

Inperium, Inc.

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2017 and 2016
with Independent Auditor's Report

INPERIUM, INC.

YEARS ENDED JUNE 30, 2017 AND 2016

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Independent Auditor's Report

Board of Directors
Inperium, Inc.

We have audited the accompanying consolidated financial statements of Inperium, Inc. (nonprofit organization) and affiliates, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inperium, Inc. and affiliates as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 30 through 32 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Maher Duessel

Harrisburg, Pennsylvania
September 14, 2017

INPERIUM, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 818,028	\$ 22,907
Accounts receivable	7,241,549	5,773,597
Inventory	4,915	14,264
Prepaid expenses	110,013	150,321
Total current assets	8,174,505	5,961,089
Land, buildings, leasehold improvements, and equipment:		
Land and buildings	11,017,908	7,428,645
Computer equipment	485,606	409,907
Furniture and fixtures	406,659	100,844
Leasehold improvements	2,491,746	1,484,851
Office equipment	695,270	406,916
Transportation equipment	1,906,947	1,954,045
	17,004,136	11,785,208
Less: accumulated depreciation	(4,758,003)	(3,850,869)
Net land, buildings, leasehold improvements, and equipment	12,246,133	7,934,339
Other assets:		
Security deposits	111,768	124,015
Other asset	-	4,117
Total other assets	111,768	128,132
Total Assets	\$ 20,532,406	\$ 14,023,560
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Revolving line of credit	\$ 200,000	\$ 591,929
Accounts payable	907,550	959,258
Salaries and wages payable	4,338,546	3,166,914
Payroll taxes and amounts withheld from employees	54,271	49,092
Current portion of capital lease obligation	38,971	49,445
Current portion of long-term debt	444,077	376,768
Total current liabilities	5,983,415	5,193,406
Long-term liabilities:		
Accrued lease escalations	59,631	53,102
Security deposits payable	1,384	-
Capital lease obligation	7,186	46,158
Long-term debt (net of financing costs)	7,882,702	5,878,762
Total long-term liabilities	7,950,903	5,978,022
Total Liabilities	13,934,318	11,171,428
Net Assets:		
Unrestricted	6,555,320	2,828,540
Temporarily restricted	42,768	23,592
Total net assets	6,598,088	2,852,132
Total Liabilities and Net Assets	\$ 20,532,406	\$ 14,023,560

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

INPERIUM, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support, Revenues, Gains, and Other Support						
Contract revenue	\$ 57,848,247	\$ -	\$ 57,848,247	\$ 46,989,369	\$ -	\$ 46,989,369
Contributions/grants	2,396,871	19,176	2,416,047	1,064,166	23,592	1,087,758
Client fees	2,182,299	-	2,182,299	1,974,629	-	1,974,629
Other program fees	189,008	-	189,008	59,860	-	59,860
Other income	438,309	-	438,309	363,133	-	363,133
Interest income	987	-	987	604	-	604
Sales (net discounts)	411,179	-	411,179	245,697	-	245,697
Total public support, revenues, gains, and other support	63,466,900	19,176	63,486,076	50,697,458	23,592	50,721,050
Expenses:						
Program services	54,981,102	-	54,981,102	44,987,594	-	44,987,594
Supporting services	6,100,299	-	6,100,299	4,952,305	-	4,952,305
Total expenses	61,081,401	-	61,081,401	49,939,899	-	49,939,899
Change in net assets before non-operating income	2,385,499	19,176	2,404,675	757,559	23,592	781,151
Non-Operating Income						
Excess of fair value of net assets in acquisitions	1,337,281	-	1,337,281	204,105	-	204,105
Non-operating gains	4,000	-	4,000	52,707	-	52,707
Total non-operating income	1,341,281	-	1,341,281	256,812	-	256,812
Change in net assets after non-operating income	3,726,780	19,176	3,745,956	1,014,371	23,592	1,037,963
Net Assets:						
Beginning of year	2,828,540	23,592	2,852,132	1,814,169	-	1,814,169
End of year	\$ 6,555,320	\$ 42,768	\$ 6,598,088	\$ 2,828,540	\$ 23,592	\$ 2,852,132

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

INPERIUM, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	Year Ended June 30,					
	2017			2016		
	Program Services	Supporting Services	Total	Program Services	Supporting Services	Total
Expenses:						
Payroll	\$ 38,190,993	\$ 4,270,410	\$ 42,461,403	\$ 30,513,401	\$ 3,591,914	\$ 34,105,315
Affiliated contract personnel	31,805	-	31,805	-	-	-
Payroll taxes and employee benefits	6,153,308	563,077	6,716,385	5,328,093	380,742	5,708,835
Total payroll and related expenses	44,376,106	4,833,487	49,209,593	35,841,494	3,972,656	39,814,150
Client transportation	1,237,621	18,582	1,256,203	1,117,131	24,882	1,142,013
Communications	560,172	68,103	628,275	507,727	50,218	557,945
Contract personnel	2,073,485	462,528	2,536,013	1,588,112	459,760	2,047,872
Housekeeping expense	932,256	-	932,256	866,750	-	866,750
Insurance expense	303,008	127,149	430,157	168,986	117,144	286,130
Interest expense	410,714	2,654	413,368	320,561	1,457	322,018
Maintenance and repairs	1,063,393	86,729	1,150,122	1,107,007	57,752	1,164,759
Rent expense	1,561,135	35,255	1,596,390	1,444,149	-	1,444,149
Supplies and operating expenses	1,219,228	401,186	1,620,414	1,051,497	229,814	1,281,311
Utilities	753,628	38,976	792,604	604,817	25,365	630,182
Total expenses before depreciation	54,490,746	6,074,649	60,565,395	44,618,231	4,939,048	49,557,279
Depreciation	490,356	25,650	516,006	369,363	13,257	382,620
Total expenses	\$ 54,981,102	\$ 6,100,299	\$ 61,081,401	\$ 44,987,594	\$ 4,952,305	\$ 49,939,899

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

INPERIUM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Increase in net assets	\$ 3,745,956	\$ 1,037,963
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	516,006	382,620
(Gain) loss of sale of assets	(4,000)	(63,508)
Change in:		
Accounts receivable	(698,828)	(575,717)
Prepaid expenses	78,247	(107,132)
Inventory	9,349	10,004
Other assets	(7,993)	(37,473)
Accounts payable	(147,694)	96,633
Other current liabilities	882,582	685,202
Net cash provided by operating activities	4,373,625	1,428,592
Cash Flows From Investing Activities:		
Proceeds from sale of assets	4,000	78,612
Investment of affiliate	(1,117,394)	-
Purchase of:		
Land and buildings	(3,579,263)	(514,693)
Computer equipment	(109,078)	-
Furniture and fixtures	(63,232)	(28,519)
Leasehold improvements	(9,912)	(55,292)
Office equipment	(47,323)	(30,274)
Transportation equipment	(8,011)	(150,565)
Net cash used in investing activities	(4,930,213)	(700,731)
Cash Flows From Financing Activities:		
Net borrowings (repayment) on line of credit	(491,929)	(897,674)
Borrowings on long-term debt	2,466,604	556,256
Repayment of capital lease debt	(49,446)	(49,445)
Repayment of long-term debt	(573,520)	(448,598)
Net cash provided by (used in) financing activities	1,351,709	(839,461)
Net Increase (Decrease) in Cash and Cash Equivalents	795,121	(111,600)
Cash and Cash Equivalents:		
Beginning of year	22,907	134,507
End of year	\$ 818,028	\$ 22,907
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ 408,995	\$ 322,066
The Company acquired Edison Court, Inc. on February 24, 2017 and Community Prevention Partnership on January 27, 2016. (Note 7) In conjunction with the acquisition, liabilities were assumed and a contribution was received as follows:		
Fair value of assets acquired	\$ 2,037,935	\$ 535,648
Liabilities assumed	(700,654)	(331,543)
Contribution received in acquisition	\$ 1,337,281	\$ 204,105

