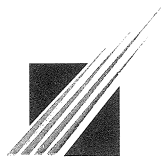


**OPEN ARMS CARE CORPORATION INC.,
AND AFFILIATES**

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

**The Board of Directors of
Open Arms Care Corporation Inc., and Affiliates:**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Open Arms Care Corporation Inc., and Affiliates (collectively the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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.

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 Open Arms Care Corporation Inc., and Affiliates as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 14-16 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows of the individual companies. The consolidating 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. Such 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, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
May 26, 2015

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Balance Sheets

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,376,934	\$ 2,241,667
Funds held in custody for others	341,008	227,967
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$89,000 in 2014 and 2013	3,461,373	3,235,963
Prepaid expenses and other current assets	50,657	65,368
Trusteed funds - current portion	<u>309,272</u>	<u>1,092,324</u>
Total current assets	<u>5,539,244</u>	<u>6,863,289</u>
Property and equipment:		
Land and land improvements	3,635,056	3,408,743
Buildings and improvements	20,623,250	20,421,917
Furniture and equipment	4,017,214	3,942,706
Vehicles	<u>86,893</u>	<u>92,789</u>
	28,362,413	27,866,155
Accumulated depreciation and amortization	<u>(23,234,385)</u>	<u>(22,007,838)</u>
Property and equipment	<u>5,128,028</u>	<u>5,858,317</u>
Other Assets:		
Trusteed funds	3,006,237	3,740,683
Bond issue costs, less accumulated amortization of approximately \$1,756,000 and \$1,691,000 in 2014 and 2013, respectively	141,157	197,786
Investments and other long-term assets	<u>1,140,844</u>	<u>1,093,683</u>
Total other assets	<u>4,288,238</u>	<u>5,032,152</u>
Total assets	<u>\$ 14,955,510</u>	<u>\$ 17,753,758</u>

	<u>Liabilities and Net Assets</u>	
Current liabilities:		
Accounts payable and accrued expenses	\$ 690,968	\$ 661,879
Funds held in custody for others	341,008	227,967
Accrued salaries and benefits	783,587	912,761
Accrued interest	234,698	274,909
Current portion of long-term debt	<u>2,059,992</u>	<u>1,964,992</u>
Total current liabilities	4,110,253	4,042,508
Long-term debt, less current portion	<u>9,670,666</u>	<u>11,726,109</u>
Total liabilities	13,780,919	15,768,617
Net assets	<u>1,174,591</u>	<u>1,985,141</u>
Total liabilities and net assets	<u>\$ 14,955,510</u>	<u>\$ 17,753,758</u>

See accompanying notes to the consolidated financial statements.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted revenues:		
Net patient service revenues	\$ 38,502,732	\$ 38,566,913
Investment income	150,620	209,565
Net special events revenue	27,320	29,486
Other revenues	<u>171,609</u>	<u>45,851</u>
Total unrestricted revenues	<u>38,852,281</u>	<u>38,851,815</u>
Expenses:		
Salaries and wages	23,076,453	22,331,999
Employee benefits	4,441,974	4,376,569
Professional services	1,696,685	1,582,793
Supplies and expenses	4,826,986	4,672,551
Maintenance and repairs	525,870	494,137
Utilities	705,636	667,133
Insurance	515,976	494,518
Depreciation and amortization	1,058,046	1,110,673
Interest expense	651,871	748,270
Loss (gain) on disposal of property and equipment	(11,398)	691
Taxes and licenses	2,165,143	2,185,300
Provision for doubtful accounts	<u>9,589</u>	<u>16,306</u>
Total expenses	<u>39,662,831</u>	<u>38,680,940</u>
Excess of revenues over expenses (expenses over revenues)	(810,550)	170,875
Net assets at beginning of year	<u>1,985,141</u>	<u>1,814,266</u>
Net assets at end of year	<u>\$ 1,174,591</u>	<u>\$ 1,985,141</u>

