OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

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LBMC MAKE A GOOD BUSINESS BETTER

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Open Arms Care Corporation Inc., and Affiliates (collectively, the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets (deficit), 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 of 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 financial position of Open Arms Care Corporation Inc., and Affiliates as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on Pages 16-17 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

LBMC, PC

Brentwood, Tennessee
February 19, 2019

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Balance Sheets

December 31, 2018 and 2017

Assets

	2018	2017
Current assets:		
Cash and cash equivalents	$ 4,571,563	$ 3,851,569
Funds held in custody for others	571,452	458,672
Patient accounts receivable, less allowance for doubtful accounts of approximately $89,000 in 2018 and 2017	4,790,616	4,964,333
Prepaid expenses and other current assets	132,105	257,366
Total current assets	10,065,736	9,531,940
Property and equipment, net	242,677	288,256
Other Assets:		
Start-up costs, less accumulated amortization of approximately $335,000 and $131,000 in 2018 and 2017, respectively	684,888	888,844
Other long-term assets	74,810	75,160
Notes receivable	1,914,895	1,914,895
Total other assets	2,674,593	2,878,899
Total assets	$ 12,983,006	$ 12,699,095

Liabilities and Net Assets

	2018	2017
Current liabilities:		
Accounts payable and accrued expenses	$ 1,410,152	$ 1,734,297
Funds held in custody for others	571,452	458,672
Accrued rent expense	2,256,582	3,071,099
Accrued salaries and benefits	1,169,391	1,227,909
Accrued interest	24,666	26,000
Current portion of long-term debt	200,000	200,000
Total current liabilities	5,632,243	6,717,977
Long-term debt	2,500,000	2,700,000
Deferred gain on sale-leaseback transaction	1,011,238	1,813,887
Total liabilities	9,143,481	11,231,864
Net assets without donor restrictions	3,839,525	1,467,231
Total liabilities and net assets	$ 12,983,006	$ 12,699,095

See accompanying notes to the consolidated financial statements.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

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

Years ended December 31, 2018 and 2017

	2018	2017
Unrestricted revenues:		
Net patient service revenues	$ 56,784,317	$ 52,499,476
Investment income	23,442	4,110
Net special events revenue	2,725	72
Other revenues	32,850	47,863
Total unrestricted revenues	56,843,334	52,551,521
Expenses:		
Salaries and wages	29,288,466	27,192,389
Employee benefits	4,564,899	4,396,115
Professional services	1,979,665	1,793,782
Supplies	5,969,201	5,535,775
Maintenance and repairs	703,821	605,561
Utilities	831,347	717,328
Insurance	582,940	532,184
Depreciation and amortization of property and equipment	73,466	47,730
Amortization of start-up costs	203,956	130,939
Interest expense	303,530	286,899
Gain on disposal of property and equipment	(12,050)	(800)
Taxes and licenses	3,735,023	3,660,123
Provision for doubtful accounts	929	-
Rent	3,440,068	3,543,915
Amortization of deferred gain	(802,649)	(1,179,131)
Management fee and related costs of operations	3,608,428	3,183,174
Total expenses	54,471,040	50,445,983
Excess of revenues over expenses	2,372,294	2,105,538
Net assets (deficit) without donor restrictions at beginning of year	1,467,231	(638,307)
Net assets without donor restrictions at end of year	$ 3,839,525	$ 1,467,231

See accompanying notes to the consolidated financial statements.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Excess of revenues over expenses	$ 2,372,294	$ 2,105,538
Adjustments to reconcile excess of revenues over expenses to net cash and cash equivalents provided (used) by operating activities:		
Depreciation and amortization of property and equipment	73,466	47,730
Amortization of start-up costs	203,956	130,939
Provision for doubtful accounts	929	-
Gain on disposal of property and equipment	(12,050)	(800)
Amortization of deferred gain	(802,649)	(1,179,131)
(Increase) decrease in operating assets:		
Patient accounts receivable	172,788	(1,149,440)
Prepaid expenses and other current assets	125,261	6,651
Start-up costs	-	(910,189)
Other assets	350	(11,325)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(324,145)	779,307
Accrued rent expense	(814,517)	(325,313)
Accrued salaries and benefits	(58,518)	359,133
Accrued interest	(1,334)	6,000
Net cash provided (used) by operating activities	935,831	(140,900)
Cash flows from investing activities:		
Proceeds from the sale of property and equipment	12,050	800
Purchases of property and equipment	(27,887)	(306,976)
Net cash used by investing activities	(15,837)	(306,176)
Cash flows from financing activities:		
Proceeds from line of credit	100,000	1,000,000
Principal payments on line of credit	(300,000)	(100,000)
Net cash provided (used) by financing activities	(200,000)	900,000
Increase in cash and cash equivalents	719,994	452,924
Cash and cash equivalents at beginning of year	3,851,569	3,398,645
Cash and cash equivalents at end of year	$ 4,571,563	$ 3,851,569
Supplemental disclosure of cash flow information - Cash paid for interest	$ 304,864	$ 280,899

See accompanying notes to the consolidated financial statements.

