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Total Administrative Services Corporation and Subsidiary

Consolidated Financial Statements

September 30, 2020 and 2019

Independent Auditors' Report

To the Shareholder and Board of Directors of
Total Administrative Services Corporation and Subsidiary

We have audited the accompanying consolidated financial statements of Total Administrative Services Corporation and Subsidiary, which comprise the consolidated balance sheets as of September 30, 2020 and 2019 and the related consolidated statements of operations, comprehensive income, shareholder's equity and cash flows for the fiscal years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Total Administrative Services Corporation and Subsidiary as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1 and 4 to the consolidated financial statements, Total Administrative Services Corporation and Subsidiary adopted new accounting guidance, Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2016-01, *Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities*, on October 1, 2019. Our opinion is not modified with respect to this matter.

Baker Tilly US, LLP

Madison, Wisconsin
January 12, 2021

Total Administrative Services Corporation and Subsidiary

Consolidated Balance Sheets
September 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 109,884,730	$ 48,825,380
Marketable securities	85,689,640	99,551,915
Participant funds, net	27,735,158	16,213,959
Accounts receivable, net	16,471,456	16,766,759
Prepaid expenses	4,815,180	5,305,864
Other current assets	7,100,805	3,713,036
Due from related parties	2,474,363	1,755,124
Total current assets	254,171,332	192,132,037
Property and Equipment, Net	35,699,911	39,010,634
Other Assets		
Goodwill, net	72,566,135	80,937,113
Related party note receivable	14,907,271	14,640,125
Other long-term assets	4,443,476	4,126,112
Total other assets	91,916,882	99,703,350
Total assets	$ 381,788,125	$ 330,846,021

See notes to consolidated financial statements

Total Administrative Services Corporation and Subsidiary

Consolidated Balance Sheets
September 30, 2020 and 2019

	2020	2019
Liabilities and Shareholder's Equity		
Current Liabilities		
Current maturities of long-term debt	$ 12,537,165	$ 4,266,913
Accounts payable	8,765,616	6,848,110
Accrued payroll and related taxes	7,560,758	8,934,852
Accrued incentives	2,202,747	2,588,181
Accrued other	13,961,676	7,586,085
Deferred revenues	21,721,289	24,514,994
Participant funds	249,191,170	191,027,212
Total current liabilities	315,940,421	245,766,347
Long-Term Liabilities		
Line of credit	25,000,000	25,000,000
Long-term debt, net	22,995,583	36,913,833
Deferred compensation	4,852,860	6,777,502
Total long-term liabilities	52,848,443	68,691,335
Total liabilities	368,788,864	314,457,682
Shareholder's Equity		
Voting common stock, no par value 44,000 shares authorized 29,171 shares issued and outstanding	103,922	103,922
Additional paid-in capital	263,382	263,382
Accumulated other comprehensive income	1,705,484	3,136,873
Retained earnings	10,926,473	12,884,162
Total shareholder's equity	12,999,261	16,388,339
Total liabilities and shareholder's equity	$ 381,788,125	$ 330,846,021

See notes to consolidated financial statements

Total Administrative Services Corporation and Subsidiary

Consolidated Statements of Operations
Years Ended September 30, 2020 and 2019

	2020	2019
Net Revenue	$139,064,101	$ 125,276,308
Cost of Revenue		
Cost to sell	226,662	3,049,133
Direct costs	29,756,310	29,193,154
Cost to resell	10,725,422	10,523,723
Gross profit	98,355,707	82,510,298
Operating Expenses	120,909,650	97,808,827
Operating loss	(22,553,943)	(15,298,529)
Other Income (Expense)		
Interest income	2,597,377	3,319,678
Interest expense	(2,706,735)	(1,894,016)
Other income	17,348,519	15,886,504
Net other income	17,239,161	17,312,166
Net income (loss)	$ (5,314,782)	$ 2,013,637

See notes to consolidated financial statements

Total Administrative Services Corporation and Subsidiary

Consolidated Statements of Comprehensive Income
Years Ended September 30, 2020 and 2019

	2020	2019
Net income (loss)	$ (5,314,782)	$ 2,013,637
Other Comprehensive Income		
Unrealized gain on debt securities available for sale	778,204	2,673,110
Reclassification adjustment for realized gain on sale of debt securities available for sale	(59,754)	(284,422)
Change in fair value of hedging derivatives	(7,590)	(21,007)
Reclassification adjustment for settlement payments on hedging derivatives	(494)	(26,017)
Net other comprehensive income	710,366	2,341,664
Comprehensive income (loss)	$ (4,604,416)	$ 4,355,301

See notes to consolidated financial statements

Total Administrative Services Corporation and Subsidiary

Consolidated Statements of Shareholder's Equity
Years Ended September 30, 2020 and 2019

	Voting Common Stock Shares Outstanding	Voting Common Stock Amount	Additional Paid-in-Capital - Common Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholder's Equity
Balances, September 30, 2018	29,171	$ 103,922	$ 263,382	$ 795,209	$ 13,470,937	$ 14,633,450
Net income	-	-	-	-	2,013,637	2,013,637
Other comprehensive income	-	-	-	2,341,664	-	2,341,664
Shareholder distributions	-	-	-	-	(2,600,412)	(2,600,412)
Balances, September 30, 2019	29,171	103,922	263,382	3,136,873	12,884,162	16,388,339
Cumulative effect of ASC 606 adoption, see Note 4	-	-	-	-	2,013,369	2,013,369
Cumulative effect of ASU 2016-01 adoption, see Note 1	-	-	-	(2,141,755)	2,141,755	-
Balances, October 1, 2019 - as adjusted	29,171	103,922	263,382	995,118	17,039,286	18,401,708
Net loss	-	-	-	-	(5,314,782)	(5,314,782)
Other comprehensive income	-	-	-	710,366	-	710,366
Shareholder distributions	-	-	-	-	(520,894)	(520,894)
Noncash distribution, see Note 9	-	-	-	-	(277,137)	(277,137)
Balances, September 30, 2020	29,171	$ 103,922	$ 263,382	$ 1,705,484	$ 10,926,473	$ 12,999,261

