

# COMMCARE CORPORATION

## CONSOLIDATED FINANCIAL REPORT

For the Years Ended June 30, 2017 and 2016



**CRI** CARR  
RIGGS &  
INGRAM

CPAs and Advisors

[CRIcpa.com](http://CRIcpa.com)



**COMMCARE CORPORATION  
TABLE OF CONTENTS  
JUNE 30, 2017 AND 2016**

**REPORT**

Independent Auditors' Report	1
------------------------------	---

**CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Balance Sheets	3
-----------------------------	---

Consolidated Statements of Revenues, Expenses and Changes in Net Assets	4
---	---

Consolidated Statements of Cash Flows	6
---------------------------------------	---

Notes to Consolidated Financial Statements	7
--	---

**SUPPLEMENTARY INFORMATION**

Schedule of Compensation, Benefits and Other Payments to Agency Head	17
--	----

Balance Sheet – CommCare Avoyelles	18
------------------------------------	----

Statement of Revenues, Expenses and Changes in Net Assets - CommCare Avoyelles	19
--	----



**Report**



Carr, Riggs & Ingram, LLC  
111 Veterans Blvd. Suite 350  
Metairie, Louisiana 70005

(504) 833-2436  
(504) 484-0807 (fax)  
[www.CRIcpa.com](http://www.CRIcpa.com)

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
CommCare Corporation

We have audited the accompanying consolidated financial statements of CommCare Corporation (a nonprofit organization), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CommCare Corporation as of June 30, 2017 and 2016, 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.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Compensation, Benefits and Other Payments to Agency Head, Balance Sheet – CommCare Avoyelles, and Statement of Revenues, Expenses and Changes in Net Assets – CommCare Avoyelles as of and for the year ended June 30, 2017 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such 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. The 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Carly Riggs & Ingram, L.L.C.*

November 29, 2017



# Financial Statements

**COMMCARE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

As of June 30,	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 24,922,347	\$ 22,016,470
Accounts receivable, net	10,224,078	10,308,234
Prepaid expenses and other current assets	1,381,679	1,354,968
Total Current Assets	36,528,104	33,679,672
PROPERTY AND EQUIPMENT, net	78,105,866	77,268,490
<b>OTHER ASSETS</b>		
Notes receivable	5,076,075	5,076,075
Intangible assets	9,186,970	5,514,223
Goodwill	2,937,500	2,937,500
Deposit	-	3,292,947
Miscellaneous	61,286	216,099
Total Other Assets	17,261,831	17,036,844
<b>TOTAL ASSETS</b>	<b>\$ 131,895,801</b>	<b>\$ 127,985,006</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 8,617,393	\$ 10,241,171
Current portion of long-term debt	2,274,725	2,175,477
Total Current Liabilities	10,892,118	12,416,648
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, less current portion and less unamortized debt issuance costs	53,691,898	54,403,301
Other liabilities	68,302	246,172
Total Noncurrent Liabilities	53,760,200	54,649,473
Total Liabilities	64,652,318	67,066,121
<b>UNRESTRICTED NET ASSETS</b>		
CommCare	65,973,589	59,730,374
Noncontrolling interest in subsidiaries	1,269,894	1,188,511
Total Net Assets	67,243,483	60,918,885
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 131,895,801</b>	<b>\$ 127,985,006</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**COMMCARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**

