

MARBRIDGE FOUNDATION, INC.

**Consolidated Financial Statements
as of and for the Years Ended
June 30, 2017 and 2016 and
Independent Auditors' Report**



MARBRIDGE FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Marbridge Foundation, Inc.:

We have audited the accompanying consolidated financial statements of Marbridge Foundation, Inc. (a nonprofit organization) and its wholly-owned subsidiary, Marbridge Minerals, LLC, (a Texas Limited Liability Company) (collectively, the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and changes in net assets, functional expenses 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 the consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of changes in net assets by location and consolidated schedule of expenses by location for the year ended June 30, 2017 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Prior Period Financial Statements

The consolidated financial statements of the Foundation as of and for the year ended June 30, 2016, were audited by other auditors whose report dated November 14, 2016 expressed an unmodified opinion on those statements.

Maxwell Locke + Ritter LLP

Austin, Texas
December 2, 2017

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|--------------------------------------------|----------------------|----------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 4,517,987 | \$ 781,368 |
| Restricted cash - resident funds | 375,675 | 400,119 |
| Restricted cash - capital campaign | 1,295,374 | 511,490 |
| Accounts receivable, net | 378,251 | 293,713 |
| Contributions receivable, net | 307,123 | 132,407 |
| Prepaid expenses | 31,544 | 23,847 |
| Total current assets | 6,905,954 | 2,142,944 |
| LONG-TERM INVESTMENTS: | | |
| Investments | 2,777,631 | 2,394,942 |
| Marbridge Foundation Assistance Trust | 2,274,750 | 2,123,250 |
| Other investments | 363,411 | 362,071 |
| Total long-term investments | 5,415,792 | 4,880,263 |
| PROPERTY, PLANT, AND EQUIPMENT, NET | 11,519,209 | 12,245,123 |
| CONTRIBUTIONS RECEIVABLE, NET | 335,282 | 356,700 |
| OTHER NON-CURRENT ASSETS | 42,000 | 42,000 |
| TOTAL ASSETS | <u>\$ 24,218,237</u> | <u>\$ 19,667,030</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 300,207 | \$ 280,536 |
| Current portion of long-term debt | 88,322 | 93,708 |
| Accrued expenses | 557,704 | 373,364 |
| Deferred income | 37,801 | 39,535 |
| Residents' fund | 375,675 | 400,119 |
| Total current liabilities | 1,359,709 | 1,187,262 |
| DEFERRED LIFETIME CARE INCOME | 44,725 | 45,773 |
| LONG-TERM DEBT | 249,745 | 337,843 |
| Total liabilities | 1,654,179 | 1,570,878 |
| NET ASSETS: | | |
| Unrestricted | 18,100,778 | 15,339,803 |
| Temporarily restricted | 2,471,113 | 764,182 |
| Permanently restricted | 1,992,167 | 1,992,167 |
| Total net assets | 22,564,058 | 18,096,152 |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 24,218,237</u> | <u>\$ 19,667,030</u> |

See notes to consolidated financial statements.

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---------------------------------------------------------------------------------|----------------------|----------------------|
| CHANGES IN UNRESTRICTED NET ASSETS: | | |
| REVENUES AND SUPPORT: | | |
| Tuitions and fees | \$ 6,690,801 | \$ 6,495,813 |
| Net patient service revenue | 5,830,710 | 5,846,314 |
| Gains on asset dispositions | 3,017,960 | 19,542 |
| Contributions | 775,788 | 2,386,759 |
| Unrealized gains (losses) on investments | 255,951 | (97,921) |
| Realized gains on investments | 180,037 | 57,975 |
| Oil and gas income | 63,016 | 85,052 |
| Rental income | 32,727 | 14,684 |
| Interest income | 5,196 | 5,624 |
| Lifetime care income | 1,048 | 949 |
| Miscellaneous income | 56,781 | 72,364 |
| Total unrestricted revenues and support | 16,910,015 | 14,887,155 |
| NET ASSETS RELEASED FROM RESTRICTIONS | 815,807 | 677,392 |
| Total unrestricted revenues, support, and net assets released from restrictions | 17,725,822 | 15,564,547 |
| EXPENSES: | | |
| Program services | 11,922,940 | 12,234,544 |
| Management and general | 2,642,130 | 2,745,491 |
| Fundraising | 399,777 | 389,667 |
| Total expenses | 14,964,847 | 15,369,702 |
| CHANGE IN UNRESTRICTED NET ASSETS | 2,760,975 | 194,845 |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS: | | |
| REVENUES AND SUPPORT: | | |
| Temporarily restricted contributions | 2,291,237 | 767,861 |
| Unrealized gains (losses) on investments in MFAT | 115,400 | (187,488) |
| Dividends and interest income on MFAT | 80,000 | 80,000 |
| Realized gains on investments in MFAT | 36,101 | 105,936 |
| Total temporarily restricted revenues and support | 2,522,738 | 766,309 |
| NET ASSETS RELEASED FROM RESTRICTIONS: | | |
| Expiration of inherent time restrictions | 219,338 | - |
| Programs and activities | 207,838 | - |
| Expenditures on renovation and capital campaign | 137,262 | 55,350 |
| MFAT scholarships awarded and inv. fees | 108,660 | - |
| Gym construction | 60,362 | 239,210 |
| Non-MFAT scholarships awarded | 82,347 | 382,832 |
| Total net assets released from restrictions | 815,807 | 677,392 |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | 1,706,931 | 88,917 |
| TOTAL CHANGE IN NET ASSETS | 4,467,906 | 283,762 |
| NET ASSETS, beginning of year | 18,096,152 | 17,812,390 |
| NET ASSETS, end of year | \$ 22,564,058 | \$ 18,096,152 |

See notes to consolidated financial statements.

