

ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED:

12/31/2014PROVIDER(S): Compass Health Inc., dba Bayside Care
Center / Casa de FloresCCRC(S): Bayside Care Center / Casa de FloresCONTACT PERSON: Marie MoyaTELEPHONE NO.: (805) 474-7010 x109 EMAIL: Marie@compass-health.comA complete annual report must consist of 3 copies of all of the following:☒ Annual Report Checklist.☐ Annual Provider Fee in the amount of: \$ 2,124☐ If applicable, late fee in the amount of: \$ 1130.00☒ Certification by the provider's **Chief Executive Officer** that:☒ The reports 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. sent by email on 10/20/15☐ Provider's audited reserve reports (prepared on Department forms), with an accompanying 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.☐ Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable. ✓

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report, but may be submitted at the same time as the annual report.



200 South 13TH Street, Suite 208
Grover Beach, California 93433
Phone (805) 474.7010 | Fax (805) 474.7013

November 3, 2015

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, 2014 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's 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,

A handwritten signature in black ink, appearing to be "D. Smith", written over a horizontal line.

Darren Smith, CEO
Compass Health, Inc., dba
Bayside Care Center and Casa de Flores

FORM 1-1
RESIDENT POPULATION

| <u>Line</u> | <u>Continuing Care Residents</u> | <u>TOTAL</u> |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| [1] | Number at beginning of fiscal year | <u>27</u> |
| [2] | Number at end of fiscal year | <u>50</u> |
| [3] | Total Lines 1 and 2 | <u>77</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;">38.50</div> |
| All Residents | | |
| [6] | Number at beginning of fiscal year | <u>218</u> |
| [7] | Number at end of fiscal year | <u>222</u> |
| [8] | Total Lines 6 and 7 | <u>440</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;">220</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;">.17</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>12,621,800</u> |
| [a] | Depreciation | <u>128,467</u> |
| [b] | Debt Service (Interest Only) | <u> </u> |
| [2] | Subtotal (add Line 1a and 1b) | <u>128,467</u> |
| [3] | Subtract Line 2 from Line 1 and enter result. | <u>12,493,333</u> |
| [4] | Percentage allocated to continuing care residents (Form 1-1, Line 11) | <u>.17</u> |
| [5] | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | <u>2,123,866</u> |
| [6] | Total Amount Due (multiply Line 5 by .001) | <div style="text-align: right;">x .001</div> <div style="text-align: right;"> <u>2123.86</u> <u>2124</u> </div> |

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

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 | 12/31/12 | 140,856 | 96,672 | | 237,528 |
| 2 | 5/5/10 | 8271,073 | 14,296 | | 285,369 |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |
| 7 | | | | | |
| 8 | | | | | |
| TOTAL: | | | | | 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: Compass Health, Inc.

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

| Long-Term Debt Obligation | (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)) |
|---------------------------|----------------------|-----------------------------------------------|--------------------------------------------------|-----------------------------------------------|--------------------------------------------------------------------|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |
| 7 | | | | | |
| 8 | | | | | |
| TOTAL: | | 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) | 522,897 |
| 2 | Total from Form 5-2 bottom of Column (c) | 0 |
| 3 | Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance) | 2,721,294 |
| 4 | TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | 3,244,191 |

PROVIDER: Compass Health, Inc.

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

| Line | | Amounts | TOTAL |
|------|--------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 1 | Total operating expenses from financial statements | | <u>12,621,800</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>128,467</u> | |
| d | Amortization | | |
| e | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | <u>13,127,714</u> | |
| f | Extraordinary expenses approved by the Department | | |
| 3 | Total Deductions | | <u>13,256,181</u> |
| 4 | Net Operating Expenses | | <u>(634,381)</u> |
| 5 | Divide Line 4 by 365 and enter the result. | | <u>(1738)</u> |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | | <u>(130,352)</u> |

= \$0 reserve

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

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Compass Health, Inc.
Fiscal Year Ended: 12/31/14

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2014 and are in compliance with those requirements.

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

| | <u>Amount</u> |
|--------------------------------------|------------------|
| [1] Debt Service Reserve Amount | <u>3,244,191</u> |
| [2] Operating Expense Reserve Amount | <u>0</u> |
| [3] Total Liquid Reserve Amount: | <u>3,244,191</u> |

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

| <u>Qualifying Asset Description</u> | <u>Amount</u> (market value at end of quarter) | |
|--------------------------------------------------------------|---------------------------------------------------|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | <u>\$7,228,200</u> | <u>0</u> |
| [5] Investment Securities | | |
| [6] Equity Securities | | |
| [7] Unused/Available Lines of Credit | <u>\$1M</u> | |
| [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>\$8,228,200</u> | [12] <u>0</u> |
| Total Amount Required: | [13] <u>\$3,244,191</u> | [14] <u>(193,070)</u> |
| Surplus/(Deficiency): | [15] <u>\$4,984,009</u> | [16] <u>193,070</u> |

Signature:


(Authorized Representative)

Date: 11-4-2015


(Title)

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|-----------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | <u>\$2775 - \$4635</u> | <u>\$2675 - \$4635</u> | <u>\$6355 - \$6510</u> |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | <u>Ø</u> | <u>Ø</u> | <u>Ø</u> |

☒ 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: _____
(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

Continuing Care Retirement Community

Date Prepared: 11/3/15

Disclosure Statement

General Information

FACILITY NAME: Bayside Care Center / Casa de Flores
 ADDRESS: 1405 Teresa Dr. Marro Bay ZIP CODE: 93442 PHONE: (805) 772-2237
 PROVIDER NAME: Compass Health, Inc. FACILITY OPERATOR: Compass Health, Inc.
 RELATED FACILITIES: _____ RELIGIOUS AFFILIATION: _____
 YEAR OPENED: 1995 # OF ACRES: 5.4 ☐ SINGLE STORY ☐ MULTI-STORY ☒ OTHER: Both MILES TO SHOPPING CTR: 1
 MILES TO HOSPITAL: 20

