

USPIRITUS, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2019 and 2018

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Independent Auditors' Report

To the Board of Directors
Uspiritus, Inc.
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Uspiritus, Inc. (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related statement of functional expenses for the year ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatements.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Uspiritus, Inc. as of June, 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Deming, Malone, Livesay & Ostroff".

Louisville, Kentucky
December 12, 2019

USPIRITUS, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

Assets	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 2,276,914	\$ 1,332,942
Accounts receivable, net	1,691,594	1,802,456
Pledges receivable	118,096	37,300
Grants receivable	31,484	90,964
Other receivables	13,989	8,001
Prepaid expenses	<u>145,557</u>	<u>149,924</u>
Total current assets	<u>4,277,634</u>	<u>3,421,587</u>
 Property and Equipment		
Land and improvements	1,480,716	1,473,876
Buildings	24,894,331	24,799,183
Equipment	3,295,279	3,257,637
Vehicles	<u>290,458</u>	<u>339,942</u>
	29,960,784	29,870,638
Less accumulated depreciation	<u>21,319,793</u>	<u>20,385,018</u>
	<u>8,640,991</u>	<u>9,485,620</u>
 Other Assets		
Beneficial interest in third-party trusts	4,814,573	4,746,458
Contributions receivable	980,101	897,889
Pledges receivable, net	169,417	376,498
Investments	4,612,467	4,521,782
Investment - MB Care, LLC	208,545	181,358
Beneficial interest in community foundations	<u>46,324</u>	<u>43,953</u>
	<u>10,831,427</u>	<u>10,767,938</u>
Total assets	<u><u>\$ 23,750,052</u></u>	<u><u>\$ 23,675,145</u></u>

See Notes to Financial Statements.

Liabilities and Net Assets	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of note payable	\$ 152,785	\$ 145,505
Accounts payable	199,464	177,623
Accrued salaries, wages, taxes and benefits	904,407	771,751
Other accrued liabilities	<u>442,551</u>	<u>231,771</u>
Total current liabilities	<u>1,699,207</u>	<u>1,326,650</u>
Long-Term Liabilities		
Note payable, net of current maturities	<u>677,269</u>	<u>830,045</u>
Total liabilities	<u>2,376,476</u>	<u>2,156,695</u>
Net Assets		
Without donor restrictions	15,255,586	15,358,553
With donor restrictions	<u>6,117,990</u>	<u>6,159,897</u>
Total net assets	<u>21,373,576</u>	<u>21,518,450</u>
 Total liabilities and net assets	 <u><u>\$ 23,750,052</u></u>	 <u><u>\$ 23,675,145</u></u>

USPIRITUS, INC.

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2019 and 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Resident service revenue:			
PRTF program	\$ 5,350,418		\$ 5,350,418
PCC program, foster care and independent living	11,123,712		11,123,712
Community based services	6,660		6,660
Family Preservation	792,758		792,758
MB Care, LLC management services	212,710		212,710
Rental and other income	472,120		472,120
Gifts in kind	184,884		184,884
Total operating revenues	<u>18,143,262</u>		<u>18,143,262</u>
Contributions and grants	639,847	\$ 561,105	1,200,952
Net investment return	285,375		285,375
Gain (loss) on investment - MB Care, LLC	73,541		73,541
Gain (loss) on disposal of property	300		300
Change in value of split-interest agreements and third-party trusts		150,005	150,005
Total other revenues	<u>999,063</u>	<u>711,110</u>	<u>1,710,173</u>
Net assets released from restrictions	753,017	(753,017)	
Total revenues	<u>19,895,342</u>	<u>(41,907)</u>	<u>19,853,435</u>
Expenses			
Program services	17,767,293		17,767,293
General and administrative	1,686,263		1,686,263
Fundraising	544,753		544,753
Total expenses	<u>19,998,309</u>		<u>19,998,309</u>
Decrease in total net assets	(102,967)	(41,907)	(144,874)
Net assets, beginning of year	15,358,553	6,159,897	21,518,450
Net assets, end of year	<u>\$ 15,255,586</u>	<u>\$ 6,117,990</u>	<u>\$ 21,373,576</u>

See Notes to Financial Statements.

