

**Annual Report Checklist**  
**Period Ending 12/31/2013**

Provider(s): Compass Health Inc., dba Bayside Care Center/Casa de Flores

CCRC(s): Bayside Care Center/Casa de Flores

Contact Person: Marie Moya

Telephone No: 805-474-7010 x109

Email: marie@compass-health.com

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A complete annual report must consist of 3 copies of all the following:

- Annual Report Checklist
- Annual Provider Fee in the amount of \$730
- Certification by the providers Chief Executive Officer that:  
Report are correct to the best of his/her knowledge.  
Each continuing care contract form in use or offered to new residents has been approved by the Department.  
The provider is maintaining the required liquid reserves and, when applicable, the required refund reserve.
- Evidence of the provider's fidelity bond, as required by H&SC section 1789.8
- Provider's audited financial statements with an accompanying certified public accountant's opinion thereon.
- Provider's audited reserve reports (prepared on Department forms) with an accompany certified public accountant's opinion thereon.
- Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for each community.
- Key Indicator Report



200 SOUTH 13TH STREET, SUITE 208  
GROVER BEACH, CALIFORNIA 93433  
PHONE (805) 474.7010  
FAX (805) 474.7013

September 26, 2014

Continuing Care Contracts Branch  
California Department of Social Services

To Whom It May Concern:

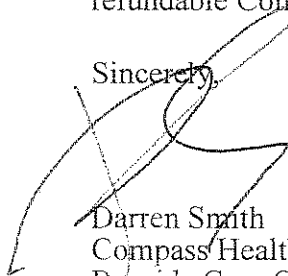
I, Darren Smith, certify that the annual audit, reports and any amendments thereto submitted for December 31, 2013 for Compass Health, Inc., doing business as Bayside Care Center and Casa De Flores are true and correct to the best of my knowledge.

Compass Health, Inc., dba Bayside Care Center and Casa De Flores continuing care contract form in use or offered to new residents has been approved by the Department of Social Services.

Compass Health, Inc., dba Bayside Care Center and Casa De Flores are maintaining the required liquid reserve.

Compass Health, Inc., dba Bayside Care Center and Casa De Flores do not offer refundable Contracts.

Sincerely,



Darren Smith  
Compass Health, Inc., dba  
Bayside Care Center and Casa De Flores  
President

**FORM 1-1**  
**RESIDENT POPULATION**

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	<u>0</u>
[2]	Number at end of fiscal year	<u>27</u>
[3]	Total Lines 1 and 2	<u>27</u>
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	<div style="border: 1px solid black; padding: 2px; display: inline-block;">13.5</div>
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	<u>210</u>
[7]	Number at end of fiscal year	<u>219</u>
[8]	Total Lines 6 and 7	<u>429</u>
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	<div style="border: 1px solid black; padding: 2px; display: inline-block;">214.50</div>
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	<div style="border: 1px solid black; padding: 2px; display: inline-block;">6.29</div>

**FORM 1-2**  
**ANNUAL PROVIDER FEE**

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service-interest only)	<u>11,737,564</u>
[a]	Depreciation	<u>128,284</u>
[b]	Debt Service (Interest Only)	<u>                    </u>
[2]	Subtotal (add Line 1a and 1b)	<u>128,284</u>
[3]	Subtract Line 2 from Line 1 and enter result.	<u>11,609,280</u>
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	<u>6.29</u>
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	<u>730,224</u>
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 <u>730.22</u>

PROVIDER: Compass Health Inc  
 COMMUNITY: Dayside CARE Center / CASA DE FLORES

FORM 1-1 and Form 1-2

**FORM 5-1**  
**LONG-TERM DEBT INCURRED**  
**IN A PRIOR FISCAL YEAR**  
**(Including Balloon Debt)**

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	12/21/12	133,559	103,969		237,528
2	5/5/10	255,757	29,612		285,369
3					
4					
5					
6					
7					
8					
		<b>TOTAL:</b>	133,581		522,897

(Transfer this amount to  
Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Congress Health Care

**FORM 5-2**  
**LONG-TERM DEBT INCURRED**  
**DURING FISCAL YEAR**  
**(Including Balloon Debt)**

	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
Long-Term Debt Obligation					
1					
2					
3					
4					
5					
6					
7					
8					
<b>TOTAL:</b>		0	0	0	0

*(Transfer this amount to  
Form 5-3, Line 2)*

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Compass Health Inc

FORM 5-3  
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (c)	522,807
2	Total from Form 5-2 bottom of Column (e)	0
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	2,654,751
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	3,177,648

PROVIDER: Cooper's Health Inc

FORM 5-3



**FORM 5-4  
CALCULATION OF NET OPERATING EXPENSES**

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		<u>11,737,564</u>
2	Deductions		
a	Interest paid on long-term debt (see instructions)		
b	Credit enhancement premiums paid for long-term debt (see instructions)		
c	Depreciation	<u>128,284</u>	
d	Amortization		
e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>13,690,880</u>	
f	Extraordinary expenses approved by the Department		
3	Total Deductions	<u>13,799,164</u>	
4	Net Operating Expenses		<u>22,061,607</u>
5	Divide Line 4 by 365 and enter the result.	<u>5,648</u>	
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>423,617</u>	<u>*</u>

\* 40 Reserves

PROVIDER: Compass Health Inc  
COMMUNITY: Davidson Care Center/Casa de Flores

FORM 5-4

Compass Health Inc.,  
Consolidation Statement of Operations  
Year 2013

	All Other Entities	CCRC Bayside Care Center & Casa de Flores	Consolidated Total
Revenue			
Net Patient service revenue	49,914,254	9,976,346	59,890,600
Net Residential board and care revenues	3,047,339	2,723,961	5,771,300
Contracted Net Patient service Revenue	(578,527)	578,527	
Other Income	28,429	32,871	61,300
<b>Total Revenue</b>	<b>\$ 52,411,495</b>	<b>\$ 13,311,705</b>	<b>\$ 65,723,200</b>
Operating Expenses			
Nursing Services	20,425,181	4,965,519	25,390,700
Plant operations and maintenance	2,314,793	704,107	3,018,900
Housekeeping and Laundry	1,755,630	542,870	2,298,500
Dietary	3,861,659	1,509,541	5,371,200
Social Services and Activities	1,200,105	353,895	1,554,000
Education	431,690	97,810	529,500
General and Administrative	15,889,400	3,560,200	19,449,600
Interest Expense	135,300	-	135,300
Pharmacy	1,681,090	188,910	1,870,000
Laboratory	159,372	3,928	163,300
X-Ray	194,259	18,341	212,600
<b>Total Expenses</b>	<b>48,048,479</b>	<b>\$ 11,945,121</b>	<b>\$ 59,993,600</b>
Income before Minority Interest and Income Tax Provision	4,363,016	1,366,584	5,729,600
Minority Interest	(610,000)	-	(610,000)
Income Before Income Tax Provision	3,753,016	1,366,584	5,119,600
Income Tax Provision	(127,300)	-	(127,300)
<b>Net Income</b>	<b>3,625,716</b>	<b>\$ 1,366,584</b>	<b>\$ 4,992,300</b>

