
My Choice Family Care, Inc.

(a not-for-profit corporation)

Financial Report
December 31, 2016

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Independent Auditor's Report

To the Board of Directors
My Choice Family Care, Inc.

We have audited the accompanying financial statements of My Choice Family Care, Inc. (the "Company"), which comprise the statement of financial position as of December 31, 2016 and the related statements of activities and cash flows for the period from September 1, 2016 (inception) through December 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of My Choice Family Care, Inc. as of December 31, 2016 and the results of its operations and its cash flows for the period from September 1, 2016 through December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 13, 2018

My Choice Family Care, Inc.

Statement of Financial Position

December 31, 2016

Assets

Current Assets

| | | |
|---|----|--|
| Cash and cash equivalents (Note 7) | \$ | |
| Accounts receivable - Net (Note 4) | | |
| Prepaid expenses and other current assets | | |

Total current assets

Property and Equipment - Net (Note 5)

Solvency Reserve - Certificates of deposit (Note 7)

Total assets **\$ 58,759,686**

Liabilities and Net Assets

Current Liabilities

| | | |
|---|----|--|
| Unpaid claims, claim adjustment, and care management expenses: (Note 6) | \$ | |
| Claims incurred but not reported and unpaid reported claims | | |
| Care management expenses | | |
| Claim adjustment expenses | | |

Total unpaid claims, claim adjustment, and care management expenses

| | | |
|---------------------------------------|--|--|
| Accounts payable and accrued expenses | | |
| Accrued payroll-related expenses | | |

Total current liabilities

Net Assets - Unrestricted

Total liabilities and net assets **\$ 58,759,686**

My Choice Family Care, Inc.

Statement of Activities

Period from September 1, 2016 through December 31, 2016

| | |
|--|-----------------------------|
| Revenue | |
| Premiums earned: | |
| Capitation revenue | \$ [REDACTED] |
| Member obligation revenue | [REDACTED] |
| Other revenue | [REDACTED] |
| Total premiums earned and other revenue | <u>104,890,992</u> |
| Operating Expenses | |
| Member service costs (Note 6) | [REDACTED] |
| Care management expenses (Note 6) | [REDACTED] |
| Claim adjustment expenses (Note 6) | [REDACTED] |
| General and administrative | [REDACTED] |
| Total operating expenses | <u>102,647,913</u> |
| Operating Income | [REDACTED] |
| Contribution from State of Wisconsin (Note 7) | [REDACTED] |
| Inherent Contribution (Note 1) | [REDACTED] |
| Change in Net Assets | <u>32,662,526</u> |
| Net Assets - Beginning of period | <u>-</u> |
| Net Assets - End of period | <u><u>\$ 32,662,526</u></u> |

My Choice Family Care, Inc.

Statement of Cash Flows

Period from September 1, 2016 through December 31, 2016

| | |
|---|----------------------|
| Cash Flows from Operating Activities | |
| Operating income | \$ 2,243,079 |
| Adjustments to reconcile operating income to net cash and cash equivalents from operating activities: | |
| Depreciation and amortization | |
| Operating assets acquired and liabilities assumed - Net of cash (Note 1) | |
| Changes in operating assets and liabilities: | |
| Accounts receivable - Net | |
| Prepaid expenses and other current assets | |
| Unpaid claims, claim adjustment, and care management expenses | |
| Accounts payable and accrued expenses | |
| Accrued payroll-related expenses | |
| Net cash and cash equivalents provided by operating activities | |
| Cash Flows from Investing Activities | |
| Cash and cash equivalents acquired from the County (Note 1) | |
| Purchase of property and equipment | |
| Net cash and cash equivalents provided by investing activities | |
| Net Increase in Cash and Cash Equivalents | 46,861,385 |
| Cash and Cash Equivalents - Beginning of period | - |
| Cash and Cash Equivalents - End of period | <u>\$ 46,861,385</u> |

Note 1 - Nature of Business

My Choice Family Care, Inc. (the "Company," or MCFC) is a Managed Care Organization (MCO) that operates the State of Wisconsin Family Care Program. The Company administers the family care benefit for both frail elders (age 60 and over) and persons with disabilities (ages 18-59) who are determined to be eligible by a resource center. MCFC is responsible for creating a comprehensive plan of care for eligible members, contracting with a wide range of service providers, and monitoring the quality of services that members receive. MCFC delivers member-centered, community-based, outcome-focused, managed long-term care services and member-centered care planning for all Family Care members. In return for coordinating and managing these services, MCFC receives a capitated rate payment per member per month from the State of Wisconsin. As of December 31, 2016, MCFC offers the family care benefit to eligible members in nine counties.

