

**THE GUARDIAN SNF OPERATIONS BHC LLC,
SOMERSET RIDGE SNF OPERATIONS BHC LLC, AND
SARAH S BRAYTON SNF OPERATIONS BHC LLC**

**Combined Financial Statements as of
December 31, 2022
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

October 11, 2023

To the Member of
The Guardian SNF Operations BHC LLC,
Somerset Ridge SNF Operations BHC LLC,
and Sarah S Brayton SNF Operations BHC LLC

Opinion

We have audited the accompanying combined financial statements of The Guardian SNF Operations BHC LLC, Somerset Ridge SNF Operations BHC LLC, and Sarah S Brayton SNF Operations BHC LLC (collectively, the "Company"), which comprise the combined balance sheet as of December 31, 2022, and the related combined statements of operations, changes in member's deficit, and cash flows for the period from August 1, 2022 through December 31, 2022, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the period from August 1, 2022 through December 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Combined Financial Statements

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

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

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INDEPENDENT AUDITOR'S REPORT

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Auditor's Responsibilities for the Audit of the Combined Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Report on Combining Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information in Schedules I and II is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual companies, and it is not a required part of the combined 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 combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

**THE GUARDIAN SNF OPERATIONS BHC LLC
SOMERSET RIDGE SNF OPERATIONS BHC LLC
SARAH S BRAYTON SNF OPERATIONS BHC LLC**

**COMBINED BALANCE SHEETS
DECEMBER 31, 2022**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 2,388,387
Accounts receivable, net	6,947,093
Prepaid expenses and other current assets	<u>331,697</u>
Total current assets	<u>9,667,177</u>

PROPERTY AND EQUIPMENT, net	<u>559,325</u>
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OTHER ASSETS:

Right-of-use assets, financing leases	82,856,381
Due from related parties	1,361,562
Resident funds held in trust	<u>234,510</u>
Total other assets	<u>84,452,453</u>

Total assets	<u>\$ 94,678,955</u>
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LIABILITIES AND MEMBER'S DEFICIT

CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 5,239,215
Accrued payroll and related liabilities	1,643,766
Accrued interest	36,672
Financing lease liability, current portion	1,336,160
Line of credit	<u>5,500,000</u>
Total current liabilities	<u>13,755,813</u>

LONG-TERM LIABILITIES:

Financing lease liability, net of current portion	82,919,793
Due to related parties	1,021,675
Resident funds held in trust	<u>234,510</u>
Total long-term liabilities	<u>84,175,978</u>

Total liabilities	97,931,791
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MEMBER'S DEFICIT	<u>(3,252,836)</u>
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Total liabilities and member's deficit	<u>\$ 94,678,955</u>
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The accompanying notes are an integral part of these statements.

**THE GUARDIAN SNF OPERATIONS BHC LLC
SOMERSET RIDGE SNF OPERATIONS BHC LLC
SARAH S BRAYTON SNF OPERATIONS BHC LLC**

**COMBINED STATEMENT OF OPERATIONS
FOR THE PERIOD AUGUST 1, 2022 THROUGH DECEMBER 31, 2022**

REVENUES:

Resident care revenues	\$ 17,448,535
Other revenue	<u>362,379</u>
Total revenues	<u>17,810,914</u>

OPERATING EXPENSES:

Payroll	7,978,774
Payroll taxes and employee benefits	871,245
Supplies and other expenses	4,715,860
Purchased services	3,473,288
Nursing facility user fee	915,194
Interest	1,191,837
Bad debt	318,152
Depreciation and amortization	<u>1,835,877</u>
Total operating expenses	<u>21,300,227</u>

LOSS FROM OPERATIONS (3,489,313)

GAIN ON BARGAIN PURCHASE 236,477

NET LOSS \$ (3,252,836)

The accompanying notes are an integral part of these statements.

THE GUARDIAN SNF OPERATIONS BHC LLC
SOMERSET RIDGE SNF OPERATIONS BHC LLC
SARAH S BRAYTON SNF OPERATIONS BHC LLC

COMBINED STATEMENT OF CHANGES IN MEMBER'S DEFICIT
FOR THE PERIOD AUGUST 1, 2022 THROUGH DECEMBER 31, 2022

	Total <u>Deficit</u>
Balance - August 1, 2022	\$ -
Net loss	<u>(3,252,836)</u>
Balance - December 31, 2022	<u>\$ (3,252,836)</u>

The accompanying notes are an integral part of these statements.