See accompanying notes to the consolidated financial statements.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Excess of revenues over expenses (expenses over revenues)	\$ (810,550)	\$ 170,875
Adjustments to reconcile excess (deficit) revenues over expenses to net cash provided (used) by operating activities:		
Net gains on investments and trustee funds	(51,460)	(97,928)
Depreciation and amortization	1,058,046	1,110,673
Provision for doubtful accounts	9,589	16,306
(Gain) loss on disposal of property and equipment	(11,398)	691
(Increase) decrease in operating assets:		
Patient accounts receivable	(234,999)	120,355
Prepaid expenses and other current assets	14,711	(22,497)
Other assets	16,366	5,000
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	29,089	(1,633)
Accrued salaries and benefits	(129,174)	(649,460)
Accrued interest	(40,211)	(38,298)
Net cash provided (used) by operating activities	<u>(149,991)</u>	<u>614,084</u>
Cash flows from investing activities:		
Proceeds from the sale (purchases) of investments, net	(22,851)	97,665
Proceeds from disposal of property and equipment	4,708	15,110
Purchase of property and equipment	(259,889)	(189,954)
Decrease in trustee funds, net	<u>1,528,282</u>	<u>805,994</u>
Net cash provided by investing activities	<u>1,250,250</u>	<u>728,815</u>
Cash flows from financing activities -		
Principal payments of long-term debt	<u>(1,964,992)</u>	<u>(1,874,992)</u>
Decrease in cash and cash equivalents	(864,733)	(532,093)
Cash and cash equivalents at beginning of year	<u>2,241,667</u>	<u>2,773,760</u>
Cash and cash equivalents at end of year	<u>\$ 1,376,934</u>	<u>\$ 2,241,667</u>
Supplemental disclosure of cash flow information -		
Cash paid for interest	<u>\$ 692,082</u>	<u>\$ 786,568</u>

See accompanying notes to the consolidated financial statements.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

(1) Organization

The accompanying consolidated financial statements of Open Arms Care Corporation Inc., and Affiliates (collectively the "Company") include the transactions and accounts of Open Arms Care Corporation, Inc., Open Arms Care Foundation ("Foundation"), and Open Arms Health System, LLC ("Clinic").

Open Arms Care Corporation, Inc. owns intermediate care facilities for persons with intellectual and developmental disabilities. The facilities are located in Chattanooga, Knoxville, Memphis, and Nashville, Tennessee. Prior to November 6, 2000, Open Arms Care Corporation, Inc. was known as Rebound Care Corporation d/b/a Open Arms Care Corporation. In 2005, the Foundation was formed to support non-Medicaid allowable expenses and capital projects through charitable donations for the benefit of the Open Arms Care Corporation, Inc.'s clients. In 2013, Open Arms Health System, LLC was formed to provide routine clinic services to the clients and employees of Open Arms Care Corporation, Inc.

(2) Summary of significant accounting policies

(a) Principles of consolidation

These consolidated financial statements include the accounts of Open Arms Care Corporation, Inc., Open Arms Care Foundation, Inc., and Open Arms Care Health Services, LLC. All significant intercompany accounts and transactions have been eliminated.

(b) Cash and cash equivalents

The Company considers cash and highly liquid investments having a maturity date at acquisition of 90 days or less, excluding amounts designated under bond indenture agreements and trustee funds designated for operating expenditures, to be cash and cash equivalents.

(c) Investments and trustee funds

Investments and trustee funds, which are comprised of cash and cash equivalents, equity and debt securities with readily determinable fair values, are accounted for as trading securities and all investments in such securities are measured at fair value. Investment income or loss (including realized gains and losses on the sale of investments, interest, dividends, and unrealized gains and losses on investments) is included in unrestricted revenues unless the income or loss is restricted by donor or law.

(d) Property and equipment

Property and equipment are stated at cost. Depreciation is provided over the assets' estimated useful lives using the straight-line method. Buildings and improvements are generally depreciated over ten to twenty five years, furniture and equipment over three to ten years and vehicles over three to five years.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

(e) Bond issue costs and discount

Bond issue costs and discount are being amortized using the effective interest method over the life of the debt.

