RIVERS EDGE SNF LLC
AND
CRANFORD SNF LLC

COMBINED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2023

Combined Financial Statements and Supplementary Information

RIVERS EDGE SNF LLC AND CRANFORD SNF LLC

DECEMBER 31, 2023

TABLE OF CONTENTS

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Members of
Rivers Edge SNF LLC and Cranford SNF LLC

We have reviewed the accompanying combined financial statements of Rivers Edge SNF LLC and Cranford SNF LLC (New Jersey limited liability companies) (collectively, the "Company"), which comprise the combined balance sheet as of December 31, 2023, and the related combined statements of income, changes in members' equity, and cash flows for the year then ended, and the related notes to the combined financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the combined financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying combined financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Pease Bell CPAs, LLC

Cleveland, Ohio
March 15, 2024

RIVERS EDGE SNF LLC AND CRANFORD SNF LLC

COMBINED BALANCE SHEET

DECEMBER 31, 2023

ASSETS

CURRENT ASSETS		
Cash	$	1,586,346
Resident cash - resident trust funds		83,040
Resident accounts receivable, net of allowance for credit losses of $1,278,406		5,138,987
Other receivables		748,864
Prepaid expenses and other current assets		441,130
TOTAL CURRENT ASSETS		7,998,367
PROPERTY AND EQUIPMENT, NET		709,583
OTHER ASSETS		
Deposits		2,814
Advances receivable - affiliates		3,275,919
Escrow deposits		299,243
Operating lease right-of-use assets, net		44,346,197
TOTAL OTHER ASSETS		47,924,173
	$	56,632,123

See accompanying notes and independent accountant's review report.

RIVERS EDGE SNF LLC AND CRANFORD SNF LLC

COMBINED BALANCE SHEET

DECEMBER 31, 2023

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES	
Resident trust funds liability	$ 83,040
Line of credit	1,075,000
Current maturities of operating lease liabilities	1,165,033
Accounts payable	911,822
Accounts payable - related party	197,051
Accrued expenses	883,105
Accrued payroll and related costs	1,027,808
TOTAL CURRENT LIABILITIES	5,342,859
LONG-TERM LIABILITIES	
Advances payable - affiliates	196,957
Operating lease liabilities, net of current maturities	44,553,988
TOTAL LONG-TERM LIABILITIES	44,750,945
TOTAL LIABILITIES	50,093,804
MEMBERS' EQUITY	6,538,319
	$ 56,632,123

RIVERS EDGE SNF LLC AND CRANFORD SNF LLC

COMBINED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2023

REVENUES		
Net resident service revenues	$	35,814,468
Other revenue		71,917
TOTAL REVENUES		35,886,385
OPERATING EXPENSES		
Nursing		13,720,792
General and administrative		5,095,895
Lease expense		4,162,260
Dietary		2,709,102
Ancillary services		2,196,989
Management fee		1,970,258
Bed tax assessment		1,293,747
Housekeeping and laundry		1,215,888
Provision for expected credit losses		1,067,905
Facility maintenance		595,031
Activities		478,548
Social services		260,373
Depreciation and amortization		106,155
Employee Retention Credit		(2,803,367)
TOTAL OPERATING EXPENSES		32,069,576
INCOME FROM OPERATIONS		3,816,809
OTHER INCOME (EXPENSE)		
Lease income		200,840
Interest income		152,274
Interest expense		(187,747)
TOTAL OTHER INCOME		165,367
NET INCOME	$	3,982,176

See accompanying notes and independent accountant's review report.

RIVERS EDGE SNF LLC AND CRANFORD SNF LLC

COMBINED STATEMENT OF CHANGES IN MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2023

BALANCE - DECEMBER 31, 2022	$ 6,261,943
Net income	3,982,176
Member distributions	(3,705,800)
BALANCE - DECEMBER 31, 2023	$ 6,538,319

See accompanying notes and independent accountant's review report.

RIVERS EDGE SNF LLC AND CRANFORD SNF LLC

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 3,982,176
Adjustments to reconcile net income to net cash and restricted cash provided by operating activities:	
Depreciation and amortization	106,155
Provision for expected credit losses	1,067,905
Changes in operating assets and liabilities:	
Resident accounts receivable	850,844
Other receivables	1,219,328
Prepaid expenses and other current assets	(76,078)
Security deposits	6,612
Operating lease right-of-use assets and liabilities, net	471,724
Accounts payable	(250,275)
Accounts payable - related party	35,297
Accrued expenses	(738,485)
Accrued payroll and related costs	(2,031)
Resident trust funds liability	(36,973)
NET CASH AND RESTRICTED CASH PROVIDED BY OPERATING ACTIVITIES	6,636,199
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(317,468)
Advances to affiliates, net	(1,254,630)
NET CASH AND RESTRICTED CASH USED IN INVESTING ACTIVITIES	(1,572,098)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net repayments on line of credit	(925,000)
Member distributions	(3,705,800)
Net repayments on advances payable - affiliates	(331,692)
NET CASH AND RESTRICTED CASH USED IN FINANCING ACTIVITIES	(4,962,492)
NET INCREASE IN CASH AND RESTRICTED CASH	101,609
CASH AND RESTRICTED CASH AT BEGINNING OF YEAR	1,867,020
CASH AND RESTRICTED CASH AT END OF YEAR	$ 1,968,629

See accompanying notes and independent accountant's review report.