**THE GUARDIAN SNF OPERATIONS BHC LLC
SOMERSET RIDGE SNF OPERATIONS BHC LLC
SARAH S BRAYTON SNF OPERATIONS BHC LLC**

**COMBINED STATEMENT OF CASH FLOWS
FOR THE PERIOD AUGUST 1, 2022 THROUGH DECEMBER 31, 2022**

CASH FLOW FROM OPERATING ACTIVITIES:

Net loss	\$ (3,252,836)
Adjustments to reconcile net loss to net cash flow from operating activities:	
Bad debt	318,152
Depreciation	32,623
Amortization of right-of-use assets	1,803,254
Gain on bargain purchase	(236,477)
Changes in:	
Accounts receivable, net	(7,265,245)
Prepaid expenses and other current assets	(331,697)
Accounts payable and accrued expenses	5,239,215
Accrued payroll and related liabilities	1,643,766
Accrued interest	<u>36,672</u>
Net cash flow from operating activities	<u>(2,012,573)</u>

CASH FLOW FROM INVESTING ACTIVITIES:

Purchase of property and equipment	<u>(355,471)</u>
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CASH FLOW FROM FINANCING ACTIVITIES:

Net proceeds from line of credit	5,500,000
Payments of finance lease liabilities	(403,682)
Advances from related parties	<u>(339,887)</u>
Net cash flow from financing activities	<u>4,756,431</u>

CHANGE IN CASH AND CASH EQUIVALENTS	2,388,387
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CASH AND CASH EQUIVALENTS - beginning of year	<u>-</u>
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CASH AND CASH EQUIVALENTS - end of year	<u><u>\$ 2,388,387</u></u>
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The accompanying notes are an integral part of these statements.

**THE GUARDIAN SNF OPERATIONS BHC LLC,
SOMERSET RIDGE SNF OPERATIONS BHC LLC.
AND SARAH S BRAYTON SNF OPERATIONS BHC LLC**

**COMBINED NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

1. SCOPE OF BUSINESS

The Guardian SNF Operations BHC LLC ("Guardian") is a 114-bed skilled nursing facility located in Norwood, Massachusetts, licensed by the State of Massachusetts.

Guardian began operations by acquiring the operations of the skilled nursing facility on August 1, 2022 through an operations transfer agreement with Guardian Op 1, LLC.

Somerset Ridge SNF Operations BHC LLC ("Somerset") is a 135-bed skilled nursing facility located in Fall River, Massachusetts, licensed by the State of Massachusetts.

Somerset began operations by acquiring the operations of the skilled nursing facility on August 1, 2022 through an operations transfer agreement with Revolution at Somerset Point, LLC.

Sarah S Brayton SNF Operations BHC LLC ("Brayton") is a 183-bed skilled nursing facility located in Fall River, Massachusetts, licensed by the State of Massachusetts.

Brayton began operations by acquiring the operations of the skilled nursing facility on August 1, 2022 through an operations transfer agreement with Revolution at Sarah Brayton Place, LLC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company's combined financial statements (the "financial statements") are prepared in accordance with accounting principles generally accepted in the United States of America.

Basis of Combination

The financial statements include the accounts of Guardian, Somerset and Brayton (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in combination.

Estimates

The preparation of financial statements in accordance 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 and expenses during the reporting period. Actual results could differ from those estimates.

Variable Interest Entity

The Company has elected the accounting alternative offered to private companies for certain legal entities under common control. In accordance with this alternative, the Company does not apply the variable interest entity consolidation model to its qualifying common control arrangements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. The Company maintains cash and cash equivalents at financial institutions which periodically 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 with respect to cash and cash equivalents.

Resident Care Revenue, Receivables, and Third-Party Payor Settlements

Resident service revenue related to room and board is recognized in the amounts to which the Company expects to be entitled and this transaction price (the daily rate) is allocated to the bundled service. Each resident pays a daily rate based on their resident admission agreement and their insurance coverage under a third-party payor agreement, if applicable. The performance obligation is satisfied as the benefit of the services are consumed.