FORM 5-5  
ANNUAL RESERVE CERTIFICATION

Provider Name: Compass Health Inc  
Fiscal Year Ended: 12-31-2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12-31-2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

	Amount
[1] Debt Service Reserve Amount	<u>3,177,648</u>
[2] Operating Expense Reserve Amount	<u>0</u>
[3] Total Liquid Reserve Amount:	<u>3,177,648</u>

Qualifying assets sufficient to fulfill the above requirements are held as follows:

	Amount (market value at end of quarter)	
Qualifying Asset Description	Debt Service Reserve	Operating Reserve
[4] Cash and Cash Equivalents	<u>&lt;36,391&gt;</u>	<u>0</u>
[5] Investment Securities	_____	_____
[6] Equity Securities	_____	_____
[7] Unused/Available Lines of Credit	_____	_____
[8] Unused/Available Letters of Credit	_____	_____
[9] Debt Service Reserve	_____	(not applicable)
[10] Other: _____ (describe qualifying asset)	_____	_____

Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11] <u>3,177,648</u>	[12] <u>8,802,300</u>
Total Amount Required:	[13] <u>3,177,648</u>	[14] <u>0</u>
Surplus/(Deficiency):	[15] <u>- - -</u>	[16] <u>8,802,300</u>

Signature:

[Signature]  
(Authorized Representative)

Date: 9-25-2014

Controller  
(Title)

FORM 5-5

**Continuing Care Retirement Community  
Disclosure Statement  
General Information**

Date Prepared: 9-25-14

FACILITY NAME: Bayside Care Center / Casa de Flores  
 ADDRESS: 1405 Teresa Dr, Mollo Bay ZIP CODE: 93442 PHONE: 805 772 2037  
 PROVIDER NAME: Compass Health Inc FACILITY OPERATOR: Compass Health Inc  
 RELATED FACILITIES: \_\_\_\_\_ RELIGIOUS AFFILIATION: \_\_\_\_\_  
 YEAR OPENED: 1995 NO. OF ACRES: 5.4 MULTI-STORY: \_\_\_\_\_ SINGLE STORY: \_\_\_\_\_ BOTH: ☒  
 MILES TO SHOPPING CTR: 1 MILES TO HOSPITAL: 20

**NUMBER OF UNITS:**

**INDEPENDENT LIVING**

**HEALTH CARE**

APARTMENTS - STUDIO 61  
 APARTMENTS - 1 BDRM 26  
 APARTMENTS - 2 BDRM 5  
 COTTAGES/HOUSES \_\_\_\_\_  
 % OCCUPANCY AT YEAR END \_\_\_\_\_

ASSISTED LIVING \_\_\_\_\_  
 SKILLED NURSING 145  
 SPECIAL CARE \_\_\_\_\_  
 DESCRIBE SPECIAL CARE: \_\_\_\_\_

TYPE OF OWNERSHIP: ☐ NOT FOR PROFIT ☒ FOR PROFIT ACCREDITED: ☐ Y ☐ N BY: \_\_\_\_\_

FORM OF CONTRACT: ☐ LIFE CARE ☒ CONTINUING CARE ☐ FEE FOR SERVICE  
☐ ASSIGN ASSETS ☐ EQUITY ☒ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (Check all that apply): ☐ 90% ☐ 75% ☐ 50% ☐ PRORATED TO 0% ☐ OTHER: \_\_\_\_\_

RANGE OF ENTRANCE FEES: \$ 500 TO \$ 500 LONG-TERM CARE INSURANCE REQUIRED? ☐ Y ☒ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: \_\_\_\_\_

ENTRY REQUIREMENTS: MIN. AGE: 65 PRIOR PROFESSION: \_\_\_\_\_ OTHER: \_\_\_\_\_

**FACILITY SERVICES AND AMENITIES**

**COMMON AREA AMENITIES**

**SERVICES AVAILABLE**

	AVAILABLE	FEE FOR SERVICE		INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	<u>3</u>	_____
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY	<u>3</u>	_____
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	_____	_____
CARD ROOMS	<input type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	LINENS FURNISHED	<input type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Compass Health Inc

CCRCs	LOCATION (City, State)	PHONE (with area code)
<u>Bayside Care Center</u>	<u>Morro Bay CA</u>	<u>(805) 772-2237</u>
<u>Casa de Flores</u>		

MULTI-LEVEL RETIREMENT COMMUNITIES


FREE-STANDING SKILLED NURSING


SUBSIDIZED SENIOR HOUSING


\* PLEASE INDICATE IF THE FACILITY IS LIFE CARE.

### **III. FORM 5-4: CALCULATION OF NET OPERATING EXPENSE RESERVE AMOUNT**

#### **PURPOSE OF FORM 5-4 CALCULATION OF NET OPERATING EXPENSE RESERVE AMOUNT**

The purpose of this form is to calculate the amount a provider must hold for operating expenses in its liquid reserve.

Form 5-4 calculates a provider's net operating expenses for the fiscal year by recognizing certain deductions from the operating expense amount stated in the provider's audited financial statements. Form 5-4 also calculates the amount of annual net operating expenses allocable to 75 days.

**NOTE:** Providers must complete Form 5-4 to determine the amount of liquid reserves they must hold to provide a reserve for operating expenses. For purposes of these worksheets, operating expenses include all the provider's expenses except those specified on Form 5-4.

#### **A. FORM 5-4: Calculation Of Net Operating Expenses**

**IMPORTANT:** Complete a Form 5-4 for *each* community operated by the provider.

This form must be completed by all providers as follows:

- [1] On **Line 1**, enter the provider's total operating expenses for the community. This figure should be taken from the provider's audited financial statements. It must include interest paid by the provider on its long-term debt allocable to the specified community as well as any amounts indicated on Lines 2a, 2b, 2c, 2d, and 2f taken as a deduction.