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | | | | 2016 | | | |
|------------------------------------------|------------------|------------------------|-------------|---------------|------------------|------------------------|-------------|---------------|
| | Program Services | Management and General | Fundraising | Totals | Program Services | Management and General | Fundraising | Totals |
| EMPLOYEE EXPENSES: | | | | | | | | |
| Salaries and wages | \$ 6,222,526 | \$ 1,541,800 | \$ 198,671 | \$ 7,962,997 | \$ 6,288,550 | \$ 1,548,623 | \$ 143,649 | \$ 7,980,822 |
| Health and medical insurance | 693,473 | 112,951 | 18,893 | 825,317 | 663,984 | 111,058 | 18,189 | 793,231 |
| Payroll taxes | 453,366 | 109,421 | 14,426 | 577,213 | 464,396 | 112,947 | 14,147 | 591,490 |
| Retirement benefits | 82,179 | 32,264 | 5,629 | 120,072 | 79,431 | 34,463 | 5,718 | 119,612 |
| Occupational injury insurance | 64,366 | 9,432 | 46 | 73,844 | 118,136 | 15,195 | 949 | 134,280 |
| HSA saving | 45,164 | 7,811 | 1,200 | 54,175 | 46,240 | 8,120 | 1,200 | 55,560 |
| Total employee related expenses | 7,561,074 | 1,813,679 | 238,865 | 9,613,618 | 7,660,737 | 1,830,406 | 183,852 | 9,674,995 |
| OTHER EXPENSES: | | | | | | | | |
| Depreciation | 845,172 | 59,405 | - | 904,577 | 883,324 | 65,791 | - | 949,115 |
| Groceries | 830,806 | 14,302 | - | 845,108 | 791,185 | 14,701 | - | 805,886 |
| Medical services, drugs and supplies | 770,765 | - | - | 770,765 | 902,857 | - | - | 902,857 |
| Utilities | 268,274 | 7,280 | - | 275,554 | 282,124 | 5,203 | - | 287,327 |
| Insurance | 218,359 | 39,181 | 100 | 257,640 | 232,861 | 30,751 | 288 | 263,900 |
| Repairs and maintenance | 133,141 | 102,230 | - | 235,371 | 29,783 | 198,619 | - | 228,402 |
| Contract labor | 85,675 | 80,205 | 11,944 | 177,824 | 89,662 | 63,423 | 18,868 | 171,953 |
| Supplies | 167,130 | 3,417 | - | 170,547 | 204,788 | 2,811 | - | 207,599 |
| Legal and professional | - | 168,190 | - | 168,190 | - | 156,403 | - | 156,403 |
| Consultants | 160,502 | 1,000 | - | 161,502 | 120,531 | - | - | 120,531 |
| Athletic and other resident's activities | 160,768 | - | - | 160,768 | 184,056 | - | - | 184,056 |
| Advertising and promotion | 34,799 | 53,986 | 66,510 | 155,295 | 33,918 | 61,258 | 81,727 | 176,903 |
| Computer expenses | 88,113 | 24,107 | 26,079 | 138,299 | 98,555 | 28,508 | 23,746 | 150,809 |
| Telephone | 79,905 | 21,867 | 3,654 | 105,426 | 91,381 | 25,943 | 4,195 | 121,519 |
| City sewage - waste water | 91,097 | - | - | 91,097 | 92,729 | - | - | 92,729 |
| Scholarships - MFAT | - | 80,000 | - | 80,000 | 9,840 | 74,300 | - | 84,140 |
| Staff expenses | 36,215 | 31,441 | 5,731 | 73,387 | 34,809 | 28,804 | 1,715 | 65,328 |
| Transportation | 55,939 | 14,391 | 172 | 70,502 | 68,296 | 8,370 | 143 | 76,809 |
| Scholarships - Other | 69,822 | - | - | 69,822 | 116,620 | - | - | 116,620 |
| Livestock and pet expenses | 56,782 | - | - | 56,782 | 54,294 | - | - | 54,294 |
| Staff training | 34,648 | 3,198 | 20,682 | 58,528 | 15,861 | 13,035 | 24,726 | 53,622 |
| Office supplies | 24,094 | 18,275 | 594 | 42,963 | 28,127 | 21,076 | 126 | 49,329 |
| Payroll processing | 30,783 | 5,345 | 383 | 36,511 | 18,455 | 2,909 | 223 | 21,587 |
| Travel | - | 11,598 | 18,877 | 30,475 | - | 13,171 | 14,599 | 27,770 |
| Sanitation | 27,822 | - | - | 27,822 | 27,369 | - | - | 27,369 |
| Residents' direct costs | 12,136 | 8,429 | 1,154 | 21,719 | 11,195 | 17,806 | 92 | 29,093 |
| Extermination | 18,773 | 2,611 | - | 21,384 | 12,137 | 3,201 | - | 15,338 |
| Interest expense | 1,234 | 19,992 | - | 21,226 | 9,318 | 26,768 | - | 36,086 |
| Rent expense | 3,320 | 15,053 | - | 18,373 | 3,117 | 15,063 | - | 18,180 |
| Dues and subscriptions | 10,597 | 6,839 | - | 17,436 | 9,928 | 6,394 | - | 16,322 |
| Postage | 14 | 15,291 | 173 | 15,478 | 231 | 16,820 | 127 | 17,178 |
| Fees and licenses | 10,627 | 2,461 | - | 13,088 | 7,184 | 796 | - | 7,980 |
| Landscaping | 1,681 | 11,258 | - | 12,939 | - | 5,292 | - | 5,292 |
| Laundry | 9,628 | - | - | 9,628 | 13,851 | - | - | 13,851 |
| Bank charges | - | - | 4,859 | 4,859 | - | 1,532 | 5,006 | 6,538 |
| Software maintenance and upgrades | - | 4,463 | - | 4,463 | - | 3,861 | - | 3,861 |
| Bad debts | 1,341 | - | - | 1,341 | 81,150 | - | 26,929 | 108,079 |
| In-kind donation | - | - | - | - | - | - | 290 | 290 |
| Miscellaneous and other | 21,904 | 2,636 | - | 24,540 | 14,271 | 2,476 | 3,015 | 19,762 |
| Total other expenses | 4,361,866 | 828,451 | 160,912 | 5,351,229 | 4,573,807 | 915,085 | 205,815 | 5,694,707 |
| Total all expenses | \$ 11,922,940 | \$ 2,642,130 | \$ 399,777 | \$ 14,964,847 | \$ 12,234,544 | \$ 2,745,491 | \$ 389,667 | \$ 15,369,702 |

See notes to consolidated financial statements.

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---------------------------------------------------------------------------------------------|--------------|--------------|
| CASH FLOWS FROM OPERATION ACTIVITIES: | | |
| Change in net assets | \$ 4,467,906 | \$ 283,762 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Net gains on disposal of property and equipment | (3,017,960) | (19,542) |
| Depreciation | 904,577 | 949,115 |
| Amortization of deferred lifetime care income | (1,048) | (949) |
| Provision for bad debt | 40,942 | 8,149 |
| Net realized gains on investments in MFAT | (36,101) | (185,936) |
| Net realized gains on investments | (180,037) | (57,975) |
| Net unrealized (gains) loss on investments in MFAT | (115,400) | 187,488 |
| Net unrealized (gains) loss on investments | (255,951) | 97,921 |
| Noncash contribution of mineral rights | - | (160,893) |
| Change in assets and liabilities that provided (used) cash: | | |
| Accounts receivable | (85,880) | 276,798 |
| Contributions receivable | (192,898) | (28,965) |
| Prepaid expenses | (7,697) | 53 |
| Accounts payable | 19,671 | (114,235) |
| Accrued expenses | 184,340 | (99,556) |
| Deferred income | (1,734) | (28,280) |
| Residents' fund | (24,444) | 189,526 |
| Net cash provided by operating activities | 1,698,286 | 1,296,481 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from disposal of property and equipment | 3,077,121 | 19,542 |
| Acquisitions of property and equipment | (237,824) | (249,244) |
| Proceeds from sale of investments | 931,342 | 2,208,370 |
| Purchases of investments | (879,382) | (2,073,957) |
| Net cash provided by (used in) investing activities | 2,891,257 | (95,289) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from long-term debt | - | 100,000 |
| Payments on long-term debt | (93,484) | (596,444) |
| Net cash used in financing activities | (93,484) | (496,444) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 4,496,059 | 704,748 |
| CASH AND CASH EQUIVALENTS, beginning of the year | 1,692,977 | 988,229 |
| CASH AND CASH EQUIVALENTS, end of the year | \$ 6,189,036 | \$ 1,692,977 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION- | | |
| Cash paid during the year for interest | \$ 21,112 | \$ 36,086 |
| NON CASH OPERATING INFORMATION- | | |
| In-kind gifts | \$ 13,453 | \$ 215,962 |

See notes to consolidated financial statements.

MARBRIDGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

1. ORGANIZATION

The Marbridge Foundation, Inc. (“Marbridge”) is a residential community that offers transitional and lifetime care to adults with a wide range of cognitive abilities and through compassion and faith, provides them opportunities to learn, experience, and achieve a whole new life. Marbridge offers a unique full spectrum of residential care and training for adults with special needs from age 18 to the end of life. The true mission is helping adults with intellectual disabilities reach their highest potential. Marbridge offers residents (and their families) the security of knowing they can have a college-like post-secondary living experience or a life-long residence. Marbridge’s care philosophy focuses on abilities, never disabilities, and Marbridge assists and encourages residents to grow and achieve the highest independence possible. Additionally, Marbridge provides skilled nursing care through its Villa skilled Nursing Center and The Bridges Skilled Nursing and Rehabilitation Center, both of which provide nursing care to the general public, in addition to Marbridge residents.

Marbridge Minerals, LLC (the “LLC”) is a Texas Limited Liability Company formed on March 21, 2016 to hold certain producing and non-producing mineral interests that were contributed to the Marbridge Foundation, Inc. The LLC is a wholly owned subsidiary of Marbridge. The LLC’s financial statements are consolidated into the financial statements of Marbridge because Marbridge has control over and an economic interest in the LLC. Marbridge and its subsidiary, the LLC, are collectively referred to as the Foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Under the accrual basis of accounting, revenue is recognized when earned regardless of when collected and expenses are recognized when the obligation is incurred regardless of when paid. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted - Net assets not subject to donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Unrestricted amounts are those currently available for use by the Foundation.

Temporarily restricted - Net assets subject to donor imposed stipulations, which limit their use by the Foundation to a specific purpose and/or the passage of time.

Permanently restricted - Net assets subject to donor-imposed stipulations, which require them to be maintained permanently by the Foundation.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 - Inputs based on quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 - Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Cash and Cash Equivalents - The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash-Resident Funds - As a service to its residents, the Foundation maintains certain cash balances on behalf of its residents in order to assist them in the management of their personal affairs. The Foundation recognizes no revenues or expenses with respect to these funds, the total amounts and earnings of which are owned solely by the individual residents. These assets of the residents totaled \$375,675 and \$400,119 at June 30, 2017 and 2016, respectively, and are included in restricted cash and residents' fund liability in the accompanying consolidated statements of financial position.

Accounts Receivable - Accounts receivable are recorded at the amount the Foundation expects to collect on outstanding balances. The Foundation makes regular reviews of accounts for activity, delinquencies, and potential write-offs, and provisions for uncollectible accounts are made on the basis of prior write-offs and historical collection experience. Although the Foundation has not experienced material uncollectible amounts in the past, an allowance for uncollectible accounts receivable has been established. The allowance at June 30, 2017 and 2016, was \$67,883 and \$99,424, respectively.

Contributions Receivable - Contributions receivable are recorded at the amount the Foundation expects to receive from donors. Promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. Although the Foundation has not experienced material uncollectible amounts in the past, an allowance for uncollectible contributions receivable has been established. The allowance at June 30, 2017 and 2016, was \$74,329 and \$42,597, respectively. The Foundation did not record a net present value discount on contributions receivable as of June 30, 2017 and 2016 as management considered the amount to be insignificant.

Long-Term Investments - Investments, including those held in the Marbridge Assistance Trust (“MFAT”) are carried at their fair values in the consolidated statements of financial position. Any changes in fair value are reported in the consolidated statements of activities and changes in net assets as unrealized or realized gains or losses. Realized gains and losses are recorded as the difference between historical cost and the proceeds received from the sale of the investment.

The Foundation’s other investments include both a private equity placement investment owned by Marbridge, as well as mineral interests owned by the LLC. The amount of unfunded commitments related to the private equity placement investments at June 30, 2017 and 2016 was approximately \$21,000 and \$24,000, respectively. Distributions are at the discretion of the individual investors.

Property, Plant, and Equipment - Property and equipment consists of land, buildings, and equipment. Property and equipment additions are recorded at cost if purchased or estimated fair value if donated less accumulated depreciation. The Foundation capitalizes all additions over \$2,500 and expenses maintenance and repairs that do not improve or extend the useful lives of the respective assets. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Estimated useful lives are seven to thirty nine years for buildings and improvements; five to fifteen years for equipment; five years for furniture and fixtures and four years for vehicles. Property and equipment under capital lease is amortized over the shorter of the lease term or the expected useful life of the asset.

Impairment of Long-Lived Assets - Long-lived assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset exceeds fair value, if the carrying amount of the asset is not recoverable. Management believes there has been no impairment of such assets as of June 30, 2017 and 2016.

Deferred Income and Tuition and Fees Revenue - Charges to residents for tuition are collected in advance at the end of the month along with fees for current month activity. The tuition charges are deferred until the end of the following month, at which time revenue is recognized.

Patient Service Revenues - Patient revenue includes room charges and ancillary services to residents at The Villa. The Foundation has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include reimbursed costs, discounted charges, and per diem payments. The difference between payments based on contractual arrangements and the Foundation’s standard billing rates is recorded as a contractual adjustment to patient service charges. Net patient service revenue is reported at the net realizable amounts from patients, third-party payors, and others for services rendered on the consolidated statements of activities. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The components of net patient service revenues for the years ended June 30, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|----------------------------------------|---------------------|---------------------|
| Patient service charges: | | |
| Medicare | \$ 1,088,809 | \$ 1,312,561 |
| Medicaid | 6,253,650 | 4,995,130 |
| Self-pay and commercial insurance | 1,094,708 | 1,052,685 |
| Medicare B (outpatient) | 726,573 | 475,731 |
| Total patient service charges | 9,163,740 | 7,836,107 |
| Adjustments to patient service charges | (3,333,030) | (1,989,793) |
| Net patient service revenues | <u>\$ 5,830,710</u> | <u>\$ 5,846,314</u> |

Contractual Arrangements - A significant portion of the services of the Foundation are provided to patients under contractual arrangements with the following payors:

| | 2017 | | 2016 | |
|--------------------------|---------------|-------------------------|---------------|-------------------------|
| | Gross Revenue | Revenue Net of Discount | Gross Revenue | Revenue Net of Discount |
| Medicare R&B | 11.88% | 14.95% | 16.75% | 21.18% |
| Medicaid | 68.24% | 60.65% | 63.75% | 57.11% |
| Self-pay | 11.28% | 17.72% | 12.40% | 16.62% |
| Total contractual payers | 0.67% | 0.58% | 1.03% | 0.74% |
| Med B Outpatient | 7.93% | 6.10% | 6.07% | 4.35% |
| Total payers | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

Medicaid

The Foundation participates in the Texas Medicaid program administered by the Texas Health and Human Services Commission. Skilled nursing centers that participate in the Medicaid program in the state of Texas are reimbursed based upon prospective rates. The Foundation is required to file an annual Medicaid cost report which is subject to audit by the Texas Health and Human Services Commission. Adjustments to the report may prospectively affect payment rates.