Revenue for other physician and ancillary services is recognized in the amounts to which the Company expects to be entitled, and this transaction price (the fee) is allocated to the distinct services. Each resident pays a fee for these services based on the fee schedules established by the Company and their insurance coverage under a third-party payor agreement, if applicable. The performance obligation is satisfied as the benefit of the services are consumed and resident service revenue is recorded. The Company determines the transaction price based on established charges for services provided, reduced by contractual adjustments provided to third-party payors. The Company has agreements with third-party payors which provide for reimbursement at amounts different from its established charges. A summary of the basis of reimbursement with significant third-party payors follows:

- Medicaid - The New York State Medicaid program provides for per diem reimbursement to nursing homes with certain provisions for retroactive adjustment due to changes in the intensity of care provided to residents, as well as for adjustments resulting from audits by the payor. The per diem rate is modified for intensity of care provided to residents.
- Medicare - The Medicare program provides for per diem reimbursement to nursing homes using the federal rate for services rendered to residents with certain provisions for retroactive adjustment due to changes in the intensity of care provided to residents, as well as for adjustments resulting from audits by the payor. The per diem rate is modified for intensity of care provided to residents.

The Company expects to collect established charges, less contractual adjustments. The Company performs an assessment of a resident's ability to pay for the services provided prior to admission to the Company. Based on this, the Company determined that there are no implicit price concessions provided to residents.

Performance obligations are determined based on the nature of the services provided. The majority of the Company's healthcare services represent a bundle of services that are not capable of being distinct and as such, are treated as a single performance obligation. Self pay residents are billed a month in advance, and the performance obligation is considered satisfied on a daily basis as services are rendered. All other payors are billed after services have been provided, and the performance obligation is considered satisfied at a point in time as services are rendered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resident Care Revenue, Receivables, and Third-Party Payor Settlements (Continued)

Resident service revenue is charged and collected on a monthly basis. Amounts that remain uncollected at the end of the month are recorded as accounts receivable. The allowance for doubtful accounts is estimated by management based on periodic reviews of the collectability of specific accounts receivable considering historical experience and prevailing economic conditions. Accounts receivable are written off when they are determined to be uncollectible.

Payment that the Company receives from residents in advance of providing services represent contract liabilities as unearned resident care revenues.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing resident care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and 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 (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Laws and regulations governing the Medicaid and Medicare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Property, Equipment and Depreciation

Property and equipment are stated at cost, less accumulated depreciation computed on the straight line method over estimated useful lives as follows:

Furniture, fixtures, and equipment	7 Years
Medical and computer equipment	5 - 7 Years

Maintenance and repairs are charged to expense. The Company capitalizes assets with a cost greater than \$2,500 and a useful life in excess of one-year. The cost of property and equipment retired or otherwise disposed of and related accumulated depreciation are removed from the accounts.

Leases

The Company determines if an arrangement is a lease at inception.

Right-of-use (ROU) assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The lease may include renewal and termination options, which are included in the lease term when the Company is reasonably certain to exercise these options.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

For all underlying classes of assets, the Company has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. The Company recognizes fixed short-term lease cost on a straight-line basis over the lease term and variable lease cost in the period in which the obligation is incurred.

The Company elected for all classes of underlying assets to use the risk-free rate as the discount rate if the implicit rate in the lease contract is not readily determinable.

The Company elected for all classes of underlying assets to not separate the lease and non-lease components of a contract and to account for as a single lease component.

Variable lease costs paid to or on behalf of the lessor, consisting of real estate taxes and property insurance, are excluded from the measurement of the right-of-use asset and lease liability and are expensed in the period incurred.

Resident Funds Held in Trust

The Company acts as a custodian for resident funds. These funds are expended at the direction of the residents for personal items. Transactions involving receipt and disbursement of resident accounts are not included in the operating results of the Company.

Income Taxes

Guardian, Somerset and Brayton are treated as partnerships for federal and state income tax purposes. Therefore, their earnings and losses flow through to their members.

