,650	-	68,552
Depreciation	-	32,498	-	32,498
Event Fees	-	-	9,945	9,945
Foster Care Services	4,493,009	-	-	4,493,009
Hiring Expense	-	2,568	-	2,568
Insurance	29,921	45,628	-	75,549
Licenses, Dues and Fees	2,259	66,601	-	68,860
Maintenance	3,385	13	-	3,398
Office Expense	59,097	18,284	-	77,381
Professional Services Fees	18,719	39,984	9	58,712
Staff Development	12,451	895	-	13,346
Utilities	87,887	8,480	12	96,379
Total expense	$ 8,442,419	$ 1,174,406	$ 10,844	$ 9,627,669

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ (263,897)	$ (440,367)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	26,524	32,498
Loss on sale of fixed asset	592	539
Change in net assets due to merger	-	(91,639)
Property and equipment received due to merger	-	(6,587)
Changes in operating assets and liabilities		
Accounts receivable	(34,609)	38,453
Other receivables	40,953	(142,394)
Prepaid expenses and other	5,619	(3,218)
Accounts payable	(83,652)	7,680
Accrued salaries and benefits	(28,741)	103,445
Other accrued expenses	6,796	(49,968)
Net Cash used for Operating Activities	(330,415)	(551,558)
Cash Flows from Investing Activities		
Purchase of fixed assets	(8,517)	(25,257)
Net Cash used for Investing Activities	(8,517)	(25,257)
Cash Flows from Financing Activities		
Loan from affiliates, net	486,200	662,087
Net Cash from Financing Activities	486,200	662,087
Net Change in Cash and Cash Equivalents	147,268	85,272
Cash and Cash Equivalents, Beginning of Year	174,297	89,025
Cash and Cash Equivalents, End of Year	$ 321,565	$ 174,297
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Property and equipment received due to merger	$ -	$ 6,587
Supplemental Schedule of Non-cash Operating Activities		
Acquisition of PATH, Inc.		
Accounts receivable	$ -	$ 267,409
Prepaid expenses	-	4,134
Accounts payable	-	(125,222)
Accrued expenses	-	(54,682)
	$ -	$ 91,639

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Kindred Family Focus (Kindred, we, us, our, or the Organization) is a non-profit Minnesota corporation, other than a private foundation, organized pursuant to Chapter 317 of Minnesota statutes and is exempt from federal income taxes under code section 501(c)(3).

Effective April 1, 2017, the Professional Association of Treatment Homes, Inc. (PATH Inc.) merged with Kindred Family Focus and is no longer a separate legal entity. PATH Inc. was previously a subsidiary of PATH North Dakota, Inc. providing foster care to children with special needs in Minnesota. On March 4, 2017, PATH North Dakota, Inc. entered into an affiliation agreement with Nexus. Kindred Family Focus also has an affiliation agreement with Nexus. The services that PATH Inc. had previously provided continue to be offered after the merger date through Kindred Family Focus. Per Accounting Standards Codification (ASC) 958-805-50-2, the major classes of assets and liabilities that had a significant change due to the merger are disclosed in Note 10.

Mission

We provide foster care, family-based therapy for children not in foster care and adoption placement services, and counseling for foster care and adoptive families in Minnesota. Our programs are accomplished by specially trained foster parents and families that are supported by professional social workers.

Related Party Activity

We are part of an affiliated nonprofit group that shares common management through affiliation agreements and agreements for administrative services. Other members of this affiliated nonprofit group are: Nexus, Nexus Diversified Community Services, PATH North Dakota, Inc., Woodbourne Center, Inc., and Woodbourne Center Charitable Trust. Transactions entered into with these affiliates have been identified within these financial statements as related party transactions (Note 8). Based on the nature of the relationship with above noted entities, there are no requirements to consolidate these entities into our financial statements.

Basis of Accounting

The financial statements contained herein have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Accounts Receivable and Doubtful Accounts

Accounts receivable are stated at the amount management expects to collect from outstanding balances, net of the allowance for doubtful accounts, and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized, and we do not charge interest on accounts receivable balances. We review accounts receivable balances on a periodic basis and write off delinquent receivables when deemed uncollectable. Management determines the allowance for doubtful accounts receivable based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year. At both December 31, 2018 and 2017, there was no allowance recorded.

Property and Equipment

Property and equipment additions over $500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2018 and 2017, respectively.

Net Assets

Net Assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
>
> *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. A donation is released from restriction when it is spent for its specific purpose, or when a donor restriction expires, that is, when a stipulated time restriction ends, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization did not have any net assets with donor-imposed restrictions that are perpetual in nature.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Contributions and Grants

Contributions and grants are recognized when cash, securities or other assets, or an unconditional promise to give is received. All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended December 31, 2018 and 2017, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Depreciation expense is allocated on a square footage basis. All other expense categories are allocated on the basis of estimates of time and effort or actual expenses.

Income Taxes

Kindred Family Focus is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(viii), and has been determined not to be a private foundation under Sections 509(a)(2). We are required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS on an annual basis. In addition, we are subject to income tax on net income that is derived from business activities that are unrelated to our exempt purpose. We have determined it is not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

We believe we have appropriate support for any tax positions taken affecting out annual filing requirements, and as such, do not have any uncertain tax positions that are material to the financial statements. We would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Financial Instruments and Credit Risk

We maintain cash balances at various financial institutions. A portion of these balances exceeds the financial institutions' $250,000 of FDIC insurance coverage.

We have the majority of our accounts receivable with various units of state and local government. The amount of loss we would incur should this group default is not determinable. We require contracts be executed with our primary government funders to minimize the risk of this credit concentration. We do not require collateral for the extension of credit.

