OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

MAKE A GOOD BUSINESS BETTER

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Table of Contents

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, 2019 and 2018, 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, 2019 and 2018, 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 17-18 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 26, 2020

Consolidated Balance Sheets

December 31, 2019 and 2018

Assets

	2019	2018
Current assets:		
Cash and cash equivalents	$ 4,174,328	$ 4,571,563
Funds held in custody for others	689,450	571,452
Patient accounts receivable	4,754,274	4,790,616
Prepaid expenses and other current assets	211,222	132,105
Total current assets	9,829,274	10,065,736
Property and equipment, net	257,144	242,677
Other assets:		
Start-up costs, less accumulated amortization of approximately $539,000 and $335,000 in 2019 and 2018, respectively	480,932	684,888
Other long-term assets	49,810	74,810
Notes receivable	1,914,895	1,914,895
Total other assets	2,445,637	2,674,593
Total assets	$ 12,532,055	$ 12,983,006

Liabilities and Net Assets

	2019	2018
Current liabilities:		
Accounts payable and accrued expenses	$ 1,392,713	$ 1,410,152
Funds held in custody for others	689,450	571,452
Accrued rent expense	1,557,270	2,256,582
Accrued salaries and benefits	1,248,074	1,169,391
Accrued interest	23,333	24,666
Current portion of long-term debt	200,000	200,000
Total current liabilities	5,110,840	5,632,243
Long-term debt	2,300,000	2,500,000
Deferred gain on sale-leaseback transaction	508,405	1,011,238
Total liabilities	7,919,245	9,143,481
Net assets without donor restrictions	4,612,810	3,839,525
Total liabilities and net assets	$ 12,532,055	$ 12,983,006

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, 2019 and 2018

	2019	2018
Unrestricted revenues:		
Net patient service revenues	$ 55,281,688	$ 56,784,317
Investment income	32,526	23,442
Net special events revenues	5,862	2,725
Other revenues	44,653	32,850
Total unrestricted revenues	55,364,729	56,843,334
Expenses:		
Salaries and wages	29,936,250	29,288,466
Employee benefits	4,568,730	4,564,899
Professional services	2,340,158	1,979,665
Supplies	5,627,893	5,969,201
Maintenance and repairs	637,629	703,821
Utilities	791,248	831,347
Insurance	608,962	582,940
Depreciation and amortization of property and equipment	75,201	73,466
Amortization of start-up costs	203,956	203,956
Interest expense	287,335	303,530
Gain on disposal of property and equipment	-	(12,050)
Taxes and licenses	3,465,016	3,735,023
Provision for doubtful accounts	-	929
Rent	2,893,668	3,440,068
Amortization of deferred gain	(502,833)	(802,649)
Management fee and related costs of operations	3,658,231	3,608,428
Total expenses	54,591,444	54,471,040
Excess of revenues over expenses	773,285	2,372,294
Net assets without donor restrictions at beginning of year	3,839,525	1,467,231
Net assets without donor restrictions at end of year	$ 4,612,810	$ 3,839,525

See accompanying notes to the consolidated financial statements.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Excess of revenues over expenses	$ 773,285	$ 2,372,294
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	75,201	73,466
Amortization of start-up costs	203,956	203,956
Provision for doubtful accounts	-	929
Gain on disposal of property and equipment	-	(12,050)
Amortization of deferred gain	(502,833)	(802,649)
(Increase) decrease in operating assets:		
Patient accounts receivable	36,342	172,788
Prepaid expenses and other current assets	(79,117)	125,261
Other assets	25,000	350
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(17,439)	(324,145)
Accrued rent expense	(699,312)	(814,517)
Accrued salaries and benefits	78,683	(58,518)
Accrued interest	(1,333)	(1,334)
Net cash provided (used) by operating activities	(107,567)	935,831
Cash flows from investing activities:		
Proceeds from the sale of property and equipment	-	12,050
Purchases of property and equipment	(89,668)	(27,887)
Net cash used by investing activities	(89,668)	(15,837)
Cash flows from financing activities:		
Proceeds from line of credit	-	100,000
Principal payments on line of credit	(200,000)	(300,000)
Net cash used by financing activities	(200,000)	(200,000)
Increase (decrease) in cash and cash equivalents	(397,235)	719,994
Cash and cash equivalents at beginning of year	4,571,563	3,851,569
Cash and cash equivalents at end of year	$ 4,174,328	$ 4,571,563
Supplemental disclosure of cash flow information -		
Cash paid for interest	$ 288,668	$ 304,864

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 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. Prior periods have not been adjusted and are presented in accordance with ASC Topic 605 *Revenue Recognition* ("ASC 605").

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 statement 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 in 2019 instead of a separate line item on the consolidated statement 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 statement 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 sheet and statement 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 2019 and 2018.

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 2019 and 2018 and as of December 31, 2019 and 2018, all of the Company's net assets are classified without donor restrictions.

(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 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.

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, 2019 and 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).

(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, 2019 and February 26, 2020, 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 $3,043,000 and $3,133,000 of Tennessee provider tax expense for 2019 and 2018, respectively.