Prior to September 1, 2016, all MCO activities were operated by the Milwaukee County Department of Family Care (the "County"). MCFC was administratively incorporated on March 1, 2016 and thereafter pursued a spin-off from operations of the County into a private, not-for-private entity to continue operating as a family care MCO. Ultimately, the Milwaukee County, Wisconsin board of supervisors, in accordance with Wisconsin Statutes Section 46.2894(4)(q), voted to approve a transaction whereby program operations and programmatic Medicaid funds accumulated by the MCO from 2001 through August 31, 2016 would be transferred to MCFC pursuant to the terms of an asset transfer agreement. The Company began operations as a private entity effective September 1, 2016.

Under the terms of the aforementioned asset transfer agreement, certain assets and liabilities of the County were transferred to MCFC at fair market value, along with programmatic Medicaid funds utilized to provide the family care benefit. As the transfer of programmatic funds did not represent a sale of assets, the net fair market value of these identifiable assets acquired and liabilities assumed was recognized as an inherent contribution in the Company's statement of activities for the four-month period ended December 31, 2016. The following table shows the fair market value of the assets received and liabilities assumed from the County, including retrospective application of subsequent measurement period adjustments, and the resulting inherent contribution recognized:

| | |
|--|------|
| Assets: | |
| Cash and cash equivalents | \$ 3 |
| Premiums and other accounts receivable | |
| Prepaid expenses and other current assets | |
| Property and equipment | |
| Restricted cash equivalents | |
| Liabilities: | |
| Unpaid claims and claim adjustment expenses (Note 6) | 3 |
| Unpaid care management expenses (Note 6) | |
| Unpaid claim adjustment expenses (Note 6) | |
| Accounts payable and accrued expenses | |
| Inherent contribution | 3 |

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of the Company have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP).

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments purchased with an original maturity of three months or less.

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost less depreciation. Property and equipment are depreciated over their estimated useful lives using the straight-line method. Costs of maintenance and repairs are charged to expense when incurred.

Unpaid Claims, Claim Adjustment, and Care Management Expenses

The reported liability for unpaid claims, claim adjustment, and care management expenses is composed of three components: a liability for claims on hand that have not been paid and for claims incurred but not yet reported, unpaid care management expenses, and unpaid claims adjustment expenses. Claims incurred but not reported are based primarily on past experience, including claim payment patterns, enrollment and eligibility data, and other information and is determined in part by actuarial calculations. Although considerable variability is inherent in such estimates, management believes that the liability for claims incurred but not reported is adequate. The estimate is continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are reflected in current operations.

Revenue and Accounts Receivable

The Company receives the majority of its funding from an annual Medicaid contract with the State of Wisconsin Department of Health Services (DHS). This funding, referred to within the statement of activities as capitation revenue, is based on Medical Assistance (MA) capitated payment rates for Family Care eligible members and is recognized in the month that members are entitled to receive services. The capitated rates are calculated annually by the DHS actuary with year-end adjustments to account for the High Cost Risk Pool (HCRP) and member target group case mix, which may result in significant adjustments to revenue recognized in future periods. If rate adjustments are expected and estimable, management estimates the impact of those adjustments on revenue based on a variety of factors, when practical to do so based on data available. While management believes these estimates are accurate, it is reasonably possible that a change in estimate will occur in the near term as a result of actual rate adjustments differing from projected rate adjustments.

MCFC also receives funding from its members who have responsibility for cost-share and/or room and board costs if the member resides in a residential healthcare facility. This member obligation revenue is recognized in the period in which members utilize the services.

Accounts receivable from the State of Wisconsin relate to adjustments to capitation rates and member cost sharing. Management considers all accounts receivable from the State to be collectible and, therefore, an allowance for doubtful accounts related to these receivables has not been recorded at December 31, 2016.

Accounts receivable from members are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Income Taxes

The Company is exempt from federal income taxes under the provisions of Section 501(c)(4) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements. As of December 31, 2016, the Company had no unrecognized tax benefits. There were no penalties or interest recognized or accrued during 2016. The Company files tax returns in U.S. federal and state of Wisconsin jurisdictions.

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company considers the accounting estimate for unpaid member services and capitation receivables critical in the preparation of the financial statements. The Company uses information available at the time the estimates are made; however, these estimates could change materially if different information or assumptions were used. Additionally, these estimates may not ultimately reflect the actual amounts of the final transactions that occur.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Company's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The adoption of this standard will not impact the Company's insurance contract revenue as these have been scoped out of the new guidance. The Company does not believe adopting the provisions of this ASU in the future will have a significant impact on its other revenue streams and thus, has not yet quantified the impact of the change.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Company's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effects of implementing this standard on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow the FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Company, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Company's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The implementation of this standard is not expected to have a significant impact on the presentation of the Company's financial statements.

Note 2 - Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets including the Company's accounts receivable and held-to-maturity debt securities by requiring the Company to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The ASU also changes the way credit losses are recognized for available-for-sale debt securities. Credit losses are recognized through the recording of an allowance rather than as a write-down of the carrying value. The new guidance will be effective for the Company's year ending December 31, 2021. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018. The Company does not believe adopting the provisions of this ASU in the future will have a material impact on the financial statements and thus, has not yet quantified the impact of the change.