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

1. NATURE OF THE BUSINESS

These consolidated financial statements for the year ended June 30, 2017 include the accounts and operations of Inperium, Inc. (the Company), which consists of operations from Supportive Concepts for Families, Inc. (SCFFI), all wholly or majority-owned subsidiaries of SCFFI, Community Prevention Partnership of Berks County (CPP) and Edison Court, Inc. (ECI). See Note 7 regarding agreements with CPP and ECI. The Company's purpose is to provide management oversight, governance, and support to allow its affiliates to fulfill their respective mission and direction in the field of behavioral health.

Supportive Concepts for Families, Inc. SCFFI was incorporated on February 2, 1993 and acts as the parent company for its subsidiaries as well as providing program services in the social services field in multiple counties throughout the Commonwealth of Pennsylvania (Commonwealth). SCFFI is incorporated in the Commonwealth as a nonprofit entity. Effective January 12, 2016, SCFFI became wholly owned by the Company. The programs operated by SCFFI are as follows:

Residential Habilitation Services: Community Living Arrangements

Residential Habilitation Services for intellectually and developmentally disabled individuals are provided in a twenty-four hour per day community home setting. The individuals, in conjunction with their families, advocates, and county support coordinators, meet with agency programming and nursing staff to discuss available program sites that would best accommodate the individual's needs. Areas for discussion and planning include physical home site locations and modifications, staff supervision requirements, physical and behavioral health needs, and suitable housemates. Residential Habilitation Services are provided to protect the health and welfare of individuals who reside at the residential setting by assisting them in acquiring, retaining, and improving self-help, socialization, and adaptive skills necessary to reside successfully in the community. Examples of general support service areas may include the following: self-care, communication, fine and gross motor skills, mobility, therapeutic activities, personal adjustment, relationship development, socialization, and use of community resources.

Individuals and their families are offered the opportunity to be introduced to and spend time with both prospective roommates, as well as the staff members responsible for their support, and are encouraged to offer feedback for continual program enhancement. SCFFI stresses the utilization of Person-Directed Services, the client choice approach, throughout all services offered.

SCFFI makes arrangements for any services the individuals may require on a daily basis and as authorized by the referral source. Family members and advocates may have as much

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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involvement in these services as they choose. As the provider, SCFFI is responsible for all needs of the individual twenty-four hours a day, seven days a week.

SCFFI strives to ensure that each individual becomes an active member of the community in which they reside and supports individuals receiving care in the pursuit of their recreational, vocational, social, educational, and religious interests.

Nursing oversight and intervention is included in this comprehensive service model.

Types of CHIPP Services

Housing Support – Supported Living Services provided to recipients in varied locations depending on service need, identified goals up to and including supervision 24 hours per day. Sites include apartments, shared housing with family/friends, personal care boarding home, life sharing arrangements and SCFFI residential programs. Examples of types of support include: identifying and utilizing community resources, transportation, supports during medical appointments, securing housing resources, and medication administration.

Behavioral Health Support – Monthly psychiatric visits, weekly monitoring of medical and psychiatric needs by a psychiatric nurse, acquisition of weekly medical supplies, mobile therapy, and assistance with appointment scheduling.

Twenty-four hour on-call service to address emergency issues.

Crisis/Diversion – Provision of temporary respite to aid in the stabilization of psychiatric symptoms and defer the unnecessary utilization of psychiatric hospitalizations.

Financial Assistance – Budgeting services, representative payee sponsorship, apartment furnishings, rent subsidies (up to sixty percent), and security deposits.

Vocational Assistance – Support in developing resumes, exploring local job/volunteer markets, job placement and follow-up, club house, drop-in center, and involvement in other meaningful daily activities.

Types of Home and Community Based Waiver Services

Home and Community Based Waiver services are direct services provided by trained community specialists. They assist individuals in need of assistance with acquiring, retaining, or improving skills needed to live more independently in the community. Examples of habilitative support include: assistance with adult daily living skills, domestic tasks, socialization, and adaptive skills.

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Life Sharing

Life sharing allows the individual to reside in a home with a well-trained provider and the provider's family. Individuals direct their own support services by participating in the development of their annual Individual Support Plan (ISP) and ensuring that all areas of their daily living needs are met as outlined in the ISP and assessment. Individuals reside in the least restrictive setting identified to meet their needs and are encouraged to function as independently as possible. If at any point during the service a change is desired, interdisciplinary team members are available to discuss the change and take any means necessary to adapt to the request. Behavioral health support services, including psychiatric care and the development of behavioral support plans and training for caregivers, are available as authorized in the ISP. Nursing oversight and intervention are also included in this comprehensive service.

Adult Training Program (ATP)

SCFFI provides Adult Training Services, which are licensed and regulated by the Pennsylvania Department of Human Services, Bureau of Human Services Licensing, under 55 PA. Code Chapter 2380. Supports are developed according to each individual's unique service needs and with a staffing complement determined by the interdisciplinary team members. Support services provided at the ATP include: supervision, training, and support in general areas of self-care, communication, community participation, and socialization. On-site kitchen availability provides the opportunity for dietary education and community involvement occurs on a monthly basis. State-of-the-art facilities and highly trained staff provide an optimum day service environment for individuals to grow and develop important daily living skills and foster independence. ATP service hours are Monday through Friday, 8:00 a.m. to 4:00 p.m. Specialized transportation is available for all ATP day outings and registered nurses and licensed practical nurses are available in the event of injury or illness. The ATP site is fully wheelchair accessible and is equipped with American with Disabilities Act (ADA) restroom facilities.

Types of Respite Services

Respite services are for the temporary relief of the persons normally responsible for the care and support of individuals in service.

In Home Respite – These services are provided in the private home of the individual's family or friends.

Out of Home Respite – These services are provided in a licensed physical site including Community Living Arrangement (6400 licensed) or Life Sharing (6500 licensed).

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Person Directed Clinical Services, LLC dba Person Driven Clinical Solutions (PDCS) PDCS is a Pennsylvania Limited Liability Company with nonprofit status and was formed on January 13, 2015. PDCS's sole member is SCFFI. PDCS is a qualified provider of Behavioral Support Services to individuals with Mental Health / Intellectual Developmental Disabilities. PDCS also offers individualized technical assistance; on-site consultations and trainings to a variety of organizations across the United States interested in implementing the Person Directed Framework (PDF). It is primarily under contract with human service organizations participating in the public social service systems of the Commonwealth.