**NOTE FOR NEW PROVIDERS:** A new provider that has commenced operating or opened a continuing care retirement community during the reported fiscal year must calculate its net operating expenses for that community by combining: (1) its actual expenses for the months it has operated; and (2) the projected operating expenses (as submitted to the Department with the provider's application) for the balance of the provider's first 12 months of operations. The provider must attach a schedule showing the provider's calculation of its total operating expenses for purposes of Form 5-4.

- [2] On **Line 2a**, enter the interest paid by the provider on its long-term debt allocable to the specified community.

**NOTE:** The sum of the amounts shown on **Line 2a** may equal but not exceed the sum of the amounts stated on Form 5-1, **Column (c)** and Form 5-2, **Column (b)** as interest paid on long-term debt.

- [3] On **Line 2b**, enter any credit enhancement premiums paid by the provider in connection with its pre-existing long-term debt allocable to the specified community.

## APPENDIX B

### FEES FOR PERSONAL CARE SERVICES AND ADDITIONAL SERVICES

(Note: We may change these fees upon thirty (30) days' written notice to you, however, if your Level of Personal Care Services increases or decreases, the new fees will apply immediately. We shall notify you, in writing, within two business days when your fee increases due to a change in level of Personal Care Services.)

#### Independent Living Enhancement Packages:

**Personal Care #1:** Independent rate plus \$375.00 per month

- Medication management and administration
- Scheduling of physician appointments and coordination of transportation as needed
- Personal laundry service weekly
- Assistance with bathing, dressing, and grooming
- Escorting services i.e., to and from meals

**Personal Care #2:** Independent rate plus \$750.00 per month. Includes all services from Independent Living and Personal Care #1 plus

- Complete continence care, including additional personal laundry, housekeeping and linen services
- Increased personal care as need and requested by resident or responsible person, or at the discretion of the administrator as needed.
- NOTE: Incontinence supplies provided by Resident

**Double Occupancy Rate:** Independent Living rate plus \$375.00 per month

- Independent Living Package plus occupancy of one roommate.
- Personal Care #1 or #2 available for second occupant at rates listed above.

#### Optional Services Available:

- Apartment tray service is available at no charge for three days per month. Thereafter, it is available as a service option at \$3.00 per tray
- Visitors may dine for a charge of \$4.00 (Breakfast or Dinner) or \$5.00 (Lunch).
- Beauty Salon (rates posted at salon)

PROVIDER NAME: Compass Health Inc

INCOME FROM ONGOING OPERATIONS  
OPERATING INCOME

(excluding amortization of entrance fee income)

2013

13,311,705

LESS OPERATING EXPENSES

(excluding depreciation, amortization, & interest)

11,816,837

NET INCOME FROM OPERATIONS

1,494,868

LESS INTEREST EXPENSE

—

PLUS CONTRIBUTIONS

—

PLUS NON-OPERATING INCOME (EXPENSES)

(excluding extraordinary items)

NET INCOME (LOSS) BEFORE ENTRANCE FEES,  
DEPRECIATION AND AMORTIZATION

1,494,868

NET CASH FLOW FROM ENTRANCE FEES

(Total Deposits Less Refunds)

16,000

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
N/A					

FINANCIAL RATIOS (see next page for ratio formulas)

2005 CCAC Medians

50<sup>th</sup> Percentile

(optional)

2013

DEBT TO ASSET RATIO

OPERATING RATIO

DEBT SERVICE COVERAGE RATIO

DAYS CASH-ON-HAND RATIO

0

.88

350

HISTORICAL MONTHLY SERVICE FEES

AVERAGE FEE AND PERCENT CHANGE

	%	%	%	2013
STUDIO			2	2675-2775
ONE BEDROOM			2	3825-4025
TWO BEDROOM			2	4500
COTTAGE/HOUSE				
ASSISTED LIVING			2	2675-4500
SKILLED NURSING			0	
SPECIAL CARE				

COMMENTS FROM PROVIDER:



PROVIDER NAME: Compass Health Inc

## FINANCIAL RATIO FORMULAS

### LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

### OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ \quad -- \text{ Depreciation Expense} \\ \quad -- \text{ Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ \quad -- \text{ Amortization of Deferred Revenue} \end{array}}$$

### DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ \quad + \text{ Interest, Depreciation,} \\ \quad \text{and Amortization Expenses} \\ \quad -- \text{ Amortization of Deferred Revenue} \\ \quad + \text{ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

### DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash} \\ \quad \text{And Investments} \\ \quad + \text{ Unrestricted Non-Current Cash} \\ \quad \text{and Investments} \end{array}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

**Note:** These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

FORM 7-1  
REPORT ON CCRC MONTHLY SERVICE FEES

	RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>\$ 2675 - 4500</u>	<u>\$ 2675 - 4500</u>	<u>\$ 6235 - 7452</u>

[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	2%	2%	—
---	----	----	---

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: 10-1-2013  
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- ☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- ☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- ☒ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- ☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- ☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- ☒ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Compass Health Inc  
COMMUNITY: Bayside Care Center/Casa de Flores

FORM 7-1



# CERTIFICATE OF LIABILITY INSURANCE

5/1/2015

DATE (MM/DD/YYYY)

7/25/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Lockton Insurance Brokers, LLC  
725 S. Figueroa Street, 35th Fl.  
CA License #0F15767  
Los Angeles CA 90017  
(213) 689-0065

CONTACT

NAME:

PHONE

(A/C, No, Ext):

FAX

(A/C, No):

E-MAIL

ADDRESS:

INSURER(S) AFFORDING COVERAGE

NAIC #

INSURER A: Torus Specialty Insurance Company

44776

INSURED Compass Health, Inc.  
1041658 Dba: Bayside Care Center  
1405 Teresa Dr.  
Morro Bay, CA 93442

INSURER B:

INSURER C:

INSURER D:

INSURER E:

INSURER F:

COVERAGES COMHE01

CERTIFICATE NUMBER: 2355956

REVISION NUMBER: XXXXXXXX

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input checked="" type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR <input checked="" type="checkbox"/> Professional Liab. GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC <input type="checkbox"/> OTHER	Y	N	43121C141APG	5/1/2014	5/1/2015	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ XXXXXXXX MED EXP /Any one person \$ XXXXXXXX PERSONAL & ADV INJURY \$ XXXXXXXX GENERAL AGGREGATE \$ 3,000,000 PRODUCTS - COM/PROP AGG \$ XXXXXXXX \$
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> NON-OWNED AUTOS			NOT APPLICABLE			COMBINED SINGLE LIMIT (Ea accident) \$ XXXXXXXX BODILY INJURY (Per person) \$ XXXXXXXX BODILY INJURY (Per accident) \$ XXXXXXXX PROPERTY DAMAGE (Per accident) \$ XXXXXXXX \$
	UMBRELLA LIAB <input type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED <input type="checkbox"/> RETENTION \$			NOT APPLICABLE			EACH OCCURRENCE \$ XXXXXXXX AGGREGATE \$ XXXXXXXX \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N	N/A	NOT APPLICABLE			PER STATUTE <input type="checkbox"/> IOTH-ER <input type="checkbox"/> E.L. EACH ACCIDENT \$ XXXXXXXX E.L. DISEASE - EA EMPLOYEE \$ XXXXXXXX E.L. DISEASE - POLICY LIMIT \$ XXXXXXXX

