

**OPEN ARMS CARE CORPORATION INC.,  
AND AFFILIATES**

**Consolidated Financial Statements**

**December 31, 2020 and 2019**

**(With Independent Auditors' Report Thereon)**



**OPEN ARMS CARE CORPORATION INC., AND AFFILIATES**

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## **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, 2020 and 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.**

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

**Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free 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 auditors consider 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 the Company as of December 31, 2020 and 2019, 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 19-20 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 16, 2021

**OPEN ARMS CARE CORPORATION INC., AND AFFILIATES**

**Consolidated Balance Sheets**

**December 31, 2020 and 2019**

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5,642,836	\$ 4,174,328
Funds held in custody for others	987,142	689,450
Patient accounts receivable	4,720,079	4,754,274
Prepaid expenses and other current assets	<u>166,027</u>	<u>211,222</u>
<b>Total current assets</b>	<u><b>11,516,084</b></u>	<u><b>9,829,274</b></u>
<b>Property and equipment:</b>		
Buildings and leasehold improvements	100,502	71,413
Furniture and equipment	<u>586,848</u>	<u>410,878</u>
	687,350	482,291
Accumulated depreciation	<u>(292,970)</u>	<u>(225,147)</u>
<b>Property and equipment, net</b>	<u><b>394,380</b></u>	<u><b>257,144</b></u>
<b>Other assets:</b>		
Start-up costs, less accumulated amortization of approximately \$743,000 and \$539,000 in 2020 and 2019, respectively	276,976	480,932
Other long-term assets	49,810	49,810
Notes receivable	<u>1,914,895</u>	<u>1,914,895</u>
<b>Total other assets</b>	<u><b>2,241,681</b></u>	<u><b>2,445,637</b></u>
<b>Total assets</b>	<u><b>\$ 14,152,145</b></u>	<u><b>\$ 12,532,055</b></u>
	<u><b>Liabilities and Net Assets</b></u>	
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,207,876	\$ 1,392,713
Funds held in custody for others	987,142	689,450
Accrued rent expense	2,173,338	1,557,270
Accrued salaries and benefits	1,435,022	1,248,074
Accrued interest	36,470	23,333
Current portion of long-term debt	<u>200,000</u>	<u>200,000</u>
<b>Total current liabilities</b>	<b>6,039,848</b>	<b>5,110,840</b>
Long-term debt	4,126,900	2,300,000
Deferred gain on sale-leaseback transaction	<u>340,149</u>	<u>508,405</u>
<b>Total liabilities</b>	<b>10,506,897</b>	<b>7,919,245</b>
<b>Net assets without donor restrictions</b>	<u><b>3,645,248</b></u>	<u><b>4,612,810</b></u>
<b>Total liabilities and net assets</b>	<u><b>\$ 14,152,145</b></u>	<u><b>\$ 12,532,055</b></u>

See accompanying notes to the consolidated financial statements.

**OPEN ARMS CARE CORPORATION INC., AND AFFILIATES**

**Consolidated Statements of Operations and Changes in Net Assets**

**Years ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Unrestricted revenues:</b>		
Net patient service revenues	\$ 55,548,208	\$ 55,281,688
Investment income	19,137	32,526
Net special events revenues	-	5,862
Other revenues	<u>72,404</u>	<u>44,653</u>
<b>Total unrestricted revenues</b>	<u><b>55,639,749</b></u>	<u><b>55,364,729</b></u>
<b>Expenses:</b>		
Salaries and wages	30,247,399	29,936,250
Employee benefits	4,803,554	4,568,730
Professional services	2,339,064	2,340,158
Supplies	6,089,041	5,627,893
Maintenance and repairs	644,666	637,629
Utilities	775,550	791,248
Insurance	614,064	608,962
Depreciation of property and equipment	92,338	75,201
Amortization of start-up costs	203,956	203,956
Interest expense	285,803	287,335
Loss on disposal of property and equipment	3,221	-
Taxes and licenses	3,426,690	3,465,016
Rent	3,566,352	2,893,668
Amortization of deferred gain	(168,256)	(502,833)
Management fee and related costs of operations	<u>3,683,869</u>	<u>3,658,231</u>
<b>Total expenses</b>	<u><b>56,607,311</b></u>	<u><b>54,591,444</b></u>
<b>Excess of revenues over expenses (expenses over revenues)</b>	<b>(967,562)</b>	<b>773,285</b>
<b>Net assets without donor restrictions at beginning of year</b>	<u><b>4,612,810</b></u>	<u><b>3,839,525</b></u>
<b>Net assets without donor restrictions at end of year</b>	<u><b>\$ 3,645,248</b></u>	<u><b>\$ 4,612,810</b></u>

See accompanying notes to the consolidated financial statements.