(f) Performance indicator

The excess of revenues over expenses or expenses over revenues as reflected in the accompanying statements of operations is a performance indicator.

(g) Federal income taxes

Open Arms Care Corporation, Inc. is an organization recognized as exempt from federal income tax under Section 501(c)(3) and as a public charity under Section 509(a)(1) and as a hospital described in Section 170(b)(1)(A)(iii). Open Arms Care Foundation is an organization recognized as exempt from federal income tax under 501(c)(3) and as a public charity under Section 509(a)(1) and as a publicly supported organization under Section 170(b)(1)(A)(vi). The Internal Revenue Service has determined that the Company is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Open Arms Health System, LLC is a single member limited liability company and for tax purposes, is treated as a disregarded entity of Open Arms Care Corporation, Inc.

Under generally accepted accounting principles, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax purposes not meeting the "more likely than not" test, no tax benefit is recorded. The Company has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

As of December 31, 2014, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company files Federal Form 990 informational tax returns. The Company is currently open to audit under the statute of limitations for years ended December 31, 2011 through 2014.

(h) Revenue recognition

Net patient service revenue is recognized at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are made on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

(i) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between December 31, 2014 and May 26, 2015, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risk

The Company may maintain cash and cash equivalents on deposit at banks in excess of federally insured amounts. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash and cash equivalents.

(4) Medicaid program

Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Company is reimbursed at a rate determined prospectively based on its filed cost reports. Final determination of amounts to be received is subject to audit by Medicaid.

The State of Tennessee passed legislation, effective July 1, 1994, which imposed a provider tax on Intermediate Care Facilities for persons with intellectual and developmental disabilities at a rate of 6% of gross receipts, as defined. During 2008, this rate was reduced to 5.5%. The statements of operations include approximately \$2,106,000 and \$2,128,000 of Tennessee provider tax expense for 2014 and 2013, respectively. Additionally, net patient service revenues include approximately \$2,106,000 and \$2,128,000 in reimbursement related to per diem rates as a result of the provider tax for 2014 and 2013, respectively.

Substantially all net patient service revenues in 2014 and 2013 relate to services provided to patients covered by the Medicaid program. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. The Company believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such 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 Medicaid program.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

(5) Fair value measurements

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2014 and 2013.

The following table sets forth by level, within the fair value hierarchy, the Company's investments and trustee funds at fair value as of December 31, 2014 and 2013:

Fair Value Measurements as of December 31, 2014 using the following inputs

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and equivalents	\$ 1,298,664	\$ -	\$ -	\$ 1,298,664
Marketable equity securities	511,181	-	-	511,181
Corporate & government debt securities	<u>461,884</u>	<u>2,155,449</u>	<u>-</u>	<u>2,617,333</u>
Total	<u>\$ 2,271,729</u>	<u>\$ 2,155,449</u>	<u>\$ -</u>	<u>\$ 4,427,178</u>

Fair Value Measurements as of December 31, 2013 using the following inputs

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and equivalents	\$ 1,615,766	\$ -	\$ -	\$ 1,615,766
Marketable equity securities	1,029,614	-	-	1,029,614
Corporate & government debt securities	<u>589,710</u>	<u>2,646,060</u>	<u>-</u>	<u>3,235,770</u>
Total	<u>\$ 3,235,090</u>	<u>\$ 2,646,060</u>	<u>\$ -</u>	<u>\$ 5,881,150</u>

(6) Trusteed funds

Trusteed funds consist of the following:

	<u>2014</u>	<u>2013</u>
Debt reserve funds	\$ 2,617,710	\$ 2,606,227
Debt service funds	309,272	1,092,324
Renewal and replacement funds	<u>388,527</u>	<u>1,134,456</u>
	<u>\$ 3,315,509</u>	<u>\$ 4,833,007</u>

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

The bond funds are maintained in accordance with the trust indentures related to the bond issue described in Note 7. Amounts on deposit in the debt service and debt reserve funds are required to be used to pay interest, principal and provide security (collateral) for indebtedness on the bonds. Amounts on deposit in the renewal and replacement funds are excess funds to be used in the event there are insufficient moneys available to pay all amounts due as to principal and interest on the Series 1998 Bonds, payment of operating expenses to the extent of any deficiency in the operating and maintenance fund, and payment of the cost of additions and capital improvements.