(1) Organization

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

Open Arms Care Corporation, Inc. operates intermediate care facilities for persons with intellectual and developmental disabilities. The facilities are located in Chattanooga, Knoxville, Memphis, Nashville and Greeneville, Tennessee. In 2005, Open Arms Care Foundation, Inc. was formed to support non-Medicaid allowable expenses and capital projects through charitable donations for the benefit of Open Arms Care Corporation, Inc.'s clients. In 2013, Open Arms Health System, LLC was formed to provide routine clinic services to the clients and employees of Open Arms Care Corporation, Inc. In 2016, the Company executed leases for nine new homes which were put into operation in 2017.

(2) Summary of significant accounting policies

(a) Effects of regulation

The consolidated financial statements reflect the effects of rate regulation in accordance with accounting principles generally accepted in the United States of America ("GAAP") and comply with the accounting practices prescribed by the Centers for Medicare & Medicaid Services. Under those accounting practices, initial development costs necessary to furnish patient care services, commonly referred to as start-up costs, must be capitalized as deferred charges and amortized over five years. This differs from GAAP primarily because start-up costs are expensed as incurred. Concurrent with the preopening of nine new homes, the Company capitalized $1,019,783 of start-up costs as December 31, 2017. Amortization expense related to start-up costs was $203,956 and $130,939 during 2018 and 2017, respectively.

As discussed in Note 12, when facilities are replaced or new facilities are leased the Company enters into individual lease agreements with rent payments that are structured to match the lessors debt service obligations. The scheduled rent payments decrease over the term of the leases. Rent expense is being recognized when due, rather than on a straight-line basis. This accounting practice differs from GAAP primarily because variable rent payments are recognized on a straight-line basis.

(b) Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis and in accordance with the accounting principles and standards applicable to not-for-profit health care organizations. These standards require the classification of net assets or net deficits, net revenues, expenses, gains and losses with donor restrictions or without donor restrictions based on the existence or absence of donor-imposed restrictions. For these purposes, net assets or net deficits without donor restrictions include all resources which are not subject to donor-imposed restrictions of a more specific nature than those which only obligate the Company to utilize funds in the operation of the company. During 2018 and 2017 and as of December 31, 2018 and 2017, all of the Company's net assets (deficits) are classified without donor restrictions.

(c) Principles of consolidation

These consolidated financial statements include the accounts of Open Arms Care Corporation, Inc., Open Arms Care Foundation, Inc. and Open Arms Health System, LLC. All significant intercompany accounts and transactions have been eliminated.

(d) Cash and cash equivalents

The Company considers cash and highly liquid investments having a maturity date at acquisition of 90 days or less to be cash and cash equivalents.

(e) Property and equipment

Property and equipment are stated at cost. Depreciation is provided over the assets' estimated useful lives using the straight-line method. Building improvements are generally depreciated over ten years and vehicles over three to five years.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

(f) Deferred gain on sale-leaseback

The deferred gain is being amortized over the life of the leases as discussed at Note 12.

(g) Performance indicator

The excess of revenues over expenses as reflected in the accompanying consolidated statements of operations is a performance indicator.

(h) Federal income taxes

Open Arms Care Corporation, Inc. is an organization recognized as exempt from federal income tax under Section 501(c)(3) and as a public charity under Section 509(a)(1) and as a hospital described in Section 170(b)(1)(A)(iii). Open Arms Care Foundation, Inc. is an organization recognized as exempt from federal income tax under 501(c)(3) and as a public charity under Section 509(a)(1) and as a publicly supported organization under Section 170(b)(1)(A)(vi). The Internal Revenue Service has determined that the Company is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Open Arms Health System, LLC is a single member limited liability company and for tax purposes, is treated as a disregarded entity of Open Arms Care Corporation, Inc.