Change in Accounting Policy

As of January 1, 2018, the Organization adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Organization's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Organization's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Organization's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Organization has elected not to present comparative information for the disclosure about liquidity and availability of resources.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

Subsequent Events

We have evaluated subsequent events through June 5, 2019, the date the financial statements were available to be issued.

Note 2 - Property and Equipment

Property and equipment consists of the following at December 31, 2018 and 2017:

	2018	2017
Leasehold improvements	$ -	$ 2,975
Equipment	168,778	162,240
Property and equipment in process	-	5,987
	168,778	171,202
Less accumulated depreciation	(137,856)	(121,681)
Total property and equipment, net	$ 30,922	$ 49,521

Depreciation expense totaled $26,524 and $32,498 for the years ended December 31, 2018 and 2017, respectively.

Note 3 - Employee Benefits

We participate in the Nexus tax-deferred retirement plan (the Plan) qualified under Section 401(k) of the Internal Revenue Code, covering substantially all full-time employees. Under the Plan, we match employee elective deferrals 100% for the first 1% of wages deferred, and 50% additional deferrals up to a maximum of 6%. Employee deferrals vest immediately; employer matching contributions vest after two years. During the years ended December 31, 2018 and 2017, we matched employee elective deferrals by contributing $72,405 and $69,575 to the Plan, respectively.

Note 4 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

Cash and cash equivalents	$ 270,980
Receivables	1,157,399
	$ 1,428,379

Kindred Family Focus regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization has financial assets available to meet general expenditures over the next 12 months. Please see the Organization's statement of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for the year ended December 31, 2018.

Note 5 - Major Customers

A major portion of our operations is dependent upon two large customers. The loss of these customers could have a material adverse effect our operations. During the years ended December 31, 2018 and 2017, these customers accounted for $2,190,689 or 25.2%, and $2,077,128 or 24.1%, respectively, of contract revenue. In addition, these customers accounted for $190,305 or 18.1% and $264,984 or 26.1% of accounts receivable as of December 31, 2018 and 2017, respectively.

Note 6 - Leases

We lease office space, vehicles, and equipment under various operating leases, expiring at various dates through 2023. Future minimum lease payments are as follows:

Years Ending December 31,	Total
2019	$ 239,742
2020	164,027
2021	79,986
2022	69,419
2023	44,210
	$ 597,384

Total lease expense for the years ended December 31, 2018 and 2017, totaled $316,162 and $347,777, respectively.

Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2018 and 2017:

	2018	2017
Foster care expansion	$ 25,119	$ -
Kindred CARES	25,051	-
Various	415	1,873
	$ 50,585	$ 1,873

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows as follows during the years ended December 31, 2018 and 2017:

	2018	2017
Foster care expansion	$ 29,881	$ 85,000
Kindred CARES	60,907	83,941
Net assets due to merger	-	3,697
Camp grant for foster youth	-	10,200
Adoption services	222,771	215,043
Pohlad Grant	10,000	-
Mardag Grant	15,000	-
Health Transitions and Homeless Prevention	48,196	-
Various	12,215	-
	$ 398,970	$ 397,881

Note 8 - Related Party Transactions

We had the following transactions with our affiliated companies (see Note 1) for the years ended December 31, 2018 and 2017:

	2018	2017
Due to affiliates as of January 1	$ (1,789,986)	$ (1,127,899)
Loans from affiliates	(455,000)	(965,000)
Charges for various operational expenses	(934,080)	(291,192)
Charges for management services provided by NDCS	(361,665)	(364,173)
Contributions from affiliates	-	(374,153)
Payments to affiliates	1,264,545	1,332,431
Due to affiliates as of December 31	$ (2,276,186)	$ (1,789,986)

Amounts due to/from affiliates do not accrue interest income or expense.

Note 9 - Management's Plans for Operations

Management has evaluated the current situation of Kindred Family Focus in light of past negative net asset balances and identified the key drivers of the negative trend. Though the contribution margin provided by Kindred Family Focus was negative in 2017 and the negative margins continued in 2018, the loss has diminished by 40%, which is an indicator that the strategic initiative to branch out into community-based services (such as CTSS) and expand programs in order to gain critical size is continuing to improve under the Nexus strategy of program sustainability. Nexus is currently working to create synergies in CTSS as potential affiliations with other programs are being reviewed, offering the opportunity to create even higher economies of scale because the Kindred Family Focus CTSS program in particular, will potentially be merged under new affiliate programs. In addition to potential mergers for the CTSS program, recent operating changes and the application for additional grant revenues for 2019 will help improve results. Management's goal is to continue to implement operational changes that will improve the financial performance of the CTSS program under Kindred Family Focus in order to continue to provide valuable treatment foster care, adoption and community-based services additional specialized services in early childhood mental health.

Note 10 - Business Combination

Effective April 1, 2017, we acquired PATH, Inc. and all of its assets, trade payables and accrued liabilities. There was no additional consideration received related to this acquisition. The acquisition of PATH, Inc. was a result of Nexus' affiliation with PATH North Dakota (see Note 1) and is intended to create synergies in performing program services between what was previously performed by the two separate organizations.

The following table summarizes the fair values of the assets acquired and the liabilities assumed at the acquisition date:

Accounts receivable	$ 267,409
Prepaid expenses	4,134
Property, plant, and equipment	6,587
Total identifiable assets acquired	278,130
Accounts payable	125,222
Accrued liabilities	54,682
Net assets acquired	$ 98,226

The estimates of non-recurring fair values are Level 3 inputs which have been determined by management based on judgement as to the anticipated settlement of assumed assets and liabilities. The net book value for the property and equipment received was determined to approximate fair value. No other tangible or intangible assets were identified.