



NORTH AMERICAN FAMILY INSTITUTE, INC.

**Independent Auditors' Reports as Required by Rules of the Florida General Auditor,
Chapter 10.650 and *Government Auditing Standards* and
Related Information**

Year ended June 30, 2014

(With Independent Auditors' Report Thereon)

NORTH AMERICAN FAMILY INSTITUTE, INC.

**Independent Auditors' Reports as Required by Rules of the Florida General Auditor,
Chapter 10.650 and *Government Auditing Standards* and
Related Information**

Table of Contents

	Exhibit
Independent Auditors' Report on Compliance for Each Major State Financial Assistance Project; Report on Internal Control over Compliance; and Report on Schedule of State Financial Assistance Required by Chapter 10.650, <i>Rules of the Auditor General</i>	I
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	II
Schedule of Findings and Questioned Costs	III
Financial Statements and Supplementary Information – Schedule of Expenditures of State Financial Assistance	IV



KPMG LLP
Two Financial Center
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Exhibit I

**Independent Auditors' Report on Compliance for the Major State Financial Assistance Project;
Report on Internal Control over Compliance; and Report on Schedule of State Financial
Assistance Required by Chapter 10.650, *Rules of the Auditor General***

The Board of Directors
North American Family Institute, Inc.:

Report on Compliance for Each Major State Financial Assistance Project

We have audited North American Family Institute, Inc.'s (NAFI's) compliance with the types of compliance requirements described in the *Executive Office of the Governor's State Project Compliance Supplement* that could have a direct and material effect on NAFI's major state financial assistance project for the year ended June 30, 2014. NAFI's major state financial assistance project is identified in the summary of auditors' 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 state financial assistance project.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for NAFI's major state financial assistance project 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 Chapter 10.650, *Rules of the Auditor General*. Those standards and Chapter 10.650 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 state financial assistance project occurred. An audit includes examining, on a test basis, evidence about NAFI'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 NAFI's major state financial assistance project. However, our audit does not provide a legal determination of NAFI's compliance.

Opinion on the Major State Financial Assistance Project

In our opinion, NAFI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state financial assistance project for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of NAFI 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 NAFI's internal control over compliance with the types of requirements that could have a direct and material effect on its major state financial assistance project to



Exhibit I

determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major financial assistance project and to test and report on internal control over compliance in accordance Chapter 10.650, *Rules of the Auditor General*, 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 NAFI'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 state financial assistance project 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 state project 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 state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by Chapter 10.650, *Rules of the Auditor General*

We have audited the consolidated financial statements of NAFI as of and for the year ended June 30, 2014, and have issued our report thereon dated September 30, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.650, *Rules of the Auditor General* 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 audit 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 schedule of expenditure of state financial assistance is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 29, 2014



KPMG LLP
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60 South Street
Boston, MA 02111

Exhibit II

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

The Board of Directors
North American Family Institute, Inc.:

We have audited, in accordance with the 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 North American Family Institute, Inc. (NAFI) which comprise the statement of consolidated financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered NAFI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of NAFI's internal control. Accordingly, we do not express an opinion on the effectiveness of NAFI'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of NAFI's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NAFI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NAFI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

September 30, 2014

NORTH AMERICAN FAMILY INSTITUTE, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Noncompliance material to the financial statements noted? _____ yes X no

State Financial Assistance Project

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650, Rules of the Auditor General? _____ yes X no

Major State Financial Assistance Project:

<u>Title</u>	<u>CSFA</u>	<u>State contract/grant number</u>
Alachua Academy	80.017	R2068

The threshold for distinguishing Type A and Type B projects was \$300,000 for major state financial assistance projects.

(2) Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to State Financial Assistance Projects

None.

NORTH AMERICAN FAMILY INSTITUTE, INC.
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

- (4) Corrective Action Plan Pursuant to Section 215.97(8)(f), Florida Statutes**
Not required.
- (5) Management Letter Pursuant to Section 215.97(9)(f), Florida Statutes**
Not required.
- (6) Prior Year Findings and Questioned Costs**
None.