See notes to consolidated financial statements

Total Administrative Services Corporation and Subsidiary

Consolidated Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Net income (loss)	$ (5,314,782)	$ 2,013,637
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Bad debt expense	14,511	206,858
Depreciation	21,455,039	14,428,348
Amortization	13,095,948	9,767,169
Amortization of capitalized costs to obtain revenue contracts	769,478	-
Change in accounting estimate	-	(11,835,000)
Gain on extinguishment of debt	(1,875,000)	-
Paycheck Protection Program funding	10,000,000	-
Gain contingency	(9,509,054)	-
Fair value adjustment of deferred compensation plan	(2,322,005)	-
Loss on disposal of property and equipment	9,869	-
Impairment of property and equipment	324,043	-
Amortization of debt issuance costs	38,508	-
Unrealized loss on available for sale equity securities	939,997	-
Realized gain on sale of marketable securities	(942,699)	(284,422)
Amortization of bond premium	881,079	834,125
Change in accrued bond interest	75,582	(27,164)
Changes in assets and liabilities:		
Accounts receivable	280,792	52,632
Prepaid expenses and other assets	(1,986,078)	(2,370,404)
Accounts payable	1,917,506	2,911,436
Net participant funds	41,594,462	16,527,648
Accrued payroll and related taxes	(1,400,396)	(2,479,847)
Accrued incentives	(385,434)	146,956
Accrued other	6,375,591	(2,636,819)
Deferred revenues	(2,793,705)	944,434
Deferred compensation	397,363	3,192,839
Net cash flows from operating activities	71,640,615	31,392,426
Cash Flows From Investing Activities		
Capital expenditures	(18,454,864)	(20,757,341)
Purchase of marketable securities	(39,357,490)	(73,543,034)
Proceeds received from sale of marketable securities	52,984,255	76,573,482
Purchase of intangible assets	(268,035)	(157,070)
Net assets acquired in business combination, net of receipt of trust cash associated with trust liabilities	524,600	(32,097,367)
Net cash flows from investing activities	(4,571,534)	(49,981,330)

See notes to consolidated financial statements

Total Administrative Services Corporation and Subsidiary

Consolidated Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows From Financing Activities		
Proceeds from revolving line of credit	$ -	$ 25,000,000
Principal payments on notes payable	(4,011,506)	(27,636,397)
Proceeds from issuance of notes payable	-	42,347,164
Shareholder distributions	(520,894)	(2,600,412)
Advances on related party receivables	(1,477,331)	(2,943,398)
Debt issuance costs incurred	-	(192,560)
Net cash flows from financing activities	(6,009,731)	33,974,397
Net change in cash and cash equivalents	61,059,350	15,385,493
Cash and Cash Equivalents, Beginning	48,825,380	33,439,887
Cash and Cash Equivalents, Ending	$ 109,884,730	$ 48,825,380
Supplemental Cash Flow Disclosures		
Cash paid for interest	$ 2,668,227	$ 1,880,975
Noncash Investing and Financing Activities		
Acquisition purchase of trust assets classified as cash	$ 5,048,297	$ 17,166,757
Deferred seller note and holdback	$ 200,000	$ 11,000,000
Noncash shareholder distributions	$ 277,137	$ -
Adoption of ASC 606	$ 2,013,369	$ -

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Nature of Operations

Total Administrative Services Corporation and Subsidiary (collectively, the Company) is a provider of complete third-party administrative services nationally, with proprietary products and services such as UBA, ACA Employer Reporting, AgriPlan, BizPlan, COBRA, ERISA, FlexSystem (FSA), FMLA, Form 5500 Preparation, Funded HRA, GiveBack, HIPAA Compliance, HRA, HSA, Medicare Part D, Non-Discrimination Testing, PCORI and Retiree Billing.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Total Administrative Services Corporation (TASC) and its wholly-owned subsidiary, BASIC Benefits, LLC (BASIC). BASIC is a provider of third-party administrative services for FSA, HRA, HSA, COBRA, FMLA, absence management, compliance services (ACA, ERISA, Wraps, etc.), parking and transit, unemployment, dependent verification and payroll and time management software. All significant intercompany transactions and balances have been eliminated in consolidation.

Estimates

The preparation of consolidated financial statements in conformity with accounting standards generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates (see Note 3).

Cash and Cash Equivalents

The Company defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less.

Accounts Receivable, Net

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. The Company analyzes the receivables and records a reserve for possible losses on existing receivables that management believes may become uncollectible. An account is considered uncollectible when all collection efforts have failed. The allowance for doubtful accounts for accounts receivable was $1,065,416 and $1,093,609 at September 30, 2020 and 2019, respectively.

Accounts receivable are considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. The Company does not charge interest on accounts receivables that are considered past due.

Marketable Securities

The Company's marketable securities consist of marketable equity and fixed income securities, as well as various corporate, state, municipal and foreign bonds. These securities are classified as available-for-sale in accordance with Accounting Standards Codification (ASC) No. 320, *Investments - Debt and Equity Securities* and recorded at fair value. The Company's accounting policy through September 30, 2019 was to recognize the unrealized gains and losses associated with these securities in shareholder's equity as a component of accumulated other comprehensive income (AOCI). Realized gains and losses upon disposition were determined using the specific identification method.

Effective October 1, 2019, the Company adopted the Federal Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires the unrealized gains and losses associated with equity securities to be recognized within net income. Accordingly, for 2020, unrealized gains and losses arising from the changes in the fair values of equity securities are included within other income (expense) in the consolidated statements of operations. The Company adopted ASU No. 2016-01 using the modified retrospective transition method, which resulted in a cumulative effect adjustment to opening balance of retained earnings and decrease to accumulative other comprehensive income by $2,141,755. This method allows the standard to be applied prospectively through a cumulative catch-up adjustment recognized upon adoption. As such, comparative information in the Company's financial statements has not been restated and continues to be reported under the accounting standards in effect for those periods.

Property, Plant, Equipment and Depreciation

Property, plant and equipment are valued at cost. Gains or losses on disposition of property, plant and equipment are reflected in income. Depreciation is computed on the straight-line basis for financial reporting purposes, based on the estimated useful lives of the assets. Software includes external costs and internal salaries and wages related to programming and development. Maintenance and repair costs are expensed as incurred. Internal and external costs incurred during the preliminary project stage are expensed as incurred. Internal and external costs incurred to develop internal-use computer software during the application development stage are capitalized. Training costs incurred during the application development stage, are expensed as incurred. Internal and external training costs and maintenance costs during the post implementation-operation stage are expensed as incurred.

Goodwill

The Company records goodwill arising from acquisitions at the amount the purchase price exceeds the fair value of other assets acquired and liabilities assumed as goodwill on the accompanying consolidated financial statements. The entire amount of goodwill is expected to be deductible for income tax purposes.

The Company previously adopted ASU 2014-18, *Business Combinations (Topic 805) - Accounting for Identifiable Intangible Assets in a Business Combination*, which no longer requires entities to recognize separately from goodwill customer-related intangible assets unless they are capable of being sold or licensed independent from the other assets of the business or are noncompete agreements. The Company has also previously adopted ASU 2014-02 *Intangibles - Goodwill and Other (Topic 350): Accounting for Goodwill*. This ASU allows goodwill to be amortized using the straight-line method over a ten-year period.

