

MB CARE, LLC
FINANCIAL STATEMENTS
Year Ended June 30, 2016

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements	
Balance sheet	2
Statement of income	3
Statement of members' equity	4
Statement of cash flows	5
Notes to financial statements	6 - 8



Independent Auditors' Report

To the Board of Directors
of MB Care, LLC

We have audited the accompanying balance sheet of MB Care, LLC as of June 30, 2016, and the related statements of income, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MB Care, LLC as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
December 21, 2016

MB CARE, LLC

BALANCE SHEET

June 30, 2016

Assets	
Current Assets	
Cash	\$ 184,545
Accounts receivable, net	344,676
Prepaid expenses	<u>910</u>
Total current assets	530,131
Other Asset	
Certificate of need	<u>50,000</u>
Total assets	<u><u>\$ 580,131</u></u>
 Liabilities and Members' Equity	
Current Liabilities	
Payable to Uspiritus, Inc.	\$ 30,371
Payable to Maryhurst, Inc.	<u>117,353</u>
Total current liabilities	147,724
Members' equity	<u>432,407</u>
Total liabilities and members' equity	<u><u>\$ 580,131</u></u>

See Notes to Financial Statements.

MB CARE, LLC

STATEMENT OF INCOME

Year Ended June 30, 2016

Revenues

Resident service revenues	\$ 1,948,703
Less allowances	(107,567)
School lunch revenues	12,018
Interest income	<u>15</u>
Total revenues	<u><u>1,853,169</u></u>

Expenses

Contract salaries	1,220,858
Lease expense	100,008
Direct care staff	79,495
Meals for residence	69,300
Nursing salaries/benefits	60,000
Utilities	27,582
Clinical consultant	23,168
Other expenses	18,405
Vehicle expense	12,537
Computer services	9,600
Accounting services	8,575
Resident allowances	6,668
Legal fees	4,380
Plant services	4,324
Billing services	4,060
Recreation and activities	3,559
Household supplies	3,528
Office expense	3,347
Insurance	2,932
Telephone	2,510
Repairs and maintenance	1,848
Personal care	1,405
Medical supplies	930
Bank fees	737
Licensing fees	<u>175</u>
Total expenses	<u><u>1,669,931</u></u>

Net income \$ 183,238

See Notes to Financial Statements.

MB CARE, LLC

STATEMENT OF MEMBERS' EQUITY

Year Ended June 30, 2016

	<u>Maryhurst, Inc.</u>	<u>Uspiritus, Inc.</u>	<u>Total</u>
Balance, June 30, 2015	\$ 200,854	\$ 198,315	\$ 399,169
Net income	91,619	91,619	183,238
Distributions to members	<u>(75,000)</u>	<u>(75,000)</u>	<u>(150,000)</u>
Balance, June 30, 2016	<u>\$ 217,473</u>	<u>\$ 214,934</u>	<u>\$ 432,407</u>

See Notes to Financial Statements.

MB CARE, LLC

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

Cash Flows from Operating Activities	
Cash received from resident services	\$ 1,884,506
Cash paid to suppliers and contract services	(1,666,764)
Interest received	<u>15</u>
Net cash provided by operating activities	<u>217,757</u>
Cash Flows from Financing Activities	
Distributions paid to members	<u>(150,000)</u>
Net cash used in financing activities	<u>(150,000)</u>
Net increase in cash	67,757
Cash at beginning of year	<u>116,788</u>
Cash at end of year	<u><u>\$ 184,545</u></u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities	
Net income	<u>\$ 183,238</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Change in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	31,352
Prepaid expenses	(177)
Increase (decrease) in:	
Payables to members	<u>3,344</u>
Total adjustments	<u>34,519</u>
Net cash provided by operating activities	<u><u>\$ 217,757</u></u>

See Notes to Financial Statements.

