FOSTER ADOPT CONNECT, INC.

Financial Statements
and Independent Auditors' Report

December 31, 2016 and 2015

FOSTER ADOPT CONNECT, INC.

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Hutchins & Haake, LLC
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Foster Adopt Connect, Inc.
Independence, Missouri

Report on the Financial Statements
We have audited the accompanying financial statements of Foster Adopt Connect, Inc. (the Organization) a Missouri nonprofit corporation, which comprise the statements of financial position as of December 31, 2016 and 2015 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 the 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these 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 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 auditors' 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 Foster Adopt Connect, Inc. as of December 31, 2016 and 2015, and the results of its activities and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hutchins & Haake, LLC
Hutchins & Haake, LLC
Certified Public Accountants

July 19, 2017
Overland Park, Kansas

FOSTER ADOPT CONNECT, INC.

Statements of Financial Position

December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 528,533	$ 240,019
Funds held by Truman Heartland Community Foundation	-	1,283
Contracts and grants receivable	182,840	56,500
Related party receivable	812	802
Unconditional promises to give, current portion	12,333	36,436
Prepaid expenses	21,642	17,461
Inventory	12,581	10,001
Total current assets	758,741	362,502
Property and equipment, net	3,636,922	3,869,212
Long-term unconditional promises to give, net of discount	15,508	8,269
Total assets	$ 4,411,171	$ 4,239,983
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 5,209	$ 7,471
Accrued payroll	87,381	78,245
Payroll withholdings and taxes	30,445	26,582
Real estate tax liability	1,249	-
Current portion of notes payable	37,171	39,623
Total current liabilities	161,455	151,921
Notes payable, net of current portion	1,678,826	1,844,906
Total liabilities	1,840,281	1,996,827
Net assets:		
Unrestricted	2,146,849	1,933,056
Temporarily restricted	424,041	310,100
Total net assets	2,570,890	2,243,156
Total liabilities and net assets	$ 4,411,171	$ 4,239,983

The accompanying notes are an integral part of these financial statements.

FOSTER ADOPT CONNECT, INC.

Statement of Activities

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Public support and revenues:			
Contributions and grants	$ 285,031	$ 501,011	$ 786,042
Intake and assessment	885,115	-	885,115
Post-adoptive services contract income	300,000	-	300,000
Licensing contract income	463,131	-	463,131
Behavioral intervention income	719,088	-	719,088
LINC extreme recruitment contract income	600,000	-	600,000
LINC - CCYP	300,000	-	300,000
Stepdown shelter income	11,583	-	11,583
Gain from sale of tax credits	96,224	-	96,224
Interest income	604	-	604
Other income	1,289	-	1,289
Total public support and revenues	3,662,065	501,011	4,163,076
Special event revenues	189,759	-	189,759
Less: cost of direct benefit to donors	(57,792)	-	(57,792)
Net income from special events	131,967	-	131,967
Net assets, released from restrictions	387,070	(387,070)	-
	4,181,102	113,941	4,295,043
Expenses:			
Program	3,236,253	-	3,236,253
Administrative	525,598	-	525,598
Fundraising	205,458	-	205,458
	3,967,309	-	3,967,309
Change in net assets	213,793	113,941	327,734
Net assets, beginning of year	1,933,056	310,100	2,243,156
Net assets, end of year	$ 2,146,849	$ 424,041	$ 2,570,890

The accompanying notes are an integral part of these financial statements.

FOSTER ADOPT CONNECT, INC.