Impairment

The Company annually considers whether indicators of impairment of long-lived assets are present. If such indicators are present, management determines whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amount and, if so, would recognize an impairment loss based on the excess of the carrying amount of the assets over their fair value, provided the carrying value of such assets are no longer recoverable. During 2020, the Company entered into a restructuring initiative to exit physical locations which resulted in $324,043 of an impairment loss (see Note 15). No impairment loss was recognized in 2019.

The Company evaluates goodwill for impairment whenever triggering events occur or circumstances change, that indicate the fair value of the Company may be below its carrying amount. To date, there has been no impairment loss on goodwill.

Revenue from Contracts with Customers

Effective October 1, 2019, the Company adopted the FASB's ASU 2014-09, as codified through ASC 606, *Revenue from Contracts with Customers* and all related amendments using the modified retrospective transition method resulting in only those contracts that were open as of the date of adoption requiring assessment (see Note 4). The comparative information presented in the consolidated financial statements was not restated and is reported under the accounting standards in effect for the periods presented. The most significant impact related to implementation was the deferral of costs to acquire new customers over the estimated contract life. Additionally, the updated guidance required an adjustment in the presentation of the Company's 'make it right' expenses. Previously, these expenses were recorded as operating expenses, however, during 2020, $506,732 of 'make it right' expenses were offset against revenues as they were deemed price concessions to customers. There were no other impacts to revenue recognition from the implementation of ASC 606.

Revenue is recognized when control of the promised services are transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to for those services. In general, the Company determines revenue recognition through the following steps:

- Identification of the contract or contracts with the customer
- Identification of the performance obligation(s) in the contract
- Determination of transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when or as, the Company satisfies a performance obligation

The Company derives its revenue from three sources: (i) enrollment fees; (ii) administrative fees; and (iii) The Give Back Foundation (GBF) contract fees (see Note 5).

Following is a summary of the revenue from all of the above sources:

	2020	2019
Enrollment fees	$ 528,277	$ 937,117
Administrative fees	125,742,233	112,163,238
GBF contract fees, see Note 5	12,793,591	12,175,953
Total revenues	$ 139,064,101	$ 125,276,308

Enrollment Fees

The Company charges customers one-time set-up fees that are earned and recorded as revenue when the contract is signed as the Company has performed all of the customer set-up work required to earn these fees and provided training materials to the customer. The Company assessed the impact of deferring these fees over the estimated life of the contract as part of the ASC 606 implementation, noting that the impact to the deferral at implementation and future revenues would not be significant and as such opted to recognize these fees up front. The Company may bill for these services in advance and any portion of unearned revenue is recorded as deferred revenue on the accompanying consolidated financial statements.

Administrative Fees

The Company charges administrative fees for its services based on the anticipated number of plan participants. These fees are recognized into revenue over time as the performance obligation is satisfied (i.e. as the service is performed).

Significant Judgments in Contracts with Customers

Revenue from contracts with customers often includes promises to transfer multiple services to a customer. The determination of whether services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The Company has determined that they are accounting for administrative fees as one performance obligation.

Assets Recognized From the Costs to Obtain a Contract With a Customer

The Company is amortizing commissions over the initial contract (1 or 3 years), which is the commensurated portion with the renewal (1 or 3 years) and the portion that is noncommensurate is amortized over a systematic basis (i.e. average customer life), which varied from the historical practice of amortizing these costs over the first 12 months of the contract. Costs to revenue is comprised of three components: (i) costs to sell, (ii) direct costs and (iii) costs to resell. Costs to sell include costs to obtain new business including incremental commissions paid. Direct costs include expense related to the Company's sales organization. Costs to resell include costs to maintain the Company's existing book of business including commissions paid on the renewal or book value. As a result of the adoption of ASC 606, the Company adjusted its deferral period for costs to sell from 12 months to the estimated life of the contract by each revenue stream utilizing the estimated lives shown below:

Revenue Stream	Estimated Contract Life
Universal Benefit Account	6 years
Compliance	3 years
Continuation	3 years
Enterprise	5 years
Ag Biz / BizPlan	11 years

Deferred costs are capitalized in other assets within the consolidated balance sheet. Amortization expense was $10,930,619 in 2020 and is recorded in direct costs within the consolidated statement of operations for the year then ended.

Participant Funds

There are funding receivables and liabilities associated with the the UBA, FlexSystem, COBRAToday, HRA and Retiree Billing plans. Cash is received from clients to fund qualified plan expenses. A liability is recognized when funds are received and that liability is reduced as claims or premiums are paid by the Company in accordance with the respective plans. If a client is underfunded at the end of the plan year or if the Company has advanced funds during the plan year, the Company will recognize a receivable for the underfunded portion. Funds received are not restricted and may be utilized for operating purposes prior to payment of qualified plan expenses.

The Company has consistently recorded unpresented checks in the general ledger as an estimated reserve against cash or if the bank account had been closed as a liability. The Company’s policy is to continually monitor the estimated reserve based on historical experience, guidance from legal counsel and escheatment governmental rules against cash and liabilities for unpresented checks in order to determine the appropriate amount of reserve and to recognize significantly aged unpresented checks into other income. After one year of inactivity, the Company will recognize the unpresented checks into other income during the following quarter.

Participant fund receivables are stated at the amount management expects to collect from balances outstanding at year-end. The Company analyzes the receivables and records a reserve for doubtful accounts that management believes may become uncollectible. An account is considered uncollectible when all collection efforts have failed. The allowance for doubtful accounts for participant funds was $557,452 and $784,473 at September 30, 2020 and 2019, respectively.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code and comparable state regulations. Under these provisions, the Company does not pay federal income taxes on its taxable income. Instead, the shareholder reports on its personal income tax returns the Company's taxable income and tax credits. The Company is subject to certain state income and other taxes.

The Company recognizes the tax effects from uncertain tax positions only if the positions are more likely than not to be sustained under examination by a tax authority based solely on the technical merits of the position. Management believes that the Company has no uncertain tax positions. The Company's policy is to record interest and penalties related to income tax liabilities in income tax expense. The Company is not currently under examination by any taxing jurisdiction.

Comprehensive Income

Comprehensive income (loss) includes disclosure of financial information that historically has not been recognized into the calculation of net income. Comprehensive income (loss) includes net income (loss), unrealized gains and losses on debt securities available for sale, changes in fair value of hedging derivatives and reclassifications for realized gains and losses on sale of debt securities available for sale.

Equity

The Company has voting and nonvoting common stock. The amount of voting common stock authorized, issued and outstanding is disclosed in the accompanying consolidated financial statements. There are 2,200 shares of nonvoting common stock authorized and no shares are issued or outstanding.

Fair Value

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company is responsible for determination of fair value. Accordingly, the Company reviews pricing information provided by market experts to determine whether the prices are reasonable estimates of fair value. See Note 10.

Advertising Costs

Advertising costs are expensed when incurred. Advertising costs charged to expense were $320,968 and $636,185 during 2020 and 2019, respectively.