Exhibit IV

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES****Consolidated Financial Statements**

June 30, 2014

	Page(s)
Independent Auditors' Report	IV-1–IV-2
Consolidated Statement of Financial Position	IV-3
Consolidated Statement of Activities	IV-4
Consolidated Statement of Functional Expenses	IV-5
Consolidated Statement of Cash Flows	IV-6
Notes to Consolidated Financial Statements	IV-7–IV-15
Independent Auditors' report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	IV-16–IV-17
Schedule of Expenditures of State Financial Assistance	IV-18
Notes to Supplemental Schedule of Expenditures of State Financial Assistance	IV-19



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Exhibit IV

Independent Auditors' Report

The Board of Directors
North American Family Institute, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of North American Family Institute, Inc. and subsidiaries (NAFI), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 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 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 organization'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 organization'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 refer to above present fairly, in all material respects, the consolidated financial position of NAFI as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014 on our consideration of NAFI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 NAFI's internal control over financial reporting and compliance.

KPMG LLP

September 30, 2014

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Consolidated Statement of Financial Position

June 30, 2014

Assets

Current assets:	
Cash and equivalents	\$ 10,327,253
Restricted cash (note 5)	122,685
Accounts receivable, net (note 2)	8,421,029
Prepaid expenses and other current assets	<u>506,619</u>
Total current assets	<u>19,377,586</u>
Property and equipment (note 5):	
Buildings and improvements	31,394,910
Land	4,887,523
Equipment and furnishings	4,068,988
Motor vehicles	1,693,244
Construction in progress	<u>280,443</u>
	42,325,108
Less accumulated depreciation	<u>(21,901,519)</u>
Property and equipment, net	20,423,589
Investments (note 4)	780,294
Other assets (note 5)	<u>1,021,717</u>
Total assets	<u>\$ 41,603,186</u>

Liabilities and Net Assets

Current liabilities:	
Current portion of long-term debt (note 5)	\$ 1,673,460
Accounts payable	1,920,626
Line of credit (note 3)	1,446,842
Accrued payroll and related liabilities	3,626,000
Other accrued expenses	1,897,980
Deferred revenue (note 9)	<u>2,004,928</u>
Total current liabilities	<u>12,569,836</u>
Long-term liabilities:	
Long-term debt, net of current portion (note 5)	<u>11,648,709</u>
Total long-term liabilities	<u>11,648,709</u>
Total liabilities	<u>24,218,545</u>
Net assets:	
Unrestricted	17,197,753
Temporarily restricted	<u>186,888</u>
Total net assets	<u>17,384,641</u>
Total liabilities and net assets	<u>\$ 41,603,186</u>

See accompanying notes to consolidated financial statements.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Consolidated Statement of Activities

Year ended June 30, 2014

Changes in unrestricted net assets:	
Revenues and other support:	
Contracts, net (note 2 and 10)	\$ 87,275,819
Contributions:	
In-kind	2,764,940
Other	205,991
Interest and dividends	143,897
Miscellaneous	356,668
	<u>90,747,315</u>
Net assets released from program restrictions	<u>23,758</u>
Total revenues and other support	<u>90,771,073</u>
Expenses:	
Program services (note 10)	80,054,086
Supporting services	10,141,397
Total expenses	<u>90,195,483</u>
Increase in unrestricted net assets before nonoperating activities	575,590
Nonoperating revenues	
Net realized and unrealized gain on investments	133,060
Net gain on interest rate swap (note 5)	59,453
Gain on sale of property and equipment	234,735
Increase in unrestricted net assets before effects of affiliation	<u>1,002,838</u>
Effects of affiliation (note 8)	<u>696,559</u>
Increase in unrestricted net assets after effects of affiliation	<u>1,699,397</u>
Changes in temporarily restricted net assets:	
Contributions	21,445
Net assets released from program restrictions	<u>(23,758)</u>
Decrease in temporarily restricted net assets	<u>(2,313)</u>
Increase in net assets	1,697,084
Net assets at beginning of year	<u>15,687,557</u>
Net assets at end of year	<u>\$ 17,384,641</u>