Statement of Activities

For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Public support and revenues			
Contributions and grants	$ 413,512	$ 675,490	$ 1,089,002
Intake and assessment	465,972	-	465,972
Post-adoptive services contract income	150,000	-	150,000
Licensing contract income	504,403	-	504,403
Behavioral intervention income	100,157	-	100,157
LINC funds - Springfield	149,250	-	149,250
LINC extreme recruitment contract income	450,000	-	450,000
Other earned income	1,091	-	1,091
Conference fees and sponsorships	12,250	-	12,250
Stepdown shelter income	99,513		99,513
Gain from sale of tax credits	100,554	-	100,554
Interest income	37	-	37
Other income	4,748	-	4,748
Total public support and revenues	2,451,487	675,490	3,126,977
Special event revenues	167,695	-	167,695
Less: cost of direct benefit to donors	(63,190)	-	(63,190)
Net income from special events	104,505	-	104,505
Net assets, released from restrictions	541,946	(541,946)	-
	3,097,938	133,544	3,231,482
Expenses			
Program	2,805,121	-	2,805,121
Administrative	459,698	-	459,698
Fundraising	255,128	-	255,128
	3,519,947	-	3,519,947
Change in net assets	(422,009)	133,544	(288,465)
Net assets, beginning of year	2,355,065	176,556	2,531,621
Net assets, end of year	$ 1,933,056	$ 310,100	$ 2,243,156

The accompanying notes are an integral part of these financial statements.

FOSTER ADOPT CONNECT, INC.

Statements of Functional Expenses

For the Years Ended December 31, 2016 and 2015

	2016				2015			
	Program	Administrative	Fundraising	Total	Program	Administrative	Fundraising	Total
Salaries	$ 2,337,183	$ 168,343	$ 145,543	$ 2,651,069	$ 1,914,460	$ 107,737	$ 146,734	$ 2,168,931
Payroll taxes	227,622	16,395	14,175	258,192	236,115	7,942	25,093	269,150
Other personnel costs	148,836	10,323	8,925	168,084	102,316	15,002	6,954	124,272
	2,713,641	195,061	168,643	3,077,345	2,252,891	130,681	178,781	2,562,353
Parent training	3,819	-	-	3,819	7,870	-	-	7,870
Lawyers for Kids	5,769	-	-	5,769	10,666	-	-	10,666
Technology support	6,645	7,687	337	14,669	12,770	10,216	2,131	25,117
Depreciation	-	150,194	-	150,194	-	123,135	-	123,135
Dues and subscriptions	15,926	-	-	15,926	7,419	1,518	1,758	10,695
Insurance	19,647	4,016	826	24,489	22,103	2,403	1,846	26,352
Interest	4,650	71,257	-	75,907	2,999	81,443	-	84,442
Conference	637	-	-	637	60,507	-	92	60,599
Loss on disposal of property	11,028	-	-	11,028	-	-	-	-
Meals and entertainment	18,511	-	-	18,511	39,259	1,099	1,970	42,328
Miscellaneous	15,796	1,789	7,022	24,607	3,681	16,487	9,196	29,364
Office expenses	19,392	7,316	1,029	27,737	48,353	15,212	4,907	68,472
Office equipment rental	15,913	1,191	1,020	18,124	19,223	1,847	2,453	23,523
Postage and delivery	2,526	629	379	3,534	3,515	584	3,358	7,457
Printing	3,001	-	200	3,201	4,302	341	16,289	20,932
Advertising	478	-	1,103	1,581	1,723	-	6,945	8,668
Professional services	15,288	65,822	16,000	97,110	23,434	29,042	803	53,279
Rent and occupancy expense	137,391	15,410	2,522	155,323	95,140	36,465	5,471	137,076
Other fundraising expenses	-	-	4,029	4,029	-	-	12,159	12,159
Other program expenses	59,411	-	-	59,411	40,548	-	-	40,548
Specific assistance to individuals	51,980	-	-	51,980	32,178	100	1,148	33,426
Telephone	22,196	2,875	1,148	26,219	21,475	8,001	1,440	30,916
Travel	92,608	2,351	1,200	96,159	95,065	1,124	4,381	100,570
	$ 3,236,253	$ 525,598	$ 205,458	$ 3,967,309	$ 2,805,121	$ 459,698	$ 255,128	$ 3,519,947

The accompanying notes are an integral part of these financial statements.

FOSTER ADOPT CONNECT, INC.