Variable Interest Entities

GAAP requires a reporting entity to consolidate a Variable Interest Entity (VIE), in which the reporting entity has a controlling financial interest, whether voting rights exist or not. A VIE is a legal entity used for business purposes where either (a) its equity is not sufficient to finance the entity's activities without additional subordinated financial support or (b) its equity investors have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the entity's losses or the right to receive its benefits. The primary beneficiary of the VIE is the entity that has both (a) the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and (b) either the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company previously adopted ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*, which amends the consolidation guidance by allowing the Company to make an accounting policy election not to apply the VIE guidance. The Company has determined that there are three entities that may be required to be consolidated under the original guidance, however, with the adoption of this standard, the Company has elected not to consolidate any potential VIEs. The Company does not have any material assets or liabilities on their books that relate to these three entities.

The first VIE is a management services company who performs various administrative and other financial services tasks for the Company. Minimal equity contributions were made to the entity and the Company has a contract with this entity to perform management services for an indefinite term until terminated by one or both parties in writing, which was still in effect as of September 30, 2020. The Company's maximum exposure to loss only extends during this contract period. The Company does not have any other commitments or guarantees as it relates to this management services company.

The second VIE is the real estate company that owns the building in which the Company leases. The Company is responsible for paying rent to this real estate entity, which is further discussed in Note 16. The Company's maximum exposure to loss related to this real estate entity is represented by the future minimum related party lease payments in Note 16. The Company does not guarantee any debt of this real estate entity.

The third VIE is a company that invests or acquires cash-flowing businesses adjacent to TASC. No equity contributions were made to the entity as the funding of assets was made by way of a shared debt facility with the Company and has an economic incentive to provide financial support to this VIE as necessary. The Company's maximum exposure to loss related to this entity would extend to the entity's proportionate share of the facility and related accrued interest. The Company is the guarantor on the shared credit facility. During 2020, the Company performed a nontax carve out of its payroll operations which was distributed and subsequently contributed to the third VIE, see Note 9 for details.

Subsequent Events

The Company has evaluated subsequent events occurring through January 12, 2021, the date that the consolidated financial statements were issued, for events requiring recording or disclosure in the September 30, 2020 consolidated financial statements.

2. Business Combinations

Benefit Advantage, Inc.

On November 1, 2019, the Company entered into an asset purchase agreement with Benefit Advantage, Inc. to purchase the assets and assume the liabilities of Benefit Advantage, Inc., subject to the completion of participant funds liability reconciliations. The aggregate purchase price of the acquisition totaled $4,750,000, subject to adjustments of $26,303 for assets purchased and liabilities assumed, with $4,523,697 paid in cash at closing. A holdback of $200,000 was retained by the Company subject to delivery of account reconciliations and contract data tables.

The total consideration for the purchase was as follows:

Total aggregate purchase price	$ 4,750,000
Less adjustments for assets and liabilities, net	26,303
Net purchase price	4,723,697
Less holdback	200,000
Net cash to seller	$ 4,523,697

The Company recorded the acquired tangible and intangible assets based on their estimated fair value as of the date of acquisition in accordance with ASC 805 and ASC 820-10, as the price that would be received from the sale of an asset between market participants. In connection with the acquisition, the total purchase price was allocated to net tangible and identifiable intangible assets based on their estimated fair values as of November 1, 2019, as set forth below. Goodwill is the amount by which the purchase price consideration exceeds the fair value of tangible and intangible assets, less assumed liabilities. These measures are based on significant inputs that are not observable in the market and therefore represent Level 3 inputs. See Note 1, Goodwill, for adoption of ASU 2014-18 and ASU 2014-02.

Current assets	
Cash and cash equivalents	$ 5,048,297
Property and equipment	23,364
Goodwill	4,726,636
Total assets	9,798,297
Current liabilities	
Participant funds	5,048,297
Accrued payroll and related taxes	26,303
Total current liabilities	5,074,600
Net assets	$ 4,723,697

BASIC Benefits, LLC

On May 1, 2019, the Company and a related party (see Note 1, Variable Interest Entities, third VIE entity) entered into an asset purchase agreement with Benefit Administrative Services International Corporation to purchase the assets and assume the liabilities of Benefit Administrative Services International Corporation. The assets purchased and liabilities assumed were divided into two separate businesses based on distinct lines of business. The Company, through its wholly-owned subsidiary, BASIC Benefits, LLC, subsequently purchased a portion of the prior existing business. The Company and related party elected to allocate the purchase price based on the historical revenue multiples of the two entities purchased. The aggregate purchase price of the acquisition totaled $70,971,934, subject to adjustments of $1,537,579 for assets purchased and liabilities assumed, with $58,434,355 paid in cash at closing and $660,260 paid in acquisition related costs and expensed. A holdback of $1,000,000 was retained by the Company and related party subject to delivery of account reconciliations and contract data table 90 days after the closing date. A deferred payment of $10,000,000 was retained by the Company and related party subject to customer retention adjustments, to be paid two years after closing date. The maximum adjustment to the aggregate purchase price (i.e. the deferred payment) resulting from adjustments to the Aggregate Annualized Recurring Revenue shall be $3,750,000. Future retention adjustments will be recognized through earnings in the year adjusted.

Immediately prior to the asset purchase agreement, the Company and related party collectively entered into an amended and restated credit agreement with a financial institution to extend credit in the aggregate to not exceed $65,000,000 in the form of revolving loans not to exceed $25,000,000 and a term loan for a principal amount of $40,000,000. Of these amounts, the Company received debt proceeds of $41,208,734 to fund the asset purchase agreement. The Company has elected to allocate a portion of the term note to the related party in order to provide a one-time source of funding. The Company will not allocate any of the revolving loan, deferred payment or holdback to the related party as they are managing liquidity and acquisition debt as well as using the revolving loan to fund their own operations.

The total consideration for the purchase by the Company and related party was as follows:

	The Company	Related Party	Total
Total aggregate purchase price	$ 61,787,245	$ 9,184,689	$ 70,971,934
Less adjustments for assets and liabilities, net	1,523,121	14,458	1,537,579
Net purchase price	60,264,124	9,170,231	69,434,355
Less holdback	1,000,000	-	1,000,000
Less deferred payment	10,000,000	-	10,000,000
Net cash to seller	$ 49,264,124	$ 9,170,231	$ 58,434,355

The Company recorded the acquired tangible and intangible assets based on their estimated fair value as of the date of acquisition in accordance with ASC 805 and ASC 820-10, as the price that would be received from the sale of an asset between market participants. In connection with the acquisition, the total purchase price was allocated to net tangible and identifiable intangible assets based on their estimated fair values as of May 1, 2019, as set forth in the opening balance sheet below. The fair value of the software licensing was estimated by applying a cost savings approach involving a discounted cash flow model and an assumed discount rate. These measures are based on significant inputs that are not observable in the market and therefore represent Level 3 inputs. Key assumptions for the intangible assets include a discount rate of 12 percent. See Note 1, Goodwill, for adoption of ASU 2014-18 and ASU 2014-02.