For the years ended June 30,	2017	2016
<b>OPERATING REVENUES</b>		
Patient service revenue	\$ 90,602,490	\$ 85,435,039
Provision for bad debts	(526,358)	(942,699)
Net patient service revenue	90,076,132	84,492,340
Pharmacy sales	10,111,631	9,518,231
Hospice revenue	8,153,118	6,191,327
Investment income	59,425	62,120
Other operating revenues	1,897,939	1,912,340
Total operating revenues	110,298,245	102,176,358
<b>OPERATING EXPENSES</b>		
Nursing services	39,361,171	35,982,275
General and administrative	14,330,917	13,292,062
Therapy and ancillary services	14,133,916	12,641,302
Cost of pharmacy sales	8,570,675	8,277,688
Dietary and food	5,192,684	4,899,779
Depreciation and amortization	4,927,543	4,692,155
Plant operations and maintenance	4,540,190	4,216,496
Provider fees	4,673,657	3,842,287
Housekeeping and laundry	2,483,606	2,351,878
Activities and social services	1,074,925	1,075,297
Provision for bad debts	383,484	1,289,313
Lease expense	1,249,349	1,331,623
Advertising costs	196,915	204,981
Community services	238,174	68,950
Total operating expenses	101,357,206	94,166,086
OPERATING INCOME	8,941,039	8,010,272
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Loss on disposal of assets	-	(61,270)
Miscellaneous (expense) income	(21,999)	(30,800)
Unrealized gain on interest rate swaps	192,369	567,550
Interest expense	(1,519,692)	(2,033,612)
Total non-operating revenues (expenses)	(1,349,322)	(1,558,132)
CHANGE IN NET ASSETS	7,591,717	6,452,140
Less change in net assets attributable to noncontrolling interests	(1,348,502)	(1,152,224)
Change in net assets attributable to CommCare	6,243,215	5,299,916

(continued)

*The accompanying notes are an integral part of these consolidated financial statements.*

**COMMCARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**

For the years ended June 30,	2017	2016
<b>NET ASSETS</b>		
Beginning of year	<b>60,918,885</b>	55,436,533
Distributions to noncontrolling shareholder in subsidiary	<b>(1,272,019)</b>	(969,788)
Contributions from noncontrolling shareholder in subsidiary	<b>4,900</b>	-
End of year	<b>\$ 67,243,483</b>	\$ 60,918,885
		(concluded)

*The accompanying notes are an integral part of these consolidated financial statements.*

**COMMCARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Years Ended June 30,	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 7,591,717	\$ 6,452,139
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,936,039	4,763,245
Unrealized gain on interest rate swaps	(192,369)	(567,550)
Provision for bad debts	909,842	2,232,012
Impairment of land held for sale	-	61,270
Changes in assets and liabilities:		
Receivables increase	(825,686)	(3,019,545)
Prepaid expenses increase	(26,711)	(19,566)
Other assets decrease	169,312	65,666
Accounts payable and accrued expenses increase (decrease)	(1,623,778)	748,692
Net cash provided by operating activities	<b>10,938,366</b>	10,716,363
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(4,576,910)	(2,260,884)
Deposit on purchase of new facility	-	(3,292,947)
Proceeds from disposal of assets	10,300	-
Net cash used in investing activities	<b>(4,566,610)</b>	(5,553,831)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Payments on bond principal	(2,198,760)	(2,095,768)
Distributions to non controlling shareholder in subsidiary	(1,272,019)	(969,788)
Contributions from non controlling shareholder in subsidiary	4,900	-
Net cash used in financing activities	<b>(3,465,879)</b>	(3,065,556)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>2,905,877</b>	2,096,976
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>22,016,470</b>	19,919,494
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 24,922,347</b>	\$ 22,016,470
<b>SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST</b>		
Cash payments for interest	\$ 2,034,295	\$ 1,560,305
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH FLOW INFORMATION</b>		
Acquisition of Whispering Pines from prior year deposit	\$ 3,288,000	\$ -
Acquisition of Whispering Pines financed by debt issuance	\$ 1,512,000	\$ -

*The accompanying notes are an integral part of these consolidated financial statements.*

# COMMCARE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Organization and Business Description*

CommCare Corporation (the "Company") was incorporated on January 12, 1984 and was recognized as exempt under Section 501(c)(3) of the Internal Revenue Code on May 16, 1984. The Company was dormant until 1992 when it began acquiring skilled nursing facilities. The Company's skilled nursing facilities consist of the real properties, improvements, machinery, equipment, inventories, supplies, licenses, and other tangible and intangible assets of eleven nursing home facilities (the Facilities) located in the State of Louisiana. The Facilities include 1,492 extended-care beds that are licensed and permitted for current operation by the Louisiana Department of Health and Hospitals and other state or Federal regulatory agencies having jurisdiction over the operations of the facilities. The Company also owns a 55% share of a pharmacy and a 66.67% share of a hospice care provider that are both located in the State of Louisiana.

The accounting policies of the Company, a Louisiana non-profit organization, conform with generally accepted accounting principles and reflect practices appropriate to the industry in which the Company and its subsidiaries operate.

#### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, CommCare Louisiana and CommCare Avoyelles, as well as the accounts of the Company's majority owned subsidiaries, CCC Pharmacy, LLC and Senescence, LLC. Significant intercompany transactions and balances have been eliminated in the consolidation.

#### *Patient Service Revenue and Concentration of Credit Risk*

Patient service revenue is recorded at established billing rates or at the amount realizable under agreements with third-party payors. Revenues under third-party payor agreements are subject to examination and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded in operations in the year of settlement. The mix of net revenues earned from the delivery of patient services were as follows:

For the year ending June 30,	2017	2016
Medicaid	50%	49%
Medicare	38%	39%
Other, including VA, Hospice and Private Payment	12%	12%
	100%	100%

Revenues from pharmacy sales are recorded at the time products are sold.

## COMMCARE CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Accounts Receivable***

The Company grants credit without collateral to its residents, most of whom are local residents and are covered under third-party payor agreements. Management performs an evaluation of amounts due from third-party payors (including estimated cost report settlements), residents, responsible parties, and insurers, and reduces accounts receivable by an allowance for uncollectible accounts. The allowance is calculated based on a number of factors including the age of the accounts, the payor type, and any ongoing disputes with third-party payors. The allowance for uncollectible accounts was \$470,692 and \$643,119 as of June 30, 2017 and 2016, respectively. Virtually all accounts receivable are pledged to secure debt (see Note 6).

#### ***Cash and Cash Equivalents and Concentration of Credit Risk***

Cash and cash equivalents consist of demand deposits at commercial banks and overnight commercial repurchase agreements (repo). The Federal Deposit Insurance Corporation insures the demand deposit balances up to \$250,000 per financial institution. The Company's uninsured bank balances at June 30, 2017 and 2016 totaled \$22,468,894 and \$9,572,821, respectively. At June 30, 2016, the repo balances of \$11,391,309, was secured by securities pledged under the agreements. Virtually all deposit accounts are pledged to secure debt (see Note 6). There were no repo balances at June 30, 2017.

#### ***Property, Equipment and Depreciation***

Property and equipment are recorded at cost. Renewals and improvements that extend the economic life of such assets are capitalized. Expenditures for maintenance, repairs and other renewals are expensed. Upon disposition of a capital asset, the asset's cost and accumulated depreciation are removed from the balance sheet and any gain or loss is included in the results of operations. Depreciation is recorded over the estimated useful life of an asset using the straight-line method. The depreciable lives of such assets range from 5 to 40 years.

The Company records impairment losses on long-lived assets when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. For the year ended June 30, 2017, no impairment loss was recorded by the Company. For the year ended June 30, 2016 the Company recorded an impairment loss of \$61,270 on land held for sale.

#### ***Deferred Financing Costs, net***

Deferred financing costs are amortized over the term of the mortgage loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective interest method be used to amortize financing costs; however, management believes the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective interest method.

## COMMCARE CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Deferred Financing Costs, net (continued)*

For the year ended June 30, 2017, the Company adopted ASU 2015-03, *Imputation of Interest* (Subtopic 835-30): *Simplifying the Presentation of Debt Issuance Costs*, this update requires deferred financing costs related to a debt liability to be presented on the balance sheets as a direct deduction from the related debt. Deferred financing costs are amortized on a straight-line basis over the term of the related debt and treated as interest expense. This update requires the Company to apply this guidance on a retrospective basis wherein the balance sheet of each year be adjusted to reflect the year-specific effect of the new guidance. Upon transition, the Company is required to comply with the appropriate disclosures associated with a change in accounting principle. The Company has adopted this standard as of July 1, 2016 with a retroactive application. Adoption of ASU 2015-03 resulted in a decrease in intangible assets and a decrease in long-term debt \$469,800 as of June 30, 2016. Interest expense related to the deferred financing costs was \$74,606 and \$71,089 for the years ended June 30, 2017 and 2016.

#### *Interest Rate Swaps*

Generally accepted accounting principles require that all derivatives be recognized as assets or liabilities on the balance sheet at fair value. The Company may enter into derivative contracts to manage exposure to interest rate risk.

The Company utilizes interest rate swap agreements to convert a portion of its variable-rate debt to a fixed rate. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. Changes in the fair value of these interest rate swaps are reported in current period earnings (See Note 6).

