

# **ARcare**

## **Independent Auditor's Report and Consolidated Financial Statements**

December 31, 2019 and 2018

**ARcare**  
**December 31, 2019 and 2018**

**Contents**

<b>Independent Auditor’s Report</b> .....	<b>1</b>	
 <b>Consolidated Financial Statements</b>		
Balance Sheets.....	4	
Statements of Operations.....	5	
Statements of Changes in Net Assets .....	6	
Statements of Functional Expenses .....	7	
Statements of Cash Flows.....	8	
Notes to Consolidated Financial Statements .....	9	
 <b>Supplementary and Other Information</b>		
Consolidating Schedule – Balance Sheet Information (Unaudited).....	37	
Consolidating Schedule – Statement of Operations Information (Unaudited).....	38	
Consolidating Schedule – Statement of Changes in Net Assets Information (Unaudited).....	39	
Schedules of Units Served (Unaudited).....	40	
Schedule of Expenditures of Federal Awards .....	41	
Schedule of State Awards.....	43	
 <b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor’s Report .....</b>		<b>44</b>
 <b>Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance – Independent Auditor’s Report.....</b>		<b>46</b>
 <b>Schedule of Findings and Questioned Costs.....</b>		<b>48</b>
 <b>Summary Schedule of Prior Audit Findings .....</b>		<b>50</b>

## Independent Auditor's Report

Board of Directors  
ARcare  
Augusta, Arkansas

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ARcare (the Organization), which comprise the balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the 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.

### ***Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ARcare as of December 31, 2019 and 2018, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As described in *Note 22* to the consolidated financial statements, in 2019, the Organization adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedule of state awards listed in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such 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. The 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### **Other Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of balance sheet information, statement of operations information and statement of changes in net asset information and the schedules of units served, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated June 22, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

**BKD, LLP**

Little Rock, Arkansas  
June 22, 2020

**ARcare**  
**Consolidated Balance Sheets**  
**December 31, 2019 and 2018**

**Assets**

	<u>2019</u>	<u>2018</u>
<b>Current Assets</b>		
Cash	\$ 16,872,559	\$ 14,256,265
Patient accounts receivable	1,488,305	2,197,485
Grants receivable	1,131,996	668,376
Contributions receivable	-	150,000
FQHC cost settlement receivable	5,191,814	4,970,000
Pharmacy receivables	2,087,029	1,645,050
Other receivables	519,506	156,480
Related parties receivable	1,216,516	512,024
Inventories	2,827,632	1,491,497
Prepaid expenses and other	448,425	388,262
	<u>31,783,782</u>	<u>26,435,439</u>
<b>Investments</b>		
Certificates of deposit	2,282,250	2,000,004
Investments – assets limited to use	183,393	-
	<u>2,465,643</u>	<u>2,000,004</u>
<b>Goodwill and Intangible Assets</b>		
Goodwill, net of amortization	3,782,621	-
Intangible assets, net of amortization	356,163	410,784
	<u>4,138,784</u>	<u>410,784</u>
<b>Property and Equipment, at Cost</b>		
Land	5,089,581	3,550,371
Buildings and improvements	31,754,063	26,882,468
Construction in progress	4,609,232	2,148,458
Equipment	8,034,496	7,413,149
	<u>49,487,372</u>	<u>39,994,446</u>
Less accumulated depreciation	12,696,848	10,813,950
	<u>36,790,524</u>	<u>29,180,496</u>
	<u>36,790,524</u>	<u>29,180,496</u>
Total assets	<u>\$ 75,178,733</u>	<u>\$ 58,026,723</u>

## Liabilities and Net Assets

	<u>2019</u>	<u>2018</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,267,656	\$ 2,581,139
Deferred grant revenue	110,407	38,123
Accounts payable	2,792,289	1,962,255
FQHC cost settlement payable	-	256,808
Accrued liabilities	<u>4,232,236</u>	<u>3,178,297</u>
Total current liabilities	<u>8,402,588</u>	<u>8,016,622</u>
<b>Other Liabilities</b>		
Deferred compensation	213,393	-
Interest rate swap agreement	52,417	-
Long-term debt	<u>18,879,648</u>	<u>8,143,524</u>
Total other liabilities	<u>19,145,458</u>	<u>8,143,524</u>
Total liabilities	<u>27,548,046</u>	<u>16,160,146</u>
<b>Net Assets</b>		
Without donor restriction		
Undesignated	35,760,516	31,287,433
Designated by the board for operating reserve	11,870,171	10,429,144
With donor restriction		
Time restricted for future periods	<u>-</u>	<u>150,000</u>
Total net assets	<u>47,630,687</u>	<u>41,866,577</u>
Total liabilities and net assets	<u>\$ 75,178,733</u>	<u>\$ 58,026,723</u>

**ARcare**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018 (Adjusted – Note 22)</b>
<b>Revenues, Gains and Other Support Without Donor Restrictions</b>		
Patient service revenue	\$ 41,051,672	\$ 32,922,141
Federal grant funds	17,039,453	16,708,566
State grant funds	497,674	228,472
Private grant funds	338,057	122,483
Pharmacy revenue	30,750,379	20,857,450
Other revenue (net)	1,501,848	1,438,143
In-kind revenue	-	195,333
Net assets release from restriction used for operations	150,000	585,591
Total revenues, gains and other support without donor restrictions	91,329,083	73,058,179
<b>Expenses and Losses</b>		
Salaries and wages	36,372,130	30,664,810
Employee benefits	8,297,164	6,996,400
Contractual services	2,050,087	2,595,949
Depreciation and amortization	2,142,398	1,734,119
Interest	710,266	428,450
Supplies	3,016,515	3,933,852
Facilities rent	1,167,978	1,039,132
Travel	1,294,367	1,178,526
In-kind expense	-	195,333
Utilities	2,464,020	2,094,362
Pharmacy cost of good sold	18,266,822	11,707,741
Repairs and maintenance	348,486	501,432
Insurance	799,382	561,350
Other	8,680,047	5,262,699
Total expenses	85,609,662	68,894,155
<b>Operating Income</b>	5,719,421	4,164,024
<b>Other Income</b>		
Investment return, net	194,689	39,740
<b>Excess of Revenues over Expenses and Increase in Net Assets Without Donor Restrictions</b>	\$ 5,914,110	\$ 4,203,764



**ARcare**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018 (Adjusted – Note 22)</b>
<b>Excess of Revenues over Expenses and Increase in Net Assets Without Donor Restrictions</b>	\$ 5,914,110	\$ 4,203,764
<b>Net Assets with Donor Restrictions:</b>		
Net assets released from restriction	(150,000)	(585,591)
Decrease in net assets with donor restrictions	(150,000)	(585,591)
<b>Change in Net Assets</b>	5,764,110	3,618,173
<b>Net Assets, Beginning of Year</b>	41,866,577	38,248,404
<b>Net Assets, End of Year</b>	\$ 47,630,687	\$ 41,866,577