	The Company	Related Party	Total
Cash and cash equivalents	$ 17,166,757	$ 5,686,877	$ 22,853,634
Total cash and cash equivalents	17,166,757	5,686,877	22,853,634
Property and equipment			
Technology hardware	261,176	38,824	300,000
Software licensing	2,000,000	-	2,000,000
Total property and equipment	2,261,176	38,824	2,300,000
Other assets			
Prepaid expenses and other assets	478,504	-	478,504
Goodwill	59,526,069	9,145,865	68,671,934
Total other assets	60,004,573	9,145,865	69,150,438
Total assets	79,432,506	14,871,566	94,304,072
Current liabilities			
Participant funds	17,166,757	5,686,877	22,853,634
Deferred revenue	1,793,548	-	1,793,548
Accrued payroll and related taxes	208,077	14,458	222,535
Total current liabilities	19,168,382	5,701,335	24,869,717
Net assets	$ 60,264,124	$ 9,170,231	$ 69,434,355

During 2020, the Company amended the $10,000,000 deferred seller note by $1,875,000 and recognized the debt extinguishment in other income within the consolidated statement of operations, see Note 12 for further details.

3. Change in Estimates

2019 Change in Accounting Estimate, Client Cash Accounts

During fiscal year 2019, the Company performed a review of its Client Cash Account (CCA) balances related to cancelled clients and developed a new process designed to clean up the older balances and consistently monitor these balances going forward. The Company determined at that time that they held funds for approximately $19,671,000 in CCAs where the clients had cancelled services with the Company. Based on the new process and consultation with legal counsel, the Company revised their estimate of the liability related to the stale dated cancelled CCA balances.

The Company determined that all CCA balances for client accounts that were cancelled prior to fiscal year 2018 could be recorded as a gain on the extinguishment of the liability as a result of the change in estimate. The Company determined that it is not reasonably likely that a claim would be brought forth in court to claim these funds. The Company recognized $11,835,000 of other income for the change in estimate in 2019.

The Company determined that all CCA balances for client accounts that were cancelled after the start of fiscal year 2018 would be eligible to participate in an in-store credit process. This in-store credit process was created in order to provide sufficient time for clients to claim funds related to their cancelled account. For these balances, the Company intends to honor the amounts owed and allow the clients to use these amounts towards new services from the Company within an allotted 12-month expiration period. During this period, the Company will attempt to contact these customers to inform them of the outstanding credit. Once the expiration period has passed, the balances will be operationalized into income in the following quarter. The Company recognized $4,477,131 and $2,323,000 of operational gains in other income in 2020 and 2019, respectively.

4. Adoption of ASC 606

In May 2014, the FASB issued ASC 606, which superseded existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g. an insurance entity's insurance contracts). The revenue recognition principle in ASC 606 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Effective October 1, 2019, the Company adopted the provisions and expanded disclosure requirements described in ASC 606. The Company adopted the standard using the modified retrospective method, which resulted in an October 1, 2019 cumulative effect adjustment increasing retained earnings by $2,013,369. The Company's initial adoption of ASC 606 was only applied to contracts which were not completed as of September 30, 2019. Under the modified retrospective transition method, the Company's fiscal year 2019 financial statements continue to be accounted for under the FASB's ASC 605 and have not been adjusted.

The significant change in the Company's financial statements as a result of the adoption of ASC 606 in the current period is related to the capitalization of incremental costs incurred in obtaining a noncancellable revenue contract. The new revenue recognition standard requires capitalization of certain incremental costs of obtaining a contract, such as certain sales commissions, which impacts the period in which the expense is recorded.

The following table summarizes the effect of adopting ASC 606 on the Company's 2020 financial statements:

	2020 Balances as Reported	ASC 606 Adoption Impact	2020 Balances Without ASC 606 Adoption
Consolidated Balance Sheet			
Other current assets	$ 7,100,805	$ (3,649,494)	$ 3,451,311
Total current assets	254,171,332	(3,649,494)	250,521,838
Total assets	381,788,125	(3,649,494)	378,138,631
Retained earnings	10,926,473	(3,649,494)	7,276,979
Total shareholder's equity	12,999,261	(3,649,494)	9,349,767
Total liabilities and shareholder's' equity	381,788,125	(3,649,494)	378,138,631

	2020 Balances as Reported	ASC 606 Adoption Impact	2020 Balances Without ASC 606 Adoption
Consolidated Statement of Operations			
Cost to sell	$ 226,662	$ 1,636,125	$ 1,862,787
Gross profit	98,355,707	(1,636,125)	96,719,582
Operating loss	(22,553,943)	(1,636,125)	(24,190,068)
Net loss	(5,314,782)	(1,636,125)	(6,950,907)
Consolidated Statement of Comprehensive Income			
Net loss:	(5,314,782)	(1,636,125)	(6,950,907)
Comprehensive loss	(5,314,782)	(1,636,125)	(6,950,907)
Consolidated Statement of Cash Flows			
Cash Flows from Operating Activities:			
Net loss	(5,314,782)	(1,636,125)	(6,950,907)
Amortization of capitalized costs to obtain revenue contacts	769,478	(769,478)	-
Change in assets and liabilities:			
Prepaid expenses and other assets	(1,986,078)	2,405,603	419,525

5. Significant Contract

The Company entered into a Master Service Agreement (MSA) with GBF to provide consulting, management, IT and administrative support services. The term of MSA is 5 years. In conjunction with this MSA, GBF entered into a contractor agreement with the U.S. Office of Personnel Management (OPM) to provide Centralized Campaign Administrator services for the Combined Federal Campaign (CFC). This federal contract identifies the Company as a subcontractor to GBF and sets forth the services to be performed by the Company for GBF in a statement of work (SOW).

In year one, under the first SOW, the Company developed a charity application system which went live during December 2016 and was open through August 2017. Subsequently, the Company developed an employee pledge system which went live in September 2017 and was open through December 2017. The Company is responsible for administration and maintenance of the systems on an ongoing basis and each system will be open and utilized for a portion of the year.

The contract provides total fees of $7,857,757 for the first SOW, $12,023,794 for the second SOW, $12,497,038 for the third SOW, $12,068,925 for the fourth SOW and $12,503,500 for the fifth SOW.

The Company determined that the contract is satisfied over time with the completion of each SOW. As the SOW amounts align to the amounts invoiced, the Company determined it is appropriate to record revenue based on each SOW, in accordance with ASC 606-10-55-18, which states, as a practical expedient, if the Company has a right to consideration from their customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date, the Company may recognize revenue in the amount to which the Company has a right to invoice.