Harmonycrest Personal Care Services, LLC (Harmonycrest) Harmonycrest was organized on October 9, 2012 as a Pennsylvania Limited Liability Company with nonprofit status. Its sole member is SCFFI. Harmonycrest offers Personal Care Home services in a well-maintained home located in a quiet, country setting in Berks County. The home is licensed and regulated by the Pennsylvania Department of Human Services, Bureau of Human Services Licensing, under 55 PA. Code Chapter 2600 regulations. Home administration and oversight is provided by a Pennsylvania licensed Personal Care Home Administrator/Registered Nurse. Well trained personal care home specialists with experience in issues surrounding aging, as well as mental health and physical health disorders, are on site twenty-four hours per day, seven days per week to provide professional, compassionate support to residents. Support offered within the home include assistance with all adult daily living needs, the provision of nutritious meals, laundry service, and medication administration support. The Personal Care Home can support residents with physical disabilities and offers first floor, wheelchair accessible bathrooms, dining room, and lounge areas. A full-time Activities Coordinator is on site to ensure that the socialization needs of residents are met and a Medical Director is available twenty-four hours per day, seven days per week for medical consultation.

Harmonycrest Housing Services, LLC. (Harmonycrest HS) Harmonycrest HS was a Pennsylvania Limited Liability Company with nonprofit status. Harmonycrest HS was formed on May 22, 2015. As set out in the Company's divisionalization plan, Harmonycrest transferred certain real estate and related mortgages to Harmonycrest HS. Harmonycrest HS, as of June 30, 2015, held real property that is leased to affiliates of the Company. Harmonycrest HS's sole member was SCFFI. Further, on October 20, 2015, Harmonycrest HS was merged into an affiliate company, Fortis Housing Services, LLC.

Fortis Holdings, Inc. (Fortis Holdings) Fortis Holdings was incorporated in the Commonwealth on March 26, 2015 as a for profit "S" corporation. Fortis Holdings is wholly owned by SCFFI. Fortis Holdings acts as the holding company for Fortis Housing Services, LLC. Fortis Holdings was incorporated for the primary purpose to create common shares in a for-profit entity to support the Company's newly created Employee Stock Ownership Program (ESOP). See Retirement Plan Note 5.

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Fortis Housing Services, LLC (Fortis Housing) Fortis Housing was formed as a Pennsylvania Limited Liability Company on May 21, 2015 and its sole member is Fortis Holdings. On October 20, 2015, Harmonycrest HS was merged into Fortis Housing Services, LLC and certain real estate, related mortgages, and affiliated leases were merged into Fortis Housing. Fortis Housing was formed to hold real estate and support potential contributions made to the ESOP.

Callan Housing Services, LLC (Callan) Callan was formed on March 2, 2015 as a nonprofit Pennsylvania Limited Liability Company with SCFFI as its sole member. Callan was formed for the primary purpose of owning, managing, and leasing real estate to SCFFI.

Sustainable Energy Lighting Solutions, LLC (SELS) SELS was formed on January 22, 2015 as a “for profit” Pennsylvania Limited Liability Company with SCFFI as its sole member. SELS was formed to evaluate, recommend, and implement energy consumption reduction strategies and to provide electrical service needs.

S Automotive & Fleet Services, LLC (SAFS) SAFS was formed on December 22, 2015 as a “for profit” Pennsylvania Limited Liability Company with SCFFI as its sole member. SAFS was formed to create a resource to provide quality auto repair service to the Company’s internal fleet, other companies, and the general public.

Community Prevention Partnership of Berks County, Inc. Effective January 27, 2016, CPP was acquired by the Company. CPP is a Commonwealth nonprofit organization, which serves Berks County and surrounding communities. CPP was established to promote a healthier community through mobilization and providing education, technical assistance, and resources to identify problems and develop the proper strategies to address them. A variety of prevention services are provided to the Berks and Schuylkill county communities.

Community Drug, Alcohol, and Youth Violence Prevention Programs

CPP provides various programs that focus on the reduction of substance use and abuse as well as crime and violence. Included in the programs is Stay On Track, to implement an evidenced-based drug and alcohol prevention program in 6th and 7th grades, Celebrating Reading Families provides educational sessions for predominately Spanish speaking parents and their children, and case management and referral with an emphasis on substance abuse intervention and prevention. Funding for these programs is provided by the Pennsylvania Commission on Crime and Delinquency.

The Drug Free Communities Program provides technical assistance and support to the Northeast Community Springboard Coalition located in the Northeast section of the City of Reading. Volunteers for this program are focusing on reducing youth use of alcohol and drugs through an environmental approach that will impact the entire community. Funding

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for this program is provided by the Substance Abuse and Mental Health Services Administration office of the Department of Health & Human Services.

Project Peace is a student-led violence prevention program in the Reading schools and community. Project Peace members participate with other community groups to address community violence, particularly youth violence. Funding for this program is provided by the St. Joseph Medical Center through Catholic Health Initiatives, contractual funding through the Drug Free Communities Grant.

Council on Chemical Abuse Programs

Through funding from the Council on Chemical Abuse, CPP provides support and resources to community groups and adults focusing on youth substance abuse and violence prevention. By collaborating with the youth coalition, this county-wide effort includes a strong focus on increasing awareness of and combating the significant problem of underage drinking.

Family Support Programs

Parent Partner Program provides support to parents with a child in one of the child-serving systems, including special education, drug and alcohol, juvenile probation, and mental health/mental retardation, helping the parents navigate the systems. The program is funded through a contract with Service Access and Management, Inc. through the Berks County Office of Mental Health/Developmental Disabilities.

Education Leading to Employment and Career Training is a contracted program with the Berks County Intermediate Unit that assists pregnant and parenting teens to stay in school, earn a high school diploma or GED, and make the transition to employment. Services are provided year-round to both females and males and are creative and flexible to meet individual needs.

Home Visitation Programs

Nurse Family Partnership Program provides home visitation by registered nurses to first-time, low-income, at-risk mothers in Berks and Schuylkill County. The program aims to teach clients child development and parenting skills. The program is funded through contracts with the Pennsylvania Department of Human Services and the Schuylkill County Drug and Alcohol Commission.

Parents as Teachers Program provides home visits that include parenting skills and child development education for low-income families with a child aged 0 – 5 years. The program is funded through the Pennsylvania Department of Human Services.

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Education and Training Programs

Kids Against Pressure provides skill building in an after-school program that serves Latino students in elementary schools in Reading. The program is funded through a contract with Service Access & Management, Inc. through the Berks County Office of Mental Health/Developmental Disabilities. The program focuses on enhancing self-esteem while recognizing and accepting individual limitation and developing social skills to build positive peer relationships.

Circle of Friends Drop-In-Center serves adult consumers of mental health services and provides them with socialization and support services. This program is funded through a contract with Service Access and Management, Inc. through the Berks County Office of Mental Health/Developmental Disabilities.

Edison Court, Inc.(ECI) Effective February 24, 2017, ECI was acquired by the Company. ECI is a Commonwealth nonprofit organization that serves Bucks County and surrounding communities. ECI is a community-based treatment center which provides professional training, academic education, inpatient and outpatient rehabilitative treatment, and supportive psychological services. A variety of programs are provided by ECI.

Mathom House is a Residential Treatment Facility (RTF) with a specialized education program. Mathom House is licensed by the Pennsylvania Department of Human Services (DHS) to provide residential and secure care to juveniles, and the academic program is administered through the Bucks County Intermediate Unit. There are two wings of the building which are governed by separate DHS standards. The east side is a secure unit and the west side is a residential unit where juveniles have a higher level of privileges and trust. The 15,000-square foot facility contains 31 bedrooms, numerous group and class rooms, cafeteria, a gymnasium, offices, and “day rooms” where youth and Child Care Workers recreate in comfortable surroundings adjacent to a multi-purpose courtyard. Referrals are generated from the Juvenile Probation Office and Children and Youth agencies.

