

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

Consolidated Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)



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

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Open Arms Care Corporation Inc., and Affiliate (collectively the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations and changes in net assets (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our 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 Affiliate as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
May 18, 2011

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Consolidated Balance Sheets

December 31, 2010 and 2009

	<u>Assets</u>	
	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 3,790,511	\$ 4,371,200
Funds held in custody for others	233,344	264,113
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$168,000 in 2010 and 2009, respectively	3,353,573	3,393,119
Prepaid expenses and other current assets	170,298	221,426
Trusted funds - current portion	<u>1,269,578</u>	<u>856,489</u>
Total current assets	<u>8,817,304</u>	<u>9,106,347</u>
Property and equipment:		
Land and land improvements	3,279,985	3,208,346
Buildings and improvements	19,939,180	19,483,254
Furniture and equipment	4,428,211	4,414,338
Vehicles	<u>171,847</u>	<u>220,217</u>
	27,819,223	27,326,155
Accumulated depreciation and amortization	<u>(19,772,382)</u>	<u>(18,600,279)</u>
Property and equipment	<u>8,046,841</u>	<u>8,725,876</u>
Other Assets:		
Trusted funds	4,630,109	3,525,771
Bond issue costs, less accumulated amortization of approximately \$1,472,000 and \$1,384,000 in 2010 and 2009, respectively	417,206	505,579
Other assets	<u>871,203</u>	<u>772,399</u>
Total other assets	<u>5,918,518</u>	<u>4,803,749</u>
Total assets	<u>\$ 22,782,663</u>	<u>\$ 22,635,972</u>
<u>Liabilities and Net Assets (Deficit)</u>		
Current liabilities:		
Accounts payable	\$ 974,724	\$ 914,702
Funds held in custody for others	233,344	264,113
Accrued salaries and benefits	1,395,588	1,324,386
Accrued interest	382,565	414,979
Due to management company	-	225,000
Current portion of long-term debt	<u>1,720,540</u>	<u>1,647,364</u>
Total current liabilities	4,706,761	4,790,544
Long-term debt, less current portion	<u>17,338,462</u>	<u>19,051,886</u>
Total liabilities	22,045,223	23,842,430
Net assets (deficit)	<u>737,440</u>	<u>(1,206,458)</u>
Total liabilities and net assets (deficit)	<u>\$ 22,782,663</u>	<u>\$ 22,635,972</u>

See accompanying notes to the consolidated financial statements.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Consolidated Statements of Operations and Changes in Net Assets (Deficit)

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted revenues:		
Net patient service revenues	\$ 40,660,964	\$ 40,470,123
Investment income	217,601	106,581
Net special events revenue	32,252	28,574
Other revenues	<u>247,762</u>	<u>42,044</u>
Total unrestricted revenues	<u>41,158,579</u>	<u>40,647,322</u>
Expenses:		
Salaries and wages	22,563,312	21,606,667
Employee benefits	4,141,981	3,311,370
Professional services	1,651,291	1,532,702
Supplies and expenses	4,240,582	3,794,014
Maintenance and repairs	568,782	498,732
Utilities	664,430	606,880
Insurance	522,380	542,660
Depreciation and amortization	1,383,113	1,467,027
Interest expense	1,001,025	1,084,467
(Gain) loss on disposal of property and equipment	(12,350)	5,740
Taxes and licenses	2,292,610	2,093,712
Provision for doubtful accounts	<u>197,525</u>	<u>176,582</u>
Total expenses	<u>39,214,681</u>	<u>36,720,553</u>
Excess of revenues over expenses	1,943,898	3,926,769
Net deficit at beginning of year	<u>(1,206,458)</u>	<u>(5,133,227)</u>
Net assets (deficit) at end of year	<u>\$ 737,440</u>	<u>\$ (1,206,458)</u>