Under GAAP, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax purposes not meeting the "more likely than not" test, no tax benefit is recorded. The Company has no material uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

As of December 31, 2018, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company files Federal Form 990 informational tax returns. The Company is currently open to examinations by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

(i) Revenue recognition

Net patient service revenue is recognized at the estimated net realizable amounts from patients, third-party payors and others for services rendered.

(j) Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) Adoption of new accounting standard

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The Company adopted this ASU for the fiscal year ended December 31, 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

(l) New accounting standard

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which superceded previously existing revenue recognition guidance. Under this ASU, companies must apply a principles-based five step model to recognize revenue upon the transfer of promised goods or services to customers and in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The ASU may be applied using a full retrospective method or a modified retrospective transition method, with a cumulative-effect adjustment as of the date of the adoption. The ASU also provides for certain practical expedients, including the option to expense as incurred the incremental costs of obtaining a contract, if the contract period is for one year or less. This ASU will be effective beginning in the first quarter of the 2019 fiscal year. The Company is still assessing the effect of adopting this standard.

(m) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between December 31, 2018 and February 19, 2019, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

(3) Credit risk

The Company may maintain cash and cash equivalents on deposit at banks in excess of federally insured amounts. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash and cash equivalents.

(4) Medicaid program

Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Company is reimbursed at a rate determined prospectively based on its filed cost reports. Final determination of amounts to be received is subject to audit by Medicaid.

The State of Tennessee imposes a provider tax on Intermediate Care Facilities for persons with intellectual and developmental disabilities at a rate of 5.5% of gross receipts, as defined. The consolidated statements of operations include approximately $3,133,000 and $2,823,000 of Tennessee provider tax expense for 2018 and 2017, respectively.

Substantially all net patient service revenues in 2018 and 2017 relate to services provided to patients covered by the Medicaid program. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. The Company believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicaid program.

(5) Note receivable

In 2015, the Company received a promissory note receivable for $1,914,895 from Woodbine Community Organization, Inc. ("Woodbine") in connection with the sale-leaseback transaction discussed at Note 12. No interest payments are required and principal on the note is to be paid on April 27, 2030. The note is subject to certain principal payment requirements with conditions as defined in the agreement.

(6) Debt

Debt consists of the following:

	2018	2017
Note payable to related party; monthly interest only payments at 12% per annum with principal due September 30, 2022.	$ 2,000,000	$ 2,000,000
Line of credit with related party; monthly principal and interest payments at 8% per annum maturing September 30, 2022.	700,000	900,000
Total	2,700,000	2,900,000
Less current portion	200,000	200,000
Long-term portion	$ 2,500,000	$ 2,700,000

In 2015, the Company borrowed $2,000,000 at a fixed interest rate equal to 12% per annum from Integra Resources, LLC ("Integra"). The note is secured by substantially all assets of the Company and is subordinated to certain required rent payments discussed in Note 12. The note is payable in monthly interest-only payments with principal due September 30, 2022. Should the management agreements be extended (see Note 9), the due date of this note is automatically extended to the termination date of the management agreement. The note is subject to a call provision should the management agreement be terminated and would be due in 16 monthly installments starting 30 days after such termination.

In 2015, the Company entered into a $1,000,000 revolving line of credit with Integra. Borrowings bear interest at a fixed rate equal to 8% per annum. The line of credit is payable in monthly principal and interest payments maturing September 30, 2022. The note is secured by substantially all assets of the Company and is subordinated to certain required rent payments discussed in Note 12. The line of credit is subject to a call provision should the management agreement be terminated and would be due 30 days after such termination.

A summary of approximate future maturities on long-term debt as of December 31, 2018 is as follows:

Year		
2019	$	200,000
2020		200,000
2021		200,000
2022		2,100,000
	$	2,700,000

(7) Liquidity and availability

The Company regularly monitors liquidity required to meet its operating needs and other commitments, while also striving to maximize the investment of its available funds. As part of the Company's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Financial assets available for general expenditures within one year of the consolidated balance sheet are as follows:

Cash and cash equivalents	$	4,571,563

(8) Commitments and contingencies

Operating lease commitments

Future minimum annual rental payments under noncancelable operating lease and service agreements, excluding the facility leases discussed in Note 12, as of December 31, 2018 are as follows:

Year		
2019	$	508,000
2020		253,000
2021		158,000
2022		149,000
2023		22,000
	$	1,090,000

Total rental expense under noncancelable operating leases and service agreements, which includes amounts applicable to short-term leases, was approximately $1,199,000 and $1,163,000 for 2018 and 2017, respectively. The expense is higher than the future commitments due to vehicle leases that have cancelation features at the Company's option.

