OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Financial Statements

December 31, 2021 and 2020

(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:

Opinion

We have audited the accompanying consolidated financial statements of Open Arms Care Corporation Inc., and Affiliates (collectively, the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- **Exercise professional judgment and maintain professional skepticism throughout the audit.**
- **Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.**
- **Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.**
- **Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.**
- **Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.**

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control matters that we identified during the audit.

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, 2022

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Balance Sheets

December 31, 2021 and 2020

Assets

	2021	2020
Current assets:		
Cash and cash equivalents	$ 5,930,333	$ 5,642,836
Funds held in custody for others	1,157,177	987,142
Patient accounts receivable	4,882,862	4,720,079
Prepaid expenses and other current assets	318,780	166,027
Total current assets	12,289,152	11,516,084
Property and equipment:		
Buildings and leasehold improvements	100,502	100,502
Furniture and equipment	681,456	586,848
	781,958	687,350
Accumulated depreciation	(389,704)	(292,970)
Property and equipment, net	392,254	394,380
Other assets:		
Start-up costs, less accumulated amortization of approximately $947,000 and $743,000 in 2021 and 2020, respectively	73,020	276,976
Other long-term assets	49,810	49,810
Notes receivable	1,914,895	1,914,895
Total other assets	2,037,725	2,241,681
Total assets	$ 14,719,131	$ 14,152,145

Liabilities and Net Assets

	2021	2020
Current liabilities:		
Accounts payable and accrued expenses	$ 1,058,522	$ 1,207,876
Funds held in custody for others	1,157,177	987,142
Accrued rent expense	2,742,030	2,173,338
Accrued salaries and benefits	1,551,273	1,435,022
Accrued interest	21,848	36,470
Current portion of long-term debt	1,472,986	200,000
Current portion of capital lease obligation	15,653	-
Total current liabilities	8,019,489	6,039,848
Long-term debt, excluding current portion	2,000,000	4,126,900
Capital lease obligation, excluding current portion	78,955	-
Deferred gain on sale-leaseback transaction	260,114	340,149
Total liabilities	10,358,558	10,506,897
Net assets without donor restrictions	4,360,573	3,645,248
Total liabilities and net assets	$ 14,719,131	$ 14,152,145

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, 2021 and 2020

	2021	2020
Unrestricted revenues:		
Net patient service revenues	$ 57,364,841	$ 55,548,208
Investment income	7,441	19,137
Other revenues	69,712	72,404
Total unrestricted revenues	57,441,994	55,639,749
Expenses:		
Salaries and wages	30,478,931	30,247,399
Employee benefits	4,268,516	4,803,554
Professional services	2,335,774	2,339,064
Supplies	6,101,029	6,089,041
Maintenance and repairs	778,479	644,666
Utilities	831,314	775,550
Insurance	665,838	614,064
Depreciation of property and equipment	96,734	92,338
Amortization of start-up costs	203,956	203,956
Interest expense	276,074	285,803
Loss on disposal of property and equipment	-	3,221
Taxes and licenses	3,117,582	3,426,690
Rent	3,981,583	3,566,352
Amortization of deferred gain	(80,035)	(168,256)
Management fee and related costs of operations	3,670,894	3,683,869
Total expenses	56,726,669	56,607,311
Excess of revenues over expenses (expenses over revenues)	715,325	(967,562)
Net assets without donor restrictions at beginning of year	3,645,248	4,612,810
Net assets without donor restrictions at end of year	$ 4,360,573	$ 3,645,248

See accompanying notes to the consolidated financial statements.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Excess of revenues over expenses (expenses over revenues)	$ 715,325	$ (967,562)
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash and cash equivalents provided (used) by operating activities:		
Depreciation of property and equipment	96,734	92,338
Amortization of start-up costs	203,956	203,956
Amortization of deferred gain	(80,035)	(168,256)
Loss on disposal of property and equipment	-	3,221
(Increase) decrease in operating assets:		
Patient accounts receivable	(162,783)	34,195
Prepaid expenses and other current assets	(152,753)	45,195
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(149,354)	(184,837)
Accrued rent expense	568,692	616,068
Accrued salaries and benefits	116,251	186,948
Accrued interest	(14,622)	13,137
Net cash provided (used) by operating activities	1,141,411	(125,597)
Cash flows from investing activities - purchases of property and equipment	-	(232,795)
Cash flows from financing activities:		
Proceeds from long-term debt	-	2,026,900
Principal payments on line of credit	(200,000)	(200,000)
Principal payments on long-term debt	(653,914)	-
Net cash provided (used) by financing activities	(853,914)	1,826,900
Increase in cash and cash equivalents	287,497	1,468,508
Cash and cash equivalents at beginning of year	5,642,836	4,174,328
Cash and cash equivalents at end of year	$ 5,930,333	$ 5,642,836
Supplemental disclosure of cash flow information - Cash paid for interest	$ 290,696	$ 272,666
Supplemental disclosure of noncash activity - Acquisition of equipment through a capital lease obligation	$ 94,608	$ -

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) 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 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 2021 and 2020.