See accompanying notes to the consolidated financial statements.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 1,943,898	\$ 3,926,769
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Net gains on investments	(70,543)	(76,101)
Depreciation and amortization	1,383,113	1,467,027
Provision for doubtful accounts	197,525	176,582
(Gain) loss on disposal of property and equipment	(12,350)	5,740
Management company fee recovery	(225,000)	-
(Increase) decrease in operating assets:		
Patient accounts receivable	(157,979)	898,259
Prepaid expenses and other current assets	51,128	(3,751)
Other assets	(815)	(666)
Increase (decrease) in operating liabilities:		
Accounts payable	60,022	(776,004)
Accrued salaries and benefits	71,202	92,189
Accrued interest	<u>(32,414)</u>	<u>(31,354)</u>
Net cash provided by operating activities	<u>3,207,787</u>	<u>5,678,690</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	251,903	90,539
Purchases of investments	(279,349)	(110,600)
Proceeds from disposal of property and equipment	29,317	17,223
Purchase of property and equipment	(625,556)	(410,899)
Decrease (increase) in trustee funds	<u>(1,517,427)</u>	<u>208,480</u>
Net cash used in investing activities	<u>(2,141,112)</u>	<u>(205,257)</u>
Cash flows from financing activities -		
principal payments of long-term debt	<u>(1,647,364)</u>	<u>(1,565,559)</u>
Increase (decrease) in cash and cash equivalents	(580,689)	3,907,874
Cash and cash equivalents at beginning of year	<u>4,371,200</u>	<u>463,326</u>
Cash and cash equivalents at end of year	\$ <u>3,790,511</u>	\$ <u>4,371,200</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ <u>1,033,439</u>	\$ <u>1,115,821</u>

See accompanying notes to the consolidated financial statements.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

(1) Organization

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

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.

(2) Summary of significant accounting policies

(a) Principles of consolidation

These consolidated financial statements include the accounts of Open Arms Care Corporation, Inc. and Open Arms Care Foundation, Inc. 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 of acquisition of 90 days or less, excluding amounts designated under bond indenture agreements and trusted funds designated for operating expenditures, to be cash and cash equivalents.

(c) Investments

Investments, which are comprised of equity 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.

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.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Notes to the Consolidated Financial Statements

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(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 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.

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, 2010, 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 a Federal Form 990 informational tax return. The Company is currently open to audit under the statute of limitations for years ended December 31, 2007 through 2009.

(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 AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

(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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Reclassifications

Certain reclassifications have been made to the 2009 consolidated financial statements in order to conform to the 2010 presentation. These reclassifications have no effect on the excess of revenues over expenses or net deficit as previously reported.

(k) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between December 31, 2010 and May 18, 2011, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) 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 the Mentally Retarded 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 \$2,229,000 and \$2,030,000 of Tennessee provider tax expense for 2010 and 2009, respectively. Additionally, net patient service revenues include approximately \$2,229,000 and \$2,030,000 in reimbursement related to per diem rates as a result of the provider tax for 2010 and 2009, respectively.

Substantially all net patient service revenues in 2010 and 2009 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. As a result, there is a reasonable probability that the recorded amount may change by a material amount. 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 AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

(4) 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, 2010 or 2009.

Financial Instruments

The carrying amount of financial instruments, consisting of cash and cash equivalents, trustee funds, accounts receivable, accounts payable, accrued expenses, and short-term debt approximate their fair value due to their relatively short maturities. Long-term debt is carried at amortized cost, which approximates fair value.

Non-Financial Assets

The Company's non-financial assets, which primarily includes property and equipment and capitalized debt issuance costs, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Company is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at the fair value. During the years ended December 31, 2010 and 2009, the Company did not measure any non-recurring, non-financial assets at fair value or recognize any changes in net assets related to changes in fair value for non-financial assets.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2010 and 2009:

Fair Value Measurements as of
December 31, 2010 using the following inputs

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and equivalents	\$ 49,032	\$ -	\$ -	\$ 49,032
Marketable equity securities	<u>777,630</u>	<u>-</u>	<u>-</u>	<u>777,630</u>
Total	<u>\$ 826,662</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 826,662</u>