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 327,734	$ (288,465)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	150,194	123,135
Decrease (increase) in operating assets:		
Contracts and grants receivable	(126,340)	47,636
Related party receivable	(10)	954
Unconditional promises to give	16,864	(26,039)
Prepaid expenses	(4,181)	(3,400)
Inventory	(2,580)	(5,283)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	10,737	44,992
Real estate tax liability	1,249	-
Net cash provided by (used in) operating activities	373,667	(106,470)
Cash flows from investing activities:		
Proceeds from sale of property	107,519	-
Investment in property and equipment	(25,423)	(561,160)
Funds held by Truman Heartland Community Foundation	1,283	(13)
Net cash provided by (used in) investing activities	83,379	(561,173)
Cash flows from financing activities:		
Issuance of new debt	-	219,696
Debt repayments	(168,532)	(38,338)
Net cash provided by (used in) financing activities	(168,532)	181,358
Net increase (decrease) in cash and cash equivalents	288,514	(486,285)
Cash and cash equivalents, beginning of year	240,019	726,304
Cash and cash equivalents, end of year	$ 528,533	$ 240,019

The accompanying notes are an integral part of these financial statements.

Note 1 –Summary of Significant Accounting Policies

A. Nature of Activities

Foster Adopt Connect, Inc. (formerly known as Midwest Foster Care and Adoption Association, Inc.) (the Organization), a nonprofit organization, was organized with the purpose of providing foster and adoptive children the opportunity of a stable, caring, and nurturing family environment by recruiting, training, supporting, and providing personal advocacy for foster and adoptive parents. The Organization opened an Intake and Assessment Shelter in July 2012.

B. Basis of Accounting

The policy of the Organization is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned, and expenses and purchases are recognized when the obligation is incurred.

C. Financial Statement Presentation

Financial statement presentation follows the recommendations of FASB ASC 958-205 "Financial Statements of Not-for-Profit Organizations". Under this standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

<u>Unrestricted Net Assets</u>

Unrestricted net assets include all assets which are neither temporarily nor permanently restricted. Unrestricted net assets may include Board-designated funds that are not restricted by the donor. Earnings on investments are reported as increases in unrestricted net assets unless their use is limited by donor stipulation or by laws.

<u>Temporarily Restricted Net Assets</u>

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met, trust activity, deferred gifts and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

<u>Permanently Restricted Net Assets</u>

Permanently restricted net assets include contributed net assets which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. There were no permanently restricted net assets at December 31, 2016 and 2015.

Note 1 –Summary of Significant Accounting Policies (*continued*)

D. Unconditional Promises to Give

The Organization utilizes FASB ASC 958-605, "Not-for Profit Entities Revenue Recognition." This standard requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions.

The Organization receives multi-year promises. The accompanying financial statements reflect multi-year promises discounted by the Organization's expected rate of return for the applicable number of years. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value.

Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their expected cash flows, using applicable interest rates as established by the U.S. Department of the Treasury at the date the pledge was made.

E. Contributed Materials and Services

The Organization records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

F. Volunteers

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with its operations. The value of volunteer services has not been recorded in the financial statements since those services do not meet the criteria for recognition.

G. Bequests

Bequests to the Organization from trusts and estates are recorded as income in the year the assets are received due to the uncertainty of the actual amounts to be received at the time the bequests are made.

H. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

Note 1 –Summary of Significant Accounting Policies (*continued*)

I. Inventory

The Organization receives gifts-in-kind of inventory for the food and clothing bank. Inventory consists of these gifts-in-kind and other items purchased by the Organization and are stated at the lower of cost (first in, first out) or market.

J. Property and Equipment and Depreciation

Property and equipment are recorded at cost for all purchases over $1,000. Donated property and equipment are recorded at their fair value on the date of the donation. Depreciation is computed under the straight-line method using the following estimated useful lives:

Buildings and improvements	10 - 39 years
Furniture and equipment	3 - 5 years
Automobiles	5 years

Major renewals and betterments greater than $1,000 are capitalized. Maintenance, repairs, and minor renewals less than $1,000 are expensed. When property and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gains or losses are included in income.

K. Income Taxes

The Organization is organized as a not-for-profit corporation and qualifies as tax exempt under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deductions under Section 170(b)(1)(A) and has been classified as an Organization other than a private foundation. Accordingly, no provision has been made for income taxes in these financial statements.