NUMBER OF UNITS:

RESIDENTIAL LIVING

APARTMENTS — STUDIO: 61
 APARTMENTS — 1 BDRM: 26
 APARTMENTS — 2 BDRM: 5
 COTTAGES/HOUSES: _____
 RLU OCCUPANCY (%) AT YEAR END: _____

HEALTH CARE

ASSISTED LIVING: _____
 SKILLED NURSING: 145
 SPECIAL CARE: _____
 DESCRIPTION: > _____

TYPE OF OWNERSHIP: ☐ NOT-FOR-PROFIT ☒ FOR-PROFIT ACCREDITED?: ☐ YES ☐ NO BY: _____

FORM OF CONTRACT: ☒ CONTINUING CARE ☐ LIFE CARE ☒ ENTRANCE FEE ☐ FEE FOR SERVICE
 (Check all that apply) ☐ ASSIGNMENT OF ASSETS ☐ EQUITY ☐ MEMBERSHIP ☐ RENTAL

REFUND PROVISIONS: (Check all that apply) ☐ 90% ☐ 75% ☐ 50% ☐ FULLY AMORTIZED ☐ OTHER: _____

RANGE OF ENTRANCE FEES: \$ 500 - \$ 500 LONG-TERM CARE INSURANCE REQUIRED? ☐ YES ☒ NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: _____

ENTRY REQUIREMENTS: MIN. AGE: 65 PRIOR PROFESSION: _____ OTHER: _____

RESIDENT REPRESENTATIVE(S) TO THE BOARD (briefly describe their involvement): > _____

FACILITY SERVICES AND AMENITIES

| COMMON AREA AMENITIES | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
|-----------------------|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| BEAUTY/BARBER SHOP | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING (<u>3</u> TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BILLIARD ROOM | <input type="checkbox"/> | <input type="checkbox"/> | MEALS (<u>3</u> /DAY) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input type="checkbox"/> | <input type="checkbox"/> |
| 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 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"/> | | | |

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.

OTHER CCRCs

LOCATION (City, State)

PHONE (with area code)

Bayside Care Center

Morro Bay, CA

(805) 772-2237

Casa de Flores

MULTI-LEVEL RETIREMENT COMMUNITIES

LOCATION (City, State)

PHONE (with area code)

FREE-STANDING SKILLED NURSING

LOCATION (City, State)

PHONE (with area code)

SUBSIDIZED SENIOR HOUSING

LOCATION (City, State)

PHONE (with area code)

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Compass Health Inc dba Bay Side Care Center
CASA DE FLORES

| | 2012 | 2013 | 2014 | 2015 |
|------------------------------------------------------------------------------|------|------------|------------|------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME | | | | |
| (Excluding amortization of entrance fee income) | | 13,311,705 | 12,776,400 | |
| LESS OPERATING EXPENSES | | | | |
| (Excluding depreciation, amortization, and interest) | | 11,816,837 | 11,753,854 | |
| NET INCOME FROM OPERATIONS | | 1,494,868 | 1,022,546 | |
| 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 | 1,022,546 | |
| NET CASH FLOW FROM ENTRANCE FEES | | | | |
| (Total Deposits Less Refunds) | | 16,000 | 12,000 | |

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)

| | 2013 CCAC Medians 50 th Percentile (optional) | 2013 | 2014 | 2015 |
|-----------------------------|----------------------------------------------------------------|------|------|------|
| DEBT TO ASSET RATIO | | 0 | 0 | |
| OPERATING RATIO | | .88 | .96 | |
| DEBT SERVICE COVERAGE RATIO | | | | |
| DAYS CASH ON HAND RATIO | | 350 | 353 | |

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

| | 2012 | % | 2013 | % | 2014 | % | 2015 |
|-----------------|------|---|-----------|---|-----------|---|------|
| STUDIO | | | 2675-2775 | 3 | 2775-2858 | | |
| ONE BEDROOM | | | 3825-4025 | 2 | 3940-4146 | | |
| TWO BEDROOM | | | 4500 | 2 | 4635 | | |
| COTTAGE/HOUSE | | | | | | | |
| ASSISTED LIVING | | | 2675-4500 | 3 | 2775-4635 | | |
| SKILLED NURSING | | | 6355-6510 | 0 | 6355-6510 | | |
| SPECIAL CARE | | | | | | | |

COMMENTS FROM PROVIDER: > _____
 > _____
 > _____



CERTIFICATE OF LIABILITY INSURANCE

5/1/2016

DATE (MM/DD/YYYY)

4/30/2015

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.): |
| INSURED 1041658 Compass Health, Inc. Dba: Bayside Care Center 1405 Teresa Dr. Morro Bay, CA 93442 | E-MAIL ADDRESS: | |
| | INSURER(S) AFFORDING COVERAGE | |
| | INSURER A: Torus Specialty Insurance Company | NAIC # 44776 |
| | 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 <input checked="" type="checkbox"/> Ded of \$100K 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 | 5/1/2015 | 5/1/2016 | 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 - COMP/OP AGG \$ XXXXXXXX \$ |
| | AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED 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 \$ 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"/> OTH-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)
General Liability Additional Insured applies to the Zinn Group, Seashell Communities Asset with respects to the operations of Compass Health, Inc., Bayside Care Center (fka: 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

