

Inperium, Inc.

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2016 and 2015
with Independent Auditor's Report

MaherDuessel
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INPERIUM, INC.

YEARS ENDED JUNE 30, 2016 AND 2015

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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 statement of financial position as of June 30, 2016, 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. We have also audited the accompanying consolidated financial statements of Supportive Concepts for Families, Inc. (SCFFI) and affiliates, which comprise the consolidated statement of financial position as of June 30, 2015, 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 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, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SCFFI and affiliates as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Reporting Entity

As discussed in Note 1 to the consolidated financial statements, Inperium, Inc. was created on January 12, 2016 to provide management oversight, governance, and support to allow its affiliates to fulfill their respective mission and direction in the field of behavioral health. Effective January 22, 2016, SCFFI became wholly owned by Inperium, Inc. The consolidated financial information contained in this report for the year ended June 30, 2015 includes only SCFFI and affiliates, as there were no financial transactions for Inperium, Inc. prior to January 12, 2016.

Our opinion is not modified with respect to this matter.

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 26 through 28 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 28, 2016

INPERIUM, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

Assets	2016	2015
Current assets:		
Cash and cash equivalents	\$ 90,228	\$ 134,507
Accounts receivable	5,773,597	5,197,880
Inventory	14,264	24,268
Prepaid expenses	150,321	43,189
Total current assets	6,028,410	5,399,844
Land, buildings, leasehold improvements, and equipment:		
Land and buildings	7,428,645	5,953,953
Computer equipment	409,907	420,594
Furniture and fixtures	100,844	74,277
Leasehold improvements	1,484,851	1,464,487
Office equipment	406,916	376,642
Transportation equipment	1,954,045	2,120,879
	11,785,208	10,410,832
Less: accumulated depreciation	(3,850,869)	(3,818,110)
Net land, buildings, leasehold improvements, and equipment	7,934,339	6,592,722
Other assets:		
Security deposits	124,015	104,763
Deferred financing costs	84,044	64,940
Other asset	4,117	5,000
Total other assets	212,176	174,703
Total Assets	\$ 14,174,925	\$ 12,167,269
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Cash overdraft	\$ 67,321	\$ 104,360
Revolving line of credit	591,929	1,489,603
Accounts payable	959,258	758,265
Salaries and wages payable	3,166,914	2,548,362
Payroll taxes and amounts withheld from employees	49,092	26,161
Current portion of capital lease obligation	49,445	49,519
Current portion of long-term debt	376,768	381,907
Total current liabilities	5,260,727	5,358,177
Long-term liabilities:		
Accrued lease escalations	53,102	9,383
Capital lease obligation	46,158	95,530
Long-term debt	5,962,806	4,890,010
Total long-term liabilities	6,062,066	4,994,923
Total Liabilities	11,322,793	10,353,100
Net Assets:		
Unrestricted	2,828,540	1,814,169
Temporarily restricted	23,592	-
Total net assets	2,852,132	1,814,169
Total Liabilities and Net Assets	\$ 14,174,925	\$ 12,167,269

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

INPERIUM, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Unrestricted
Public Support, Revenues, Gains, and Other Support				
Contract revenue	\$ 46,989,369	\$ -	\$ 46,989,369	\$ 38,358,503
Contributions/grants	1,064,166	23,592	1,087,758	747
Client fees	1,974,629	-	1,974,629	1,845,592
Other program fees	59,860	-	59,860	48,824
Other income	363,133	-	363,133	327,589
Interest income	604	-	604	-
Sales (net discounts)	245,697	-	245,697	-
Total public support, revenues, gains, and other support	50,697,458	23,592	50,721,050	40,581,255
Expenses:				
Program services	44,987,594	-	44,987,594	36,110,244
Supporting services	4,952,305	-	4,952,305	3,760,643
Total expenses	49,939,899	-	49,939,899	39,870,887
Change in net assets before non-operating income (loss)	757,559	23,592	781,151	710,368
Non-Operating Income (Loss)				
Excess of fair value of net assets in acquisition of CPP	204,105	-	204,105	-
Non-operating gains (losses)	52,707	-	52,707	(40,195)
Total non-operating income (loss)	256,812	-	256,812	(40,195)
Change in net assets after non-operating income (loss)	1,014,371	23,592	1,037,963	670,173
Net Assets:				
Beginning of year	1,814,169	-	1,814,169	1,143,996
End of year	\$ 2,828,540	\$ 23,592	\$ 2,852,132	\$ 1,814,169