Health care regulation

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Health care reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation became effective in 2014. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Company's operations.

Insurance

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

Litigation

The Company is subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the Company's financial position.

(9) Management agreement

Concurrent with the sale-leaseback transaction (see Note 12), the Company borrowed $2,000,000 and entered into a management agreement with Integra. See Note 6 for terms of the $2,000,000 borrowing. The management agreement provides general management services to all facilities. The management agreement expires on March 31, 2022 with automatic extensions up to seven years. Integra charges a management fee that is a combination of a fixed monthly fee per facility, 5% of the Open Arms Health System, LLC gross revenues and the salary and expenses of the facility directors, subject to inflation increases.

During 2017, the Company borrowed $1,000,000 on the line of credit and entered into an additional management agreement with Integra for nine new homes. See Note 6 for terms of the line of credit. The management agreement provides general management services to all facilities. The management agreement expires seven years after the opening of each home, with automatic extensions up to seven years. Integra charges a management fee that is a combination of a fixed monthly fee per facility and the salary and expenses of the facility directors, subject to inflation increases.

For the years ended December 31, 2018 and 2017, Integra charged management fees and related costs of operations of $3,608,428 and $3,183,174, respectively, to the Company.

(10) Functional expenses

The Company provides intermediate care services to individuals with intellectual and developmental disabilities within certain geographic locations. Expenses related to providing these services are as follows:

	2018	2017
Intellectual and developmental services	$ 49,393,612	$ 45,555,758
General and administrative	5,064,771	4,872,525
Fundraising	12,657	17,700
	$ 54,471,040	$ 50,445,983

(11) Retirement plan

The Company has a defined contribution 403(b) retirement plan for employees who have two years of service. For the years ended December 31, 2018 and 2017, the Company contributed approximately 1.0% of each participants' compensation, subject to Internal Revenue Code limitations. The Company contributed approximately $160,000 and $157,000 to the plan in 2018 and 2017, respectively.

(12) Sale-leaseback transaction

During April 2015, the Company sold substantially all of its property and equipment to an unrelated party for approximately $11.5 million. The Company received cash of approximately $9.6 million and a note receivable for $1.9 million (see Note 5). The Company used the cash proceeds and certain trusteed funds to retire substantially all of the Company's long-term debt. The gain, which was net of transaction costs, was approximately $5,765,000, has been deferred and is being recognized over the term of the lease in proportion to certain rental payments as discussed below. In conjunction with the transaction, the Company entered into individual lease agreements to leaseback the property and equipment from the buyer. The leases are for terms of 15 years and can be extended at the option of the Company for two additional 5 year terms.

Rent expense under these leases totaled approximately $2,315,000 and $2,928,000 during 2018 and 2017, respectively. The lease agreements allow for certain property improvements to be passed along to the Company as incremental increases in rent payments. For the years ended December 31, 2018 and 2017, the Company expensed approximately $264,000 and $245,000, respectively, in additional rent related to property improvements. A summary of approximate future lease payments under the leases and related amortization of the deferred gain as of December 31, 2018 is as follows:

		Amortization		
Years	Rent	Gain	Transaction costs	Total
2019	$ 1,698,000	$ (581,000)	$ 79,000	$ (502,000)
2020	1,029,000	(195,000)	26,000	(169,000)
2021	819,000	(93,000)	12,000	(81,000)
2022	776,000	(93,000)	12,000	(81,000)
2023	748,000	(93,000)	12,000	(81,000)
Thereafter	3,009,000	(112,000)	15,000	(97,000)
	$ 8,079,000	$ (1,167,000)	$ 156,000	$ (1,011,000)

As of December 31, 2018 and 2017, there was approximately $2,257,000 and $3,071,000, respectively, of rent payments accrued on the consolidated balance sheet related to the leases above. These amounts are paid subsequent to the annual cost report filing for the Company. Should there be changes to the allowed facility rental reimbursement in the annual cost report, there are remedies within the lease agreements that permit changes to the rent payments subject to an annual floor as defined in the agreements.

The Company has implemented a plan to replace substantially all facilities over a five year period. The rent payments are structured to match the expected facility replacement at each location and the related reimbursement. As the facilities are replaced, the lease agreements discussed above are subject to termination and the Company will enter into new leases related to the replacement facilities. Based on management's plans to replace all facilities over the next five years and the expected termination of the leases discussed above, the rent expense is being recognized in accordance with the accounting practice discussed at Note 2(a). The related deferred gain on the sale-leaseback is being amortized in a similar manner.