**ARcare**  
**Consolidated Statements of Functional Expenses**  
**Year Ended December 31, 2019 and 2018**

	<b>2019</b>				
	<b>Clinical</b>	<b>Pharmacy</b>	<b>Education, Fitness &amp; Other</b>	<b>Administration</b>	<b>Total</b>
Salaries and wages	\$ 23,565,984	\$ 2,341,623	\$ 1,407,765	\$ 9,056,758	\$ 36,372,130
Employee benefits	5,425,578	706,945	368,228	1,796,413	8,297,164
Contractual services	1,515,583	231,521	43,576	259,407	2,050,087
Depreciation and amortization	1,238,760	223,471	202,404	477,763	2,142,398
Interest	466,100	7,089	41,230	195,847	710,266
Supplies	2,481,172	176,044	98,705	260,594	3,016,515
Facilities rent	901,430	12,000	44,775	209,773	1,167,978
Travel	733,287	21,746	12,368	526,966	1,294,367
Utilities	1,636,060	79,987	127,258	620,715	2,464,020
Pharmacy cost of goods sold	-	18,266,822	-	-	18,266,822
Repairs and maintenance	249,632	29,175	24,295	45,384	348,486
Insurance	135,985	750	3,069	659,578	799,382
Other	4,236,313	566,990	265,415	3,611,329	8,680,047
<b>Total expenses</b>	<b>\$ 42,585,884</b>	<b>\$ 22,664,163</b>	<b>\$ 2,639,088</b>	<b>\$ 17,720,527</b>	<b>\$ 85,609,662</b>

	<b>2018</b>				
	<b>Clinical</b>	<b>Pharmacy</b>	<b>Education, Fitness &amp; Other</b>	<b>Administration</b>	<b>Total</b>
Salaries and wages	\$ 21,628,612	\$ 1,012,801	\$ 720,204	\$ 7,303,193	\$ 30,664,810
Employee benefits	5,057,666	216,776	169,781	1,552,177	6,996,400
Contractual services	1,947,207	97,930	57,983	492,829	2,595,949
Depreciation and amortization	1,091,274	79,994	206,943	355,908	1,734,119
Interest	374,025	9,289	42,341	2,795	428,450
Supplies	3,393,288	83,722	90,762	366,080	3,933,852
Facilities rent	776,707	-	35,040	227,385	1,039,132
Travel	670,124	21,409	5,016	481,977	1,178,526
In-kind expense	11,333	-	-	184,000	195,333
Utilities	1,403,629	29,658	86,139	574,936	2,094,362
Pharmacy cost of goods sold	-	11,707,741	-	-	11,707,741
Repairs and maintenance	340,873	3,490	84,812	72,257	501,432
Insurance	2,894	139	50	558,267	561,350
Other	2,501,991	78,929	134,230	2,547,549	5,262,699
<b>Total expenses</b>	<b>\$ 39,199,623</b>	<b>\$ 13,341,878</b>	<b>\$ 1,633,301</b>	<b>\$ 14,719,353</b>	<b>\$ 68,894,155</b>

**ARcare**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Change in net assets	\$ 5,764,110	\$ 3,618,173
Items not requiring cash		
Depreciation and amortization	2,142,398	1,734,119
Loss on disposition of property and equipment	-	16,397
Change in fair value of interest rate swap	52,417	-
Changes in		
Patient accounts receivable	1,011,027	253,168
Pharmacy, grants, contributions, related party and other receivables	(1,823,117)	990,487
FQHC cost settlement	(478,622)	(2,321,325)
Prepaid expenses and other	(47,254)	49,169
Inventories	(891,009)	(129,325)
Accounts payable	(81,256)	(284,318)
Accrued expenses	1,182,395	487,816
Deferred grant revenues	72,284	33,863
	<u>6,903,373</u>	<u>4,448,224</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Purchases of property and equipment	(9,203,733)	(3,344,067)
Payment for purchase of clinic	-	(374,352)
Payment for purchase of Infinity Compounding Solutions, LLC, net of cash acquired (see Note 16)	(2,982,695)	-
Payment for purchase of pharmacy	(590,000)	-
Purchases of investments	(465,639)	-
	<u>(13,242,067)</u>	<u>(3,718,419)</u>
Net cash used in investing activities		
<b>Financing Activities</b>		
Principal payments on debt and capital lease obligations	(9,967,650)	(470,267)
Proceeds from issuance of long-term debt	18,922,638	372,000
	<u>8,954,988</u>	<u>(98,267)</u>
Net cash provided by (used in) financing activities		
<b>Increase in Cash</b>	2,616,294	631,538
<b>Cash, Beginning of Year</b>	<u>14,256,265</u>	<u>13,624,727</u>
<b>Cash, End of Year</b>	<u>\$ 16,872,559</u>	<u>\$ 14,256,265</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 648,006	\$ 435,856
Payable to former owner of clinic	\$ -	\$ 375,648

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

ARcare (the Health Center) was created for nonprofit purposes to promote the general health of citizens in and surrounding communities in Arkansas of:

Augusta	Farmington	Maumelle
Bald Knob	Fayetteville	McCrary
Batesville	Fort Smith	Melbourne
Bentonville	Hazen	Newport
Benton	Heber Springs	Pangburn
Berryville	Horseshoe Bend	Parkin
Brinkley	Hot Springs	Searcy
Cabot	Jacksonville	Swifton
Carlisle	Jonesboro	Texarkana
Cherry Valley	Kensett	Vilonia
Conway	Lake City	West Memphis
Cotton Plant	Little Rock	White Hall
Des Arc	Lonoke	Wynne
El Dorado	Mayflower	
England	Magnolia	

The Health Center has operations in Kentucky, located in Bardwell, Barlow, Mayfield, Murry and Paducah. The Health Center also operates a location in Pontotoc, Mississippi. Its principal objectives are to establish and maintain clinic facilities for the care of persons suffering from illness or disabilities, providing comprehensive services, including preventive care, and to carry on educational activities related to rendering care to the sick and promotion of health by educating the public. A significant source of funds for operation are grants from the U.S. Department of Health and Human Services, the acceptance of which requires compliance with prescribed grant conditions and other special requirements, including the receipt of certain amounts of revenues from nonfederal sources. Additional operating funds are realized from private and state grants and charges to patients. Under the terms of grant agreements, the Health Center is subject to Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Accordingly, management policies and procedures are designed to be in compliance with the provisions of the Uniform Guidance.

# **ARcare**

## **Notes to Consolidated Financial Statements**

### **December 31, 2019 and 2018**

Infinity Compounding Solutions, LLC (Infinity), located in Bentonville, Arkansas, was acquired in July 2019. It is a specialty pharmacy that focuses on medications for patients with complex diseases (see *Note 16*).

#### ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Health Center and Infinity (collectively, the Organization). All material intercompany accounts and transactions have been eliminated in consolidation.

#### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### ***Cash Deposits***

At December 31, 2019, the Organization's cash deposits exceeded federally insured limits by approximately \$11,450,000.

#### ***Assets Limited as to Use***

Assets limited as to use are deferred compensation plan assets and include equity debt investments measured at fair value with changes recognized in excess (deficiency) revenues over expenses.

#### ***Patient Accounts Receivable***

Patient accounts receivable reflects the outstanding amount of consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the Organization bills third-party payors directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

No material bad debt expense has been recognized for the years ended December 31, 2019 and 2018.