Substantially all net patient service revenues in 2019 and 2018 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:

	2019	2018
Note payable to related party; monthly interest only payments at 12% per annum with principal due March 31, 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	500,000	700,000
Total	2,500,000	2,700,000
Less current portion	200,000	200,000
Long-term portion	$ 2,300,000	$ 2,500,000

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 March 31, 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.

A summary of approximate future maturities on long-term debt as of December 31, 2019 is as follows:

Year	
2020	$ 200,000
2021	200,000
2022	100,000
2023	2,000,000
	$ 2,500,000

(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 date are as follows:

Cash and cash equivalents	$ 4,174,328
Patient accounts receivable	4,754,274
	$ 8,928,602

(8) Commitments and contingencies

Operating lease commitments

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, 2019 are as follows:

Year	
2020	$ 465,000
2021	240,000
2022	187,000
2023	33,000
2024	8,000
	$ 933,000

Total rental expense under noncancelable operating leases and service agreements, which includes amounts applicable to short-term leases, was approximately $1,237,000 and $1,199,000 during 2019 and 2018, respectively. The expense is higher than the future commitments due to vehicle leases that have cancelation features at the Company's option.

During 2017, the Company opened nine new homes at various times throughout the year. Rent expense under these leases totaled approximately $1,100,000 and $1,125,000 during 2019 and 2018, 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, 2019 are as follows:

Year	
2020	$ 1,075,000
2021	1,050,000
2022	1,025,000
2023	1,000,000
2024	975,000
Thereafter	16,186,000
	$ 21,311,000

During 2019, the Company opened five replacement homes in Memphis. Rent expense under these leases totaled approximately $94,000 during 2019. At December 31, 2019, there were an additional five replacement homes under construction in Memphis. Those homes will open during 2020. The future lease payments below were calculated using the estimated construction costs 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, 2019 are as follows:

Year	
2020	$ 1,768,000
2021	1,806,000
2022	1,763,000
2023	1,719,000
2024	1,675,000
Thereafter	27,673,000
	$ 36,404,000

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, 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 homes opened in 2017. The management agreements provide general management services to all facilities. The management agreements expire seven years after the opening of each home, with automatic extensions up to seven years.

For the years ended December 31, 2019 and 2018, Integra charged management fees and related costs of operations of $3,658,231 and $3,608,428, 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:

	2019	2018
Intellectual and developmental services	$ 49,944,274	$ 49,393,612
General and administrative	4,641,225	5,064,771
Fundraising	5,945	12,657
	$ 54,591,444	$ 54,471,040

(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, 2019 and 2018, the Company contributed approximately 1.0% of each participants' compensation, subject to Internal Revenue Code limitations. The Company contributed approximately $175,000 and $160,000 to the plan in 2019 and 2018, 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 $1,702,000 and $2,315,000 during 2019 and 2018, 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, 2019 and 2018, the Company expensed approximately $175,000 and $264,000, 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, 2019 is as follows:

		Amortization		
Years	Rent	Gain	Transaction costs	Total
2020	$ 1,004,000	$ (195,000)	$ 26,000	$ (169,000)
2021	752,000	(93,000)	12,000	(81,000)
2022	699,000	(93,000)	12,000	(81,000)
2023	668,000	(93,000)	12,000	(81,000)
2024	627,000	(93,000)	12,000	(81,000)
Thereafter	1,921,000	(18,000)	3,000	(15,000)
	$ 5,671,000	$ (585,000)	$ 77,000	$ (508,000)

As of December 31, 2019 and 2018, there was approximately $1,557,000 and $2,257,000, 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.

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(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 in 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, 2019