As of September 30, 2020 and 2019 there was $9,280,914 and $9,042,043, respectively, of recognized contract revenue that was classified as a current receivable. During the years ended September 30, 2020 and 2019 the Company recognized $12,793,591 and $12,175,953 of OPM contract revenue, respectively. The Company also has recognized a liability to OPM for collecting and holding funds on behalf of OPM which at September 30, 2020 and 2019 was $12,441,454 and $6,377,041, respectively and is included in accrued other on the consolidated financial statements.

6. Marketable Securities

Cost and fair value of marketable securities at September 30 are as follows:

2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale, debt securities:				
Fixed income funds	$ 20,847,122	$ 402,745	$ (38,419)	$ 21,211,448
State and municipal bonds	25,822,113	1,073,721	-	26,895,834
Foreign corporate bonds	1,123,156	52,103	-	1,175,259
Corporate bonds	26,478,193	882,007	-	27,360,200
Equity securities:				
Common stocks	7,841,517	1,222,574	(17,192)	9,046,899
Total	$ 82,112,101	$ 3,633,150	$ (55,611)	$ 85,689,640

2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale, debt securities:				
Fixed income funds	$ 35,531,330	$ 40,663	$ -	$ 35,571,993
State and municipal bonds	25,997,326	728,847	-	26,726,173
Foreign corporate bonds	1,027,872	29,852	-	1,057,724
Corporate bonds	26,676,094	652,401	-	27,328,495
Available for sale, equity securities:				
Common stocks	6,723,994	2,143,536	-	8,867,530
Total	$ 95,956,616	$ 3,595,299	$ -	$ 99,551,915

During the year ended September 30, 2020, available-for-sale securities were sold for total proceeds of $114,450,386, of which $91,653,563 were for cash and cash equivalents. The gross realized gains on those sales during 2020 was $1,116,327 and the gross realized losses on those sales during 2020 was $173,628.

During the year ended September 30, 2019, available-for-sale securities were sold for total proceeds of $189,796,404, of which $113,222,922 were for cash and cash equivalents. The gross realized gains on those sales during 2019 was $339,110 and the gross realized losses on those sales during 2019 was $54,688.

For the purpose of determining gross realized gains and losses, the cost of securities is based on specific identification. Mutual funds and common stocks have no stated maturities. The amortized cost and fair value of state and municipal bonds, foreign and corporate bonds by contractual maturity are shown below as of September 30:

2020	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 6,695,750	$ 6,615,483
Due after one year through five years	38,581,697	40,310,016
Due after five years through ten years	8,146,015	8,505,794
Total	$ 53,423,462	$ 55,431,293

2019	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 15,097,433	$ 15,796,031
Due after one year through five years	30,113,717	30,577,095
Due after five years through ten years	8,490,142	8,739,266
Total	$ 53,701,292	$ 55,112,392

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

7. Related Party Transactions

At September 30, 2020, the Company has one outstanding note receivable from the Company's shareholder totaling $14,907,271 which is made up of $14,640,125 of principal and $267,146 of accrued unpaid interest. The balance outstanding on the notes receivable at September 30, 2019 was $14,640,125. The note accrues interest at 1.78 percent and is due September 30, 2024. An annual payment in the amount of the accrued interest only is due on September 30 in 2021, 2022 and 2023. The entire remaining accrued interest and the entire principal amount is due September 30, 2024. The note receivable is secured by a general business security agreement.

The Company also has receivables due from related party entities which have 100 percent common ownership, for amounts related to administrative activities the Company has provided on behalf of the related party entities. The receivable balance of $2,474,363 and $1,755,124 is classified as a current asset as of September 30, 2020 and 2019, respectively.

The Company believes that all related party receivables are collectible and therefore, no allowance for doubtful accounts has been recorded against these receivables. There have been no historical losses on these receivables in the past and current economic conditions do not indicate that any allowance would be necessary. The Company evaluates the need for an allowance or impairment on the receivables on an annual basis or when conditions suggest that there could be an impairment. Accounts are written off after management determines the account will not be collected. The Company considers these receivables to have low credit risk due to the fact that they are from related parties.

8. Property and Equipment

The major categories of property and equipment are summarized as follows at September 30:

	Depreciable Lives	2020	2019
Buildings and improvements	7-39 yrs	$ 1,008,538	$ 1,008,538
Furniture and equipment	7 yrs	1,256,641	1,271,655
Technology hardware	5 yrs	2,301,757	4,282,823
Software	3 yrs	85,044,959	78,251,325
Total		89,611,895	84,814,341
Less accumulated depreciation		(53,911,984)	(45,803,707)
Property and equipment, net		$ 35,699,911	$ 39,010,634

Internal Use Software

The software and software under development represents property and equipment for internally developed software that is intended to be used for internal purposes only. The software is not being marketed for sale to external parties.

Depreciation Expense

Property and equipment is depreciated by utilizing a straight-line method over their estimated useful lives. Depreciation expense was $21,455,039 and $14,428,348 for the years ended September 30, 2020 and 2019, respectively.

9. Goodwill

Goodwill is amortized by utilizing a straight-line method over ten years. Goodwill is tested for impairment when events and circumstances indicate it is more likely than not an impairment has occurred. There have been no goodwill impairment losses during the fiscal years ended September 30, 2020 and 2019.

Goodwill consists of the following at September 30:

	2020	2019
Total goodwill	$ 147,856,252	$ 144,659,591
Less accumulated amortization	(75,290,117)	(63,722,478)
Goodwill, net	$ 72,566,135	$ 80,937,113

On October 1, 2019 the Company spun-off its payroll business pursuant to a reorganization under Section 368(a)(1)(D) of the Internal Revenue Code of 1986, by contributing all of its business assets to its wholly-owned subsidiary, The Payroll Center, LLC (TPC). One thousand shares of TPC were then delivered in a tax free spin-off to the Company's parent company, Rashke Holdings, who contributed all of the shares to a different wholly-owned subsidiary which is a related party and VIE to the Company (see Note 1 - Variable Interest Entities). The transaction was executed as a tax free, noncash spin-off and as a result no revaluation of assets occurred as of October 1, 2019 as the transferor should not recognize gains or losses on sales and other transfers of assets between related parties under common control. TPC's only intangible asset to be considered for distribution was the Goodwill related to customer lists recognized as part of the Company's initial acquisition of TPC. The TPC Goodwill was distributed from the Company to Rashke Holdings at its net book value of $269,702 as of October 1, 2019 as part of a total noncash distribution of $277,137 from stockholder's equity stated below.

Cash	$ 5,734,094
Prepaid expense	1,604
Deferred commissions	5,831
Goodwill	269,702
Participant fund liability	5,734,094
Equity - distribution	277,137

Amortization expense for goodwill during 2020 and 2019 was $13,095,948 and $9,754,128, respectively.