See accompanying notes to consolidated financial statements.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Consolidated Statement of Functional Expenses

Year ended June 30, 2014

	<u>Program services</u>	<u>Supporting services</u>	<u>Total</u>
Personnel expenses:			
Salaries, payroll taxes and employee benefits	\$ 55,955,843	7,191,446	63,147,289
Other expenses:			
Contracted services	6,252,228	1,149,201	7,401,429
Occupancy	3,707,115	523,947	4,231,062
Other direct expenses	2,876,337	602,771	3,479,108
Consumables	3,191,768	—	3,191,768
In-kind	2,759,209	5,731	2,764,940
Transportation	2,053,856	242,374	2,296,230
Equipment	664,901	90,941	755,842
Interest	506,853	29,198	536,051
	<u>22,012,267</u>	<u>2,644,163</u>	<u>24,656,430</u>
Depreciation and amortization	<u>2,085,976</u>	<u>305,788</u>	<u>2,391,764</u>
Total expenses	<u>\$ 80,054,086</u>	<u>10,141,397</u>	<u>90,195,483</u>

See accompanying notes to consolidated financial statements.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Consolidated Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:	
Increase in net assets	\$ 1,697,084
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Effects of affiliation	(696,559)
Depreciation and amortization	2,391,764
Gain on disposal of property and equipment	(234,735)
Net realized and unrealized gain on investments	(133,060)
Change in value of interest rate swap	(59,453)
Changes in assets and liabilities:	
Accounts receivable, net	399,006
Prepaid expenses and other current assets	(55,867)
Other assets	222,857
Accounts payable	884,405
Accrued payroll and related liabilities	(90,263)
Other accrued expenses	155,601
Deferred revenue	(890,975)
Net cash provided by operating activities	<u>3,589,805</u>
Cash flows from investing activities:	
Net change in restricted cash	1,542
Purchases of property and equipment	(1,428,263)
Purchases of investments	(122,744)
Proceeds from sale of property and equipment	449,554
Proceeds from sale of investments	123,365
Net cash used in investing activities	<u>(976,546)</u>
Cash flows from financing activities:	
Issuance of long-term debt	174,756
Repayments of long-term debt	(1,242,090)
Advances from line of credit	4,491,762
Repayments of line of credit	(5,219,920)
Net cash used in financing activities	<u>(1,795,492)</u>
Net increase in cash and equivalents	817,767
Cash and equivalents at beginning of year	<u>9,509,486</u>
Cash and equivalents at end of year	<u>\$ 10,327,253</u>
Supplemental data:	
Cash paid for interest	\$ 537,103

See accompanying notes to consolidated financial statements.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The accompanying financial statements include the activities and balances of North American Family Institute, Inc. and its subsidiaries, including NAFI Connecticut, Inc. (NAFICT), NFI Massachusetts, Inc. and subsidiary (NFI), NFI North, Inc. (NFIN), and NFI Vermont, Inc. (NFIV) (collectively NAFI). NAFI is a not-for-profit organization whose purpose is to provide community-based social services to individuals and their families. NAFI's revenues are derived primarily from services contracted with the states of Connecticut, Florida, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont, and Virginia; the federal government; and certain commercial payers.

(a) Basis of Presentation

All intercompany transactions and balances have been eliminated in consolidation.

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on NAFI as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of NAFI and/or the passage of time.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions and/or time restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. Expirations of temporary restrictions occur when donor-imposed stipulated purposes have been accomplished and/or the stipulated time period has elapsed. If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specified external source of revenue.

(b) Revenue Recognition

Under cost reimbursement contracts, revenues are recognized as expenses are incurred. Under units-of-service contracts, revenues are recognized when services are provided.

(c) Income Taxes

NAFI is an organization described under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally exempt from income taxes under IRC Section 501(a). NAFI has taken no significant uncertain tax positions.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2014

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Concentration of Risk

NAFI receives the majority of its funding from state and federal contracts that are renewable annually. Legislative budgets could significantly impact NAFI's ability to start new programs and to continue existing programs.