In May 2015, the FASB issued ASU No. 2015-09, *Disclosures about Short-Duration Contracts*, which expands disclosures for the Company's insurance contracts. The disclosures required by this update increase transparency of significant estimates made in measuring the liability for unpaid claims and claim adjustment expenses, improve comparability by requiring consistent disclosure of information, and provide financial statement users with information to facilitate analysis of the amount, timing, and uncertainty of cash flows arising from insurance contracts and the development of claim reserve estimates. The disclosures will include historical information related to incurred and paid claim development information by loss year, with a reconciliation to the liability for unpaid claims and claim adjustment expenses, in addition to disclosures related to incurred but not reported liabilities and expected development on reported claims and claim frequency. The new guidance will be effective for the Company's year ended December 31, 2017.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including March 13, 2018, which is the date the financial statements were available to be issued.

Note 3 - Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Company's deposits may not be returned to it. The Company's policy related to custodial credit risk of bank deposits is to maintain all deposits in a high-quality institution. The Company maintains balances in its deposit accounts to adequately cover current operating and claims payment expenses and, as a result, generally requires balances that exceed the FDIC insurance limits of \$250,000. The Company believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is not always practical to insure all deposits. As a result, the Company evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories. As of December 31, 2016, the Company had total uninsured bank deposits of \$46,907,627.

Note 4 - Accounts Receivable

The following is a summary of accounts receivable at December 31, 2016:

| | |
|--------------------------------------|---------------------|
| Capitation revenue receivables | \$ 7,368,303 |
| Member receivables | 1,972,058 |
| Other receivables | 392,186 |
| Less allowance for doubtful accounts | <u>(779,614)</u> |
| Net accounts receivable | <u>\$ 8,952,933</u> |

Note 5 - Property and Equipment

Property and equipment as of December 31, 2016 are summarized as follows:

| | |
|---|---------------------|
| Furniture, equipment, and software (5-10 year depreciable life) | \$ 1,494,863 |
| Construction in progress (nondepreciable) | <u>125,712</u> |
| Total cost | 1,620,575 |
| Accumulated depreciation and amortization | <u>74,251</u> |
| Net property and equipment | <u>\$ 1,546,324</u> |

Depreciation and amortization expense for the period from September 1, 2016 to December 31, 2016 was \$74,251.

Note 6 - Unpaid Claims, Claim Adjustment, and Care Management Expenses

The following summarizes activity in the liability for unpaid claims, claim adjustment, and care management expenses for the period ended December 31, 2016:

| | |
|---|----------------------|
| Transfer of liability from the County on September 1, 2016 (Note 1) | \$ 22,459,091 |
| Incurred related to: | |
| Four-month period ended December 31, 2016 | 99,456,710 |
| Prior to period | <u>(206,712)</u> |
| Total incurred | 99,249,998 |
| Paid related to: | |
| Four-month period ended December 31, 2016 | 74,585,850 |
| Prior to period | <u>22,253,516</u> |
| Total paid | <u>96,839,366</u> |
| Liability as of December 31, 2016 | <u>\$ 24,869,723</u> |

As a result of changes to estimates for incurred claims, claim adjustment, and care management expenses attributable to insured events of prior periods, the liability changed during the period from September 1, 2016 through December 31, 2016. Changes in unpaid claims, claim adjustment, and care management expenses are generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Note 7 - Reserve Requirements

As of December 31, 2016, the Company has met the reserve requirements as identified in its contract with DHS. As required under the contract with DHS to administer the Family Care program, MCFC shall demonstrate its capacity for financial solvency and stability along with its ability to assume the level of financial risk by maintaining certain reserves. The MCFC shall maintain a working capital reserve, restricted reserve, and solvency reserve. Separate bank accounts for the working capital and restricted reserves have been established and their balances are reflected within the cash and cash equivalents reported on the statement of financial position. The solvency reserve is held by the Wisconsin Department of Administration in the form of certificates of deposit and is reported on a separate line item on the statement of financial position.

December 31, 2016

Note 7 - Reserve Requirements (Continued)

The purpose of the working capital reserve is to provide ongoing liquid assets to manage routine fluctuations in revenue and expenses that will occur in the normal course of business operations. The minimum working capital balance is calculated as a percentage of MCFC's budgeted capitation revenue (net of cost share) for the DHS contract period (January 1, 2016 - December 31, 2016). The 2016 minimum working capital reserve requirement of \$8,355,382 was based on 3 percent of net annual capitation revenue of \$278,512,723 budgeted for the 2016 contract year. As of December 31, 2016, the Company had deposits of [REDACTED] maintained in a separate bank account, which exceeds the minimum working capital reserve requirement.