Medicare

The Foundation participates in the Medicare program, which is reimbursed based on a Prospective Payment system (PPS). This program is administered by the Center for Medicare and Medicaid Services (CMS). The PPS is a per diem price based system. Annual cost reports are submitted to the designated intermediary; however, they do not contain a cost settlement.

Nursing facilities licensed for participation in the Medicare and Medicaid programs are subject to annual licensure renewal. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance. Such as a payment ban, which would have a negative impact on the revenues of the Foundation.

Occupancy Percentages

During the years ended June 30, 2017 and 2016, the occupancy percentages and the percentage of skilled nursing and nursing care residents covered under the Medicare and Medicaid programs, and private pay and others were as follows:

| | 2017 | 2016 |
|-----------------------------------------|--------|--------|
| Total skilled nursing center occupancy: | | |
| Medicare | 5.57% | 8.45% |
| Medicaid | 80.97% | 77.52% |
| Private pay and other | 13.46% | 14.03% |

Performance Indicator

The consolidated schedule of changes in net assets by location includes a deficit of revenue over expense for the Villa. This is referred to as the performance indicator for not-for-profit, business-oriented health care entities. Amounts which are excluded from the performance indicator, consistent with industry practice, include contributions, unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Lifetime Care Income - Revenue from lifetime care agreements is recognized based upon amortization of the consideration proceeds over the life expectancy of the resident as of the date of the agreement. In the event that a resident under a lifetime care agreement subsequently qualifies for Medicaid assistance, the entire unamortized remainder (if any) of that resident's deferred lifetime care liability is recognized as revenue.

Contribution Revenue - All contributions are recorded at their fair value and are considered to be available for operations of the Foundation unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as temporarily restricted net assets, if they are received with donor stipulations that limit the use of donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire within the fiscal year in which the contributions are received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

In-Kind Service Contributions - It is the Foundation's policy to record non-cash items and in-kind gifts at their fair value on the date they are received. Donated services are recognized as contributions during the period services are rendered if the services (1) create or enhance non-financial assets, or (2) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

Functional Expense Allocation - Program services expenses include all costs directly allocable to residents' life skills training and care, other instruction and activities, medical expenses, and other direct expenses of the residents. Costs of activities that involve a substantial fundraising objective are recognized as fundraising expenses. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation. Accordingly, certain costs have been allocated between program and supporting services based on estimates by management.

Advertising Costs - Advertising costs are charged to expense as incurred. The Foundation incurred \$155,295 and \$179,755 in advertising costs during the years ended June 30, 2017 and 2016, respectively.

Income Taxes - Marbridge Foundation, Inc. is a non-profit organization that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code; except as it relates to any unrelated business income. Marbridge did not incur any significant tax liabilities due to unrelated business income for the years ended June 30, 2017 or 2016. Marbridge files Form 990 tax returns in the U.S. federal jurisdiction, and is subject to routine examinations of its tax returns; however, there are no examinations currently in process.

Marbridge Minerals, LLC is a disregarded entity for federal income tax purposes and is subject to income taxes in the state of Texas. Income taxes are accounted for under the liability method whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when considered necessary to reduce the net deferred tax assets to amounts which are more likely than not to be realized.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued Accounting Standards Updates ("ASU") No. 2014-09 and No. 2015-14, *Revenue from Contracts with Customers*, which supersede the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Foundation is currently evaluating the impact the new standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the statement of activities for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statements of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statements of activities the amount of the change in each of these two classes of net assets. The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method, however it will be required for an entity to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its consolidated financial statements.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. Total net assets are unchanged due to these reclassifications.

3. CONCENTRATIONS

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, investments and receivables. The Foundation places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the consolidated statements of financial position. The Foundation does not maintain collateral for its receivables.

The mix of receivables from patients and third-party payers at June 30, 2017 and 2016 was as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|---------------|---------------|
| Medicare A | 5.35% | 18.80% |
| Medicaid | 41.75% | 29.90% |
| Medicare B (Outpatient therapies) | 11.06% | 13.03% |
| Private pay and other | <u>41.85%</u> | <u>38.27%</u> |
| Total | <u>100%</u> | <u>100%</u> |

4. CASH AND CASH EQUIVALENTS

The following provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statement of financial position that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

| | <u>2017</u> | <u>2016</u> |
|------------------------------------|---------------------|---------------------|
| Interest-bearing checking accounts | \$ 4,509,437 | \$ 773,118 |
| Construction fund | 654,922 | 119,472 |
| Designated gifts | 512,264 | 373,448 |
| Resident funds | 375,675 | 400,119 |
| Building fund | 126,458 | 16,840 |
| Petty cash | 8,550 | 8,050 |
| Gym and wellness center | 1,730 | 1,730 |
| Total | <u>\$ 6,189,036</u> | <u>\$ 1,692,977</u> |

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------------|-------------------|-------------------|
| Accounts receivable from residents | \$ 97,627 | \$ 17,987 |
| Accounts receivable from third party payers | 348,507 | 375,160 |
| Total accounts receivable | 446,134 | 393,147 |
| Less: allowance for uncollectible accounts | (67,883) | (99,434) |
| Accounts receivable, net | <u>\$ 378,251</u> | <u>\$ 293,713</u> |

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|------------------------------------------------------------|-------------------|-------------------|
| Unspecified purposes | \$ 456,734 | \$ 491,072 |
| Restricted for capital campaign, building and improvements | 260,000 | 40,632 |
| | 716,734 | 531,704 |
| Less: allowance for uncollectible accounts | (74,329) | (42,597) |
| Contributions receivable, net | <u>642,405</u> | <u>489,107</u> |
| Amounts due in: | | |
| Less than one year | 307,123 | 132,407 |
| One to five years | 401,611 | 395,297 |
| More than five years | 8,000 | 4,000 |
| Total | <u>\$ 716,734</u> | <u>\$ 531,704</u> |

7. LONG-TERM INVESTMENTS

The following is a description of the valuation methodologies used for assets measured at fair value.

Common stocks, mutual funds, corporate bonds, and U.S. government and municipal securities - Valued at the closing price reported on the active market on which the individual securities are traded.

Exchange traded funds and money market funds - Valued at the net asset value (NAV) of shares held by the Foundation at year-end.

Investment in private equity - Valued at the most recent NAV per unit or capital account information available from the general partner.