**OPEN ARMS CARE CORPORATION INC., AND AFFILIATES**

**Consolidated Statements of Cash Flows**

**Years ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Excess of revenues over expenses (expenses over revenues)	\$ (967,562)	\$ 773,285
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash and cash equivalents used by operating activities:		
Depreciation of property and equipment	92,338	75,201
Amortization of start-up costs	203,956	203,956
Amortization of deferred gain	(168,256)	(502,833)
Loss on disposal of property and equipment	3,221	-
(Increase) decrease in operating assets:		
Patient accounts receivable	34,195	36,342
Prepaid expenses and other current assets	45,195	(79,117)
Other long-term assets	-	25,000
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(184,837)	(17,439)
Accrued rent expense	616,068	(699,312)
Accrued salaries and benefits	186,948	78,683
Accrued interest	<u>13,137</u>	<u>(1,333)</u>
Net cash used by operating activities	<u>(125,597)</u>	<u>(107,567)</u>
Cash flows from investing activities - purchases of property and equipment	<u>(232,795)</u>	<u>(89,668)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	2,026,900	-
Principal payments on line of credit	<u>(200,000)</u>	<u>(200,000)</u>
Net cash provided (used) by financing activities	<u>1,826,900</u>	<u>(200,000)</u>
Increase (decrease) in cash and cash equivalents	1,468,508	(397,235)
Cash and cash equivalents at beginning of year	<u>4,174,328</u>	<u>4,571,563</u>
Cash and cash equivalents at end of year	\$ <u>5,642,836</u>	\$ <u>4,174,328</u>
Supplemental disclosure of cash flow information - cash paid for interest	\$ <u>272,666</u>	\$ <u>288,668</u>

See accompanying notes to the consolidated financial statements.

# OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

### (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 of Open Arms Care Corporation, Inc.

### (2) Summary of significant accounting policies

#### (a) Adoption of new accounting standard

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 *Revenue from Contracts with Customers*, which was codified in the FASB Accounting Standards Codification ("ASC") as topic 606 ("ASC 606"). The guidance eliminated the transaction and industry-specific revenue recognition guidance under previous accounting principles generally accepted in the United States of America ("GAAP") and replaced it with a principles-based approach. The core principle of the guidance in ASC 606 is that an entity should recognize revenue to depict the transfer of promised 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.

ASC 606 requires an entity to exercise more judgment and recognize revenue using a five-step process. The five step model defined by ASC 606 requires the entity to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASC 606 additionally enhances the required disclosures surrounding the nature, amount, timing and uncertainty of revenues and the associated cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments.

The Company adopted this guidance on January 1, 2019 using the modified retrospective method. There was no cumulative effect adjustment to the opening balance of retained earnings as of December 31, 2018, as the adoption did not result in a material change to the Company's revenue recognition.

# OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

As a result of certain changes required by ASC 606, the majority of what was previously classified as the provision for doubtful accounts in the consolidated statements of operations is now reflected as implicit price concessions (as defined in ASC 606) and therefore is included as a reduction to net patient service revenues instead of a separate line item on the consolidated statements of operations. For changes in credit issues not assessed at the date of service, the Company prospectively recognizes those amounts in other operating expenses on the consolidated statements of operations. Additionally, upon adoption of ASC 606 the allowance for doubtful accounts of approximately \$89,000 as of January 1, 2019 was reclassified as a component of patient accounts receivable. Other than these changes in presentation on the consolidated balance sheets and statements of operations, the adoption of ASC 606 did not have a material impact on the consolidated financial statements for the year ended December 31, 2019, and the Company does not expect it to have a material impact on their statements of operations on a prospective basis.

**(b) Effects of regulation**

The consolidated financial statements reflect the effects of rate regulation in accordance with 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 under nine new provider licenses, the Company capitalized \$1,019,783 of start-up costs as of December 31, 2017. Amortization expense related to start-up costs was \$203,956 during 2020 and 2019.

As discussed in Notes 8 and 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 lessor's 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.

**(c) 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 2020 and 2019 and as of December 31, 2020 and 2019, all of the Company's net assets are classified without donor restrictions.

# OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(d) 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.

(e) 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.

(f) 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.

(g) Deferred gain on sale-leaseback

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

(h) Performance indicator

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

(i) 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.

