

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

Consolidated Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)



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, 2016 and 2015, and the related consolidated statements of operations and changes in net assets (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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, 2016 and 2015, 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 14-15 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.

LBMC, PC

Brentwood, Tennessee
February 23, 2017

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Balance Sheets

December 31, 2016 and 2015

Assets

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 3,398,645	\$ 3,549,844
Funds held in custody for others	353,022	408,915
Patient accounts receivable, less allowance for doubtful accounts of approximately \$89,000 in 2016 and 2015	3,814,893	3,335,673
Prepaid expenses and other current assets	<u>264,017</u>	<u>114,277</u>
Total current assets	<u>7,830,577</u>	<u>7,408,709</u>
 Property and equipment, net	 <u>29,010</u>	 <u>13,305</u>
 Other Assets:		
Other long-term assets	173,429	44,360
Notes receivable	<u>1,914,895</u>	<u>1,914,895</u>
Total other assets	<u>2,088,324</u>	<u>1,959,255</u>
Total assets	<u>\$ 9,947,911</u>	<u>\$ 9,381,269</u>

Liabilities and Net Assets (Deficit)

Current liabilities:		
Accounts payable and accrued expenses	\$ 954,990	\$ 731,906
Funds held in custody for others	353,022	408,915
Accrued rent expense	3,396,412	2,131,415
Accrued salaries and benefits	868,776	710,118
Accrued interest	<u>20,000</u>	<u>20,000</u>
Total current liabilities	5,593,200	4,002,354
 Long-term debt	 2,000,000	 2,000,000
Deferred gain on sale-leaseback transaction	<u>2,993,018</u>	<u>4,490,938</u>
Total liabilities	10,586,218	10,493,292
 Net deficit	 <u>(638,307)</u>	 <u>(1,112,023)</u>
Total liabilities and net deficit	<u>\$ 9,947,911</u>	<u>\$ 9,381,269</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 (Deficit)

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted revenues:		
Net patient service revenues	\$ 43,216,565	\$ 39,099,602
Investment income	21,469	45,024
Net special events revenue	24,386	24,299
Other revenues	<u>53,019</u>	<u>134,621</u>
Total unrestricted revenues	<u>43,315,439</u>	<u>39,303,546</u>
Expenses:		
Salaries and wages	23,047,918	22,436,496
Employee benefits	4,242,309	4,161,858
Professional services	1,582,597	1,810,130
Supplies	4,630,525	4,651,741
Maintenance and repairs	587,440	603,660
Utilities	686,144	679,885
Insurance	522,538	520,503
Depreciation and amortization	6,067	418,026
Interest expense	240,818	403,840
Gain on disposal of property and equipment	(5,575)	(7,330)
Taxes and licenses	2,438,084	2,270,324
Provision for doubtful accounts	40	333
Rent	3,481,279	2,724,706
Amortization of deferred gain	(1,497,920)	(1,274,622)
Management fee and related costs of operations	<u>2,879,459</u>	<u>2,190,610</u>
Total expenses	<u>42,841,723</u>	<u>41,590,160</u>
Excess of revenues over expenses (expenses over revenues)	473,716	(2,286,614)
Net assets (deficit) at beginning of year	<u>(1,112,023)</u>	<u>1,174,591</u>
Net deficit at end of year	<u>\$ (638,307)</u>	<u>\$ (1,112,023)</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Excess of revenues over expenses (expenses over revenues)	\$ 473,716	\$ (2,286,614)
Adjustments to reconcile excess revenues over expenses (expenses over revenues) to net cash used by operating activities:		
Net losses on investments and trustee funds	-	10,785
Depreciation and amortization	6,067	418,026
Provision for doubtful accounts	40	333
Gain on disposal of property and equipment	(5,575)	(7,330)
Amortization of deferred gain	(1,497,920)	(1,274,622)
(Increase) decrease in operating assets:		
Patient accounts receivable	(479,260)	125,367
Prepaid expenses and other current assets	(149,740)	(63,620)
Other assets	(129,069)	(15,185)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	223,084	40,938
Accrued rent expense	1,264,997	2,131,415
Accrued salaries and benefits	158,658	(73,469)
Accrued interest	-	(214,698)
Net cash used by operating activities	<u>(135,002)</u>	<u>(1,208,674)</u>
Cash flows from investing activities:		
Proceeds from the sale of investments and trustee funds, net	-	1,791,252
Proceeds from the sale of property and equipment	5,575	7,741
Purchase of property and equipment	<u>(21,772)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(16,197)</u>	<u>1,798,993</u>
Cash flows from financing activities:		
Proceeds from long-term debt	-	2,000,000
Principal payments of long-term debt	-	(25,683)
Cash paid for transaction costs related to sale-leaseback transaction	<u>-</u>	<u>(391,726)</u>
Net cash provided by financing activities	<u>-</u>	<u>1,582,591</u>
Increase (decrease) in cash and cash equivalents	(151,199)	2,172,910
Cash and cash equivalents at beginning of year	<u>3,549,844</u>	<u>1,376,934</u>
Cash and cash equivalents at end of year	<u>\$ 3,398,645</u>	<u>\$ 3,549,844</u>
Supplemental disclosure of cash flow information -		
Cash paid for interest	<u>\$ 240,818</u>	<u>\$ 618,538</u>
Noncash activity related to sale-leaseback transaction:		
Issuance of note receivable	\$ -	\$ (1,914,895)
Decrease in trustee funds	-	2,625,141
Proceeds from sale of property and equipment	-	11,514,298
Repayment of long-term debt	-	(11,716,068)
Transaction costs	<u>-</u>	<u>(508,476)</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(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. operates intermediate care facilities for persons with intellectual and developmental disabilities. The facilities are located in Chattanooga, Knoxville, Memphis, and Nashville, Tennessee. 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 ("OAHS") was formed to provide routine clinic services to the clients and employees of Open Arms Care Corporation, Inc. In 2016, the Company executed leases for nine new homes which are due to be put into operation in 2017. The rent amounts for the nine new homes are subject to final construction costs and the associated annual debt service payable by the landlord.