2018		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 5,527,191		\$ 5,527,191
9,593,394		9,593,394
176,518		176,518
730,503		730,503
276,904		276,904
426,620		426,620
231,385		231,385
<u>16,962,515</u>		<u>16,962,515</u>
1,406,207	\$ 642,834	2,049,041
353,796		353,796
(19,758)		(19,758)
(4,154)		(4,154)
	<u>113,164</u>	<u>113,164</u>
<u>1,736,091</u>	<u>755,998</u>	<u>2,492,089</u>
<u>808,000</u>	<u>(808,000)</u>	
<u>19,506,606</u>	<u>(52,002)</u>	<u>19,454,604</u>
17,212,596		17,212,596
2,096,352		2,096,352
518,477		518,477
<u>19,827,425</u>		<u>19,827,425</u>
(320,819)	(52,002)	(372,821)
<u>15,679,372</u>	<u>6,211,899</u>	<u>21,891,271</u>
<u>\$ 15,358,553</u>	<u>\$ 6,159,897</u>	<u>\$ 21,518,450</u>

USPIRITUS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	2019										2018	
	PRIF Program	MB Care, LLC	PCC Program	Community Based Services	Independent Living	Family Preservation	Foster Care Services	Total Program	Administrative	Fund Raising	Totals	Totals
Salaries and wages	\$ 3,473,915	\$ 32,561	\$ 5,424,489	\$ 35,236	\$ 225,243	\$ 484,162	\$ 547,001	\$ 10,222,607	\$ 1,094,843	\$ 291,612	\$ 11,609,062	\$ 11,421,977
Payroll taxes and workers' compensation insurance	368,452	3,067	574,901	3,866	25,805	52,954	60,080	1,089,125	116,869	30,604	1,236,598	1,418,215
Employee benefits	345,139	319	520,610		20,387	56,257	74,533	1,017,245	93,340	30,208	1,140,793	987,240
	<u>4,187,506</u>	<u>35,947</u>	<u>6,520,000</u>	<u>39,102</u>	<u>271,435</u>	<u>593,373</u>	<u>681,614</u>	<u>12,328,977</u>	<u>1,305,052</u>	<u>352,424</u>	<u>13,986,453</u>	<u>13,827,432</u>
Purchased services	162,401	318	195,832	799	3,611		45,047	408,008	126,875	51,807	586,690	567,722
Printing/postage	1,326		2,074		131	119	844	4,494	4,869	5,492	14,855	25,495
Resident activities and supplies	85,705	5,412	144,509	65	8,439	31,447	42,172	317,749	22,463	7,569	347,781	316,922
Clothing and allowances	7,639		73,013		2,841		1,034,199	1,117,692	84		1,117,776	1,107,751
Food	217,091		338,250		1,752		1,165	558,258		703	558,961	570,046
Utilities	149,286	26,411	209,669	3,056	14,690		548	403,660	55,366		459,026	463,904
Telephone	10,187	80	18,737	171	5,165	13,809	14,891	63,040	38,777	2,815	104,632	100,760
Household supplies	772		1,714		5		155	2,646	239	1,629	4,514	11,865
Equipment and facility rental	12,021	55	30,330	27	12,380	23,804	47,776	126,393	28,292	2,190	156,875	154,732
Repairs and maintenance	168,088	25,974	276,099	3,099	12,840	1,454	10,934	498,488	100,404	8,171	607,063	528,905
Travel and education	9,449	79	28,993	41	4,565	55,575	25,556	124,258	21,977	14,168	160,403	159,373
Office supplies	14,922	26	25,322	478	2,632	9,697	18,527	71,604	43,979	9,927	125,510	123,821
In-kind gifts	57,457		89,823		5,368		32,236	184,884			184,884	231,385
Marketing							7,090	7,090	8,279	2,367	17,736	28,311
Special events	720		1,126		67		404	2,317		28,800	31,117	24,558
Legal and accounting	2,737		1,741					4,478	82,765	1,475	88,718	126,598
Licenses, dues, subscriptions, misc.	4,463		2,622		1,298	118	172	8,673	46,879	3,605	59,157	58,971
Facility insurance	92,754	1,718	145,001	853	6,325	13,380	35,765	295,796	40,560	8,983	345,339	339,102
Subtotal	<u>5,184,524</u>	<u>96,020</u>	<u>8,104,855</u>	<u>47,691</u>	<u>353,544</u>	<u>742,776</u>	<u>1,999,095</u>	<u>16,528,505</u>	<u>1,926,860</u>	<u>502,125</u>	<u>18,957,490</u>	<u>18,767,653</u>
Depreciation	317,270	5,876	495,982	2,918	21,635		3,391	847,072	117,915	30,728	995,715	1,007,643
Interest									45,104		45,104	52,129
Administration allocation	122,871	2,275	192,081	1,130	8,379	17,603	47,377	391,716	(403,616)	11,900		
Total expenses	<u>\$ 5,624,665</u>	<u>\$ 104,171</u>	<u>\$ 8,792,918</u>	<u>\$ 51,739</u>	<u>\$ 383,558</u>	<u>\$ 760,379</u>	<u>\$ 2,049,863</u>	<u>\$ 17,767,293</u>	<u>\$ 1,686,263</u>	<u>\$ 544,753</u>	<u>\$ 19,998,309</u>	<u>\$ 19,827,425</u>

See Notes to Financial Statements.