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

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, 2020 and 2019, 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).

(j) Revenue recognition

Revenues are recognized as performance obligations are satisfied, which is over time as patient services are rendered throughout the length of stay, in an amount that reflects the consideration the Company expects to receive in exchange for services. A performance obligation is defined as a promise in a contract to transfer a distinct good or service to the customer. Substantially all of the Company's contracts with patients and customers have a single performance obligation as the promise to transfer services is not distinct or separately identifiable from other promises in the contract.

The transaction price for the Company's contracts represents its best estimate of the consideration the Company expects to receive and includes assumptions regarding variable consideration as applicable. See Note 4 for further discussion of the transaction price and Medicaid Program.

(k) 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.

(l) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between December 31, 2020 and February 16, 2021, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

**OPEN ARMS CARE CORPORATION INC., AND AFFILIATES**

**Notes to the Consolidated Financial Statements**

**December 31, 2020 and 2019**

**(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 \$3,058,000 and \$3,043,000 of Tennessee provider tax expense for 2020 and 2019, respectively.

Substantially all net patient service revenues and receivables in 2020 and 2019 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.

**OPEN ARMS CARE CORPORATION INC., AND AFFILIATES**

**Notes to the Consolidated Financial Statements**

**December 31, 2020 and 2019**

**(6) Debt**

Debt consists of the following:

	<u>2020</u>	<u>2019</u>
Note payable to related party; monthly interest only payments at 12% per annum with principal due June 30, 2023	\$ 2,000,000	\$ 2,000,000
Revolving line of credit with related party; monthly principal and interest payments at 8% per annum maturing June 30, 2022	300,000	500,000
CARES Act - PPP Loan; monthly principal and interest payments at 1% per annum maturing April 13, 2022	<u>2,026,900</u>	<u>-</u>
Total	4,326,900	2,500,000
Less current portion	<u>200,000</u>	<u>200,000</u>
Long-term portion	\$ <u><u>4,126,900</u></u>	\$ <u><u>2,300,000</u></u>

In 2015, the Company borrowed \$2,000,000 at a fixed interest rate equal to 12% per annum from Integra Resources, LLC ("Integra"), a related party. 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 June 30, 2023. Should the management agreement 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 outstanding balance on the revolving line of credit is payable in monthly principal and interest payments with the final payment due on June 30, 2022. The maturity of the revolving line of credit is September 30, 2022. The revolving line of credit is secured by substantially all assets of the Company and is subordinated to certain required rent payments discussed in Note 12. The revolving line of credit is subject to a call provision should the management agreement be terminated and would be due 30 days after such termination.

# OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

In April 2020, the Company received loan proceeds from a bank in the amount of \$2,026,900 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides loans to qualifying businesses. The loans and accrued interest are forgivable as long as the Company uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains certain payroll requirements. The amount of loan forgiveness will be reduced if the Company terminates employees or reduces salaries during the eight or alternative twenty-four week measurement period, as defined in the CARES Act. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1% per annum, with a deferral of payments for the first six months. The Company applied the proceeds against eligible expenses for purposes consistent with the PPP. Management believes that the Company's use of the loan proceeds complies with the conditions for forgiveness of the loan, but they cannot be assured that the Company will be determined to be eligible for forgiveness of the loan, in whole or in part. The loan, which was in the form of a note payable, matures on April 13, 2022 and bears interest payable monthly, commencing on November 13, 2020. The note may be prepaid by the Company at any time prior to maturity with no prepayment penalties. As of the date that the consolidated financial statements were available to be issued, the note has not been forgiven by the Small Business Administration. As such, no amounts have been derecognized from the consolidated balance sheets. However, as management believes that the note will be fully forgiven and that it will not be settled in cash, it has been excluded from the summary of future maturities below.

A summary of future maturities on long-term debt as of December 31, 2020 is as follows:

<u>Year</u>	
2021	\$ 200,000
2022	100,000
2023	<u>2,000,000</u>
	<u>\$ 2,300,000</u>

### (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 date are as follows:

Cash and cash equivalents	\$ 5,642,836
Patient accounts receivable	<u>4,720,079</u>
	<u>\$ 10,362,915</u>

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(8) Commitments and contingencies

Operating lease commitments

Approximate future minimum annual rental payments under noncancelable operating lease and service agreements, excluding the facility leases below and those related to the sale-leaseback transaction discussed in Note 12, as of December 31, 2020 are as follows:

<u>Year</u>	
2021	\$ 554,000
2022	429,000
2023	174,000
2024	19,000
2025	<u>3,000</u>
	\$ <u>1,179,000</u>

Total rental expense under noncancelable operating leases and service agreements, which includes amounts applicable to short-term leases, was approximately \$1,336,000 and \$1,237,000 during 2020 and 2019, respectively. The expense is higher than the future commitments due to vehicle leases that have cancellation features at the Company's option.

