

**CHARWELL HOUSE SNF OPERATIONS BHC LLC AND  
KIMWELL NURSING 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  
Charwell House SNF Operations BHC LLC  
and Kimwell Nursing SNF Operations BHC LLC

### **Opinion**

We have audited the accompanying combined financial statements of Charwell House SNF Operations BHC LLC and Kimwell Nursing 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.

**CHARWELL HOUSE SNF OPERATIONS BHC LLC AND  
KIMWELL NURSING SNF OPERATIONS BHC LLC**

**COMBINED BALANCE SHEETS  
DECEMBER 31, 2022**

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**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 990,052
Accounts receivable, net	4,664,171
Prepaid expenses and other current assets	<u>159,952</u>

Total current assets 5,814,175

PROPERTY AND EQUIPMENT, net 570,517

**OTHER ASSETS:**

Right-of-use assets, financing leases	44,531,078
Due from related parties	816,266
Resident funds held in trust	<u>128,945</u>

Total other assets 45,476,289

Total assets \$ 51,860,981

**LIABILITIES AND MEMBER'S DEFICIT**

**CURRENT LIABILITIES:**

Accounts payable and accrued expenses	\$ 2,909,847
Accrued payroll and related liabilities	900,215
Accrued interest	19,049
Financing lease liability, current portion	745,070
Line of credit	<u>3,000,000</u>

Total current liabilities 7,574,181

**LONG-TERM LIABILITIES:**

Financing lease liability, net of current portion	44,536,531
Due to related parties	3,589,118
Resident funds held in trust	<u>128,945</u>

Total long-term liabilities 48,254,594

Total liabilities 55,828,775

MEMBER'S DEFICIT (3,967,794)

Total liabilities and member's deficit \$ 51,860,981

The accompanying notes are an integral part of these statements.

**CHARWELL HOUSE SNF OPERATIONS BHC LLC AND  
KIMWELL NURSING SNF OPERATIONS BHC LLC**

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

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REVENUES:

Resident care revenues	\$ 9,876,427
Other revenue	<u>227,130</u>

Total revenues	<u>10,103,557</u>
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OPERATING EXPENSES:

Payroll	4,855,064
Payroll taxes and employee benefits	553,072
Supplies and other expenses	2,146,806
Purchased services	2,166,330
Nursing facility user fee	555,086
Interest	670,348
Bad debt	2,661,240
Depreciation and amortization	<u>1,013,881</u>

Total operating expenses	<u>14,621,827</u>
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LOSS FROM OPERATIONS	<u>(4,518,270)</u>
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GAIN ON BARGAIN PURCHASE	<u>550,476</u>
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NET LOSS	<u><u>\$ (3,967,794)</u></u>
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The accompanying notes are an integral part of these statements.

**CHARWELL HOUSE SNF OPERATIONS BHC LLC AND  
KIMWELL NURSING SNF OPERATIONS BHC LLC**

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

	Total Deficit
Balance - August 1, 2022	\$ -
Net loss	<u>(3,967,794)</u>
Balance - December 31, 2022	<u>\$ (3,967,794)</u>

The accompanying notes are an integral part of these statements.

**CHARWELL HOUSE SNF OPERATIONS BHC LLC AND  
KIMWELL NURSING SNF OPERATIONS BHC LLC**

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

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**CASH FLOW FROM OPERATING ACTIVITIES:**

Net loss	\$ (3,967,794)
Adjustments to reconcile net loss to net cash flow from operating activities:	
Bad debt	2,661,240
Depreciation	35,037
Amortization of right-of-use assets	978,844
Gain on bargain purchase	(550,476)
Changes in:	
Accounts receivable, net	(5,025,251)
Prepaid expenses and other current assets	(2,460,112)
Accounts payable and accrued expenses	2,909,847
Accrued payroll and related liabilities	900,215
Accrued interest	19,049
	<hr/>
Net cash flow from operating activities	<hr/> (4,499,401)

**CASH FLOW FROM INVESTING ACTIVITIES:**

Purchase of property and equipment	<hr/> (55,078)
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**CASH FLOW FROM FINANCING ACTIVITIES:**

Net proceeds from line of credit	3,000,000
Payments of finance lease liabilities	(228,321)
Advances from related parties	<hr/> 2,772,852
	<hr/>
Net cash flow from financing activities	<hr/> 5,544,531

CHANGE IN CASH AND CASH EQUIVALENTS	990,052
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CASH AND CASH EQUIVALENTS - beginning of year	<hr/> -
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CASH AND CASH EQUIVALENTS - end of year	<hr/> <hr/> \$ 990,052
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The accompanying notes are an integral part of these statements.