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

Fair Value Measurements as of December 31, 2009 using the following inputs

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ -	\$ 51,241	\$ -	\$ 51,241
Cash and equivalents	4,211	-	-	4,211
Marketable equity securities	<u>673,220</u>	<u>-</u>	<u>-</u>	<u>673,220</u>
Total	\$ <u>677,431</u>	\$ <u>51,241</u>	\$ <u>-</u>	\$ <u>728,672</u>

(5) Trusted funds

Trusted funds consist of the following:

	<u>2010</u>	<u>2009</u>
Revenue funds	\$ 1,371,927	\$ 334,679
Debt reserve funds	2,504,486	2,463,782
Debt service funds	1,269,578	856,489
Renewal and replacement funds	<u>753,696</u>	<u>727,310</u>
	\$ <u>5,899,687</u>	\$ <u>4,382,260</u>

The bond funds are maintained in accordance with the trust indentures related to the bond issue described in Note 6. 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. Amounts deposited in the revenue fund represent a timing difference of receiving cash versus allocating cash to other bond funds.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Notes to the Consolidated Financial Statements

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(6) Long-term debt

Long-term debt consists of the following:

	<u>2010</u>	<u>2009</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.	\$ 17,990,000	\$ 19,540,000
The Health, Educational and Housing Facility Board of the County of Shelby, Tennessee; interest at 3.47% per annum due July 1, 2023.	1,080,052	1,160,044
Capital lease obligations	22,247	39,619
Less bond issue discount	<u>(33,297)</u>	<u>(40,413)</u>
	19,059,002	20,699,250
Less current portion	<u>(1,720,540)</u>	<u>(1,647,364)</u>
Long-term debt, net of current portion	<u>\$ 17,338,462</u>	<u>\$ 19,051,886</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. 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.

Under the terms of the Series 1998 Bonds, the Company has agreed to certain covenants, which among other things, limit additional indebtedness and guarantees, and require the Company to maintain certain financial covenants. The Company was in compliance with such covenants during 2010.

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 AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

A summary of approximate future maturities on long-term debt (including capital lease obligations) as of December 31, 2010 is as follows:

<u>Year</u>	
2011	\$ 1,720,540
2012	1,798,000
2013	1,875,000
2014	1,965,000
2015	2,060,000
2016 and later years	9,673,759
Less bond issue discount	<u>(33,297)</u>
	<u>\$ 19,059,002</u>

(7) Management company

The term of the Company's management agreement with Res-Care, Inc., ended December 31, 2000 and the Company began managing its facilities effective January 1, 2001. The estimated liability to Res-Care, Inc. was \$225,000 at December 31, 2009. During 2010, the Board of Directors approved the reduction of this liability to zero based on consultation with legal counsel and the determination that the required payment of this amount was remote.

(8) Investment income

Investment income during 2010 and 2009 was comprised of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividend	\$ 147,058	\$ 114,885
Realized loss	(45,449)	(40,501)
Change in unrealized gain (loss)	<u>115,992</u>	<u>32,197</u>
	<u>\$ 217,601</u>	<u>\$ 106,581</u>

(9) Commitments and Contingencies

Operating Lease Commitments

Future minimum annual rental payments under noncancelable operating lease and service agreements as of December 31, 2010 are as follows:

<u>Year</u>	
2011	\$ 888,000
2012	756,000
2013	492,000
2014	372,000
2015	<u>360,000</u>
	<u>\$ 2,868,000</u>

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Notes to the Consolidated Financial Statements

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Total rental expense under noncancelable operating leases and service agreements, which includes amounts applicable to short-term leases, was approximately \$914,000 and \$848,000 for 2010 and 2009, respectively.

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.

