

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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SETO KIRAKOSIAN
Accountancy, Corp

To the Board of Directors of
Compass Health, Inc. and Subsidiary
Grover Beach, California

Independent Auditors' Report

We have audited the accompanying consolidated financial statements of Compass Health, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and shareholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

Auditors' Responsibility - Continued

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

Opinion

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

Emphasis of a Matter

As discussed in Note 2 to the consolidated financial statements, Compass Health, Inc. and Subsidiary adopted the new accounting guidance Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

A handwritten signature in blue ink, consisting of stylized initials and a long horizontal stroke.

Sierra Madre, California

September 28, 2020

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	ASSETS	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,531,700	\$ 8,772,800
Accounts receivable, net	9,218,600	8,177,000
Supplies	2,900	3,100
Prepaid expenses	878,700	710,200
Due from related parties, net	<u>1,513,500</u>	<u>1,509,500</u>
Total current assets	19,145,400	19,172,600
INVESTMENTS	343,900	273,400
PLANT, PROPERTY, AND EQUIPMENT, net	5,542,300	5,977,900
INTANGIBLE ASSETS, net	66,000	30,300
DEPOSITS AND OTHER ASSETS	<u>65,000</u>	<u>105,000</u>
Total assets	\$ <u>25,162,600</u>	\$ <u>25,559,200</u>
	LIABILITIES AND SHAREHOLDER'S EQUITY	
CURRENT LIABILITIES:		
Accounts payable	\$ 1,557,200	\$ 1,385,900
Accrued compensation and related expenses	5,636,500	5,524,100
Income taxes payable	150,000	144,700
Security deposits and other liabilities	1,539,700	2,758,800
Current portion of long-term debt	<u>194,000</u>	<u>183,900</u>
Total current liabilities	9,077,400	9,997,400
LONG-TERM DEBT, net of current portion	707,200	901,300
DEFERRED RENT	<u>916,000</u>	<u>1,778,900</u>
Total liabilities	10,700,600	12,677,600
COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDER'S EQUITY:		
Controlling interests:		
Common stock, no par value; 1,000 shares authorized;		
1,000 shares issued and outstanding	31,900	31,900
Paid-in-capital	1,979,900	1,979,900
Retained earnings	<u>10,184,400</u>	<u>8,383,700</u>
	12,196,200	10,395,500
Minority interest	<u>2,265,800</u>	<u>2,486,100</u>
Total shareholder's equity	<u>14,462,000</u>	<u>12,881,600</u>
Total liabilities and shareholder's equity	\$ <u>25,162,600</u>	\$ <u>25,559,200</u>

The accompanying notes are an integral part
of the consolidated financial statements

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
AND SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
REVENUES:		
Net patient service revenue	\$ 69,705,000	\$ 68,634,500
Net residential board and care revenue	<u>6,126,000</u>	<u>6,247,700</u>
Total revenues	<u>75,831,000</u>	<u>74,882,200</u>
EXPENSES:		
Nursing services	29,958,300	28,794,100
Plant operations and maintenance	3,736,600	3,657,000
Housekeeping and laundry	2,676,600	2,692,400
Dietary	6,518,100	6,269,400
Social services and activities	1,685,800	1,625,700
Education	587,200	629,700
General and administrative	19,820,400	20,805,900
Interest expense	57,400	64,100
Pharmacy	1,809,100	1,744,300
Laboratory	183,000	211,500
Other expenses	137,700	122,300
X-ray	<u>247,900</u>	<u>240,200</u>
Total expenses	<u>67,418,100</u>	<u>66,856,600</u>
INCOME BEFORE MINORITY INTEREST AND INCOME TAX PROVISION	8,412,900	8,025,600
MINORITY INTEREST	<u>(629,700)</u>	<u>(1,172,700)</u>
INCOME BEFORE INCOME TAX PROVISION	7,783,200	6,852,900
INCOME TAX PROVISION	<u>(162,000)</u>	<u>(157,200)</u>
NET INCOME	7,621,200	6,695,700
DISTRIBUTIONS TO SHAREHOLDER	(5,820,500)	(1,828,900)
RETAINED EARNINGS, beginning of year	<u>8,383,700</u>	<u>3,516,900</u>
RETAINED EARNINGS, end of year	\$ <u>10,184,400</u>	\$ <u>8,383,700</u>

The accompanying notes are an integral part
of the consolidated financial statements