TABLE 1
CASA DE FLORES/BAYSIDE CARE CENTER
REVENUE ASSUMPTIONS

| Fiscal Year Ending 12/31 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <u>ASSISTED LIVING</u> | | | | | | |
| Available Units | 92.0 | 92.0 | 92.0 | 92.0 | 92.0 | 92.0 |
| Occupied Units - Rental | 46.9 | 37.0 | 27.0 | 17.0 | 7.0 | 0.0 |
| Occupied Units - CCRC | 30.0 | 40.0 | 50.0 | 60.0 | 70.0 | 77.0 |
| Occupied Units - Total | 76.9 | 77.0 | 77.0 | 77.0 | 77.0 | 77.0 |
| Percent Occupancy | 83.6% | 83.7% | 83.7% | 83.7% | 83.7% | 83.7% |
| Average Monthly Fee - Rental | \$3,596 | \$3,740 | \$3,890 | \$4,046 | \$4,207 | \$4,376 |
| Average Monthly Fee - CCRC | \$3,596 | \$3,740 | \$3,890 | \$4,046 | \$4,207 | \$4,376 |
| <u>ANNUAL REVENUES (000s)</u> | | | | | | |
| Monthly Fees - Rental | \$2,024 | \$1,661 | \$1,260 | \$825 | \$353 | \$0 |
| Monthly Fees - CCRC | \$1,295 | \$1,795 | \$2,334 | \$2,913 | \$3,534 | \$4,043 |
| ANNUAL AL REVENUES (000s) | \$3,319 | \$3,456 | \$3,594 | \$3,738 | \$3,888 | \$4,043 |
| <u>SKILLED NURSING</u> | | | | | | |
| Available Beds | 145.0 | 145.0 | 145.0 | 145.0 | 145.0 | 145.0 |
| Occupied Beds | 132.0 | 132.0 | 132.0 | 132.0 | 132.0 | 132.0 |
| Percent Occupancy | 91.0% | 91.0% | 91.0% | 91.0% | 91.0% | 91.0% |
| Percent CCRC Occupants | 5.0% | 7.0% | 9.0% | 11.0% | 13.0% | 13.0% |
| Number CCRC Occupants | 6.6 | 9.2 | 11.9 | 14.5 | 17.2 | 17.2 |
| <u>PAYOR MIX</u> | | | | | | |
| Medi-Cal | 102.0 | 102.0 | 102.0 | 102.0 | 102.0 | 102.0 |
| Medicare | 16.0 | 16.0 | 16.0 | 16.0 | 16.0 | 16.0 |
| Private Pay/HMO | 13.0 | 12.5 | 12.0 | 11.5 | 11.0 | 11.0 |
| Private Pay/HMO - CCRC | 1.0 | 1.5 | 2.0 | 2.5 | 3.0 | 3.0 |
| Average Rev/Day - Medi-Cal | \$180 | \$185 | \$189 | \$194 | \$199 | \$204 |
| Average Rev/Day - Medicare | \$400 | \$410 | \$420 | \$431 | \$442 | \$453 |
| Average Rev/Day - Other | \$225 | \$231 | \$236 | \$242 | \$248 | \$255 |
| Annual Revenues - Medi-Cal | \$6,701 | \$6,869 | \$7,041 | \$7,217 | \$7,397 | \$7,582 |
| Annual Revenues - Medicare | 2,336 | 2,394 | 2,454 | 2,516 | 2,579 | 2,643 |
| Annual Revenues - Other | 1,150 | 1,178 | 1,208 | 1,238 | 1,269 | 1,301 |
| ANNUAL REVENUES (000s) | \$10,187 | \$10,442 | \$10,703 | \$10,970 | \$11,245 | \$11,526 |
| SNF Non-CCRC | \$9,678 | \$9,711 | \$9,740 | \$9,764 | \$9,783 | \$10,027 |
| CCRC Revenue | \$509 | \$731 | \$963 | \$1,207 | \$1,462 | \$1,498 |
| <u>OPERATING RESERVE CALCULATION</u> | | | | | | |
| Operating Expenses | \$11,336 | \$11,675 | \$12,025 | \$12,385 | \$12,755 | \$13,137 |
| Less: Non-CCRC Revenue | (\$11,702) | (\$11,372) | (\$11,000) | (\$10,589) | (\$10,136) | (\$10,027) |
| Net Operating Expense | (\$366) | \$304 | \$1,025 | \$1,796 | \$2,619 | \$3,110 |
| Op Reserves @ 75 Days | \$0 | \$62 | \$211 | \$369 | \$538 | \$639 |

TABLE 2
CASA DE FLORES/BAYSIDE CARE CENTER
STATEMENTS OF ACTIVITIES
(\$000s)

| Fiscal Year Ending 12/31 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| REVENUE | | | | | | |
| Monthly Fees - AL | \$3,319 | \$3,456 | \$3,594 | \$3,738 | \$3,888 | \$4,043 |
| Net Patient Revenue - SNF | 10,187 | 10,442 | 10,703 | 10,970 | 11,245 | 11,526 |
| Other Revenues | 68 | 69 | 71 | 74 | 76 | 78 |
| Total Revenue | \$13,574 | \$13,967 | \$14,369 | \$14,782 | \$15,208 | \$15,647 |
| EXPENSES | | | | | | |
| Nursing/Ancillary - SNF | \$4,774 | \$4,918 | \$5,065 | \$5,217 | \$5,374 | \$5,535 |
| Nursing - AL | 699 | 720 | 742 | 764 | 787 | 811 |
| Plant | 710 | 731 | 753 | 776 | 799 | 823 |
| Housekeeping/Laundry | 567 | 584 | 602 | 620 | 639 | 658 |
| Dietary | 1,586 | 1,633 | 1,682 | 1,733 | 1,785 | 1,838 |
| Resident Services | 641 | 660 | 680 | 701 | 722 | 743 |
| Administration/Property | 1,750 | 1,803 | 1,857 | 1,913 | 1,970 | 2,029 |
| Quality Assurance Fees | 0 | 0 | 0 | 0 | 0 | 0 |
| Management Fee | 608 | 625 | 643 | 662 | 681 | 701 |
| Depreciation & Amortization | 130 | 149 | 167 | 186 | 206 | 226 |
| Building Lease Payments | 1,606 | 1,663 | 1,721 | 1,781 | 1,843 | 1,908 |
| Total Expenses | \$13,072 | \$13,486 | \$13,913 | \$14,352 | \$14,805 | \$15,271 |
| Change in Net Income | \$501 | \$481 | \$456 | \$430 | \$403 | \$376 |
| Contribution (Distribution) | (\$1,000) | (\$450) | (\$450) | (\$450) | (\$450) | (\$450) |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in Shareholder's Equity | (\$499) | \$31 | \$6 | (\$20) | (\$47) | (\$74) |
| BALANCE (DEFICIT) | (\$195) | (\$163) | (\$157) | (\$177) | (\$224) | (\$298) |