As discussed in Notes 9 and 13, 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.

(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 2021 and 2020 and as of December 31, 2021 and 2020, all of the Company's net assets 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. Leasehold improvements are being amortized over the shorter of the useful life or term of the related lease in accordance with GAAP.

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 13.

(g) Performance indicator

The excess of revenues over expenses (expenses over revenues) 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, 2021 and 2020, 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

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.

(j) Long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(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) New accounting pronouncement

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases* ("Topic 842"). The new provisions require that a lessee of operating leases recognize in the consolidated balance sheets a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The lease liability will be equal to the present value of lease payments, with the right-of-use asset based upon the lease liability. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the previous lease guidance, but with no explicit bright lines. As such, operating leases will result in rent expense similar to current practice. For short-term leases (term of 12 months or less), a lessee is permitted to make an accounting election not to recognize right-of-use lease assets and lease liabilities, which would generally result in lease expense being recognized on a straight-line basis over the lease term. Topic 842 is effective for the year ending December 31, 2022. Management of the Company is currently evaluating the impact adoption will have on its consolidated financial statements and disclosures.

(m) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between December 31, 2021 and February 16, 2022, 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 $3,149,000 and $3,058,000 of Tennessee provider tax expense for 2021 and 2020, respectively.

Substantially all net patient service revenues and receivables in 2021 and 2020 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 13. 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:

	2021	2020
Note payable to related party with a management agreement; 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 with a management agreement; monthly principal and interest payments at 8% per annum maturing June 30, 2022	100,000	300,000
CARES Act - PPP Loan; monthly principal and interest payments at 1% per annum maturing April 13, 2022	1,372,986	2,026,900
Total	3,472,986	4,326,900
Less: current portion	(1,472,986)	(200,000)
Long-term portion	$ 2,000,000	$ 4,126,900

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 with a management agreement. The note is secured by substantially all assets of the Company and is subordinated to certain required rent payments discussed in Note 13. The note is payable in monthly interest-only payments with principal due June 30, 2023. Should the management agreement be extended (see Note 10), 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 13. 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.

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 loan, which was in the form of a note payable, matures on April 13, 2022 and bears interest payable monthly, which commenced on November 13, 2020. Management was notified by the Small Business Administration that the note would not be forgiven in 2021. Repayments of the note began in November 2021.

A summary of future maturities on long-term debt as of December 31, 2021 is as follows:

Year	Amount
2022	$ 1,472,986
2023	2,000,000
	$ 3,472,986

(7) Capital lease obligation

The Company leases equipment under a lease classified as a capital lease. Lease payments under this capital lease commence in April 2022. The Company's obligation under this capital lease at December 31, 2021 is as follows:

	2021
Minimum lease payments payable	$ 109,801
Less: portion representing interest	15,193
Capital lease obligations	94,608
Less: current portion	15,653
Long-term portion	$ 78,955

Future minimum annual lease payments payable under the capital leases, as of December 31, 2021 are as follows:

Year	Amount
2022	$ 20,588
2023	27,450
2024	27,450
2025	25,163
2026	9,150
	$ 109,801

(8) 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	$ 5,930,333
Patient accounts receivable	4,882,862
	$ 10,813,195

(9) 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 13, as of December 31, 2021 are as follows:

Year	
2022	$ 616,000
2023	227,000
2024	26,000
2025	4,000
	$ 873,000

Total rental expense under noncancelable operating leases and service agreements, which includes amounts applicable to short-term leases, was approximately $1,229,000 and $1,336,000 during 2021 and 2020, 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 $2,947,000 and $2,568,000 during 2021 and 2020, 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, 2021 are as follows:

Year	
2022	$ 2,890,000
2023	2,820,000
2024	2,750,000
2025	2,670,000
2026	2,600,000
Thereafter	39,400,000
	$ 53,130,000

During 2020, the Company signed lease agreements for ten replacement homes in Knoxville. At December 31, 2021, the remaining six replacement homes were under construction and will open during 2022. During 2021, four of the replacement homes in Knoxville opened. The future rent 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(a). A summary of approximate future lease payments as of December 31, 2021 are as follows:

Year	
2022	$ 1,600,000
2023	1,890,000
2024	1,860,000
2025	1,810,000
2026	1,765,000
Thereafter	29,050,000
	$ 37,975,000

Certain lease agreements require compliance with various financial covenants of which the Company was in compliance as of December 31, 2021.