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

INPERIUM, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2016 AND 2015

	Year Ended June 30,					
	2016			2015		
	Program Services	Supporting Services	Total	Program Services	Supporting Services	Total
Expenses:						
Payroll	\$ 30,513,401	\$ 3,591,914	\$ 34,105,315	\$ 24,257,360	\$ 2,733,645	\$ 26,991,005
Payroll taxes and employee benefits	5,328,093	380,742	5,708,835	4,716,884	320,440	5,037,324
Total payroll and related expenses	<u>35,841,494</u>	<u>3,972,656</u>	<u>39,814,150</u>	<u>28,974,244</u>	<u>3,054,085</u>	<u>32,028,329</u>
Client transportation	1,117,131	24,882	1,142,013	834,755	11,034	845,789
Communications	507,727	50,218	557,945	361,266	41,416	402,682
Contract personnel	1,588,112	459,760	2,047,872	1,165,982	240,050	1,406,032
Housekeeping expense	866,750	-	866,750	784,383	-	784,383
Insurance expense	168,986	117,144	286,130	120,644	101,752	222,396
Interest expense	320,561	1,457	322,018	160,535	27,085	187,620
Maintenance and repairs	1,107,007	57,752	1,164,759	895,028	39,147	934,175
Rent expense	1,444,149	-	1,444,149	1,257,414	9,129	1,266,543
Supplies and operating expenses	1,051,497	229,814	1,281,311	738,637	158,196	896,833
Utilities	604,817	25,365	630,182	525,800	42,541	568,341
Total expenses before depreciation	<u>44,618,231</u>	<u>4,939,048</u>	<u>49,557,279</u>	<u>35,818,688</u>	<u>3,724,435</u>	<u>39,543,123</u>
Depreciation	369,363	13,257	382,620	291,556	36,208	327,764
Total expenses	<u>\$ 44,987,594</u>	<u>\$ 4,952,305</u>	<u>\$ 49,939,899</u>	<u>\$ 36,110,244</u>	<u>\$ 3,760,643</u>	<u>\$ 39,870,887</u>

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

INPERIUM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Increase in net assets	\$ 1,037,963	\$ 670,173
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	382,620	327,764
(Gain) loss of sale of assets	(63,508)	40,696
Change in:		
Accounts receivable	(575,717)	(1,683,209)
Prepaid expenses	(107,132)	55,455
Inventory	10,004	(24,268)
Other assets	(37,473)	(174,703)
Accounts payable and bank overdrafts	163,954	343,609
Other current liabilities	685,202	1,226,922
Net cash provided by operating activities	1,495,913	782,439
Cash Flows From Investing Activities:		
Proceeds from sale of assets	78,612	13,003
Purchase of:		
Land and buildings	(1,474,693)	(2,770,507)
Computer equipment	-	(45,446)
Furniture and fixtures	(28,519)	-
Leasehold improvements	(55,292)	(175,431)
Office equipment	(30,274)	-
Transportation equipment	(150,565)	(265,453)
Net cash used in investing activities	(1,660,731)	(3,243,834)
Cash Flows From Financing Activities:		
Net borrowings (repayment) on line of credit	(897,674)	282,260
Borrowings on long-term debt	1,516,256	2,622,006
Repayment of capital lease debt	(49,445)	(49,445)
Repayment of long-term debt	(448,598)	(273,005)
Net cash provided by financing activities	120,539	2,581,816
Net Increase (Decrease) in Cash and Cash Equivalents	(44,279)	120,421
Cash and Cash Equivalents:		
Beginning of year	134,507	14,086
End of year	\$ 90,228	\$ 134,507
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ 322,066	\$ 177,484
The Company acquired Community Prevention Partnership on January 27, 2016. In conjunction with the acquisition, liabilities were assumed and a contribution was received as follows:		
Fair value of assets acquired	\$ 535,648	
Liabilities assumed	(331,543)	
Contribution received in acquisition of CPP	\$ 204,105	