The purpose of the restricted reserve is to provide continuity of care for enrolled members, accountability to taxpayers, and effective program administration. The restricted reserve provides additional liquid assets to underwrite the risk of financial volatility due to extraordinary and unbudgeted program expenditures. The restricted reserve is required to be funded based on a graduated scale using a percentage of budgeted capitation revenue (net of cost share) for the DHS contract period (January 1, 2016 - December 31, 2016). The 2016 minimum restricted reserve requirement of \$3,785,127 was based on net annual capitation revenue of \$278,512,723 budgeted for the 2016 contract year. As of December 31, 2016, the Company had deposits of [REDACTED] maintained in a separate bank account, which exceeds the minimum restricted reserve requirement.

The solvency fund provides for continuity of services and smooth transition of members from the existing MCO to another entity, or in the event the existing MCO becomes irreversibly insolvent. The solvency reserve minimum requirement at December 31, 2016 was \$750,000, and the funds are required to be pledged to a separate account with the State of Wisconsin Department of Administration. As of December 31, 2016, the Company had certificates of deposit totaling \$1,065,118 held with the State of Wisconsin, which exceeds the minimum solvency reserve requirement. During the four months ended December 31, 2016, the Wisconsin Office of Commissioner of Insurance transferred \$315,118 into the Company's solvency reserve account as a result of the liquidation of two other managed care organizations in the state of Wisconsin. This transfer is reflected in the statement of activities.

Note 8 - Retirement Plans

The Company sponsors a 401(k) plan for its employees. The plan provides for the Company to make a required matching contribution. Discretionary contributions to the plan totaled \$36,364 for the period from September 1, 2016 through December 31, 2016.

Note 9 - Operating Leases

The Company is obligated under various operating leases through 2027 related to the rental of office space. The leases also require the Company to pay a portion of taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was \$62,297 for the period from September 1, 2016 through December 31, 2016.

Future minimum annual commitments under these operating leases are as follows:

| Years Ending December 31 | Amount |
|-----------------------------|------------|
| 2017 | \$ 241,261 |
| 2018 | 252,456 |
| 2019 | 252,456 |
| 2020 | 249,968 |
| 2021 | 237,530 |
| Thereafter | 1,308,415 |

December 31, 2016

Note 10 - Contingencies

Periodically, the Company is involved in litigation and claims arising in the normal course of operations. In the opinion of management based on consultation with legal counsel, potential losses from these matters are considered to be immaterial.

My Choice Family Care, Inc.

(a not-for-profit corporation)

Financial Report
December 31, 2017

My Choice Family Care, Inc.

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Independent Auditor's Report

To the Audit Committee
My Choice Family Care, Inc.

We have audited the accompanying financial statements of My Choice Family Care, Inc. (the "Company"), which comprise the statement of financial position as of December 31, 2017 and 2016 and the related statements of activities and changes in net assets and cash flows for the year ended December 31, 2017 and the period from September 1, 2016 (inception) through December 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of My Choice Family Care, Inc. as of December 31, 2017 and 2016 and the results of its operations and its cash flows for the year ended December 31, 2017 and the period from September 1, 2016 through December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

May 24, 2018

My Choice Family Care, Inc.

Statement of Financial Position

December 31, 2017 and 2016

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ [REDACTED] | \$ [REDACTED] |
| Accounts receivable: | | |
| Member accounts receivable - Net (Note 3) | [REDACTED] | [REDACTED] |
| Other | [REDACTED] | [REDACTED] |
| Total accounts receivable | [REDACTED] | [REDACTED] |
| Capitation receivable | - | [REDACTED] |
| Prepaid expenses and other current assets | [REDACTED] | [REDACTED] |
| Total current assets | [REDACTED] | [REDACTED] |
| Property and Equipment - Net (Note 4) | [REDACTED] | [REDACTED] |
| Restricted Assets (Note 7) | | |
| Short-term investments | [REDACTED] | [REDACTED] |
| Cash equivalents | - | [REDACTED] |
| Total assets | \$ 73,013,397 | \$ 58,759,686 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Unpaid claims, claim adjustment, and care management expenses: | | |
| (Note 6) | | |
| Claims incurred but not reported and unpaid reported claims | \$ [REDACTED] | \$ [REDACTED] |
| Care management expenses | [REDACTED] | [REDACTED] |
| Claim adjustment expenses | [REDACTED] | [REDACTED] |
| Total unpaid claims, claim adjustment, and care management expenses | [REDACTED] | [REDACTED] |
| Accounts payable and accrued expenses | [REDACTED] | [REDACTED] |
| Capitation payable | [REDACTED] | - |
| Accrued payroll-related expenses | [REDACTED] | [REDACTED] |
| Total current liabilities | [REDACTED] | [REDACTED] |
| Net Assets - Unrestricted | | |
| Total liabilities and net assets | \$ 73,013,397 | \$ 58,759,686 |

My Choice Family Care, Inc.**Statement of Activities and Changes in Net Assets**

Year Ended December 31, 2017 and Period from September 1, 2016 to December 31, 2016