#### ***Investments – Certificates of Deposit***

Investments in certificates of deposit are carried at cost.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

***Net Investment Return***

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

***Inventories***

Supply inventories consist of medical, laboratory, x-ray, dental, pharmaceutical and office supplies. Cost of the supplies are determined using the first-in, first-out (FIFO) method and are stated at the lower of cost and net realizable value.

***Property and Equipment***

Property and equipment acquisitions over \$5,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	5–40 years
Equipment	5 years

Property acquired with federal grant funds is considered owned by the Organization while used in the program for which it was purchased or in future authorized programs. In addition, the federal government has a reversionary interest in the property. The disposition of property purchased with federal grant funds, as well as any proceeds from its sale, is subject to federal regulation.

***Goodwill and Indefinite-Lived Intangible Assets***

Effective January 1, 2019, the Organization elected the accounting alternative for intangible assets. Under this alternative, certain customer-related intangible assets and noncompetition agreements are subsumed into goodwill and are no longer required to be recognized separately in the accounting for an acquisition.

Also, effective January 1, 2019, the Organization elected the accounting alternative for goodwill. Under this alternative, goodwill is amortized on a straight-line basis over 10 years. The Organization evaluates the recoverability of the carrying value of goodwill at the entity level whenever events or circumstances indicate the carrying amount may not be recoverable.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

In testing goodwill for impairment, the Organization has the option first to perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired or the entity can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the entity with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of an entity, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

***Intangible Assets***

Intangible assets with finite lives are being amortized on the straight-line basis over periods ranging from 7 to 15 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

***Long-Lived Asset Impairment***

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

***Net Assets***

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor or certain grantor restrictions, net assets for an operating reserve.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

***Patient Service Revenue***

Patient service revenue is recognized as the Organization satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policies and implicit price concessions provided to uninsured patients.

The Organization determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The Organization determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

***Pharmacy Revenue***

The Organization recognizes revenue, net of taxes and expected returns, at the time it sells merchandise or dispenses prescription drugs to the customer. The Organization estimates revenue based on expected reimbursements from third-party payors (e.g., pharmacy benefit managers, insurance companies and governmental agencies) for dispensing prescription drugs. The estimates are based on all available information including historical experience and are updated to actual reimbursement amounts.

***340B Revenue and Receivable***

The Organization participates in the 340B Drug Discount Program, which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization has an in-house pharmacy and a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Organization.

The 340B gross receipts are included in pharmacy revenue on the consolidated statements of operations and totaled \$21,645,091 and \$16,469,383 for the years ended December 31, 2019 and 2018, respectively. The drug replenishment costs and administrative and filling fees are included in pharmacy cost of goods sold expense and totaled \$13,295,403 and \$9,559,416 for the years ended December 31, 2019 and 2018, respectively. The net 340B revenue from this program is used in furtherance of the Organization's mission.



**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

The 340B receivable is stated at the total amount of third-party reimbursements and patient co-pays to be collected less the contracted pharmacy's dispensing fee and third-party administrator's administrative fee. Accounts receivable are ordinarily due 45 days after the date of invoice.

**Contributions**

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts— with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

**Government Grants**

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

**Professional Liability Claims**

The Organization recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 8*.

**Income Taxes**

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

**Electronic Health Records Incentive Program**

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible healthcare providers that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare & Medicaid Services. Payments under both programs are contingent on the entity continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when meaningful use objectives have been met and any other specific grant requirements applicable for the reporting period.

The Organization has recorded revenue of approximately \$0 and \$260,000 for 2019 and 2018, respectively, which is included in other revenue in the consolidated statements of operations.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

***Compensated Absences***

Employees receive between one and two days of accrued leave per month, which is available to be taken the next month. Any accrued leave not taken by the end of the year is carried forward to the next year.

However, no employee may carry forward more than 20 days of annual leave to the subsequent year. The amount of accrued leave at December 31, 2019 and 2018, was \$1,166,430 and \$1,011,483, respectively, and is included in accrued liabilities in the consolidated balance sheets.

***Functional Allocation of Expenses***

The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the programs and administration categories based on the estimates of time and effort, square footage and other methods.

***Reclassifications***

Certain reclassifications have been made to the 2018 consolidated financial statements to conform to the 2019 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

**Note 2: Assets Limited as to Use**

Assets limited as to use, at December 31, 2019 and 2018, consisted of the following:

	<b>2019</b>	<b>2018</b>
Assets Limited as to Use – Investments		
Money market funds	\$ 21,340	\$ -
Corporate bonds	61,273	-
Equity securities – U.S. companies	92,738	-
Other	8,042	-
	\$ 183,393	\$ -

Investment return for 2019 and 2018 included interest income on the cash deposits and certificates of deposit.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 3: Concentrations of Credit Risk**

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payors as of December 31, 2019 and 2018, was as follows:

	2019	2018
Medicare	23 %	26 %
Medicaid	12	13
Other third-party payors	19	23
Patient fees	46	38
	100 %	100 %

**Note 4: Grant Revenue**

The Organization is the recipient of a Consolidated Health Centers (CHC) grant cluster from the U.S. Department of Health and Human Services (HHS). The general purpose of these grants is to provide expanded health care service delivery. Terms of the grants generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended December 31, 2019 and 2018, the Organization earned \$11,727,895 and \$11,724,819, respectively, in CHC grant revenue. Future funding will be determined by the granting agency based on an application to be submitted by the Organization prior to the expiration of the present grant award.

In addition to the aforementioned grants, the Organization receives financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis. Grant proceeds were less than grant expenditures for certain grants, resulting in a grant receivable of \$1,136,938 and \$668,376 at December 31, 2019 and 2018, respectively.

**Note 5: Conditional Grants and Contributions**

As of December 31, 2019, the Organization has received approximately \$15.8 million in conditional grants to give, upon incurring allowable expenditures under the agreements. Each of the grant agreements are with the U.S. Department of Health and Human Services. The conditional promises to give are not recognized in the consolidated financial statements.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 6: Acquired Intangible Assets and Goodwill**

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2019 and 2018, were:

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Patient files	\$ 29,352	\$ 3,424	\$ 29,352	\$ 1,468
Noncompete agreements	375,648	89,580	375,648	40,248
Goodwill	3,982,846	200,225	-	-
Rural Health Clinic License	50,000	5,833	50,000	2,500
	<u>\$ 4,437,846</u>	<u>\$ 299,062</u>	<u>\$ 455,000</u>	<u>\$ 44,216</u>

Amortization expense for the years ended December 31, 2019 and 2018, was \$254,846 and \$44,216, respectively. Estimated amortization expense for each of the following five years is:

2020	\$ 254,846
2021	254,846
2022	254,846
2023	254,846
2024	254,846

The Organization acquired \$3,982,846 in goodwill during 2019. Amortization expense for goodwill of \$200,225 was recognized during the year ended December 31, 2019. No goodwill impairment was recognized during the year ended December 31, 2019.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 7: Long-Term Debt**

Long-term debt at December 31, 2019 and 2018, is summarized below:

	<u>2019</u>	<u>2018</u>
Note payable bank, due May 1, 2024; payable \$1,185 monthly, including interest at a variable rate (3.75% at December 31, 2019 and 2018); secured by real estate.	\$ 59,711	\$ 71,456
Note payable bank, due January 31, 2019; payable \$939 monthly, including interest at a variable rate (3.75% at December 31, 2018); secured by real estate.	-	1,029
Note payable; due April 1, 2025; payable \$53,664 annually.	321,984	375,648
Note payable bank, due September 24, 2020; payable \$7,524 monthly with one final balloon payment of \$1,328,479 due on the maturity date or on demand by the bank; including interest at a variable rate (5.25% at December 31, 2018); secured by real estate.	-	1,413,328
Note payable bank, due November 7, 2020; payable \$3,136 monthly, including interest at 4.00%; secured by real estate.	379,621	399,627
Capital lease obligation on medical equipment, including interest at 2.77%; expiring April 2021.	60,251	104,851
Note payable bank, due September 5, 2021; payable \$20,173 monthly with one final balloon payment due on the maturity date; including interest at 3.43%; secured by real estate.	3,890,154	4,050,600
Note payable bank, due February 28, 2023; payable \$2,364 monthly with one final balloon payment of \$504,464 due on the maturity date, including interest at a variable rate (5.50% at December 31, 2018); secured by real estate.	-	561,270
Note payable bank, due July 13, 2033; payable \$1,800 monthly, including interest at a variable interest rate (3.75% at December 31, 2019 and 2018); secured by real estate.	495,044	517,266

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Note payable bank, due May 1, 2021; payable \$991 monthly, including interest at 3.75%; secured by real estate.	\$ 108,197	\$ 115,885
Note payable bank, due January 28, 2046; payable \$6,261 monthly; including an initial interest rate of 5.00% for 60 months; thereafter, the note will be subject to a variable interest rate (5.00% at December 31, 2018); secured by real estate.	-	1,105,077
Note payable bank, due November 30, 2026; payable \$4,078 monthly; initial amount is subject to change monthly with one final balloon payment of remaining principal and interest due on the maturity date; including interest at a variable rate (3.75% at December 31, 2019 and 2018); secured by real estate.	627,126	651,772
Note payable bank, due May 20, 2033; payable \$1,367 monthly; including interest at a variable rate (3.75% at December 31, 2019 and 2018); secured by real estate.	181,410	190,723
Note payable bank, due February 6, 2026; payable \$4,757 monthly; including interest at 5.1%; secured by real estate.	411,957	427,965
Note payable bank, due November 11, 2024; payable \$938 monthly; including interest at a variable rate (3.75% at December 31, 2019 and 2018); secured by real estate.	135,195	141,172
Note payable bank, due March 21, 2019; payable \$1,293 monthly with one final balloon payment of \$228,312 due on the maturity date or on demand by the bank; including interest at a variable rate (5.25% at December 31, 2018); secured by real estate.	-	231,810
Note payable bank, due July 24, 2033; payable \$4,575 monthly; including interest at a variable rate (5.25% at December 31, 2019 and 2018); secured by real estate.	348,972	365,184
Note payable bank, due November 7, 2029; payable \$19,378 monthly with one final payment of remaining principal and interest due on the maturity date; including interest at 4.35%; secured by real estate.	3,086,585	-

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Note payable, due March 1, 2026; payable \$7,115 monthly with one final payment of remaining principal due on the maturity date; secured by real estate.	\$ 455,653	\$ -
Note payable bank, due March 26, 2024; payable \$4,406 monthly with one final payment of remaining principal and interest due on the maturity date; including interest at 4.85%; secured by real estate.	656,994	-
Note payable bank, due September 15, 2029; payable \$30,234 monthly with one final payment of remaining principal and interest due on the maturity date; including interest at a variable rate (4.05% at December 31, 2019) with an interest rate swap agreement described below; secured by real estate.	8,805,636	-
Note payable due October 17, 2021; payable \$3,826 monthly, including interest at 1%; secured by equipment.	83,352	-
Note payable, due October 17, 2021; payable \$1,811 monthly, including interest at 1%; secured by equipment.	39,462	-
	20,147,304	10,724,663
Less current maturities	1,267,656	2,581,139
	<b>\$ 18,879,648</b>	<b>\$ 8,143,524</b>

Aggregate annual maturities of long-term debt at December 31, 2019, are as follows:

2020	\$ 1,267,656
2021	4,574,224
2022	738,657
2023	768,063
2024	1,772,330
Thereafter	11,026,374
	<b>\$ 20,147,304</b>



**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

***Variable-to-Fixed Interest Rate Swap***

On September 25, 2019, Infinity entered into an interest rate swap agreement with a financial institution with a notional amount of \$8,877,936. Infinity pays the swap counterparty a fixed interest rate of 4.109%, and, in return, the counterparty pays Infinity a variable rate of interest based on the USD LIBOR. The notional amount amortizes over 10 years, and interest is settled monthly, with the monthly settlements included in interest expense. The swap was established to create a fixed interest rate on a variable rate term loan.

Infinity is exposed to risk should the counterparty fail to perform under the swap contract as a result of either default or early termination of the agreement; however, Infinity does not anticipate a failure by the counterparty. The agreement is recorded at its fair value with subsequent changes in fair value included in changes in net assets as interest expense. The fair value of the interest rate swap agreement at December 31, 2019, was a net payable of \$52,417, and is included in other liabilities on the consolidated balance sheets.

Amounts included in interest expense in the consolidated statements of change in net assets for the year ended December 31, 2019, include a loss of \$52,417 related to the interest rate swap agreement. The notional amount of the interest rate swap agreement at December 31, 2019, was \$8,805,636.

**Note 8: Professional Liability Claims**

The U.S. Department of Health and Human Services has deemed the Organization and its participating providers covered under the *Federal Torts Claims Act* (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Based upon the Organization's claim experience, no accrual has been made for the Organization's medical malpractice cost for the years ended December 31, 2019 and 2018. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future medical claim.

**Note 9: Operating Leases**

The Organization has entered into numerous operating leases for clinic sites, which expire in various years through 2033. These leases generally contain renewal options for up to five years and require the Organization to pay all executory costs (utilities, maintenance and insurance). Rent expenses associated with these leases were \$1,152,978 and \$1,039,132 for the years ended December 31, 2019 and 2018, respectively.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

Future minimum lease payments at December 31, 2019, were:

2020	\$ 1,128,251
2021	809,017
2022	486,227
2023	267,807
2024	147,694
Thereafter	<u>582,000</u>
Future minimum lease payments	<u>\$ 3,420,996</u>

**Note 10: Patient Service and Pharmacy Revenue**

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

***Performance Obligations***

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total actual charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving services in the Organization’s clinics. The Organization measures the performance obligation from commencement of a service to the point when it is no longer required to provide services to that patient, which is generally at the time of completion of the services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals) and the Organization does not believe it is required to provide additional goods related to the patient. The Organization had no performed obligations considered unsatisfied or partially unsatisfied as of December 31, 2019 or 2018, respectively.

# ARcare

## Notes to Consolidated Financial Statements

### December 31, 2019 and 2018

#### ***Transaction Price***

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions which consist of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's sliding fee discount program policy and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

#### ***Third-Party Payors***

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

*Medicare.* Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid on the lesser of the Organization's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

*Medicaid.* Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. Throughout the year, the Organization is reimbursed a prospectively determined encounter rate for all services provided under the plan. After submission of an annual cost report and review by Arkansas Medicaid, a final settlement is received if the actual costs per encounter exceed the set rate.