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

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

1. NATURE OF THE BUSINESS

These consolidated financial statements for the year ended June 30, 2016 include the accounts and operations of Inperium, Inc. (the Company), created January 12, 2016, which consists of operations from Supportive Concepts for Families, Inc. (SCFFI), all wholly or majority-owned subsidiaries of SCFFI, and Community Prevention Partnership of Berks County (CPP). See Note 7 regarding agreement with CPP. The consolidated financial statements for the year ended June 30, 2015 include accounts and operations of SCFFI and all wholly or majority-owned subsidiaries. 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.

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YEARS ENDED JUNE 30, 2016 AND 2015

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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Examples of habilitative support include: assistance with adult daily living skills, domestic tasks, socialization, and adaptive skills.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Person Directed Clinical Services, LLC (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 through the divisionalization of Harmonycrest. 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,

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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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 marijuana through an environmental approach that will impact the entire community. Funding 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.

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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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy

The consolidated statements for the year ended June 30, 2016 include the accounts of the Company, SCFFI and its related entities, and CPP. The consolidated statements for the year ended June 30, 2015 include the accounts of SCFFI and its related entities. 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

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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.

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. Revenue is recognized as services are performed.

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, credit history, 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, 2016 and 2015, the allowance for doubtful accounts was \$1,500 and zero, 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, 2016 AND 2015

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	5 years
Furniture and fixtures	5 - 7 years
Leasehold improvements	5 - 17 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 no objective basis is available to measure the value.

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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 and CPP 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 and CPP 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, 2016 and 2015. 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, 2016 AND 2015

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, 2016 and 2015.

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.

Pending Standards Update

Accounting 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 2015-03, “*Interest – Imputation of Interest*,” is effective for the Company’s financial statements for the year ending June 30, 2017. This amendment requires reporting of debt issuance costs related to debt financing to be a direct deduction from the face amount of the debt on the Company’s financial statements. The debt issuance costs shall no longer be classified as a deferred charge. 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 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

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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.

3. REVOLVING LINE OF CREDIT

	<u>2016</u>	<u>2015</u>
SCFFI has a commitment from a bank for a revolving line of credit for \$4,000,000 (capped at 80% of qualified accounts receivable) for the years ended June 30, 2016 and 2015. This commitment is secured by substantially all assets of SCFFI. Monthly interest payments are required at prime (as published by the Wall Street Journal) plus 0.50% or a floor of 3.75% (4.00% and 3.75% for the years ended June 30, 2016 and 2015, respectively). Principal is due on demand at the lender's sole and absolute discretion.	\$ 591,929	\$ 1,489,603
CPP has a \$350,000 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 (3.50% and 3.25% at June 30, 2016 and 2015, respectively).	<u>-</u>	<u>-</u>
	<u>\$ 591,929</u>	<u>\$ 1,489,603</u>

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

4. LONG-TERM DEBT

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

SCFFI has an equipment revolving line of credit of \$500,000 for the years ended June 30, 2016 and 2015. 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 0.50%, but no less than 3.75% or at a fixed rate equal to either the five-year Treasury Rate plus 3.00% or at prime rate (as published by the Wall Street Journal) plus 0.50%, 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 October 2019.