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

The health care industry is subject to changing political, regulatory, and other influences, along with various scientific and technological initiatives. In recent years, the U.S. Congress and certain state legislatures have passed a large number of laws and regulations intended to effect major change within the U.S. health care system, including the Affordable Care Act. The Affordable Care Act affects how health care services are covered, delivered and reimbursed through expanded health insurance coverage and the establishment of programs that tie reimbursement to quality. However, there is uncertainty regarding the future of the Affordable Care Act. The law has been subject to legislative and regulatory changes and court challenges.

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 ongoing 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.

(10) Management agreement

Concurrent with the sale-leaseback transaction (see Note 13), 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, 2021 and 2020, Integra charged management fees and related costs of operations of $3,670,894 and $3,683,869, respectively, to the Company.

(11) 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:

	2021	2020
Intellectual and developmental services	$ 52,133,164	$ 51,994,192
General and administrative	4,593,312	4,612,869
Fundraising	193	250
	$ 56,726,669	$ 56,607,311

(12) 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, 2021 and 2020, the Company contributed approximately 1.0% of each participants' compensation, subject to Internal Revenue Code limitations. The Company contributed approximately $178,000 and $174,000 to the plan in 2021 and 2020, respectively.

(13) 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 of 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 $879,000 and $1,088,000 during 2021 and 2020, 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, 2021 and 2020, the Company expensed approximately $119,000 and $146,000, 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, 2021 is as follows:

		Amortization		
Years	Rent	Gain	Transaction costs	Total
2022	$ 673,000	$ (93,000)	$ 12,000	$ (81,000)
2023	629,000	(93,000)	12,000	(81,000)
2024	585,000	(93,000)	12,000	(81,000)
2025	398,000	(20,000)	3,000	(17,000)
2026	317,000	-	-	-
Thereafter	828,000	-	-	-
	$ 3,430,000	$ (299,000)	$ 39,000	$ (260,000)

As of December 31, 2021 and 2020, there was approximately $2,742,000 and $2,173,000, 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 substantially 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. The Company replaced two existing facilities with four replacement facilities in 2021. The Company replaced four existing facilities with five replacement facilities in 2020. The rent expense and future lease commitments of the replacement homes are included in Note 9.

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Supplemental Schedule - Consolidating Balance Sheet

December 31, 2021

	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	$ 5,360,988	$ 5,384,488	$ 87,008	$ 5,471,496	$ 458,837	$ 5,930,333
Funds held in custody for others	500,885	48,509	234,367	195,845	177,571	-	1,157,177	-	1,157,177	-	1,157,177
Patient accounts receivable	1,170,381	372,699	1,322,791	1,195,688	818,747	1,479	4,881,785	-	4,881,785	1,077	4,882,862
Prepaid expenses and other current assets	12,838	2,341	278,795	2,267	7,993	14,546	318,780	-	318,780	-	318,780
Total current assets	1,689,104	425,049	1,842,953	1,398,800	1,009,311	5,377,013	11,742,230	87,008	11,829,238	459,914	12,289,152
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	229,573	252,016	11,771	7,725	681,456	-	681,456	-	681,456
	82,185	105,639	287,071	252,016	33,543	21,504	781,958	-	781,958	-	781,958
Accumulated depreciation	(62,794)	(96,683)	(132,090)	(48,545)	(32,866)	(16,726)	(389,704)	-	(389,704)	-	(389,704)
Property and equipment, net	19,391	8,956	154,981	203,471	677	4,778	392,254	-	392,254	-	392,254
Other assets:											
Start-up costs, net	29,638	24,238	19,144	-	-	-	73,020	-	73,020	-	73,020
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	37,138	30,438	25,719	14,360	3,675	1,926,395	2,037,725	-	2,037,725	-	2,037,725
Total assets	$ 1,745,633	$ 464,443	$ 2,023,653	$ 1,616,631	$ 1,013,663	$ 7,308,186	$ 14,172,209	$ 87,008	$ 14,259,217	$ 459,914	$ 14,719,131
Current liabilities:											
Accounts payable and accrued expenses	$ 195,855	$ 36,002	$ 314,483	$ 245,114	$ 187,873	$ 76,825	$ 1,056,152	$ -	$ 1,056,152	$ 2,370	$ 1,058,522
Funds held in custody for others	500,885	48,509	234,367	195,845	177,571	-	1,157,177	-	1,157,177	-	1,157,177
Accrued rent expense	52,233	-	287,175	2,377,113	25,509	-	2,742,030	-	2,742,030	-	2,742,030
Accrued salaries and benefits	393,667	116,350	416,582	312,064	301,564	11,046	1,551,273	-	1,551,273	-	1,551,273
Accrued interest	148	222	296	-	-	21,182	21,848	-	21,848	-	21,848
Current portion of long-term debt	-	-	-	-	-	1,472,986	1,472,986	-	1,472,986	-	1,472,986
Capital lease obligation, excluding current portion	-	-	15,653	-	-	-	15,653	-	15,653	-	15,653
Total current liabilities	1,142,788	201,083	1,268,556	3,130,136	692,517	1,582,039	8,017,119	-	8,017,119	2,370	8,019,489
Intercompany payable/(receivable)	(2,153,425)	(73,900)	242,601	(970,448)	(1,041,079)	3,996,251	-	-	-	-	-
Long-term debt, excluding current portion	-	-	-	-	-	2,000,000	2,000,000	-	2,000,000	-	2,000,000
Capital lease obligation, excluding current portion	-	-	78,955	-	-	-	78,955	-	78,955	-	78,955
Deferred gain on sale-leaseback transaction	-	-	-	-	-	260,114	260,114	-	260,114	-	260,114
Total liabilities, net	(1,010,637)	127,183	1,590,112	2,159,688	(348,562)	7,838,404	10,356,188	-	10,356,188	2,370	10,358,558
Net assets (deficit) without donor restrictions	2,756,270	337,260	433,541	(543,057)	1,362,225	(530,218)	3,816,021	87,008	3,903,029	457,544	4,360,573
Total liabilities and net assets (deficit)	$ 1,745,633	$ 464,443	$ 2,023,653	$ 1,616,631	$ 1,013,663	$ 7,308,186	$ 14,172,209	$ 87,008	$ 14,259,217	$ 459,914	$ 14,719,131

