

**Seven Counties Services, Inc.
and SCS Learning, Inc.**

Consolidated Financial Statements

Years Ended June 30, 2014 and 2013

Seven Counties Services, Inc. and SCS Learning, Inc.

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June 30, 2014 and 2013

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Independent Auditor's Report

To the Board of Directors
Seven Counties Services, Inc. and SCS Learning, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Seven Counties Services, Inc., and SCS Learning, Inc. (nonprofit organizations), which comprise the statement of financial position as of June 30, 2014, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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.

Kentucky
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Ohio

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Opinion

In our opinion, their consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seven Counties Services, Inc. and SCS Learning, Inc. as of June 30, 2014, 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.

Adjustments to Prior Period Financial Statements

The consolidated financial statements of Seven Counties Services, Inc. and SCS Learning, Inc. as of and for the year ended June 30, 2013, were audited by other auditors whose report dated December 19, 2013, expressed an unmodified opinion on those financial statements. As discussed in Note Q to the consolidated financial statements, Seven Counties Services, Inc. has adjusted its 2013 consolidated financial statements for a long-term rent free lease that should have been recorded as a contribution receivable in prior years. The other auditors reported on the consolidated financial statements before the retrospective adjustment.

As a part of our audit of the 2014 consolidated financial statements, we also audited the adjustments to the 2013 consolidated financial statements to adjust the lease as described in Note Q. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any other procedures to Seven Counties Services, Inc.'s 2013 consolidated financial statements other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2013 consolidated financial statements as a whole.

Emphasis of Matter - Bankruptcy

As discussed in Note O to the consolidated financial statements, Seven Counties Services, Inc. filed a petition in 2013 for relief under Chapter 11 of federal bankruptcy laws to terminate its participation in the Kentucky Employees Retirement System. Our opinion is not modified with respect to this issue.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information as of and for the year ended June 30, 2014 on pages 18-20 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 consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The June 30, 2013 supplemental consolidating information on pages 18-20 was subjected to the auditing procedures applied in the June 30, 2013 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the June 30, 2013 consolidated financial statements as a whole.



Louisville, Kentucky
November 20, 2014

Seven Counties Services, Inc. and SCS Learning, Inc.
Consolidated Statements of Financial Position
June 30, 2014 and 2013

	2014	2013 (Restated)
	<u>2014</u>	<u>(Restated)</u>
Assets		
Current Assets		
Cash	\$ 4,230,952	\$ 2,930,176
Investments	4,621,651	4,568,507
Accounts and grants receivable, less allowance for doubtful accounts of \$3,794,000 in 2014 and \$2,836,000 in 2013	9,070,735	11,233,625
Contributed rent receivable, current	270,787	145,000
Prepaid expenses and other current assets	933,284	967,581
	<u>19,127,409</u>	<u>19,844,889</u>
Property, Plant and Equipment		
Land	1,807,050	1,807,050
Buildings and improvements	13,428,781	13,362,298
Leasehold improvements	4,317,021	2,475,062
Equipment and vehicles	21,672,554	20,484,201
Construction in progress	227,528	2,685,503
	<u>41,452,934</u>	<u>40,814,114</u>
Less: accumulated depreciation	<u>27,380,279</u>	<u>25,345,429</u>
	14,072,655	15,468,685
Other Assets		
Contributed rent receivable, less current	2,614,906	2,537,500
Bond costs, net of amortization of \$141,123 in 2014 and \$125,883 in 2013	84,779	100,019
Franchise fees, net of amortization of \$9,938 in 2014 and \$5,662 in 2013	44,362	48,638
Long-term investments	80,000	80,000
	<u>2,824,047</u>	<u>2,766,157</u>
Total Other Assets	<u>2,824,047</u>	<u>2,766,157</u>
Total Assets	<u>\$ 36,024,111</u>	<u>\$ 38,079,731</u>

	2014	2013 (Restated)
Liabilities and Net Assets		
Current Liabilities		
Current maturities of bonds and note payable	\$ 327,972	\$ 560,000
Accounts payable	2,284,090	2,428,127
Accrued payroll and vacation	4,181,729	4,345,590
Accrued expenses and other current liabilities	1,779,139	1,681,609
Deferred revenue	1,120,279	462,902
Total Current Liabilities	<u>9,693,209</u>	<u>9,478,228</u>
Bonds and Note Payable, less current maturities	<u>4,470,451</u>	<u>4,300,000</u>
Total Liabilities Not Subject to Compromise	<u>14,163,660</u>	<u>13,778,228</u>
Liabilities Subject to Compromise		
Accounts payable	521,914	502,167
Accrued expenses and other current liabilities	697,699	615,917
Total Liabilities Subject to Compromise	<u>1,219,613</u>	<u>1,118,084</u>
Total Liabilities	<u>15,383,273</u>	<u>14,896,312</u>
Net Assets, temporarily restricted	2,885,693	2,682,500
Net Assets, unrestricted	<u>17,755,145</u>	<u>20,500,919</u>
Total Net Assets	<u>20,640,838</u>	<u>23,183,419</u>
Total Liabilities and Net Assets	<u><u>\$ 36,024,111</u></u>	<u><u>\$ 38,079,731</u></u>

See accompanying notes.