\$ 162,820 \$ 220,916

SCFFI has a leasehold improvement revolving line of credit of \$500,000 for the years ended June 30, 2016 and 2015. 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 0.50%, but no less than 3.75% or at a fixed rate equal to either the five-year Treasury Rate plus 3.00% or at prime rate (as published by the Wall Street Journal) plus 0.50%, 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.

51,953 151,902

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<p>SCFFI has a mortgage revolving line of credit of \$1,500,000 for the years ended June 30, 2016 and 2015. 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 0.50%, but not less than 3.75% or at a fixed rate equal to either the five-year Treasury Rate plus 3.00 percent or at prime rate (as published by the Wall Street Journal) plus 0.50%, but no less than 5.00% for the years ended June 30, 2016 and 2015. 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.</p>	534,946	567,559
<p>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.</p>	236,334	279,103
<p>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 March 2029.</p>	122,311	128,822
<p>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 0.50% 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.</p>	1,047,885	1,088,583

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</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 June 2045.	2,226,702	2,261,600
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.	31,085	43,909
Note payable to the bank in monthly installments of \$2,438, including interest at 4.50%. This interest rate will be fixed for five years and will either convert to a fluctuating rate at 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 second mortgage on the Walnut commercial property, as well as a blanket lien on all business assets of Harmonycrest and SCFFI. This note was refinanced on August 25, 2015.	-	136,319
Note payable to the bank in monthly installments of \$2,650, including interest at 4.50%. This interest rate will be fixed for five years and will either convert to a fluctuating rate at 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, as well as a blanket lien on all assets of Harmonycrest and SCFFI. This note was refinanced on August 25, 2015.	-	393,204
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.	896,466	-

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</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.	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 June 2021.	<u>79,458</u>	<u>-</u>
	6,339,574	5,271,917
Less current portion	<u>(376,768)</u>	<u>(381,907)</u>
	<u>\$ 5,962,806</u>	<u>\$ 4,890,010</u>

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

Current maturities of long-term debt are as follows for the year ended June 30, 2016:

2017	\$	376,768
2018		336,475
2019		326,605
2020		277,542
2021		248,022
2022 - 2026		1,278,946
2027 - 2031		1,345,728
2032 - 2036		1,114,347
2037 - 2041		520,330
2042 - 2045		514,811
	\$	<u>6,339,574</u>

Loan origination fees consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Loan origination fees	\$ 93,736	\$ 69,598
Accumulated amortization	(9,692)	(4,658)
Loan origination fees, net	<u>\$ 84,044</u>	<u>\$ 64,940</u>

Loan cost amortization was \$5,034 and \$3,609 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015.

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, 2016 and 2015.

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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 ten years.

Total rents charged to expense during 2016 and 2015 for these facilities were \$1,777,028 and \$1,379,010, respectively.

Future minimum payments under the leases are as follows for the year ending June 30, 2016:

2017	\$	1,917,453
2018		1,573,545
2019		1,529,902
2020		1,111,055
2021		781,183
2022 - 2025		2,900,737
	\$	<u>9,813,875</u>

Following is a summary of property held under capital leases at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Vehicles	\$ 248,507	\$ 248,507
Less: Accumulated depreciation	(153,585)	(103,883)
	<u>\$ 94,922</u>	<u>\$ 144,624</u>

Minimum future payments under capital leases as of June 30, 2016 are as follows:

2017	\$	58,028
2018		46,010
2019		8,026
Total minimum lease payments		112,064
Less: Amount representing interest		(16,461)
Present value of lease payments	\$	<u>95,603</u>

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

7. ACQUISITION OF CPP

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.

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

<u>Assets:</u>	
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>
<u>Liabilities:</u>	
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

INPERIUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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.

9. MAJOR GRANTORS

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.

For the year ended June 30, 2015, the Company had revenues of \$35,726,632 from DHS, which represented approximately 88% of total revenues. Accounts receivable due from this grantor at June 30, 2015 are \$4,593,214.