During 2017, the Company opened nine new homes in Chattanooga, Knoxville and Greeneville at various times throughout the year. During 2020 and 2019, the Company opened five replacement homes each year in Memphis. Rent expense under these leases totaled approximately \$2,568,000 and \$1,194,000 during 2020 and 2019, 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(b). A summary of approximate future lease payments as of December 31, 2020 are as follows:

<u>Year</u>	
2021	\$ 2,870,000
2022	2,775,000
2023	2,680,000
2024	2,600,000
2025	2,530,000
Thereafter	<u>40,560,000</u>
	\$ <u>54,015,000</u>

# OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

At December 31, 2020, there were ten homes under construction in Knoxville that are scheduled to open in 2021. The future lease payments below were calculated using the estimated construction cost per home. The Company recognizes rent expense for the lease agreements based on the amount due, rather than on a straight-line basis, see Note 2(b). A summary of approximate future lease payments as of December 31, 2020 are as follows:

<u>Year</u>	
2021	\$ 1,125,000
2022	1,900,000
2023	1,855,000
2024	1,810,000
2025	1,765,000
Thereafter	<u>29,615,000</u>
	<u>\$ 38,070,000</u>

Certain lease agreements require compliance with various financial covenants of which the Company was in compliance as of December 31, 2020.

### 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.

# OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

### 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.

### Infectious disease outbreak

As of the date this report was available to be issued, the United States, as well as many other countries around the world, was experiencing an emerging infectious disease (COVID-19) outbreak, impacting individuals, governments, businesses and financial markets with unprecedented disruption and risk. While it is not possible to predict the impacts of the outbreak on the Company's financial condition and results of operations, significant disruptions to key business drivers, such as supply chain, workforce, and production, are possible. Management has been closely monitoring the situation and continues to develop strategies designed to mitigate such impacts. At this time, the Company is not experiencing issues meeting current obligations.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(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 June 30, 2023 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.

Additionally, the Company entered into additional management agreements with Integra for the nine new homes opened in 2017. The management agreements provide general management services to all facilities. The management agreements expire June 30, 2023, with automatic extensions of up to seven years.

For the years ended December 31, 2020 and 2019, Integra charged management fees and related costs of operations of \$3,683,869 and \$3,658,231, 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:

	<u>2020</u>	<u>2019</u>
Intellectual and developmental services	\$ 51,994,192	\$ 49,944,274
General and administrative	4,612,869	4,641,225
Fundraising	<u>250</u>	<u>5,945</u>
	<u>\$ 56,607,311</u>	<u>\$ 54,591,444</u>

(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, 2020 and 2019, the Company contributed approximately 1.0% of each participants' compensation, subject to Internal Revenue Code limitations. The Company contributed approximately \$174,000 and \$175,000 to the plan in 2020 and 2019, respectively.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(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 \$1,088,000 and \$1,702,000 during 2020 and 2019, 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, 2020 and 2019, the Company expensed approximately \$146,000 and \$175,000, 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, 2020 is as follows:

<u>Years</u>	<u>Rent</u>	<u>Amortization</u>		
		<u>Gain</u>	<u>Transaction costs</u>	<u>Total</u>
2021	\$ 702,000	\$ (93,000)	\$ 12,000	\$ (81,000)
2022	605,000	(93,000)	12,000	(81,000)
2023	580,000	(93,000)	12,000	(81,000)
2024	546,000	(93,000)	12,000	(81,000)
2025	385,000	(19,000)	3,000	(16,000)
Thereafter	<u>1,140,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,958,000</u>	<u>\$ (391,000)</u>	<u>\$ 51,000</u>	<u>\$ (340,000)</u>

As of December 31, 2020 and 2019, there was approximately \$2,173,000 and \$1,557,000, respectively, of rent payments accrued on the consolidated balance sheets 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.

**OPEN ARMS CARE CORPORATION INC., AND AFFILIATES**

**Notes to the Consolidated Financial Statements**

**December 31, 2020 and 2019**

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 four 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(b). The related deferred gain on the sale-leaseback is being amortized in a similar manner. The Company replaced four existing facilities with five replacement facilities each year in 2020 and 2019. The rent expense and future lease commitments of the replacement homes are included in Note 8.

# OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

## Supplemental Schedule - Consolidating Balance Sheet

December 31, 2020

	<u>Chattanooga</u>	<u>Greeneville</u>	<u>Knoxville</u>	<u>Memphis</u>	<u>Nashville</u>	<u>Headquarters</u>	<u>Subtotal Open Arms Care Corporation</u>	<u>Open Arms Health System, LLC</u>	<u>Total Open Arms Care Corporation</u>	<u>Open Arms Care Foundation</u>	<u>Total Consolidated Open Arms Care Corporation</u>
Current Assets:											
Cash and cash equivalents	\$ 5,000	\$ 1,500	\$ 7,000	\$ 5,000	\$ 5,000	\$ 5,133,780	\$ 5,157,280	\$ 87,527	\$ 5,244,807	\$ 398,029	\$ 5,642,836
Funds held in custody for others	423,407	41,897	214,684	146,924	160,230	-	987,142	-	987,142	-	987,142
Patient accounts receivable	1,166,223	335,538	1,264,524	1,141,102	812,473	219	4,720,079	-	4,720,079	-	4,720,079
Prepaid expenses and other current assets	16,776	2,100	115,065	5,549	11,638	14,899	166,027	-	166,027	-	166,027
Total current assets	1,611,406	381,035	1,601,273	1,298,575	989,341	5,148,898	11,030,528	87,527	11,118,055	398,029	11,516,084
Property and equipment:											
Buildings and leasehold improvements	-	7,453	57,498	-	21,772	13,779	100,502	-	100,502	-	100,502
Furniture and equipment	82,185	98,186	134,965	252,016	11,771	7,725	586,848	-	586,848	-	586,848
Accumulated depreciation	82,185	105,639	192,463	252,016	33,543	21,504	687,350	-	687,350	-	687,350
	(48,486)	(75,567)	(102,571)	(23,362)	(30,513)	(12,471)	(292,970)	-	(292,970)	-	(292,970)
Property and equipment, net	33,699	30,072	89,892	228,654	3,030	9,033	394,380	-	394,380	-	394,380
Other assets:											
Start-up costs, net	88,916	111,495	76,565	-	-	-	276,976	-	276,976	-	276,976
Other long-term assets	7,500	6,200	6,575	14,360	3,675	11,500	49,810	-	49,810	-	49,810
Notes receivable	-	-	-	-	-	1,914,895	1,914,895	-	1,914,895	-	1,914,895
Total other assets	96,416	117,695	83,140	14,360	3,675	1,926,395	2,241,681	-	2,241,681	-	2,241,681
Total assets	<u>\$ 1,741,521</u>	<u>\$ 528,802</u>	<u>\$ 1,774,305</u>	<u>\$ 1,541,589</u>	<u>\$ 996,046</u>	<u>\$ 7,084,326</u>	<u>\$ 13,666,589</u>	<u>\$ 87,527</u>	<u>\$ 13,754,116</u>	<u>\$ 398,029</u>	<u>\$ 14,152,145</u>
Current liabilities:											
Accounts payable and accrued expenses	\$ 241,946	\$ 37,281	\$ 250,095	\$ 358,315	\$ 248,046	\$ 72,072	\$ 1,207,755	\$ -	\$ 1,207,755	\$ 121	\$ 1,207,876
Funds held in custody for others	423,407	41,897	214,684	146,924	160,230	-	987,142	-	987,142	-	987,142
Accrued rent expense	296,705	-	54,265	1,730,805	91,563	-	2,173,338	-	2,173,338	-	2,173,338
Accrued salaries and benefits	338,747	105,971	409,964	290,976	279,655	9,709	1,435,022	-	1,435,022	-	1,435,022
Accrued interest	444	667	889	-	-	34,470	36,470	-	36,470	-	36,470
Current portion of long-term debt	-	-	-	-	-	200,000	200,000	-	200,000	-	200,000
Total current liabilities	1,301,249	185,816	929,897	2,527,020	779,494	316,251	6,039,727	-	6,039,727	121	6,039,848
Intercompany payable/(receivable)	(1,916,652)	12,057	270,599	70,664	(1,354,095)	2,917,427	-	-	-	-	-
Long-term debt	-	-	-	-	-	4,126,900	4,126,900	-	4,126,900	-	4,126,900
Deferred gain on sale-leaseback transaction	-	-	-	-	-	340,149	340,149	-	340,149	-	340,149
Total liabilities, net	(615,403)	197,873	1,200,496	2,597,684	(574,601)	7,700,727	10,506,776	-	10,506,776	121	10,506,897
Net assets (deficit) without donor restrictions	2,356,924	330,929	573,809	(1,056,095)	1,570,647	(616,401)	3,159,813	87,527	3,247,340	397,908	3,645,248
Total liabilities and net assets (deficit)	<u>\$ 1,741,521</u>	<u>\$ 528,802</u>	<u>\$ 1,774,305</u>	<u>\$ 1,541,589</u>	<u>\$ 996,046</u>	<u>\$ 7,084,326</u>	<u>\$ 13,666,589</u>	<u>\$ 87,527</u>	<u>\$ 13,754,116</u>	<u>\$ 398,029</u>	<u>\$ 14,152,145</u>