Seven Counties Services, Inc. and SCS Learning, Inc.
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> (Restated)
Changes in Unrestricted Net Assets:		
Revenues:		
Reimbursements under Kentucky Department for Behavioral Health, Developmental & Intellectual Disabilities	\$ 22,070,451	\$ 20,998,197
Net reimbursements under Medicaid	41,044,559	45,188,023
Net reimbursements under Medicare	577,449	1,068,762
Federal, state and local grants	29,382,068	29,341,390
Private pay and commercial insurance	2,164,711	2,130,298
Other revenues	1,862,836	1,970,699
Provision for bad debts	(4,142,529)	(2,378,548)
Assets released from restrictions	150,320	145,000
	<u>93,109,865</u>	<u>98,463,821</u>
Total Revenues		
Expenses:		
Salaries and fringe benefits	59,708,581	73,424,908
Subcontract services	4,265,413	6,448,647
Purchased services	14,806,407	5,466,393
Building rentals, maintenance and utilities	4,475,650	4,254,476
Program supplies	2,921,662	3,001,224
Transportation and travel	1,054,107	1,140,035
Depreciation and amortization	2,070,305	1,821,932
Interest expense	9,980	17,046
General and administrative expenses	3,051,123	3,153,954
	<u>92,363,228</u>	<u>98,728,615</u>
Total Expenses		
Operating Income (Loss)	<u>746,637</u>	<u>(264,794)</u>
Nonoperating (loss) income:		
Investment income	127,025	150,395
Impairment of electronic medical record system	(2,703,422)	-
Gain (loss) on disposal of property and equipment	1,305	(822)
	<u>(2,575,092)</u>	<u>149,573</u>
Total Nonoperating (Loss) Income		
Decrease in Unrestricted Net Assets Before Reorganization Items	(1,828,455)	(115,221)
Reorganization Items	917,319	205,469
	<u>(2,745,774)</u>	<u>(320,690)</u>
Decrease in Unrestricted Net Assets		
Changes in Temporarily Restricted Net Assets:		
Contributed rent	353,513	-
Assets released from restrictions	(150,320)	(145,000)
	<u>203,193</u>	<u>(145,000)</u>
Increase (Decrease) in Temporarily Restricted Net Assets		
Decrease in Total Net Assets	(2,542,581)	(465,690)
Net Assets at Beginning of Year, as restated	23,183,419	23,649,109
	<u>\$ 20,640,838</u>	<u>\$ 23,183,419</u>
Net Assets at End of Year		

See accompanying notes.

Seven Counties Services, Inc. and SCS Learning, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013 (Restated)
Cash Flows from Operating Activities		
Cash received for services	\$ 93,916,976	\$ 90,306,549
Cash paid to suppliers and employees	(90,777,572)	(96,163,643)
Interest income received	155,071	213,917
Interest paid	(9,980)	(17,046)
Other revenues received	1,662,836	1,661,743
	<u>4,947,331</u>	<u>(3,998,480)</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,087,774)	(3,023,670)
Purchases of investments	(1,683,190)	(2,148,003)
Maturities of investments	1,602,000	8,392,474
Proceeds from sale of assets	1,305	3,052
Purchase of franchise fees	-	(11,600)
	<u>(2,167,659)</u>	<u>3,212,253</u>
Net Cash (Used) Provided by Investing Activities		
Cash Flows from Financing Activities		
Payments for reorganization items	(917,319)	(205,469)
Principal payments on bonds and note payable	(561,577)	(560,000)
	<u>(1,478,896)</u>	<u>(765,469)</u>
Net Cash Used by Financing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	1,300,776	(1,551,696)
Cash and Cash Equivalents at Beginning of Year	<u>2,930,176</u>	<u>4,481,872</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,230,952</u>	<u>\$ 2,930,176</u>

See accompanying notes.

Seven Counties Services, Inc. and SCS Learning, Inc.
Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2014 and 2013

	2014	2013 (Restated)
	<u>2014</u>	<u>(Restated)</u>
Reconciliation of Net Decrease in Total Net Assets to Net Cash Provided (Used) in Operating Activities		
Net Decrease in Net Assets	\$ (2,542,581)	\$ (465,690)
Adjustments to reconcile net decrease in unrestricted net assets to net cash provided by (used in) operating activities:		
Contributed rent received	(353,513)	-
Contributed rent expensed	150,320	145,000
Depreciation and amortization	2,070,305	1,821,932
Amortization of bond issuance costs and franchise fees	19,516	20,130
Cash flows used by reorganization items	917,319	205,469
Increase in allowance for doubtful accounts and contractual adjustments	957,119	1,779,000
Change in investment interest receivable	1,382	31,508
Unrealized loss on investments	26,664	32,014
(Gain) loss on disposal of property and equipment	(1,305)	822
Donation of capital asset	(200,000)	-
Impairment of electronic medical record system	2,703,422	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,205,771	(7,757,322)
Prepaid expenses and other current assets	34,297	(148,947)
Increase (decrease) in:		
Accounts payable	(714,213)	1,078,361
Accrued payroll and vacation	(163,861)	668,971
Accrued expenses and other current liabilities	179,312	(1,201,477)
Deferred revenue	657,377	(208,251)
	<u>7,489,912</u>	<u>(3,532,790)</u>
Total Adjustments	<u>7,489,912</u>	<u>(3,532,790)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 4,947,331</u>	<u>\$ (3,998,480)</u>
Supplemental Schedule Noncash Investing and Financing Activities		
Accounts payable incurred to acquire equipment	<u>\$ 589,923</u>	<u>\$ 438,874</u>
Note payable incurred to acquire leasehold improvements	<u>\$ 500,000</u>	<u>\$ -</u>

See accompanying notes.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note A - Nature of Organization and Operations

Seven Counties Services, Inc. (SCS) is a community mental health - developmental disabilities organization which provides planning, coordination and direct delivery of mental health, substance abuse and developmental disability services, primarily on an outpatient basis, to residents of Jefferson County and six adjoining counties in the Commonwealth of Kentucky. These services are provided at various centers located within the seven county area. SCS also has contracts with other health care and social agencies for the provision of additional mental health, substance abuse and developmental disability services.