TABLE 3
CASA DE FLORES/BAYSIDE CARE CENTER
STATEMENTS OF FINANCIAL POSITION
(\$000s)

| Fiscal Year Ending 12/31 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| ASSETS | | | | | | | |
| Cash & Equivalents - Unrestr. | (\$36) | \$107 | \$102 | \$92 | \$77 | \$58 | \$33 |
| Due From Related Parties/Other | 1,781 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Total Current Assets | \$1,745 | \$1,107 | \$1,102 | \$1,092 | \$1,077 | \$1,058 | \$1,033 |
| Net Fixed Assets | \$656 | \$826 | \$928 | \$1,010 | \$1,074 | \$1,118 | \$1,142 |
| TOTAL ASSETS | \$2,401 | \$1,933 | \$2,029 | \$2,102 | \$2,151 | \$2,176 | \$2,175 |
| LIABILITIES | | | | | | | |
| Accts. Payable/Accr. Exp. | \$2,097 | \$2,127 | \$2,193 | \$2,260 | \$2,329 | \$2,400 | \$2,473 |
| Other Current Liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Current Liabilities | \$2,097 | \$2,127 | \$2,193 | \$2,260 | \$2,329 | \$2,400 | \$2,473 |
| TOTAL LIABILITIES | \$2,097 | \$2,127 | \$2,193 | \$2,260 | \$2,329 | \$2,400 | \$2,473 |
| SHAREHOLDER'S EQUITY | \$304 | (\$195) | (\$163) | (\$157) | (\$177) | (\$224) | (\$298) |
| TOTAL EQUITY/LIABILITIES | \$2,401 | \$1,933 | \$2,029 | \$2,102 | \$2,151 | \$2,176 | \$2,175 |

TABLE 4
CASA DE FLORES/BAYSIDE CARE CENTER
STATEMENTS OF CASH FLOWS
(\$000s)

| Fiscal Year Ending 12/31 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------------------|------------------|----------------|----------------|----------------|----------------|----------------|
| <u>OPERATING ACTIVITIES</u> | | | | | | |
| Change in Net Income | \$501 | \$481 | \$456 | \$430 | \$403 | \$376 |
| Depreciation and Amortization | 130 | 149 | 167 | 186 | 206 | 226 |
| Changes in Assets/Liabilities | 811 | 65 | 67 | 69 | 71 | 73 |
| Cash From Operating Act. | \$1,443 | \$695 | \$690 | \$686 | \$680 | \$675 |
| <u>INVESTING ACTIVITIES</u> | | | | | | |
| Capital Expenditures | (\$300) | (\$250) | (\$250) | (\$250) | (\$250) | (\$250) |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash From Investing Act. | (\$300) | (\$250) | (\$250) | (\$250) | (\$250) | (\$250) |
| <u>FINANCING ACTIVITIES</u> | | | | | | |
| Principal | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Contribution (Distribution) | (1,000) | (450) | (450) | (450) | (450) | (450) |
| Cash From Financing Act. | (\$1,000) | (\$450) | (\$450) | (\$450) | (\$450) | (\$450) |
| Net Change in Cash/Inv. | \$143 | (\$5) | (\$10) | (\$14) | (\$20) | (\$25) |
| Cash & Investments | \$107 | \$102 | \$92 | \$77 | \$58 | \$33 |
| <u>Reserve Calculation</u> | | | | | | |
| Available Reserves - CHI | \$8,200 | \$8,200 | \$8,200 | \$8,200 | \$8,200 | \$8,200 |
| Op. Reserve Req. - 75 days | \$0 | \$62 | \$211 | \$369 | \$538 | \$639 |
| Lease Reserve Req. - 1 year | \$1,606 | \$1,663 | \$1,721 | \$1,781 | \$1,843 | \$1,908 |
| Total Reserve Requirement | \$1,606 | \$1,725 | \$1,931 | \$2,150 | \$2,381 | \$2,547 |
| Surplus Reserves | \$6,594 | \$6,475 | \$6,269 | \$6,050 | \$5,819 | \$5,653 |

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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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 consolidated balance sheets as of December 31, 2014 and 2013, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 2014 and 2013, 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.



September 21, 2015

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

| ASSETS | | 2014 | 2013 |
|---------------------------------------------------------------------------------------------|----|--------------------------|-----------------------------|
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ | 7,228,200 | \$ 8,802,300 |
| Accounts receivable, net | | 7,615,000 | 7,558,800 |
| Supplies | | 3,100 | 2,900 |
| Prepaid expenses | | 803,400 | 487,700 |
| Due from related parties, net | | <u>1,675,900</u> | <u>1,268,100</u> |
| Total current assets | | 17,325,600 | 18,119,800 |
| PLANT, PROPERTY, AND EQUIPMENT, net | | 6,424,000 | 6,300,900 |
| INTANGIBLE ASSETS, net | | 45,100 | 50,800 |
| GOODWILL | | 1,000,000 | 1,000,000 |
| DEPOSITS AND OTHER ASSETS | | <u>108,800</u> | <u>108,800</u> |
| Total assets | \$ | <u><u>24,903,500</u></u> | <u><u>\$ 25,580,300</u></u> |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$ | 1,605,000 | \$ 1,511,200 |
| Accrued compensation and related expenses | | 4,426,700 | 4,073,900 |
| Income taxes payable | | 108,100 | 114,700 |
| Security deposits and other liabilities | | 866,700 | 1,274,300 |
| Current portion of long-term debt | | <u>171,600</u> | <u>200,200</u> |
| Total current liabilities | | 7,178,100 | 7,174,300 |
| LONG-TERM ACCRUED EXPENSES | | 1,000,000 | 1,000,000 |
| LONG-TERM DEBT, net of current portion | | 1,581,600 | 1,964,900 |
| DEFERRED RENT | | <u>1,628,300</u> | <u>1,417,700</u> |
| Total liabilities | | 11,388,000 | 11,556,900 |
| 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>9,477,000</u> | <u>10,108,800</u> |
| | | 11,488,800 | 12,120,600 |
| Minority interest | | <u>2,026,700</u> | <u>1,902,800</u> |
| Total shareholder's equity | | <u>13,515,500</u> | <u>14,023,400</u> |
| Total liabilities and shareholder's equity | \$ | <u><u>24,903,500</u></u> | <u><u>\$ 25,580,300</u></u> |