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	\$ 7,621,200	\$ 6,695,700
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Minority interest	629,700	1,172,700
Depreciation and amortization	732,500	738,100
(Gain) on sale of plant, property, and equipment	(51,800)	(1,300)
Deferred rent	(862,900)	(70,300)
(Gain) loss from investments	(60,700)	6,600
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(1,041,600)	155,300
Decrease (increase) in supplies	200	(100)
(Increase) in prepaid expenses	(168,500)	(4,900)
(Increase) decrease in due from related parties, net	(4,000)	39,800
Decrease in deposits and other assets	40,000	-
Increase (decrease) increase in accounts payable	171,300	(63,400)
Increase (decrease) in accrued compensation and related expenses	112,400	(787,500)
Increase in income taxes payable	5,300	10,200
(Decrease) increase in security deposits and other liabilities	<u>(1,219,100)</u>	<u>480,800</u>
Net cash and cash equivalents provided by operating activities	<u>5,904,000</u>	<u>8,371,700</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Acquisition of plant, property, and equipment	(280,800)	(875,500)
Proceeds from sale of plant, property, and equipment	-	4,600
Acquisition of investments, net	<u>(9,800)</u>	<u>(280,000)</u>
Net cash and cash equivalents (used in) investing activities	<u>(290,600)</u>	<u>(1,150,900)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
(Principal payments on) long-term debt	(184,000)	(174,400)
Distributions to minority interest	(850,000)	(825,000)
Distributions to shareholder	<u>(5,820,500)</u>	<u>(1,828,900)</u>
Net cash and cash equivalents (used in) financing activities	<u>(6,854,500)</u>	<u>(2,828,300)</u>
Net change in cash and cash equivalents	(1,241,100)	4,392,500
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,772,800</u>	<u>4,380,300</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 7,531,700</u>	<u>\$ 8,772,800</u>

The accompanying notes are an integral part
of the consolidated financial statements

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	<u>2019</u>	<u>2018</u>
Cash paid during the year for:		
Income taxes	\$ <u>156,600</u>	\$ <u>147,100</u>
Interest paid	\$ <u>57,400</u>	\$ <u>64,100</u>

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING
ACTIVITIES:

During 2019, the Company exchanged equipment with net book value in the amount of \$260,200 for equipment and other intangibles with fair market value in the amount of \$312,000 and recognized a gain on the exchange in the amount of \$51,800.

The accompanying notes are an integral part
of the consolidated financial statements

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Nature of Operations

Compass Health, Inc. and Subsidiary (the “Company”), was incorporated in the state of California on January 5, 1995. The Company was formed with a view to consolidate various health care businesses in San Luis Obispo County, including Arroyo Grande Care Center, Danish Care Center, and SeaShell Communities (Pacific Care Center, Inc.).

On or around February 1, 1995, the Company entered into binding purchase agreement with each of the above named entities under which it agreed to acquire all of the assets of each entity, subject to all liabilities, solely in exchange for voting common stock of the Company.

As of December 31, 2007, the Company is 100% subsidiary of Compass Holding, Inc. Through a reverse triangular merger, Compass Health Inc. became a wholly owned subsidiary of Compass Holding, Inc. The board of Compass Health Inc. declared a shareholder distribution of its Compass Media Group, Inc. and The Old Custom House, Inc. to Compass Holding, Inc. as of the closing of business on December 31, 2007.

The Company currently employs in excess of 973 employees, with approximately 773 of them being full time employees. The Company manages and operates the following facilities:

1. Vineyard Hills Health Center in Templeton, California (99-bed skilled nursing facility)
2. Danish Care Center in Atascadero, California (65-bed skilled nursing facility)
3. Bayside Care Center in Morro Bay, California (145-bed skilled nursing facility) and Casa de Flores in Morro Bay, California (100-bed residential care facility for the elderly)
4. Arroyo Grande Care Center in Arroyo Grande, California (99-bed skilled nursing facility)
5. Wyndham Residence in Arroyo Grande, California (62-bed residential care facility for the elderly)
6. San Luis Transitional Care Center in San Luis Obispo, California (23-bed skilled nursing facility)

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION – CONTINUED

Nature of Operations - Continued

7. Mission View Health Care Center in San Luis Obispo, California (162-bed skilled nursing facility)
8. Alto Lucero Transitional Care Center in Santa Barbara, California (156-bed skilled nursing facility). On November 1, 2019, Alto Lucero Transitional Care Center was exchanged with San Luis Post Acute Center. These facilities have similar operation, including bed capacity.
9. San Luis Post Acute Center in San Luis Obispo, California (162-bed skilled nursing facility).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to improve the consistency of revenue recognition practices across industries for economically similar transactions. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return.