SCS is the sole member of Personnel Best, LLC, a limited liability company. Personnel Best, LLC performs as a pass-through entity to receive benefit payments and process the corresponding payroll to providers for Kentucky Medicaid recipients who receive benefits under the Kentucky Consumer Directed Options program.

SCS Learning, Inc. provides cognitive training to children and others with academic difficulties and utilizes a program through LearningRx Franchise Corporation under a franchise agreement. SCS Learning, Inc. currently operates in two locations with the rights to open an additional site within the appointed area.

Note B - Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist in understanding the Organization's consolidated financial statements. The consolidated financial statements and notes are representations of the organizations' management who is responsible for the integrity and objectivity of the consolidated 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 consolidated financial statements.

1. Principles of Consolidation: The consolidated financial statements include the accounts of Seven Counties Services, Inc. and SCS Learning, Inc. SCS controls and appoints the Board of Directors of SCS Learning, Inc. as well as providing other support services. SCS and SCS Learning, Inc. are collectively "the Organization." All intercompany balances and transactions have been eliminated in consolidation.
2. Revenue Recognition: Revenues from services to clients covered under Kentucky Department for Behavioral Health, Developmental and Intellectual Disabilities contracts are recognized at SCS' established billing rates, subject to annual contract limitations.

Revenues from services to clients covered under Medicaid, including Managed Care Organizations (MCOs), and Medicare are recognized at SCS' established billing rates less contractual adjustments. Contractual adjustments represent the differences between established billing rates and the amounts estimated to be reimbursable under the Medicaid, MCOs and Medicare programs.

Revenues from federal, state and local grants are recognized when the qualifying expenditures are made.

The Organization recognizes revenues earned from private payers by assessment of a fee based upon the client's ability to pay for services. Revenues earned from payers covered by commercial insurance are recognized based upon the Organization's established billing rates.

3. Accounts Receivable: The valuation of accounts receivable is based upon a detailed analysis of past due accounts and the history of uncollectible accounts. Estimated uncollectible accounts increase the allowance for doubtful accounts and when the accounts receivable are written off, the allowance for doubtful accounts is decreased. The Organization reviews the net accounts receivable with subsequent collections to determine the accuracy of the allowance for doubtful accounts. Included in accounts receivable is \$7,517,398 and \$7,430,776 due from the Kentucky Medicaid program, including Medicaid MCOs, for the years ended June 30, 2014 and 2013, respectively.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note B - Summary of Significant Accounting Policies (Continued)

4. Investments: The Organization records all investments at fair market value. See Note D for discussion of fair market value measurements.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of the investment securities will occur in the near term and that such changes could materially affect the financial condition of the Organization. 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 the Organization.

5. Cash and Cash Equivalents: For purposes of the statement of cash flows, the Organization considers unrestricted cash and investments with original maturities of three months or less, excluding those amounts held as part of an investment fund, to be cash and cash equivalents.
6. Income Taxes: Seven Counties Services, Inc. and SCS Learning, Inc. are exempt from federal, state and local income taxes as a not-for-profit corporation as described under Internal Revenue Code Section 501(c)(3). The Organizations file an informational tax return in the U.S. federal jurisdiction and with the Kentucky Office of the Attorney General. Personnel Best, LLC is a disregarded entity for tax purposes, and its activity is included with SCS for tax reporting. However, income from certain activities not directly related to the Organizations' tax-exempt purpose may be subject to taxation as unrelated business income.

As of June 30, 2014 and 2013, the Organization 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. The Organization's 2010 through 2013 tax years remain open and subject to examination.

7. Property and Equipment: Property and equipment are stated at cost, if purchased, or at fair market value as of the date of donation, if donated. The Organization's policy is to capitalize asset purchases exceeding \$1,000 for equipment and \$5,000 for leasehold improvements and building and improvements. Depreciation of property and equipment is computed by the straight-line method. The following estimated useful lives were used:

	<u>Years</u>
Buildings and improvements	10 - 30
Equipment and vehicles	3 - 10

Amortization of leasehold improvements is provided using the straight-line method over the lease term or estimated lives of the improvements, whichever is less.

Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

8. Bond Costs: Bond costs are amortized by the effective interest method over the terms of the bonds.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note B - Summary of Significant Accounting Policies (Continued)

9. Deferred Revenue: Deferred revenue represents amounts received in advance under various cost reimbursement grants for which the expenditures have not yet been incurred as of the consolidated statement of financial position date.

Deferred revenue also represents fees paid in advance to SCS Learning, Inc. for classes extending past the consolidated statement of financial position date.

