EVEREST INSTITUTE, LLC

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2013 AND 2012

C O N T E N T S

BOARD OF DIRECTORS
DECEMBER 31, 2013 AND 2012

Name	Title
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Deana Schuplin, LMHC, ACADC	Clinical Director
Bruce Buchanan, ACSW, LISW	Member
Margaret Conrad, LISW	Member
Thomas Koithan, D.O.	Member
Stephanie McFarland, LISW	Member
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Certified Public Accountants
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Joni M. Tonnemacher, CPA, MAFF

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Everest Institute, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Everest Institute, LLC, which comprise the statements of assets and members' equity - modified cash basis as of December 31, 2013 and 2012, and the related statements of revenue, expenses, and changes in members' equity - modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 financial statements based on our audits. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and members' equity of Everest Institute, LLC as of December 31, 2013 and 2012, and its revenue, expenses, and changes in members' equity for the years then ended, in accordance with the basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2014, on our consideration of Everest Institute, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Everest Institute, LLC's internal control over financial reporting and compliance.

McGowen, Hurst, Clark + Smith, P.C.

West Des Moines, Iowa
July 14, 2014

EVEREST INSTITUTE, LLC
STATEMENTS OF ASSETS AND MEMBERS' EQUITY - MODIFIED CASH BASIS
DECEMBER 31, 2013 AND 2012

ASSETS

	2013	2012
CURRENT ASSETS - Cash	$ 38,512	$ 23,913
COMPUTER EQUIPMENT, net of accumulated depreciation of $940 (2013) and $537 (2012)	270	673
TOTAL ASSETS	$ 38,782	$ 24,586

MEMBERS' EQUITY

	2013	2012
MEMBERS' EQUITY	$ 38,782	$ 24,586

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

EVEREST INSTITUTE, LLC
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN MEMBERS' EQUITY
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
PATIENT SERVICE REVENUE	$ 285,101	$ 154,094
OPERATING EXPENSES		
Salaries, benefits, and payroll taxes	197,762	121,060
Occupancy costs	21,415	17,771
Office and administrative	730	3,335
Billing service fees	-	5,198
Insurance	2,546	1,329
Professional fees	13,000	-
Depreciation	403	403
Other	3,549	1,647
TOTAL OPERATING EXPENSES	239,405	150,743
NET INCOME	45,696	3,351
BEGINNING - MEMBERS' EQUITY	24,586	34,735
Distributions paid to members	(31,500)	(13,500)
ENDING - MEMBERS' EQUITY	$ 38,782	$ 24,586

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

EVEREST INSTITUTE, LLC
NOTES TO FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY - Everest Institute, LLC (the Institute) is a limited liability company organized to provide education and group counseling for substance abusers and their families. The Institute is located in Urbandale, Iowa and provides services primarily to residents in Central Iowa.

METHOD OF ACCOUNTING - The Institute's policy is to prepare its financial statements on the modified cash basis of accounting, rather than under accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, all revenues are recognized when collected rather than when earned, and expenditures are recognized when paid rather than when incurred. Property and equipment purchases are capitalized and depreciated over an estimated useful life.

ESTIMATES - The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPUTER EQUIPMENT - Computer equipment is stated at cost less accumulated depreciation. The equipment is being depreciated over an estimated useful life of three years using the straight-line method.

ADVERTISING - Advertising costs are expensed as incurred. Advertising costs were $600 and $-0- for the periods ended December 31, 2013 and 2012, respectively, and are including in other expenses on the Statement of Revenues, Expenses, and Changes in Member's Equity.

INCOME TAXES - The Institute is a limited liability company. Members are taxed individually on the Institute's taxable income; therefore, no provision for income taxes or liability for federal or state income taxes has been made.

Management is unaware of any uncertain income tax positions at December 31, 2013 and 2012. Interest and penalties associated with income tax matters would be presented as components of income tax expense. There were no interest or penalty charges during 2013 and 2012. The Institute's prior three years' income tax returns remain subject to examination by the Internal Revenue Service.

SUBSEQUENT EVENTS - Management has evaluated subsequent events through July 14, 2014, the date the financial statements were available to be issued.