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

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
AND SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | <u>2014</u> | <u>2013</u> |
|-------------------------------------------------------------|---------------------|----------------------|
| REVENUES: | | |
| Net patient service revenue | \$ 61,532,600 | \$ 59,890,600 |
| Net residential board and care revenue | 5,926,300 | 5,771,300 |
| Other income | <u>110,700</u> | <u>61,300</u> |
| Total revenues | <u>67,569,600</u> | <u>65,723,200</u> |
| EXPENSES: | | |
| Nursing services | 26,749,800 | 25,390,700 |
| Plant operations and maintenance | 3,086,600 | 3,018,900 |
| Housekeeping and laundry | 2,413,900 | 2,298,500 |
| Dietary | 5,599,400 | 5,371,200 |
| Social services and activities | 1,574,900 | 1,554,000 |
| Education | 534,900 | 529,500 |
| General and administrative | 19,323,500 | 19,449,600 |
| Interest expense | 111,700 | 135,300 |
| Pharmacy | 1,929,300 | 1,870,000 |
| Laboratory | 125,000 | 163,300 |
| X-ray | <u>216,900</u> | <u>212,600</u> |
| Total expenses | <u>61,665,900</u> | <u>59,993,600</u> |
| INCOME BEFORE MINORITY INTEREST AND INCOME TAX PROVISION | 5,903,700 | 5,729,600 |
| MINORITY INTEREST | <u>(623,900)</u> | <u>(610,000)</u> |
| INCOME BEFORE INCOME TAX PROVISION | 5,279,800 | 5,119,600 |
| INCOME TAX PROVISION | <u>(120,700)</u> | <u>(127,300)</u> |
| NET INCOME | 5,159,100 | 4,992,300 |
| DISTRIBUTIONS TO SHAREHOLDER | (5,790,900) | (6,831,100) |
| RETAINED EARNINGS, beginning of year | <u>10,108,800</u> | <u>11,947,600</u> |
| RETAINED EARNINGS, end of year | \$ <u>9,477,000</u> | \$ <u>10,108,800</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, 2014 AND 2013

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 5,159,100 | \$ 4,992,300 |
| Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities: | | |
| Minority interest | 623,900 | 610,000 |
| Depreciation and amortization | 626,100 | 599,100 |
| Loss on disposal of plant, property, and equipment | 3,200 | - |
| Deferred rent | 210,600 | 275,700 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable, net | (56,200) | 796,400 |
| (Increase) in supplies | (200) | (100) |
| (Increase) decrease in prepaid expenses | (315,700) | 44,800 |
| (Increase) decrease in due from related parties, net | (407,800) | 3,881,600 |
| (Increase) in deposits and other assets | - | (1,900) |
| Increase in accounts payable | 93,800 | 166,800 |
| Increase in accrued compensation and related expenses | 352,800 | 456,900 |
| (Decrease) in income taxes payable | (6,600) | (10,000) |
| (Decrease) increase in security deposits and other liabilities | <u>(407,600)</u> | <u>16,800</u> |
| Net cash and cash equivalents provided by operating activities | <u>5,875,400</u> | <u>11,828,400</u> |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Acquisition of plant, property, and equipment | <u>(746,700)</u> | <u>(416,900)</u> |
| Net cash and cash equivalents (used in) investing activities | <u>(746,700)</u> | <u>(416,900)</u> |
| CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Principal payments on long-term debt | (411,900) | (389,300) |
| Distributions to minority interest | (500,000) | (950,000) |
| Distributions to shareholder | <u>(5,790,900)</u> | <u>(6,831,100)</u> |
| Net cash and cash equivalents (used in) financing activities | <u>(6,702,800)</u> | <u>(8,170,400)</u> |
| Net change in cash and cash equivalents | (1,574,100) | 3,241,100 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>8,802,300</u> | <u>5,561,200</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 7,228,200</u> | <u>\$ 8,802,300</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, 2014 AND 2013

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|-------------------|-------------------|
| Cash paid during the year for: | | |
| Income taxes | \$ <u>127,300</u> | \$ <u>137,200</u> |
| Interest paid | \$ <u>111,700</u> | \$ <u>135,300</u> |

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 1082 employees, with approximately 875 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. Alto Lucero Transitional Care Center in Santa Barbara, California (156-bed skilled nursing facility).

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, 2014 and 2013 were \$190,400 and \$1,239,400, respectively.

Revenues from direct billings under federal Medicare program and state Medi-Cal program, net of contractual allowances, during the years ended December 31, 2014 and 2013 were approximately 96% and 94%, 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, 2014 and 2013, the amounts due from federal and state third-party payors were approximately \$6,635,100 and \$6,514,300, 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, 2014 and 2013, allowances for doubtful accounts were \$236,800 and \$239,200, 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, 2014 and 2013, 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 2014 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, 2014.

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, 2014, the Company does not believe any significant indicators of impairment exist for goodwill that would require additional analysis before the 2015 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, 2014 and 2013 that exceed the balance insured by the FDIC in the amount of \$7,532,900 and \$9,013,600, 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, 2014, 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 \$31,384,700. This represents the minimum amount of premium to be paid by the Company.

Effective May 2, 2014, the Company renewed the policy for an additional twelve months holding all terms the same, based on an inception payroll of \$31,629,800.

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, 2014 and 2013.