(7) Long-term debt

Long-term debt consists of the following:

	<u>2014</u>	<u>2013</u>
The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee Health Facility Revenue Refunding Bonds Series 1998 (Series 1998 Bonds), interest varying from 5.0% to 5.1% through 2019.	\$ 10,975,000	\$ 12,860,000
The Health, Educational and Housing Facility Board of the County of Shelby, Tennessee; interest at 4.34% per annum due July 1, 2023.	766,750	846,742
Less bond issue discount	<u>(11,092)</u>	<u>(15,641)</u>
	11,730,658	13,691,101
Less current portion	<u>(2,059,992)</u>	<u>(1,964,992)</u>
Long-term debt, net of current portion	<u>\$ 9,670,666</u>	<u>\$ 11,726,109</u>

In 1998, the Company issued \$32,585,000 Series 1998 Bonds. The Series 1998 Bonds were issued under the terms of a Note and Master Trust Indenture dated September 1, 1998. The proceeds of the Series 1998 Bonds were used to refund all of The 1992 Health, Educational and Housing Facility Board of the county of Shelby, Tennessee Revenue Bonds, fund a debt service fund for the Series 1998 Bonds, and pay a portion of the costs of issuing the bonds.

The Series 1998 Bonds are insured by a municipal bond insurance policy with Radian Group, Inc. ("Radian") and are secured by the assets of the Company. Bonds that mature on or after August 1, 2012 are subject to redemption in whole or in part at any time after August 1, 2008 at par.

In 2003, the Company borrowed \$1,600,000 at an interest rate equal to 4.38% per annum from the Health, Educational, and Housing Facility Board of the county of Shelby, Tennessee maturing on July 1, 2023 for the purchase of the new land and building in Memphis, Tennessee. The original loan agreement stated a call provision that allowed the holder to demand full payment on February 1, 2009. On April 13, 2009, this loan agreement was amended and the call provision was extended until April 1, 2011 and the interest rate was reduced to 3.47%. On May 17, 2011, this loan agreement was amended and the call provision was extended until April 1, 2016 and the interest rate was increased to 4.34%.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

A summary of approximate future maturities on long-term debt as of December 31, 2014 is as follows:

<u>Year</u>	
2015	\$ 2,059,992
2016	2,165,000
2017	2,270,000
2018	2,380,000
2019	2,500,000
2020 and later years	366,758
Less bond issue discount	<u>(11,092)</u>
	<u>\$ 11,730,658</u>

During 2015, the long-term debt discussed above was paid off in conjunction with a sale-leaseback transaction as discussed in Note 13.

(8) Investment income

Investment income during 2014 and 2013 was comprised of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividend	\$ 99,160	\$ 111,637
Realized gain	183,314	63,742
Change in unrealized gain (loss)	<u>(131,854)</u>	<u>34,186</u>
	<u>\$ 150,620</u>	<u>\$ 209,565</u>

(9) Commitments and Contingencies

Operating Lease Commitments

Future minimum annual rental payments under noncancelable operating lease and service agreements as of December 31, 2014 are as follows:

<u>Year</u>	
2015	\$ 306,000
2016	278,000
2017	87,000
2018	<u>7,000</u>
	<u>\$ 678,000</u>

Total rental expense under noncancelable operating leases and service agreements, which includes amounts applicable to short-term leases, was approximately \$1,026,000 and \$934,000 for 2014 and 2013, respectively. The expense is higher than the future commitments due to vehicle leases that have cancellation features at the Company's option.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

Healthcare Regulation

The health care industry is subject to numerous laws and regulations of 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 patient services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations 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 believes that the Company is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Healthcare Reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act ("collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Company's operations.