10. Compensated Absences: Employees of the Organization are entitled to paid leave (including vacation, holiday and sick) and short-term disability, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future sick pay and short-term disability and, accordingly, no liability has been recorded in the accompanying consolidated financial statements. The Organization's policy is to recognize the costs of sick time and short-term disability absences when actually paid to employees.
11. Donated Services and Materials: Donated services which require specific expertise and would normally have been purchased, and donated services which create or enhance nonfinancial assets, are required to be reflected in the consolidated financial statements. The Organization has received services from a substantial number of unpaid volunteers who donated significant amounts of time to the services provided by the Organization. However, only donated services that meet the criteria for recognition are recorded on the consolidated financial statements. The estimated value of volunteer services which did not meet the criteria for recognition totaled approximately \$34,000 and \$45,000 during the years ended 2014 and 2013, respectively. Also, approximately \$288,000 and \$309,000 of donated pharmaceuticals were recorded as other revenues and expenses during the years ended 2014 and 2013, respectively.
12. Contributions: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements. 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-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. There were temporarily restricted net assets of \$2,885,693 and \$2,682,500 for contributed rent receivable at June 30, 2014 and 2013, respectively. There were no permanently restricted net assets as of June 30, 2014 and 2013.
13. Subcontract Services: Certain services covered under Kentucky Department for Behavioral Health, Developmental and Intellectual Disabilities contracts are subcontracted to other health care and social agencies. The consolidated financial statements recognize the revenues and expenses for these program services, and the related amounts paid to subcontractors.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note B - Summary of Significant Accounting Policies (Continued)

14. Charity Care: Services are provided to clients with a demonstrated inability to pay based on certain criteria under the Organization's charity care policies without charge or at amounts less than their established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as net revenue. The Organization maintains records to identify and monitor the level of charity care it provides. The total cost incurred based on the Organization's overall cost to charge ratio to provide charity care was approximately \$2,573,000 and \$2,062,000, for the years ended June 30, 2014 and 2013, respectively. Charges forgone, based on established rates, was approximately \$3,539,000 and \$2,859,000 for the years ended 2014 and 2013, respectively.
15. Estimates: The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
16. Subsequent Events: Subsequent events for the Organization have been considered through the date of the Independent Auditor's Report which represents the date the consolidated financial statements were available to be issued.
17. Reclassification: Certain reclassification have been made to the 2013 financial statements to conform to the 2014 presentation.

Note C - Business and Revenue Concentrations and Vulnerability

SCS provides services without obtaining payment from many of its clients, most of whom are insured under third-party agreements or covered by Medicaid or under contracts with the Kentucky Department for Behavioral Health, Developmental and Intellectual Disabilities (DBHDID) or Central State Hospital. The percentage of revenues obtained from major revenue contracts was as follows:

	<u>2014</u>	<u>2013</u>
Medicaid and Medicaid MCOs	44%	46%
DBHDID	24%	21%
Central State Hospital	17%	18%

The Organization's operations are concentrated in the health care industry. In the health care industry, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Compliance with health care industry laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note D - Investments and Fair Value Measurements

Accounting principles generally accepted in the United States of America establish a 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 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 any 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.

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, 2014 and 2013.

Certificates of Deposit - valued at the closing price reported on the active market.

The preceding method 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.

Fair value of investments as of June 30, 2014 and 2013 is summarized below:

	<u>2014</u>	<u>2013</u>
Level 1 investments:		
Cash equivalents	\$ 39,402	\$ 93,022
Certificates of deposit	<u>4,582,249</u>	<u>4,475,485</u>
	<u>\$ 4,621,651</u>	<u>\$ 4,568,507</u>

All certificates of deposit are held at various financial institutions and are fully insured by the Federal Deposit Insurance Corporation (FDIC).

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note E - Long-term investment

SCS owns approximately 5% of the outstanding common stock of Mental Health Risk Retention Group (MHRRG). MHRRG provides professional liability insurance to mental health care providers and an organization must have "ownership" to participate. SCS does not maintain control over the operations of MHRRG. The investment of \$80,000 by SCS in MHRRG is recorded on the cost method.

Note F - Bonds and Note Payable

In February 1999, Jefferson County, Kentucky issued the proceeds from \$2,680,000 of Adjustable Rate Industrial Building Revenue Bonds to SCS. The bonds were issued for the purposes of financing costs of acquiring, constructing, and equipping facilities to be located in Shelby, Jefferson and Bullitt Counties. The bonds were repaid during 2014.

In December 2005, Louisville/Jefferson County Metro Government issued the proceeds from \$3,500,000 of Adjustable Rate Demand Industrial Building Revenue Bonds to SCS. The bonds are backed by a letter of credit from Fifth Third Bank in the amount of \$3,543,151. The letter of credit is scheduled to expire on December 15, 2015. The bonds will be repaid in annual installments with the final payment due December 1, 2020. The 2005 bonds were issued for the purpose of financing costs of acquiring, constructing, and equipping a new community mental health facility in Louisville, Kentucky, improvements to or acquisition of an adolescent residential treatment facility in Louisville, a new community mental health facility for Oldham, Henry and Trimble Counties and expansion to an existing Bullitt County facility. Collateral consists of the facilities constructed with the proceeds of the bonds with a net book value of approximately \$3,417,000 and \$3,636,000 as of June 30, 2014 and 2013, respectively.

In December 2011, Louisville/Jefferson County Metro Government issued the proceeds from \$2,600,000 of Adjustable Rate Demand Industrial Building Revenue Bonds to SCS. The bonds are backed by a letter of credit from Fifth Third Bank in the amount of \$2,632,055. The letter of credit is scheduled to expire on December 15, 2015. The bonds will be repaid in annual installments with the final payment due December 1, 2021. The bonds were issued for the purpose of financing the Electronic Enterprise Solution software system. Collateral consists of all accounts receivable, equipment, and general intangibles with a net book value of approximately \$13,179,000 and \$17,792,000 as of June 30, 2014 and 2013, respectively.