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, 2021

	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	$ 13,962,846	$ 3,864,378	$ 15,358,784	$ 13,618,442	$ 10,560,391	$ -	$ 57,364,841	$ -	$ 57,364,841	$ -	$ 57,364,841
Investment income	-	-	-	-	-	7,273	7,273	-	7,273	168	7,441
Intercompany revenues (expenses)	1,000	-	3,150	-	-	-	4,150	-	4,150	(4,150)	-
Other revenues	-	-	-	-	113	2,905	3,018	-	3,018	66,694	69,712
Total unrestricted revenues	13,963,846	3,864,378	15,361,934	13,618,442	10,560,504	10,178	57,379,282	-	57,379,282	62,712	57,441,994
Expenses:											
Salaries and wages	7,369,770	1,987,974	8,690,857	6,054,091	6,096,100	280,139	30,478,931	-	30,478,931	-	30,478,931
Employee benefits	1,109,371	308,603	1,281,901	752,933	778,863	36,845	4,268,516	-	4,268,516	-	4,268,516
Professional services	567,416	104,856	548,335	563,652	471,131	79,134	2,334,524	-	2,334,524	1,250	2,335,774
Supplies	1,544,276	420,271	1,229,709	1,360,761	1,201,878	342,378	6,099,273	70	6,099,343	1,686	6,101,029
Maintenance and repairs	179,149	47,603	205,297	230,063	114,205	2,162	778,479	-	778,479	-	778,479
Utilities	216,621	25,488	233,552	156,049	199,160	444	831,314	-	831,314	-	831,314
Insurance	134,139	45,886	174,506	153,675	117,485	40,147	665,838	-	665,838	-	665,838
Depreciation of property and equipment	14,307	21,116	29,521	25,183	2,353	4,254	96,734	-	96,734	-	96,734
Amortization of start-up costs	59,276	87,257	57,423	-	-	-	203,956	-	203,956	-	203,956
Interest expense	3,407	5,111	6,815	-	-	260,741	276,074	-	276,074	-	276,074
Taxes and licenses	796,698	215,225	885,073	617,986	600,494	1,517	3,116,993	449	3,117,442	140	3,117,582
Rent	406,770	350,119	875,151	2,186,707	162,836	-	3,981,583	-	3,981,583	-	3,981,583
Amortization of deferred gain	-	-	-	-	-	(80,035)	(80,035)	-	(80,035)	-	(80,035)
Management fee and related costs of operations	905,942	195,645	998,108	775,541	795,658	-	3,670,894	-	3,670,894	-	3,670,894
Intercompany expenses (revenues)	257,358	42,893	285,954	228,763	228,763	(1,043,731)	-	-	-	-	-
Total expenses, net	13,564,500	3,858,047	15,502,202	13,105,404	10,768,926	(76,005)	56,723,074	519	56,723,593	3,076	56,726,669
Excess of revenues over expenses (expenses over revenues)	399,346	6,331	(140,268)	513,038	(208,422)	86,183	656,208	(519)	655,689	59,636	715,325
Net assets (deficit) at beginning 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
Net assets (deficit) at end of year	$ 2,756,270	$ 337,260	$ 433,541	$ (543,057)	$ 1,362,225	$ (530,218)	$ 3,816,021	$ 87,008	$ 3,903,029	$ 457,544	$ 4,360,573

See accompanying independent auditors' report.