10. TEMPORARILY RESTRICTED NET ASSETS

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

Project Peace	\$ 1,615
Drop-in Center	1,836
Drug Free Communities	343
Nurse Family Partnership - Schuylkill County	3,268
MIHOPE	15,313
Town Hall Meeting	700
Outlet Area Neighborhood	517
	<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, 2016 AND 2015

12. CONTINGENCY - EXECUTIVE EMPLOYMENT AGREEMENTS

In May 2014 and April 2015, 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 \$3,565,718 and \$2,157,000 as of June 30, 2016 and 2015, 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 July 2016, the Company purchased certain real estate with mortgages amounting to \$160,000 to be repaid over 30 years and a fixed interest rate of 5.00%. The loans mature in August 2046.

In August 2016, the Company, through its wholly owned subsidiary, Callan Housing LLC. (Borrower) established a two million dollar, six-month mortgage line of credit (the Facility) with a bank. Advances on the Facility will be allowed through February 2017. After the six-month period, the real estate purchased will be repaid calculated on a twenty-five year amortization with call options every five years. Borrower has the option of repaying the mortgage at a floating rate of LIBOR plus 225 basis points or choose the Bank's fixed rate for the first five years, currently 3.90%. Borrower also has the option of entering into a SWAP agreement with a fixed rate period of either five (5), seven (7), or ten (10) years. 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. Mortgage facility is guaranteed by SCFFI and its subsidiaries.

On August 31, 2016, Borrower purchased one property and \$183,600 was advanced on the mortgage facility. The mortgage facility matures February 2042.

Supplementary Information

INPERIUM, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

Assets	Inperium	SCFFI	Harmonycrest	PDCS	Community Prevention Partnership	Callan	Fortis Holdings	Fortis Housing	SELS	SAFS	Eliminations	Consolidated Totals
Current assets:												
Cash and cash equivalents	\$ 500	\$ 11,833	\$ 550	\$ 500	\$ 73,036	\$ 500	\$ -	\$ -	\$ 500	\$ 2,809	\$ -	\$ 90,228
Accounts receivable	-	5,066,894	3,184	193,077	485,959	-	-	-	10,235	14,248	-	5,773,597
Inventory	-	-	-	-	-	-	-	-	14,264	-	-	14,264
Prepaid expenses	-	134,872	-	-	15,449	-	-	-	-	-	-	150,321
Total current assets	500	5,213,599	3,734	193,577	574,444	500	-	-	24,999	17,057	-	6,028,410
Land, buildings, leasehold improvements, and equipment:												
Land and buildings	-	-	-	-	100,000	4,002,836	-	3,325,809	-	-	-	7,428,645
Computer equipment	-	409,907	-	-	-	-	-	-	-	-	-	409,907
Furniture and fixtures	-	100,844	-	-	-	-	-	-	-	-	-	100,844
Leasehold improvements	-	1,484,851	-	-	-	-	-	-	-	-	-	1,484,851
Office equipment	-	386,202	-	-	-	-	-	-	-	20,714	-	406,916
Transportation equipment	-	1,944,179	9,866	-	-	-	-	-	-	-	-	1,954,045
Less: accumulated depreciation	-	(3,509,016)	(5,919)	-	(855)	(191,198)	-	(142,401)	-	(1,480)	-	(3,850,869)
Net land, buildings, leasehold improvements, and equipment	-	816,967	3,947	-	99,145	3,811,638	-	3,183,408	-	19,234	-	7,934,339
Other assets:												
Security deposits	-	124,015	-	-	-	-	-	-	-	-	-	124,015
Due to/from affiliates	(14,467)	1,642,126	(137,117)	(184,573)	(271,970)	(733,523)	(41,471)	129,962	(285,456)	(103,511)	-	-
Deferred financing costs	-	-	-	-	-	54,501	-	29,543	-	-	-	84,044
Other asset	-	4,117	-	-	-	-	-	-	-	-	-	4,117
Total other assets	(14,467)	1,770,258	(137,117)	(184,573)	(271,970)	(679,022)	(41,471)	159,505	(285,456)	(103,511)	-	212,176
Total Assets	\$ (13,967)	\$ 7,800,824	\$ (129,436)	\$ 9,004	\$ 401,619	\$ 3,133,116	\$ (41,471)	\$ 3,342,913	\$ (260,457)	\$ (67,220)	\$ -	\$ 14,174,925