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, 2020

	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 revenues:											
Net patient services revenues	\$ 13,903,274	\$ 3,944,392	\$ 15,295,247	\$ 11,696,188	\$ 10,709,107	\$ -	\$ 55,548,208	\$ -	\$ 55,548,208	\$ -	\$ 55,548,208
Investment income	-	-	1	-	-	18,970	18,971	-	18,971	166	19,137
Intercompany revenues (expenses)	63	32	64	95	64	-	318	-	318	(318)	-
Other revenues	-	-	-	300	309	12,855	13,464	-	13,464	58,940	72,404
Total unrestricted revenues	13,903,337	3,944,424	15,295,312	11,696,583	10,709,480	31,825	55,580,961	-	55,580,961	58,788	55,639,749
Expenses:											
Salaries and wages	7,041,392	2,004,753	8,759,350	6,229,500	5,946,029	266,375	30,247,399	-	30,247,399	-	30,247,399
Employee benefits	1,286,824	380,699	1,439,726	853,073	806,481	36,751	4,803,554	-	4,803,554	-	4,803,554
Professional services	605,639	78,475	597,267	506,089	452,991	97,403	2,337,864	-	2,337,864	1,200	2,339,064
Supplies	1,634,388	425,404	1,102,502	1,389,845	1,176,449	354,499	6,083,087	725	6,083,812	5,229	6,089,041
Maintenance and repairs	156,497	46,813	152,078	179,037	104,985	5,256	644,666	-	644,666	-	644,666
Utilities	192,219	23,392	207,137	158,043	194,446	313	775,550	-	775,550	-	775,550
Insurance	129,475	41,957	167,269	127,849	111,431	36,083	614,064	-	614,064	-	614,064
Depreciation of property and equipment	14,348	21,174	28,509	21,682	2,359	4,266	92,338	-	92,338	-	92,338
Amortization of start-up costs	59,276	87,257	57,423	-	-	-	203,956	-	203,956	-	203,956
Interest expense	6,963	10,444	13,926	-	-	254,470	285,803	-	285,803	-	285,803
Loss on disposal of property and equipment	-	-	-	3,221	-	-	3,221	-	3,221	-	3,221
Taxes and licenses	792,356	220,799	988,447	818,386	604,715	1,797	3,426,500	-	3,426,500	190	3,426,690
Rent	540,783	358,406	662,751	1,807,860	196,552	-	3,566,352	-	3,566,352	-	3,566,352
Amortization of deferred gain	-	-	-	-	-	(168,256)	(168,256)	-	(168,256)	-	(168,256)
Management fee and related costs of operations	907,237	196,472	999,696	783,738	796,726	-	3,683,869	-	3,683,869	-	3,683,869
Intercompany expenses (revenues)	259,575	43,263	288,417	230,734	230,733	(1,052,722)	-	-	-	-	-
Total expenses, net	13,626,972	3,939,308	15,464,498	13,109,057	10,623,897	(163,765)	56,599,967	725	56,600,692	6,619	56,607,311
Excess of revenues over expenses (expenses over revenues)	276,365	5,116	(169,186)	(1,412,474)	85,583	195,590	(1,019,006)	(725)	(1,019,731)	52,169	(967,562)
Net assets (deficit) at beginning of year	2,080,559	325,813	742,995	356,379	1,485,064	(811,991)	4,178,819	88,252	4,267,071	345,739	4,612,810
Net assets (deficit) at end of year	\$ 2,356,924	\$ 330,929	\$ 573,809	\$ (1,056,095)	\$ 1,570,647	\$ (616,401)	\$ 3,159,813	\$ 87,527	\$ 3,247,340	\$ 397,908	\$ 3,645,248

See accompanying independent auditors' report