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, may be attached if more space is required)  
THIS CERTIFICATE SUPERSEDES ALL PREVIOUSLY ISSUED CERTIFICATES FOR THIS HOLDER, APPLICABLE TO THE CARRIERS LISTED AND THE POLICY TERM(S) REFERENCED.  
General Liability Additional Insured applies to the Zinn Group, Seashell Communities Asset with respects to the operations of Compass Health, Inc., Bayside Care Center (aka: Seashell Communities) 1405 Teresa Drive Morro Bay, CA 93442.

## CERTIFICATE HOLDER

## CANCELLATION

2355956

The Zinn Group  
541 E. Chapman Ave., Suite E  
Orange CA 92866

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

**RIDER**

**FIDELITY AND DEPOSIT COMPANY OF MARYLAND**

777 S. Figueroa Street, Suite 3900  
Los Angeles, CA 90017

To be attached to and form a part of:

Bond No. 08644329

Bond Amount: \$10,000.00

Type of Bond: Patient Trust Bond

Executed by Compass Health, Inc. dba Casa De Flores, as Principal, and by FIDELITY AND DEPOSIT COMPANY OF MARYLAND, as Surety, in favor of State of California, Department of Public Health and dated June 19, 2002.

In consideration of the premium charged for the attached bond, it is hereby agreed to change:

**The Bond Amount**

From:  
\$10,000.00

To:  
\$20,000.00

This rider is effective September 3, 2014.

This rider is executed upon the express condition that the surety's liability under said bond shall not be cumulative and shall in no event exceed the amount specifically set forth in said bond or any existing certificate changing the amount of said bond. The referenced bond shall be subject to all its agreements, limitations and conditions except as herein expressly modified.

SIGNED, SEALED AND DATED this 8th day of September, 2014.

**FIDELITY AND DEPOSIT COMPANY OF MARYLAND**

By: \_\_\_\_\_

Dennis Langer, Attorney-in-Fact

**Power of Attorney**  
**FIDELITY AND DEPOSIT COMPANY OF MARYLAND**

KNOW ALL MEN BY THESE PRESENTS: That the FIDELITY AND DEPOSIT COMPANY OF MARYLAND, a corporation of the State of Maryland, by FRANK E. MARTIN JR., Vice President, and ERIC D. BARNES, Assistant Secretary, in pursuance of authority granted by Article VI, Section 2, of the By-Laws of said Company, which are set forth on the reverse side hereof and are hereby certified to be in full force and effect on the date hereof, does hereby nominate, constitute and appoint Paul E. BOUCHER, Timothy NOONAN, Janina MONROE and Dennis LANGER, all of Los Angeles, California, EACH its true and lawful agent and Attorney-in-Fact to make, execute, seal and deliver, for, and on its behalf as surety, and as its act and deed: ~~any and all bonds and undertakings, and the execution of such bonds or undertakings in pursuance of these presents, shall be as binding upon said Company, as fully and amply, to all intents and purposes, as if they had been duly executed and acknowledged by the regularly elected officers of the Company at its office in Baltimore, Md., in their own proper persons.~~ This power of attorney revokes that issued on behalf of Paul E. BOUCHER, Timothy NOONAN, Janina MONROE, Jeremy YEUNG, dated June 24, 2009.

The said Assistant Secretary does hereby certify that the extract set forth on the reverse side hereof is a true copy of Article VI, Section 2, of the By-Laws of said Company, and is now in force.

IN WITNESS WHEREOF, the said Vice-President and Assistant Secretary have hereunto subscribed their names and affixed the Corporate Seal of the said FIDELITY AND DEPOSIT COMPANY OF MARYLAND, this 20th day of March, A.D. 2012.

ATTEST:

FIDELITY AND DEPOSIT COMPANY OF MARYLAND



*Eric D. Barnes*

Eric D. Barnes

*Frank E. Martin Jr.*

By:

Assistant Secretary

Frank E. Martin Jr.

Vice President

State of Maryland } ss:  
City of Baltimore }

On this 20th day of March, A.D. 2012, before the subscriber, a Notary Public of the State of Maryland, duly commissioned and qualified, came FRANK E. MARTIN JR., Vice President, and ERIC D. BARNES, Assistant Secretary of the FIDELITY AND DEPOSIT COMPANY OF MARYLAND, to me personally known to be the individuals and officers described in and who executed the preceding instrument, and they each acknowledged the execution of the same, and being by me duly sworn, severally and each for himself depose and saith, that they are the said officers of the Company aforesaid, and that the seal affixed to the preceding instrument is the Corporate Seal of said Company, and that the said Corporate Seal and their signatures as such officers were duly affixed and subscribed to the said instrument by the authority and direction of the said Corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my Official Seal the day and year first above written:



*Constance A. Dunn*

Constance A. Dunn

Notary Public

My Commission Expires: July 14, 2015

**COMPASS HEALTH, INC. AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

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**SETO KIRAKOSIAN**  
Accountancy, Corp

To the Board of Directors of  
Compass Health, Inc. and Subsidiary  
Grover Beach, California

**Independent Auditors' Report**

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Compass Health, Inc. and Subsidiary (the "Company"), which comprise the balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and shareholder's equity 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion.



*Auditors' Responsibility - Continued*

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 Compass Health, Inc. and Subsidiary as of December 31, 2013 and 2012, 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.

A handwritten signature in dark ink, appearing to be 'J. H. K.', followed by a horizontal line extending to the right.