Insurance

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

The Company is self-insured for a portion of employee medical and other healthcare benefits. The risk of loss retained by the Company is limited to \$85,000 per employee. The Company has purchased excess insurance to provide coverage for claims in excess of the self-insured amounts. Claims expense and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include a reserve for estimated claims incurred but not reported. Reserves included within accounts payable were approximately \$335,000 and \$285,000 at December 31, 2010 and 2009, respectively. On January 1, 2011, the Company discontinued the self-insurance plan and purchased a fully insured policy that provides coverage for employee medical and other healthcare benefits.

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 \$15,000 and \$71,000 in 2010 and 2009, respectively, for services provided by an entity owned by the President of the Company.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Notes to the Consolidated Financial Statements

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(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>2010</u>	<u>2009</u>
Intellectual and developmental services	\$ 35,809,003	\$ 33,063,964
General and administrative	3,362,180	3,584,765
Fundraising	<u>43,498</u>	<u>71,824</u>
	<u>\$ 39,214,681</u>	<u>\$ 36,720,553</u>

(12) Retirement plan

The Company has a defined contribution 403(b) retirement plan for employees who have two years of service. For the year ended December 31, 2009, the Company contributed 1% of each participants' compensation, subject to Internal Revenue Code limitations. Effective January 1, 2010, the Company increased its matching contribution to 2% of each participants' compensation. The Company contributed approximately \$271,000 and \$122,000 to the plan in 2010 and 2009, respectively.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Supplemental Schedule - Consolidating Balance Sheets

December 31, 2010

Assets

	<u>Chattanooga</u>	<u>Knoxville</u>	<u>Memphis</u>	<u>Nashville</u>	<u>Headquarters</u>	<u>Georgia</u>	<u>Total Open Arms Care Corporation</u>	<u>Open Arms Care Foundation</u>	<u>Total Combined Open Arms Care Corporation</u>
Current assets:									
Cash and cash equivalents	\$ 10,889,497	\$ 11,020,494	\$ 11,404,870	\$ 8,990,007	\$ (41,290,098)	\$ 2,591,146	\$ 3,605,916	\$ 184,595	\$ 3,790,511
Funds held in custody for others	68,770	44,705	45,173	74,181	-	515	233,344	-	233,344
Patient accounts receivable, net	845,542	876,322	806,087	806,543	18,578	501	3,353,573	-	3,353,573
Prepaid expenses and other current assets	47,397	44,927	33,926	33,412	10,636	-	170,298	-	170,298
Trusteed funds - current portion	-	-	-	-	1,269,578	-	1,269,578	-	1,269,578
Total current assets	<u>11,851,206</u>	<u>11,986,448</u>	<u>12,290,056</u>	<u>9,904,143</u>	<u>(39,991,306)</u>	<u>2,592,162</u>	<u>8,632,709</u>	<u>184,595</u>	<u>8,817,304</u>
Property and equipment:									
Land and land improvements	606,460	837,204	652,347	1,183,974	-	-	3,279,985	-	3,279,985
Buildings and improvements	4,878,348	4,669,120	5,951,321	4,436,937	3,454	-	19,939,180	-	19,939,180
Furniture and equipment	970,304	957,997	913,726	993,313	592,871	-	4,428,211	-	4,428,211
Vehicles	33,487	18,555	62,207	57,598	-	-	171,847	-	171,847
	6,488,599	6,482,876	7,579,601	6,671,822	596,325	-	27,819,223	-	27,819,223
Accumulated depreciation and amortization	<u>(4,628,968)</u>	<u>(4,954,062)</u>	<u>(4,749,983)</u>	<u>(4,948,311)</u>	<u>(491,058)</u>	<u>-</u>	<u>(19,772,382)</u>	<u>-</u>	<u>(19,772,382)</u>
Property and equipment	<u>1,859,631</u>	<u>1,528,814</u>	<u>2,829,618</u>	<u>1,723,511</u>	<u>105,267</u>	<u>-</u>	<u>8,046,841</u>	<u>-</u>	<u>8,046,841</u>
Other Assets:									
Trusteed funds	21,734,834	15,696,227	15,484,369	19,705,555	(64,758,166)	(3,232,710)	4,630,109	-	4,630,109
Bond issue costs, less accumulated amortization	126,527	75,676	88,318	126,685	-	-	417,206	-	417,206
Other assets	<u>14,264</u>	<u>15,115</u>	<u>14,360</u>	<u>302</u>	<u>827,162</u>	<u>-</u>	<u>871,203</u>	<u>-</u>	<u>871,203</u>
	<u>21,875,625</u>	<u>15,787,018</u>	<u>15,587,047</u>	<u>19,832,542</u>	<u>(63,931,004)</u>	<u>(3,232,710)</u>	<u>5,918,518</u>	<u>-</u>	<u>5,918,518</u>
Total assets	<u>\$ 35,586,462</u>	<u>\$ 29,302,280</u>	<u>\$ 30,706,721</u>	<u>\$ 31,460,196</u>	<u>\$(103,817,043)</u>	<u>\$ (640,548)</u>	<u>\$ 22,598,068</u>	<u>\$ 184,595</u>	<u>\$ 22,782,663</u>