USPIRITUS, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Cash received from services for residents	\$ 17,446,477	\$ 15,878,196
Cash paid to suppliers and employees	(18,285,278)	(18,366,287)
Rent, special events and other income received	538,662	363,948
Contributions received	1,419,386	1,170,444
Investment income received	370,886	1,237,076
Interest paid	<u>(45,104)</u>	<u>(52,129)</u>
Net cash provided by operating activities	<u>1,445,029</u>	<u>231,248</u>
Cash Flows from Investing Activities		
Capital expenditures for property and equipment	(151,887)	(205,401)
Proceeds from sale of property and equipment	300	125
Proceeds from sale of investments	491,890	342,951
Purchase of investments	<u>(695,864)</u>	<u>(517,366)</u>
Net cash used in investing activities	<u>(355,561)</u>	<u>(379,691)</u>
Cash Flows from Financing Activity		
Principal payments on note payable	<u>(145,496)</u>	<u>(138,471)</u>
Net cash used in financing activity	<u>(145,496)</u>	<u>(138,471)</u>
Net increase (decrease) in cash and cash equivalents	943,972	(286,914)
Cash and cash equivalents at beginning of year	<u>1,332,942</u>	<u>1,619,856</u>
Cash and cash equivalents at end of year	<u>\$ 2,276,914</u>	<u>\$ 1,332,942</u>

See Notes to Financial Statements.

	<u>2019</u>	<u>2018</u>
Reconciliation of Net Decrease in Total Net Assets		
Assets to Net Cash Provided by Operating Activities		
Net decrease in total net assets	<u>\$ (144,874)</u>	<u>\$ (372,821)</u>
Adjustments to reconcile net decrease in total net assets to net cash provided by operating activities:		
Depreciation	995,715	1,007,643
Change in value of split-interest agreements and third-party trusts	(151,376)	(157,826)
Gain on investments	85,511	(164,038)
Change in charitable remainder trusts	1,071	44,662
Change in discount on pledges	(31,727)	(44,089)
Loss on investment - MB Care, LLC	(73,541)	19,758
Loss (gain) on disposal of property and equipment	(300)	4,154
Provision for bad debts	31,728	(1,917)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	78,200	(253,644)
Pledges receivable	158,954	199,550
Grants receivable	59,480	(35,830)
Prepaid expenses and other	70,909	(12,447)
Increase (decrease) in:		
Accounts payable	21,841	(78,269)
Accrued salaries and wages	132,656	62,151
Other accrued liabilities	210,782	14,211
	<u>1,589,903</u>	<u>604,069</u>
Total adjustments		
	<u>1,589,903</u>	<u>604,069</u>
Net cash provided by operating activities	<u>\$ 1,445,029</u>	<u>\$ 231,248</u>

USPIRITUS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Organization and Summary of Significant Accounting Policies

Description of organization:

Uspiritus, Inc. (Uspiritus) is a not-for-profit organization with locations in Louisville, Lexington and Bowling Green, Kentucky which provides comprehensive care, treatment, and education to emotionally and behaviorally troubled children and their families. Uspiritus extends its mission throughout the community by providing case management, therapeutic support and outpatient counseling through residential care, foster care, pre-independent living and independent living.

In June of 2018, Uspiritus entered into a management agreement with Centerstone of Kentucky. Centerstone of Kentucky is a not-for-profit provider of community-based mental health care, offering a full range of mental health services, substance abuse treatment and intellectual and developmental mental disabilities services. This collaboration provides improved clinical and psychiatric access to deliver a continuum of care for children from a young age through early adulthood, and supports families, both biological and foster families, during short-term and crisis-oriented return/stays. In addition, the intent of the collaboration is to create a larger-scale organization that provides a high level of sophistication and depth to drive better outcomes as well as a more diverse product base to enable a single point of entry for families and children.

Summary of significant accounting policies:

This summary of significant accounting policies of Uspiritus is presented to assist in understanding Uspiritus' financial statements. The financial statements are representations of Uspiritus' 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.

Cash and cash equivalents:

For purposes of the statements of cash flows, Uspiritus considers all unrestricted and undesignated cash and investments with an original maturity of three months or less to be cash and cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Investments and credit risk:

Investments are recorded at fair value. The carrying amount of cash and cash equivalents reported in the statements of financial position approximates fair value because of the short maturity of those instruments. Donated investments are recorded at their fair value as of the date received. See Note 4 for discussion of fair value measurements.

Uspiritus has significant investments in mutual funds and in stocks and bonds held by investment managers engaged by Uspiritus and are, therefore, subject to concentrations of credit risk. Investments are made by the investment managers and the investments are monitored by the Board of Directors. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of Uspiritus.

Investment – MB Care, LLC:

Uspiritus' 50% equity investment in MB Care, LLC is accounted for under the equity method (see Note 7). Accordingly, the investment is stated at cost, adjusted for Uspiritus' capital contributions and distributions, and its proportionate share of earnings and losses.