Mineral rights - Carried at fair value based on estimated future cash flows over the next five years.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation 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 Foundation's investment in private equity, classified as "other investment" in the accompanying consolidated statement of financial position, is recorded at fair value using the Foundation's proportionate net asset value, or its equivalent, as reported by the investee's management, and is classified within Level 3 of the fair value hierarchy, as the investment meets the requirements to be valued using net asset value or its equivalent, but the Foundation may not fully redeem its investment with the investee at net asset value at June 30, 2017 or at a future date. The proportionate net asset value has not been adjusted by the Foundation and therefore, no qualitative data is disclosed for this investment carried at fair value with the use of significant unobservable inputs (Level 3).

The following tables set forth, by level within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2017:

General Investment Account:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------------|---------------------|-------------|-------------|---------------------|
| Money market funds | \$ 88,989 | \$ - | \$ - | \$ 88,989 |
| Municipal bonds | 77,496 | - | - | 77,496 |
| Exchange traded funds - fixed income | 241,267 | - | - | 241,267 |
| Common stock - United States: | | | | |
| Basic materials | 170,057 | - | - | 170,057 |
| Consumer goods | 439,945 | - | - | 439,945 |
| Financial | 345,989 | - | - | 345,989 |
| Healthcare | 428,979 | - | - | 428,979 |
| Industrial goods | 250,782 | - | - | 250,782 |
| Services | 388,913 | - | - | 388,913 |
| Technology | 278,247 | - | - | 278,247 |
| Total common stock - United States | 2,302,912 | - | - | 2,302,912 |
| Exchange traded funds: | | | | |
| Taiwan | 11,694 | - | - | 11,694 |
| Japan | 6,706 | - | - | 6,706 |
| India | 5,176 | - | - | 5,176 |
| Germany | 4,541 | - | - | 4,541 |
| France | 4,256 | - | - | 4,256 |
| Europe | 2,190 | - | - | 2,190 |
| Total exchange traded funds | 34,563 | - | - | 34,563 |
| | <u>\$ 2,745,230</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,745,230</u> |

Spook Partlow Memorial Special

| | | | | |
|-----------------------------------|---------------------|-------------|-------------|---------------------|
| Mutual funds - large cap value | 31,322 | - | - | 31,322 |
| Money market funds | 1,082 | - | - | 1,082 |
| | <u>\$ 2,777,631</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,777,631</u> |

Marbridge Foundation Assistance Trust (MFAT):

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|---------------------|-------------|-------------------|---------------------|
| Money market funds | \$ 46,143 | \$ - | \$ - | \$ 46,143 |
| Common stock - | | | | |
| United States: | | | | |
| Materials | 110,030 | - | - | 110,030 |
| Consumer goods | 285,702 | - | - | 285,702 |
| Healthcare | 188,449 | - | - | 188,449 |
| Financial | 235,277 | - | - | 235,277 |
| Services | 263,955 | - | - | 263,955 |
| Technology | 175,421 | - | - | 175,421 |
| Industrial goods | 159,142 | - | - | 159,142 |
| Total common stock - | | | | |
| United States | 1,417,976 | - | - | 1,417,976 |
| Common stock - | | | | |
| International: | | | | |
| Healthcare | 24,552 | - | - | 24,552 |
| Services | 38,340 | - | - | 38,340 |
| Total common stock - | | | | |
| International | 62,892 | - | - | 62,892 |
| Preferred stock | 23,698 | - | - | 23,698 |
| Corporate bonds | 392,784 | - | - | 392,784 |
| Treasury bonds and notes - | | | | |
| United States | 173,663 | - | - | 173,663 |
| Municipal Bonds: | | | | |
| General obligation | | | | |
| bonds | 78,583 | - | - | 78,583 |
| Revenue bonds | 79,011 | - | - | 79,011 |
| Total municipal bonds | 157,594 | - | - | 157,594 |
| | <u>\$ 2,274,750</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,274,750</u> |
| <u>Other Investments</u> | | | | |
| Mineral rights | \$ - | \$ - | \$ 192,083 | \$ 192,083 |
| Private placement equity | - | - | 171,328 | 171,328 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 363,411</u> | <u>\$ 363,411</u> |

The table below sets forth a summary of changes in fair value of the Foundation's Level 3 investments for the year ended June 30, 2017.

| | |
|-------------------|-------------------|
| Beginning balance | \$ 362,071 |
| Issuances | (53,086) |
| Unrealized gain | 54,426 |
| Ending balance | <u>\$ 363,411</u> |

The following tables set forth, by level within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2016:

General Investment Account:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------------------|----------------|----------------|----------------|--------------|
| Money market funds | \$ 133,757 | \$ - | \$ - | \$ 133,757 |
| Municipal bonds | 79,921 | - | - | 79,921 |
| Corporate bonds | 50,011 | - | - | 50,011 |
| Exchange traded funds - fixed income | 174,159 | - | - | 174,159 |
| Common stock - United States: | | | | |
| Basic materials | 143,659 | - | - | 143,659 |
| Consumer goods | 311,240 | - | - | 311,240 |
| Financial | 234,191 | - | - | 234,191 |
| Healthcare | 352,354 | - | - | 352,354 |
| Industrial goods | 225,649 | - | - | 225,649 |
| Services | 374,757 | - | - | 374,757 |
| Technology | 258,514 | - | - | 258,514 |
| Total common stock - United States | 1,900,364 | - | - | 1,900,364 |
| Exchange traded funds: | | | | |
| India | 4,358 | - | - | 4,358 |
| France | 3,385 | - | - | 3,385 |
| Germany | 3,608 | - | - | 3,608 |
| Japan | 5,750 | - | - | 5,750 |
| Taiwan | 9,189 | - | - | 9,189 |
| Europe | 1,569 | - | - | 1,569 |
| Total exchange traded funds | 27,859 | - | - | 27,859 |
| | 2,366,071 | - | - | 2,366,071 |

Spook Partlow Memorial Special

| | | | | |
|----------------------------------|---------------------|-------------|-------------|---------------------|
| Mutual fund - large cap value | 28,871 | - | - | 28,871 |
| | <u>\$ 2,394,942</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,394,942</u> |

Marbridge Foundation Assistance Trust (MFAT):

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|---------------------|-------------|-------------------|---------------------|
| Money market funds | \$ 63,384 | \$ - | \$ - | \$ 63,384 |
| Common stock - | | | | |
| United States: | | | | |
| Materials | 85,318 | - | - | 85,318 |
| Consumer goods | 227,081 | - | - | 227,081 |
| Healthcare | 199,560 | - | - | 199,560 |
| Financial | 176,153 | - | - | 176,153 |
| Services | 278,443 | - | - | 278,443 |
| Technology | 179,837 | - | - | 179,837 |
| Industrial goods | 158,442 | - | - | 158,442 |
| Total common stock - | | | | |
| United States | 1,304,834 | - | - | 1,304,834 |
| Common Stock - | | | | |
| International: | | | | |
| Healthcare | 39,307 | - | - | 39,307 |
| Services | 16,427 | - | - | 16,427 |
| Total Common Stock - | | | | |
| International | 55,734 | - | - | 55,734 |
| Preferred stock | 24,133 | - | - | 24,133 |
| Corporate bonds | 361,725 | - | - | 361,725 |
| Municipal bonds: | | | | |
| General obligation | | | | |
| bonds | 82,512 | - | - | 82,512 |
| Revenue bonds | 105,453 | - | - | 105,453 |
| Total municipal bonds | 187,965 | - | - | 187,965 |
| | <u>\$ 2,123,250</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,123,250</u> |
| <u>Other Investments</u> | | | | |
| Private placement equity | \$ - | \$ - | \$ 201,178 | \$ 201,178 |
| Mineral interests | - | - | 160,893 | 160,893 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 362,071</u> | <u>\$ 362,071</u> |