The future amortization expense for goodwill is estimated to be as follows during the fiscal years ended September 30:

Years ending September 30:	
2021	$ 12,543,857
2022	11,257,739
2023	10,222,821
2024	8,276,921
2025	6,715,675
2026 and thereafter	23,549,122
Total	$ 72,566,135

10. Fair Value Measurements

The Company follows fair value accounting standards that relate to financial assets and liabilities, which provides a framework for measuring, reporting and disclosing fair value under generally accepted accounting principles. These standards apply to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis.

As defined in the fair value accounting standards, 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. In determining fair value, the Company uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated or generally unobservable inputs. Whenever possible the Company attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Fair value is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets in which the Company can participate. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments and assets that are valued using models or other valuation methodologies.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. At each balance sheet date, the Company performs an analysis of all instruments subject to fair value measurement and include in level 3 all of those whose fair value is based on significant unobservable inputs.

The following is a description of the valuation methodology used for each asset and liability measured at fair value on a recurring basis.

Available-for-sale securities - Fixed income funds, exchange traded funds and common stocks are classified as Level 1 measurements within the fair value hierarchy as they are measured at quoted values of securities actively traded on a national exchange. State, municipal, foreign and corporate bonds are classified as Level 2 measurements within the fair value hierarchy as they are measured using the market approach representing price estimates obtained from third-party independent pricing services using pricing models or quoted prices of securities within similar characteristics.

Information regarding assets and liabilities at fair value on a recurring basis as of September 30 is as follows:

2020	**Total**	**Level 1**	**Level 2**	**Level 3**
Fixed income funds	$ 21,211,448	$ 21,211,448	$ -	$ -
State and municipal bonds	26,895,834	-	26,895,834	-
Foreign corporate bonds	1,175,259	-	1,175,259	-
Corporate bonds	27,360,200	-	27,360,200	-
Common stocks	9,046,899	9,046,899	-	-
Total assets	$ 85,689,640	$ 30,258,347	$ 55,431,293	$ -

2019	**Total**	**Level 1**	**Level 2**	**Level 3**
Fixed income funds	$ 35,571,993	$ 35,571,993	$ -	$ -
State and municipal bonds	26,726,173	-	26,726,173	-
Foreign corporate bonds	1,057,724	-	1,057,724	-
Corporate bonds	27,328,495	-	27,328,495	-
Common stocks	8,867,530	8,867,530	-	-
Total assets	$ 99,551,915	$ 44,439,523	$ 55,112,392	$ -

Nonrecurring Measurement

The assets acquired and liabilities assumed in a business combination are measured at fair value. Variations of cost, market and income approaches are used to measure the fair value components of working capital and tangible assets. When measuring fair value of acquired intangible assets, the income, market and cost approaches are generally considered. Financial assets and liabilities are valued based on a quoted price in an active market. In the absence of a quoted market price a valuation technique is used to determine fair value, such as a market approach or an income approach. These measures require significant judgment including estimates of expected cash flow or discount rates among others. See Note 2 for assets and liabilities acquired in the BASIC Benefits, LLC and Benefit Advantage, Inc. business combinations.

11. Line of Credit

On May 7, 2019, the Company entered into an amended and restated credit agreement, including a revolving loan with the available credit not to exceed $25,000,000. Balances outstanding under the agreement are due May 7, 2024. The line of credit is secured by business assets, general business security agreement and guarantees of various parties. On July 21, 2020, the Company entered into an amendment to remove the minimum 5.00 percent interest rate requirement and add a minimum LIBOR rate of 0.75 percent. The effective interest rate on the revolving line of credit is the Adjusted LIBOR plus the applicable margin based on the Company's total funded debt to EBITDA ratio per the table in Note 12 (3.00 percent at September 30, 2020). As of September 30, 2020, the interest rate on the revolving line of credit is 3.75 percent and the outstanding borrowings under the revolving line of credit are $25,000,000.

The revolving line of credit and bank term note payable have financial covenants to maintain various thresholds for a senior funded debt to EBITDA ratio, total funded debt to EBITDA ratio, participant funds deficit threshold, fixed charge coverage ratio, total funded debt or intercompany debt borrowings of a related party, minimum trailing twelve months EBITDA threshold and maximum quarterly capital expenditures threshold. The July 21, 2020 amendment noted above also suspended the fixed charge coverage ratio effective upon the amendment (fiscal quarters ending March 31, 2020 through December 31, 2020) and shall resume for fiscal quarter ending March 31, 2021 and each quarter thereafter. As of September 30, 2020, the Company was in compliance with all covenants.

12. Long-Term Notes Payable

Long-term notes payable consist of the following at September 30:

	Interest Rate	2020	2019
Hold back payable to former owners maturing May 1, 2021.	2.75%	$ 8,643,759	$ 11,150,265
Bank term note payable maturing May 7, 2024.	3.75%	27,030,000	30,210,000
Total		35,673,759	41,360,265
Less debt issuance costs		(141,011)	(179,519)
Less current portion		(12,537,165)	(4,266,913)
Long-term portion		$ 22,995,583	$ 36,913,833

Hold Back Payable to Former Owners

The Company has a $1,000,000 noninterest bearing hold back payable to former owners upon receipt of custodial accounts reconciliation and incentive notes payable related to purchase of book of service businesses, contingent upon growth of acquired business. The Company also has a $10,000,000 deferred payment, subject to potential adjustments for aggregate annualized recurring revenue, accruing interest at the greater of 2.75 percent or the short-term applicable federal rate in effect at closing and due two years from closing (effectively May 1, 2021). The notes are secured by general business security agreements. During 2020, the $1,000,000 hold back was paid in full and the $10,000,000 deferred payment was adjusted to $8,125,000 after the Company amended the original agreement to remove certain minimum revenue contingency requirements. The resulting adjustment of $1,875,000 was classified as an extinguishment of debt and recorded as other income within the consolidated statement of operations.

Bank Term Note Payable

The Company has a bank term note payable with interest at the Adjusted LIBOR plus the applicable margin per the table below (3.00 percent at September 30, 2020), effectively 3.75 percent as of September 30, 2020. The note requires quarterly payments of $1,000,000 on the last day each March, June, September and December, commencing quarter ending June 30, 2019, increasing to $1,500,000 quarterly for the quarter ending June 30, 2021 through March 31, 2023 and finally increasing to $2,000,000 quarterly for quarter ending June 30, 2023 through March 31, 2024 with final payment due at maturity on May 7, 2024. The note is secured by business assets, personal guarantees of various parties and a general business security agreement. See Note 11 for required financial covenants.