Receivables:

The valuation of accounts, pledges, and grants 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 the account is written off, the allowance for doubtful accounts is decreased. Accounts receivable and pledges receivable are net of an allowance for doubtful accounts and discounts of approximately \$236,000 and \$236,000 as of June 30, 2019 and 2018, respectively.

Property, equipment and depreciation:

Uspiritus has a policy to capitalize property and equipment with a cost of \$2,500 or greater with a useful life greater than one year. Purchased property and equipment are stated at cost. Donated property is stated at fair value as of the date of donation. Depreciation of property and equipment is computed by the straight-line method over their estimated useful lives. Total depreciation expense for the years ended June 30, 2019 and 2018 was approximately \$996,000 and \$1,008,000, respectively.

NOTES TO FINANCIAL STATEMENTS

Net assets:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a donor restriction expires, that is, when a purpose restriction is accomplished or a stipulated time restriction ends, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Donations other than cash:

Uspiritus records donated services that require specific expertise and would normally have been purchased, and donated services that create or enhance non-financial assets, at fair value. Those donated services that do not meet these specific criteria are not reflected in the financial statements. Donations other than cash are recorded at their fair value as of the date of donation. Donations of long-lived assets with explicit restrictions that specify how the assets are to be used and donations of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Uspiritus reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Uspiritus receives various in-kind donations primarily for program related supplies. In-kind donations for the years ended June 30, 2019 and 2018 were approximately \$185,000 and \$231,000, respectively.

NOTES TO FINANCIAL STATEMENTS

Functional classification:

The financial statements report categorization of expenses that are attributed to Uspiritus' focus areas. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy expenses, which are allocated on a square footage basis, as well as certain administrative expenses, which are allocated on the basis of estimates of time and effort.

Income taxes:

Uspiritus is exempt from federal, state and local income taxes as a not-for-profit organization as described under Section 501(c)(3) of the Internal Revenue Code. Uspiritus files informational tax returns as required by federal and state regulations. However, income from certain activities not directly related to Uspiritus' tax-exempt purpose may be subject to taxation as unrelated business income.

As of June 30, 2019, and 2018, Uspiritus did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years then ended.

Compensated absences:

Compensated absences for sick pay have not been accrued since they cannot be reasonably estimated. Uspiritus' policy is to recognize these costs when actually paid.

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.

NOTES TO FINANCIAL STATEMENTS

Accounting pronouncement adopted:

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard addresses net asset classification, information about liquidity and availability of resources, and the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these items accordingly. The net asset classification and investment return requirements per the ASU have been applied retrospectively to all periods presented.

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 (per No. 2015-14).

The FASB has issued accounting standard No. 2016-02, *Leases*, concerning the accounting for leases. The standard is effective for years beginning after December 15, 2020.

The FASB has issued accounting standard No. 2016-18, *Statement of Cash Flows: Restricted Cash*, concerning the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The standard is effective for years beginning after December 15, 2018.

The FASB has issued accounting standard No. 2018-13, *Fair Value Measurement: Disclosure Framework*, concerning changes to disclosure measurements for level 3 investments, effective for years beginning after December 15, 2019.

The Organization is evaluating the impact that adoption of these standards will have on future financial position and results of operations

Subsequent events:

Subsequent events have been evaluated through December 12, 2019, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Investments

All investments are maintained by LPL Financial Services, United Church Foundation and Commonwealth Bank & Trust at June 30, 2019 and 2018 under agency agreements.

Cost and fair value of investments as of June 30, 2019 and 2018 are summarized below:

	2019		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Cash and cash equivalents	\$ 146,996	\$ 146,996	
Equity funds, common stocks	2,744,536	3,600,328	\$855,792
Fixed income funds	<u>856,271</u>	<u>865,143</u>	<u>8,872</u>
	<u>\$3,747,803</u>	<u>\$4,612,467</u>	<u>\$864,664</u>
	2018		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Cash and cash equivalents	\$ 175,110	\$ 175,110	
Equity funds, common stocks	2,660,620	3,465,475	\$804,855
Fixed income funds	<u>877,756</u>	<u>881,197</u>	<u>3,441</u>
	<u>\$3,713,486</u>	<u>\$4,521,782</u>	<u>\$808,296</u>

Investment returns for the years ended June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Investment returns:		
Interest and dividends	\$ 370,886	\$189,758
Realized gains	34,393	107,080
Unrealized (loss)gain	<u>(119,904)</u>	<u>56,958</u>
Total return on investments	<u>\$ 285,375</u>	<u>\$353,796</u>

NOTES TO FINANCIAL STATEMENTS

Note 3. Pledges Receivable

Uspiritus has outstanding unconditional pledges to give for operations. Pledges receivable due after one year from the date of the pledge were discounted using an interest rate of 3.5%. The pledges receivable as of June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Due less than one year	\$118,096	\$ 37,300
Due one to ten years	<u>207,750</u>	<u>447,500</u>
	325,846	484,800
Less discount to net present value	(32,041)	(63,768)
Less allowance for doubtful accounts	<u>(6,292)</u>	<u>(7,234)</u>
	<u>\$287,513</u>	<u>\$413,798</u>

The majority of the pledges receivable balance is from one donor.