(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 to be cash and cash equivalents.

(c) 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 and vehicles over three to five years.

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.

(d) Deferred gain on sale-leaseback

The deferred gain is being amortized over the life of the leases as discussed at Note 13.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(e) Performance indicator

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

(f) 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 consolidated financial statements.

As of December 31, 2016, 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, 2013 through 2016.

(g) Revenue recognition

Net patient service revenue is recognized at the estimated net realizable amounts from patients, third-party payors and others for services rendered.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(h) Use of estimates

The preparation of consolidated 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.

(i) Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements in order to conform to the 2016 presentation. These reclassifications have no effect on the excess of expenses over revenues or net assets as previously reported.

(j) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between December 31, 2016 and February 23, 2017, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated 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 consolidated statements of operations include approximately \$2,353,000 and \$2,156,000 of Tennessee provider tax expense for 2016 and 2015, respectively.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

Substantially all net patient service revenues in 2016 and 2015 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.

(5) Note receivable

In 2015, the Company received a promissory note receivable for \$1,914,895 from Woodbine Community Organization, Inc. ("Woodbine") in connection with the sale-leaseback transaction discussed at Note 13. Interest was paid in semi-annual installments at a fixed rate of 1%, which was reduced to 0% effective November 1, 2016. Principal on the note is to be paid on April 27, 2030. The note is subject to certain principal payment requirements or conditions as defined in the agreement. The Company recognized interest income of \$16,489 and \$14,362 in 2016 and 2015, respectively, that is included in investment income in the consolidated statements of operations.

(6) Long-term debt

Long-term debt consists of the following:

	<u>2016</u>	<u>2015</u>
Note payable to related party; monthly interest only payments at 12% per annum with principal due September 30, 2022.	\$ <u>2,000,000</u>	\$ <u>2,000,000</u>

In 2015, the Company borrowed \$2,000,000 at a fixed interest rate equal to 12% per annum from Integra Resources, LLC ("Integra"). The note is secured by substantially all assets of the Company and is subordinated to certain required rent payments discussed in Note 13. The note is payable in monthly interest-only payments with principal due September 30, 2022. Should the management agreements be extended (see Note 10), the due date of this note is automatically extended to the termination date of the management agreement. The note is subject to a call provision should the management agreement be terminated and would be due in 16 monthly installments starting 30 days after such termination.