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Revenue | | |
| Premiums earned: | | |
| Capitation revenue | \$ [REDACTED] | \$ [REDACTED] |
| Member obligation revenue | [REDACTED] | [REDACTED] |
| Other revenue | [REDACTED] | [REDACTED] |
| Total premiums earned and other revenue | 317,589,701 | 104,886,936 |
| Operating Expenses | | |
| Member service costs | [REDACTED] | [REDACTED] |
| Care management expenses | [REDACTED] | [REDACTED] |
| Claim adjustment expenses | [REDACTED] | [REDACTED] |
| General and administrative | [REDACTED] | [REDACTED] |
| Total operating expenses | 306,667,164 | 102,643,545 |
| Operating Income | 10,922,537 | 2,243,391 |
| Nonoperating Income (Expense) - Net investment income (expense) (Note 5) | [REDACTED] | (312) |
| Operating Income | 11,144,296 | 2,243,079 |
| Contribution from State of Wisconsin (Note 7) | - | [REDACTED] |
| Inherent Contribution (Note 1) | - | [REDACTED] |
| Change in Net Assets | 11,144,296 | 32,662,526 |
| Net Assets - Beginning of period | 32,662,526 | - |
| Net Assets - End of period | <u>\$ 43,806,822</u> | <u>\$ 32,662,526</u> |

My Choice Family Care, Inc.

Statement of Cash Flows

Year Ended December 31, 2017 and Period from September 1, 2016 to December 31, 2016

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities | | |
| Operating income | \$ 11,144,296 | \$ 2,243,079 |
| Adjustments to reconcile operating income to net cash and cash equivalents from operating activities: | | |
| Depreciation and amortization | █ | █ |
| Loss on disposal of equipment | █ | - |
| Operating assets acquired and liabilities assumed - Net of cash (Note 1) | - | █ |
| Changes in operating assets and liabilities: | | |
| Accounts receivable - Net | █ | █ |
| Capitation receivable | █ | - |
| Prepaid expenses and other current assets | █ | █ |
| Unpaid claims, claim adjustment, and care management expenses | █ | █ |
| Accounts payable and accrued expenses | █ | █ |
| Accrued payroll-related expenses | █ | █ |
| Capitation payable | █ | - |
| Net cash provided by operating activities | █ | █ |
| Cash Flows from Investing Activities | | |
| Cash and cash equivalents acquired from the County (Note 1) | - | █ |
| Purchases of property and equipment | █ | █ |
| Purchases of short-term investments | █ | - |
| Net cash (used in) provided by investing activities | █ | █ |
| Net Increase in Cash and Cash Equivalents | 5,897,858 | 46,861,385 |
| Cash and Cash Equivalents - Beginning of period | 46,861,385 | - |
| Cash and Cash Equivalents - End of period | <u>\$ 52,759,243</u> | <u>\$ 46,861,385</u> |

Note 1 - Nature of Business

My Choice Family Care, Inc. (the "Company", or MCFC) is a Managed Care Organization (MCO) that operates the State of Wisconsin Family Care Program (Family Care). The Company administers the family care benefit for both frail elders (age 60 and over) and persons with disabilities (ages 18-59) who are determined to be eligible by a resource center. MCFC is responsible for creating a comprehensive plan of care for eligible members, contracting with a wide range of service providers, and monitoring the quality of services that members receive. MCFC delivers member-centered, community-based, outcome-focused, managed long-term care services and member-centered care planning for all Family Care members. In return for coordinating and managing these services, MCFC receives a capitated rate payment per member per month from the State of Wisconsin. As of December 31, 2017 and 2016, MCFC offers the family care benefit to eligible members in nine counties.

Prior to September 1, 2016, all MCO activities were operated by the Milwaukee County Department of Family Care (the "County"). MCFC was administratively incorporated on March 1, 2016 and thereafter pursued a spin-off from operations of the County into a private, not-for-private entity to continue operating as a family care MCO. Ultimately, the Milwaukee County, Wisconsin board of supervisors, in accordance with Wisconsin Statutes Section 46.2894(4)(q), voted to approve a transaction whereby program operations and programmatic Medicaid funds accumulated by the MCO from 2001 through August 31, 2016 would be transferred to MCFC pursuant to the terms of an asset transfer agreement. The Company began operations as a private entity effective September 1, 2016.

Under the terms of the aforementioned asset transfer agreement, certain assets and liabilities of the County were transferred to MCFC at fair market value, along with programmatic Medicaid funds utilized to provide the family care benefit. As the transfer of programmatic funds did not represent a sale of assets, the net fair market value of these identifiable assets acquired and liabilities assumed was recognized as an inherent contribution in the Company's statement of activities and changes in net assets for the four-month period ended December 31, 2016. The following table shows the fair market value of the assets received and liabilities assumed from the County, including retrospective application of subsequent measurement period adjustments, and the resulting inherent contribution recognized in the period ended December 31, 2016:

| | |
|---|---------------|
| Assets: | |
| Cash and cash equivalents | \$ [REDACTED] |
| Premiums and other accounts receivable | [REDACTED] |
| Prepaid expenses and other current assets | [REDACTED] |
| Property and equipment | [REDACTED] |
| Restricted cash equivalents | [REDACTED] |
| Liabilities: | |
| Unpaid claims and claim adjustment expenses | [REDACTED] |
| Unpaid care management expenses | [REDACTED] |
| Unpaid claim adjustment expenses | [REDACTED] |
| Accounts payable and accrued expenses | [REDACTED] |
| Inherent contribution | [REDACTED] |

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of the Company have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP).