Note 4. Fair Value Measurements

Accounting principles generally accepted in the United States of America provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the organization has the ability to access.
- Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active or inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

All assets have been valued using a market approach. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2019.

Cash equivalent funds – Valued at the net asset value of shares held by Uspiritus at year end.

Equity and fixed income funds – Valued at the net asset value of shares held by Uspiritus at year end.

Common stocks – Valued at the closing price reported on the active market on which the individual securities are traded.

Beneficial interest in assets held by others – The fair value calculation uses assumptions about discounted cash flow and other present value techniques. Because of the inherent uncertainty of valuation, the estimated value may differ significantly from the value that would have been used had a ready market for the investment existed, and the difference could be material.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, Uspiritus' assets at fair value as of June 30, 2019 and 2018:

	2019			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Measured on a recurring basis:				
Cash and cash equivalents	\$ 146,996			\$ 146,996
Equity funds:				
Growth funds	1,922,915			1,922,915
Growth and income funds	464,979	\$ 50,819		515,798
Fixed income funds:				
Municipal bonds		865,143		865,143
Corporate bonds		38,844		38,844
Common stocks	1,122,771			1,122,771
Beneficial interest in assets held by others	<u> </u>	<u>46,324</u>	<u>\$5,794,674</u>	<u>5,840,998</u>
Total assets at fair value	<u>\$3,657,661</u>	<u>\$1,001,130</u>	<u>\$5,794,674</u>	<u>\$10,453,465</u>

NOTES TO FINANCIAL STATEMENTS

	2018			Total
	Level 1	Level 2	Level 3	
Measured on a recurring basis:				
Cash and cash equivalents	\$ 175,110			\$ 175,110
Equity funds:				
Growth funds	1,943,687			1,943,687
Growth and income funds	438,782	\$ 48,931		487,713
Fixed income funds:				
Municipal bonds		844,838		844,838
Corporate bonds		36,359		36,359
Common stocks	1,034,075			1,034,075
Beneficial interest in assets held by others	_____	43,953	\$5,644,347	5,688,300
Total assets at fair value	\$3,591,654	\$974,081	\$5,644,347	\$10,210,082

The following table sets forth a summary of changes in the fair value of Uspiritus' Level 3 assets on a recurring basis for the years ended June 30, 2019 and 2018:

	2019	2018
Balance, beginning of period	\$5,644,347	\$5,530,356
Distributions	(185,608)	(207,569)
Change in value of beneficial interest in assets held by others	335,935	321,560
Balance, end of period	\$5,794,674	\$5,644,347

Note 5. Endowment Funds

Uspiritus' endowment funds consist of investments maintained by LPL Financial Services, Commonwealth Bank & Trust, and United Church Foundation (see Note 2) and a beneficial interest in assets held by various Community Foundations and third-party trusts (see Note 8). The LPL Financial Services, Commonwealth Bank & Trust, and United Church Foundation investments are Board designated funds and the beneficial interest in assets held by various Community Foundations are donor-restricted funds. Uspiritus' Board of Directors does not have input or authority over the nature and type of investments held by the Community Foundations and third-party trusts. The trustees of the Community Foundations and third-party trusts have sole discretion on the investments and the amount and timing of distributions. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	2019		
	<u>Board Endowment</u>	<u>In Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of period	\$4,545,735	\$4,766,458	\$9,312,193
Investment return:			
Interest and dividends, net	191,384		191,384
Realized gains	35,769		35,769
Unrealized gains(losses)	(43,181)	68,115	24,934
Fees	(13,833)		(13,833)
Net transfers to operations	(77,083)		(77,083)
Endowment net assets, end of period	<u>\$4,638,791</u>	<u>\$4,834,573</u>	<u>\$9,473,364</u>
	2018		
	<u>Board Endowment</u>	<u>In Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of period	\$4,212,700	\$4,608,632	\$8,821,332
Investment return:			
Interest and dividends, net	182,031		182,031
Realized gains	107,080		107,080
Unrealized gains	56,958	157,826	214,784
Fees	(13,671)		(13,671)
Net transfers from operations	637		637
Endowment net assets, end of period	<u>\$4,545,735</u>	<u>\$4,766,458</u>	<u>\$9,312,193</u>

NOTES TO FINANCIAL STATEMENTS

Interpretation of relevant law:

Uspiritus has interpreted the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Uspiritus classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Uspiritus in a manner consistent with the standard of prudence prescribed by UPMIFA. The standard of prudence requires Uspiritus to invest the funds in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. In accordance with UPMIFA, Uspiritus considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the various funds
- 2) The purposes of the donor-restricted endowment funds
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the organization
- 7) The organization's investment policies

The Board of Directors has determined that the majority of Uspiritus' contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with Uspiritus. Under the terms of Uspiritus' governing documents, the Board of Directors has the ability to distribute so much of the original principal of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute the original principal, all contributions not classified as temporarily or permanently restricted are classified as unrestricted net assets for financial statement purposes.