July 09, 2014

**COMPASS HEALTH, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND SHAREHOLDER'S EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
REVENUES:		
Net patient service revenue	\$ 59,890,600	\$ 59,879,800
Net residential board and care revenue	5,771,300	5,479,100
Other income	<u>61,300</u>	<u>217,100</u>
Total revenues	<u>65,723,200</u>	<u>65,576,000</u>
EXPENSES:		
Nursing services	25,390,700	24,191,900
Plant operations and maintenance	3,018,900	3,048,600
Housekeeping and laundry	2,298,500	2,271,900
Dietary	5,371,200	5,219,100
Social services and activities	1,554,000	1,664,100
Education	529,500	536,900
General and administrative	19,449,600	19,859,300
Interest expense	135,300	157,700
Pharmacy	1,870,000	1,715,700
Laboratory	163,300	145,600
X-ray	<u>212,600</u>	<u>198,800</u>
Total expenses	<u>59,993,600</u>	<u>59,009,600</u>
INCOME BEFORE MINORITY INTEREST AND INCOME TAX PROVISION	5,729,600	6,566,400
MINORITY INTEREST	<u>(610,000)</u>	<u>(892,200)</u>
INCOME BEFORE INCOME TAX PROVISION	5,119,600	5,674,200
INCOME TAX PROVISION	<u>(127,300)</u>	<u>(137,200)</u>
NET INCOME	4,992,300	5,537,000
DISTRIBUTIONS TO SHAREHOLDER	(6,831,100)	(8,146,400)
RETAINED EARNINGS, beginning of year	<u>11,947,600</u>	<u>14,557,000</u>
RETAINED EARNINGS, end of year	\$ <u>10,108,800</u>	\$ <u>11,947,600</u>

The accompanying notes are an integral part  
of the consolidated financial statements

**COMPASS HEALTH, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2013 AND 2012**

ASSETS		2013	2012
CURRENT ASSETS:			
Cash and cash equivalents	\$	8,802,300	\$ 5,561,200
Accounts receivable, net		7,558,800	8,355,200
Supplies		2,900	2,800
Prepaid expenses		487,700	532,500
Due from related parties, net		<u>1,268,100</u>	<u>5,149,700</u>
Total current assets		18,119,800	19,601,400
PLANT, PROPERTY, AND EQUIPMENT, net		6,300,900	6,477,200
INTANGIBLE ASSETS, net		50,800	56,700
GOODWILL		1,000,000	1,000,000
DEPOSITS AND OTHER ASSETS		<u>108,800</u>	<u>106,900</u>
Total assets	\$	<u>25,580,300</u>	<u>\$ 27,242,200</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$	1,511,200	\$ 1,344,400
Accrued compensation and related expenses		4,073,900	3,617,000
Income taxes payable		114,700	124,700
Security deposits and other liabilities		1,274,300	1,257,500
Current portion of long-term debt		<u>200,200</u>	<u>189,700</u>
Total current liabilities		7,174,300	6,533,300
LONG-TERM ACCRUED EXPENSES		1,000,000	1,000,000
LONG-TERM DEBT, net of current portion		1,964,900	2,364,700
DEFERRED RENT		<u>1,417,700</u>	<u>1,142,000</u>
Total liabilities		11,556,900	11,040,000
COMMITMENTS AND CONTINGENCIES		-	-
SHAREHOLDER'S EQUITY:			
Controlling interests:			
Common stock, no par value; 1,000 shares authorized; 1,000 shares issued and outstanding		31,900	31,900
Paid-in-capital		1,979,900	1,979,900
Retained earnings		<u>10,108,800</u>	<u>11,947,600</u>
		12,120,600	13,959,400
Minority interest		<u>1,902,800</u>	<u>2,242,800</u>
Total shareholder's equity		<u>14,023,400</u>	<u>16,202,200</u>
Total liabilities and shareholder's equity	\$	<u>25,580,300</u>	<u>\$ 27,242,200</u>

The accompanying notes are an integral part  
of the consolidated financial statements

**COMPASS HEALTH, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 4,992,300	\$ 5,537,000
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Minority interest	610,000	892,200
Depreciation and amortization	599,100	607,000
(Gain) on disposal of plant, property, and equipment	-	(20,000)
Write-off of intangible assets	-	5,100
Deferred rent	275,700	477,000
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable, net	796,400	(2,832,900)
(Increase) in supplies	(100)	(100)
Decrease (increase) in prepaid expenses	44,800	(27,200)
Decrease in due from related parties, net	3,881,600	2,841,100
(Increase) decrease in deposits and other assets	(1,900)	380,600
Increase (decrease) in accounts payable	166,800	(756,100)
Increase in accrued compensation and related expenses	456,900	566,900
(Decrease) in income taxes payable	(10,000)	(10,500)
Increase in security deposits and other liabilities	<u>16,800</u>	<u>823,900</u>
Net cash and cash equivalents provided by operating activities	<u>11,828,400</u>	<u>8,484,000</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Acquisition of plant, property, and equipment	(416,900)	(712,500)
Proceeds from sale of plant, property, and equipment	-	24,000
Acquisition of intangible assets	<u>-</u>	<u>(48,500)</u>
Net cash and cash equivalents (used in) investing activities	<u>(416,900)</u>	<u>(737,000)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(389,300)	(383,400)
Proceeds from long-term debt	-	130,100
Distributions to minority interest	(950,000)	(1,400,000)
Distributions to shareholder	<u>(6,831,100)</u>	<u>(7,601,200)</u>
Net cash and cash equivalents (used in) financing activities	<u>(8,170,400)</u>	<u>(9,254,500)</u>
Net change in cash and cash equivalents	3,241,100	(1,507,500)
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,561,200</u>	<u>7,068,700</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 8,802,300</u>	<u>\$ 5,561,200</u>

The accompanying notes are an integral part  
of the consolidated financial statements

**COMPASS HEALTH, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	<u>2013</u>	<u>2012</u>
Cash paid during the year for:		
Income taxes	\$ <u>137,200</u>	\$ <u>147,800</u>
Interest paid	\$ <u>135,300</u>	\$ <u>172,900</u>

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING  
ACTIVITIES:

During 2012, the Company transferred to a related party net plant, property, and equipment in the amount of \$545,200 and recorded distribution of \$545,200 (Note 11).

The accompanying notes are an integral part  
of the consolidated financial statements

## COMPASS HEALTH, INC. AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - ORGANIZATION

##### Nature of Operations

Compass Health, Inc. and Subsidiary (the "Company"), was incorporated in the state of California on January 5, 1995. The Company was formed with a view to consolidate various health care businesses in San Luis Obispo County, including Arroyo Grande Care Center, Danish Care Center, and SeaShell Communities (Pacific Care Center, Inc.).

On or around February 1, 1995, the Company entered into binding purchase agreement with each of the above named entities under which it agreed to acquire all of the assets of each entity, subject to all liabilities, solely in exchange for voting common stock of the Company.