(f) Cash Equivalents

All short-term investments with an original maturity at purchase of three months or less are considered cash equivalents for purposes of the statement of cash flows. Restricted cash consists of funds reserved in connection with the bonds issuance as described in note 5.

(g) Property and Equipment

Property and equipment are recorded at cost or, in the case of donated property, at fair value at the date of gift. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	15–33.3 years
Equipment and furnishings	2–10 years
Motor vehicles	3–5 years

Leasehold improvements are depreciated or amortized according to the organization's normal depreciation policy except that the time period shall be the shorter of: (1) the useful life of the leasehold improvements, or (2) the remaining years of the lease. The remaining years of the lease include the years in the lease renewals that are reasonably assured.

(h) Self-Insurance

NAFI is self-insured for employee medical healthcare costs. At June 30, 2014, the estimated liability for healthcare claims incurred but not yet reported or paid was \$467,176 and is included in accrued payroll and related liabilities in the accompanying consolidated statement of financial position.

(i) In-Kind Contributions

In-kind contributions are generally recognized at fair value on the date received. During fiscal 2014, NAFI received in-kind contributions of rent, services, equipment and furnishings, utilities and consumables amounting to \$2,764,940.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2014

(j) Fair Value of Financial Instruments

Fair value represents the price that NAFI would receive upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. NAFI uses a three-tier hierarchy to categorize those assets and liabilities based on those valuation methodologies employed. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, credit risk, etc.).
- Level 3 – significant unobservable inputs (including NAFI's own assumptions in determining the fair value of financial instruments).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. NAFI utilizes valuation techniques that maximizes the use of observable inputs and minimizes the use of unobservable inputs to the extent possible.

(k) Subsequent Events

NAFI has evaluated events subsequent to June 30, 2014 and through September 30, 2014 which is the date that the consolidated financial statements were available to be issued. NAFI has determined there are no material events that would require recognition or disclosure in this report through this date.

(2) Accounts Receivable

Accounts receivable of \$8,421,029 is carried net of allowances for estimated contractual adjustments and doubtful accounts receivable of \$386,302. Contract revenues of \$87,275,819 in 2014 have been decreased by estimated contractual adjustments of \$559,008.

(3) Line of Credit

NAFI makes available to its subsidiaries, including NAFICT, NFIV, NFI, NFIN and TCA, an on demand \$8,000,000 line of credit from TD Bank. The line of credit bears interest at a fluctuating rate per annum equal to the Wall Street Journal Prime Rate, plus 0.50% per annum, (3.75% at June 30, 2014). Borrowings under the line are jointly guaranteed by NAFI, NAFICT, NFIV, NFI, and NFIN and are collateralized by substantially all of their assets.

Borrowings under the line of credit are due upon demand, and the line is subject to annual renewal. At June 30, 2014, \$1,446,842 was outstanding under this line of credit.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2014

In addition, NAFI has entered into Letter of Credit agreements with TD Bank for the year ended June 30, 2014 for a total of \$2,269,134. The Letter of Credit agreements can be utilized by all subsidiaries in the aggregate of \$8,000,000 and are not collateralized with additional cash. The Letter of Credit agreements are a requirement of NAFI's workers' compensation carrier.

(4) Investments

Investments are carried at fair value. Investments at June 30, 2014 consisted of the following:

Equities	\$	597,158
Cash and equivalents		78,761
Corporate bonds		78,719
Government/agency bonds		25,656
		780,294
	\$	780,294

All investments are valued using Level 1 inputs in accordance with the fair value hierarchy, except corporate bonds that are considered Level 2. There were no transfers between fair value levels during the year.