*Other.* Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates and discounts from established charges.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization.

# **ARcare**

## **Notes to Consolidated Financial Statements**

### **December 31, 2019 and 2018**

In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to cost report or other audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. The 2019 patient service revenue increased approximately \$5,230,000 due to an adjustment arising from a change in the previously estimated final settlements for the FQHC cost report receivable.

#### ***Refund Liabilities***

From time to time, the Organization will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. Amounts arising from these transactions were not significant as of December 31, 2019, and were approximately \$500,000 as of December 31, 2018. The refund liabilities due as of December 31, 2018, are included in accounts payable and FQHC cost settlement payable on the consolidated balance sheets.

#### ***Patient and Uninsured Payors***

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. As required by Section 330 of the Public Health Service Act (42 U.S.C. §254b), the Organization also has established a sliding fee discount program and offers low-income patients a sliding fee discount from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, sliding fee discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, revenue was reduced by approximately \$320,000 and \$600,000, respectively, due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

Consistent with the Organization’s mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

**Revenue Composition**

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Type of care
- Geography of the service location
- Method of reimbursement
- Organization’s line of business that provided the service (clinical, pharmacy, etc.)

For the years ended December 31, 2019 and 2018, the Organization recognized revenue of approximately \$41,000,000 and \$32,900,000, respectively, from goods and services that transfer to the customer over time and \$30,750,000, and \$20,850,000, respectively, from goods and services that transfer to the customer at a point in time.

**Contract Balances**

The following table provides information about the Organization’s receivables from contracts with customers:

	<b>2019</b>	<b>2018</b>
Patient accounts receivable, beginning of year	\$ 2,197,485	\$ 2,893,827
Patitent accounts receivable, end of year	1,488,305	2,197,485

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 11: Employee Benefit Plan**

The Organization adopted a defined contribution plan, in accordance with Internal Revenue Code Section 401(k), and an Employee Retirement Plan and Tax-Sheltered Custodial Account. Substantially all salaried employees of the Organization are eligible to participate in the retirement plans. The Organization’s board of directors determines the annual contributions to the plans. During 2019 and 2018, \$2,315,257 and \$1,919,185, respectively, was contributed by the Organization to the plans. Fiscal years 2019 and 2018 included an 8% contribution approved by the board of directors.

**Note 12: Deferred Compensation Plan**

During 2019, the Organization established a 457(f) ineligible deferred compensation plan with key executives which provides for certain defined contributions to be made to retirement plans for the benefit of select executives or highly compensated employees. Retirement expense for the year ended December 31, 2019, was \$30,000.

**Note 13: Net Assets with Donor Restrictions**

Net assets with donor restrictions at December 31 are restricted for the following purposes or periods:

	<b>2019</b>	<b>2018</b>
Subject to the passage of time		
Health care services – Pontotoc	\$ -	\$ 150,000
	\$ -	\$ 150,000

During the year ended December 31, 2019, net assets of \$150,000 were released from donor restrictions by the expiration of time restrictions. In 2018, net assets of \$585,591 were released from donor restrictions by incurring expenses, satisfying the restricted purposes.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 14: Available Resources and Liquidity**

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment of its available funds.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the consolidated statements of cash flows which identify the sources and uses of the Organization's cash and shows positive cash generated by operations for the years ended December 31, 2019 and 2018. The Organization has certain board-designated and donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information below for financial assets to meet general expenditures within one year.

As of December 31, 2019, the following table shows the total financial assets held by the Organization and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

	<u>2019</u>	<u>2018</u>
Total financial assets		
Cash	\$ 16,872,559	\$ 14,256,265
Patient accounts receivable	1,488,305	2,197,485
Grants receivable	1,131,996	668,376
FQHC cost settlement receivable	5,191,814	4,970,000
Pharmacy receivables	2,087,029	1,645,050
Contributions receivable	-	150,000
Other receivables	519,506	156,480
Related party receivables	1,216,516	512,024
Investments	<u>2,465,643</u>	<u>2,000,004</u>
Total financial assets	<u>30,973,368</u>	<u>26,555,684</u>
Financial assets not available to be used within one year – long-term investments	<u>2,465,643</u>	<u>2,000,004</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 28,507,725</u>	<u>\$ 24,555,680</u>

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 15: Related Party Transactions**

During 2018, the Organization paid approximately \$570,000 to purchase property from a business owned by members of the management team. During 2018, the Organization paid consulting fees of \$48,000 to a business partially owned by an executive. During 2019 and 2018, the Organization paid approximately \$110,000 and \$250,000, respectively, to a business partially owned by an executive and an employee's spouse for furniture, flooring, contract labor and supplies.

The Arkansas Family Health Foundation (the Foundation) was formed in 2009 to provide grants and other resources to not-for-profits focused on health and welfare initiatives within the state of Arkansas. Several officers of the Organization serve in the same capacity for the Foundation. During 2019 and 2018, the Foundation awarded the Organization grants in the amounts of approximately \$100,000 and \$70,000, respectively. During 2019 and 2018, the Organization received \$76,000 and \$415,000, respectively, from the Foundation for the reimbursement of operating expenses and the use of Organization employees. During 2019 and 2018, the Organization paid the Foundation approximately \$80,000 and \$84,000 in rent expense, respectively.

The Organization obtained loans and made deposits with a bank that is partially owned by executives and a board member. The board member is also an executive vice president at the bank. At December 31, 2019 and 2018, the Organization had loans outstanding from the bank in the amount of \$1,950,000 and \$2,050,000, respectively, and deposits with the bank that totaled approximately \$8,850,000 and \$9,950,000, respectively.

During 2019 and 2018, the Organization leased employees to a related entity that resulted in a receivable at December 31, 2019 and 2018, of approximately \$730,000 and \$340,000, respectively. During 2019, the Organization paid approximately \$50,000 in professional fees to a family member of a member of the executive team.

**Note 16: Acquisition**

On July 1, 2019, the Health Center acquired 100% of the member units of Infinity. Infinity is a for-profit organization that provides pharmaceutical services across the United States. As a result of the acquisition, the Health Center will have an opportunity to expand its services and service area. The Health Center also expects the acquisition will allow it to provide more comprehensive health care services in its current service area and achieve cost savings through elimination of certain duplicative administrative and other functions. The Health Center is the sole member of Infinity.

In 2019, the Health Center incurred approximately \$84,000 of acquisition-related third-party costs. The costs are included in other expenses in the Organization's consolidated statement of operations for the year ended December 31, 2019.

The goodwill arising from this acquisition consists largely of expanded services and service areas.



**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at July 1, 2019:

**Fair Value of Consideration Transferred**

Cash	\$ 3,125,194
Due from seller	<u>(117,370)</u>
Total	3,007,824

**Recognized Amounts of Identifiable Assets  
Acquired and Liabilities Assumed**

Cash	25,129
Other current assets	474,882
Equipment	49,192
Accounts payable and accrued expenses	(996,227)
Note payable	<u>(462,998)</u>
Total identifiable net assets	<u>(910,022)</u>

Consideration transferred in excess of total identifiable net assets	<u>3,917,846</u>
--	------------------

**Goodwill** \$ 3,917,846

Acquired current assets include accounts receivable at its estimated fair value of approximately \$301,847. The gross amount due under the contracts is \$353,651.