NOTES TO FINANCIAL STATEMENTS

Return objectives and risk parameters:

Uspiritus has adopted investment and spending policies for endowment assets that attempt to provide for preservation of capital through a well-diversified portfolio of funds with an emphasis on long-term growth without undue exposure to risk, while generating sufficient income for distribution. Endowment assets include those assets of donor-restricted funds that Uspiritus must hold in perpetuity or for a donor-specified period as well as Board designated funds. The goal is for this portfolio to outperform a benchmark composed of various funds as described in the investment policy.

Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, Uspiritus relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Uspiritus has established and monitors a diversified asset allocation, including a target equity position, fixed income position, and cash equivalents exposure.

Spending policy and how the investment objectives relate to spending policy:

Uspiritus has a policy of appropriating for distribution an amount each year as deemed necessary to support operations. In establishing this policy, Uspiritus considered the long-term expected return on its endowment. Accordingly, 4% of the average fiscal year-end total market value of assets of the funds for the prior three calendar years may be distributed annually. This is consistent with Uspiritus' objective to provide for preservation of capital through a well-diversified portfolio of funds with an emphasis on long-term growth without undue exposure to risk, while generating sufficient income for distribution.

Note 6. Split-Interest Agreements and Third Party Trusts

Uspiritus was named the sole beneficiary under various charitable remainder trust agreements. Under the trust agreements, the donor is to receive quarterly and semi-annual distributions, determined in accordance with the trust agreements, over the life of the trusts. At the end of the trust terms, the remaining assets will be transferred to Uspiritus. Based on the life expectancy of the survivor recipient, and a discount rate of 4.25% for the years ended June 30, 2019 and 2018, the present value of future benefits expected to be received by Uspiritus was estimated to be \$519,000 and \$436,000 as of June 30, 2019 and 2018, respectively, and is reflected as a contribution receivable on the statements of financial position. Uspiritus recorded a change in value of approximately \$83,000 and (\$23,000) of the estimated present value of future distributions on the statements of activities for the years ended June 30, 2019 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS

Uspiritus is the income beneficiary of a charitable trust administered by a third-party trustee for 25 years. At the end of the trust's term, Uspiritus will receive 20% of the value of the trust's assets. Based on a discount rate of 4.61% for the years ended June 30, 2019 and 2018, respectively, the present value of future benefits expected to be received by Uspiritus were estimated to be \$441,000 and \$439,000 as of June 30, 2019 and 2018, respectively, and are reflected as a contribution receivable on the statements of financial position. Uspiritus recorded a change in value of \$2,668 and (\$44,662) of the estimated present value of the future distribution on the statements of activities for the years ended June 30, 2019 and 2018, respectively.

Uspiritus is an income beneficiary of certain funds held in separate trusts. Income received from these trusts for the years ended June 30, 2019 and 2018 were \$183,926 and \$199,350, respectively, and are included in contributions on the statements of activities. The change in value of these trusts for the years ended June 30, 2019 and 2018 was approximately \$68,000 and \$158,000 and were included as a change in value of beneficial interest in third-party trusts on the statements of activities.

The beneficial interest of the underlying investments held in the third-party trusts were as follows as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 174,061	\$ 77,298
Alternative investments	16,555	27,994
Equity mutual funds	3,392,055	3,304,616
Bond mutual funds	<u>1,231,902</u>	<u>1,336,550</u>
	<u>\$4,814,573</u>	<u>\$4,746,458</u>

Note 7. Investment – MB Care, LLC

In April 2010, Uspiritus entered into a joint venture with Maryhurst, Inc., a non-related not-for-profit organization, which provides similar services as Uspiritus and has a 50% ownership interest in MB Care, LLC. MB Care, LLC operates a residential psychiatric treatment facility located on Uspiritus' campus. The investment is accounted for on the equity method.