3. CONTINUING OPERATIONS

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company began operations by acquiring the operations of Guardian Op 1, LLC, Revolution at Somerset Point, LLC, and Revolution at Sarah Brayton Place, LLC on August 1, 2022. The Company incurred a net loss from operations of \$3,489,313 for the period ended December 31, 2022. At December 31, 2022, the Company has an accumulation of a member's deficit totaling \$3,252,836 and a working capital deficit of \$4,088,636, which includes a \$5,500,000 line of credit. In addition, the Company had outflows of cash from operating activities of \$2,012,573 for the period ended December 31, 2022. The cash used in operating activities was supported by cash inflows from financing activities totaling \$4,756,431 for the period ended December 31, 2022. Shortly after acquisition, Somerset was notified of an admission freeze on July 26, 2022 which was lifted on October 19, 2022 for compliance matters. The admission freeze resulted in occupancy at Somerset of approximately 71% for the period ended December 31, 2022.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management of the Company has evaluated these conditions and determined this uncertainty will be alleviated. Management has been actively involved in the operation since acquisition in August 2022 and is evaluating optimal implementation of its differentiating policies and procedures for revenue improvement and expense efficiency while focusing on quality care.

3. CONTINUING OPERATIONS (Continued)

These efforts are underway in 2023 beginning with remediation of the matters that resulted in the admission freeze. As these changes are implemented, the Company's management intends to support the Company's operation through related party cash management and payment deferral of related party expenses for a period of at least twelve months from the date of this report.

4. ACCOUNTS RECEIVABLE AND RESIDENT CARE REVENUE

Accounts receivable consisted of the following at December 31, 2022:

Medicaid	\$ 3,591,928
Medicare	2,196,680
Self-pay	352,548
Other	<u>1,182,075</u>
	7,323,231
Less: Allowance for doubtful accounts	<u>(376,138)</u>
Accounts receivable, net	<u>\$ 6,947,093</u>

Resident care revenue consisted of the following for the period ended December 31, 2022:

Medicaid	\$ 5,788,854
Medicare	5,138,827
Self-pay	1,265,746
Other	<u>4,827,576</u>
Total current room and board charges	17,021,003
Ancillary services	<u>427,532</u>
Total resident care revenues	<u>\$ 17,448,535</u>

The Company derives approximately 63% of its resident care revenue from State and Federal government agencies for the period ended December 31, 2022.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2022:

Furniture, fixtures, and equipment	\$ 213,326
Medical and computer equipment	<u>378,622</u>
	591,948
Less, Accumulated depreciation	<u>(32,623)</u>
Property and equipment, net	<u>\$ 559,325</u>

6. LINE OF CREDIT

The Company has a \$5,500,000 line of credit. The total amount available on the line of credit is subject to a borrowing base equal to 80% of eligible accounts receivable. The line of credit is due August 1, 2023 and requires monthly interest only payments at one-month term SOFR plus 3.25% (7.37% at December 31, 2022). The line of credit is collateralized by the same instruments as the commitment discussed in Note 10 to the financial statements and guaranteed by the members of the Company, CKSST Holding Company, LLC, a related party through common ownership, Guardian Prop 3, LLC, MA SB Prop Holdings, LLC, and MA Somerset Prop Holdings, LLC. The Company had an outstanding balance of \$5,500,000 at December 31, 2022.

7. LEASES

Guardian leases property located at 88 North Main Street, Brockton, Massachusetts from Guardian Prop 3, LLC. The lease is recorded as a finance lease and required monthly payments of \$77,820 through 2022.

Somerset leases property located at 455 Brayton Avenue, Somerset, Massachusetts from MA Somerset Prop Holdings, LLC. The lease is recorded as a finance lease and required monthly payments of \$91,353 through 2022.

Brayton leases property located at 4901 North Main Street, Fall River, Massachusetts from MA SB Prop Holdings, LLC. The lease is recorded as a finance lease and required monthly payments of \$123,835 through 2022.

The above lease payments escalate annually pursuant to the lease agreements which all expire in May 2042. The members of the Company guarantee lease payments to the landlords for a period of twelve months following the occurrence of a lease default. In the event of a lease default, the landlords may elect to terminate the leases and exercise their remedies pursuant to the agreements, including taking over the operation of the Guardian, Somerset or Brayton or to have the operation taken over by its designee. The leases include cross default provisions whereby if certain related party skilled nursing facilities default on their lease obligations, it is deemed a default of the Company's lease obligations. The Company has not been notified of any lease defaults as of the date of these financial statements.