MB CARE, LLC

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations:

MB Care, LLC (Company) operates two psychiatric residential treatment facilities for children providing hope and healing, through comprehensive treatment and education, to children and families in need. The facilities are located on the Brooklawn campus of Uspiritus, Inc. in Louisville, Kentucky.

Summary of significant accounting policies:

The summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. The financial statements are representations of management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Use of estimates:

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

Accounts receivable:

The valuation of accounts receivable is based upon a detail analysis of past due accounts and the history of uncollectible accounts. Estimated uncollectible accounts increase the allowance for doubtful accounts, and when accounts receivable are written off, the allowance for doubtful accounts is decreased. As of June 30, 2016 the allowance for doubtful accounts was \$40,000.

Substantially all of the accounts receivable are due from the Kentucky Medicaid program.

NOTES TO FINANCIAL STATEMENTS

Certificate of Need:

The Certificate of Need was tested for impairment by comparing the fair value of the Company's assets and analyzing the revenues from year to year for any significant changes and other external factors. No significant changes were noted that would indicate that a reduction of value was necessary.

Resident service revenues:

Resident service revenues are generated through agreements with the Kentucky Cabinet for Health and Family Services. Payments from Kentucky are governed by an annual contract which establishes per diem rates for children placed with the Company and specifies the nature and extent of care to be provided.

Cash:

For purposes of the statement of cash flows, the Company considers its operating checking account to be cash.

Income taxes:

The Company is taxed as a Partnership as defined in the Internal Revenue Code and files federal and Kentucky income tax returns. Accordingly, no federal or state income taxes are provided for by the Partnership in these financial statements since the taxable income is reported by its members on their tax returns.

As of June 30, 2016, the Partnership did not have any accrued interest or penalties related to income tax liabilities, and interest and penalties related to income tax are charged to operations when incurred.

Newly issued standards not yet effective:

The Financial Accounting Standards Board (FASB) has issued accounting standard No. 2014-09, *Revenue from Contracts with Customers*, concerning the accounting for revenue recognition. The standard is effective for years beginning after December 15, 2018. The Financial Accounting Standards Board has also issued accounting standard No. 2016-02, *Leases*, concerning the accounting for leases. The standard is effective for years beginning after December 15, 2020. The Company is evaluating the impact that adoption of these standards will have on future financial position and results of operations.

NOTES TO FINANCIAL STATEMENTS

Subsequent events:

Subsequent events have been evaluated through December 21, 2016, which is the date the financial statements were available to be issued.

Note 2. Related Party Transactions

The Company entered into a service agreement with Maryhurst, Inc. (50% member) for clinical management, program, information technology, and other services and administrative support. Maryhurst, Inc. bills the Company monthly for these services. This agreement is automatically renewable annually. Total expenses relating to the service agreement and reimbursements for the year ended June 30, 2016 was \$1,284,878. As of June 30, 2016 a payable of \$117,353 was due for these services.

The Company also entered into a service agreement with Uspiritus, Inc. (50% member) for clinical, management, billing, and other services and administrative support. Uspiritus, Inc. bills the Company monthly for these services. This agreement is automatically renewable annually. Total management services expensed for the year ended June 30 2016 was \$286,160. As of June, 30, 2016 a payable of \$30,371 was due for these services.

The Company has lease agreements with Uspiritus, Inc. (50% member) for two buildings. The lease terms are five years with monthly payments of \$4,167 for each building. Lease expense was \$100,008 for the year ended June 30, 2016. The future minimum rental expense for these leases is as follows:

2017	\$100,008
2018	100,008
2019	100,008
2020	<u>37,503</u>
	<u>\$337,527</u>

Note 3. Concentration of Revenues and Receivables

The Kentucky Cabinet for Health and Family Services accounted for substantially all resident service revenues for the year ended June 30, 2016.

Changes in the future allocation of funding by this agency could have a significant impact on the Company's operations. Substantially all accounts receivable is due from this agency and is subject to concentration risks.