NOTES TO FINANCIAL STATEMENTS

The following unaudited information summarizes the activity of MB Care, LLC for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Total assets	\$ 515,071	\$ 509,946
Total liabilities	<u>147,148</u>	<u>289,105</u>
Net equity	<u>\$ 367,923</u>	<u>\$ 220,841</u>
Revenues	\$ 1,996,381	\$ 1,982,677
Expenses	<u>(1,849,299)</u>	<u>(2,022,193)</u>
Net income (loss)	<u>\$ 147,082</u>	<u>\$ (39,516)</u>
Uspiritus' interest:		
Balance, beginning of period	\$ 181,358	\$ 131,340
Change in management service receivables	(46,354)	69,776
Share of net income (loss)	<u>73,541</u>	<u>(19,758)</u>
Balance, end of period	<u>\$ 208,545</u>	<u>\$ 181,358</u>

MB Care, LLC has two building lease agreements with Uspiritus. The lease terms are five years with monthly payments of \$4,167 for each building. The future minimum rental income from the leases is as follows:

2020 \$37,503

Net book value of the leased buildings is as follows:

	<u>2019</u>	<u>2018</u>
Cost	\$ 1,071,683	\$ 1,071,683
Accumulated depreciation	<u>(1,000,945)</u>	<u>(965,225)</u>
	<u>\$ 70,738</u>	<u>\$ 106,458</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Beneficial Interest in Community Foundations

Uspiritus has a beneficial interest in various community foundations that were created by establishing irrevocable endowments. The beneficial interest is stated at the fair value of the assets held by the Foundations. The fair values of the assets were approximately \$46,000 and \$44,000 as of June 30, 2019 and 2018, respectively. Uspiritus recorded a change of approximately \$2,000 and \$2,500 on the statements of activities for the years ended June 30, 2019 and 2018, respectively. Distributions were made according to the distribution policies of the Foundations. The Foundations have the ability to redirect distributions upon dissolution of Uspiritus.

Note 9. Long-Term Debt

	<u>2019</u>	<u>2018</u>
Term note with WesBanco bearing interest at a fixed rate of 4.89% and payable in monthly installments of \$15,883 with a maturity date of May 5, 2024. The note is secured by the Brooklawn campus real estate with a net book value of approximately \$11.8 million.	\$830,054	\$975,550
Less current maturities	<u>152,785</u>	<u>145,505</u>
	<u>\$677,269</u>	<u>\$830,045</u>

Future maturities of long-term debt are as follows:

Year ending June 30, 2021	\$160,635
2022	168,783
2023	176,890
2024	<u>170,961</u>
	<u>\$677,269</u>

Note 10. Line-of-Credit

Uspiritus has an available \$1,000,000 revolving line-of-credit with WesBanco which bears interest at 4.0% for each of the years ended June 30, 2019 and 2018, subject to the prime rate with an interest rate floor of 3.25%. The line-of-credit is collateralized by investments and is subject to certain financial covenants. There was no outstanding balance as of June 30, 2019 and 2018. The line-of-credit expires in May 2020 at which time Uspiritus intends to renew.

NOTES TO FINANCIAL STATEMENTS

Note 11. Concentration of Revenues and Receivables

Resident service revenue is reported for services rendered to its residents under agreements with the Kentucky Medicaid program and other Kentucky agencies. Under these agreements, a set per diem rate was established to provide services to residents with no year-end settlements or retroactive adjustments.

For the years ended June 30, 2019 and 2018, substantially all of Uspiritus' resident service revenue for the psychiatric residential treatment program were derived from services for residents who are beneficiaries under the Kentucky Medicaid program. Substantially all of the other resident service revenues from the child caring youth treatment programs were derived from services covered by other Kentucky agencies.

A significant portion of accounts receivable are due from the above agencies and are subject to concentration risks.

Note 12. Changes in Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

	<u>2019</u>	<u>2018</u>
Subject to passage of time:		
Metro United Way	\$ 29,938	\$ 59,875
Gift annuity agreements	18,827	22,566
Contributions receivable	960,015	874,386
Long-term pledges	148,895	365,834
Subject to specified purpose:		
Campus programs:		
Salaries, transportation, supplies, and improvements:		
Humana grant	50,000	
Lift A Life grant	42,500	
Ticket to Dream		20,000
Other	<u>33,242</u>	<u>50,778</u>
Total subject to specified purpose or passage of time	1,283,417	1,393,439
Endowments restricted in perpetuity	<u>4,834,573</u>	<u>4,766,458</u>
	<u>\$6,117,990</u>	<u>\$6,159,897</u>

NOTES TO FINANCIAL STATEMENTS

Net assets were released from donor restriction by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors. Those amounts released from restriction during the years ended June 30, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Subject to passage of time:		
Long-term pledges	\$455,452	\$476,629
Metro United Way	59,875	55,134
Subject to specified purpose:		
Campus programs:		
Salaries, transportation, supplies, and improvements	<u>237,690</u>	<u>276,237</u>
	<u>\$753,017</u>	<u>\$808,000</u>

The majority of the permanent endowments have no specific use restrictions on the income; therefore, the interest income from these assets is utilized for general operations of Uspiritus. Gains and losses (net appreciation and depreciation) on restricted in perpetuity endowment fund investments will be recorded as an increase (decrease) in without donor restrictions board designated endowment net assets unless the donor has explicitly restricted the use of the net appreciation and depreciation.