Cash, Cash Equivalents, and Short-Term Investments

Cash and cash equivalents include cash and highly liquid certificates of deposit with a maturity of three months or less. Short-term investments consist of certificates of deposit with a maturity of greater than three months. Certificates of deposit are carried at cost, which approximates fair market value.

Note 2 - Significant Accounting Policies (Continued)

Cash, cash equivalent, and short-term investment balances on deposit with the bank exceed the federal depository insurance limit. Custodial credit risk is the risk that, in the event of a bank failure, the Company's deposits may not be returned to it. The Company's policy related to custodial credit risk of bank deposits is to maintain all deposits in a high-quality institution. The Company maintains balances in its deposit accounts to adequately cover current operating and claims payment expenses and, as a result, generally requires balances that exceed the federal depository insurance limit. The Company believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is not always practical to insure all deposits. As a result, the Company evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

All of the Company's cash, cash equivalents, and short-term investments are held in custody at U.S. Bank.

Cash, cash equivalents, and short-term investments that are limited in their use by contractual agreements are presented separately on the statement of financial position.

Property and Equipment

Property and equipment are recorded at cost less depreciation. Property and equipment are depreciated over their estimated useful lives using the straight-line method. Costs of maintenance and repairs are charged to expense when incurred.

Unpaid Claims, Claim Adjustment, and Care Management Expenses

The reported liability for unpaid claims, claim adjustment, and care management expenses is composed of three components: a liability for claims on hand that have not been paid and for claims incurred but not yet reported, unpaid contracted care management expenses, and unpaid claims adjustment expenses.

Claims incurred but not reported are based primarily on past experience, including claim payment patterns, enrollment and eligibility data, and other information and are determined in part by actuarial calculations. Management believes that the liability for unpaid claims, claim adjustment, and care management expenses is appropriately established in the aggregate and makes a reasonable provision to cover the ultimate cost of reported and unreported claims. Because such liabilities are based on estimates, the ultimate net cost may vary materially from such estimates. These estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments are reflected in operations in the period the need for such adjustments becomes apparent.

Estimates for unpaid claims and claim adjustment expenses are derived by service category using various actuarial estimation methods, including specific authorized inventory method, forecasts using smoothed weighted-average development factors and per-member, per-day and per-member, per-month exposure-based approaches.

Note 2 - Significant Accounting Policies (Continued)

Capitation and Member Obligation Revenue

The Company receives the majority of its funding from an annual Medicaid contract with the State of Wisconsin Department of Health Services (DHS). This funding, referred to within the statement of activities and changes in net assets as capitation revenue, is based on Medical Assistance (MA) capitated payment rates for Family Care eligible members and is recognized in the month that members are entitled to receive services. The capitated rates are calculated annually by the DHS actuary with year-end adjustments to account for the High Cost Risk Pool (HCRP) and member target group case mix, which may result in significant adjustments to revenue recognized in future periods. If rate adjustments are expected and estimable, management estimates the impact of those adjustments on revenue based on a variety of factors, when practical to do so based on data available. While management believes these estimates are accurate, it is reasonably possible that a change in estimate will occur in the near term as a result of actual rate adjustments differing from projected rate adjustments. The impact of these estimated rate adjustments, along with any adjustments to capitation revenue resulting from member cost-sharing modifications, are reflected within the capitation receivable or payable account balances on the statement of financial position. The capitation (payable) receivable balance totaled \$[REDACTED] and \$[REDACTED] as of December 31, 2017 and 2016, respectively. Management considers all amounts receivable from the State of Wisconsin to be collectible and, therefore, an allowance for doubtful accounts related to this receivable was not recorded at December 31, 2016.

MCFC also receives funding from its members who have responsibility for cost-share and/or room and board costs if the member resides in a residential healthcare facility. This member obligation revenue is recognized in the period in which members utilize the services. Accounts receivable from members are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Income Taxes

The Company is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements. As of December 31, 2017 and 2016, the Company had no unrecognized tax benefits. There were no penalties or interest recognized or accrued during 2017 or 2016. The Company files tax returns in U.S. federal and state of Wisconsin jurisdictions.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company considers the accounting estimate for unpaid member services and capitation receivables (payables) critical in the preparation of the financial statements. The Company uses information available at the time the estimates are made; however, these estimates could change materially if different information or assumptions were used. Additionally, these estimates may not ultimately reflect the actual amounts of the final transactions that occur.

Reclassification

Certain 2016 amounts have been reclassified in order to conform to the 2017 presentation. The Company reclassified cash and cash equivalent amounts in the working capital and restricted reserves to a separate cash and cash equivalents line item under restricted assets.