RIVERS EDGE SNF LLC AND CRANFORD SNF LLC

NOTES TO COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of entities: Rivers Edge SNF LLC and Cranford SNF LLC (collectively, the "Company" or "Companies") are limited liability companies affiliated through common ownership that were incorporated in the state of New Jersey in February 2021. The Companies operate two skilled nursing facilities located in the state of New Jersey with a combined capacity of 338 beds as detailed below.

Legal Name of Entity	DBA Name of Entity	Facility Location	Licensed Beds
Rivers Edge SNF LLC	Waterfront Rehabilitation and Healthcare Center	Raritan, NJ	138
Cranford SNF LLC	Birchwood Rehabilitation and Healthcare Center	Cranford, NJ	200

Transfer of operations: Effective April 30, 2021, the Company assumed the facility operating licenses, Medicare and Medicaid provider numbers and agreements, and certain other facility contracts from an unrelated former operator of the facilities. No value was assigned to these intangible assets. The Company, at its sole discretion, hired the existing employees as of the date of transfer. Also, subsequent to the transfer of operations, certain accounts receivable of the Company were collected by the former operator and certain receivables of the former operator were collected by the Company. The net amount due from the former operator is $529,054 at December 31, 2023 and is reported within other receivables in the accompanying combined balance sheet.

Principles of combination: The accompanying combined financial statements include the accounts of the Companies, which are under common ownership and management; are co-borrowers on a line of credit (see Note 3); and are lessees under a master lease agreement (see Note 5). All significant transactions between the Companies have been eliminated in combination.

Basis of presentation: The accompanying combined financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Variable interest entities: The Company follows Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-17 "Targeted Improvements to Related Party Guidance for Variable Interest Entities", which allows a private company to elect, under certain circumstances, not to consolidate certain variable interest entities, including variable interest entities in common control leasing arrangements. Accordingly, the Company does not consolidate NJ Mazel Consulting LLC ("Mazel" or the "management company"), which is a commonly-controlled entity that manages the operations of the facilities.

Limited liability companies: As limited liability companies, no member, director, manager, agent or employee of the Companies are personally liable for the debts, obligations, or liabilities of the Companies whether arising in contract, tort, or otherwise, or for the acts or omissions of any other member, director, manager, agent, or employee of the Companies, unless the individual has signed a specific personal guarantee.

Concentrations of credit risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash deposits and accounts receivable. Cash deposits are maintained with a high quality financial institution, and the composition and maturities of temporary cash investments, if any, are regularly monitored by management. The Company controls credit risk associated with accounts receivable through its monitoring procedures and by establishing an allowance for credit losses when considered necessary.

The Company's operations are located in New Jersey and are economically dependent on the residents living in that geographic area. See Note 8 regarding concentrations in resident service revenues and resident accounts receivable.

Cash and cash equivalents: The Company considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents. As of December 31, 2023, there were no cash equivalents held. Cash, which consists of checking and savings accounts at a financial institution, may exceed the federal insurance limit from time to time; however, management does not believe that the Company is exposed to any substantial risk.

Restricted cash – resident trust funds: Resident trust funds consist of funds held in trust for residents' personal needs. These funds are maintained in cash accounts separate from the Company's operating cash accounts and a corresponding liability is recorded in current liabilities in the accompanying combined balance sheet.

Escrow deposits: The Company's escrow deposits consist of a capital expenditure reserve which is held and maintained by the lessor on behalf of the Company. This reserve is maintained at an amount considered by the Company to be adequate and in compliance with the lease agreement. Use of the reserve is restricted as defined in the lease agreement.

Resident accounts receivable: Resident accounts receivable represents amounts due from payors for amounts billed for resident services provided. The Company provides an allowance for credit losses that is estimated utilizing current accounts receivable aging reports, historical collections data and other factors. In addition, the Company monitors collections and payments from payors and maintains an allowance based upon applying an expected credit loss rate to receivables based on the historical loss rate from similar payors adjusted for current conditions, including any specific payor collection issues identified, and forecasts of economic conditions. Management monitors these factors and determines the estimated provision for credit losses. Historical credit losses have generally resulted from uncollectible private balances, some uncollectible coinsurance and deductibles, and other factors. Receivables that are deemed to be uncollectible are written-off. The allowance for credit losses is assessed by management, with changes in estimated losses being recorded in the combined statement of income in the period identified. It is reasonably possible that the Company's estimate of the allowance for credit losses will change in the near term. At December 31, 2023, the allowance for credit losses totaled $1,278,406, which management believes is adequate.