The applicable margin on each bank note payable is subject to adjustment based on the following changes in the Company's total funded debt to EBITDA ratio:

Level	Total Funded Debt to EBITDA Ratio	Applicable Margin for Revolving and Term Loans
I	Less than 1.5 to 1.0	1.75%
II	Less than 2.0 to 1.0, but greater than or equal to 1.5 to 1.0	2.00%
III	Less than 3.0 to 1.0, but greater than or equal to 2.0 to 1.0	2.25%
IV	Less than 4.0 to 1.0, but greater than or equal to 3.0 to 1.0	3.00%
V	Greater than or equal to 4.0 to 1.0	3.50%

Principal requirements on long-term notes payable for years ending after September 30, 2020, including current maturities, are summarized as follows:

Years ending September 30:	
2021	$ 12,537,165
2022	4,851,594
2023	5,565,000
2024	12,720,000
Total	$ 35,673,759

The Company adopted FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in balance sheet as a direct reduction from the carrying amount of that debt liability instead of an asset. The notes payable balances are presented net of debt issuance costs of $141,011. These costs are amortized into interest expense over five years, which is the term of the debt agreement.

13. Gain Contingency

The Coronavirus Aid, Relief and Economic Security (CARES) Act established the Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA) to provide loans to qualifying entities. Under this program, a qualifying entity may apply to an SBA-approved lender for a federally guaranteed loan to help offset certain payroll and other operating expenses including rent and utilities amongst others. The loan and accrued interest or portion thereof, is eligible for forgiveness by the SBA if the qualifying entity meets certain conditions. Management has determined that the Company's $10,000,000 PPP loan qualified for derecognition as of September 30, 2020 as grant income, as defined in International Accounting Standards 20, *Accounting for Government Grants and Disclosure of Government Assistance*, as it became reasonably assured in fiscal year 2020 that the loan would be forgiven. As such, the Company recognized $9,509,054 within other income on the consolidated statement of operations for 2020. The Company's related party entities recognized an additional $490,946 of other income during 2020.

14. Deferred Compensation

The Company adopted a Value Appreciation Rights (VARs) plan effective October 1, 2017. Under the terms of the plan, 90,537 rights had been granted to participants and were outstanding as of September 30, 2019. During 2020, there were no additional rights granted or retired, resulting in 90,537 rights outstanding as of September 30, 2020.

The rights vest over two, three and four years and are payable immediately after becoming fully vested. Bonus compensation expense charged to operations during fiscal year 2019 was $1,090,461. The Company performed the annual valuation of the VARs as of September 30, 2020 and determined that the fair value of the VARs was below the base value resulting in no expected cash payout. As a result, the Company recorded a $2,322,005 adjustment to reverse previously recognized compensation expense related to the VARs. As of September 30, 2020 there was $203,750 of unrecognized bonus compensation expense related to the nonvested special VARs. The value of the rights are market based, discretionary and depend on each individual participant's performance.

As of September 30, 2020 and 2019, the Company's long-term liability under the plan was $975,437 and $3,283,767, respectively. There is an additional liability related to a 409(A) deferred compensation plan for highly-compensated employees for $3,877,423 and $3,493,735 as of September 30, 2020 and 2019, respectively, included in the deferred compensation liability. The 409(A) plan is a funded plan into an escrow account and therefore there is a directly offsetting asset included in other assets. The Company also recorded a current portion of the plan liability in the amount of $911,938 and $418,598 at September 30, 2020 and 2019, respectively, as this will be due within the next twelve months. The current portion is included in the accrued other liability.

15. Restructuring

During 2020, the Company entered into a restructuring initiative to exit the physical locations of its wholly-owned subsidiary, BASIC Benefits, LLC, in order to move the workforce remote and consolidate the operations with the Company. As a result of the restructure, the Company recorded $2,932,502 of restructuring expenses within operating expenses on the consolidated statement of operations for 2020.

One-time termination benefits	$ 705,000
Lease exit	1,903,459
Fixed asset impairment	324,043
Total	$ 2,932,502

As of September 30, 2020, $1,670,602 was unpaid and included in accounts payable.

16. Operating Leases

The Company leases equipment and property under operating leases that expire on various dates through 2026. The Company also leases the corporate office in Madison, Wisconsin from a related party with common ownership (see Note 1, Variable Interest Entities).

Future minimum payments, by year and in the aggregate, under noncancellable operating leases with initial or remaining terms in excess of one year consist of the following at September 30, 2020:

	Operating Leases	Related Party Operating Leases
Years ending September 30:		
2021	$ 226,882	$ 859,953
2022	217,209	772,742
2023	217,539	647,764
2024	129,874	283,701
2025	42,211	292,212
2026 and future years	2,354,698	326,059
Total	$ 3,188,413	$ 3,182,431

Total rent expense for all operating leases was $1,652,119 and $1,531,353 in 2020 and 2019, respectively. Of that amount, related party rent expense was $801,391 and $726,049 in 2020 and 2019, respectively.

17. Concentrations of Credit Risk

Financial instruments that subject the Company to possible credit risk consist principally of accounts receivable and cash deposits in excess of insured limits.

The Company's cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. Balances in excess of $250,000 are not insured. The balances, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

18. Retirement Plan

The Company has established a 401(k) retirement plan for eligible employees who have completed 30 days of employment. The plan provides for discretionary matching contributions. During 2020 and 2019, matching contributions totaled $1,792,628 and $1,393,689, respectively.

19. Contingencies

In the ordinary course of conducting business, the Company occasionally becomes involved in legal proceedings relating to contracts, regulatory issues or other matters. While any proceeding or litigation has an element of uncertainty, management of the Company believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Company.

The Company provides some clients with service level commitments and also provides audit support and assistance and reimbursement of penalties and interest to customers who become subject to regulatory examination.

20. New Accounting Pronouncements

During February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. During 2018, the FASB also issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which addresses narrow aspects of the guidance originally issued in ASU No. 2016-02; and ASU 018-11, *Targeted Improvements*, which provides entities with an additional (and optional) transition method whereby an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. During 2019, the FASB also issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*, which delayed the effective date for certain entities. During June 2020, the FASB issued ASU 2020-05, *Effective Dates for Certain Entities*, which amended the previously issued ASU No. 2019-01 to extend the required adoption dates for private companies by one year to be effective for fiscal years beginning after December 15, 2021 and for interim reporting periods within annual reporting periods beginning after December 15, 2022. Early adoption is permitted. The Company is currently assessing the effect that Topic 842 (as amended) will have on its results of operations, financial position and cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, (ASU 2017-04)*. ASU 2017-04 simplifies the subsequent measurement of goodwill by allowing an entity to perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount (elimination of Step 2 from goodwill impairment test). An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This update also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. The amendments in ASU 2017-04 are effective for annual reporting periods beginning after December 15, 2021. The Company does not expect ASU 2017-04 to have a material impact on the consolidated financial statements.