In June 2014, SCS entered into a debt agreement with the Landlord of a leased facility. The debt acquired was for \$500,000 used to finance the construction of leasehold improvements with the debt being repaid to the landlord over the life of the lease. This note payable is unsecured.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note F - Bonds and Note Payable (Continued)

Outstanding principal and future maturities of the above bonds payable are as follows:

	<u>2014</u>	<u>2013</u>
Industrial Revenue Bonds, payable to The Bank of New York in annual installments including interest (variable) through February 1, 2014. Repaid during 2014.	\$ -	\$ 245,000
Industrial Revenue Bonds, payable to The Bank of New York in annual installments including interest (variable) through December 1, 2020 (interest rate of .17% at June, 30, 2014).	1,890,000	2,120,000
Industrial Revenue Bonds, payable to The Bank of New York in annual installments including interest (variable) through December 1, 2021 (interest rate of .15% at June 30, 2014).	2,410,000	2,495,000
Note payable, payable to Landlord in monthly installments of \$4,494 including interest at 7.00% through July 1, 2029.	498,423	-
	<u>4,798,423</u>	<u>4,860,000</u>
Less current maturities	<u>327,972</u>	<u>560,000</u>
	<u>\$ 4,470,451</u>	<u>\$ 4,300,000</u>

Future Maturities:

June 30,	
2015	\$ 327,972
2016	575,962
2017	587,478
2018	589,102
2019	595,845
2020-2030	<u>2,122,064</u>
	<u>\$ 4,798,423</u>

In accordance with the trust indentures, SCS must comply with certain financial covenants relating to the above bonds. Management is not aware of any violations of covenants as of June 30, 2014 and 2013. SCS is continuing to remit interest and principle payments due on these obligations during the bankruptcy proceedings (see Note O). According to the trust indentures, the bankruptcy is an event of default; however, Fifth Third Bank has stated it does not intend to call the bonds and draw on the letters of credit.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note G - Lease Commitments

The Organization leases administrative and clinical space at several locations under noncancelable operating leases with initial terms of at least one year. The Organization leases other equipment on a month-to-month basis. Total rental expense for all leases was approximately \$2,177,000 and \$2,063,000 for the years ended June 30, 2014 and 2013 respectively, which includes \$580,186 and \$570,375 for the years ended June 30, 2014 and 2013, respectively, for the fair market value of the donated lease of the Jefferson Alcohol and Drug Abuse Center (JADAC) from Louisville Metro Government. Future contributed rent under this lease is valued at \$2,537,500 and \$2,682,500 at June 30, 2014 and 2013, respectively, and is being amortized over the life of the lease which matures December 31, 2031. In addition the Company received donated rent from a landlord for the use of an additional facility during 2014 of which \$5,320 is included in the above rental expense and the remaining contributed receivable of \$348,193 is treated as a temporarily restricted assets receivable in the months specified in the related agreements.

At June 30, 2014, the minimum annual lease commitments under agreements having initial terms of more than one year were as follows:

2015	\$ 1,256,581
2016	1,143,100
2017	964,744
2018	883,886
2019	723,910
2020-2029	<u>1,876,750</u>
	<u>\$ 6,848,971</u>

Note H - Retirement Plan

Although SCS is a separate Kentucky non-for-profit corporation as described under Internal Revenue Code Section 501(c)(3) (See Note B), SCS participated in the Kentucky Employees Retirement System (KERS), which is a cost-sharing multiple-employer defined benefit plan. Full-time employees of SCS who were hired subsequent to January 23, 1979 were covered under this plan. The Organization's contribution to the plan was based on a percentage of the employees' gross salaries as determined by KERS on an annual basis. Other full-time employees hired prior to that date are covered under a separate tax-deferred annuity plan. The Organization's contributions were approximately \$3,940,000 and \$10,120,000 for the years ended June 30, 2014 and 2013, respectively.

SCS filed bankruptcy on April 4, 2013 (see Note O), seeking relief from the burden of unsustainable mandatory employer contribution rates imposed by KERS and to replace the KERS retirement plan with a stable, affordable plan for their employees. During 2014, SCS continued to make contributions to KERS for their employees at Central States Hospital.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note I - Medical Malpractice Insurance

The Organization participates in a multi-provider insurance program which provides coverage on a claims-made basis for medical malpractice liabilities. Insurance coverages are \$1,000,000 individually and \$3,000,000 in the aggregate annually. Management intends to maintain such coverages in the future and is of the opinion that insurance coverages are adequate to cover any potential losses on asserted claims. Liabilities for incurred but not reported losses, if any, as of June 30, 2014 and 2013 are not determinable and no provision for such losses has been made in the financial statements. Management is unaware of any incidents which would ultimately result in a loss in excess of its insurance coverages (see Note P).

Note J - Line of Credit

SCS had a revolving line of credit arrangement with Fifth Third Bank providing borrowings up to \$6,000,000 at the 30 day LIBOR Rate plus 1.25%. The line of credit was collateralized by real property of the Organization and was scheduled to expire on October 24, 2013. However, Fifth Third Bank suspended the line of credit upon the filing of bankruptcy by the Organization. The suspended line of credit was not renewed during 2014.