#### *Goodwill*

In accordance with authoritative guidance on intangible assets, goodwill is tested for impairment annually as of June 30 or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value. The Company performed a qualitative assessment of events and circumstances to determine whether it was more likely than not that the fair value of the reporting unit that contained the goodwill was less than its carrying amount. Based on this assessment it was determined that it was not more likely than not that the fair value of the reporting unit was less than its carrying amount. As a result of this assessment, no impairment loss was recognized during the years ended June 30, 2017 and 2016. A significant amount of judgment was involved in performing these evaluations since the results are based on estimated future events.

**COMMCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Intangible Assets***

Intangible assets consist primarily of Certificates of Need (CON). Louisiana statutes require that the Company obtain a CON prior to the addition or construction of new nursing home beds, the addition of new services or certain capital expenditures in excess of defined levels. A CON certifies that the state has made a determination that a need exists for such new or additional beds, new services or capital expenditures. CONs arose in the acquisition of existing nursing facilities. The CONs have an indefinite useful life. Management evaluates the net carrying value of all intangible assets for impairment when circumstances indicate that the assets might be impaired, but not less than annually.

***Income Taxes***

No provision for income taxes has been made in the accompanying consolidated financial statements. The Internal Revenue Service has determined that the Company is a qualifying 501(c)(3) organization and is exempt from income taxes. Generally accepted accounting principles require an organization to account for uncertainties in income taxes. The interpretation requires recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach.

The Company has reviewed its tax positions and determined there were no outstanding or retroactive tax positions with less than a 50% likelihood of being sustained upon examination of taxing authorities.

***Compensated Absences***

Employees accumulate paid time off (PTO) at varying rates according to years of service. Employees become vested in PTO upon completion of ninety days of employment. Upon termination, all unused PTO hours are paid to the employee at the employee's current rate of pay provided that the employee has successfully completed ninety days of employment. Accrued PTO cannot exceed the maximum amount of PTO that can be earned in one year's time.

***Advertising Costs***

Advertising costs are expensed as incurred and totaled \$196,915 and \$204,981 for the years ended June 30, 2017 and 2016, respectively.

***Use of Estimates***

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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 reported period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Actual results could differ from those estimates.

**COMMCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Reclassifications***

Certain amounts in the consolidated financial statements for the year ended June 30, 2016 have been reclassified in order to conform with classifications reported in the consolidated financial statements for the year ended June 30, 2017.

**NOTE 2: NOTES RECEIVABLE**

On December 4, 2012, the Company entered into a new markets tax credit (NMTC) transaction to partially finance the construction of a new skilled nursing facility in Mansura, Louisiana. As part of the NMTC financing, the Company has a note receivable from Chase NMTC CommCare Investment Fund, LLC of \$5,076,075 at June 30, 2017. Interest accrues at a fixed rate of 1% and is payable quarterly. Principal payments begin in 2019 and the note matures on December 3, 2042.

**NOTE 3: PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30:

	2017	2016
Land	\$ 11,412,328	\$ 9,215,257
Land improvements	4,384,257	4,361,781
Buildings and improvements	81,196,484	80,544,039
Furniture, fixtures and equipment	21,069,504	20,022,572
Construction in progress	2,452,326	749,438
Total property and equipment	120,514,899	114,893,087
Less accumulated depreciation	(42,409,033)	(37,624,597)
	\$ 78,105,866	\$ 77,268,490

Depreciation expense was \$4,812,416 and \$4,577,029 for the years ended June 30, 2017 and 2016, respectively. Substantially all land, buildings, improvements, and equipment are pledged to secure debt (see Note 6).

**NOTE 4: ACQUISITION**

In July 2016, the Company acquired 100% of a skilled nursing facility in Plain Dealing, Louisiana. The Company paid \$4,800,000 for the facility which was comprised of cash of \$3,288,000 that was deposited in June 2016 and \$1,512,000 of tax exempt bonds issued to the sellers by the Louisiana Public Facilities Authority for which the Company is the borrower. The amounts acquired included \$1,016,312 of property and equipment and the certificate of need valued at \$3,783,688. No other amounts were acquired and no liabilities were assumed.

**COMMCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5: ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consisted of the following at June 30:

	2017	2016
Accounts payable	\$ 2,330,614	\$ 2,962,587
Accrued salaries, wages, benefits, and payroll taxes	3,243,573	4,317,323
Accrued professional liability	988,770	1,076,475
Other accrued expenses	2,054,436	1,884,786
	<b>\$ 8,617,393</b>	<b>\$ 10,241,171</b>

**NOTE 6: DEBT OBLIGATIONS**

Long-term debt consisted of the following as of June 30:

	2017	2016
LPFA Revenue Bonds Series 2008B dated and funded July 17, 2008, in the original amount of \$47,500,000. The bond matures on August 1, 2023 with principal payments due annually and interest payments due monthly. On November 17, 2011 the bonds were purchased by JP Morgan Chase and Trustmark National Bank and interest is calculated as 74% of one month LIBOR plus 1.45%. Previously interest was based on the Weekly USD-S1FMA Municipal Index. The interest rate on the bonds was 2.36% and 1.79% at June 30, 2017 and 2016, respectively. The Company executed an interest rate swap with JPMorgan Chase (Chase) for a five year period beginning October 1, 2011, to effectively convert the interest rate on \$35 million of the bonds to a fixed rate of 3.175%. The bonds are collateralized by a first mortgage and security interest in the eleven skilled nursing facilities owned by the Company, including their revenues, receivables, and virtually all of their other assets. The Trustee of the bonds is The Bank of New York Mellon Trust Company.	<b>\$40,308,739</b>	\$ 41,808,729
Notes payable to financial institution, interest rate fixed at 1.28% with interest payable quarterly. Beginning on December 20, 2019 interest and principal payments are due quarterly until note matures on December 3, 2042.	<b>6,720,000</b>	6,720,000

**COMMCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6: DEBT OBLIGATIONS (CONTINUED)**

Note payable to financial institution, interest rate fixed at .25% with interest payable quarterly. Note matures on December 3, 2019 at which time all principal and outstanding interest is due. Note is secured by the property constructed in Mansura, Louisiana and by the restricted cash and cash equivalents related to the project. Principal payments are due quarterly until note matures on December 3, 2042.

**7,000,000**      7,000,000

Note payable to financial institution, interest rate is based on the one month LIBOR rate plus 2.5%. The interest rate was 2.68% and 2.67% at June 30, 2017 and 2016, respectively. Interest is payable monthly and principal payments are monthly commencing on June 4, 2014. Note matures on November 29, 2019.

**850,815**      1,519,849

LPFA Revenue Bond Series 2016 in the original amount of \$1,512,000 shall bear interest at the rate per annum of 6% payable quarterly on each January 1, April 1, July 1 and October 1, commencing October 1, 2016. Bond series matures on July 1, 2036. Bond series is secured by the guarantee of Purchaser with a standard five-year call provision

**1,471,000**      -

On August 31, 2016 the company entered into a promissory note for \$110,000 with a former member to purchase the remaining interest in a subsidy. The terms of the note are for the Company to pay the former member 5 equal installments of \$24,224 starting May 31, 2017 and the remaining 4 payments will be made on May 31, 2018 through 2021. Interest of 3.25% per annum is included in the annual installment.

**88,000**      -

---

Total debt obligations	<b>\$ 56,438,555</b>	\$ 57,048,578
Less amortized debt issuance costs, net	<b>(471,932)</b>	(469,800)
Less current portion of debt	<b>(2,274,725)</b>	(2,175,477)
<hr/>		
Long-term debt	<b>\$ 53,691,898</b>	\$ 54,403,301

---

**COMMCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6: DEBT OBLIGATIONS (CONTINUED)**

Maturities of principal in the subsequent fiscal years are as follows:

2018	\$ 2,274,725
2019	1,846,672
2020	8,948,387
2021	2,086,273
2022	2,140,246
Thereafter	39,142,252
<b>Total</b>	<b>\$ 56,438,555</b>

Interest expense for the years ended June 30, 2017 and 2016 was \$1,519,692 and \$2,032,612, respectively. In order to modify exposure to interest rate risk, the Company entered into an interest rate swap with JPMorgan Chase (Chase) related to the 2008B bond issue that is secured by letters of credit issued by Chase. The use of the swap effectively converted the notional amount of the swap related to the bond issue to a fixed rate of 3.175%. At June 30, 2016, the notional amount of the swap was \$35,000,000 for the 2008B bonds. The 2008B swap agreement expires on October 3, 2016 and therefore had no notional amount as of June 30, 2017. The swap agreement was subject to the ISDA Master Agreement between Chase and the Company. Terms of the agreements provide a right of set-off of security interests and collateral and netting of payments. As such, the agreements do not contain a significant investment element and are primarily “interest based”. The Company has made the accounting policy decision to offset fair value amounts. Under the terms of the agreements, the only amount due between the parties is the net difference in the monthly interest rate computations; accordingly, the fair values are fully offset.