In 2015, the Company entered into a \$1,000,000 revolving line of credit with Integra. Borrowings bear interest at a fixed rate equal to 8% per annum. The line of credit is payable in monthly interest-only payments with principal due September 30, 2022. The note is secured by substantially all assets of the Company and is subordinated to certain required rent payments discussed in Note 13. The line of credit is subject to a call provision should the management agreement be terminated and would be due 30 days after such termination. The Company had no outstanding borrowings on the line of credit as of December 31, 2016 and 2015.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(7) Investment income

Investment income during 2016 and 2015 was comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 21,469	\$ 55,809
Realized gain	-	128,558
Change in unrealized loss	-	(139,343)
	<u>\$ 21,469</u>	<u>\$ 45,024</u>

(8) Commitments and Contingencies

Operating Lease Commitments

Future minimum annual rental payments under noncancelable operating lease and service agreements, excluding the facility leases discussed in Note 13, as of December 31, 2016 are as follows:

<u>Year</u>	
2017	\$ 417,000
2018	126,000
2019	78,000
2020	9,000
2021	7,000
	<u>\$ 637,000</u>

Total rental expense under noncancelable operating leases and service agreements, which includes amounts applicable to short-term leases, was approximately \$882,000 and \$874,000 for 2016 and 2015, respectively. The expense is higher than the future commitments due to vehicle leases that have cancellation features at the Company's option.

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.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

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 became effective in 2014. 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.

(9) Related party transactions

The Company incurred professional fees and expenses totaling approximately \$8,000 and \$33,000 in 2016 and 2015, respectively, for services provided by certain board members.

(10) Management agreement

Concurrent with the sale-leaseback transaction (see Note 13), the Company borrowed \$2,000,000 and entered into a management agreement with Integra. See Note 6 for terms of the \$2,000,000 borrowing. The management agreement provides general management services to all facilities. The management agreement expires on March 31, 2024 with automatic extensions up to seven years. Integra charges a management fee that is a combination of a fixed monthly fee per facility, 5% of the OAHS gross revenues and the salary and expenses of the facility directors. For the years ended December 31, 2016 and 2015, Integra charged management fees and related costs of operations of \$2,879,459 and \$2,190,610, respectively, to the Company.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(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>2016</u>	<u>2015</u>
Intellectual and developmental services	\$ 38,342,575	\$ 37,310,068
General and administrative	4,473,800	4,262,255
Fundraising	<u>25,348</u>	<u>17,837</u>
	<u>\$ 42,841,723</u>	<u>\$ 41,590,160</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, 2016 and 2015, the Company contributed approximately 1.0% of each participants' compensation, subject to Internal Revenue Code limitations. The Company contributed approximately \$146,000 and \$145,000 to the plan in 2016 and 2015, respectively.

(13) Sale-leaseback transaction

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 (see Note 5). The Company used the cash proceeds and certain trustee funds to retire substantially all of the Company's long-term debt. The gain, which was net of transaction costs, was approximately \$5,765,000, has been deferred and is being recognized over the term of the lease in proportion to certain rental payments as discussed below. In conjunction with the transaction, the Company entered into individual lease agreements to leaseback the property and equipment from the buyer. The leases are for terms of 15 years and can be extended at the option of the Company for two additional 5 year terms.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

Rent expense under these leases totaled approximately \$3,481,000 and \$2,725,000 during 2016 and 2015, respectively. The lease agreements allow for certain property improvements to be passed along to the Company as incremental increases in rent payments. For the years ended December 31, 2016 and 2015, the Company expensed approximately \$230,000 and \$11,000, respectively, in additional rent related to property improvements. A summary of approximate future lease payments under the leases and related amortization of the deferred gain as of December 31, 2016 is as follows:

<u>Years</u>	<u>Rent</u>	<u>Amortization</u>		
		<u>Gain</u>	<u>Transaction Costs</u>	<u>Total</u>
2017	\$ 2,881,000	\$ (1,363,000)	\$ 184,000	\$ (1,179,000)
2018	2,197,000	(928,000)	125,000	(803,000)
2019	1,618,000	(581,000)	79,000	(502,000)
2020	989,000	(195,000)	26,000	(169,000)
2021	791,000	(93,000)	12,000	(81,000)
Thereafter	<u>4,450,000</u>	<u>(300,000)</u>	<u>41,000</u>	<u>(259,000)</u>
	<u>\$ 12,926,000</u>	<u>\$ (3,460,000)</u>	<u>\$ 467,000</u>	<u>\$ (2,993,000)</u>

As of December 31, 2016 and 2015, there was approximately \$3,396,000 and \$2,131,000, respectively, of rent payments accrued on the consolidated balance sheet. These amounts are paid subsequent to the annual cost report filing for the Company. Should there be changes to the allowed facility rental reimbursement in the annual cost report, there are remedies within the lease agreements that permit changes to the rent payments subject to an annual floor as defined in the agreements.