NOTE B - PATIENT SERVICE REVENUE

All but a nominal portion of the Institute's net patient service revenue is generated through third-party insurance payors. The Institute has contracts with certain insurance companies that generate a significant portion of its net patient service revenue.

The Institute's largest third-party payor accounted for approximately 70% and 65% of patient service revenue during 2013 and 2012, respectively.

NOTE C - LEASE COMMITMENTS

The Institute leases office space from a related party on a month-to-month basis. The lease requires monthly rent payments that are based on the number of occupied offices available for use. Office rent expense totaled $21,415 and $17,771 during 2013 and 2012, respectively.

NOTE D - MEMBERS' EQUITY

Profits and losses are allocated among the members in accordance with their respective percentage interests.

NOTE E - RISK MANAGEMENT

The Institute is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Institute assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

McGOWEN HURST CLARK & SMITH, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS ADVISORS
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Everest Institute, LLC

We have audited, in accordance with the 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, the financial statements of Everest Institute, LLC, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Everest Institute, LLC's basic financial statements and have issued our report thereon dated July 14, 2014.

Other Comprehensive Basis of Accounting

Our report on the financial statements disclosed that, as described in Note A to the financial statements, the Institute prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Everest Institute, LLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Everest Institute, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination or deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Everest Institute, LLC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Everest Institute, LLC's Response to Findings

Everest Institute, LLC's response to the findings identified in our audit is described in the accompanying schedule of findings. Everest Institute, LLC's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGowen, Hurst, Clark + Smith, P.C.

West Des Moines, Iowa
July 14, 2014

EVEREST INSTITUTE, LLC
SCHEDULE OF FINDINGS
YEARS ENDED DECEMBER 31, 2013 AND 2012

Part I: Summary of the Independent Auditor's Results

(a) An unqualified opinion was issued on the financial statements which were prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

(b) A material weakness in internal control over financial reporting was disclosed by the audits of the financial statements.

(c) The audits did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Internal control deficiencies

(A) Segregation of Duties - During our review of internal control, existing procedures are evaluated to determine if incompatible duties, from a control standpoint, are performed by the same employee. Segregation of duties helps to prevent losses from employee error or dishonesty. The Clinical Director receives payments and performs all record-keeping and reconciling functions for the Institute. This lack of segregation of duties creates a heightened risk of undetected errors or misappropriation of assets in the receipts process.

Recommendation - Adequate segregation of duties is difficult to obtain with a limited number of office employees. However, management should review its operating procedures to obtain the maximum internal controls possible under the circumstances. We recommend that an employee not otherwise handling cash open and prepare a log of payment receipts. Entries on the payment receipt listing should be subsequently traced, on a test basis, to the bank deposit slips. The tracing should be performed by the person preparing the listing or by another individual not otherwise handling or recording cash transactions. Any exceptions found should be reviewed by the Executive Director.

Response and Corrective Action Planned - We agree that a strong internal control environment is important in order to maintain a business. As a small business organization, we implement policies with the intention of protecting our assets to an acceptable level of integrity and to the best of our abilities. It is our position that while the Clinical Director does have the ability to receive payments, record cash receipts, and reconcile the bank statement, the Board reviews quarterly financial statements and would notice any unusual fluctuations from expectations. As a result of the Board review and limited staffing, additional controls have not been implemented at this time.

Conclusion - Response accepted.

EVEREST INSTITUTE, LLC
SCHEDULE OF FINDINGS
YEARS ENDED DECEMBER 31, 2013 AND 2012

Part II: Findings Related to the Financial Statements (Continued)

(B) External Financial Reporting Controls – Internal control over financial reporting includes controls over not only general ledger and internal financial reporting, but also over external financial statement reporting, including financial statement disclosures. The Institute engages us to assist them with their external financial statement reporting. As we cannot be considered part of the Institute's internal control according to generally accepted auditing standards, this lack of internal expertise results in the matter being considered a material weakness.

Recommendation - We recommend the Institute continue to work closely with its external auditors when preparing year-end external financial statements.

Response and Corrective Action Planned - The Institute will continue to work with our external auditors when preparing the external financial statements.

Conclusion - Response accepted.

Instances of non-compliance

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting

No matters were noted.