Management believes that the historical loss information it has compiled is a reasonable basis on which to determine the expected credit losses for receivables because the composition of receivables as of December 31, 2023 is consistent with that used in developing the historical credit-loss percentages (i.e., the similar risk characteristics of its payors and its credit policies has not changed significantly over time). Changes to the historical loss rate have not been material to the financial statements. Management developed its estimate based on its analysis of historical losses and assessment of future expected losses.

The following table provides a reconciliation of the changes in the allowance for credit losses for 2023:

Allowance for credit losses – beginning of year	$	381,571
Additional provision for expected credit losses		1,067,905
Write-offs of receivables		(171,070)
Allowance for credit losses – end of year	$	1,278,406

Net resident service revenues: Net resident service revenues and the corresponding accounts receivable, are reported on an accrual basis as services are performed at their estimated net realizable amounts from residents, third-party payors, and others for services rendered.

The Company records revenues for inpatient services and the related receivables in the accounting records at the Company's established billing rates in the period the related services are rendered. The provision for contractual adjustments, which represents the difference between the established billing rates and predetermined reimbursement rates, is deducted from gross revenues to determine net revenues. These predetermined reimbursement rates may be based on a provider's actual costs subject to program ceilings and other limitations or on established rates based on acuity and services provided as determined by the federal and state-funded programs. Services provided to Medicare beneficiaries are based on clinical, diagnostic, and other factors. Services provided to Medicaid beneficiaries are paid at determined rates per day. The Company is exposed to the risk of changes in Medicare and Medicaid reimbursement rates.

Amounts earned under federal and state programs with respect to nursing home patients are subject to review by the third-party payors which may result in retroactive adjustments. In the opinion of management, adequate provision has been made for any adjustments that may result from such reviews. Retroactive adjustments, if any, are recorded when objectively determinable, generally within three years of the close of a reimbursement year depending upon the timing of appeals and third-party settlement reviews or audits, and final settlements are reported in operations in the year of settlement.

The Company records revenues for rehabilitation services and other ancillary services and the related receivables at the time services or products are provided or delivered to the customer. Upon delivery of services or products, the Company has no additional performance obligation to the customer.

The Company follows Accounting Standards Codification ("ASC") 606 for all contracts. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services. ASC 606 requires companies to exercise judgment and recognize revenue in accordance with the standard's core principle by applying the following five steps:

Step 1: Identify the contract with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Performance obligations are promises made in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company has concluded that its contracts with patients and residents represent a bundle of distinct services that are substantially the same, with the same pattern of transfer to the customer. Accordingly, the promise to provide quality care is accounted for as a single performance obligation with revenue recognized at a point-in-time as services are provided.

The Company performs analyses using the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. These analyses incorporated consideration of reimbursements at varying rates from Medicaid, Medicare, Managed Care, Hospice, and Private Pay for services provided. It was determined that the contracts are not materially different within the following groups: Medicaid, Medicare, Managed Care, Hospice, and Private Pay.

In order to determine the transaction price, the Company estimates the amount of variable consideration at the beginning of the contract using the expected value method. The estimates consider (i) payor type, (ii) historical payment trends, (iii) the maturity of the portfolio, and (iv) geographic payment trends throughout a class of similar payors. The Company typically enters into agreements with third-party payors that provide for payments at amounts different from the established billing charges. These arrangement terms provide for subsequent settlement and cash flows that may occur well after the service is provided. The Company adjusts the estimates of variable consideration such that it is probable that a significant reversal of previously recognized revenue will not occur throughout the life of the contract. Changes in the Company's expectation of the amount it will receive from the patient or third-party payors will be recorded in revenue unless there is a specific event that suggests the patient or third-party payor no longer has the ability and intent to pay the amount due and, therefore, the changes in its estimate of variable consideration better represent an impairment, or credit loss. These estimates are re-assessed each reporting period, and any amounts allocated to a satisfied performance obligation are recognized as revenue or a reduction of revenue in the period in which the transaction price changes. The Company satisfies its performance obligation by providing quality of care services to its patients and residents on a daily basis until termination of the contract. The performance obligation is recognized on a daily basis, for which the services are provided. For these contracts, the Company has the right to consideration from the customer in an amount that directly corresponds with the value to the customer of the Company's performance to date. Therefore, the Company recognizes revenue based on the amount billable to the customer in accordance with the practical expedient in ASC 606-10-55-18. Additionally, because the Company applied ASC 606 using certain practical expedients, the Company elected not to disclose the aggregate amount of the transaction price for unsatisfied, or partially unsatisfied, performance obligations for all contracts with an original expected length of one year or less.