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

During the year ended December 31, 2017, the Company adopted Accounting Standards Update (ASU) No. 2015-09, *Disclosures About Short-Duration Contracts*. This ASU requires insurance entities to disclose certain information about the liability for unpaid claims and claims adjustment expense for annual reporting periods. This adoption modified the claim disclosures and had no impact on the Company's net assets or changes in net assets.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Company's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The adoption of this standard will not impact the Company's insurance contract revenue, as these have been scoped out of the new guidance. The Company does not believe adopting the provisions of this ASU in the future will have a significant impact on its other revenue streams and, thus, has not yet quantified the impact of the change.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Company's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effects of implementing this standard on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow the FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Company, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Company's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The implementation of this standard is not expected to impact on the presentation of the Company's financial statements.

December 31, 2017 and 2016

Note 2 - Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Company's accounts receivable and held-to-maturity debt securities, by requiring the Company to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The ASU also changes the way credit losses are recognized for available-for-sale debt securities. Credit losses are recognized through the recording of an allowance, rather than as a write-down of the carrying value. The new guidance will be effective for the Company's year ending December 31, 2021. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all entities is permitted for fiscal years beginning after December 15, 2018. The Company does not believe adopting the provisions of this ASU in the future will have a material impact on the financial statements and, thus, has not yet quantified the impact of the change.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 24, 2018, which is the date the financial statements were available to be issued.

Note 3 - Member Accounts Receivable

The following is a summary of net accounts receivable from members at December 31, 2017 and 2016:

| | 2017 | 2016 |
|--------------------------------------|-------------------|---------------------|
| Member receivables | \$ 2,119,783 | \$ 1,972,058 |
| Less allowance for doubtful accounts | (1,204,565) | (779,614) |
| Net member accounts receivable | <u>\$ 915,218</u> | <u>\$ 1,192,444</u> |

Note 4 - Property and Equipment

Property and equipment as of December 31, 2017 and 2016 are summarized as follows:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Furniture, equipment, and software (5-10 year depreciable life) | \$ 2,954,023 | \$ 1,494,863 |
| Work in progress (nondepreciable) | 589,692 | 125,712 |
| Total cost | 3,543,715 | 1,620,575 |
| Accumulated depreciation and amortization | 418,723 | 74,251 |
| Net property and equipment | <u>\$ 3,124,992</u> | <u>\$ 1,546,324</u> |

Depreciation and amortization expense for the year ended December 31, 2017 and for the period from September 1, 2016 through December 31, 2016 was \$346,363 and \$74,251, respectively.

Notes to Financial Statements

December 31, 2017 and 2016

Note 5 - Investment Income

Investment income is composed of the following for the year ended December 31, 2017 and for the period from September 1, 2016 through December 31, 2016:

| | 2017 | 2016 |
|--|-------------------|-----------------|
| Interest income - Cash, cash equivalents, and short-term investments | \$ 244,190 | \$ 4,056 |
| Investment expenses | (22,431) | (4,368) |
| Net investment income | <u>\$ 221,759</u> | <u>\$ (312)</u> |

Note 6 - Liability for Unpaid Claims, Claim Adjustment, and Care Management Expenses

The following summarizes activity in the liability for unpaid claims, claim adjustment, and care management expenses for the year ended December 31, 2017 and for the period from September 1, 2016 through December 31, 2016:

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Liability as of beginning of period | \$ 24,889,723 | \$ - |
| Transfer of liability from the County on September 1, 2016 (Note 1) | - | 22,459,091 |
| Incurred (recovered) related to: | | |
| Current year | 296,263,450 | 99,456,710 |
| Prior years | (314,799) | (206,712) |
| Total incurred | <u>295,948,651</u> | <u>99,249,998</u> |
| Paid related to: | | |
| Current year | 270,231,123 | 74,585,850 |
| Prior years | 24,349,347 | 22,253,516 |
| Total paid | <u>294,580,470</u> | <u>96,839,366</u> |
| Liability as of December 31 | <u>\$ 26,237,904</u> | <u>\$ 24,869,723</u> |

As a result of changes to estimates for incurred claims, claim adjustment, and care management expenses attributable to insured events of prior periods, claims expense decreased by approximately \$315,000 and \$207,000 during the year ended December 31, 2017 and for the period from September 1, 2016 through December 31, 2016, respectively. Changes in unpaid claims, claim adjustment, and care management expenses are generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Notes to Financial Statements

December 31, 2017 and 2016

Note 6 - Liability for Unpaid Claims, Claim Adjustment, and Care Management Expenses (Continued)

The following is information about incurred and paid claims development as of December 31, 2017, as well as IBNR and cumulative reported claims by period. The information related to incurred and paid claims development for the period from September 1, 2016 through December 31, 2016 is presented as supplementary information (unaudited).