In 2019, the Organization acquired a pharmacy in Augusta, Arkansas, through an asset purchase at a total cost of \$590,000 that resulted in identifiable assets of \$525,000 and goodwill of \$65,000. There were no liabilities assumed in the acquisition.

In 2018, the Organization acquired a clinic in McCrory to expand operations and to provide health care services to the public.

**Note 17: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

***Recurring Measurements***

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019:

	Fair Value Measurements Using				
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserv- able Inputs (Level 3)	Investments Measured at NAV
<b>December 31, 2019</b>					
<b>Assets</b>					
Investments					
Money market funds	\$ 21,340	\$ 21,340	\$ -	\$ -	\$ -
Corporate bonds	61,273	61,273	-	-	-
Equity securities – U.S. companies	92,738	92,738	-	-	-
Other	8,042	8,042	-	-	-
	<u>\$ 183,393</u>	<u>\$ 183,393</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total investments	<u>\$ 183,393</u>	<u>\$ 183,393</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>					
Interest rate swap agreement	\$ 52,417	\$ -	\$ 52,417	\$ -	\$ -
	<u>\$ 52,417</u>	<u>\$ -</u>	<u>\$ 52,417</u>	<u>\$ -</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

***Interest Rate Swap Agreement***

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

**Note 18: Construction Commitment**

At December 31, 2019, the Organization had the following commitment:

	<b>Project Authorization</b>	<b>Expended Through December 31, 2019</b>	<b>Remaining Commitment</b>
Paducah new construction	\$ 1,539,980	\$ -	\$ 1,539,980

**Note 19: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Professional Liability Claims***

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *8*.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

***Economic Dependency***

The Organization is economically dependent upon revenue provided by the U.S. Department of Health and Human Services. During 2019 and 2018, 23% and 26%, respectively, of the Organization's revenues were provided by the U.S. Department of Health and Human Services.

***FQHC Settlement Receivable and Payable***

Certain patient services are paid based on a cost reimbursement methodology. The Organization is reimbursed by Medicare and Medicaid for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Arkansas Medicaid and the Medicare administrative contractor. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

**Note 20: Subsequent Events**

Subsequent to year-end, the spread of SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) began to cause some business disruption through reduced patient revenue, specifically related to physician office visits. Additionally, there has been significant volatility in the investment markets both nationally and globally since December 31, 2019.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Organization expects this matter to negatively impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time. The Organization has negotiated deferment on several loans for a period of three to six months beginning in April 2020 due to the uncertainty of the impact of COVID-19. The Organization was also awarded additional grant funds from the U.S. Department of Health and Human Services to assist with operations and to support the detection and/or prevention of COVID-19.

The Organization purchased real estate in Searcy, Arkansas, for approximately \$2,400,000 and obtained a promissory note in the amount of \$3,000,000 for the real estate purchase and for a construction project in Paducah, Kentucky. The promissory note has an interest rate of 3.95% and is payable in monthly consecutive principal and interest payments of \$18,496, with the final installment being due and payable on or before February 15, 2030.

Subsequent events have been evaluation through June 22, 2020, which is the date the consolidated financial statements were available to be issued.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 21: Future Change in Accounting Principle**

***Accounting for Leases***

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the consolidated balance sheets as both a right-of-use asset and a liability. The standard has two types of leases for consolidated statements of operations recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Organization is evaluating the effect the standard will have on the consolidated financial statements; however, the standard is expected to have a material effect on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

**Note 22: Change in Accounting Principle**

***Topic 606 Revenue from Contracts with Customers***

On January 1, 2019, the Organization adopted Topic 606, *Revenue from Contracts with Customers* (Topic 606), using a full retrospective method of adoption to all contracts with customers (patients) at January 1, 2018.

The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to customers or patients in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those goods or services.

The amount to which the Organization expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Adoption of Topic 606 resulted in changes in presentation of consolidated financial statements and related disclosures in the notes to the consolidated financial statements.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

Prior to the adoption of Topic 606, the majority of the provision for uncollectible accounts related to patients without insurance, as well as patient responsibility balances for copays, coinsurance and deductibles for clients with insurance. Under Topic 606, the estimated amounts due from patients for which the Organization does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Organization's estimation of the transaction price or revenue recorded.

The following financial statement line items were affected by the adoption of Topic 606:

	<b>December 31, 2018</b>		
	<b>As Previously Reported</b>	<b>As Adjusted</b>	<b>Adoption Impact</b>
<b>Statement of Operations</b>			
<b>Revenues, Gains and Other Support</b>			
<b>Without Donor Restrictions</b>			
Patient service revenue (net of contractual discounts and allowances)	\$ 35,954,424	\$ -	\$ (35,954,424)
Provision for uncollectible accounts	(3,032,283)	-	3,032,283
Net patient service revenue	\$ 32,922,141	\$ -	\$ (32,922,141)
<b>Patient Service Revenue</b>	<b>\$ -</b>	<b>\$ 32,922,141</b>	<b>\$ 32,922,141</b>

The adoption had no impact on operating income, overall change in net assets or net cash provided by operating activities.

**Topic 958 Clarifying Contributions Received and Contributions Made**

In 2019, the Organization adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using a modified prospective basis to all agreements not completed as of January 1, 2019, or entered into after January 1, 2019. ASU 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the Organization determines whether a resource provider (including a foundation, a government agency or other) is receiving commensurate value in return for the resources transferred, and whether contributions are conditional or unconditional.

Adoption of ASU 2018-08 had no impact on the previously reported 2018 consolidated financial statements.

**ARcare**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**ASU 2019-06, *Intangibles-Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Assets to Not-for-Profit Entities***

In 2019, the Organization changed its method of accounting for goodwill by adopting the provisions of ASU 2019-06, *Intangibles-Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Assets to Not-for-Profit Entities*. The alternative accounting provided for in ASU 2019-06 allows not-for-profit entities to amortize goodwill and apply a simplified impairment test. This change was applied prospectively as of the beginning of the period of adoption. The effect in 2019 was to increase amortization expense and accumulated amortization by \$200,225 and decrease the change in net assets by \$200,225.

In 2019, the Organization changed its method of accounting for identifiable intangible assets in an acquisition by adopting the provisions of ASU 2019-06, *Intangibles-Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Assets to Not-for-Profit Entities*. The alternative accounting provided for in ASU 2019-06 allows not-for-profit entities to subsume into goodwill certain customer-related assets and noncompetition agreements, no longer requiring the Organization to separately recognize these assets in the accounting for an acquisition. This change was applied prospectively as of the beginning of the period of adoption.