Disaggregation of Revenues and Accounts Receivable

The Company disaggregates revenue from contracts with customers by payor type. The Company notes that disaggregation of revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The payment terms and conditions within the Company's revenue-generating contracts vary by contract type and payor source. Payments are generally received within 30 to 90 days after billing.

Property and equipment: Property and equipment owned by the Company is stated at cost. Maintenance and repairs are expensed, while expenditures for renewals which prolong the lives of the assets are capitalized. For financial reporting purposes, depreciation and amortization of property and equipment is provided for by using the straight-line method based on the estimated service lives of the assets as follows:

Leasehold improvements	10 years
Computer hardware	5 years
Equipment	5-7 years

The cost of assets sold or retired and the related amounts of accumulated depreciation are removed from the accounts in the year of disposal. Any resulting profit or loss is reflected in current operations.

As described in Note 5, the Company leases the skilled nursing home facilities, and most of the furniture and equipment needed to operate the facilities, from an unrelated entity.

Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term, including renewal options that we are reasonably certain to exercise, or the estimated useful life of the improvement.

Impairment of long-lived assets: The Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company assesses the fair value of the assets based on the undiscounted future cash flow that the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying amount of the asset. When the Company identifies an impairment, it reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. Based on the Company's evaluation there is no impairment of these assets at December 31, 2023.

Compensated absences: Employees of the Company are entitled to paid vacation days depending on job classification, length of service, and hours worked. At December 31, 2023 the total amount accrued for compensated absences was $254,265 and is included in accrued payroll and related costs in the accompanying combined balance sheet.

Advertising costs: The Company expenses advertising costs in the period in which they are incurred. Advertising expenses totaled $133,573 in 2023.

Employee Retention Credit: The Coronavirus Aid, Relief, and Economic Security ("CARES") Act along with the Relief Act of 2021 and the American Rescue Plan Act of 2021 provide an Employee Retention Credit ("ERC"), which is a refundable tax credit against certain employment taxes. Eligible employers can qualify for a credit of up to $7,000 quarterly per employee. The tax credit is equal to 70% of qualified wages paid to employees during the first three quarters in 2021, capped at $10,000 of qualified wages per employee per quarter. To be eligible, the Company must (i) have had operations fully or partially suspended because of a shut-down order from a governmental authority related to the COVID-19 pandemic, or (ii) have had gross receipts decline by more than 20% in a calendar quarter, when compared to the same quarter in 2019.

During 2023, the Company determined it qualified for ERC for the first three quarters of 2021 totaling $2,803,367, which is recognized as a reduction of operating expenses in the accompanying combined statement of income. The Company received the full amount of the credit in 2023 along with approximately $125,000 of interest related to delays in ERC payments which is reported within interest income in the accompanying combined statement of income.

Laws and regulations concerning government programs, including the ERC, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Company's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Company's combined financial statements.

Income taxes: The Company is taxed under provisions of the Internal Revenue Code which provide for the Company's net income or loss to be included in the individual tax returns of the members for federal and state income tax purposes. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying financial statements. When applicable, local income taxes are accrued at the statutory rate.

Member distributions: In accordance with the Company's operating agreement, the Company generally makes distributions to fund the members' respective income tax liabilities resulting from the taxable income from the Company. Other discretionary distributions may also be made.

Recording of insured claims: When applicable, the Company records anticipated insurance claims liabilities and related insurance recoveries for medical malpractice claims and similar contingent liabilities in the accompanying combined balance sheet on a gross basis. Any estimated insurance recovery provided under the existing policy is reflected as a receivable on the same basis as the liability, subject to the need for a valuation allowance for credit losses. At December 31, 2023 there were no such receivables or liabilities.

Use of estimates: The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The most significant estimates relate to variable consideration for net resident service revenue recognition, assessing the expected credit losses of resident accounts receivable, legal and professional claims liabilities and receivables for related insurance recoveries, depreciation and amortization, asset valuations and useful lives. These estimates may be adjusted as more current information becomes available, and any adjustments could be significant.

Combined statement of cash flows: Interest paid in 2023 totaled $187,747.

The following table provides a reconciliation of cash, restricted cash, and escrow deposits reported within the combined balance sheet that sum to the total of the same such amounts shown on the combined statement of cash flows.

Cash	$ 1,586,346
Restricted cash – resident trust funds	83,040
Escrow deposits	299,243
Total cash and restricted cash shown in statement of cash flows	$ 1,968,629

Leases: The Company determines whether an agreement contains a lease at inception based on the Company's right to obtain substantially all of the economic benefits from the use of the identified asset and its right to direct the use of the identified asset. Operating leases are included in the operating lease right-of-use ("ROU") assets, current maturities of operating lease liabilities, and long-term operating lease liabilities in the accompanying combined balance sheet. Finance leases, when applicable, are included in property and equipment, current maturities of finance lease liability, and long-term finance lease liability in the accompanying combined balance sheet.