During 2017, the Company opened nine new homes at various times throughout the year. Rent expense under these leases totaled approximately $1,125,000 and $616,000 during 2018 and 2017, respectively. The Company recognizes rent expense for the lease agreements based on the amount due, rather than on a straight-line basis, see Note 2(a). A summary of approximate future lease payments as of December 31, 2018 is as follows:

Year	Rent
2019	$ 1,100,000
2020	1,075,000
2021	1,050,000
2022	1,025,000
2023	1,000,000
Thereafter	17,161,000
	$ 22,411,000

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Supplemental Schedule - Consolidating Balance Sheet

December 31, 2018

	Chattanooga	Greeneville	Knoxville	Memphis	Nashville	Headquarters	Subtotal Open Arms Care Corporation	Open Arms Health System, LLC	Total Open Arms Care Corporation	Open Arms Care Foundation	Total Consolidated Open Arms Care Corporation
Current Assets:											
Cash and cash equivalents	$ 4,000	$ 1,500	$ 7,000	$ 5,000	$ 5,000	$ 4,147,082	$ 4,169,582	$ 89,623	$ 4,259,205	$ 312,358	$ 4,571,563
Funds held in custody for others	202,898	20,715	129,653	64,855	153,331	-	571,452	-	571,452	-	571,452
Patient accounts receivable, net	1,176,651	384,801	1,327,715	984,492	908,347	8,610	4,790,616	-	4,790,616	-	4,790,616
Prepaid expenses and other current assets	51,601	(764)	13,780	31,794	24,943	10,751	132,105	-	132,105	-	132,105
Total current assets	1,435,150	406,252	1,478,148	1,086,141	1,091,621	4,166,443	9,663,755	89,623	9,753,378	312,358	10,065,736
Property and equipment, net	42,147	72,363	96,275	3,914	10,426	17,552	242,677	-	242,677	-	242,677
Other assets:											
Start-up costs, net	207,468	286,008	191,412	-	-	-	684,888	-	684,888	-	684,888
Other long-term assets	7,500	31,200	6,575	14,360	3,675	11,500	74,810	-	74,810	-	74,810
Notes receivable	-	-	-	-	-	1,914,895	1,914,895	-	1,914,895	-	1,914,895
Total other assets	214,968	317,208	197,987	14,360	3,675	1,926,395	2,674,593	-	2,674,593	-	2,674,593
Total assets	$ 1,692,265	$ 795,823	$ 1,772,410	$ 1,104,415	$ 1,105,722	$ 6,110,390	$ 12,581,025	$ 89,623	$ 12,670,648	$ 312,358	$ 12,983,006
Current liabilities:											
Accounts payable and accrued expenses	$ 333,500	$ 54,198	$ 375,354	$ 279,523	$ 247,185	$ 116,783	$ 1,406,543	$ 825	$ 1,407,368	$ 2,784	$ 1,410,152
Funds held in custody for others	202,898	20,715	129,653	64,855	153,331	-	571,452	-	571,452	-	571,452
Accrued rent expense	650,138	-	493,634	333,043	779,767	-	2,256,582	-	2,256,582	-	2,256,582
Accrued salaries and benefits	287,646	91,145	315,309	251,740	213,420	10,131	1,169,391	-	1,169,391	-	1,169,391
Accrued interest	1,037	1,555	2,074	-	-	20,000	24,666	-	24,666	-	24,666
Current portion of long-term debt	-	-	-	-	-	200,000	200,000	-	200,000	-	200,000
Total current liabilities	1,475,219	167,613	1,316,024	929,161	1,393,703	346,914	5,628,634	825	5,629,459	2,784	5,632,243
Intercompany payable/(receivable)	(1,934,609)	419,479	(260,113)	(545,331)	(1,277,243)	3,597,817	-	-	-	-	-
Long-term debt	-	-	-	-	-	2,500,000	2,500,000	-	2,500,000	-	2,500,000
Deferred gain on sale-leaseback transaction	-	-	-	-	-	1,011,238	1,011,238	-	1,011,238	-	1,011,238
Total liabilities	(459,390)	587,092	1,055,911	383,830	116,460	7,455,969	9,139,872	825	9,140,697	2,784	9,143,481
Net assets (deficit) without donor restrictions	2,151,655	208,731	716,499	720,585	989,262	(1,345,579)	3,441,153	88,798	3,529,951	309,574	3,839,525
Total liabilities and net assets (deficit)	$ 1,692,265	$ 795,823	$ 1,772,410	$ 1,104,415	$ 1,105,722	$ 6,110,390	$ 12,581,025	$ 89,623	$ 12,670,648	$ 312,358	$ 12,983,006