The table below sets forth a summary of changes in fair value of the Foundation's Level 3 investments for the year ended June 30, 2016.

| | |
|-----------------------------------|-------------------|
| Beginning balance | \$ 268,930 |
| Contribution of mineral interests | 160,893 |
| Issuances | (62,546) |
| Unrealized loss | (5,206) |
| Ending balance | <u>\$ 362,071</u> |

8. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|----------------------|----------------------|
| Buildings and improvements | \$ 16,847,002 | \$ 16,848,202 |
| Equipment | 1,783,109 | 1,743,149 |
| Land and land improvements | 1,744,623 | 1,754,911 |
| Vehicles | 792,013 | 782,022 |
| Furniture and fixtures | 467,761 | 467,761 |
| Construction in progress | 400,049 | 315,717 |
| | <u>22,034,557</u> | <u>21,911,762</u> |
| Less: accumulated depreciation | <u>(10,515,348)</u> | <u>(9,666,639)</u> |
| Net | <u>\$ 11,519,209</u> | <u>\$ 12,245,123</u> |

Certain of the Foundation's land is pledged as collateral under a real estate note payable (see Note 9).

9. LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Note payable with monthly payments of \$7,141, including interest at 5.5%, maturing May 2021, secured by land | \$ 304,445 | \$ 371,240 |
| Vehicle notes, interest rates up to 4.5%, payments due monthly | 33,622 | 54,411 |
| Vehicle note, monthly payments of \$600, including interest at 2.94%, maturing April 2017 | - | 5,900 |
| | <u>338,067</u> | <u>431,551</u> |
| Less: current maturities | <u>88,322</u> | <u>93,708</u> |
| | <u>\$ 249,745</u> | <u>\$ 337,843</u> |

The following is a summary of principal maturities of long-term debt at June 30, 2017:

| | |
|------|-------------------|
| 2018 | \$ 88,322 |
| 2019 | 86,318 |
| 2020 | 74,532 |
| 2021 | 78,779 |
| 2022 | 10,116 |
| | <u>\$ 338,067</u> |

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------------------------------------|---------------------|-------------------|
| Use restriction - capital campaign | \$ 814,922 | \$ - |
| Inherent time restrictions | 456,734 | - |
| Financial assistance to residents | 370,154 | 251,528 |
| Unappropriated earnings from permanently restricted donor endowment | 282,583 | - |
| Programs | 191,555 | 49,881 |
| Goldman Sachs Investment | 148,247 | 201,178 |
| Building improvements | 126,458 | 189,556 |
| Activities and other | 80,460 | 72,039 |
| Total | <u>\$ 2,471,113</u> | <u>\$ 764,182</u> |

11. ENDOWMENT

The Texas Uniform Prudent Management of Institutional Funds Act (“TUPMIFA”) requires and the Board of Trustees (the “Board”) have adopted an endowment policy which requires the preservation of the fair value of the original gift as of the gift date of the perpetual donor-restricted endowment fund absent explicit donor stipulations to the contrary. Permanently restricted net assets are classified at the original value of gifts donated to the permanent endowment, which is named MFAT, plus the original value of subsequent gifts to the MFAT. The remaining portion of the donor restricted MFAT is classified as temporarily restricted net assets until those funds are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA and the Board’s spending policy.

The MFAT was established to allow the granting of financial assistance to qualified and needy individual residents. Determinations of the recipients and amounts of the MFAT’s assistance awards are made on the basis of reviews of individual circumstances and financial need made by the Executive Committee of the Foundation’s Board.

The MFAT’s assets are managed by a third party trustee. The current trustee, designation of which is controlled by the Foundation, is Plains Capital Bank.

According to the investment policy, the primary objective is to maintain a balanced approach of investments, utilizing both equity and fixed income securities. The performance of the MFAT is compared to a benchmark composed of 55% S&P 500 Stock Index and 45% Barclays Intermediate Government / Credit Bond Index. The Foundation received quarterly distributions of \$20,000 solely from income earned of the trust and net realized capital gains/losses for a calendar year. The money manager for the MFAT is expected to equal or exceed the benchmark performance over a complete market cycle, which is typically a three to five year period.

The portfolio's holdings in common stocks should be diversified on an industry and issue basis, with no one security exceeding 10% of the portfolio's aggregate market value. Additionally, the policy states that the fixed income category of investments should stress quality, taxable fixed income instruments. A Moody's rating of "BBB", or better, or a comparable rating is considered acceptable. With the exception of U.S. Government and / or Federal Agency securities, no security issuer commitment should exceed 10% of the total portfolio on a market value basis.

The MFAT has the following asset allocation ranges:

| | <u>Min</u> | <u>Max</u> | <u>Target</u> |
|--------------------------|------------|------------|---------------|
| Equity securities | 25% | 75% | 55% |
| Fixed income securities* | 25% | 75% | 45% |

*Includes cash and cash equivalents

As of June 30, 2017, the MFAT had the following investments:

| | <u>Cost Basis</u> | <u>Fair Value</u> |
|------------------------------------------|---------------------|---------------------|
| Money market funds | \$ 57,685 | \$ 57,685 |
| Corporate and government bonds and notes | 705,784 | 715,274 |
| Equity securities | <u>1,225,725</u> | <u>1,501,961</u> |
| | <u>\$ 1,989,194</u> | <u>\$ 2,274,750</u> |

As of June 30, 2016, the MFAT had the following investments:

| | <u>Cost Basis</u> | <u>Fair Value</u> |
|------------------------------------------|---------------------|---------------------|
| Money market funds | \$ 63,384 | \$ 63,384 |
| Corporate and government bonds and notes | 642,097 | 675,165 |
| Equity securities | <u>1,275,447</u> | <u>1,384,701</u> |
| | <u>\$ 1,980,928</u> | <u>\$ 2,123,250</u> |

Changes in the MFAT endowment net assets were as follows for the year ended June 30, 2017:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-----------------------------------------|---------------------|-------------------------------|-------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 131,083 | \$ - | \$ 1,992,167 | \$ 2,123,250 |
| Contributions | - | - | - | - |
| Dividends and interest | - | 80,000 | - | 80,000 |
| Unrealized gains | - | 115,400 | - | 115,400 |
| Realized gains | - | 36,101 | - | 36,101 |
| Investment fees | - | (28,660) | - | (28,660) |
| Appropriations for expenditure | - | (80,000) | - | (80,000) |
| Reclassifications | (131,083) | 131,083 | - | - |
| Other | - | 28,659 | - | 28,659 |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 282,583</u> | <u>\$ 1,992,167</u> | <u>\$ 2,274,750</u> |