Guardian leases copiers which are recorded as a financing lease and requires monthly payments of \$2,300 through August 2026.

Somerset leases copiers which are recorded as a financing lease and requires monthly payments of \$2,100 through October 2026.

Brayton leases copiers which are recorded as a financing lease and requires monthly payments of \$2,100 through July 2026.

The components of total lease costs for the period ended December 31, 2022 are as follows:

Financing lease cost	
Amortization of ROU assets	\$ 1,803,254
Interest on lease liabilities	1,094,139
Variable lease cost	<u>256,652</u>
Total lease cost	<u>\$ 3,154,045</u>

7. LEASES (Continued)

Maturities of lease liabilities as of December 31, 2022 are as follows:

2023	\$ 3,937,066
2024	4,523,081
2025	4,849,296
2026	4,968,501
2027	5,061,515
Thereafter	<u>92,290,852</u>
Total lease payments	115,630,311
Less: interest	<u>(31,374,358)</u>
Total present value of lease liabilities	84,255,953
Less: current portion	<u>(1,336,160)</u>
Total long-term portion of lease liabilities	<u>\$ 82,919,793</u>

Supplemental cash flow information related to leases for the period ended December 31, 2022 are as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from finance leases	<u>\$ 1,094,139</u>
Financing cash flows from finance leases	<u>\$ 403,682</u>

ROU assets obtained in exchange for lease obligations:

Finance leases	<u>\$ 84,659,635</u>
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Other information related to leases as of December 31, 2022 is as follows:

Weighted average remaining lease term:

Finance leases	19.36 years
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Weighted discount rate:

Finance leases	3.12%
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8. RELATED PARTY TRANSACTIONS

Best Healthcare Solutions Services Group (Best Healthcare), a related party through common ownership, provided administrative functions consistent with operational oversight of the Company during an interim period of June through July 2022 prior to operations transfer at a fee equal 5.00% of the month's gross revenues. The Company has \$175,209 due to Best Healthcare at December 31, 2022 included in due to related parties in the accompanying combined balance sheet for unpaid administrative fees through the interim period. The Company did not incur any expenses with Best Healthcare for the period ended December 31, 2022.

Certain members of the Company are compensated through payroll for services provided. The Company incurred expenses of \$190,385 for the period ended December 31, 2022 which are included in payroll in the accompanying combined statement of operations.

8. RELATED PARTY TRANSACTIONS (Continued)

GCHMO AR, LLC d/b/a GCHMO Case Management, LLC (GCHMO), a related party through common ownership, provides third party payor contract negotiation and renewal services to the Company. The Company incurred expenses of \$31,100 with GCHMO for the period ended December 31, 2022, and are included in purchased services in the accompanying combined statements of operations.

Amounts due to/from related parties represent non-interest-bearing cash advances based on cash flow needs between entities related through common ownership.

Amounts due from related parties consisted of the following at December 31, 2022:

Charwell House SNF Operations BHC LLC	\$ 175,489
Kimwell Nursing SNF Operations BHC LLC	<u>1,186,073</u>
	<u>\$ 1,361,562</u>

Amounts due to related parties consisted of the following at December 31, 2022:

Member	\$ 846,466
Best Healthcare	<u>175,209</u>
	<u>\$ 1,021,675</u>

9. DEFINED CONTRIBUTION PLAN

The Company participates in the Best Care Services 401(k) Retirement Plan (the "Plan") for all eligible employees. The Plan allows for discretionary non-elective employer contributions. There were no non-elective employer contributions for the period ended December 31, 2022.

10. COMMITMENTS AND CONTINGENCIES

The Company, Somerset, Sarah Brayton Guardian Prop 3, MA Somerset Prop Holdings, LLC, and MA SB Prop Holdings, LLC (collectively, the "Borrowers") are joint borrowers on a \$24,960,000 note payable and \$8,000,000 note payable.