ROU assets represent the Company's right to use an underlying asset for the lease term, and operating lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the commencement date based on the present value of the lease payments over the lease term. Lease payments are discounted using the rate implicit in the lease or, if not readily available, the Company's incremental borrowing rate based on information available at the lease commencement. The incremental borrowing rate for a lease is the rate of interest the Company would have to pay on a collateralized basis to borrow an amount equal to the lease payments for the asset under similar terms. The operating lease ROU assets are increased by any prepaid lease payments and initial direct costs and reduced by any lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. Variable lease payments that depend on an index or a rate are included in the determination of ROU assets and lease liabilities using the index or rate at the lease commencement date. Variable lease payments that do not depend on an index or rate or resulting from changes in an index or rate subsequent to the lease commencement date, are recorded as lease expense in the period in which the obligation for the payment is incurred. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term and is included in operating expenses in the statement of income. For finance leases, the lessee recognizes interest expense and amortization of finance lease ROU assets. The Company's leases do not contain any residual value guarantees or material restrictive covenants.

The Company elected the short-term lease practical expedient, which allows the Company to not record an operating lease ROU asset and operating lease liability for any lease with a term of twelve months or less at lease commencement, and also elected the single component practical expedient for all asset classes, which allows the Company to include both lease and non-lease components associated with a lease as a single lease component when determining the value of the operating lease ROU assets and operating lease liability.

Recently adopted accounting standards: In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "*Measurement of Credit Losses on Financial Instruments"*, which significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the current expected credit loss model ("CECL"). Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Company that are subject to this standard are resident accounts receivable.

Effective January 1, 2023, the Company adopted the standard using the modified retrospective approach. The adoption did not have a material impact on the Company's financial statements and primarily resulted in new and enhanced disclosures only.

Subsequent events: In preparing these combined financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 15, 2024, the date the combined financial statements were available to be issued.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2023 consists of the following:

Leasehold improvements	$	462,608
Equipment		425,933
Computer and related		1,004
		889,545
Less - accumulated depreciation and amortization		179,962
	$	709,583

Depreciation and amortization expense for 2023 totaled $106,155.

NOTE 3 – REVOLVING LINE OF CREDIT

The Company entered into an agreement for a $4,500,000 line of credit which matured in March 2024. The Company is finalizing a one-year extension with the lender. Borrowings under the line bear interest at the greater of the Prime Rate (8.50% at December 31, 2023) plus 2.0%; or 5.50%. The interest rate at December 31, 2023 is 10.50%. The outstanding balance on the line of credit is $1,075,000 at December 31, 2023. Borrowings are collateralized by substantially all assets of the Company and are guaranteed by the members of the Company. The loan agreement contained certain restrictions and financial covenants with which the Company was in compliance with at December 31, 2023.

NOTE 4 – EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) profit-sharing plan covering substantially all employees of the Company. Participants may elect to defer a portion of their annual compensation by contributing to the 401(k) plan, subject to plan provisions. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Employer contributions are solely at the discretion of the Company's members. Employer contribution expense totaled approximately $6,740 in 2023 and is reported within general and administrative expense in the accompanying combined statement of income.

NOTE 5 – OPERATING LEASE

The Company leases the nursing home facilities, and substantially all the furniture and equipment needed to operate the facilities, via a master leasing arrangement with an unrelated lessor. The individual facility leases are accounted for as operating leases with an initial twenty-year lease term and collectively expire in 2041. The combined monthly base lease payments ranged from $304,500 to $309,067 in 2023. The base rent payments increase 1.5% on the commencement date anniversary until the lease expires. Prepaid rent is $149,338 at December 31, 2023 and is included in prepaid expenses and other current assets in the accompanying combined balance sheet.

The following table summarizes the components of the Company's lease expense recognized for the year ended December 31, 2023:

Operating lease expense	$ 4,162,260
Variable lease expense	-
Total operating lease expense	$ 4,162,260

The lease is on a triple net basis; therefore, the Company is responsible for all expenses related to the insurance and real estate taxes incurred on the property. Repairs and maintenance and utilities are also paid by the Company.

Renewal options are included in the calculation of the right-to-use asset and lease liability only if they are reasonably certain of exercise. Future minimum lease payments under noncancelable leases with initial or remaining lease terms in excess of one year as of December 31, 2023 are as follows:

2024	$ 3,745,900
2025	3,802,088
2026	3,859,116
2027	3,917,004
2028	3,975,756
Thereafter	54,218,812
Total minimum lease payments	73,518,676
Less: imputed interest	27,799,655
Present value of minimum lease payments	$ 45,719,021

The Company does not have any material leases that have been signed but have yet to commence as of December 31, 2023.