The Organization has adopted the provisions of FASB ASC 740-10, “Accounting for Uncertain Tax Positions”. The Organization has evaluated its tax positions and does not believe there are any uncertain tax positions taken by the Organization. The Organization’s Form 990, Return of Organization Exempt from Income Tax, for the years 2013 and forward are subject to examination by the IRS, generally for three years after they were filed.

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

Note 1 –Summary of Significant Accounting Policies (*continued*)

M. Revenue Recognition

Contracts with governmental and other entities are generally recorded as revenue when the related costs are incurred or when the Organization has performed the service and is allowed to bill under the terms of the related agreement.

N. Contributions

Contributions with donor restrictions are reported as increases in unrestricted net assets if the restrictions are met within the same reporting period that the contribution was received.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

O. Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Directly identifiable expenses are charged to the programs and supporting services to which they relate. Expenses related to more than one function are allocated to programs and supporting services, primarily based on staffing levels. Administrative expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Organization.

P. Advertising

Advertising costs of the Organization are expensed as incurred. For the years ended December 31, 2016 and 2015, the Organization incurred advertising expenses of $1,581 and $8,668, respectively.

Q. Subsequent Events

Subsequent events have been evaluated through July 19, 2017, which is the date the financial statements were available to be issued.

R. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications did not result in a change to the previously reported changes in net assets.

Note 2 - Funds Held By Truman Heartland Community Foundation

The Organization had an operating reserve fund at Truman Heartland Community Foundation (THCF). Disbursements could be made, with Board approval, and upon approval by THCF management. These funds were invested in the THCF money market/certificate of deposit pool at December 31, 2015. As of December 31, 2016 the Organization no longer has any funds in the operating reserve fund at THCF and that account has been closed.

Note 3 – Property and Equipment

Property and equipment consisted of the following at December 31:

	2016	2015
Land	$ 180,625	$ 200,625
Buildings and improvements	3,293,807	3,380,719
Computer equipment and software	22,469	22,469
Furniture and Fixtures	424,287	424,287
Vehicles	36,885	23,890
Playground	78,934	68,106
	4,037,007	4,120,096
Less accumulated depreciation	(400,085)	(250,884)
Property and equipment, net	$ 3,636,922	$ 3,869,212

Depreciation expense for the years ended December 31, 2016 and 2015 was $150,194 and $123,135, respectively.

Note 4 – Unconditional Promises to Give

Unconditional promise to give as of December 31, 2016 and 2015 consists of the following:

	2016	2015
Receivable in less than one year	$ 12,333	$ 36,436
Receivable in one to five years	16,000	9,444
Less unamortized present value discount	(492)	(1,175)
Total long-term receivables	15,508	8,269
Net unconditional promises to give	$ 27,841	$ 44,705

Of the $27,841 and $44,705 in unconditional promises to give at December 31, 2016 and 2015, $17,500 and $30,000 were due from one and two donors, respectively.

Long-term promises to give are recognized at fair value, using a discount rate of 1.75%.

Note 5 – Long Term Debt

Long term debt consists of the following at December 31:

	2016	2015
Mortgage payable to a bank, payable in monthly installments of $5,072 including interest at 4.5% with a payment of the remaining unpaid balance on March 18, 2018. This loan is secured by the related building and land.	$ 534,559	$ 570,250
Mortgage payable to a bank, payable in monthly installments of $533 including interest at 4.5% with a payment of the remaining unpaid balance on March 31, 2017. This loan is secured by the related building and land.	-	58,153
A construction loan from a bank to finance renovations to a building purchased in 2013. The loan, which matures in March 2019, has a limit of $2,000,000 and includes interest payable at 4.5%. The loan is secured by substantially all assets of the Organization.	1,181,438	1,256,126
Total long-term debt	1,715,997	1,884,529
Less current portion	(37,171)	(39,623)
Noncurrent maturities of long-term debt	$ 1,678,826	$ 1,844,906

Subsequent to year end, the two notes with balances at December 31, 2016 were combined and refinanced into one note requiring monthly payments of $9,330 including interest at 4.5% with payment of the remaining unpaid balance due in May 2024.