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

Supplemental Schedule - Consolidating Balance Sheets (continued)

December 31, 2010

Liabilities and Net Assets (Deficit)

	<u>Chattanooga</u>	<u>Knoxville</u>	<u>Memphis</u>	<u>Nashville</u>	<u>Headquarters</u>	<u>Georgia</u>	<u>Total Open Arms Care Corporation</u>	<u>Open Arms Care Foundation</u>	<u>Total Combined Open Arms Care Corporation</u>
Current liabilities:									
Accounts payable	\$ 253,642	\$ 207,249	\$ 216,930	\$ 216,594	\$ 76,926	\$ 1,963	\$ 973,304	\$ 1,420	\$ 974,724
Funds held in custody for others	68,770	44,705	45,173	74,181	-	515	233,344	-	233,344
Accrued salaries and benefits	372,832	332,405	303,402	297,829	89,120	-	1,395,588	-	1,395,588
Accrued interest	119,365	71,393	72,293	119,514	-	-	382,565	-	382,565
Current portion of long-term debt	<u>520,083</u>	<u>304,577</u>	<u>386,005</u>	<u>509,875</u>	<u>-</u>	<u>-</u>	<u>1,720,540</u>	<u>-</u>	<u>1,720,540</u>
Total current liabilities	<u>1,334,692</u>	<u>960,329</u>	<u>1,023,803</u>	<u>1,217,993</u>	<u>166,046</u>	<u>2,478</u>	<u>4,705,341</u>	<u>1,420</u>	<u>4,706,761</u>
Intercompany payable/(receivable)	23,522,364	20,456,884	20,560,771	20,142,766	(85,954,553)	1,271,768	-	-	-
Long-term debt, less current portion	<u>5,121,215</u>	<u>3,061,086</u>	<u>4,031,223</u>	<u>5,124,938</u>	<u>-</u>	<u>-</u>	<u>17,338,462</u>	<u>-</u>	<u>17,338,462</u>
Total liabilities	29,978,271	24,478,299	25,615,797	26,485,697	(85,788,507)	1,274,246	22,043,803	1,420	22,045,223
Net assets (deficit), unrestricted	<u>5,608,191</u>	<u>4,823,981</u>	<u>5,090,924</u>	<u>4,974,499</u>	<u>(18,028,536)</u>	<u>(1,914,794)</u>	<u>554,265</u>	<u>183,175</u>	<u>737,440</u>
Total liabilities and net assets (deficit)	<u>\$ 35,586,462</u>	<u>\$ 29,302,280</u>	<u>\$ 30,706,721</u>	<u>\$ 31,460,196</u>	<u>\$ (103,817,043)</u>	<u>\$ (640,548)</u>	<u>\$ 22,598,068</u>	<u>\$ 184,595</u>	<u>\$ 22,782,663</u>