(5) Long-Term Debt

Long-term debt at June 30, 2014 consisted of the following:

Interest rate at June 30, 2014	Fiscal year due	Amount
Bonds payable:		
4.860% fixed	2023	\$ 620,209
3.750% – 4.700% variable	2024	848,371
0.060% variable	2027	1,941,000
3.400% fixed	2041	328,948
Total bonds payable		3,738,528
Mortgages payable, secured by real estate:		
5.000% fixed	2015	234,515
4.250% variable	2015	42,679
4.510% fixed	2015	32,926
7.08% variable	2016	444,845
4.450% fixed	2016	296,655
3.84% variable	2016	154,418
3.500% fixed	2017	243,447
3.750% fixed	2017	18,290
2.63% fixed	2018	514,859
6.43% fixed	2018	483,152
3.590% fixed	2018	253,874

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2014

<u>Interest rate at June 30, 2014</u>	<u>Fiscal year due</u>	<u>Amount</u>
4.110% fixed	2018	\$ 126,103
5.08% fixed	2019	259,710
4.290% fixed	2022	222,206
2.000% fixed	2022	82,649
5.125% fixed	2024	171,733
4.240% variable	2026	853,726
8.500% fixed	2026	112,876
4.75% variable	2026	78,784
0.00% fixed*	2027	160,000
8.00% fixed	2027	46,816
0.00% fixed*	2028	160,000
8.00% fixed	2028	46,488
8.00% fixed	2030	228,805
7.00% fixed	2030	139,846
7.00% fixed	2030	130,019
0.00% fixed*	2030	125,000
0.00% fixed*	2030	116,767
7.00% fixed	2031	323,718
4.75% fixed	2031	138,407
0.00% fixed*	2031	100,000
5.250% fixed	2016	266,625
0.000% fixed**	2016	63,000
0.000% fixed**	2016	50,000
3.750% fixed	2017	57,075
3.390% fixed	2018	105,757
3.490% fixed	2018	47,289
4.350% fixed	2019	318,916
4.350% fixed	2019	196,907
4.290% fixed	2022	128,973
4.980% fixed	2026	145,001
3.630% fixed	2028	302,424
3.970% fixed	2029	439,381
5.250% fixed	2031	318,956
6.625% variable	2031	221,401
0.000% fixed**	2031	179,296
0.000% fixed*	2034	75,000
Total mortgages payable		9,259,314
Vehicle notes, secured by automobiles:		
0.00% fixed	2015	9,924
0.00% fixed	2015	8,624

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2014

<u>Interest rate at June 30, 2014</u>	<u>Fiscal year due</u>	<u>Amount</u>
0.00% fixed	2015	\$ 8,624
0.00% fixed	2015	8,623
0.00% fixed	2015	8,623
0.00% fixed	2015	8,623
1.90% fixed	2015	6,156
5.500% fixed	2015	1,474
0.00% fixed	2016	11,223
4.450% fixed	2016	10,120
3.000% fixed	2016	9,338
4.500% fixed	2016	8,659
4.450% fixed	2016	6,593
4.500% fixed	2016	4,601
1.90% fixed	2017	20,468
0.000% fixed	2017	18,036
3.000% fixed	2017	17,988
1.90% fixed	2017	16,244
1.90% fixed	2017	16,236
1.90% fixed	2017	15,696
1.90% fixed	2017	14,927
0.900% fixed	2017	12,605
0.900% fixed	2017	12,035
4.450% fixed	2018	19,945
0.90% fixed	2018	18,532
1.93% fixed	2018	14,042
4.190% fixed	2019	16,367
Total vehicle notes payable		<u>324,326</u>
Total long-term debt		13,322,168
Less current portion		<u>(1,673,460)</u>
Total long-term debt, net of current portion		<u>\$ 11,648,708</u>

* Certain mortgages payable to housing authorities provide that a portion of the principal will be forgiven at the end of the loan period if the underlying properties are used to provide housing in accordance with stipulated conditions. In addition, certain mortgages payable contain various prepayment penalties.

** Mortgages payable to North Shore Home Consortium, Federal Home Loan Bank and Community Economic Development Assistance (CEDAC) provide that the principal will be forgiven at the end of the loan period if the underlying properties are used to provide housing in accordance with stipulated conditions.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2014

On May 2, 2003, NFI entered into a bond agreement with TD Bank, N.A. for \$2,000,000 at a fixed interest rate of 4.860%. The bond was acquired for the purpose of financing projects and refinancing outstanding debt. The bond is guaranteed by North American Family Institute, Inc.