The Company has implemented a plan to replace substantially all facilities over a five year period. The rent payments are structured to match the expected facility replacement at each location and the related reimbursement. As the facilities are replaced, the lease agreements discussed above are subject to termination and the Company will enter into new leases related to the replacement facilities. Based on management's plans to replace all facilities over the next five years and the expected termination of the leases discussed above, the rent expense is being recognized when due, rather than on a straight-line basis over 15 years. The related deferred gain on the sale-leaseback is being amortized in a similar manner.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Supplemental Schedule - Consolidating Balance Sheet

December 31, 2016

	Chattanooga	Greeneville	Knoxville	Memphis	Nashville	Headquarters	Subtotal Open Arms Care Corporation	Open Arms Health System, LLC	Total Open Arms Care Corporation	Open Arms Care Foundation	Total Consolidated Open Arms Care Corporation
Current Assets:											
Cash and cash equivalents	\$ 4,000	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ 2,997,789	\$ 3,016,789	\$ 89,622	\$ 3,106,411	\$ 292,234	\$ 3,398,645
Funds held in custody for others	95,559	-	54,792	47,478	155,193	-	353,022	-	353,022	-	353,022
Patient accounts receivable, net	959,233	522	962,739	1,014,733	845,420	32,246	3,814,893	-	3,814,893	-	3,814,893
Prepaid expenses and other current assets	53,403	800	47,737	4,383	8,938	148,756	264,017	-	264,017	-	264,017
Total current assets	1,112,195	1,322	1,070,268	1,071,594	1,014,551	3,178,791	7,448,721	89,622	7,538,343	292,234	7,830,577
Property and equipment, net	-	-	6,566	5,245	17,199	-	29,010	-	29,010	-	29,010
Other assets:											
Other long-term assets	15,151	100,863	38,880	14,360	3,675	500	173,429	-	173,429	-	173,429
Notes receivable - noncurrent portion	-	-	-	-	-	1,914,895	1,914,895	-	1,914,895	-	1,914,895
Total other assets	15,151	100,863	38,880	14,360	3,675	1,915,395	2,088,324	-	2,088,324	-	2,088,324
Total assets	\$ 1,127,346	\$ 102,185	\$ 1,115,714	\$ 1,091,199	\$ 1,035,425	\$ 5,094,186	\$ 9,566,055	\$ 89,622	\$ 9,655,677	\$ 292,234	\$ 9,947,911
Current liabilities:											
Accounts payable and accrued expenses	\$ 177,676	\$ 303	\$ 229,639	\$ 187,037	\$ 207,579	\$ 142,410	\$ 944,644	\$ -	\$ 944,644	\$ 10,346	\$ 954,990
Funds held in custody for others	95,559	-	54,792	47,478	155,193	-	353,022	-	353,022	-	353,022
Accrued rent expense	584,614	-	877,288	1,225,045	709,465	-	3,396,412	-	3,396,412	-	3,396,412
Accrued salaries and benefits	249,582	-	209,177	202,015	205,803	2,199	868,776	-	868,776	-	868,776
Accrued interest	-	-	-	-	-	20,000	20,000	-	20,000	-	20,000
Total current liabilities	1,107,431	303	1,370,896	1,661,575	1,278,040	164,609	5,582,854	-	5,582,854	10,346	5,593,200
Intercompany payable/(receivable)	(1,910,245)	101,882	119,243	(443,077)	(1,149,684)	3,281,881	-	-	-	-	-
Long-term debt	-	-	-	-	-	2,000,000	2,000,000	-	2,000,000	-	2,000,000
Deferred gain on leaseback	-	-	-	-	-	2,993,018	2,993,018	-	2,993,018	-	2,993,018
Total liabilities	(802,814)	102,185	1,490,139	1,218,498	128,356	8,439,508	10,575,872	-	10,575,872	10,346	10,586,218
Net assets (deficit), unrestricted	1,930,160	-	(374,425)	(127,299)	907,069	(3,345,322)	(1,009,817)	89,622	(910,195)	281,888	(638,307)
Total liabilities and net assets (deficit)	\$ 1,127,346	\$ 102,185	\$ 1,115,714	\$ 1,091,199	\$ 1,035,425	\$ 5,094,186	\$ 9,566,055	\$ 89,622	\$ 9,655,677	\$ 292,234	\$ 9,947,911