# **CHARWELL HOUSE SNF OPERATIONS BHC LLC AND KIMWELL NURSING SNF OPERATIONS BHC LLC**

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

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### **1. SCOPE OF BUSINESS**

Charwell House SNF Operations BHC LLC ("Charwell") is a 124-bed skilled nursing facility located in Norwood, Massachusetts, licensed by the State of Massachusetts.

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

Kimwell Nursing SNF Operations BHC LLC ("Kimwell") is a 124-bed skilled nursing facility located in Fall River, Massachusetts, licensed by the State of Massachusetts.

Kimwell began operations by acquiring the operations of the skilled nursing facility on August 1, 2022 through an operations transfer agreement with Revolution Kimwell, 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 Charwell and Kimwell (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.

#### **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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **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.

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Leases (Continued)**

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**

Charwell and Kimwell are treated as a 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 Revolution Charwell, LLC and Revolution Kimwell, LLC on August 1, 2022. The Company incurred a net loss from operations of \$4,518,270 for the period ended December 31, 2022. At December 31, 2022, the Company has an accumulation of a member's deficit totaling \$3,967,794 and a working capital deficit of \$1,760,006, which includes a \$3,000,000 line of credit. In addition, the Company had outflows of cash from operating activities of \$4,499,401 for the period ended December 31, 2022. The cash used in operating activities was supported by cash inflows from financing activities totaling \$5,544,531 for the period ended December 31, 2022. Shortly after acquisition, Charwell was notified of an admission freeze on September 14, 2022 which was lifted on January 4, 2023 for compliance matters. The admission freeze resulted in occupancy at Charwell of approximately 68% 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. 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	\$ 3,220,553
Medicare	933,990
Self-pay	194,952
Other	<u>704,140</u>
	5,053,635
Less: Allowance for doubtful accounts	<u>(389,464)</u>
Accounts receivable, net	<u>\$ 4,664,171</u>

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

Medicaid	\$ 3,958,788
Medicare	2,828,427
Self-pay	869,993
Other	<u>1,974,410</u>
Total current room and board charges	9,631,618
Ancillary services	<u>244,809</u>
Total resident care revenues	<u>\$ 9,876,427</u>

The Company derives approximately 69% 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	\$ 8,816
Medical and computer equipment	<u>596,738</u>
	605,554
Less: Accumulated depreciation	<u>(35,037)</u>
Property and equipment, net	<u>\$ 570,517</u>

## 6. LINE OF CREDIT

The Company, Revolution Charlwell, LLC and Revolution Kimwell, LLC are joint borrowers on a \$3,000,000 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 June 30, 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, Revolution Charlwell, LLC, and Revolution Kimwell, LLC. The Company had an outstanding balance of \$3,000,000 at December 31, 2022.

## 7. LEASES

Charwell leases property located at 305 Walpole Street, Norwood, Massachusetts from MA CHA Holdings, LLC.

Kimwell leases property located at 495 New Bost Road, Fall River, Massachusetts from MA KIM Holdings, LLC.

The leases are recorded as finance leases and required monthly payments of \$78,496 each through 2022. The lease payments escalate annually pursuant to the lease agreements which 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 Charwell or Kimwell 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.

Charwell leases copiers which are recorded as a financing lease and requires monthly payments of \$2,400 through December 2026.

Charwell leases a vehicle which is recorded as a financing lease and requires monthly payments of \$1,433 through August 2026.

Kimwell leases copiers which are recorded as a financing lease and requires monthly payments of \$2,400 through February 2027.

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

Financing lease cost	
Amortization of ROU assets	\$ 978,844
Interest on lease liabilities	587,806
Variable lease cost	<u>105,631</u>
Total lease cost	<u>\$ 1,672,281</u>

## 7. LEASES (Continued)

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

2023	\$ 2,141,864
2024	2,455,849
2025	2,630,634
2026	2,701,577
2027	2,721,088
Thereafter	<u>49,449,148</u>
Total lease payments	62,100,160
Less: Interest	<u>(16,818,559)</u>
Total present value of lease liabilities	45,281,601
Less: Current portion	<u>(745,070)</u>
Total long-term portion of lease liabilities	<u>\$ 44,536,531</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>\$ 587,806</u>
Financing cash flows from finance leases	<u>\$ 228,321</u>