The fair value of these swaps was \$0 and \$193,369 due the counterparty at June 30, 2017 and 2016, respectively, and is recorded as other liabilities on the balance sheet. The Company recorded \$206,123 and \$627,961 as interest expense for the years ended June 30, 2017 and 2016 respectively, as a result of these swaps.

On February 25, 2011, the Company executed a fourth amendment and supplement to the reimbursement agreement with an effective date of July 1, 2010 resulting in an adjustment to its minimum net worth and minimum debt service requirements. The Company was in compliance with the financial covenants related to these bonds at June 30, 2017 and 2016.

**NOTE 7: FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company determines the appropriate level in the fair value hierarchy for each fair value measurement. The level in the fair value hierarchy within which a fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The levels are as follows:

**COMMCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7: FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

There were no financial instruments at June 30, 2017. At June 30, 2016, assets and liabilities measured at fair value on a recurring basis are summarized below:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
2016				
Interest rate swap	\$ -	\$ 193,369	\$ -	\$ 193,369
Total	\$ -	\$ 193,369	\$ -	\$ 193,369

Fair values for interest rate swap agreements were based upon the amounts required to settle the contracts. Fair value of the derivative instruments were estimated using prices of financial instruments with similar characteristics, and thus the instruments are classified within Level 2 of the fair value hierarchy.

**NOTE 8: WORKERS'S COMPENSATION INSURANCE**

Through May 2010, the Company participated in a self-insured workers' compensation plan for its Louisiana facilities. The plan was administered in accordance with Louisiana laws and had excess insurance coverage equal to or greater than the statutory limits. A third-party administrator identified, processed and settled claims. Losses from asserted claims and from unasserted claims identified under the incident reporting system were accrued based on estimates that incorporated past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. During fiscal year 2010, the Company became fully insured by Louisiana Health Care Self Insurance Fund. Only one case is left from the self-insured plan. Funds have been deposited to settle the one outstanding case but final documents have not yet been filed.

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

There are various claims and litigation against the Company as of June 30, 2017, that could materially affect its financial position at the time of the ultimate settlement of such actions. For medical malpractice cases in Louisiana, the Company is self-insured up to the first \$100,000 per claim and is covered for the excess over \$100,000 up to the statutory malpractice damages "cap" of \$500,000 through enrollment in the Louisiana Patients' Compensation Fund (the Fund). Management is of the opinion that the Company's reserve provides adequate coverage for the first

**COMMCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9: COMMITMENTS AND CONTINGENCIES (CONTINUED)**

\$100,000 of each claim outstanding. Due to the state of nursing home litigation and the unpredictability of jury verdicts, it is the opinion of management that it is reasonably possible that this estimate will change in the near term. However, the Company does not expect any such changes to the estimate to be material to the Company's consolidated financial statements.

The Company has elected to self-insure employee and eligible dependent health claims. The self-insured claims are processed through a plan administrator. The Company's self-insured plan has stop-loss insurance coverage for claims in excess of \$100,000 per individual per plan year and \$125,000 in the aggregate for claims in excess of the individual stop-loss. The Company has recorded a current liability for open claims and claims incurred but not reported.

The Company leases equipment under various noncancelable operating leases. Lease expense as of June 30, 2017 and 2016 was \$1,249,349 and \$1,331,623, respectively. The future minimum fiscal year lease payments for all leases are as follows for the years ended:

June 30,	
2018	\$ 176,144
2019	127,746
2020	103,565
2021	20,048
2022	4,200
	\$ 431,703

The Company participates in a number of state and federal grant programs which are governed by various rules, regulations, and compliance requirements. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; the Company expects such adjustments, if any, not to materially impact the Company's consolidated financial statements.