Insurance

The Company maintains claims made basis professional and occurrence basis general liability insurance for primary coverage. The Company also maintains excess insurance coverage.

Litigation

The Company is subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the Company's financial position.

(10) Related party transactions

The Company incurred professional fees and expenses totaling approximately \$50,000 and \$87,000 in 2014 and 2013, respectively, for services provided by an entity owned by a board member.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

(11) Functional expenses

The Company provides intermediate care services to individuals with intellectual and developmental disabilities within certain geographic locations. Expenses related to providing these services are as follows:

	<u>2014</u>	<u>2013</u>
Intellectual and developmental services	\$ 36,315,584	\$ 35,413,920
General and administrative	3,322,901	3,213,287
Fundraising	<u>24,346</u>	<u>53,733</u>
	<u>\$ 39,662,831</u>	<u>\$ 38,680,940</u>

(12) Retirement plan

The Company has a defined contribution 403(b) retirement plan for employees who have two years of service. For the years ended December 31, 2014 and 2013, the Company contributed approximately 1.0% of each participants' compensation, subject to Internal Revenue Code limitations. The Company contributed approximately \$147,000 and \$146,000 to the plan in 2014 and 2013, respectively.

(13) Subsequent events

During April 2015, the Company sold substantially all of its property and equipment to an unrelated party for approximately \$11.5 million. The Company received cash of approximately \$9.6 million and a note receivable for \$1.9 million. The Company used the cash proceeds and certain trusteed funds to retire all of the Company's long-term debt discussed in Note 7. The gain, which was approximately \$5,765,000, will be deferred and recognized as a reduction in rent expense over the term of the new lease. In conjunction with the transaction, the Company entered into an agreement to lease the property and equipment from the buyer. The lease is for a term of 15 years and can be extended at the option of the Company for two additional 5 year terms. The payments under the lease through the initial lease term ending in 2030 are as follows:

<u>Year</u>	
2015	\$ 2,714,000
2016	3,276,000
2017	2,746,000
2018	2,112,000
2019	1,586,000
Thereafter	<u>6,600,000</u>
	<u>\$ 19,034,000</u>

During 2015, the Company entered into a long-term management agreement with Integra Resources, LLC to manage its facilities. The management agreement is for a term of 7 years and calls for annual payments of approximately \$2.4 million.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Supplemental Schedule - Consolidating Balance Sheet