Easton Manor is a seven-bed step-down facility that provides transitional living for adolescent males with problem sexual behaviors. Easton Manor is an RTF with a specialized education program that provides a bridge between residential placement and the community through real-time learning and community living skills practice. Easton Manor is licensed by DHS and the academic program is administered through the Bucks County Intermediate Unit.

PATHS is an eight-bed community-based specialized group treatment home for boys between the ages of 10 and 15 who have exhibited sexually problematic behaviors. The program provides therapeutic intervention that focuses on changing behaviors, developing

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safety plans to deal with sexual impulses, understanding the cycle of abuse, and developing healthier coping mechanisms to ensure either a safe return home to a family setting or an appropriate out-of-home placement setting.

Ravenhill is a comprehensive psychological and forensic treatment facility located in Doylestown and Levittown, Pennsylvania. Ravenhill's youth programs specialize in the assessment and treatment of children and adolescents who have become known to the juvenile justice or child welfare system. Ravenhill relies on the principles of 'Risk, Need, and Responsivity' to evaluate the risk of ongoing problematic behavior, the primary needs of the youth, including developmental and social needs, and the youth's likely responsiveness to treatment or special learning needs that need to be taken into account to ensure evidence based practice treatment services are best matched to the youth. Ravenhill places an emphasis on community and potential victim safety by working to treat and prevent recidivism. Ravenhill's Adult Forensic groups are designed to offer help to men and women who react aggressively out of anger, or those who emotionally, physically, and/or sexually hurt others.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy

The consolidated statements for the years ended June 30, 2017 and 2016 include the accounts of the Company, SCFFI and its related entities, CPP and ECI. Intercompany transactions and balances have been eliminated in the consolidation.

Basis of Accounting and Use of Estimates

The Company prepares its consolidated financial statements on the accrual basis of accounting. 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 amount of revenue and expense during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

At various times during the years, the Company had cash balances in excess of the federally insured limit in a deposit account at one local bank. Cash consists of on-hand petty cash and amounts in the Company's operating bank accounts. The Company considers all short-term investments with a maturity of three months or less to be cash equivalents.

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Inventory

Inventory is recorded at the lower of cost or net realizable value. Inventory on hand were power conditioning units and other inventory held for resale through its SELS subsidiary.

Revenue and Accounts Receivable

The Company generates revenue from services rendered. The Company recognizes revenue when the following criteria are met: 1) persuasive evidence of an arrangement exists, 2) the performance requirements of contracted services are met, 3) consideration for contracted services to be received is fixed or determinable, and 4) collectability is reasonably assured.

Generally, contracted services rates (fee-for-service) are negotiated with managed care organizations, insurance companies, governmental agencies, and private payers. In addition, the Company receives annual program funding to cover its costs of providing its social service programs.

All units of service billed by the Company were provided and were billed at the proper rate.

Accounts receivable are reported at their net realizable value. The Company uses the allowance method for uncollectible receivables. Management determines the allowance for doubtful accounts by regularly evaluating payer receivables and considering the payer's financial condition, the accounts receivable aging, timely billing requirement, and current economic conditions. The Company charges off account balances after all means of collection have been exhausted and the potential for recovery is considered remote. At June 30, 2017 and 2016, the allowance for doubtful accounts was \$12,690 and \$1,500, respectively.

Government and private grants are recognized based on the terms of the specific grant document. Grant revenue received in advance, if any, of the grant period is recorded as deferred revenue until the period over which the grant is earned has passed and services have been rendered.

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Land, Buildings, Leasehold Improvements, and Equipment

Land, buildings, leasehold improvements, and equipment are stated at cost, with a capitalization threshold of \$5,000. Buildings and equipment are being depreciated over their estimated useful lives and leasehold improvements are being depreciated based on the life of the underlying lease of the property the improvement relates to by the straight-line method as follows:

Buildings	15 - 39 years
Computer equipment	3 - 5 years
Furniture and fixtures	5 - 10 years
Leasehold improvements	5 - 39 years
Office equipment	3 - 7 years
Transportation equipment	3 - 5 years

Financial Statement Presentation

The Company is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Company has elected to show restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

Grants and Contracts

Support received under grants and contracts with state and local agencies is recorded when the related costs are incurred. Grants and contracts receivable represent amounts due for expenditures incurred prior to year-end.

Donated Materials, Equipment, and Services

Donated materials, equipment, and services have been recorded at their estimated fair value at date of receipt. The Board of Directors donates significant amounts of time to the Company. However, no amounts have been recorded for these services, primarily because they are not specialized services and are not required to be recorded in accordance with generally accepted accounting principles.

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Retained Revenue

In accordance with the Pennsylvania Department of Human Services' Mental Health and Mental Retardation Program Fiscal Regulations PA Code Chapter 4300, the Company is eligible to retain net program excess revenues over allowable expenditures. The allowable retained revenue is dependent upon the specific contract of the counties or Pennsylvania Department of Human Services as well as the types of services funded. For the services provided under PA Code Chapter 51, there is no mentioned limitation to retention. It is the policy of the Company to apply this retained revenue to expansion, improvement, or enhancement of its services.

Functional Expense Allocations

The costs of providing program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on the methodology which is most appropriate.

Expenses relating to more than one function are allocated to program and supporting services based on employee time estimates, square footage, or other appropriate usage factors. The allocation of costs associated with the retention and recruitment plan was addressed for appropriate usage factors.

Tax-Exempt Status

The Company is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is a Type II supporting organization under Internal Revenue Code Section 509(a)(3). SCFFI, CPP, and ECI are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities regarding SELS, SAFS, and Fortis Holdings. Harmonycrest, Harmonycrest HS, Callan, and PDCS are disregarded entities under SCFFI for federal income tax purposes. SCFFI, CPP, and ECI annually file a Form 990 that includes all the tax-exempt entities.

SELS, SAFS, and Fortis Holdings (which includes Fortis Housing) are for-profit entities. SELS and SAFS are Pennsylvania Limited Liability Companies and Fortis Holding is an "S" corporation. These companies incurred no income tax expense for the years ending June 30, 2017 and 2016. In accordance with accounting principles generally accepted in the United States of America, the Company accounts for uncertain tax positions, if any, as required. Using that guidance, management has determined that there are no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. SELS, SAFS, and Fortis Holdings tax returns are subject to examination by the Internal Revenue Service generally for three years after they are filed.

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Pennsylvania Unemployment Compensation Tax

For the majority of its employees, the Company uses the reimbursable method for Pennsylvania unemployment tax purposes. The Company has engaged a third-party consultant to handle reimbursements and claims and pays a bond fee as security to the Pennsylvania Unemployment Compensation Fund for certain tax obligations for the years ended June 30, 2017 and 2016.

Reclassification

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

New Accounting Standards

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *“Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs”* (ASU 2015-03), which resulted in the reclassification of debt issuance costs from “Other Assets” to inclusion as a reduction of the reportable “Long-Term Debt” balance on the Company’s consolidated balance sheet. Since ASU 2015-03 does not address deferred issuance costs for line-of-credit arrangements, the FASB issued ASU No. 2015-15, *“Interest – Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements”* (ASU 2015-15), in August 2015. ASU 2015-15 allows a company to defer debt issuance costs associated with line-of-credit arrangements, including arrangements with no outstanding borrowings, classify them as an asset, and amortize them over the term of the arrangements. The Company adopted ASU 2015-03 for the fiscal year ending June 30, 2017 and retrospectively applied the standard to the balance sheet dated June 30, 2016 by reclassifying \$108,401 and \$84,044, respectively, of debt issuance costs from “Other Assets” to “Long Term Debt.”