As of December 31, 2007, the Company is 100% subsidiary of Compass Holding, Inc. Through a reverse triangular merger, Compass Health Inc. became a wholly owned subsidiary of Compass Holding, Inc. The board of Compass Health Inc. declared a shareholder distribution of its Compass Media Group, Inc. and The Old Custom House, Inc. to Compass Holding, Inc. as of the closing of business on December 31, 2007.

The Company currently employs in excess of 1040 employees, with approximately 867 of them being full time employees. The Company manages and operates the following facilities:

1. Vineyard Hills Health Center in Templeton, California (99-bed skilled nursing facility)
2. Danish Care Center in Atascadero, California (65-bed skilled nursing facility)
3. Bayside Care Center in Morro Bay, California (145-bed skilled nursing facility) and Casa de Flores in Morro Bay, California (100-bed residential care facility for the elderly)
4. Arroyo Grande Care Center in Arroyo Grande, California (99-bed skilled nursing facility)
5. Wyndham Residence in Arroyo Grande, California (62-bed residential care facility for the elderly)
6. San Luis Transitional Care Center in San Luis Obispo, California (23-bed skilled nursing facility)

## COMPASS HEALTH, INC. AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - ORGANIZATION – CONTINUED

##### Nature of Operations - Continued

7. Mission View Health Care Center in San Luis Obispo, California (162-bed skilled nursing facility)
8. Central Coast Nursing Center in Santa Barbara, California (156-bed skilled nursing facility). The Company took over the operations as of September 1, 2011.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Principles of Consolidation

The consolidated financial statements include the accounts of Compass Health, Inc. (a California S Corporation), and a 50% owned subsidiary Coastal, LLC, which operates Vineyard Hills Health Center and Danish Care Center, (the "Subsidiary"). All significant intercompany accounts and material transactions have been eliminated in consolidation.

##### Basis of Accounting

The Company's consolidated financial statements are prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

##### Net Patient Service Revenue

Patient service revenue is reported as services are performed and is net of contractual allowances. The Company provides services to certain patients covered by various third-party payer programs, including the federal Medicare and state Medi-Cal programs. Billings for services under these third-party payor programs are included in revenues, net of allowance for estimated differences between list prices and allowable program rates. Total contractual allowances, which increased revenues during the years ended December 31, 2013 and 2012 were \$1,239,400 and \$1,837,900, respectively.

Revenues from direct billings under federal Medicare program and state Medi-Cal program, net of contractual allowances, during the years ended December 31, 2013 and 2012 were approximately 94% and 95%, respectively, of net patient service revenue.

## COMPASS HEALTH, INC. AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### Net Patient Service Revenue - Continued

At December 31, 2013 and 2012, the amounts due from federal and state third-party payors were approximately \$6,514,300 and \$7,513,600, respectively, and are included in accounts receivable in the accompanying consolidated financial statements.

##### Net Residential Board and Care Revenue

Residential board and care revenue is recognized on a monthly basis over the period of the leases. The Company rents out the units on a month-to-month basis and therefore, does not account for rental abatements and escalations as deferred rent.

##### Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, or that are convertible to cash on demand, and are subject to an insignificant risk of changes in fair value. These amounts are recorded at cost, which approximates fair value.

##### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists of amounts billed to patients and tenants, net of an allowance for doubtful amounts. Management estimates the allowance for doubtful accounts based on historical losses, net of subsequent recoveries. Accounts are considered past due if the client has not paid within the time allowed on the contract. The Company does not charge interest on accounts receivable. At December 31, 2013 and 2012, allowances for doubtful accounts were \$239,200 and \$252,500, respectively.

##### Plant, Property, and Equipment

Plant, property, and equipment are carried on the accompanying consolidated balance sheets at cost. Depreciation is computed for financial statement purposes using the straight-line method over the estimated useful lives of the respective assets. Useful lives range from 5 to 40 years. Leasehold improvements are amortized over shorter of the life of the lease or the leasehold improvement. Additions, renewals, and betterments expected to extend the lives of the assets are capitalized, while routine repairs and maintenance are charged to expense when incurred.



## COMPASS HEALTH, INC. AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### Impairment of Long-Lived Assets

In accordance with GAAP, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates an asset may not be recoverable, an impairment loss is recognized for the excess of the carrying amount over the fair value of an asset to be held and used or over the fair value less cost to sell an asset to be disposed. During the years ended December 31, 2013 and 2012, there were no events or changes in circumstances indicating that the carrying amount of the long-lived assets may not be recoverable.

##### Intangible Assets

Intangible assets are carried on the accompanying consolidated balance sheets at amortized cost. These assets consisted of deferred financing and software costs. Amortization is computed for financial statement purposes using the straight-line method over the terms of the respective agreements. Useful lives range from 5 to 15 years.

##### Goodwill

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The useful life of these assets is deemed to be indefinite. Indefinite-lived assets are no longer amortized but are subject to annual impairment test.

The Company tests goodwill for impairment during the fourth quarter of each calendar year or more frequently if events or changes in circumstances indicate the asset might be impaired. The Company performs impairment tests using a fair-value method based on management's judgments and assumptions or third party valuations. The fair value represents the amount at which the Company could be bought or sold in a current transaction between willing parties on an arm's-length basis. In estimating the fair value, the Company uses multiples of earnings, based on the average of historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. The estimated fair value is then compared with the carrying amount of the Company's assets and liabilities, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value.

The impairment test performed by the Company in the fourth quarter of 2013 indicated that the estimated fair value of the Company exceeded its corresponding carrying amount including recorded goodwill, and as such, no impairment existed at December 31, 2013.

## COMPASS HEALTH, INC. AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### Goodwill - Continued

As of December 31, 2013, the Company does not believe any significant indicators of impairment exist for goodwill that would require additional analysis before the 2014 annual test.

Management judgment is required in the determination of each assumption utilized in the valuation model, and actual results could differ from the estimates. Management believes it uses reasonable and supportable assumptions when performing impairment tests although it cannot predict the occurrence of future events and circumstances that could result in impairment charges.

##### Fair Value of Financial Instruments

Substantially all of the financial instruments are carried at fair value or amounts approximating fair value. For cash and cash equivalents, accounts receivables, accounts payable, and other current assets and liabilities, the carrying amounts approximate fair value because of the relatively short period of time between the origination of these instruments and their expected realization or payment.

##### Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with high-quality financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Company has cash balances at December 31, 2013 and 2012 that exceed the balance insured by the FDIC in the amount of \$9,013,600 and \$3,439,500, respectively.

With respect to accounts receivable, the Company's customer base consists of a large number of customers. The Company performs credit evaluations and writes off uncollectible amounts as they become known.