See accompanying independent auditors' report

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

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

For the year ended December 31, 2018

	Chattanooga	Greeneville	Knoxville	Memphis	Nashville	Headquarters	Subtotal Open Arms Care Corporation	Open Arms Health System, LLC	Total Open Arms Care Corporation	Open Arms Care Foundation	Total Consolidated Open Arms Care Corporation
Unrestricted revenue:											
Net patient services revenue	$ 14,126,082	$ 4,166,362	$ 16,066,321	$ 11,419,091	$ 11,006,461	$ -	$ 56,784,317	$ -	$ 56,784,317	$ -	$ 56,784,317
Investment income	-	-	-	-	-	23,420	23,420	-	23,420	22	23,442
Net special events revenue	-	-	-	-	-	-	-	-	-	2,725	2,725
Intercompany revenue	-	-	243	7,028	1,040	-	8,311	-	8,311	(8,311)	-
Other revenues	-	-	-	316	1,428	3,620	5,364	-	5,364	27,486	32,850
Total unrestricted revenues	14,126,082	4,166,362	16,066,564	11,426,435	11,008,929	27,040	56,821,412	-	56,821,412	21,922	56,843,334
Expenses:											
Salaries and wages	7,157,130	2,054,855	8,190,382	6,013,613	5,657,141	215,345	29,288,466	-	29,288,466	-	29,288,466
Employee benefits	1,187,600	339,451	1,305,052	895,167	801,392	36,237	4,564,899	-	4,564,899	-	4,564,899
Professional services	390,687	100,987	517,960	415,962	416,618	136,351	1,978,565	-	1,978,565	1,100	1,979,665
Supplies	1,557,327	466,125	1,409,560	1,106,065	1,055,474	374,182	5,968,733	-	5,968,733	468	5,969,201
Maintenance and repairs	204,440	47,492	194,620	107,373	148,406	1,490	703,821	-	703,821	-	703,821
Utilities	214,598	28,487	211,432	170,790	205,753	287	831,347	-	831,347	-	831,347
Insurance	128,075	38,890	157,137	106,652	117,874	34,312	582,940	-	582,940	-	582,940
Depreciation and amortization of property and equipment	12,190	19,988	27,060	666	9,610	3,952	73,466	-	73,466	-	73,466
Amortization of start-up costs	59,276	87,257	57,423	-	-	-	203,956	-	203,956	-	203,956
Interest expense	14,074	21,111	28,148	-	-	240,197	303,530	-	303,530	-	303,530
Gain on disposal of property and equipment	-	-	(700)	-	(11,350)	-	(12,050)	-	(12,050)	-	(12,050)
Taxes and licenses	873,952	242,742	989,075	930,586	696,341	1,792	3,734,488	414	3,734,902	121	3,735,023
Provisions for doubtful accounts	-	-	223	706	-	-	929	-	929	-	929
Rent	922,901	374,981	922,186	452,613	767,387	-	3,440,068	-	3,440,068	-	3,440,068
Amortization of deferred gain	-	-	-	-	-	(802,649)	(802,649)	-	(802,649)	-	(802,649)
Management fee and related costs of operations	887,901	187,737	963,688	786,883	782,219	-	3,608,428	-	3,608,428	-	3,608,428
Intercompany expense (revenue)	255,222	42,535	283,580	226,864	226,865	(1,035,066)	-	-	-	-	-
Total expenses, net	13,865,373	4,052,638	15,256,826	11,213,940	10,873,730	(793,570)	54,468,937	414	54,469,351	1,689	54,471,040
Excess of revenues over expenses (expenses over revenues)	260,709	113,724	809,738	212,495	135,199	820,610	2,352,475	(414)	2,352,061	20,233	2,372,294
Net assets (deficit) at beginning of year	1,890,946	95,007	(93,239)	508,090	854,063	(2,166,189)	1,088,678	89,212	1,177,890	289,341	1,467,231
Net assets (deficit) at end of year	$ 2,151,655	$ 208,731	$ 716,499	$ 720,585	$ 989,262	$ (1,345,579)	$ 3,441,153	$ 88,798	$ 3,529,951	$ 309,574	$ 3,839,525

See accompanying independent auditors' report