Pending Standards Update

ASU 2014-09, *“Revenue from Contracts with Customers,”* is effective for the Company’s financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures. Management has not yet determined the impact of this amendment on the Company’s financial statements.

ASU 2016-02, *“Leases (Topic 842),”* is effective for the Company’s financial statements for the year ending June 30, 2021. This amendment will require all lessees to recognize assets and liabilities on the statements of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Management has not yet determined the impact of this amendment on the Company's financial statements.

ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," is effective for the Company's financial statements for the year ending June 30, 2019. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment. Management has not yet determined the impact of this amendment on the Company's financial statements.

Subsequent Events

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

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

3. REVOLVING LINE OF CREDIT

	<u>2017</u>	<u>2016</u>
Effective June 15, 2017, SCFFI modified its commitment from a bank for a revolving line of credit of \$5,000,000 from \$4,000,000 (capped at 80% of qualified accounts receivable) for the years ended June 30, 2017 and 2016. This commitment is secured by substantially all assets of SCFFI. Monthly interest payments are required at the One Month LIBOR Rate plus 250 basis points and prime (as published by the Wall Street Journal) plus 50 basis points or a floor of 3.75% (3.7138% and 4.00% for the years ended June 30, 2017 and 2016, respectively). Principal is due on demand at the lender's sole and absolute discretion.	\$ -	\$ 591,929
CPP has a \$250,000 available line-of-credit agreement with a local bank. The note is secured by all of the assets of CPP. Any advances on the line are subject to interest at the Wall Street Journal prime rate (4.25% and 3.50% at June 30, 2017 and 2016, respectively).	-	-
Effective June 15, 2017, ECI has a commitment from a bank for a revolving line of credit of \$1,000,000 (capped at 80% of qualified accounts receivable) for the year ended June 30, 2017. This commitment is secured by substantially all assets of ECI as well as guaranteed by all Inperium companies. Monthly interest payments are required at the One Month LIBOR Rate plus 250 basis points (3.7138% for the year ended June 30, 2017). Principal is due on demand at the lender's sole and absolute discretion.	-	-
ECI has a \$200,000 secured line-of-credit agreement with a local bank. The line of credit bears interest monthly at the bank's prime rate plus 175 basic points (5.50% at June 30, 2017).	<u>200,000</u>	<u>-</u>
	<u>\$ 200,000</u>	<u>\$ 591,929</u>

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

4. LONG-TERM DEBT

The Company's obligation under notes payable consists of the following:

	<u>2017</u>	<u>2016</u>
<p>SCFFI has an equipment revolving line of credit of \$500,000 for the years ended June 30, 2017 and 2016. This commitment is secured by substantially all assets of SCFFI. Individual advances are booked at either a variable rate with interest floating at prime rate (as published by the Wall Street Journal) plus 50 basis points, but no less than 3.75% or at a fixed rate equal to either the five-year Treasury Rate plus 300 basis points or at prime rate (as published by the Wall Street Journal) plus 50 basis points, but no less than 5.25%. Payments of principal and interest for any advances drawn shall be termed out for a period not to exceed 60 months from the date of each advance. SCFFI has five advances against this line of credit with interest rates at 5.25% fixed with notes maturing between November 2016 and September 2019. As of June 15, 2017, this facility was modified to a master Capital Expense Facility of \$1,500,000.</p>	\$ -	\$ 162,820
<p>SCFFI has a leasehold improvement revolving line of credit of \$500,000 for the years ended June 30, 2017 and 2016. This commitment is secured by substantially all assets of SCFFI and a second mortgage behind a bank first mortgage, if the property is acquired with mortgage line of credit. Individual advances are booked at either a variable rate with interest floating at prime rate (as published by the Wall Street Journal) plus 50 basis points, but no less than 3.75% or at a fixed rate equal to either the five-year Treasury Rate plus 300 basis points or at prime rate (as published by the Wall Street Journal) plus 50 basis points, but no less than 5.25%. Payments of principal and interest for any advances drawn shall be termed out for a period not to exceed 60 months from the date of each advance. SCFFI has one advance against this line of credit with an interest rate of 5.25%. This note matures in December 2016. As of June 15, 2017, this facility was modified to a master Capital Expense Facility of \$1,500,000.</p>	-	51,953

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<p>SCFFI has a mortgage revolving line of credit of \$1,500,000 for the years ended June 30, 2017 and 2016. This commitment is secured by substantially all assets and a first-lien mortgage recorded on the real estate being acquired. Individual advances will be booked at either a variable rate with interest floating at prime (as published by the Wall Street Journal) plus 50 basis points, but not less than 3.75% or at a fixed rate equal to either the five-year Treasury Rate plus 300 basis points or at prime rate (as published by the Wall Street Journal) plus 50 basis points, but no less than 5.00% for the years ended June 30, 2017 and 2016. Payments of principal and interest for any advance drawn shall be termed out for a period not to exceed 15 years and begins one month from the date of settlement; however, the bank has a call option to each advance, whereas SCFFI will either repay the remaining balance or renegotiate a new interest rate for the remainder of the term of the advance at the conclusion of five years. SCFFI had advances on this line of credit with interest rates ranging from 5.00% fixed for the entire term to 4.50% fixed for five years, and either converting to a fluctuating rate at Wall Street Journal Prime Rate with a floor of 3.75% or elect a new fixed rate to be determined. These advances mature between August 2027 and August 2028. As of June 15, 2017, this facility was modified to a master Capital Expense Facility of \$1,500,000.</p>	-	534,946
<p>SCFFI, through loan modification, combined its equipment, leasehold improvement, and mortgage revolving lines into one capital expenditure revolving line of credit of \$1,500,000 which all affiliates of the company can access. Real estate advances at the discretion of the bank can be termed out with repayment terms not to exceed five (5) years with repayment terms based on a twenty (20) year amortization at an interest rate of a fixed five (5) year amortization at the banks five (5) year cost of funds interest rate plus 250 basis points. Vehicle and equipment purchase advances are termed out at a five (5) year amortization at an interest rate of a fixed five (5) year amortization at the banks five (5) year cost of funds interest rate plus 225 basis points. A variable interest rate option is also available at the time of advance equal to the thirty (30) day London Inter-Bank Offering Rate (LIBOR) plus 250 basis points. The existing combined advances mature between November 2016 through August 2028.</p>	608,232	-

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
SCFFI has various vehicle notes payable to a bank that include interest ranging between 3.99% and 4.89% and have maturity dates between March 2019 and May 2021. These notes are secured by the vehicles.	175,247	236,334
Note payable to private lender in monthly installments of \$1,093, including interest at 5.25%. This note is secured by the building and land and matures in April 2029.	115,449	122,311
Note payable to bank in monthly installments of \$7,335, including interest at 4.35%. This interest rate will be fixed for seven years and will either convert to a fluctuating rate at the Wall Street Journal Prime Rate plus 50 basis points with a floor of 3.75% or will be renegotiated with another fixed rate to be determined. The note is collateralized by a first mortgage lien on the real estate and all improvements. This note matures in May 2033.	1,005,224	1,047,885