Changes in the MFAT endowment net assets were as follows for the year ended June 30, 2016:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--------------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 212,636 | \$ - | \$ 1,992,167 | \$ 2,204,803 |
| Contributions | - | - | - | - |
| Dividends and interest | 80,000 | - | - | 80,000 |
| Unrealized losses | (187,488) | - | - | (187,488) |
| Realized gains | 105,936 | - | - | 105,936 |
| Investment fees | (27,539) | - | - | (27,539) |
| Appropriations for expenditure | (80,000) | - | - | (80,000) |
| Reclassifications | 27,538 | - | - | 27,538 |
| Endowment net assets, end of year | <u>\$ 131,083</u> | <u>\$ -</u> | <u>\$ 1,992,167</u> | <u>\$ 2,123,250</u> |

A description of amounts classified as permanently restricted net assets and temporarily restricted net assets (MFAT endowment only) is as follows as of June 30:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Permanently Restricted Net Assets- | | |
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TUPMIFA | <u>\$ 1,992,167</u> | <u>\$ 1,992,167</u> |
| Temporarily Restricted Net Assets- | | |
| The portion of perpetual endowment funds subject to a restriction under TUPMIFA- | | |
| Without purpose restrictions | <u>\$ 282,583</u> | <u>\$ -</u> |

12. EMPLOYEE RETIREMENT PLAN

The Foundation offers a defined contribution retirement plan which covers substantially all fulltime employees with at least two months of service, and are qualified under Section 401(k) of the Internal Revenue Code. Under the plan, employees may voluntarily contribute a percentage of their compensation to the plan and the Foundation may make matching contributions, based on a percentage of the Foundation's choice. The Foundation's contributions to the retirement plan totaled \$120,072 and \$119,612 during the years ended June 30, 2017 and 2016, respectively.

13. RELATED PARTY TRANSACTIONS

Contributions from Board members were \$37,893 and \$42,541 during the years ended June 30, 2017 and 2016, respectively.

14. COMMITMENTS AND CONTINGENCIES

The Foundation is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Foundation.

The health care industry is subject to numerous laws and regulations by federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for resident services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management is not aware of any violations of these laws and regulations.

15. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through December 2, 2017 (the date the consolidated financial statements were available to be issued), and no events have occurred from the consolidated statement of financial position date through that date that would impact the consolidated financial statements.

SUPPLEMENTARY INFORMATION

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED SCHEDULE OF CHANGES IN NET ASSETS BY LOCATION YEAR ENDED JUNE 30, 2017

| | Headquarters | Fundraising | Admissions | Training | Ranch | Village | Villa | Total |
|------------------------------------------------------|---------------------|---------------------|---------------------|-----------------------|-------------------|---------------------|---------------------|---------------------|
| CHANGES IN UNRESTRICTED NET ASSETS: | | | | | | | | |
| REVENUES AND SUPPORT: | | | | | | | | |
| Patient service revenue: | | | | | | | | |
| Medical fees | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,030,508 | \$ 1,030,508 |
| Department of Human Resources (Medicaid) | - | - | - | - | - | - | 3,352,152 | 3,352,152 |
| Medicare income part A | - | - | - | - | - | - | 871,756 | 871,756 |
| Medicare income part B and other | - | - | - | - | - | - | 393,953 | 393,953 |
| Hospice income | - | - | - | - | - | - | 182,341 | 182,341 |
| Total net patient service revenue | - | - | - | - | - | - | 5,830,710 | 5,830,710 |
| Tuition and fees: | | | | | | | | |
| Summer Camp and activity income | - | - | 61,280 | 212,191 | - | - | - | 273,471 |
| Transportation fees | - | - | - | - | 10,260 | 77,755 | 2,000 | 90,015 |
| Room and board | - | - | - | - | 2,951,247 | 3,376,068 | - | 6,327,315 |
| Total tuition and fees | - | - | 61,280 | 212,191 | 2,961,507 | 3,453,823 | 2,000 | 6,690,801 |
| EXPENSES: | | | | | | | | |
| Program services | - | - | - | 1,378,207 | 2,336,441 | 2,190,443 | 6,017,849 | 11,922,940 |
| Management and general | 2,417,315 | - | 224,815 | - | - | - | - | 2,642,130 |
| Fundraising | - | 399,777 | - | - | - | - | - | 399,777 |
| Total expenses | 2,417,315 | 399,777 | 224,815 | 1,378,207 | 2,336,441 | 2,190,443 | 6,017,849 | 14,964,847 |
| OPERATING GAIN (LOSS): | (2,417,315) | (399,777) | (163,535) | (1,166,016) | 625,066 | 1,263,380 | (185,139) | (2,443,336) |
| Other income and support: | | | | | | | | |
| Contributions | - | 775,788 | - | - | - | - | - | 775,788 |
| Interest income | 5,196 | - | - | - | - | - | - | 5,196 |
| Lifetime care income | - | - | - | - | 1,048 | - | - | 1,048 |
| Rental income | 32,727 | - | - | - | - | - | - | 32,727 |
| Gains on asset dispositions | 3,017,960 | - | - | - | - | - | - | 3,017,960 |
| Unrealized gains on investments | 255,951 | - | - | - | - | - | - | 255,951 |
| Realized gains on investments | 180,037 | - | - | - | - | - | - | 180,037 |
| Oil and gas income | 63,016 | - | - | - | - | - | - | 63,016 |
| Miscellaneous income | 23,194 | - | 5,370 | 2,232 | 8,407 | 10,630 | 6,948 | 56,781 |
| Total unrestricted revenues and support | \$ 3,578,081 | \$ 775,788 | \$ 66,650 | \$ 214,423 | \$ 2,970,962 | \$ 3,464,453 | \$ 5,839,658 | \$ 16,910,015 |
| NET ASSETS RELEASED FROM RESTRICTIONS: | | | | | | | | |
| Expiration of inherent time restrictions | 219,338 | - | - | - | - | - | - | 219,338 |
| Programs and activities | 207,838 | - | - | - | - | - | - | 207,838 |
| Expenditures on renovation and capital campaign | 137,262 | - | - | - | - | - | - | 137,262 |
| MFAT scholarships awarded and inv. fees | 108,660 | - | - | - | - | - | - | 108,660 |
| Gym construction | 60,362 | - | - | - | - | - | - | 60,362 |
| Non-MFAT scholarships | 82,347 | - | - | - | - | - | - | 82,347 |
| Total net assets released from restrictions | 815,807 | - | - | - | - | - | - | 815,807 |
| CHANGE IN UNRESTRICTED NET ASSETS | 1,976,573 | 376,011 | (158,165) | (1,163,784) | 634,521 | 1,274,010 | (178,191) | 2,760,975 |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS: | | | | | | | | |
| REVENUES AND SUPPORT: | | | | | | | | |
| Temporarily restricted contributions | - | 2,291,237 | - | - | - | - | - | 2,291,237 |
| Unrealized gains on the MFAT | 115,400 | - | - | - | - | - | - | 115,400 |
| Dividends and interest income on the MFAT | 80,000 | - | - | - | - | - | - | 80,000 |
| Realized gains on the MFAT | 36,101 | - | - | - | - | - | - | 36,101 |
| Total temporarily restricted revenues and support | 231,501 | 2,291,237 | - | - | - | - | - | 2,522,738 |
| NET ASSETS RELEASED FROM RESTRICTIONS: | (815,807) | - | - | - | - | - | - | (815,807) |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | (584,306) | 2,291,237 | - | - | - | - | - | 1,706,931 |
| TOTAL CHANGE IN NET ASSETS (DEFICIT) | \$ 1,392,267 | \$ 2,667,248 | \$ (158,165) | \$ (1,163,784) | \$ 634,521 | \$ 1,274,010 | \$ (178,191) | \$ 4,467,906 |