Note 13. Arrangement with the Board of Education of Jefferson County, Kentucky

Uspiritus has an agreement with the Board of Education of Jefferson County, Kentucky (Board) whereby Uspiritus provides the use of its facilities for the benefit of students residing at Uspiritus. Teachers, teacher assistants and a supply budget provided under the agreement are paid for by the Board. Uspiritus provides and pays for additional instructional support and administrative staff, and also pays for the operating and overhead costs associated with maintaining its educational facilities used by the students and the Board. Uspiritus receives no compensation under the agreement. This arrangement was entered into to provide specialized education to middle and high school students on the Brooklawn campus and to elementary students on the Bellewood campus. This specialized training provides a strong foundation for the smooth transition into the Jefferson County, Kentucky public school's mainstream.

NOTES TO FINANCIAL STATEMENTS

Note 14. Liquidity and Availability of Resources

Uspiritus strives to maintain liquid financial assets sufficient to cover a minimum of 45 days of general operating expenditures. In addition, projections utilized to appropriately manage cash flow projections factor in one-time contributions and expenses. When opportunities exist, financial assets in excess of daily cash requirements are invested in other various investments.

The following table reflects Uspiritus' financial assets available as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of the June 30, 2019 statement of financial position date because of donor restrictions or internal board designations. In the event the need arises to utilize the board-designated funds, the reserves could be drawn upon through board resolution.

Financial assets at year-end:

Cash and cash equivalents	\$ 2,276,914
Investments	4,612,467
Accounts receivable, net	1,691,594
Beneficial interest in third party trust	4,814,573
Beneficial interest in community foundations	46,324
Grants and other receivables	45,473
Contribution receivables	980,101
Pledges receivable	<u>287,513</u>
Total current financial assets	<u>14,754,959</u>
Net assets with donor restrictions	(1,283,417)
Endowments restricted in perpetuity	(4,834,573)
Board-designated endowments	<u>(4,638,791)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,998,178</u>

NOTES TO FINANCIAL STATEMENTS

Note 15. Operating Leases

Uspiritus leases office equipment, office spaces, and residential units under various operating leases. Uspiritus has month-to-month arrangements regarding these leases. Rental expense under these arrangements was \$53,322 and \$53,725 for the years ended June 30, 2019 and 2018, respectively.

Uspiritus has committed to various leases for vehicles with Enterprise, with four-year terms and options to extend the terms of the leases indefinitely. The initial lease terms range from 2014 to 2018. The lease payments vary from \$330 to \$639 per month.

Total rental expense for the years ended June 30, 2019 and 2018, was approximately \$157,000 and \$155,000, respectively.

Following are the future minimum vehicle lease payments:

June 30, 2020	\$28,827
2021	12,159
2022	9,736
2023	2,360

Note 16. Litigation

From time to time, Uspiritus is involved with pending claims and litigation arising in the normal course of business. While the ultimate outcome of these matters cannot be predicted with certainty, management and counsel believe that, based upon facts known at this time, it has meritorious defenses against all such claims and expects to prevail. Additionally, Uspiritus carries liability and other forms of insurance which, in management's judgment, is sufficient to protect Uspiritus from potential settlements or judgments. Accordingly, Uspiritus has not made any additional provisions in the accompanying financial statements for any liability that is possible, but not probable, to result.

NOTES TO FINANCIAL STATEMENTS

Note 17. Pension Plans

On July 1, 2013, the Bellewood 403(b) Plan changed its name to the Uspiritus 403(b) Plan. Currently all Uspiritus employees are eligible to participate in the Uspiritus 403(b) plan immediately upon hire. The vesting schedule for discretionary employer match provides vesting with a 3-year Cliff schedule for every year an employee has worked at least 1,000 hours. The employer currently matches dollar for dollar, capping at a 3% employer contribution up to 6% of employee's salary. Total contributions made to the plan were approximately \$73,000 and \$84,000 for the years ended June 30, 2019 and 2018, respectively.

Note 18. Concentration of Credit Risk

Uspiritus maintains cash balances at local financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2019, the Uspiritus uninsured cash balances totaled approximately \$2,306,000. Cash balances fluctuate based upon operating needs and the timing of deposits and check clearing activity. Management believes that these financial institutions are of sufficient size to provide financial security of uninsured balances and does not believe that Uspiritus is exposed to any significant credit risk.

Note 19. Reclassifications

Certain amounts on the financial statements for 2018 were reclassified to correspond with allocations used for 2019, with no effect on previously reported net assets or changes in net assets.