December 31, 2014

	<u>Chattanooga</u>	<u>Knoxville</u>	<u>Memphis</u>	<u>Nashville</u>	<u>Headquarters</u>	<u>Subtotal Open Arms Care Corporation</u>	<u>Open Arms Health System, LLC</u>	<u>Total Open Arms Care Corporation</u>	<u>Open Arms Care Foundation</u>	<u>Total Consolidated Open Arms Care Corporation</u>
Current Assets:										
Cash and cash equivalents	\$ 4,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 1,071,871	\$ 1,090,871	\$ 90,474	\$ 1,181,345	\$ 195,589	\$ 1,376,934
Funds held in custody for others	73,558	40,541	121,237	105,672	-	341,008	-	341,008	-	341,008
Patient accounts receivable, net	828,978	916,787	912,479	803,026	103	3,461,373	-	3,461,373	-	3,461,373
Prepaid expenses and other current assets	16,431	14,841	7,324	11,076	985	50,657	-	50,657	-	50,657
Trusteed funds - current portion	-	-	-	-	309,272	309,272	-	309,272	-	309,272
Total current assets	922,967	977,169	1,046,040	924,774	1,382,231	5,253,181	90,474	5,343,655	195,589	5,539,244
Property and equipment:										
Land and land improvements	668,173	906,081	681,621	1,379,181	-	3,635,056	-	3,635,056	-	3,635,056
Buildings and improvements	5,021,197	4,879,231	6,110,235	4,589,108	23,479	20,623,250	-	20,623,250	-	20,623,250
Furniture and equipment	827,784	965,344	870,188	863,079	490,819	4,017,214	-	4,017,214	-	4,017,214
Vehicles	9,234	18,555	25,610	33,494	-	86,893	-	86,893	-	86,893
Accumulated depreciation and amortization	6,526,388	6,769,211	7,687,654	6,864,862	514,298	28,362,413	-	28,362,413	-	28,362,413
	(5,400,090)	(5,889,659)	(5,711,051)	(5,753,666)	(479,919)	(23,234,385)	-	(23,234,385)	-	(23,234,385)
Property and equipment	1,126,298	879,552	1,976,603	1,111,196	34,379	5,128,028	-	5,128,028	-	5,128,028
Other assets:										
Trusteed funds	795,513	475,716	470,639	796,527	467,842	3,006,237	-	3,006,237	-	3,006,237
Bond issue costs, less accumulated amortization	42,150	25,211	31,593	42,203	-	141,157	-	141,157	-	141,157
Investments and other long-term assets	7,500	6,815	14,360	-	1,112,169	1,140,844	-	1,140,844	-	1,140,844
Total other assets	845,163	507,742	516,592	838,730	1,580,011	4,288,238	-	4,288,238	-	4,288,238
Total assets	\$ 2,894,428	\$ 2,364,463	\$ 3,539,235	\$ 2,874,700	\$ 2,996,621	\$ 14,669,447	\$ 90,474	\$ 14,759,921	\$ 195,589	\$ 14,955,510

See accompanying independent auditors' report

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Supplemental Schedule - Consolidating Balance Sheet (continued)

December 31, 2014

	<u>Chattanooga</u>	<u>Knoxville</u>	<u>Memphis</u>	<u>Nashville</u>	<u>Headquarters</u>	<u>Subtotal Open Arms Care Corporation</u>	<u>Open Arms Health System, LLC</u>	<u>Total Open Arms Care Corporation</u>	<u>Open Arms Care Foundation</u>	<u>Total Consolidated Open Arms Care Corporation</u>
Current liabilities:										
Accounts payable and accrued expenses	\$ 134,896	\$ 133,852	\$ 216,547	\$ 118,089	\$ 75,065	\$ 678,449	\$ -	\$ 678,449	\$ 12,519	\$ 690,968
Funds held in custody for others	73,558	40,541	121,237	105,672	-	341,008	-	341,008	-	341,008
Accrued salaries and benefits	235,281	174,398	153,070	169,637	51,201	783,587	-	783,587	-	783,587
Accrued interest	73,085	43,713	44,723	73,177	-	234,698	-	234,698	-	234,698
Current portion of long-term debt	620,486	371,115	447,127	621,264	-	2,059,992	-	2,059,992	-	2,059,992
Total current liabilities	1,137,306	763,619	982,704	1,087,839	126,266	4,097,734	-	4,097,734	12,519	4,110,253
Intercompany payable/(receivable)	(3,528,646)	(738,127)	(1,072,795)	(2,801,424)	8,140,992	-	-	-	-	-
Long-term debt, less current portion	2,814,794	1,683,875	2,352,573	2,819,424	-	9,670,666	-	9,670,666	-	9,670,666
Total liabilities	423,454	1,709,367	2,262,482	1,105,839	8,267,258	13,768,400	-	13,768,400	12,519	13,780,919
Net assets (deficit), unrestricted	2,470,974	655,096	1,276,753	1,768,861	(5,270,637)	901,047	90,474	991,521	183,070	1,174,591
Total liabilities and net assets (deficit)	\$ 2,894,428	\$ 2,364,463	\$ 3,539,235	\$ 2,874,700	\$ 2,996,621	\$ 14,669,447	\$ 90,474	\$ 14,759,921	\$ 195,589	\$ 14,955,510