## **Supplementary and Other Information**



**ARcare**  
**Consolidating Schedule – Balance Sheet Information (Unaudited)**  
**December 31, 2019**

**Assets**

	ARcare	Infinity	Total	Eliminations	Consolidated
<b>Current Assets</b>					
Cash	\$ 16,732,551	\$ 140,008	\$ 16,872,559	\$ -	\$ 16,872,559
Patient accounts receivable	1,488,305	-	1,488,305	-	1,488,305
Grants receivable	1,131,996	-	1,131,996	-	1,131,996
FQHC cost settlement receivable	5,191,814	-	5,191,814	-	5,191,814
Pharmacy receivables	1,756,633	330,396	2,087,029	-	2,087,029
Other receivables	507,568	11,938	519,506	-	519,506
Related parties receivable	1,098,394	118,122	1,216,516	-	1,216,516
Inventories	2,585,688	241,944	2,827,632	-	2,827,632
Prepaid expenses and other	437,558	10,867	448,425	-	448,425
Total current assets	<u>30,930,507</u>	<u>853,275</u>	<u>31,783,782</u>	<u>-</u>	<u>31,783,782</u>
<b>Investments</b>					
Certificates of deposit	2,282,250	-	2,282,250	-	2,282,250
Investments – assets limited to use	183,393	-	183,393	-	183,393
Investment in Infinity	4,144,007	-	4,144,007	(4,144,007)	-
Total investments	<u>6,609,650</u>	<u>-</u>	<u>6,609,650</u>	<u>(4,144,007)</u>	<u>2,465,643</u>
<b>Intercompany receivable</b>	<u>1,041,562</u>	<u>8,851,241</u>	<u>9,892,803</u>	<u>(9,892,803)</u>	<u>-</u>
<b>Goodwill and Intangible Assets</b>					
Goodwill, net of amortization	60,667	3,721,954	3,782,621	-	3,782,621
Intangible assets, net of amortization	356,163	-	356,163	-	356,163
Total goodwill and intangibles	<u>416,830</u>	<u>3,721,954</u>	<u>4,138,784</u>	<u>-</u>	<u>4,138,784</u>
<b>Property and Equipment, at Cost</b>					
Land	4,634,848	454,733	5,089,581	-	5,089,581
Buildings and improvements	30,867,792	886,271	31,754,063	-	31,754,063
Construction in progress	4,609,232	-	4,609,232	-	4,609,232
Equipment	7,828,635	205,861	8,034,496	-	8,034,496
	<u>47,940,507</u>	<u>1,546,865</u>	<u>49,487,372</u>	<u>-</u>	<u>49,487,372</u>
Less accumulated depreciation	<u>12,655,180</u>	<u>41,668</u>	<u>12,696,848</u>	<u>-</u>	<u>12,696,848</u>
	<u>35,285,327</u>	<u>1,505,197</u>	<u>36,790,524</u>	<u>-</u>	<u>36,790,524</u>
Total assets	<u>\$ 74,283,876</u>	<u>\$ 14,931,667</u>	<u>\$ 89,215,543</u>	<u>\$ (14,036,810)</u>	<u>\$ 75,178,733</u>

## Liabilities and Net Assets

	ARcare	Infinity	Total	Eliminations	Consolidated
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 908,545	\$ 359,111	\$ 1,267,656	\$ -	\$ 1,267,656
Deferred grant revenue	110,407	-	110,407	-	110,407
Accounts payable	2,268,480	523,809	2,792,289	-	2,792,289
Accrued liabilities	3,990,814	241,422	4,232,236	-	4,232,236
	<u>7,278,246</u>	<u>1,124,342</u>	<u>8,402,588</u>	<u>-</u>	<u>8,402,588</u>
<b>Other Liabilities</b>					
Deferred compensation	213,393	-	213,393	-	213,393
Intercompany payable	8,851,241	1,041,562	9,892,803	(9,892,803)	-
Interest rate swap agreement	-	52,417	52,417	-	52,417
Long-term debt, net	10,310,309	8,569,339	18,879,648	-	18,879,648
	<u>19,374,943</u>	<u>9,663,318</u>	<u>29,038,261</u>	<u>(9,892,803)</u>	<u>19,145,458</u>
Total liabilities	<u>26,653,189</u>	<u>10,787,660</u>	<u>37,440,849</u>	<u>(9,892,803)</u>	<u>27,548,046</u>
<b>Net Assets</b>					
Without donor restriction					
Undesignated	35,760,516	-	35,760,516	-	35,760,516
Member's equity	-	4,144,007	4,144,007	(4,144,007)	-
Designated by the board for operating reserve	11,870,171	-	11,870,171	-	11,870,171
	<u>47,630,687</u>	<u>4,144,007</u>	<u>51,774,694</u>	<u>(4,144,007)</u>	<u>47,630,687</u>
Total liabilities and net assets	<u>\$ 74,283,876</u>	<u>\$ 14,931,667</u>	<u>\$ 89,215,543</u>	<u>\$ (14,036,810)</u>	<u>\$ 75,178,733</u>

# ARcare

## Consolidating Schedule – Statement of Operations Information (Unaudited) Year Ended December 31, 2019

	ARcare	Infinity	Total	Eliminations	Consolidated
<b>Revenues, Gains and Other Support Without Donor Restrictions</b>					
Patient service revenue	\$ 41,051,672	\$ -	\$ 41,051,672	\$ -	\$ 41,051,672
Federal grant funds	17,039,453	-	17,039,453	-	17,039,453
State grant funds	497,674	-	497,674	-	497,674
Private grant funds	338,057	-	338,057	-	338,057
Pharmacy revenue	28,149,153	2,721,226	30,870,379	(120,000)	30,750,379
Other revenue (net)	1,501,848	-	1,501,848	-	1,501,848
Net assets release from restriction used for operations	150,000	-	150,000	-	150,000
<b>Total revenues, gains and other support without donor restrictions</b>	<b>88,727,857</b>	<b>2,721,226</b>	<b>91,449,083</b>	<b>(120,000)</b>	<b>91,329,083</b>
<b>Expenses and Losses</b>					
Salaries and wages	34,831,601	1,540,529	36,372,130	-	36,372,130
Employee benefits	8,048,655	248,509	8,297,164	-	8,297,164
Contractual services	2,076,100	93,987	2,170,087	(120,000)	2,050,087
Depreciation and amortization	1,904,838	237,560	2,142,398	-	2,142,398
Interest	496,576	213,690	710,266	-	710,266
Supplies	2,992,751	23,764	3,016,515	-	3,016,515
Facilities rent	1,152,978	15,000	1,167,978	-	1,167,978
Travel	1,276,272	18,095	1,294,367	-	1,294,367
Utilities	2,431,329	32,691	2,464,020	-	2,464,020
Pharmacy cost of good sold	17,047,133	1,219,689	18,266,822	-	18,266,822
Repairs and maintenance	339,375	9,111	348,486	-	348,486
Insurance	663,397	135,985	799,382	-	799,382
Other	8,255,000	425,047	8,680,047	-	8,680,047
<b>Total expenses and losses</b>	<b>81,516,005</b>	<b>4,213,657</b>	<b>85,729,662</b>	<b>(120,000)</b>	<b>85,609,662</b>
<b>Operating Income (Loss)</b>	<b>7,211,852</b>	<b>(1,492,431)</b>	<b>5,719,421</b>	<b>-</b>	<b>5,719,421</b>
<b>Other Income (Expense)</b>					
Investment return, net	158,251	36,438	194,689	-	194,689
Loss on investment in Infinity	(1,455,993)	-	(1,455,993)	1,455,993	-
<b>Total other income (expense)</b>	<b>(1,297,742)</b>	<b>36,438</b>	<b>(1,261,304)</b>	<b>1,455,993</b>	<b>194,689</b>
<b>Excess of Revenues over Expenses and Increase in Net Assets Without Donor Restrictions</b>	<b>\$ 5,914,110</b>	<b>\$ (1,455,993)</b>	<b>\$ 4,458,117</b>	<b>\$ 1,455,993</b>	<b>\$ 5,914,110</b>