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, 2016

	<u>Chattanooga</u>	<u>Greeneville</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	\$ 11,139,083	\$ -	\$ 10,990,565	\$ 11,150,105	\$ 9,936,812	\$ -	\$ 43,216,565	\$ -	\$ 43,216,565	\$ -	\$ 43,216,565
Investment income	-	-	-	-	-	21,469	21,469	-	21,469	-	21,469
Net special events revenue	-	-	-	-	-	-	-	-	-	24,386	24,386
Intercompany revenue	3,000	-	11,872	17,003	12,941	-	44,816	-	44,816	(44,816)	-
Other revenues	1,151	-	-	-	1,809	37	2,997	-	2,997	50,022	53,019
Total unrestricted revenues	11,143,234	-	11,002,437	11,167,108	9,951,562	21,506	43,285,847	-	43,285,847	29,592	43,315,439
Expenses:											
Salaries and wages	5,972,078	-	5,933,067	5,749,542	5,223,020	170,211	23,047,918	-	23,047,918	-	23,047,918
Employee benefits	1,189,849	-	1,150,693	966,826	919,733	15,208	4,242,309	-	4,242,309	-	4,242,309
Professional services	205,002	-	304,802	585,549	271,109	215,085	1,581,547	-	1,581,547	1,050	1,582,597
Supplies	1,087,170	-	1,089,807	1,072,219	1,075,149	312,303	4,636,648	-	4,636,648	(6,123)	4,630,525
Maintenance and repairs	134,356	-	179,645	136,337	136,271	831	587,440	-	587,440	-	587,440
Utilities	183,388	-	159,503	153,809	188,945	499	686,144	-	686,144	-	686,144
Insurance	123,613	-	128,085	118,064	122,202	30,574	522,538	-	522,538	-	522,538
Depreciation and amortization	-	-	827	667	4,573	-	6,067	-	6,067	-	6,067
Interest expense	114	-	229	419	56	240,000	240,818	-	240,818	-	240,818
Gain on disposal of property and equipment	-	-	(4,875)	(700)	-	-	(5,575)	-	(5,575)	-	(5,575)
Taxes and licenses	621,507	-	612,592	618,385	557,150	27,854	2,437,488	410	2,437,898	186	2,438,084
Provisions for doubtful accounts	-	-	-	20	20	-	40	-	40	-	40
Rent	640,474	-	869,907	1,228,799	742,099	-	3,481,279	-	3,481,279	-	3,481,279
Management fee and related costs of operations	684,331	-	684,948	739,094	771,086	-	2,879,459	-	2,879,459	-	2,879,459
Amortization of deferred gain	-	-	-	-	-	(1,497,920)	(1,497,920)	-	(1,497,920)	-	(1,497,920)
Intercompany expense	247,767	-	247,762	247,767	247,765	(991,061)	-	-	-	-	-
Total expenses	11,089,649	-	11,356,992	11,616,797	10,259,178	(1,476,416)	42,846,200	410	42,846,610	(4,887)	42,841,723
Increase (decrease) in net assets (deficit)	53,585	-	(354,555)	(449,689)	(307,616)	1,497,922	439,647	(410)	439,237	34,479	473,716
Net assets (deficit) at beginning of year	1,876,575	-	(19,870)	322,390	1,214,685	(4,843,244)	(1,449,464)	90,032	(1,359,432)	247,409	(1,112,023)
Net assets (deficit) at end of year	\$ 1,930,160	\$ -	\$ (374,425)	\$ (127,299)	\$ 907,069	\$ (3,345,322)	\$ (1,009,817)	\$ 89,622	\$ (920,195)	\$ 281,888	\$ (638,307)

See accompanying independent auditors' report