	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	$ 5,000	$ 1,500	$ 7,000	$ 5,000	$ 5,000	$ 3,710,513	$ 3,734,013	$ 88,252	$ 3,822,265	$ 352,063	$ 4,174,328
Funds held in custody for others	224,856	12,878	80,388	79,594	291,734	-	689,450	-	689,450	-	689,450
Patient accounts receivable	1,181,729	376,085	1,389,123	945,706	859,958	1,315	4,753,916	-	4,753,916	358	4,754,274
Prepaid expenses and other current assets	17,508	2,009	14,298	153,780	12,334	11,293	211,222	-	211,222	-	211,222
Total current assets	1,429,093	392,472	1,490,809	1,184,080	1,169,026	3,723,121	9,388,601	88,252	9,476,853	352,421	9,829,274
Property and equipment, net	48,046	51,246	82,651	56,514	5,389	13,298	257,144	-	257,144	-	257,144
Other assets:											
Start-up costs, net	148,191	198,751	133,990	-	-	-	480,932	-	480,932	-	480,932
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	155,691	204,951	140,565	14,360	3,675	1,926,395	2,445,637	-	2,445,637	-	2,445,637
Total assets	$ 1,632,830	$ 648,669	$ 1,714,025	$ 1,254,954	$ 1,178,090	$ 5,662,814	$ 12,091,382	$ 88,252	$ 12,179,634	$ 352,421	$ 12,532,055
Current liabilities:											
Accounts payable and accrued expenses	$ 291,379	$ 44,412	$ 313,782	$ 431,262	$ 238,006	$ 67,190	$ 1,386,031	$ -	$ 1,386,031	$ 6,682	$ 1,392,713
Funds held in custody for others	224,856	12,878	80,388	79,594	291,734	-	689,450	-	689,450	-	689,450
Accrued rent expense	662,501	-	140,346	366,994	387,429	-	1,557,270	-	1,557,270	-	1,557,270
Accrued salaries and benefits	298,875	89,912	352,451	269,677	224,074	13,085	1,248,074	-	1,248,074	-	1,248,074
Accrued interest	741	1,111	1,481	-	-	20,000	23,333	-	23,333	-	23,333
Current portion of long-term debt	-	-	-	-	-	200,000	200,000	-	200,000	-	200,000
Total current liabilities	1,478,352	148,313	888,448	1,147,527	1,141,243	300,275	5,104,158	-	5,104,158	6,682	5,110,840
Intercompany payable/(receivable)	(1,926,081)	174,543	82,582	(248,952)	(1,448,217)	3,366,125	-	-	-	-	-
Long-term debt	-	-	-	-	-	2,300,000	2,300,000	-	2,300,000	-	2,300,000
Deferred gain on sale-leaseback transaction	-	-	-	-	-	508,405	508,405	-	508,405	-	508,405
Total liabilities, net	(447,729)	322,856	971,030	898,575	(306,974)	6,474,805	7,912,563	-	7,912,563	6,682	7,919,245
Net assets (deficit) without donor restrictions	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
Total liabilities and net assets (deficit)	$ 1,632,830	$ 648,669	$ 1,714,025	$ 1,254,954	$ 1,178,090	$ 5,662,814	$ 12,091,382	$ 88,252	$ 12,179,634	$ 352,421	$ 12,532,055

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, 2019

	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	$ 13,742,533	$ 4,024,643	$ 15,226,067	$ 11,311,801	$ 10,976,644	$ -	$ 55,281,688	$ -	$ 55,281,688	$ -	$ 55,281,688
Investment income	-	-	-	-	-	32,379	32,379	-	32,379	147	32,526
Net special events revenues	-	-	-	-	-	-	-	-	-	5,862	5,862
Intercompany revenues	550	-	4,950	-	1,044	-	6,544	-	6,544	(6,544)	-
Other revenues	-	-	-	-	1,355	2,630	3,985	-	3,985	40,668	44,653
Total unrestricted revenues	13,743,083	4,024,643	15,231,017	11,311,801	10,979,043	35,009	55,324,596	-	55,324,596	40,133	55,364,729
Expenses:											
Salaries and wages	7,157,137	2,012,615	8,452,257	6,287,368	5,770,469	256,404	29,936,250	-	29,936,250	-	29,936,250
Employee benefits	1,198,648	295,845	1,321,275	948,262	765,758	38,942	4,568,730	-	4,568,730	-	4,568,730
Professional services	483,640	92,235	627,946	538,864	519,352	76,971	2,339,008	-	2,339,008	1,150	2,340,158
Supplies	1,514,869	443,116	1,089,038	1,252,880	973,582	351,585	5,625,070	105	5,625,175	2,718	5,627,893
Maintenance and repairs	160,008	39,750	193,866	130,276	112,104	1,625	637,629	-	637,629	-	637,629
Utilities	203,348	24,150	206,477	166,989	190,055	229	791,248	-	791,248	-	791,248
Insurance	134,661	41,631	167,976	111,976	116,239	36,479	608,962	-	608,962	-	608,962
Depreciation and amortization of property and equipment	15,304	21,116	27,117	2,373	5,037	4,254	75,201	-	75,201	-	75,201
Amortization of start-up costs	59,276	87,257	57,423	-	-	-	203,956	-	203,956	-	203,956
Interest expense	10,519	15,778	21,038	-	-	240,000	287,335	-	287,335	-	287,335
Taxes and licenses	815,930	231,152	1,059,556	695,379	660,010	2,448	3,464,475	441	3,464,916	100	3,465,016
Rent	919,240	366,694	711,107	534,237	362,390	-	2,893,668	-	2,893,668	-	2,893,668
Amortization of deferred gain	-	-	-	-	-	(502,833)	(502,833)	-	(502,833)	-	(502,833)
Management fee and related costs of operations	893,869	194,934	994,190	787,198	788,040	-	3,658,231	-	3,658,231	-	3,658,231
Intercompany expense (revenue)	247,730	41,288	275,255	220,205	220,205	(1,004,683)	-	-	-	-	-
Total expenses	13,814,179	3,907,561	15,204,521	11,676,007	10,483,241	(498,579)	54,586,930	546	54,587,476	3,968	54,591,444
Excess of revenues over expenses (expenses over revenues)	(71,096)	117,082	26,496	(364,206)	495,802	533,588	737,666	(546)	737,120	36,165	773,285
Net assets (deficit) at beginning 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
Net assets (deficit) at end 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

See accompanying independent auditors' report