**ARcare**  
**Consolidating Schedule – Statement of Changes in**  
**Net Assets Information (Unaudited)**  
**Year Ended December 31, 2019**

	<u>ARcare</u>	<u>Infinity</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Net Assets Without Donor Restrictions:</b>					
Excess of revenues over expenses	\$ 5,914,110	\$ (1,455,993)	\$ 4,458,117	\$ 1,455,993	\$ 5,914,110
Capital contribution received	-	5,600,000	5,600,000	(5,600,000)	-
Increase in net assets without donor restrictions	<u>5,914,110</u>	<u>4,144,007</u>	<u>10,058,117</u>	<u>(4,144,007)</u>	<u>5,914,110</u>
<b>Net Assets With Donor Restrictions:</b>					
Net assets released from restriction	<u>(150,000)</u>	-	<u>(150,000)</u>	-	<u>(150,000)</u>
Decrease in net assets with donor restrictions	<u>(150,000)</u>	-	<u>(150,000)</u>	-	<u>(150,000)</u>
<b>Change in Net Assets</b>	5,764,110	4,144,007	9,908,117	(4,144,007)	5,764,110
<b>Net Assets, Beginning of Year</b>	<u>41,866,577</u>	-	<u>41,866,577</u>	-	<u>41,866,577</u>
<b>Net Assets, End of Year</b>	<u>\$ 47,630,687</u>	<u>\$ 4,144,007</u>	<u>\$ 51,774,694</u>	<u>\$ (4,144,007)</u>	<u>\$ 47,630,687</u>

**ARcare**  
**Schedules of Units Served (Unaudited)**  
**Years Ended December 31, 2019 and 2018**

<b>Program</b>	<b>2019 Units Served</b>	<b>2018 Units Served</b>
Child Care Food Program		
Breakfast	20,403	17,327
Lunch	20,644	18,350
Snack	22,327	18,472
Total Child Care Food Program	63,374	54,149

**ARcare**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>Health Center Program Cluster</b>				
U.S. Department of Health and Human Services/ Consolidated Health Centers	93.224		\$ -	\$ 3,709,406
U.S. Department of Health and Human Services/ Affordable Care Act (ACA) Grants for New and Expanded Services Under Health Center Program	93.527		-	8,018,489
Total Health Center Program Cluster			-	11,727,895
<b>Child Care and Development Fund Cluster</b>				
U.S. Department of Health and Human Services/ Arkansas Department of Human Services/ Child Care and Development Block Grant	93.575		-	48,863
Total Child Care and Development Fund Cluster			-	48,863
U.S. Department of Agriculture/Arkansas Department of Human Services/Child and Adult Care Food Program	10.558		-	129,836
U.S. Department of Education/Arkansas Department of Education/Twenty-First Century Community Learning Centers	84.287		-	79,751
U.S. Department of Health and Human Services/ Dallas County Hospital District/AIDS Education and Training Centers	93.145		-	100,674
U.S. Department of Health and Human Services/ Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153		-	401,836
U.S. Department of Health and Human Services/ Head Start	93.600		-	409,092
U.S. Department of Health and Human Services/ Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912		283,242	1,184,820

**ARcare**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services/ Arkansas Department of Health/ HIV Care Formula Grants	93.917	4600043393	\$ -	\$ 2,100,858
U.S. Department of Health and Human Services/ Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		-	718,016
U.S. Department of Health and Human Services/ HIV Prevention Activities Health Department Based	93.940		-	61,250
U.S. Department of Health and Human Services/ University of Arkansas System/PPHF Geriatric Education Centers	93.969		-	16,418
Corporation for National and Community Services/Retired and Senior Volunteer Program	94.002		<u>7,299</u>	<u>60,144</u>
			<u>\$ 290,541</u>	<u>\$ 17,039,453</u>

**Notes to Schedule**

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**ARcare**  
**Schedule of State Awards**  
**Year Ended December 31, 2019**

<b>Program</b>	<b>State Agency</b>	<b>State Revenues</b>	<b>State Expenditures</b>
Foster Care–Title IV-E	Arkansas Department of Human Services	\$ 207,504	\$ 207,504
Foster Care–State	Arkansas Department of Human Services	41,183	41,183
Arkansas Better Chance Program	Arkansas Department of Human Services	116,610	116,610
Mississippi Tobacco Grant	Mississippi Department of Health	<u>132,377</u>	<u>132,377</u>
		<u>\$ 497,674</u>	<u>\$ 497,674</u>

<b>Program</b>	<b>Pass-Through Entity</b>	
Medicaid Title XIX	Arkansas Department of Human Services	<u>\$ 6,087,048</u> <sup>(1)</sup>

<sup>(1)</sup> Revenue recognized from the Medicaid program is included in the total of net patient service revenue in the accompanying consolidated statement of operations. Medicaid revenue noted above represents 27% (the percentage the State of Arkansas contributed) of total Medicaid revenue recognized during fiscal year ended December 31, 2019.



## **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

### **Independent Auditor's Report**

Board of Directors  
ARcare  
Augusta, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of ARcare (the Organization), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 22, 2020, which includes an "Emphasis of Matter" paragraph regarding a change in accounting principle.

#### ***Internal Control over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Little Rock, Arkansas  
June 22, 2020

## **Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance**

### **Independent Auditor's Report**

Board of Directors  
ARcare  
Augusta, Arkansas

#### **Report on Compliance for the Major Federal Program**

We have audited ARcare's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2019. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

## **Opinion on the Major Federal Program**

In our opinion, ARcare complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

## **Report on Internal Control over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**BKD, LLP**

Little Rock, Arkansas  
June 22, 2020

**ARcare**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2019**

**Summary of Auditor's Results**

*Financial Statements*

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
- Unmodified       Qualified       Adverse       Disclaimer
2. The independent auditor's report on internal control over financial reporting disclosed:
- Significant deficiency(ies)?       Yes       None reported
- Material weakness(es)?       Yes       No
3. Noncompliance considered material to the financial statements was disclosed by the audit?       Yes       No

*Federal Awards*

4. The independent auditor's report on internal control over compliance for the major federal awards program disclosed:
- Significant deficiency(ies)?       Yes       None reported
- Material weakness(es)?       Yes       No
5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:
- Unmodified       Qualified       Adverse       Disclaimer
6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?       Yes       No

**ARcare**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2019**

7. The Organization's major program was:

Cluster/Program	CFDA Number
Health Center Program Cluster/Consolidated Health Centers	93.224
Health Center Program Cluster/Affordable Care Act (ACA) Grants for New and Expanded Services Under Health Center Program	93.527

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee?  Yes  No

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding
	No matters are reportable.

**Findings Required to be Reported by the Uniform Guidance**

Reference Number	Finding
	No matters are reportable.

**ARcare**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended December 31, 2019**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
-----------------------------	---------------------------	---------------

---

No matters are reportable.