The Company's tax returns are no longer subject to income tax examinations by taxing authorities for years before 2011 for their federal and 2010 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, 2014 and September 21, 2015, 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, 2014 and 2013, plant, property, and equipment consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|----------------------------------------------------|---------------------|---------------------|
| Land | \$ 966,000 | \$ 966,000 |
| Facility buildings | 5,288,300 | 5,261,200 |
| Parking structure | 303,600 | 170,100 |
| Fixed equipment | 316,900 | 293,000 |
| Leasehold improvements | 1,983,800 | 1,837,400 |
| Major movable | 1,720,600 | 1,583,600 |
| Minor movable | 876,100 | 898,700 |
| Furniture and fixtures | 1,776,900 | 1,630,900 |
| Construction-in-progress | <u>312,200</u> | <u>250,400</u> |
| | 13,544,400 | 12,891,300 |
| Less: accumulated depreciation and amortization | <u>(7,120,400)</u> | <u>(6,590,400)</u> |
| | <u>\$ 6,424,000</u> | <u>\$ 6,300,900</u> |

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 were \$620,400 and \$593,200, respectively.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - INTANGIBLE ASSETS

At December 31, 2014 and 2013, intangible assets consisted of the following:

| | <u>2014</u> | <u>2013</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>(32,300)</u> | <u>(26,600)</u> |
| | \$ <u>45,100</u> | \$ <u>50,800</u> |

Amortization expense related to intangible assets for the years ended December 31, 2014 and 2013 were \$5,700 and \$5,900, 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, 2014 and 2013) minus .50%. The line of credit matured on December 18, 2014. During the year ended December 31, 2014, the line of credit was renewed and is set to mature on December 18, 2015. The line of credit is secured essentially by all assets of the Company and is guaranteed by a shareholder. As of December 31, 2014 and 2013, there were no outstanding borrowings.

NOTE 6 - ACCRUED COMPENSATION AND RELATED EXPENSES

At December 31, 2014 and 2013, accrued compensation and related expenses consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|-------------------------------------|---------------------|---------------------|
| Accrued payroll | \$ 1,893,900 | \$ 1,767,900 |
| Accrued vacation, holiday, and sick | 1,140,900 | 993,500 |
| Workers' compensation payable | 1,188,000 | 1,124,100 |
| Other accrued liabilities | <u>203,900</u> | <u>188,400</u> |
| | \$ <u>4,426,700</u> | \$ <u>4,073,900</u> |

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM DEBT

At December 31, 2014 and 2013, long-term debt consisted of the following:

| | <u>2014</u> | <u>2013</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. | 1,730,200 | 1,871,000 |
| 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. | 23,000 | 294,100 |
| | 1,753,200 | 2,165,100 |
| Less: current portion | 171,600 | 200,200 |
| | <u>\$ 1,581,600</u> | <u>\$ 1,964,900</u> |

Principal maturities of long-term debt subsequent to December 31, 2014 are as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|-------------------------------------|---------------------|
| 2015 | \$ 171,600 |
| 2016 | 156,700 |
| 2017 | 165,300 |
| 2018 | 174,400 |
| 2019 | 183,900 |
| 2020 and thereafter | 901,300 |
| | <u>\$ 1,753,200</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 \$137,800, 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 \$39,900, 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 Transitional Care Center facility 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. During the year ended December 31, 2015, the Company exercised the first option to extend the lease until August 2020. The minimum monthly rent payments total approximately \$22,200 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 facility 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 \$48,500, 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 \$6,700, 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 Alto Lucero Transitional Care Center facility 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 \$50,800, 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> |
|-------------------------------------|----------------------|
| 2015 | \$ 4,311,000 |
| 2016 | 3,957,300 |
| 2017 | 3,901,800 |
| 2018 | 3,974,500 |
| 2019 | 3,477,100 |
| 2020 and thereafter | <u>27,336,900</u> |
| | <u>\$ 46,958,600</u> |

For the years ended December 31, 2014 and 2013, the Company incurred rent expense of \$4,484,300 and \$4,459,300, 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, 2014, 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. | \$ 1,233,500 |
| Real property located at 1575 Bishop Street, San Luis Obispo, CA owned by Playa Dulce, LLC and operated by the Company. | \$ 1,280,700 |

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, 2014 and 2013, the Company’s matching contribution to the Plan amounted to \$164,000 and \$143,000, 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, 2014 and 2013, the Company recorded approximately \$1,871,500 and \$1,837,800, respectively, in rent expense. There was no amount due to related parties at December 31, 2014 and 2013.

As of December 31, 2014 and 2013, the Company had advances of \$1,675,900 and \$1,268,100 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>2014</u> | <u>2013</u> |
|---------------------------|---------------------|---------------------|
| Compass Holding Inc. | \$ - | \$ (285,800) |
| The Old Custom House Inc. | 1,521,100 | 1,521,100 |
| Various | <u>154,800</u> | <u>32,800</u> |
| | <u>\$ 1,675,900</u> | <u>\$ 1,268,100</u> |

COMPASS HEALTH, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2014



SETO KIRAKOSIAN
Accountancy, Corp

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

Independent Auditors' Report on Consolidating Information

We have audited the consolidated financial statements of Compass Health, Inc. and Subsidiary (the "Company"), as of and for the year ended December 31, 2014 and 2013, and our report thereon dated September 21, 2015, which expressed an unmodified opinion on those financial statements, appears on page 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on page 21 and 22 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows of the individual companies or facilities.

The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in dark ink, appearing to read 'Seto Kirakosian', with a long horizontal flourish extending to the right.