The following table presents other supplemental lease information at December 31, 2023:

Cash paid for amounts included in the measurement of lease liabilities	$ 3,690,536
Weighted average remaining lease term (years)	17.33
Weighted average discount rate	5.75%

The lease agreement contains certain restrictions, financial reporting requirements and financial ratio covenants. As of December 31, 2023, the Company was in compliance with the financial covenants.

As part of the transfer of operations agreement, Cranford SNF LLC has assumed an agreement to lease a portion of their facility to an unrelated third party. The agreement expires in August 2027 and requires annual lease payments of $200,840 and certain additional charges for maintenance and janitorial services. Lease income in 2023 of $200,840 is included in other income in the accompanying combined statement of income.

NOTE 6 – RELATED PARTY TRANSACTIONS

Advances receivable - affiliates: The Company has made cash advances to various entities related to the Company in order to accommodate certain cash flow needs of the affiliates. The advances are non-interest bearing and totaled $3,275,919 at December 31, 2023. This amount is classified as advances receivable - affiliates in the accompanying combined balance sheet. There are no contractual repayment terms, however, management does not expect to collect the balance within twelve months of the combined balance sheet date; therefore, the amounts in advances receivable - affiliates have been classified as a non-current asset.

Advances payable - affiliates: The Company has received cash advances from various entities related to the Company in order to accommodate certain cash flow needs of the Company. The advances are non-interest bearing and totaled $196,957 at December 31, 2023. These amounts are classified as advances payable - affiliates in the accompanying combined balance sheet. There are no contractual repayment terms, however, management does not expect to repay the balance within twelve months of the combined balance sheet date; therefore, the amounts in advances payable - affiliates have been classified as a non-current liability.

Management fees: The Company has management agreements with NJ Mazel Consulting LLC ("Mazel"). Pursuant to the agreement, Mazel provides consulting services related to the management and operation of nursing home facilities. The management fee, which is paid monthly, approximates 5% of total revenue. Management fee expense under this arrangement totaled $1,970,258 in 2023. The Company has unpaid Management fees due to Mazel totaling $197,051, which are included in accounts payable – related party in the accompanying combined balance sheet at December 31, 2023.

As described in Note 1, the Company does not consolidate the financial statements of the management company. The Company's exposure to loss represents the potential loss of assets by the Company relating to the non-consolidated management company. As of December 31, 2023, the Company's maximum exposure to loss related to the management company is not significant.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Legal actions and claims: The Company, at times, may be party to various legal actions and claims arising in the ordinary course of its business. The Company's management believes that the ultimate disposition of any legal matters will not have a material adverse effect on the Company's financial position or results of operations.

Professional liability insurance: The Company has a general and professional liability insurance policy ("GL/PL"), with coverage on a claims-made basis. The GL/PL coverage, on a per facility basis, has a limit of $1,000,000 per occurrence and a $3,000,000 annual aggregate. This policy expires in May 2024. Management is not aware of any pending claims or claims incurred but not reported as of December 31, 2023, therefore, the Company has not recorded anticipated insurance claims liabilities and related insurance recoveries for medical malpractice claims and similar contingent liabilities as of year-end.

There is currently no pending medical malpractice litigation against the Company, nor is management aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. Based on a review of historical claims experience, management has determined that no liability is necessary at December 31, 2023. The cost of this insurance policy represents the Company's costs for premiums and any claims for the year, which is charged to operations as a current expense.

Self-insured health care plan: The Company self-insures its employer provided health care insurance. The Company has entered into an agreement with an unrelated third-party broker to administer its self-insured plan. Claims in excess of certain limits are covered by a stop-loss policy. Monthly premiums paid by the Company per employee, as determined by the broker, are based on historical data and are expected to partially cover all claims both incurred and reported during a typical year and claims incurred but not yet reported, in addition to all costs associated with administering the Plan. The Company records an estimated accrual, when appropriate, if the Company has determined that claims incurred will exceed the amount of premiums paid or reflects a prepaid health insurance premium asset when premiums paid are determined to exceed the total estimate of claims for the year. The administrator of the plan then adjusts the subsequent year per employee premium taking into account any estimated over or underpayment into the insurance claims fund. At December 31, 2023, the Company recorded an accrual of approximately $110,000 to account for 2023 claims incurred but not reported as of year-end. The related liability is included in accrued payroll and related costs in the accompanying combined balance sheet.

Collective bargaining agreement: At December 31, 2023, approximately 60% of the Company's labor force is covered by collective bargaining agreements which expire in June 2027.

Facilities' lease: As described in Note 5, the Company leases the facilities from an unrelated lessor.

NOTE 8 – CONCENTRATIONS

Medicare and Medicaid: Laws and regulations governing the Medicare and Medicaid 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. All of the Company's 338 beds are designated for care of patients in New Jersey's Medicaid program.