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Note payable to bank in monthly installments of \$11,798, including interest at 4.75%. The note is collateralized by a first mortgage lien on the real estate covered by this note. This note matures in May 2042.	2,065,273	2,226,702
Note payable to bank in monthly installments of \$1,214, including interest at 4.50%. This note is collateralized by a blanket lien on all business assets of Harmonycrest and SCFFI. This note matures in September 2018.	17,663	31,085
Note payable to the bank in 240 monthly installments of \$5,859. This interest rate will be fixed at 4.50% for five years and will either convert to a floating annual rate equal to the Wall Street Journal Prime Rate plus 0.50% with a floor of 3.75% or elect a new fixed rate to be determined. This note is collateralized by a first mortgage on the Walnut commercial property, a second lien collateral mortgage on the Penn Street premises, the Suretyships of all related companies, as well as a first lien security interest on the business assets of the Maker and the Sureties. This note matures in August 2035.	866,921	896,466
Note payable to a bank, secured by the assets of ECI, with monthly installments of \$4,904, including interest at 5.25%. This note matures in December 2020.	186,341	-
Note payable to a bank in monthly installments of \$1,653, including interest at 5.0%. The note is collateralized by a first mortgage lien on the real estate of ECI covered by this note. This note matures in May 2047.	307,630	-
Note payable to a private lender in monthly installments of \$859, including interest at 5.0%. This note is secured by the land and building and matures in August 2046.	158,049	-
Callan Housing LLC has a note payable to a bank in monthly installments of \$11,004, including interest at 4.50%. This rate represents the bank's LIBOR rate plus 225 basis points, but a fixed rate can be renegotiated in the future. The facility is collateralized with a first lien title insured mortgage against any purchased real estate covered by this facility and an assignment of rents and leases. The note is guaranteed by SCFFI and installments of \$11,004, including interest.	1,945,524	-

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Note payable to the bank in monthly installments of \$5,911. This interest rate will be fixed at 4.125% for five years and will either convert to a floating annual rate equal to the Wall Street Journal Prime Rate plus 0.50% with a floor of 3.75% or elect a new fixed rate to be determined. This note is collateralized by a first lien mortgage on the premises, the Suretyships of all related companies, as well as a first lien security interest on the business assets of the Maker and the Sureties. This note matures in February 2036.	917,803	949,614
The Company assumed a mortgage note in conjunction with the purchase of the building from the former landlord in the amount of \$176,000. Monthly payments including interest at 6.5 percent annum are \$1,533. The note is secured by the related property. This note matures in July 2021.	<u>65,824</u>	<u>79,458</u>
	8,435,180	6,339,574
Less deferred financing costs	<u>(108,401)</u>	<u>(84,044)</u>
Subtotal	8,326,779	6,255,530
Less current portion	<u>(444,077)</u>	<u>(376,768)</u>
	<u>\$ 7,882,702</u>	<u>\$ 5,878,762</u>

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Current maturities of long-term debt are as follows for the year ended June 30, 2017:

2018	\$	444,077
2019		439,816
2020		396,658
2021		341,587
2022		305,423
2023 - 2027		1,723,401
2028 - 2032		1,837,103
2033 - 2037		1,585,509
2038 - 2042		1,227,735
2043 - 2047		123,934
2048		9,937
		<hr/>
	\$	8,435,180
Less deferred financing costs		(108,401)
		<hr/>
	\$	8,326,779
		<hr/>

Loan origination fees consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Loan origination fees	\$ 122,487	\$ 93,736
Accumulated amortization	(14,086)	(9,692)
Loan origination fees, net	<u>\$ 108,401</u>	<u>\$ 84,044</u>

Loan cost amortization was \$4,394 and \$5,034 for the years ended June 30, 2017 and 2016, respectively.

5. RETIREMENT PLAN

During the fiscal year ended June 30, 2001, SCFFI adopted a 401(k) retirement plan covering all eligible employees. Under the terms of the plan, contributions are made by the individual participants. The participants elect contributions in amounts of their choice and direct the investment of these amounts in their plan account. The Company, at its election, may make additional contributions to the plan. The Company made no contributions for the years ended June 30, 2017 and 2016.

On May 19, 2015, the Board of Directors approved the formation of an ESOP. SCFFI has made no contribution for the years ended June 30, 2017 and 2016.

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

6. LEASES

The Company leases some of its office space, client residential homes, vehicles, and equipment under various operating lease arrangements with terms generally ranging from one to fifteen years.

Total rents charged to expense during 2017 and 2016 for these facilities were \$2,114,672 and \$1,777,028, respectively.

Future minimum payments under the leases are as follows for the year ending June 30, 2017:

2018	\$	2,227,346
2019		1,721,777
2020		1,571,936
2021		1,191,178
2022		908,283
2023 - 2031		2,953,390
	\$	<u>10,573,910</u>

Following is a summary of property held under capital leases at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Vehicles	\$ 248,507	\$ 248,507
Less: Accumulated depreciation	<u>(203,287)</u>	<u>(153,585)</u>
	<u>\$ 45,220</u>	<u>\$ 94,922</u>

Minimum future payments under capital leases as of June 30, 2017 are as follows:

2018	\$	53,042
2019		9,253
Total minimum lease payments		<u>62,295</u>
Less: Amount representing interest		<u>(16,138)</u>
Present value of lease payments	\$	<u>46,157</u>

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

7. ACQUISITIONS

On February 24, 2017, Inperium acquired ECI, a nonprofit provider of behavioral support services. Under the terms of the agreement, the Inperium Board of Directors assumed control over ECI. The acquisition is accounted for as a purchase. As such, the ECI financial activities are included into consolidated financial statements. No consideration was transferred to ECI as part of the agreement. A contribution of \$1,337,281 was recognized and reported in the statement of activities for the year ended June 30, 2017.

As a result, the Company acquired the following assets, at fair value:

Assets:

Cash and cash equivalents	\$	219,887
Accounts receivable		769,124
Prepaid expenses		37,939
Land and buildings		<u>1,010,985</u>
Total assets	\$	<u><u>2,037,935</u></u>

Liabilities:

Accounts payable and accrued liabilities	\$	398,132
Line of credi		100,000
Long-term debt		<u>202,522</u>
Total liabilities	\$	<u><u>700,654</u></u>

On January 27, 2016, Inperium acquired CPP, a nonprofit provider of behavioral support services. Under the terms of the agreement, the Inperium Board of Directors assumed control over CPP. The acquisition is accounted for as a purchase. As such, the CPP financial activities are included into consolidated financial statements. No consideration was transferred to CPP as part of the agreement. A contribution of \$204,105 was recognized and reported in the statement of activities for the year ended June 30, 2016.