ROU assets obtained in exchange for lease obligations:

Finance leases	<u>\$ 45,509,922</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	19.32 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 to 5.00% of the month's gross revenues. The Company has \$121,646 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 \$126,923 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 \$22,850 with GCHMO for the period ended December 31, 2022, and are included in purchased services in the accompanying combined statement 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:

Sarah S Brayton SNF Operations BHC LLC	\$ 207,779
Somerset Ridge SNF Operations BHC LLC	608,397
Park Avenue SNF Operations Holdings, LLC	<u>90</u>
	<u>\$ 816,266</u>

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

Member	\$ 853,534
Best Healthcare	557,846
The Guardian SNF Operations BHC LLC	<u>2,177,738</u>
	<u>\$ 3,589,118</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

Effective February 1, 2023, the Company replaced Revolution Charwell, LLC and Revolution Kimwell, LLC as parties to a financing obligation, resulting in the Company, MA CHA Holdings, LLC, MA KIM Holdings, LLC and MA Prop 3, LLC (collectively, the "Borrowers") being joint borrowers on a \$26,800,000 note payable.

MA Prop 3, LLC is the sole member of MA CHA Holdings, LLC and MA KIM Holdings, LLC. Charwell leases its property from MA CHA Holdings, LLC and Kimwell leases property from MA KIM Holdings, LLC as discussed in Note 7. The note bears interest at one-month LIBOR plus 3.00%, requires monthly principal payments based on a 25-year amortization schedule, and is due June 1, 2023. The note offers two one-year extension options which include an extension fee of .25% of the outstanding loan amount at the extension date. The note is collateralized by substantially all assets of the Borrowers, including a mortgage on the properties located at 305 Walpole Street, Norwood, Massachusetts and 495 New Boston Road, Fall River, Massachusetts, and a pledge of the membership interest in MA CHA Holdings, LLC and MA KIM Holdings, LLC by MA Prop 3, LLC. The note is guaranteed by members of the MA Prop 3, LLC. The note payable requires the Borrowers to maintain certain financial covenants. The outstanding balance on the note payable was \$25,332,592 at December 31, 2022.

## 10. COMMITMENTS AND CONTINGENCIES (Continued)

Due to the various collateral arrangements and assignment of leases and rents, the Company's management does not expect there to be significant financial implications of the \$25,332,592 maturity date to the Company's operations for a period twelve months from the date of these financial statements.

## 11. BUSINESS COMBINATION

On August 1, 2022, Charwell and Kimwell entered into an operations transfer agreements with Revolution Charlwell, LLC and Revolution Kimwell, 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 \$550,476.

Subsequent to the operations transfer, the Company incurred substantial costs related to the prior ownership period that were not included in the assumed liabilities pursuant to the operations transfer agreement. The Company recorded \$2,300,160 of amounts due from Revolution Charlwell, LLC related to these costs for the period ended December 31, 2022. The Company determined that these amounts were not collectible and recorded bad debt expense of \$2,300,160 for the period ended December 31, 2022.

## 12. SUPPLEMENTAL CASH FLOW INFORMATION

2022

Noncash investment and financing activities:

ROU assets obtained in

exchange for lease obligations

\$ 45,509.922

Cash paid during the period for interest

\$ 63.493

## 13. SUBSEQUENT EVENTS

In June 2023, the Company's line of credit was amended. The amendment included extending the maturity date to August 31, 2023, releasing Revolution Charlwell, LLC and Revolution Kimwell, LLC from their obligations under the note, and removed the members of Revolution Charlwell, LLC and Revolution Kimwell, LLC as guarantors.

In June 2023, the Company's obligation as joint borrower on the \$26,800,000 note payable was amended to extend the maturity date to September 1, 2023. In September 2023, the note payable was further amended to extend the maturity date to March 1, 2024.

In August 2023, the Company's line of credit was amended to extend the maturity date to March 1, 2024.