Note K - Functional Classification of Expenses

Expenses by functional classification are as follows:

	<u>2014</u>	<u>2013</u>
Program Services:		
Mental health	\$ 43,569,907	\$ 50,174,126
Developmental disabilities	11,401,324	11,534,940
Chemical dependency	5,966,880	7,364,314
Trust and agency programs	18,005,614	18,264,842
SCS Learning, Inc.	<u>777,401</u>	<u>631,643</u>
Total Program Services	79,721,126	87,969,865
Management and general	12,524,606	10,680,909
Fundraising	<u>117,496</u>	<u>77,841</u>
	<u>\$ 92,363,228</u>	<u>\$ 98,728,615</u>

Note L - Concentration of Credit Risk

The Organization maintains its cash accounts at various banks located in Kentucky. Accounts at each bank are guaranteed by the FDIC up to \$250,000. The Organization requires funds in the operating account to be maintained in a Commercial Overnight Repurchase Sweep Account with funds collateralized by U.S. government securities. At June 30, 2014, the Organization's uncollateralized cash balances totaled approximately \$534,000.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note M - Self-insured Health Plan

The Organization participates in a self-insurance program for its employees' health care costs. The Organization is liable for claims of \$200,000 per employee annually with a maximum of approximately \$5,500,000 in total for all plan participants for the year. The Organization has third-party insurance coverage for any losses in excess of such amounts. The accrued liability for such covered medical claims at June 30, 2014 and 2013 is approximately, \$135,000 and \$246,000, respectively, and is included in accrued expenses on the consolidated statement of financial position.

Note N - Construction in Progress

During 2013, the Organization was implementing a new Electronic Enterprise Solution software system consisting of electronic medical records and financial and human resources software. The financial and human resource software (Lawson) was implemented in February 2013 at a total cost of approximately \$1,766,000 and was reclassified to equipment.

Phase II of the project, the electronic medical records, had stalled due to negotiations with the software vendor. The total expenditures as of June 30, 2013 were approximately \$2,686,000 and are included in Construction in Progress.

As of June 30, 2014, management deemed phase II of this project to be impaired as the Organization has started to implement a new system included in construction in progress at June 30, 2014 at a total cost of approximately \$228,000. The old system was impaired for its total cost of approximately \$2,703,000 as it was not expected to be utilized by the Organization in the future. (See Note P)

Note O - Bankruptcy - Description of Petition

On April 4, 2013, the Organization filed a petition for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Western District of Kentucky, Louisville Division. On April 5, 2013, the Organization filed a motion to terminate participation in KERS. Under Chapter 11, certain claims against the Organization in existence prior to the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Organization continues business operations as Debtor-in-possession. These claims are reflected in the June 30, 2014 and 2013 balance sheet as "liabilities subject to compromise." Additional claims (liabilities subject to compromise) may arise subsequent to the filing date resulting from rejection of executory contracts, including leases, and from the determination by the court (or agreed to by the parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured against the Organization's assets ("secured claims") also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens on the Organization's property, plant and equipment. The Organization received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including employee wages.

The Organization has granted exclusive authority by the Bankruptcy court to propose a plan of reorganization any time prior to October 6, 2014, and it is the opinion of the Management, Board of Directors and legal counsel of the Organization that absent the alleged liability to KERS, the Organization is financially sound, and would not likely need to reorganize under Chapter 11. In May of 2014 the Bankruptcy Court ruled that the Organization had legal standing to seek relief in Chapter 11 and withdraw from KERS. KERS is currently appealing this decision. Management filed their plan of reorganization prior to the October 6, 2014 deadline.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note O - Bankruptcy - Description of Petition (Continued)

The Organization has not contributed to the KERS plan (see Note H) for its employees since April 7, 2013. The KERS employer and employee contributions based on employees' wages subsequent to April 7, 2013 approximates \$11.8 million. KERS did not present a formal request for payment for this amount, or any other amount, to the Bankruptcy Court within the allowed time. Various motions have been filed related to the April 4, 2013 and April 5, 2013 filings, and the court has ruled, following an evidentiary hearing, that KERS is not entitled to injunctive relief to compel the Organization to continue making reports and employer and employee contributions into the KERS plan. Therefore, there has been no liability recorded on the consolidated statement of financial position for the estimated \$11.8 million plan contributions based on eligible employees' wages subsequent to April 7, 2013. While the Organization's Management, Board of Directors and legal counsel do believe that the outcome will be favorable, all litigation poses risks, and an unfavorable outcome would have a devastating impact on the ability of the Organization to provide services at its present level.

At June 30, 2014 and 2013 liabilities subject to compromise consist of:

	<u>2014</u>	<u>2013</u>
Accounts payable	\$ 521,914	\$ 502,167
Accrued expense	<u>697,699</u>	<u>615,917</u>
	<u>\$ 1,219,613</u>	<u>\$ 1,118,084</u>

At June 30, 2014 and 2013 reorganization items are comprised of:

	<u>2014</u>	<u>2013</u>
Legal fees	\$ 771,034	\$ 179,469
Trustee fees	90,000	20,000
Other fees	<u>56,285</u>	<u>6,000</u>
	<u>\$ 917,319</u>	<u>\$ 205,469</u>

Note P - Other Commitments and Contingencies

SCS filed a lawsuit on January 16, 2014, against a software vendor due to significant problems and challenges with implementation of software provided by the vendor. In May 2013, the software vendor filed a proof of claim against SCS and in July 2013, the Bankruptcy Court (see Note O) granted SCS's unopposed motion to reject its contract with the software vendor, thus this amount has not been recorded as a liability on the statement of financial position. The vendor's proof of claim against SCS has been withdrawn during 2014. The parties settled the dispute in October 2014, but the settlement has not yet been finalized or approved by the Bankruptcy Court.