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

As a result, the Company acquired the following assets, at fair value:

Assets:

Cash and cash equivalents	\$	105,749
Accounts receivable		301,379
Prepaid expenses		28,520
Land and buildings		100,000
Total assets	\$	<u>535,648</u>

Liabilities:

Accounts payable and accrued liabilities	\$	246,660
Long-term debt		84,883
Total liabilities	\$	<u>331,543</u>

8. DEPARTMENT OF HUMAN SERVICES PERFORMANCE AUDIT

The Department of Human Services (DHS) conducted a regularly scheduled performance audit of SCFFI during the 2014/2015 fiscal year covering the fiscal years 2011/2012 and 2012/2013. On June 30, 2015, DHS issued a draft report of its findings and observations. The draft report issued by DHS indicates that SCFFI overstated its 2012/2013 Office of Development Programs (ODP) Cost Report by \$2,171,128 and submitted claims for services rendered not properly supported by adequate progress notes to ODP by \$1,195,981 over fiscal years 2011/2012 and 2012/2013. SCFFI has evaluated the DHS draft findings and finds them without merit. SCFFI has indicated its position to DHS and is currently preparing detail to support its position. SCFFI is vigorously pursuing elimination of these findings. Since it presently is not possible to determine the outcome of these matters, no provision has been made in the financial statements for their ultimate resolution. The resolution of these findings by DHS could have a significant effect on SCFFI's earnings in the year that a determination is made. However, in management's opinion, the final resolution of this matter will not have a material adverse effect on SCFFI's financial position.

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

9. MAJOR GRANTORS

For the year ended June 30, 2017, the Company had revenues of \$53,329,055 from DHS, which represented approximately 84% of total revenues. Accounts receivable due from this grantor at June 30, 2017 are \$5,453,591.

For the year ended June 30, 2016, the Company had revenues of \$44,064,579 from DHS, which represented approximately 87% of total revenues. Accounts receivable due from this grantor at June 30, 2016 are \$4,621,055.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2017 and 2016 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Project Peace	\$ 1,615	\$ 1,615
Drop-in Center	1,734	1,836
Drug Free Communities	1,343	343
Nurse Family Partnership - Schuylkill County	1,015	3,268
Nurse Family Partnership - Berks County	21,231	-
MIHOPE	15,313	15,313
Town Hall Meeting	-	700
Outlet Area Neighborhood	517	517
	<u>\$ 42,768</u>	<u>\$ 23,592</u>

11. LEGAL MATTERS

The Company is currently involved in several legal matters. At this point, it is not possible to determine the outcome of these issues, but it is the opinion of management that it will have no material effect on the Company's financial statements.

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

12. CONTINGENCY - EXECUTIVE EMPLOYMENT AGREEMENTS

SCFFI entered into several Executive Employment Agreements. Three of these agreements include a clause that calls for material lump-sum payments to be made to Executives if they terminate employment within twelve months following a “change in control.” Such payments are equal to two and one-half times the sum of the annual salary and an amount equal to the most recent bonus payment made to the Executive. The estimated amount of such payments approximates \$3,178,484 and \$3,565,718 as of June 30, 2017 and 2016, respectively. The Executives will also maintain benefit coverages for a period of 24 months subsequent to termination of employment. As defined in the Executive Employment Agreements, a “change of control” is the occurrence of any one of the following events: a sale, reorganization, merger, affiliation, or consolidation, which results in either (i) a change in the ownership or control of more than 50% of SCFFI's assets, based on the fair value of such assets, (ii) a change in the majority of the persons on SCFFI's Board of Directors immediately prior to such sale, reorganization, merger affiliation, or consolidation, or (iii) any other event which is at any time designated as a "change of control" for purposes of the Agreement by resolution adopted by the Board of Directors.

13. SUBSEQUENT EVENTS

In September 2017, the company entered into an affiliation agreement with a non-profit corporation. Under the terms of the agreement, Inperium's Board of Directors will assume control over the entity. The affiliation is pending Attorney General approval. Once approved by the Attorney General's office, the affiliation will require no consideration and will be accounted for as a purchase and included in the company's consolidated financial statements. The non-profit entity provides a range of services for at-risk youth in the Juvenile Justice Systems within Pennsylvania and the surrounding Mid-Atlantic region. It offers short-term and longer-term residential programs, educational and vocational training opportunities and adventure based learning and responsibility programs.

Supplementary Information

INPERIUM, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

Assets	Inperium	SCFFI	Harmonycrest	PDCS	Community Prevention Partnership	Callan	Fortis Holdings	Fortis Housing	SELS	SAFS	Edison Court	Eliminations	Consolidated Totals
Current assets:													
Cash and cash equivalents	\$ 500	\$ 513,528	\$ 550	\$ 1,125	\$ 32,708	\$ 500	\$ -	\$ -	\$ 2,025	\$ 7,039	\$ 260,053	\$ -	\$ 818,028
Accounts receivable	-	5,754,421	883	220,514	390,810	-	-	-	615	22,545	851,761	-	7,241,549
Inventory	-	-	-	-	-	-	-	-	4,915	-	-	-	4,915
Prepaid expenses	-	91,142	-	-	19,432	-	-	-	-	-	(561)	-	110,013
Total current assets	500	6,359,091	1,433	221,639	442,950	500	-	-	7,555	29,584	1,111,253	-	8,174,505
Land, buildings, leasehold improvements, and equipment:													
Land and buildings	-	-	-	-	100,000	6,977,213	-	3,555,908	-	-	384,787	-	11,017,908
Computer equipment	-	485,606	-	-	-	-	-	-	-	-	-	-	485,606
Furniture and fixtures	-	160,381	-	-	-	-	-	-	-	-	246,278	-	406,659
Leasehold improvements	-	1,233,164	-	-	9,912	-	-	-	-	-	1,248,670	-	2,491,746
Office equipment	-	400,651	-	-	-	-	-	-	-	30,123	264,496	-	695,270
Transportation equipment	-	1,889,621	9,866	-	-	-	-	-	-	-	7,460	-	1,906,947
Less: accumulated depreciation	-	(3,362,180)	(7,893)	-	(2,906)	(369,250)	-	(211,382)	-	(5,335)	(799,057)	-	(4,758,003)
Net land, buildings, leasehold improvements, and equipment	-	807,243	1,973	-	107,006	6,607,963	-	3,344,526	-	24,788	1,352,634	-	12,246,133
Other assets:													
Security deposits	-	111,768	-	-	-	-	-	-	-	-	-	-	111,768
Due to/from affiliates	(254,610)	2,888,317	1,695	(131,654)	(174,451)	(1,646,207)	(70,059)	(94,507)	(383,159)	(91,309)	(44,056)	-	-
Other asset	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other assets	(254,610)	3,000,085	1,695	(131,654)	(174,451)	(1,646,207)	(70,059)	(94,507)	(383,159)	(91,309)	(44,056)	-	111,768
Total Assets	\$ (254,110)	\$ 10,166,419	\$ 5,101	\$ 89,985	\$ 375,505	\$ 4,962,256	\$ (70,059)	\$ 3,250,019	\$ (375,604)	\$ (36,937)	\$ 2,419,831	\$ -	\$ 20,532,406

(Continued)

INPERIUM, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION (Continued)