OPEN ARMS CARE CORPORATION INC., AND AFFILIATE

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

Year ended December 31, 2010

	<u>Chattanooga</u>	<u>Knoxville</u>	<u>Memphis</u>	<u>Nashville</u>	<u>Headquarters</u>	<u>Georgia</u>	<u>Total Open Arms Care Corporation</u>	<u>Open Arms Care Foundation</u>	<u>Total Combined Open Arms Care Corporation</u>
Unrestricted revenues:									
Net patient service revenues	\$ 10,790,666	\$ 10,220,226	\$ 10,006,469	\$ 9,643,603	\$ -	\$ -	\$ 40,660,964	\$ -	\$ 40,660,964
Investment income	37,332	22,323	22,085	37,380	97,989	-	217,109	492	217,601
Net special events revenue	-	-	-	-	-	-	-	32,252	32,252
Intercompany revenue/(expense)	(390,923)	(390,923)	(390,925)	(390,923)	1,563,694	-	-	-	-
Other revenues	<u>53,647</u>	<u>50,343</u>	<u>47,324</u>	<u>38,607</u>	<u>64,160</u>	<u>-</u>	<u>254,081</u>	<u>(6,319)</u>	<u>247,762</u>
Total unrestricted revenues	<u>10,490,722</u>	<u>9,901,969</u>	<u>9,684,953</u>	<u>9,328,667</u>	<u>1,725,843</u>	<u>-</u>	<u>41,132,154</u>	<u>26,425</u>	<u>41,158,579</u>
Expenses:									
Salaries and wages	5,617,457	5,915,852	5,249,800	5,024,612	755,591	-	22,563,312	-	22,563,312
Employee benefits	1,035,880	1,034,196	1,002,001	1,000,359	69,545	-	4,141,981	-	4,141,981
Professional services	383,502	236,923	447,343	309,592	273,931	-	1,651,291	-	1,651,291
Supplies and expenses	1,059,158	1,027,913	809,822	875,083	461,423	745	4,234,144	6,438	4,240,582
Maintenance and repairs	142,811	125,395	138,278	160,880	1,418	-	568,782	-	568,782
Utilities	183,962	144,772	154,232	181,464	-	-	664,430	-	664,430
Insurance	122,617	134,943	111,855	114,433	38,532	-	522,380	-	522,380
Depreciation and amortization	328,692	326,723	361,751	331,531	34,416	-	1,383,113	-	1,383,113
Interest expense	302,165	179,824	218,015	301,019	2	-	1,001,025	-	1,001,025
Gain on disposal of property and equipment	(4,657)	(5,197)	-	(2,496)	-	-	(12,350)	-	(12,350)
Taxes and licenses	603,646	575,091	567,783	544,772	1,318	-	2,292,610	-	2,292,610
Provision for (recovery of) doubtful accounts	<u>192,651</u>	<u>(3,313)</u>	<u>(930)</u>	<u>9,117</u>	<u>-</u>	<u>-</u>	<u>197,525</u>	<u>-</u>	<u>197,525</u>
Total expenses	<u>9,967,884</u>	<u>9,693,122</u>	<u>9,059,950</u>	<u>8,850,366</u>	<u>1,636,176</u>	<u>745</u>	<u>39,208,243</u>	<u>6,438</u>	<u>39,214,681</u>
(Increase) decrease in net assets (deficit)	522,838	208,847	625,003	478,301	89,667	(745)	1,923,911	19,987	1,943,898
Net assets (deficit) at beginning of year	<u>5,085,353</u>	<u>4,615,134</u>	<u>4,465,921</u>	<u>4,496,198</u>	<u>(18,118,203)</u>	<u>(1,914,049)</u>	<u>(1,369,646)</u>	<u>163,188</u>	<u>(1,206,458)</u>
Net assets (deficit) at end of year	<u>\$ 5,608,191</u>	<u>\$ 4,823,981</u>	<u>\$ 5,090,924</u>	<u>\$ 4,974,499</u>	<u>\$ (18,028,536)</u>	<u>\$ (1,914,794)</u>	<u>\$ 554,265</u>	<u>\$ 183,175</u>	<u>\$ 737,440</u>