SBSM 3 Holdings, LLC is the sole member of MA SB Prop Holdings, LLC and MA Somerset Prop Holdings, LLC. G3 Holdings, LLC is the sole member of Guardian Prop 3, LLC. Guardian leases its property from Guardian Prop 3, LLC, Somerset leases its property from MA Somerset Prop Holdings, LLC, and Sarah Brayton leases property from MA SB Prop Holdings, LLC as discussed in Note 7. The notes bear interest at one-month LIBOR plus 3.75%, require monthly principal payments to be deposited into a sinking fund, and is due June 1, 2026. The notes are collateralized by substantially all assets of the Borrowers, including a mortgage on the properties located at 888 North Main Street, Brockton, Massachusetts, 4901 North Main Street, Fall River, Massachusetts, 455 Brayton Avenue, Somerset, Massachusetts, and a pledge of the membership interest in CKSST Holdings, LLC, G3 Holdings, LLC, and SBSM 3 Holdings, LLC. The note is guaranteed by SBSM 3 Holdings, LLC and its members and a member of G3 Holdings, LLC. The note payable requires the Borrowers to maintain certain financial covenants. The outstanding balance on the note payable was \$32,960,000 at December 31, 2022.

11. BUSINESS COMBINATION

On August 1, 2022, Guardian, Somerset and Brayton entered into operations transfer agreements with Guardian Op 1, LLC, Revolution at Somerset Point, LLC, and Revolution at Sarah Brayton Place, LLC, respectively. The Company acquired property and equipment and did not pay any consideration as part of the transaction, resulting in a gain on bargain purchase of \$236,477.

12. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2022</u>
Noncash investment and financing activities:	
ROU assets obtained in	
exchange for lease obligations	<u>\$ 84,659,635</u>
Cash paid during the period for interest	<u>\$ 61,026</u>

13. SUBSEQUENT EVENTS

In August 2023, the Company's line of credit was amended. The amendment extended the maturity date to December 1, 2023.

The Company evaluated subsequent events through October 11, 2023, which is the date these financial statements were available to be issued.

THE GUARDIAN SNF OPERATIONS BHC LLC
SOMERSET RIDGE SNF OPERATIONS BHC LLC
SARAH S BRAYTON SNF OPERATIONS BHC LLC

COMBINING BALANCE SHEETS
DECEMBER 31, 2022

	<u>Guardian</u>	<u>Somerset</u>	<u>Sarah Brayton</u>	<u>Total</u>	<u>Eliminating Entries</u>	<u>Combined Total</u>
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 565,815	\$ 925,324	\$ 897,248	\$ 2,388,387	\$ -	\$ 2,388,387
Accounts receivable, net	2,260,069	2,090,112	2,596,912	6,947,093	-	6,947,093
Prepaid expenses and other current assets	46,120	140,567	145,010	331,697	-	331,697
Total current assets	<u>2,872,004</u>	<u>3,156,003</u>	<u>3,639,170</u>	<u>9,667,177</u>	<u>-</u>	<u>9,667,177</u>
PROPERTY AND EQUIPMENT, net	<u>268,428</u>	<u>81,270</u>	<u>209,627</u>	<u>559,325</u>	<u>-</u>	<u>559,325</u>
OTHER ASSETS:						
Right-of-use assets, financing leases	22,032,937	25,837,572	34,985,872	82,856,381	-	82,856,381
Due from related parties	3,912,926	(608,397)	205,274	3,509,803	(2,148,241)	1,361,562
Resident funds held in trust	60,637	74,888	98,985	234,510	-	234,510
Total other assets	<u>26,006,500</u>	<u>25,304,063</u>	<u>35,290,131</u>	<u>86,600,694</u>	<u>(2,148,241)</u>	<u>84,452,453</u>
Total assets	<u>\$ 29,146,932</u>	<u>\$ 28,541,336</u>	<u>\$ 39,138,928</u>	<u>\$ 96,827,196</u>	<u>\$ (2,148,241)</u>	<u>\$ 94,678,955</u>
LIABILITIES AND MEMBER'S DEFICIT						
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	\$ 1,245,545	\$ 1,822,536	\$ 2,171,134	\$ 5,239,215	\$ -	\$ 5,239,215
Accrued payroll and related liabilities	529,596	429,100	685,070	1,643,766	-	1,643,766
Accrued interest	36,672	-	-	36,672	-	36,672
Financing lease liability, current portion	362,021	417,011	557,128	1,336,160	-	1,336,160
Line of credit	5,500,000	-	-	5,500,000	-	5,500,000
Total current liabilities	<u>7,673,834</u>	<u>2,668,647</u>	<u>3,413,332</u>	<u>13,755,813</u>	<u>-</u>	<u>13,755,813</u>
LONG-TERM LIABILITIES:						
Financing lease liability, net of current portion	22,042,896	25,856,880	35,020,017	82,919,793	-	82,919,793
Due to related parties	252,151	1,578,628	1,339,137	3,169,916	(2,148,241)	1,021,675
Resident funds held in trust	60,637	74,888	98,985	234,510	-	234,510
Total long-term liabilities	<u>22,355,684</u>	<u>27,510,396</u>	<u>36,458,139</u>	<u>86,324,219</u>	<u>(2,148,241)</u>	<u>84,175,978</u>
Total liabilities	<u>30,029,518</u>	<u>30,179,043</u>	<u>39,871,471</u>	<u>100,080,032</u>	<u>(2,148,241)</u>	<u>97,931,791</u>
MEMBER'S DEFICIT	<u>(882,586)</u>	<u>(1,637,707)</u>	<u>(732,543)</u>	<u>(3,252,836)</u>	<u>-</u>	<u>(3,252,836)</u>
Total liabilities and member's deficit	<u>\$ 29,146,932</u>	<u>\$ 28,541,336</u>	<u>\$ 39,138,928</u>	<u>\$ 96,827,196</u>	<u>\$ (2,148,241)</u>	<u>\$ 94,678,955</u>