The Organization is also a party to various other legal and/or administrative proceedings arising out of the operation of facilities and programs and arising in the ordinary course of business. Management believes that, generally, these claims are without merit. Management does not believe the results of these proceedings or claims, individually or in the aggregate, will have a material adverse effect on the financial condition, results of operations or liquidity.

Seven Counties Services, Inc. and SCS Learning, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2014 and 2013

Note Q - Restatement

In 2014, management determined that the JADAC lease with the Louisville Metro Government (See Note G) should have been recorded as a temporary restricted contribution receivable as the lease is for a twenty year term. The estimated fair value of the contributed rent of \$2,827,500 has been recorded as of June 30, 2012. The impact of this restatement has been recorded as follows:

	Previously Reported		Restated
	<u>June 30, 2013</u>	<u>Adjustment</u>	<u>June 30, 2013</u>
Contributed rent receivable, current	\$ -	145,000	\$ 145,000
Contributed rent receivable, less current	\$ -	2,537,500	\$ 2,537,500
Temporarily Restricted Net Assets	\$ -	2,682,500	\$ 2,682,500
Net Assets at Beginning of Year	\$ 20,821,609	2,827,500	\$ 23,649,109
Federal, state and local grants	\$ 29,486,390	(145,000)	\$ 29,341,390
Assets Released from Restrictions	\$ -	145,000	\$ 145,000

Supplementary Information

Seven Counties Services, Inc. and SCS Learning, Inc.
Consolidating Statements of Financial Position
June 30, 2014 and 2013

Assets	2014				2013			
	Seven Counties				Seven Counties	SCS Learning	Eliminations	Consolidated
	Services	SCS Learning	Eliminations	Consolidated	Services (Restated)	SCS Learning (Restated)	Eliminations (Restated)	Consolidated (Restated)
Current Assets								
Cash	\$ 4,124,936	\$ 106,016	\$ -	\$ 4,230,952	\$ 2,793,537	\$ 136,639	\$ -	\$ 2,930,176
Investments	4,621,651	-	-	4,621,651	4,568,507	-	-	4,568,507
Accounts and grants receivable, less allowance for doubtful accounts	9,154,293	119,317	(202,875)	9,070,735	11,407,863	54,379	(228,617)	11,233,625
Contributed rent receivable, current	270,787	-	-	270,787	145,000	-	-	145,000
Prepaid expenses and other current assets	928,030	5,254	-	933,284	960,081	7,500	-	967,581
Total Current Assets	19,099,697	230,587	(202,875)	19,127,409	19,874,988	198,518	(228,617)	19,844,889
Property, Plant and Equipment								
Land	1,807,050	-	-	1,807,050	1,807,050	-	-	1,807,050
Buildings and improvements	13,428,781	-	-	13,428,781	13,362,298	-	-	13,362,298
Leasehold improvements	4,180,324	136,697	-	4,317,021	2,338,365	136,697	-	2,475,062
Equipment and vehicles	21,646,056	26,498	-	21,672,554	20,457,703	26,498	-	20,484,201
Construction in progress	227,528	-	-	227,528	2,685,503	-	-	2,685,503
	41,289,739	163,195	-	41,452,934	40,650,919	163,195	-	40,814,114
Less: accumulated depreciation	27,313,194	67,085	-	27,380,279	25,310,983	34,446	-	25,345,429
	13,976,545	96,110	-	14,072,655	15,339,936	128,749	-	15,468,685
Other Assets								
Contributed rent receivable, less current	2,614,906	-	-	2,614,906	2,537,500	-	-	2,537,500
Bond costs, net of amortization	84,779	-	-	84,779	100,019	-	-	100,019
Franchise fees, net of amortization	-	44,362	-	44,362	-	48,638	-	48,638
Long-term investments	80,000	-	-	80,000	80,000	-	-	80,000
Total Other Assets	2,779,685	44,362	-	2,824,047	2,717,519	48,638	-	2,766,157
Total Assets	\$ 35,855,927	\$ 371,059	\$ (202,875)	\$ 36,024,111	\$ 37,932,443	\$ 375,905	\$ (228,617)	\$ 38,079,731

See accompanying independent auditor's report.

Seven Counties Services, Inc. and SCS Learning, Inc.
Consolidating Statements of Financial Position (Continued)
June 30, 2014 and 2013