The following table summarizes net resident service revenue from contracts with customers by payor source for 2023:

Medicaid	$	19,665,657	54.9%
Medicare		11,531,628	32.2%
Private Pay		3,648,396	10.2%
Other		968,787	2.7%
Total	$	35,814,468	100.0%

The Company grants credit, without collateral, to its patients, most of whom are local residents and insured under third-party payor agreements. Receivables from residents and third-party payors at December 31, 2023 are summarized in the following table:

Medicaid	$	2,465,689	48.0%
Medicare		799,839	15.6%
Private Pay		2,020,651	39.3%
Other		1,131,214	22.0%
		6,417,393	124.9%
Less: Allowance for credit losses		1,278,406	24.9%
Total	$	5,138,987	100.0%

The Company's future profitable operation is largely dependent on the laws and regulations governing the Medicare and Medicaid programs. The Company does not expect any changes in the near term in the laws and regulations governing the Medicare and Medicaid programs that could unfavorably impact the Company's results of operations. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegation of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Medicare Reimbursement

For Medicare reimbursement, the Patient Driven Payment Model (PDPM) is used under the Skilled Nursing Facility (SNF) Prospective Payment System (PPS) for classifying SNF residents in a covered Medicare Part A stay. Under PDPM, payments are derived primarily from resident characteristics. The model separately identifies and adjusts five different case-mix components for the varied needs and characteristics of a resident's care and then combines these with a non-case-mix component to determine the full SNF PPS Per Diem rate for that resident. Every patient gets classified into one case-mix group in each of the five components. Based on that case-mix group and their associated case-mix index, each component then contributes to the total Per Diem payment.

New Jersey Medicaid Reimbursement

The Medicaid reimbursement system for nursing facilities in the State of New Jersey (the "State") is a managed care reimbursement model. Under this model, the State provides funding to managed care organizations ("MCOs") to coordinate all healthcare services, including long-term care services, for Medicaid beneficiaries. In turn, the MCOs will reimburse nursing facilities for services rendered to Medicaid beneficiaries admitted to nursing facilities. The reimbursement received by the nursing facilities is negotiated between the MCOs and the nursing facilities.

The Centers for Medicare and Medicaid Services ("CMS") approved a State Plan implementing a provider assessment (the "Assessment") charged to the state's nursing homes. The Assessment requires all nonexempt New Jersey nursing homes to pay a fee to the Department of Health and Social Services ("DHSS") based upon all non-Medicare days. Assessment fees were applied to each non-Medicare census day at a rate of $14.67 per day. Assessment fees are paid on a quarterly basis. Assessment fees totaled $1,293,747 in 2023 and are included in operating expenses in the accompanying combined statement of income.

Vendors: The Company is dependent on third-party service providers, manufacturers, distributors, and dealers for a substantial portion of its rehabilitation services, and for all its food, pharmaceutical and healthcare services and supplies. During 2023, purchases from its largest vendor accounted for approximately 11% of the total for such services and supplies. At December 31, 2023, amounts owed to this vendor accounted for approximately 1% of total accounts payable. Management believes no significant risk is present under these arrangements due to other service providers and suppliers being readily available.

NOTE 9 – MEMBERS' EQUITY

The Company has one class of membership units, for which the respective rights, preferences and privileges are defined in the operating agreements.

NOTE 10 – UNION SETTLEMENT

The facilities' union filed a claim in July 2020 against the former operators demanding certain vacation pay it believes is owed to employees covered by the collective borrowing agreement. As a result of subsequent litigation, the former operator has agreed to remit payment for unpaid vacation wages through September 2020. A calculation of the amount owed was not completed as of April 30, 2021, the date operations transferred. As part of the operations transfer agreement, (i) the Company agreed to remit payment for the claims amount (once calculated) and (ii) the former operator paid the Company $900,000. If the total claim plus legal fees is less than $900,000, the Company will reimburse the net amount to the former operator. If the total claim plus legal fees is more than the $900,000, the Company will incur the additional expense. The Company paid approximately $311,000 of claims during 2023. The Company and its legal counsel estimate the $354,610 of remaining potential claims liability reported within accrued expenses in the accompanying combined balance sheet at December 21, 2023 is an accurate estimate of anticipated remaining claims plus legal fees. As such, no reduction of liability or additional liability has been recorded in 2023.

Pease Bell CPAs, LLC
peasebell.com

INDEPENDENT ACCOUNTANT'S REVIEW REPORT ON SUPPLEMENTARY INFORMATION

To the Members of
Rivers Edge SNF LLC and Cranford SNF LLC

Our report on our review of the basic combined financial statements of Rivers Edge SNF LLC and Cranford SNF LLC for the year ended December 31, 2023 appears on page 1. The objective of that review was to perform procedures to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the combined financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. The supplementary information included in the accompanying combining supplemental schedules on pages 21 through 23 is presented for purposes of additional analysis and is not a required part of the basic 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 supplementary information has been subjected to the review procedures applied in our review of the basic combined financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and, accordingly, do not express an opinion on such information.