(Continued)

INPERIUM, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
(Continued)
JUNE 30, 2016

	Inperium	SCFFI	Harmonycrest	PDCS	Community Prevention Partnership	Callan	Fortis Holdings	Fortis Housing	SELS	SAFS	Eliminations	Consolidated Totals
Liabilities and Net Assets												
Liabilities:												
Current liabilities:												
Cash overdraft	\$ -	\$ 67,321	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,321
Revolving line of credit	-	591,929	-	-	-	-	-	-	-	-	-	591,929
Accounts payable	1,900	811,701	6,502	22,443	89,661	9,665	500	3,268	4,654	8,964	-	959,258
Salaries and wages payable	-	3,111,403	-	-	55,511	-	-	-	-	-	-	3,166,914
Payroll taxes and amounts withheld from employees	-	46,639	-	-	2,453	-	-	-	-	-	-	49,092
Current portion of capital lease obligation	-	49,445	-	-	-	-	-	-	-	-	-	49,445
Current portion of long-term debt	-	168,080	13,423	-	13,635	77,697	-	103,933	-	-	-	376,768
Total current liabilities	1,900	4,846,518	19,925	22,443	161,260	87,362	500	107,201	4,654	8,964	-	5,260,727
Long-term liabilities:												
Accrued lease escalations	-	53,102	-	-	-	-	-	-	-	-	-	53,102
Capital lease obligation	-	46,158	-	-	-	-	-	-	-	-	-	46,158
Long-term debt	-	283,027	17,662	-	65,823	2,806,261	-	2,790,033	-	-	-	5,962,806
Total long-term liabilities	-	382,287	17,662	-	65,823	2,806,261	-	2,790,033	-	-	-	6,062,066
Total Liabilities	\$ 1,900	\$ 5,228,805	\$ 37,587	\$ 22,443	\$ 227,083	\$ 2,893,623	\$ 500	\$ 2,897,234	\$ 4,654	\$ 8,964	\$ -	\$ 11,322,793
Net Assets:												
Unrestricted	(15,867)	2,572,019	(167,023)	(13,439)	150,944	239,493	(41,971)	445,679	(265,111)	(76,184)	-	2,828,540
Temporarily restricted	-	-	-	-	23,592	-	-	-	-	-	-	23,592
Total net assets	(15,867)	2,572,019	(167,023)	(13,439)	174,536	239,493	(41,971)	445,679	(265,111)	(76,184)	-	2,852,132
Total Liabilities and Net Assets	\$ (13,967)	\$ 7,800,824	\$ (129,436)	\$ 9,004	\$ 401,619	\$ 3,133,116	\$ (41,471)	\$ 3,342,913	\$ (260,457)	\$ (67,220)	\$ -	\$ 14,174,925

(Concluded)