On June 21, 2007, NFI entered into a bond agreement with Deutsche Bank Trust Company Americas for \$2,600,000 at a variable interest rate (rate at June 30, 2014 was 0.060%). At the same time, NFI entered into an interest rate swap agreement with TD Bank, N.A. to fix the interest rate at 4.320% for the 10 year life of the bond. The fair value of the instrument was a liability of \$204,769 as of June 30, 2014 and is included in other accrued expenses. This swap is considered a Level 2 input in accordance with the fair value hierarchy. The bond was acquired for the purpose of financing projects and paying off two existing mortgages totaling \$1,142,558. The bond is guaranteed by North American Family Institute, Inc. Bond issuance costs of \$99,336 are being amortized over the term of the bonds and are included net of amortization of \$61,959 in other assets in the accompanying consolidated statement of financial position.

On September 13, 2006, NFIV entered into a bond agreement with the Vermont Educational and Health Buildings Financing Agency for a tax-exempt offering of \$995,000 Series 2006A revenue bonds issued by the Developmental and Mental Health Acquisitions Pool with maturities beginning in 2010 and ending in 2024 with interest rates ranging between 3.75% and 4.70%. Bond issuance costs of \$101,223 are being amortized over the term of the bonds and are included net of amortization of \$50,611 in other assets in the accompanying consolidated statement of financial position.

On December 1, 2010, NAFICT entered into a bond agreement with the Connecticut Housing Finance Authority (CHFA) for \$354,211 at a fixed interest rate of 3.40%. The bond was acquired for the purpose of financing property and its renovation projects. The repayment also includes payments to the CHFA Repair and Replacement Reserve Fund for the purpose of funding capital repairs and replacements in excess of \$2,500 per occurrence. Bond issuance costs of \$7,374 are being amortized over the term of the bond and are included net of amortization of \$860 in other assets in the accompanying consolidated statement of financial position.

NAFI is required to maintain certain debt service coverage ratios. NAFI and its subsidiaries are in compliance with all of their debt covenants.

Scheduled repayments of long-term debt are as follows:

	<u>Amount due</u>
Year ending June 30:	
2015	\$ 1,376,805
2016	1,703,286
2017	985,175
2018	1,721,741
2019	936,996
Thereafter	<u>6,598,166</u>
	<u>\$ 13,322,169</u>

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2014

Interest expense was \$536,051 for the year ended June 30, 2014.

(6) Operating Leases

NAFI leases certain property, motor vehicles, and equipment under noncancelable (except under certain circumstances) operating lease arrangements. Rental and lease expense amounted to \$2,224,605 for the year ended June 30, 2014. Future minimum lease payments as of June 30, 2014 are as follows:

	Amount due
Year ending June 30:	
2015	\$ 1,408,803
2016	958,825
2017	590,206
2018	296,147
2019	263,061
Thereafter	71,200
	\$ 3,588,242

(7) Retirement Plan

NAFI has a qualified defined contribution retirement plan for eligible employees to which annual contributions are made at the discretion of NAFI's board of directors. NAFI elected to make a contribution of \$187,959 for the year ended June 30, 2014.

(8) Team Coordinating Agency, Inc. Acquisition/TCA Holding Company Merger

Under the Amended and Restated Agreement to Affiliate effective February 1, 2014, NFI became the sole member of the Team Coordinating Agency, Inc. (TCA). NFI and TCA also entered an agreement pursuant to which Team Coordinating Agency, Holdings, Inc. was terminated and its assets and liabilities were assumed by NFI as the surviving corporation as of February 1, 2014.

The acquisition has been accounted for under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) guidance for not-for-profit entities regarding mergers and acquisitions, which defines a combination of one or more not-for-profit entities, business or nonprofit activities as either a merger or an acquisition. The guidance also establishes principles and requirements in determining whether a not-for-profit entity combination is a merger or acquisition, applies the carryover method in accounting for mergers, applies the acquisition method in accounting for acquisitions, including which of the combining entities is the acquirer, and requires enhanced disclosures about the merger or acquisition.