September 21, 2015

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEETS

DECEMBER 31, 2014

SEE INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

| | AGCC | ALTC | BCC | CJF | CHU | DCC | MVHC | SLTC | TPY | VIBIC | WYND | Eliminations | Total |
|------------------------------------------------------|--------------|--------------|---------------|-----------------|--------------|-------------|--------------|-------------|------------|--------------|------------|----------------|---------------|
| CURRENT ASSETS: | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ (90,500) | \$ (84,600) | \$ (101,000) | \$ (1,200) | \$ 6,880,700 | \$ 212,800 | \$ (50,700) | \$ (20,800) | \$ (7,500) | \$ 1,116,700 | \$ 180,300 | \$ - | \$ 7,228,200 |
| Accounts receivable, net | 994,800 | 1,242,600 | 1,689,100 | (11,700) | 36,500 | 603,600 | 1,512,700 | 494,700 | 2,000 | 1,077,900 | (30,600) | - | 7,615,600 |
| Supplies | - | - | - | - | - | - | - | - | - | - | 3,100 | - | 3,100 |
| Prepaid expenses | 92,800 | 52,000 | 103,500 | 20,000 | 340,200 | 48,100 | 12,500 | 23,400 | 500 | 81,200 | 9,200 | - | 805,400 |
| Due from related parties, net | - | - | 18,543,400 | (18,542,200) | 3,179,800 | (2,388,900) | 2,000 | - | - | 2,316,200 | - | (1,431,400) | 1,675,900 |
| Total current assets | 997,100 | 1,210,000 | 20,235,000 | (18,535,100) | 9,634,200 | (1,525,000) | 1,496,500 | 501,300 | (5,000) | 4,586,600 | 162,000 | (1,431,400) | 17,325,600 |
| PLANT, PROPERTY, AND EQUIPMENT, net | 519,800 | 443,900 | 465,300 | 339,300 | 196,700 | 1,600,200 | - | 156,500 | 1,200 | 2,701,100 | - | - | 6,424,000 |
| INTANGIBLE ASSETS, net | - | - | - | - | - | 8,300 | - | - | - | 36,800 | - | - | 45,100 |
| GOODWILL | - | 1,000,000 | - | - | - | - | - | - | - | - | - | - | 1,000,000 |
| DEPOSITS AND OTHER ASSETS | 18,000 | 40,000 | - | - | 16,800 | - | 34,000 | - | - | - | - | - | 108,800 |
| Total assets | \$ 1,534,900 | \$ 2,693,900 | \$ 20,700,300 | \$ (18,195,800) | \$ 9,847,700 | \$ 83,500 | \$ 1,530,500 | \$ 657,800 | \$ (3,800) | \$ 7,323,900 | \$ 162,000 | \$ (1,431,400) | \$ 24,903,500 |
| CURRENT LIABILITIES: | | | | | | | | | | | | | |
| Accounts payable | \$ 245,400 | \$ 244,400 | \$ 193,600 | \$ 62,100 | \$ 55,400 | \$ 129,800 | \$ 303,900 | \$ 97,000 | \$ - | \$ 256,400 | \$ 34,600 | \$ - | \$ 1,605,000 |
| Accrued compensation and related expenses | 499,500 | 650,800 | 711,000 | 35,500 | 106,900 | 265,200 | 914,800 | 132,900 | 470,800 | 474,400 | 106,100 | - | 4,426,700 |
| Income taxes payable | - | - | - | - | 108,100 | - | - | - | - | - | - | - | 108,100 |
| Security deposits and other liabilities | - | 252,800 | 238,400 | 270,000 | 32,500 | - | 90,800 | - | - | - | - | - | 866,700 |
| Current portion of long-term debt | - | - | - | - | - | 23,000 | - | - | - | 148,600 | - | - | 271,600 |
| Total current liabilities | 744,900 | 1,128,400 | 1,143,000 | 367,600 | 362,000 | 418,000 | 1,313,700 | 229,900 | 470,800 | 829,100 | 140,700 | - | 7,178,100 |
| LONG-TERM ACCRUED EXPENSES | - | 1,000,000 | - | - | - | - | - | - | - | - | - | - | 1,000,000 |
| LONG-TERM DEBT, net of current portion | - | - | - | - | - | - | - | - | - | 1,581,600 | - | - | 1,581,600 |
| DEFERRED RENT | - | 620,800 | 1,007,516 | - | - | - | - | - | - | - | - | - | 1,628,316 |
| Total liabilities | 744,900 | 2,749,200 | 2,150,500 | 367,600 | 362,000 | 418,000 | 1,313,700 | 229,900 | 470,800 | 2,440,700 | 140,700 | - | 11,388,000 |
| COMMITMENTS AND CONTINGENCIES | - | - | - | - | - | - | - | - | - | - | - | - | - |
| SHAREHOLDER'S EQUITY: | | | | | | | | | | | | | |
| Controlling interests: | | | | | | | | | | | | | |
| Common stock, no par value, 1,000 shares authorized; | | | | | | | | | | | | | |
| 1,000 shares issued and outstanding | 900 | - | 30,000 | - | 1,000 | - | - | - | - | - | - | - | 31,900 |
| Paid-in-capital | 209,300 | - | - | - | 1,770,600 | (1,121,100) | - | - | - | 2,557,000 | - | (1,435,900) | 1,979,800 |
| Retained earnings | 579,800 | (55,300) | 18,519,800 | (18,563,400) | 7,714,100 | 710,400 | 216,800 | 427,900 | (474,600) | 375,700 | 21,300 | 4,500 | 9,477,000 |
| | 790,000 | (55,300) | 18,549,800 | (18,563,400) | 9,485,700 | (410,700) | 216,800 | 427,900 | (474,600) | 2,932,700 | 21,300 | (1,431,400) | 11,488,800 |
| Minority interest | - | - | - | - | - | 76,200 | - | - | - | 1,950,500 | - | - | 2,026,700 |
| Total shareholder's equity | 790,000 | (55,300) | 18,549,800 | (18,563,400) | 9,485,700 | (334,500) | 216,800 | 427,900 | (474,600) | 4,883,200 | 21,300 | (1,431,400) | 13,511,500 |
| Total liabilities and shareholder's equity | \$ 1,534,900 | \$ 2,693,900 | \$ 20,700,300 | \$ (18,195,800) | \$ 9,847,700 | \$ 83,500 | \$ 1,530,500 | \$ 657,800 | \$ (3,800) | \$ 7,323,900 | \$ 162,000 | \$ (1,431,400) | \$ 24,903,500 |