INPERIUM, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Inperium	SCFFI	Harmonycrest	PDCS	Unrestricted Community Prevention Partnership	Temp Restricted Community Prevention Partnership	Callan	Fortis Holdings	Fortis Housing	SELS	SAFS	Eliminations	Consolidated Totals
Public Support, Revenues, Gains, and Other Support													
Contract revenue	\$ -	\$ 45,259,598	\$ -	\$ 1,636,832	\$ 92,939	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,989,369
Contributions/grants	-	3,851	-	-	1,059,315	23,592	1,000	-	-	-	-	-	1,087,758
Client fees	-	1,844,778	129,851	-	-	-	-	-	-	-	-	-	1,974,629
Interest Income	-	44,915	-	-	242	-	-	-	-	-	-	(44,553)	604
Other program fees	-	59,510	-	350	-	-	-	-	-	-	-	-	59,860
Other income	-	359,344	-	-	1,098	-	-	-	-	2,383	308	-	363,133
Sales (net discounts)	-	-	-	-	-	-	-	-	-	86,472	159,225	-	245,697
Intercompany revenues	-	-	736,144	-	-	-	344,882	-	180,397	56,987	109,720	(1,428,130)	-
Total public support, revenues, gains, and other support	-	47,571,996	865,995	1,637,182	1,153,594	23,592	345,882	-	180,397	145,842	269,253	(1,472,683)	50,721,050
Expenses:													
Payroll	-	33,956,427	-	-	148,888	-	-	-	-	-	-	-	34,105,315
Payroll taxes and employee benefits	-	5,663,883	-	-	44,952	-	-	-	-	-	-	-	5,708,835
Total payroll and related expenses	-	39,620,310	-	-	193,840	-	-	-	-	-	-	-	39,814,150
Client transportation	-	1,169,002	5,401	51,443	16,213	-	-	-	-	2,741	6,932	(109,719)	1,142,013
Communications	253	501,736	3,443	22,712	12,788	-	-	-	-	3,825	13,188	-	557,945
Contract personnel	11,826	(566,270)	568,578	1,491,403	899,706	-	41,572	9,678	22,771	155,362	148,640	(735,394)	2,047,872
Housekeeping expense	-	808,023	31,475	44	27,956	-	-	-	-	2	-	(750)	866,750
Insurance expense	-	274,703	6,154	295	1,099	-	-	-	-	61	3,818	-	286,130
Interest expense	132	80,812	883	7,217	2,293	-	169,699	1,314	94,278	8,314	1,629	(44,553)	322,018
Maintenance and repairs	-	1,178,635	25,941	3,928	4,019	-	290	-	-	1,573	7,361	(56,988)	1,164,759
Rent expense	-	1,878,582	28,356	12,972	16,882	-	-	-	-	1,920	30,716	(525,279)	1,444,149
Supplies and operating expenses	3,656	974,507	15,379	18,384	20,930	-	3,489	1,146	9,977	102,230	131,613	-	1,281,311
Utilities	-	609,537	7,425	2,440	10,174	-	-	-	-	546	60	-	630,182
Total expenses before depreciation	15,867	46,529,577	693,035	1,610,838	1,205,900	-	215,050	12,138	127,026	276,574	343,957	(1,472,683)	49,557,279
Depreciation	-	215,393	1,973	290	855	-	117,994	-	44,125	510	1,480	-	382,620
Total expenses	15,867	46,744,970	695,008	1,611,128	1,206,755	-	333,044	12,138	171,151	277,084	345,437	(1,472,683)	49,939,899
Change in net assets before non-operating income (loss)	(15,867)	827,026	170,987	26,054	(53,161)	23,592	12,838	(12,138)	9,246	(131,242)	(76,184)	-	781,151
Non-Operating Income (Loss):													
Excess of fair value of net assets in acquisition of CPP	-	-	-	-	204,105	-	-	-	-	-	-	-	204,105
Non operating gains (losses)	-	57,707	-	-	-	-	-	-	-	(5,000)	-	-	52,707
Total non-operating income (loss)	-	57,707	-	-	204,105	-	-	-	-	(5,000)	-	-	256,812
Change in net assets after non-operating income (loss)	(15,867)	884,733	170,987	26,054	150,944	23,592	12,838	(12,138)	9,246	(136,242)	(76,184)	-	1,037,963
Net Assets:													
Beginning of year	-	1,687,286	(338,010)	(39,493)	-	-	226,655	(29,833)	436,433	(128,869)	-	-	1,814,169
End 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