Liabilities and Net Assets	2014				2013			
					Seven Counties			
	Seven Counties Services	SCS Learning	Eliminations	Consolidated	Services (Restated)	SCS Learning (Restated)	Eliminations (Restated)	Consolidated (Restated)
Current Liabilities								
Current maturities of bonds and note payable	\$ 327,972	\$ -	\$ -	\$ 327,972	\$ 560,000	\$ -	\$ -	\$ 560,000
Accounts payable	2,283,281	203,684	(202,875)	2,284,090	2,423,033	233,711	(228,617)	2,428,127
Accrued payroll and vacation	4,168,192	13,537	-	4,181,729	4,336,938	8,652	-	4,345,590
Accrued expenses and other current liabilities	1,773,095	6,044	-	1,779,139	1,672,061	9,548	-	1,681,609
Deferred revenue	861,182	259,097	-	1,120,279	338,541	124,361	-	462,902
Total Current Liabilities	9,413,722	482,362	(202,875)	9,693,209	9,330,573	376,272	(228,617)	9,478,228
Bonds and Note Payable, less current maturities	4,470,451	-	-	4,470,451	4,300,000	-	-	4,300,000
Total Liabilities Not Subject to Compromise	13,884,173	482,362	(202,875)	14,163,660	13,630,573	376,272	(228,617)	13,778,228
Liabilities Subject to Compromise								
Accounts payable	521,914	-	-	521,914	502,167	-	-	502,167
Accrued expenses and other current liabilities	697,699	-	-	697,699	615,917	-	-	615,917
Total Liabilities Subject to Compromise	1,219,613	-	-	1,219,613	1,118,084	-	-	1,118,084
Total Liabilities	15,103,786	482,362	(202,875)	15,383,273	14,748,657	376,272	(228,617)	14,896,312
Net Assets, temporarily restricted	2,885,693	-	-	2,885,693	2,682,500	-	-	2,682,500
Net Assets, unrestricted	17,866,448	(111,303)	-	17,755,145	20,501,286	(367)	-	20,500,919
Total Net Assets	20,752,141	(111,303)	-	20,640,838	23,183,786	(367)	-	23,183,419
Total Liabilities and Net Assets	\$ 35,855,927	\$ 371,059	\$ (202,875)	\$ 36,024,111	\$ 37,932,443	\$ 375,905	\$ (228,617)	\$ 38,079,731

See accompanying independent auditor's report.

Seven Counties Services, Inc. and SCS Learning, Inc.
Consolidating Statements of Operations and Changes in Net Assets
Years Ended December 31, 2014 and 2013

	2014				2013			
	Seven Counties Services	SCS Learning	Eliminations	Consolidated	Seven Counties Services (Restated)	SCS Learning (Restated)	Eliminations (Restated)	Consolidated (Restated)
Changes in Unrestricted Net Assets:								
Revenues:								
Reimbursements under Kentucky Department for Behavioral Health, Developmental & Intellectual Disabilities	\$ 22,070,451	\$ -	\$ -	\$ 22,070,451	\$ 20,998,197	\$ -	\$ -	\$ 20,998,197
Net reimbursements under Medicaid	41,044,559	-	-	41,044,559	45,188,023	-	-	45,188,023
Net reimbursements under Medicare	577,449	-	-	577,449	1,068,762	-	-	1,068,762
Federal, state and local grants	29,382,068	-	-	29,382,068	29,341,390	-	-	29,341,390
Private pay and commercial insurance	1,498,246	750,812	(84,347)	2,164,711	1,503,467	626,831	-	2,130,298
Other revenues	2,216,349	-	-	2,216,349	1,970,699	-	-	1,970,699
Provision for bad debts	(4,142,529)	-	-	(4,142,529)	(2,378,548)	-	-	(2,378,548)
Total Revenues	92,646,593	750,812	(84,347)	93,313,058	97,691,990	626,831	-	98,318,821
Expenses:								
Salaries and fringe benefits	59,322,637	385,944	-	59,708,581	73,145,594	279,314	-	73,424,908
Subcontract services	4,265,413	-	-	4,265,413	6,448,647	-	-	6,448,647
Purchased services	14,789,469	16,938	-	14,806,407	5,444,706	21,687	-	5,466,393
Building rentals, maintenance and utilities	4,399,993	75,657	-	4,475,650	4,219,023	35,453	-	4,254,476
Program supplies	2,906,955	99,054	(84,347)	2,921,662	2,956,265	44,959	-	3,001,224
Transportation and travel	1,048,997	5,110	-	1,054,107	1,131,649	8,386	-	1,140,035
Depreciation and amortization	2,037,666	32,639	-	2,070,305	1,801,946	19,986	-	1,821,932
Interest expense	9,980	-	-	9,980	17,046	-	-	17,046
General and administrative expenses	2,804,717	246,406	-	3,051,123	2,932,096	221,858	-	3,153,954
Total Expenses	91,585,827	861,748	(84,347)	92,363,228	98,096,972	631,643	-	98,728,615
Operating income (loss)	1,060,766	(110,936)	-	949,830	(404,982)	(4,812)	-	(409,794)
Nonoperating income (loss):								
Investment income	127,025	-	-	127,025	150,054	341	-	150,395
Impairment of electronic medical record system	(2,703,422)	-	-	(2,703,422)	-	-	-	-
Gain (loss) on disposal of property and equipment	1,305	-	-	1,305	(822)	-	-	(822)
Total Nonoperating (Loss) Income	(2,575,092)	-	-	(2,575,092)	149,232	341	-	149,573
Decrease in total net assets before reorganization items	(1,514,326)	(110,936)	-	(1,625,262)	(255,750)	(4,471)	-	(260,221)
Reorganization items	917,319	-	-	917,319	205,469	-	-	205,469
Decrease in total net assets	(2,431,645)	(110,936)	-	(2,542,581)	(461,219)	(4,471)	-	(465,690)
Total net assets at beginning of year, as restated	23,183,786	(367)	-	23,183,419	23,645,005	4,104	-	23,649,109
Total Net Assets at End of Year	\$ 20,752,141	\$ (111,303)	\$ -	\$ 20,640,838	\$ 23,183,786	\$ (367)	\$ -	\$ 23,183,419

See accompanying independent auditor's report.