JUNE 30, 2017

	Inperium	SCFFI	Harmonycrest	PDCS	Community Prevention Partnership	Callan	Fortis Holdings	Fortis Housing	SELS	SAFS	Edison Court	Eliminations	Consolidated Totals
Liabilities and Net Assets													
Liabilities:													
Current liabilities:													
Revolving line of credit	-	-	-	-	-	-	-	-	-	-	200,000	-	200,000
Accounts payable	2,359	649,993	10,810	32,230	93,050	12,387	501	5,219	4,568	12,026	84,407	-	907,550
Salaries and wages payable	-	3,785,613	-	15,065	70,863	-	-	-	1,143	-	465,862	-	4,338,546
Payroll taxes and amounts withheld from employees	-	54,271	-	-	-	-	-	-	-	-	-	-	54,271
Current portion of capital lease obligation	-	38,971	-	-	-	-	-	-	-	-	-	-	38,971
Current portion of long-term debt	-	117,123	14,042	-	14,314	135,431	-	108,687	-	-	54,480	-	444,077
Total current liabilities	2,359	4,645,971	24,852	47,295	178,227	147,818	501	113,906	5,711	12,026	804,749	-	5,983,415
Long-term liabilities:													
Accrued lease escalations	-	59,631	-	-	-	-	-	-	-	-	-	-	59,631
Security deposits	-	-	-	-	-	1,384	-	-	-	-	-	-	1,384
Capital lease obligation	-	7,186	-	-	-	-	-	-	-	-	-	-	7,186
Long-term debt (net of financing costs)	-	165,659	3,621	-	51,510	4,579,098	-	2,653,296	-	-	429,518	-	7,882,702
Total long-term liabilities	-	232,476	3,621	-	51,510	4,580,482	-	2,653,296	-	-	429,518	-	7,950,903
Total Liabilities	2,359	4,878,447	28,473	47,295	229,737	4,728,300	501	2,767,202	5,711	12,026	1,234,267	-	13,934,318
Net Assets:													
Unrestricted	(256,469)	5,287,972	(23,372)	42,690	103,000	233,956	(70,560)	482,817	(381,315)	(48,963)	1,185,564	-	6,555,320
Temporarily restricted	-	-	-	-	42,768	-	-	-	-	-	-	-	42,768
Total net assets	(256,469)	5,287,972	(23,372)	42,690	145,768	233,956	(70,560)	482,817	(381,315)	(48,963)	1,185,564	-	6,598,088
Total Liabilities and Net Assets	\$ (254,110)	\$ 10,166,419	\$ 5,101	\$ 89,985	\$ 375,505	\$ 4,962,256	\$ (70,059)	\$ 3,250,019	\$ (375,604)	\$ (36,937)	\$ 2,419,831	\$ -	\$ 20,532,406

(Concluded)

INPERIUM, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Inperium	SCFFI	Harmonycrest	PDCS	Unrestricted Community Prevention Partnership	Temp Restricted Community Prevention Partnership	Callan	Fortis Holdings	Fortis Housing	SELS	SAFS	Edison Court	Eliminations	Consolidated Totals
Public Support, Revenues, Gains, and Other Support														
Contract revenue	\$ -	\$ 53,722,799	\$ -	\$ 2,162,948	\$ 132,440	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,830,060	\$ -	\$ 57,848,247
Contributions/grants	-	4,120	-	-	2,380,101	19,176	-	-	-	-	-	12,650	-	2,416,047
Client fees	-	2,049,310	132,989	-	-	-	-	-	-	-	-	-	-	2,182,299
Interest Income	12	91,062	14,084	-	442	-	-	-	17,046	-	-	274	(121,933)	987
Other program fees	-	57,329	-	7,356	-	-	-	-	-	-	-	124,323	-	189,008
Other income	-	413,389	(1,136)	(405)	1,937	-	12,455	-	-	2	1,644	10,423	-	438,309
Sales (net discounts)	-	-	-	-	-	-	-	-	-	34,139	377,040	-	-	411,179
Intercompany revenues	-	-	742,104	75,700	-	-	485,486	-	267,230	217,572	302,103	-	(2,090,195)	-
Total public support, revenues, gains, and other support	12	56,338,009	888,041	2,245,599	2,514,920	19,176	497,941	-	284,276	251,713	680,787	1,977,730	(2,212,128)	63,486,076
Expenses:														
Payroll	-	41,142,076	-	-	-	-	-	-	-	-	-	1,319,327	-	42,461,403
Affiliated contract personnel	137,567	(4,634,438)	486,841	1,784,080	1,847,408	-	24,334	8,356	8,356	219,363	265,203	(115,265)	-	31,805
Payroll taxes and employee benefit	-	6,361,024	573	2,281	36,453	-	-	-	-	-	-	316,054	-	6,716,385
Total payroll and related expenses	137,567	42,868,662	487,414	1,786,361	1,883,861	-	24,334	8,356	8,356	219,363	265,203	1,520,116	-	49,209,593
Client transportation	-	1,392,711	8,056	59,968	46,836	-	-	-	-	12,914	12,996	24,825	(302,103)	1,256,203
Communications	223	552,560	3,381	21,706	21,125	-	-	-	-	4,244	2,511	22,525	-	628,275
Contract personnel	99,704	2,582,741	905	18,386	373,734	-	22,731	18,288	13,591	2,815	2,338	218,584	(817,804)	2,536,013
Housekeeping expense	-	755,565	36,425	117	56,790	-	-	-	-	-	-	83,359	-	932,256
Insurance expense	-	387,029	2,789	4,655	5,421	-	455	-	-	1,104	6,550	22,154	-	430,157
Interest expense	1,874	85,360	17,563	4,693	7,103	-	249,676	1,945	140,644	12,355	3,663	10,425	(121,933)	413,368
Maintenance and repairs	-	1,277,132	23,301	2,457	15,014	-	9,840	-	-	2,013	4,793	33,144	(217,572)	1,150,122
Rent expense	-	2,137,393	38,738	7,550	39,282	-	-	-	-	3,328	49,389	73,426	(752,716)	1,596,390
Supplies and operating expenses	1,246	624,793	116,205	282,858	88,929	-	18,341	-	15,567	109,343	302,028	61,104	-	1,620,414
Utilities	-	736,933	7,640	719	22,718	-	48	-	-	438	240	23,868	-	792,604
Total expenses before depreciation	240,614	53,400,879	742,417	2,189,470	2,560,813	-	325,425	28,589	178,158	367,917	649,711	2,093,530	(2,212,128)	60,565,395
Depreciation	-	225,177	1,973	-	2,051	-	178,052	-	68,981	-	3,855	35,917	-	516,006
Total expenses	240,614	53,626,056	744,390	2,189,470	2,562,864	-	503,477	28,589	247,139	367,917	653,566	2,129,447	(2,212,128)	61,081,401
Change in net assets before non-operating income (loss)	(240,602)	2,711,953	143,651	56,129	(47,944)	19,176	(5,536)	(28,589)	37,137	(116,204)	27,221	(151,717)	-	2,404,675
Non-Operating Income:														
Excess of fair value of net assets in acquisition of ECI	-	-	-	-	-	-	-	-	-	-	-	1,337,281	-	1,337,281
Non operating gains	-	4,000	-	-	-	-	-	-	-	-	-	-	-	4,000
Total non-operating income	-	4,000	-	-	-	-	-	-	-	-	-	1,337,281	-	1,341,281
Change in net assets after non-operating income	(240,602)	2,715,953	143,651	56,129	(47,944)	19,176	(5,536)	(28,589)	37,137	(116,204)	27,221	1,185,564	-	3,745,956
Net Assets:														
Beginning of year	(15,867)	2,572,019	(167,023)	(13,439)	150,944	23,592	239,493	(41,971)	445,679	(265,111)	(76,184)	-	-	2,852,132
End of year	\$ (256,469)	\$ 5,287,972	\$ (23,372)	\$ 42,690	\$ 103,000	\$ 42,768	\$ 233,957	\$ (70,560)	\$ 482,816	\$ (381,315)	\$ (48,963)	\$ 1,185,564	\$ -	\$ 6,598,088