The accompanying notes are an integral part of these schedules.

THE GUARDIAN SNF OPERATIONS BHC LLC
SOMERSET RIDGE SNF OPERATIONS BHC LLC
SARAH S BRAYTON SNF OPERATIONS BHC LLC

COMBINING STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Guardian</u>	<u>Somerset</u>	<u>Sarah Brayton</u>	<u>Total</u>	<u>Eliminating</u> <u>Entries</u>	<u>Combined</u> <u>Total</u>
REVENUES:						
Resident care revenues	\$ 5,032,978	\$ 4,530,307	\$ 7,885,250	\$ 17,448,535	\$ -	\$ 17,448,535
Other revenue	<u>116,631</u>	<u>88,490</u>	<u>157,258</u>	<u>362,379</u>	<u>-</u>	<u>362,379</u>
Total revenues	<u>5,149,609</u>	<u>4,618,797</u>	<u>8,042,508</u>	<u>17,810,914</u>	<u>-</u>	<u>17,810,914</u>
OPERATING EXPENSES:						
Payroll	2,747,956	2,160,772	3,070,046	7,978,774	-	7,978,774
Payroll taxes and employee benefits	283,936	250,416	336,893	871,245	-	871,245
Supplies and other expenses	1,261,895	1,404,525	2,049,440	4,715,860	-	4,715,860
Purchased services	526,906	1,229,589	1,716,793	3,473,288	-	3,473,288
Nursing facility user fee	285,848	283,038	346,308	915,194	-	915,194
Interest	388,577	341,172	462,088	1,191,837	-	1,191,837
Bad debt	125,330	93,665	99,157	318,152	-	318,152
Depreciation and amortization	<u>497,963</u>	<u>567,254</u>	<u>770,660</u>	<u>1,835,877</u>	<u>-</u>	<u>1,835,877</u>
Total operating expenses	<u>6,118,411</u>	<u>6,330,431</u>	<u>8,851,385</u>	<u>21,300,227</u>	<u>-</u>	<u>21,300,227</u>
LOSS FROM OPERATIONS	<u>(968,802)</u>	<u>(1,711,634)</u>	<u>(808,877)</u>	<u>(3,489,313)</u>	<u>-</u>	<u>(3,489,313)</u>
GAIN ON BARGAIN PURCHASE	<u>86,216</u>	<u>73,927</u>	<u>76,334</u>	<u>236,477</u>	<u>-</u>	<u>236,477</u>
NET LOSS	<u>\$ (882,586)</u>	<u>\$ (1,637,707)</u>	<u>\$ (732,543)</u>	<u>\$ (3,252,836)</u>	<u>\$ -</u>	<u>\$ (3,252,836)</u>

The accompanying notes are an integral part of these schedules.