See accompanying independent auditors' report

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Supplemental Schedule - Consolidating Statement of Operations and Changes in Net Assets (Deficit)

For the year ended December 31, 2014

	<u>Chattanooga</u>	<u>Knoxville</u>	<u>Memphis</u>	<u>Nashville</u>	<u>Headquarters</u>	<u>Subtotal Open Arms Care Corporation</u>	<u>Open Arms Health System, LLC</u>	<u>Total Open Arms Care Corporation</u>	<u>Open Arms Care Foundation</u>	<u>Total Consolidated Open Arms Care Corporation</u>
Unrestricted revenue:										
Net patient services revenue	\$ 10,112,558	\$ 9,965,808	\$ 9,581,650	\$ 8,842,716	\$ -	\$ 38,502,732	\$ -	\$ 38,502,732	\$ -	\$ 38,502,732
Investment income	27,214	16,264	16,090	27,234	63,598	150,400	-	150,400	220	150,620
Net special events revenue	-	-	-	-	-	-	-	-	27,320	27,320
Intercompany revenue	22,632	2,424	10,095	5,591	8,625	49,367	-	49,367	(49,367)	-
Other revenues	26,063	24,385	24,492	30,966	15,149	121,055	1,000	122,055	49,554	171,609
Total unrestricted revenues	10,188,467	10,008,881	9,632,327	8,906,507	87,372	38,823,554	1,000	38,824,554	27,727	38,852,281
Expenses:										
Salaries and wages	5,810,077	5,935,693	5,418,382	5,311,568	600,733	23,076,453	-	23,076,453	-	23,076,453
Employee benefits	1,258,451	1,227,786	951,774	950,885	53,078	4,441,974	-	4,441,974	-	4,441,974
Professional services	238,449	217,620	631,742	252,387	352,877	1,693,075	2,610	1,695,685	1,000	1,696,685
Supplies and expenses	1,207,485	1,105,180	1,160,867	922,919	401,256	4,797,707	20,325	4,818,032	8,954	4,826,986
Maintenance and repairs	151,884	115,002	130,930	122,854	4,895	525,565	305	525,870	-	525,870
Utilities	187,795	159,041	155,874	202,209	717	705,636	-	705,636	-	705,636
Insurance	122,092	127,060	114,992	117,292	34,540	515,976	-	515,976	-	515,976
Depreciation and amortization	263,571	233,956	291,373	244,068	25,078	1,058,046	-	1,058,046	-	1,058,046
Interest expense	192,994	115,421	150,172	193,284	-	651,871	-	651,871	-	651,871
Loss (gain) on disposal of property and equipment	(1,281)	1,071	(6,757)	(4,431)	-	(11,398)	-	(11,398)	-	(11,398)
Taxes and licenses	573,559	557,602	534,431	496,966	2,025	2,164,583	393	2,164,976	167	2,165,143
Provisions for doubtful accounts	9,268	-	321	-	-	9,589	-	9,589	-	9,589
Intercompany expense	305,184	305,184	305,184	305,184	(1,220,736)	-	-	-	-	-
Total expenses	10,319,528	10,100,616	9,839,285	9,115,185	254,463	39,629,077	23,633	39,652,710	10,121	39,662,831
Increase (decrease) in net assets (deficit)	(131,061)	(91,735)	(206,958)	(208,678)	(167,091)	(805,523)	(22,633)	(828,156)	17,606	(810,550)
Net assets (deficit) at beginning of year	2,602,035	746,831	1,483,711	1,977,539	(5,103,546)	1,706,570	113,107	1,819,677	165,464	1,985,141
Net assets (deficit) at end of year	\$ 2,470,974	\$ 655,096	\$ 1,276,753	\$ 1,768,861	\$ (5,270,637)	\$ 901,047	\$ 90,474	\$ 991,521	\$ 183,070	\$ 1,174,591

See accompanying independent auditors' report