## COMPASS HEALTH, INC. AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### Workers' Compensation Payable

Workers' compensation payable predominantly consists of the reserves to cover the Company's estimated liabilities for its workers' compensation claims. The determination of these reserves is based upon a number of factors, including current and historical claims activity, claims payment patterns, and medical cost trends and developments in existing claims. Reserves are adjusted from time to time to reflect new claims, claim developments, or systemic changes, and such adjustments are reflected in the results of operations in the periods in which the reserves are changed.

##### Workers' Compensation Costs

As of May 1, 2007 the Company's workers' compensation coverage is provided through Safety National Casualty Corporation (the "SNCC Plan"), as a Self-Insurer Specific Excess Workers' Compensation and Employers' Liability Insurance.

Under the SNCC Plan in effect through May 1, 2013, workers' compensation losses were subject to a deductible amount of \$500,000 for each occurrence, accident, loss, or claim, with a combined minimum aggregate amount of \$25,000,000 based on an inception payroll of \$28,696,618. This represents the minimum amount of premium to be paid by the Company.

Effective May 2, 2013, the Company renewed the policy for an additional twelve months holding all terms the same, based on an inception payroll of \$31,384,662.

Because the Company bears the economic burden under the SNCC Plan, the claims, which are the primary component of the Company's workers' compensation costs, are recorded in the period incurred. Workers compensation insurance includes ongoing healthcare and indemnity coverage whereby claims are paid over numerous years following the date of injury. Accordingly, the accrual of related incurred costs during each reporting period includes estimates calculated by applying an aggregate loss development rate to worksite employee payroll levels.

##### Deferred Rent

The Company recognizes rent expense for operating lease, including the effect of rent escalations, on a straight-line basis over the lease term. The difference between the cash paid to landlord and the amount recognized as rent expense on a straight-line basis is included in deferred rent.

## COMPASS HEALTH, INC. AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### Management Estimates

The preparation of consolidated financial statements in conformity with GAAP 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### Income Taxes

The Company elected Subchapter S status of the Internal Revenue Code (IRC) for federal and state income tax purposes. Under the applicable statutory rules, income and losses of an S-corporation flow through to the stockholder of the Company and are not taxed at the corporate level. However, the Company is responsible for California franchise tax amounting to the greater of \$800 or 1.5% of taxable income of the Subchapter S-corporation.

The Company recognizes a financial statement benefit of a tax position only after determining that the relevant tax authority would be more likely than not to sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company believes its income tax filing positions and deductions will be sustained upon examination, and, accordingly, no reserves or related accruals for interest and penalties have been recorded as of December 31, 2013 and 2012.

The Company's tax returns are no longer subject to income tax examinations by taxing authorities for years before 2010 for their federal and 2009 for their state tax filings.

##### Recently Adopted Accounting Guidance

In the normal course of business, the Company evaluates new accounting pronouncements to determine the potential impact they may have on its consolidated financial statements. Based upon this review, the Company does not expect any of the recently issued accounting pronouncements, which have not already been adopted by the Company, to have a material impact on its consolidated financial statements.

# COMPASS HEALTH, INC. AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Subsequent Events

In accordance with GAAP, the events occurring between December 31, 2013 and July 09, 2014, the date these consolidated financial statements were issued, were evaluated, and no material subsequent events that required recognition in these consolidated financial statements were noted.

### NOTE 3 - PLANT, PROPERTY, AND EQUIPMENT

At December 31, 2013 and 2012, plant, property, and equipment consisted of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 966,000	\$ 966,000
Facility buildings	5,261,200	5,248,000
Parking structure	170,100	150,100
Fixed equipment	293,000	267,400
Leasehold improvements	1,837,400	1,651,900
Major movable	1,583,600	1,501,600
Minor movable	898,700	855,600
Furniture and fixtures	1,630,900	1,601,800
Construction-in-progress	<u>250,400</u>	<u>232,000</u>
	12,891,300	12,474,400
Less: accumulated depreciation and amortization	<u>(6,590,400)</u>	<u>(5,997,200)</u>
	\$ <u><u>6,300,900</u></u>	\$ <u><u>6,477,200</u></u>

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 were \$593,200 and \$585,800, respectively.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - INTANGIBLE ASSETS

At December 31, 2013 and 2012, intangible assets consisted of the following:

	<u>2013</u>	<u>2012</u>
Deferred financing costs	\$ 72,500	\$ 72,500
Other	<u>4,900</u>	<u>4,900</u>
	77,400	77,400
Less: accumulated amortization	<u>(26,600)</u>	<u>(20,700)</u>
	\$ <u>50,800</u>	\$ <u>56,700</u>

Amortization expense related to intangible assets for the years ended December 31, 2013 and 2012 were \$5,900 and \$21,200, respectively.

NOTE 5 - LINE OF CREDIT

The Company has a line of credit with Rabobank, which permits maximum borrowings up to \$1,000,000 and bears interest at Rabobank prime rate (3.25% at December 31, 2013 and 2012) minus .50%. The line of credit matured on December 18, 2013. During the year ended December 31, 2013, the line of credit was renewed and is set to mature on December 18, 2014. The line of credit is secured essentially by all assets of the Company and is guaranteed by a shareholder. As of December 31, 2013 and 2012, there were no outstanding borrowings.

NOTE 6 - ACCRUED COMPENSATION AND RELATED EXPENSES

At December 31, 2013 and 2012, accrued compensation and related expenses consisted of the following:

	<u>2013</u>	<u>2012</u>
Accrued payroll	\$ 1,767,900	\$ 1,637,900
Accrued vacation, holiday, and sick	993,500	932,300
Workers' compensation payable	1,124,100	890,600
Other accrued liabilities	<u>188,400</u>	<u>156,200</u>
	\$ <u>4,073,900</u>	\$ <u>3,617,000</u>

# COMPASS HEALTH, INC. AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 7 - LONG-TERM DEBT

At December 31, 2013 and 2012, long-term debt consisted of the following:

	<u>2013</u>	<u>2012</u>
Note payable to a financial institution in the amount of \$2,900,000, secured by a first trust deed on Vineyard Hills Health Center, payable monthly in the amount of \$24,600 with interest at 9.13% per annum, due July 2012. The note payable was refinanced during the year ended December 31, 2012. The new note payable in the amount of \$2,100,000 is secured by land and improvements, payable monthly in the amount of \$19,800 with interest at 5.35% per annum, due March 2024.	1,871,000	2,004,600
On April 5, 2005, the Company refinanced two notes with a bank in the amount of \$1,000,000, secured by a first deed on Danish Care Center, payable monthly in the amount of \$7,700 including interest at 6.75% per annum for 60 months, then beginning May 5, 2010 amortized over 15 years payable monthly in the amount of \$7,100 including interest at 5.60% per annum for 60 months, and beginning May 5, 2015 amortized over 10 years with interest at 3.00% over Index per annum for 60 months, due April 5, 2020.	<u>294,100</u>	<u>549,800</u>
	2,165,100	2,554,400
Less: current portion	<u>200,200</u>	<u>189,700</u>
	<u>\$ 1,964,900</u>	<u>\$ 2,364,700</u>

Principal maturities of long-term debt subsequent to December 31, 2013 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 200,200
2014	211,400
2015	223,100
2016	235,600
2017	209,600
2018 and thereafter	<u>1,085,200</u>
	<u>\$ 2,165,100</u>

## COMPASS HEALTH, INC. AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 8 - COMMITMENTS AND CONTINGENCIES

##### a) Lease Commitments

The Company leases its Bayside Care Center and Casa de Flores facilities in Morro Bay, California under an operating lease with an unrelated party. The lease agreement expires in July 2023. The minimum monthly rent payments total approximately \$134,000, with an annual increase of 3.00%.

The Company leases its Arroyo Grande Care Center facility in Arroyo Grande, California under an operating lease with related parties. The lease agreement expires in January 2019 and has an automatic extension for ten years and a one extension for five years. The premises are owned by shareholders of Compass Holding, Inc. The minimum monthly rent payments total approximately \$38,700, with an annual increase of 3.00%.

The Company leases its Wyndham Residence facility in Arroyo Grande, California under an operating lease with a related party. The lease agreement expires in May 2045. The minimum monthly rent payments total approximately \$42,000. It also has an operating ground lease with a related party. The ground lease agreement expires in December 2054. The minimum monthly rent payments total approximately \$4,900.

The Company leases its San Luis Transition Care Center facilities in San Luis Obispo, California under an operating lease with a related party. The lease agreement expires in August 2015 and has two options to extend for five years and one option to extend until January 2033. The minimum monthly rent payments total approximately \$21,400 with an increase every two years based on consumer price index, with maximum of 5.00%.

The Company leases its Mission View Health Care Center facilities in San Luis Obispo, California under an operating lease with a related party. The lease agreement expires in March 2016 and has one option to extend for ten years and two options to extend for five years each. The minimum monthly rent payments total approximately \$46,900, with an annual increase of 3.25%.

The Company leases an office facility in Grover Beach, California under an operating lease with a related party. The lease agreement expired in January 2014 and has two options to extend for five years each. During the year ended December 31, 2013, the Company exercised the first option to extend the lease until February 2019. The minimum monthly rent payments total \$6,500, with an increase every year based on consumer price index, with a minimum increase of 3.00% and maximum of 5.00%.



## COMPASS HEALTH, INC. AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 8 - COMMITMENTS AND CONTINGENCIES – CONTINUED

##### a) Lease Commitments – Continued

The Company leases an office facility in Grover Beach, California under an operating lease with a related party. The lease agreement expires in January 2018 and has two options to extend for five years each. The minimum monthly rent payments total \$2,000, with an increase every year based on consumer price index, with a minimum increase of 3.00% and maximum of 5.00%.

The Company leases its Central Coast Nursing Center facilities in Santa Barbara, California under an operating lease with an unrelated party. The lease agreement expires in September 2026 and has one option to extend for ten years. The minimum monthly rent payments total approximately \$49,300, with an annual maximum increase of 3.00%.

The following is a schedule of future minimum annual rental payments required under those operating lease agreements:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 4,199,700
2015	4,220,400
2016	3,683,600
2017	3,622,600
2018	3,689,700
2019 and thereafter	<u>30,327,200</u>
	<u>\$ 49,743,200</u>

For the years ended December 31, 2013 and 2012, the Company incurred rent expense of \$4,459,300 and \$4,386,100, respectively.

##### b) Litigation

During the normal course of business, the Company is involved in litigations. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Company's future consolidated financial position or result of its operations.

##### c) Guarantor

The Company is a guarantor for two loans on real property owned by related parties. At December 31, 2013, the contingent liabilities guaranteed by these two loans consisted of the following:

# COMPASS HEALTH, INC. AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 8 - COMMITMENTS AND CONTINGENCIES – CONTINUED

#### c) Guarantor – Continued

	<u>Guarantor Value</u>
Real property located at 404 Front St., Avila Beach, CA owned and operated by Old Custom House, Inc.	\$ 1,267,400
Real property located at 1575 Bishop Street, San Luis Obispo, CA owned by Playa Dulce, LLC and operated by the Company.	\$ 1,351,700

### NOTE 9 - 401(k) PROFIT SHARING PLAN

The Company has adopted a 401(k) profit sharing plan (the “Plan”) covering all employees who are at least eighteen years of age and have completed one year of employment. Participating employees may elect to defer up to 19% of their compensation, subject to certain limitations. The Company may make matching contributions equal to a discretionary percentage of the participant’s elective deferral. For the years ended December 31, 2013 and 2012, the Company’s matching contribution to the Plan amounted to \$143,000 and \$127,000, respectively.

### NOTE 10 - RELATED PARTY TRANSACTIONS

The Company has seven operating lease agreements with related parties (See also Note 8). For the years ended December 31, 2013 and 2012, the Company recorded approximately \$1,837,800 and \$1,765,700, respectively, in rent expense. There was no amount due to related parties at December 31, 2013 and 2012.

As of December 31, 2013 and 2012, the Company had advances of \$1,268,100 and \$5,149,700 due from related parties, net. The advances are unsecured, non-interest bearing and due on demand.

Amounts due from related parties, net are as follows as of December 31:

	<u>2013</u>	<u>2012</u>
Compass Holding Inc.	\$ (285,800)	\$ 3,670,900
The Old Custom House Inc.	1,521,100	1,521,100
Various	<u>32,800</u>	<u>(42,300)</u>
	<u>\$ 1,268,100</u>	<u>\$ 5,149,700</u>

· COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - TRANSFER OF ASSETS

In May of 2012, the Company refinanced the Mission View Health Care Center property loan with the U.S. Department of Housing and Urban Development ("HUD"). HUD required all the assets and liability related to property and equipment of Mission View Health Care Center, located in San Luis Obispo, California to be transferred to a Limited Liability Company and the building be leased by the Company through an operating lease from Mission View Properties, LLC, the related party entity created to hold the property and loan with HUD.