**NOTE 10: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, November 29, 2017, and determined that, other than disclosed below, no additional disclosures are necessary.

On July 7, 2017, the Company entered into a series of transactions to effect a new markets tax credit financing of the construction of a new facility in Ponchatoula, Louisiana. As a result of these transactions, the Company will loan the new markets tax credit investor entity \$6,166,400 at 4.95% interest and a seven year maturity, and will contribute \$817,017 of equity into the project. Additionally, the Company will receive a loan of \$9,195,274 at 4.95% interest with a seven year maturity, a loan of \$6,166,400 at 3.55% interest and a seven year maturity, and a loan of \$2,563,600 at 3.55% and a thirty year maturity. Construction began in fiscal 2018, and, upon completion, the Company will lease the facility to an existing third party skilled nursing home operator.



**Supplementary Information**

**COMMCARE CORPORATION**  
**SCHEDULE OF COMPENSATION, BENEFITS, AND**  
**OTHER PAYMENTS TO AGENCY HEAD**

**Agency Head Name: James W.Tucker, CEO**

<b>Purpose</b>	<b>Amount</b>	
Salary	\$	-
Benefits-insurance		-
Benefits-retirement		-
Benefits-medicare		-
Benefits-worker's compensation		-
Benefits-unemployment		-
Cell phone and Ipad dues		-
Uniforms		-
Per diem		-
Reimbursements-advertising		-
Travel		-
Fuel usage		-
Conference travel (Including Hotel Stays)		-
Continuing professional education fees		-
Housing		-
Unvouchered expenses		-
Special meals		-
<b>Total</b>	<b>\$</b>	<b>-</b>

\* Louisiana Revised Statute 24:513(A)(3) as amended by Act 706 of the 2014 Regular Legislative Session requires that the total compensation, reimbursements, and benefits of an agency head or political subdivision head or chief executive officer related to the position, including but not limited to travel, housing, unvouchered expenses, per diem, and registration fees be reported as a supplemental report within the financial statement of local governmental and quasi-public auditees. In 2015 Act 462 of the 2015 Regular Session of the Louisiana Legislature further amended R.S. 24:513(A)(3) to clarify that nongovernmental entities or not-for-profit entities that receive public funds shall report only the use of public funds for the expenditures itemized in the supplemental report.

*See accompanying independent auditors' report.*

**COMMCARE CORPORATION**  
**BALANCE SHEET - COMMCARE AVOYELLES**

As of June 30, 2017

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 3,667,590
Total Current Assets	3,667,590
PROPERTY AND EQUIPMENT, net	13,821,298
<b>OTHER ASSETS</b>	
Intangible assets	268,106
Total Other Assets	268,106
<b>TOTAL ASSETS</b>	<b>\$ 17,756,994</b>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Current portion of long-term debt	\$ 675,487
Intercompany liabilities	3,282,129
Total Current Liabilities	3,957,616
<b>NONCURRENT LIABILITIES</b>	
Long-term debt, less current portion	13,895,329
Total Noncurrent Liabilities	13,895,329
<b>TOTAL LIABILITIES</b>	17,852,945
<b>NET DEFICIT</b>	
Unrestricted net deficit	(95,951)
TOTAL NET DEFICIT	(95,951)
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<b>\$ 17,756,994</b>

*See accompanying independent auditors' report.*

**COMMCARE CORPORATION**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS - COMMCARE AVOYELLES**

For the Year Ended June 30,	<i>2017</i>
<b>OPERATING REVENUES</b>	
Rent Revenue	\$ 1,020,000
Investment income	51,035
Total Operating Revenues	<b>1,071,035</b>
<b>OPERATING EXPENSES</b>	
General and administrative	3,102
Depreciation	877,600
Total Operating Expenses	<b>880,702</b>
OPERATING INCOME	<b>190,333</b>
<b>NON-OPERATING EXPENSES</b>	
Interest expense	(160,371)
Total Non-operating Expenses	<b>(160,371)</b>
<b>CHANGES IN NET DEFICIT</b>	<b>29,962</b>
NET DEFICIT - Beginning of year	(125,913)
<b>NET DEFICIT - End of year</b>	<b>\$ (95,951)</b>

*See accompanying independent auditors' report.*