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



**CHARWELL HOUSE SNF OPERATIONS BHC LLC**  
**KIMWELL NURSING SNF OPERATIONS BHC LLC**
**COMBINING BALANCE SHEETS**  
**DECEMBER 31, 2022**

	Charwell House	Kimwell	Total	Eliminating Entries	Combined Total
<b>ASSETS</b>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 390,405	\$ 599,647	\$ 990,052	\$ -	\$ 990,052
Accounts receivable, net	1,620,529	3,043,642	4,664,171	-	4,664,171
Prepaid expenses and other current assets	75,202	84,750	159,952	-	159,952
Total current assets	2,086,136	3,728,039	5,814,175	-	5,814,175
PROPERTY AND EQUIPMENT, net	395,406	175,111	570,517	-	570,517
OTHER ASSETS:					
Right-of-use assets, financing leases	22,295,448	22,235,630	44,531,078	-	44,531,078
Due from related parties	1,417,458	(410,627)	1,006,831	(190,565)	816,266
Resident funds held in trust	55,294	73,651	128,945	-	128,945
Total other assets	23,768,200	21,898,654	45,666,854	(190,565)	45,476,289
Total assets	\$ 26,249,742	\$ 25,801,804	\$ 52,051,546	\$ (190,565)	\$ 51,860,981
<b>LIABILITIES AND MEMBER'S DEFICIT</b>					
CURRENT LIABILITIES:					
Accounts payable and accrued expenses	\$ 1,121,883	\$ 1,787,964	\$ 2,909,847	\$ -	\$ 2,909,847
Accrued payroll and related liabilities	409,737	490,478	900,215	-	900,215
Accrued interest	19,049	-	19,049	-	19,049
Financing lease liability, current portion	380,448	364,622	745,070	-	745,070
Line of credit	3,000,000	-	3,000,000	-	3,000,000
Total current liabilities	4,931,117	2,643,064	7,574,181	-	7,574,181
LONG-TERM LIABILITIES:					
Financing lease liability, net of current portion	22,290,425	22,246,106	44,536,531	-	44,536,531
Due to related parties	2,508,326	1,271,357	3,779,683	(190,565)	3,589,118
Resident funds held in trust	55,294	73,651	128,945	-	128,945
Total long-term liabilities	24,854,045	23,591,114	48,445,159	(190,565)	48,254,594
Total liabilities	29,785,162	26,234,178	56,019,340	(190,565)	55,828,775
MEMBER'S DEFICIT	(3,535,420)	(432,374)	(3,967,794)	-	(3,967,794)
Total liabilities and member's deficit	\$ 26,249,742	\$ 25,801,804	\$ 52,051,546	\$ (190,565)	\$ 51,860,981

The accompanying notes are an integral part of these schedules.

**CHARWELL HOUSE SNF OPERATIONS BHC LLC**  
**KIMWELL NURSING SNF OPERATIONS BHC LLC**
**COMBINING STATEMENTS OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Charwell House	Kimwell	Total	Eliminating Entries	Combined Total
REVENUES:					
Resident care revenues	\$ 3,990,113	\$ 5,886,314	\$ 9,876,427	\$ -	\$ 9,876,427
Other revenue	<u>84,377</u>	<u>142,753</u>	<u>227,130</u>	<u>-</u>	<u>227,130</u>
Total revenues	<u>4,074,490</u>	<u>6,029,067</u>	<u>10,103,557</u>	<u>-</u>	<u>10,103,557</u>
OPERATING EXPENSES:					
Payroll	2,444,614	2,410,450	4,855,064	-	4,855,064
Payroll taxes and employee benefits	291,903	261,169	553,072	-	553,072
Supplies and other expenses	1,053,335	1,093,471	2,146,806	-	2,146,806
Purchased services	629,727	1,536,603	2,166,330	-	2,166,330
Nursing facility user fee	240,807	314,279	555,086	-	555,086
Interest	376,792	293,556	670,348	-	670,348
Bad debt	2,452,105	209,135	2,661,240	-	2,661,240
Depreciation and amortization	<u>517,335</u>	<u>496,546</u>	<u>1,013,881</u>	<u>-</u>	<u>1,013,881</u>
Total operating expenses	<u>8,006,618</u>	<u>6,615,209</u>	<u>14,621,827</u>	<u>-</u>	<u>14,621,827</u>
LOSS FROM OPERATIONS	<u>(3,932,128)</u>	<u>(586,142)</u>	<u>(4,518,270)</u>	<u>-</u>	<u>(4,518,270)</u>
GAIN ON BARGAIN PURCHASE	<u>396,708</u>	<u>153,768</u>	<u>550,476</u>	<u>-</u>	<u>550,476</u>
NET LOSS	<u>\$ (3,535,420)</u>	<u>\$ (432,374)</u>	<u>\$ (3,967,794)</u>	<u>\$ -</u>	<u>\$ (3,967,794)</u>

The accompanying notes are an integral part of these schedules.