As a result of the acquisition of TCA and TCA Holding, Inc., NFI recognized approximately \$3,066,030 in assets and assumed \$2,239,471 in liabilities at January 1, 2014 and recognized \$696,559 in its year ended June 30, 2014 consolidated statement of activities.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2014

(9) Contingencies

Through June 30, 2014, NAFI had received a total of \$6,623,939 in bonding grants from the State of Connecticut for improvements to four properties. With these grants NAFI is required to set up liens against the four properties and maintain its operations for 10 years in these locations. If NAFI is not in compliance with these and other restrictions, the State of Connecticut has the ability to request repayment of the funds on a percentage basis. NAFI is in compliance of all restrictions as of June 30, 2014. Revenue from these grants will be recognized over a 10 year period with the unrecognized portion of \$339,442 included in deferred revenue in the accompanying consolidated statement of financial position as of June 30, 2014.

(10) Collaborative Agreement

NFIV participates in a collaborative agreement with two unrelated organizations to operate the Centerpoint Adolescent Treatment Services program. The agreement among the three parties established the collaborative through June 30, 2010, with an option for renewal. The agreement contains a provision that states "nine months before the end of the agreement, discussions shall begin for negotiation of a continuation agreement." As there was no agreement as of June 30, 2010, this agreement shall be considered to be continuing for successive one year periods unless otherwise agreed upon or unless the collaborative ceases to exist. There has been no decision to terminate the agreement and negotiations for renewal are currently ongoing. This agreement provides for cost and revenue sharing above certain pre-defined thresholds. Revenue generated from this collaborative for the year ended June 30, 2014 by NFIV was \$1,511,804, which was included in contract revenue in the consolidated statement of activities. Expenses incurred by NFIV for the collaborative were \$1,532,018 for the year ended June 30, 2014 and are included in program expenses in the consolidated statement of activities.

(11) Matching Funds

Pursuant to Federal Regulations, Title 42, Chapter 4, Part 433, Sections 433.50 and 433.51, revised October 1, 2008, NFIV received funds from state/local government sources for the year ended June 30, 2014 which provide a basis for state and local units of government to participate in financing the nonfederal portion of medical assistance expenditures. These funds exceed the matching funds minimum requirement amount of \$235,080, as determined by the State of Vermont Department of Mental Health.



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Exhibit IV

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

The Board of Directors
North American Family Institute, Inc.:

We have audited, in accordance with the 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 North American Family Institute, Inc. and subsidiaries (NAFI), which comprise the consolidated statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered NAFI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NAFI's internal control. Accordingly, we do not express an opinion on the effectiveness of NAFI'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NAFI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NAFI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

September 30, 2014

NORTH AMERICAN FAMILY INSTITUTE, INC.
(Florida Subsidiary)

Schedule of Expenditures of State Financial Assistance
Year ended June 30, 2014

<u>Project title</u>	<u>CSFA number</u>	<u>State contract/grant number</u>	<u>Total expenditures</u>
State financial assistance:			
Florida Department of Juvenile Justice:			
Alachua Academy	80.017	R2068	\$ <u>1,256,268</u>
Total Florida Department of Juvenile Justice			1,256,268
Florida in-kind contributions*		N/A	<u>120,568</u>
Total expenditures of state financial assistance			<u>\$ 1,376,836</u>

* In-kind contributions consist of rental space of 8,612 square feet for the Alachua Academy

See accompanying notes to schedule of expenditures of state financial assistance.

NORTH AMERICAN FAMILY INSTITUTE, INC.
(Florida Subsidiary)

Notes to Supplemental Schedule of Expenditures of State Financial Assistance

Year ended June 30, 2014

(1) Summary of Significant Accounting Policies

The accounting policies of NAFI conform to U.S. generally accepted accounting principles as applicable to not for profit agencies. The following is a summary of the more significant policies relating to NAFI's grant programs.

(2) Basis of Accounting

The Supplemental Schedule of Expenditures of State Financial Assistance is prepared based on regulations established by the State of Florida using the accrual basis of accounting.