COMPASS HEALTH, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENTS OF OPERATIONS AND SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014
SEE INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

| | AOC | ALT | BCC | CDF | CHI | DCC | MVHC | SLTC | TPV | VTHC | WYND | Eliminations | Total |
|----------------------------------------------------------|--------------|---------------|---------------|-----------------|--------------|--------------|---------------|--------------|--------------|--------------|-----------|--------------|---------------|
| REVENUES: | | | | | | | | | | | | | |
| Net patient service revenue | \$ 8,386,700 | \$ 10,509,200 | \$ 10,242,800 | \$ - | \$ - | \$ 5,160,300 | \$ 11,913,500 | \$ 3,495,600 | \$ 2,499,300 | \$ 9,325,200 | \$ - | \$ - | \$ 61,532,600 |
| Net residential board and care revenue | - | - | - | 3,272,400 | - | - | - | - | - | - | 2,653,900 | - | \$ 5,926,300 |
| Management fees | (465,300) | (562,400) | (575,900) | (163,600) | 4,012,200 | (282,100) | (670,700) | (247,300) | (377,800) | (534,900) | (132,200) | - | - |
| Other income | 6,500 | 200 | 700 | - | 63,700 | 3,500 | 14,000 | 8,000 | - | 14,300 | - | - | 116,700 |
| Total revenues | 7,927,900 | 9,947,000 | 9,667,600 | 3,168,800 | 4,075,900 | 4,881,700 | 11,256,800 | 3,256,300 | 2,121,500 | 8,804,400 | 2,521,700 | - | 67,569,600 |
| EXPENSES: | | | | | | | | | | | | | |
| Nursing services | 3,374,700 | 5,238,600 | 4,628,400 | 691,400 | - | 2,172,800 | 5,474,000 | 1,603,300 | - | 3,596,600 | 516,000 | - | 26,749,800 |
| Plant operations and maintenance | 322,900 | 561,600 | 479,500 | 253,700 | 38,300 | 223,300 | 515,100 | 132,600 | - | 392,100 | 165,500 | - | 3,086,600 |
| Housekeeping and laundry | 313,400 | 561,100 | 438,200 | 134,900 | - | 226,500 | 402,100 | 57,100 | - | 335,800 | 142,800 | - | 2,413,900 |
| Dietary | 649,300 | 769,700 | 930,900 | 685,300 | - | 434,100 | 838,600 | 228,800 | - | 636,600 | 426,000 | - | 5,599,400 |
| Social services and activities | 243,300 | 271,200 | 242,300 | 92,300 | - | 115,600 | 278,200 | 56,300 | - | 142,800 | 112,500 | - | 1,573,900 |
| Education | 103,700 | 30,200 | 108,900 | - | - | 40,900 | 60,900 | 15,800 | - | 72,500 | - | - | \$ 54,900 |
| General and administrative | 2,328,700 | 3,382,800 | 2,430,800 | 1,352,600 | 1,387,000 | 1,402,800 | 2,974,600 | 978,500 | 308,500 | 1,592,500 | 920,100 | - | 19,332,500 |
| Interest expense | - | - | - | - | 100 | 14,300 | - | 608 | - | 96,700 | - | - | 111,700 |
| Pharmacy | 309,500 | 225,600 | 203,600 | - | - | 99,100 | 473,600 | 303,000 | - | 314,900 | - | - | 1,929,300 |
| Laboratory | 8,096 | 25,200 | 7,900 | - | - | 12,900 | 14,000 | 14,300 | - | 42,700 | - | - | 123,800 |
| X-ray | 41,300 | 8,600 | 20,700 | - | - | 13,800 | 50,500 | 43,100 | - | 38,000 | - | - | 216,900 |
| Total expenses | 7,696,700 | 10,916,600 | 9,311,400 | 3,110,400 | 1,415,400 | 4,801,300 | 11,101,600 | 2,895,200 | 308,500 | 7,621,900 | 2,276,900 | - | 61,665,900 |
| INCOME BEFORE MINORITY INTEREST AND INCOME TAX PROVISION | 231,200 | (969,600) | 156,200 | (1,600) | 2,650,500 | 78,400 | 155,200 | 363,100 | 1,813,000 | 1,182,500 | 244,800 | - | \$ 803,700 |
| MINORITY INTEREST | - | - | - | - | - | (39,100) | - | - | - | (584,800) | - | - | (623,900) |
| INCOME BEFORE INCOME TAX PROVISION | 231,200 | (969,600) | 156,200 | (1,600) | 2,650,500 | 39,300 | 155,200 | 363,100 | 1,813,000 | 597,700 | 244,800 | - | \$ 179,800 |
| INCOME TAX PROVISION | - | - | - | - | (108,100) | - | - | - | - | (12,600) | - | - | (120,700) |
| NET INCOME | 231,200 | (969,600) | 156,200 | (1,600) | 2,542,400 | 39,300 | 155,200 | 363,100 | 1,813,000 | 585,100 | 244,800 | - | \$ 5,599,100 |
| DISTRIBUTIONS TO SHAREHOLDER | - | - | - | - | (5,799,900) | - | - | - | - | - | - | - | (5,799,900) |
| RETAINED EARNINGS, beginning of year | 348,600 | 914,300 | 18,363,600 | (18,561,800) | 10,962,600 | 671,100 | 61,600 | 64,800 | (2,287,600) | (209,400) | (225,500) | 4,300 | 16,108,800 |
| RETAINED EARNINGS, end of year | \$ 579,800 | \$ (55,300) | \$ 18,519,800 | \$ (18,563,400) | \$ 7,214,100 | \$ 710,400 | \$ 216,800 | \$ 427,900 | \$ (474,600) | \$ 375,700 | \$ 21,300 | \$ 4,500 | \$ 9,477,000 |