Pease Bell CPAs, LLC

Cleveland, Ohio
March 15, 2024

RIVERS EDGE SNF LLC AND CRANFORD SNF LLC

COMBINING BALANCE SHEET

DECEMBER 31, 2023

ASSETS

	Rivers Edge SNF LLC	Cranford SNF LLC	Eliminations	Total
CURRENT ASSETS				
Cash	$ 373,075	$ 1,213,271	$ -	$ 1,586,346
Resident cash - resident trust funds	34,180	48,860	-	83,040
Resident accounts receivable, net	2,206,532	2,932,455	-	5,138,987
Other receivables	488,940	259,924	-	748,864
Prepaid expenses and other current assets	88,360	352,770	-	441,130
TOTAL CURRENT ASSETS	3,191,087	4,807,280	-	7,998,367
PROPERTY AND EQUIPMENT, NET	294,565	415,018	-	709,583
OTHER ASSETS				
Deposits	1,328	1,486	-	2,814
Advances receivable - affiliates	250,076	3,168,120	(142,277)	3,275,919
Escrow deposits	137,710	161,533	-	299,243
Operating lease right-of-use assets, net	19,709,412	24,636,785	-	44,346,197
TOTAL OTHER ASSETS	20,098,526	27,967,924	(142,277)	47,924,173
	$ 23,584,178	$ 33,190,222	$ (142,277)	$ 56,632,123

See independent accountant's review report on supplementary information.

RIVERS EDGE SNF LLC AND CRANFORD SNF LLC

COMBINING BALANCE SHEET

DECEMBER 31, 2023

LIABILITIES AND MEMBERS' EQUITY

	Rivers Edge SNF LLC	Cranford SNF LLC	Eliminations	Total
CURRENT LIABILITIES				
Resident trust funds liability	$ 34,180	$ 48,860	$ -	$ 83,040
Line of credit	525,000	550,000	-	1,075,000
Current maturities of operating lease liabilities	517,792	647,241	-	1,165,033
Accounts payable	342,946	568,876	-	911,822
Accounts payable - related party	85,723	111,328	-	197,051
Accrued expenses	276,390	606,715	-	883,105
Accrued payroll and related costs	374,918	652,890	-	1,027,808
TOTAL CURRENT LIABILITIES	2,156,949	3,185,910	-	5,342,859
LONG-TERM LIABILITIES				
Advances payable - affiliates	219,030	120,204	(142,277)	196,957
Operating lease liabilities, net of current maturities	19,801,769	24,752,219	-	44,553,988
TOTAL LONG-TERM LIABILITIES	20,020,799	24,872,423	(142,277)	44,750,945
TOTAL LIABILITIES	22,177,748	28,058,333	(142,277)	50,093,804
MEMBERS' EQUITY	1,406,430	5,131,889	-	6,538,319
	$ 23,584,178	$ 33,190,222	$ (142,277)	$ 56,632,123

See independent accountant's review report on supplementary information.

RIVERS EDGE SNF LLC AND CRANFORD SNF LLC

COMBINING STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2023

	Rivers Edge SNF LLC	Cranford SNF LLC	Eliminations	Total
REVENUES				
Net resident service revenues	$ 12,745,456	$ 23,069,012	$ -	$ 35,814,468
Other revenue	13,821	58,096	-	71,917
TOTAL REVENUES	12,759,277	23,127,108	-	35,886,385
OPERATING EXPENSES				
Nursing	5,199,312	8,521,480	-	13,720,792
General and administrative	2,173,264	2,922,631	-	5,095,895
Lease expense	1,849,893	2,312,367	-	4,162,260
Dietary	1,086,336	1,622,766	-	2,709,102
Ancillary services	696,271	1,500,718	-	2,196,989
Management fee	711,084	1,259,174	-	1,970,258
Bed tax assessment	539,592	754,155	-	1,293,747
Housekeeping and laundry	454,336	761,552	-	1,215,888
Provision for expected credit losses	319,867	748,038	-	1,067,905
Facility maintenance	241,850	353,181	-	595,031
Activities	193,325	285,223	-	478,548
Social services	77,149	183,224	-	260,373
Depreciation and amortization	44,165	61,990	-	106,155
Employee Retention Credit	(1,166,490)	(1,636,877)	-	(2,803,367)
TOTAL OPERATING EXPENSES	12,419,954	19,649,622	-	32,069,576
INCOME FROM OPERATIONS	339,323	3,477,486	-	3,816,809
OTHER INCOME (EXPENSE)				
Lease income	-	200,840	-	200,840
Interest income	57,677	94,597	-	152,274
Interest expense	(92,860)	(94,887)	-	(187,747)
TOTAL OTHER INCOME (EXPENSE)	(35,183)	200,550	-	165,367
NET INCOME	$ 304,140	$ 3,678,036	$ -	$ 3,982,176

See independent accountant's review report on supplementary information.