| Claim Period* | Incurred Claims and Claim Adjustment Expenses for the Year Ended December 31, 2017 and the Four-month Period Ended December 31, 2016 (\$ in 000s, except for cumulative number of reported claims) | | As of December 31, 2017 | |
|---------------|---|------------|-------------------------|--------------------------------------|
| | 2016 | 2017 | Total IBNR | Cumulative Number of Reported Claims |
| 2016 | \$ 99,457 | \$ 99,702 | \$ 4 | 291,883 |
| 2017 | | 298,264 | 23,342 | 810,906 |
| Total | | \$ 395,966 | | |

| Claim Period* | Cumulative Paid Claims and Allocated Claims Adjustment Expenses Year Ended December 31, 2017 and the Four-month Period Ended December 31, 2016 (\$ in 000s, except for cumulative number of reported claims) | |
|--|---|------------|
| | 2016 | 2017 |
| 2016 | \$ 74,586 | \$ 99,263 |
| 2017 | | 270,465 |
| Total | | \$ 369,728 |
| Total liability for claims and claim adjustment expenses | | \$ 26,238 |

*The 2016 claim period in the tables above represents the period from September 1, 2016 through December 31, 2016. The 2017 claim period in the tables represents the period from January 1, 2017 through December 31, 2017.

Note 7 - Reserve Requirements

As of December 31, 2017 and 2016, the Company has met the reserve requirements as identified in its contracts with DHS. As required under the annual contract with DHS to administer the Family Care program, MCFC shall demonstrate its capacity for financial solvency and stability along with its ability to assume the level of financial risk by maintaining certain reserves. The MCFC shall maintain a working capital reserve, restricted reserve, and solvency reserve. The working capital and restricted reserves are held by the Company in the form of certificates of deposit as of December 31, 2017 and were held in the form of cash equivalents at December 31, 2016. The solvency reserve is held by the Wisconsin Department of Administration in the form of certificates of deposit. The balances related to these reserves are reported as restricted assets on the statement of financial position.

Note 7 - Reserve Requirements (Continued)

The purpose of the working capital reserve is to provide ongoing liquid assets to manage routine fluctuations in revenue and expenses that will occur in the normal course of business operations. The minimum working capital balance is calculated as 3 percent of MCFC's budgeted capitation revenue (net of cost share) for the DHS contract period.

The purpose of the restricted reserve is to provide continuity of care for enrolled members, accountability to taxpayers, and effective program administration. The restricted reserve provides additional liquid assets to underwrite the risk of financial volatility due to extraordinary and unbudgeted program expenditures. The restricted reserve is required to be funded based on a graduated scale using a percentage of budgeted capitation revenue (net of cost share) for the DHS contract period.

The solvency reserve fund provides for continuity of services and smooth transition of members from the existing MCO to another entity, or in the event the existing MCO becomes irreversibly insolvent. The solvency reserve funds are required to be pledged to a separate account with the State of Wisconsin Department of Administration. During the four months ended December 31, 2016, the Wisconsin Office of Commissioner of Insurance transferred \$315,118 into the Company's solvency reserve account as a result of the liquidation of two other managed care organizations in the state of Wisconsin. This transfer is reflected in the statement of activities and changes in net assets.

The minimum required reserve balances for the 2017 and 2016 DHS contract years (January 1 - December 31) and the actual reserve balances as of December 31, 2017 and 2016 are as follows:

| | 2017 | | 2016 | |
|-------------------------|----------|--------|----------|--------|
| | Required | Actual | Required | Actual |
| Working capital reserve | \$ | | | |
| Restricted reserve | | | | |
| Solvency reserve | | | | |
| Total | \$ | | | |

In addition to restricted assets, the Company has unrestricted cash and cash equivalents of \$52,759,243 and \$34,261,185 as of December 31, 2017 and 2016, respectively.

Note 8 - Retirement Plans

The Company sponsors a 401(k) plan for its employees. The plan is fully funded and provides for the Company to make a required matching contribution. Contributions to the plan totaled \$298,360 and \$36,364 for the year ended December 31, 2017 and for the period from September 1, 2016 through December 31, 2016, respectively.

Note 9 - Operating Leases

The Company is obligated under various operating leases through 2027 related to the rental of office space. The leases also require the Company to pay a portion of taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was \$395,019 and \$62,297 for the year ended 2017 and for the period from September 1, 2016 through December 31, 2016, respectively.

Note 9 - Operating Leases (Continued)

Future minimum annual commitments under these operating leases are as follows:

| <u>Years Ending December 31</u> | <u>Amount</u> |
|-------------------------------------|---------------------|
| 2018 | \$ 284,967 |
| 2019 | 278,471 |
| 2020 | 272,262 |
| 2021 | 274,742 |
| 2022 | 248,633 |
| Thereafter | <u>1,190,695</u> |
| Total | <u>\$ 2,549,770</u> |

Note 10 - Contingencies

Periodically, the Company is involved in litigation and claims arising in the normal course of operations. In the opinion of management based on consultation with legal counsel, potential losses from these matters are considered to be immaterial.