The aggregate amounts of principal maturities for the years ended December 31 are as follows:

2017	$ 37,171
2018	38,706
2019	40,484
2020	42,344
2021	44,289
Thereafter	1,513,003
Total	$ 1,715,997

Note 6 – Fundraising Campaigns

In 2011, the Organization began the Forever Home Capital Campaign for the purchase and development of properties for its current and future programs. Expenses related to this campaign are included on the Statement of Functional Expenses in their related categories as fundraising costs. The Campaign was closed in November 2016 and has been reorganized into the Capacity Building Campaign to focus on increasing the capacity for future growth. The new campaign additionally has a remaining goal to pay off the principal balances of the construction loan and mortgages described in Note 5 and increasing the reserve funds.

Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31:

	2016	2015
Advocacy Support Group Grants	$ 25,940	$ 4,750
Behavioral Interventionists Program Grant	26,195	121,198
Lawyers for Kids	9,569	9,569
Grant for Truck	6,000	6,000
LINC- Extreme Recruitment	43,118	61,272
LINC CCYP	114,765	
Health Care Foundation (30 Days to Family)	23,574	-
Kansas Health Care Foundation Grant	6,205	6,205
Sammy's Window	6,561	1,561
[redacted] Grant for Advocacy	96,372	50,000
Support Group Meals	489	1,000
Royals Charity- Playground	11,000	11,000
Shelter Activities	731	12,077
Tax Credits for Shelter Operations	12,077	25,468
Therapist Salary Grant	25,468	-
Capacity Building-SWMO	4,500	-
[redacted] Grant-NWMO	10,000	-
Asphalt playground	1,478	-
	$ 424,041	$ 310,100

Note 8 – Concentration of Credit Risk

The Organization maintains cash in bank deposit accounts at financial institutions. Accounts at the bank institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 and at times may exceed this limit.

Note 9 – Significant Concentrations

For the year ended December 31, 2016 revenue from three major contractors accounted for 63% of total support and revenues. For the year ended December 31, 2015 revenue from three major contractors accounted for 48% of total support and revenues.

Note 10 – Lease Commitment

The Organization entered into a lease for office space in Springfield, Missouri in September 2014. The previous lease expired in December 2015 and required fixed monthly rental payments of $1,600. Beginning November 2015, the Organization entered into a new lease that expires October 31, 2017 and requires fixed monthly rental payments of $4,500. During the years ended December 31, 2016 and 2015, rent expense of $54,000 and $25,000, respectively, was incurred related to these leases. Future minimum lease payments under this operating lease for the year ending December 31, 2017 are $45,000.

Note 11 – Sale of Income Tax Credits

During the years ended December 31, 2016 and 2015, the Organization sold Affordable Housing Assistance Program (AHAP) tax credits they held with the State of Missouri to donors in exchange for contributions. The Organization received $96,224 and $100,554 respectively, in exchange for the rights to tax credits during the years ended December 31, 2016 and 2015. The income related to the sale of the tax credits has been segregated from general contributions on the income statement.

Note 12 – Related Party Transactions

During the years ended December 31, 2016 and 2015, the Organization received contributions from members of the Board of Directors of $89,990 and $53,210, respectively. Additionally, $24,875 and $41,503 of the balances in pledges receivable were from related parties at December 31, 2016 and 2015, respectively.

Note 12 – Retirement Plan

The Organization sponsors a 403(b) plan that is open to participation by all employees who have completed at least 60 days of employment, provided they remain employed through December 31 of each respective year. The Organization matches up to 6% of the employee's voluntary contribution. During the year ended December 31, 2016, the Organization's contribution to the Plan was $24,403. There was no contribution during the year ended December 31, 2015.

Note 13 – Commitments

The Organization has entered into a contract for fund development support with an outside consultant. The agreement requires monthly payments of $4,000 through September, 2017.

The Organization has additionally entered into a contract for governmental consulting and educational services with an outside consultant. The agreement requires monthly payments of $2,500 through November, 2017.

Future payments under these agreements for the year ending December 31, 2017 are $63,500.