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED SCHEDULE OF EXPENSES BY LOCATION YEAR ENDED JUNE 30, 2017

| | Headquarters | Fundraising | Admissions | Training | Ranch | Village | Villa | Total |
|------------------------------------------|--------------|-------------|------------|--------------|--------------|--------------|--------------|---------------|
| EMPLOYEE COSTS: | | | | | | | | |
| Salaries and wages | \$ 1,382,834 | \$ 198,671 | \$ 158,966 | \$ 685,636 | \$ 1,205,873 | \$ 1,089,431 | \$ 3,241,586 | \$ 7,962,997 |
| Health and medical insurance | 100,933 | 18,893 | 12,018 | 87,077 | 132,480 | 111,428 | 362,488 | 825,317 |
| Retirement benefits | 28,767 | 5,629 | 3,497 | 12,940 | 15,151 | 15,291 | 38,797 | 120,072 |
| Occupational injury insurance | 9,338 | 46 | 94 | 1,748 | 5,697 | 7,468 | 49,453 | 73,844 |
| HSA saving | 6,611 | 1,200 | 1,200 | 5,050 | 8,604 | 7,979 | 23,531 | 54,175 |
| Payroll taxes | 98,455 | 14,426 | 10,966 | 48,142 | 89,816 | 79,989 | 235,419 | 577,213 |
| Total employee related | 1,626,938 | 238,865 | 186,741 | 840,593 | 1,457,621 | 1,311,586 | 3,951,274 | 9,613,618 |
| OTHER EXPENSES: | | | | | | | | |
| Depreciation | 54,143 | - | 5,262 | 157,738 | 119,589 | 262,815 | 305,030 | 904,577 |
| Groceries | 14,302 | - | - | 2,648 | 260,080 | 234,963 | 333,115 | 845,108 |
| Medical services, drugs and supplies | - | - | - | - | 9,370 | 6,512 | 754,883 | 770,765 |
| Utilities | 7,280 | - | - | 37,040 | 94,368 | 64,345 | 72,521 | 275,554 |
| Insurance | 35,908 | 100 | 3,273 | 26,174 | 48,967 | 59,279 | 83,939 | 257,640 |
| Repairs and maintenance | 102,128 | - | 102 | 12,951 | 54,194 | 29,656 | 36,340 | 235,371 |
| Contract labor | 80,205 | 11,944 | - | 533 | 7,249 | - | 77,893 | 177,824 |
| Supplies | 3,417 | - | - | 19,517 | 55,415 | 49,961 | 42,237 | 170,547 |
| Legal and professional | 168,190 | - | - | - | - | - | - | 168,190 |
| Consultants | 1,000 | - | - | - | 23,833 | 26,685 | 109,984 | 161,502 |
| Athletic and other residents' activities | - | - | - | 139,467 | 6,948 | 2,345 | 12,008 | 160,768 |
| Advertising and promotion | 44,079 | 66,510 | 9,907 | 265 | 6,124 | 6,527 | 21,883 | 155,295 |
| Computer expenses | 22,236 | 26,079 | 1,871 | 13,322 | 16,393 | 9,050 | 49,348 | 138,299 |
| Telephone | 19,060 | 3,654 | 2,807 | 16,600 | 18,140 | 19,361 | 25,804 | 105,426 |
| City sewage - waste water | - | - | - | 3,644 | 30,973 | 21,863 | 34,617 | 91,097 |
| Scholarships-MFAT | 80,000 | - | - | - | - | - | - | 80,000 |
| Staff expenses | 31,160 | 5,731 | 281 | 3,981 | 7,148 | 7,654 | 17,432 | 73,387 |
| Transportation | 13,548 | 172 | 843 | 6,144 | 9,628 | 34,561 | 5,606 | 70,502 |
| Scholarships-other | - | - | - | 7,468 | 51,692 | 4,685 | 5,977 | 69,822 |
| Livestock and pet expenses | - | - | - | 55,511 | 1,036 | - | 235 | 56,782 |
| Staff training | 2,602 | 20,682 | 596 | 19,863 | 4,751 | 2,225 | 7,809 | 58,528 |
| Office supplies | 17,856 | 594 | 419 | 6,896 | 4,082 | 3,650 | 9,466 | 42,963 |
| Payroll processing | 4,916 | 383 | 429 | 2,393 | 7,136 | 7,495 | 13,759 | 36,511 |
| Travel | 8,095 | 18,877 | 3,503 | - | - | - | - | 30,475 |
| Sanitation | - | - | - | - | 8,134 | 8,045 | 11,643 | 27,822 |
| Residents' direct costs | - | 1,154 | 8,429 | 952 | 5,332 | 4,202 | 1,650 | 21,719 |
| Extermination | 2,611 | - | - | 3,992 | 5,712 | 3,287 | 5,782 | 21,384 |
| Interest expenses | 19,912 | - | 80 | - | - | 1,234 | - | 21,226 |
| Rent-equipment | 15,053 | - | - | - | 1,348 | 1,013 | 959 | 18,373 |
| Dues and subscriptions | 6,567 | - | 272 | - | 690 | 645 | 9,262 | 17,436 |
| Postage | 15,291 | 173 | - | - | 14 | - | - | 15,478 |
| Fees and licenses | 2,461 | - | - | 515 | 2,723 | 3,181 | 4,208 | 13,088 |
| Landscaping | 11,258 | - | - | - | 42 | 379 | 1,260 | 12,939 |
| Laundry | - | - | - | - | 9,628 | - | - | 9,628 |
| Bank charges | - | 4,859 | - | - | - | - | - | 4,859 |
| Software maintenance and upgrades | 4,463 | - | - | - | - | - | - | 4,463 |
| Bad debt expense | - | - | - | - | - | (3,309) | 4,650 | 1,341 |
| Miscellaneous and other | 2,636 | - | - | - | 8,081 | 6,548 | 7,275 | 24,540 |
| Total other expenses | 790,377 | 160,912 | 38,074 | 537,614 | 878,820 | 878,857 | 2,066,575 | 5,351,229 |
| Total all expenses | \$ 2,417,315 | \$ 399,777 | \$ 224,815 | \$ 1,378,207 | \$ 2,336,441 | \$ 2,190,443 | \$ 6,017,849 | \$ 14,964,847 |