The Company adopted the provisions of ASU 2014-09 effective January 1, 2019 using the modified retrospective approach. Under this method, the guidance is applied only to the most current period presented in the consolidated financial statements. The adoption of this new standard did not have a material impact on the consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of Compass Health, Inc. (a California S Corporation), and a 50% owned subsidiary Coastal, LLC, which operates Vineyard Hills Health Center and Danish Care Center, (the "Subsidiary"). All significant intercompany accounts and material transactions have been eliminated in consolidation.

Basis of Accounting

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

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenues

Patient service revenue is reported as services are performed and is net of contractual allowances. The Company provides services to certain patients covered by various third-party payer programs, including the federal Medicare and state Medi-Cal programs. Billings for services under these third-party payer programs are included in revenues, net of allowance for estimated differences between list prices and allowable program rates. Total contractual allowances, which increased revenues during the years ended December 31, 2019 and 2018 were \$6,183,700 and \$3,039,800, respectively.

Revenues from direct billings under federal Medicare program and state Medi-Cal program, net of contractual allowances, during the years ended December 31, 2019 and 2018 were approximately 92% and 91%, respectively, of net patient service revenue. At December 31, 2019 and 2018, the amounts due from federal and state third-party payors were approximately \$7,534,100 and \$6,615,200, respectively, and are included in accounts receivable in the accompanying consolidated financial statements.

Residential board and care revenue is recognized on a monthly basis over the period of the leases. The Company rents out the units on a month-to-month basis and therefore, does not account for rental abatements and escalations as deferred rent.

The Company adopted the provisions of ASU 2014-09 effective January 1, 2019 using the modified retrospective method of transition. The most significant change from the adoption of this new standard relates to the Company's estimation of allowance for doubtful accounts. Under the previous standards, the Company's estimate for amounts not expected to be collected based upon historical experience were reflected on the consolidated statements of operations and shareholder's equity as general and administrative expenses. Under the new standard, majority of the provision for bad debts is considered an implicit price concession and will be recognized as a reduction to patient service and residential board and care revenues. Subsequent changes in the estimate of collectability due to an adverse change in the financial status or ability to pay of a payor will be recognized as bad debt expense.

The Company's initial estimate of the transaction price subject to revenue recognition is determined by reducing the total standard charges for patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, retroactive adjustments, and other reductions to the Company's standard charges. Transaction price associated with services provided to patients who have third-party payor coverage is determined on the basis of contractual or formula-driven rates for the services rendered.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenues – Continued

Estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private health care coverage and other collection indicators. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Revenue from patient service and residential board and care is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, or that are convertible to cash on demand, and are subject to an insignificant risk of changes in fair value. These amounts are recorded at cost, which approximates fair value.

Accounts Receivable

Accounts receivable consists of amounts billed to patients and tenants less price concessions relating to allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medi-Cal and other insurers. The Company analyzes historical collection trends, reimbursement experience, and revenue adjustment trends by third-party payors as an integral part of the estimation process related to determining the adequacy of price concessions and the valuation allowance for accounts receivable. The Company does not charge interest on accounts receivable. At December 31, 2019 and 2018, allowance for price concessions and doubtful accounts were \$272,200 and \$259,700, respectively.

In addition, the Company assesses the current state of its billing functions on a monthly basis in order to identify any known collection or reimbursement issues to determine the impact, if any, on its price concessions and valuation allowance estimates, which involve judgment.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

The Company evaluates its investments in a limited liability companies (“LLCs”) to determine whether the LLCs may be a variable interest entity (VIE), and if a VIE, whether the Company is the primary beneficiary. The primary beneficiary is the entity that will absorb the majority of expected losses or receive the majority of the expected returns of the VIE, or both. The obligation to absorb expected losses and the right to receive expected returns when a reporting entity is affiliated with a VIE must be based on ownership, contractual, and/or other pecuniary interests in that VIE.

If the above conditions do not apply, the Company considers whether a managing member controls the LLC. The managing member in a LLC is presumed to control that LLC. However, the presumption may be overcome if the limited members have either (1) the substantive ability to dissolve the LLC or otherwise remove the managing member without cause or (2) substantive participating rights, which provide the limited members with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of the LLC’s business and thereby preclude the managing member from exercising unilateral control over the LLC. If these criteria are not met and the Company is the managing member, the consolidation of the LLC is required.

The Company accounts for investments in HLH Coastal Living Holdings, LLC and Quality Placement for Seniors, LLC over which it exercises significant influence, but does not control, under the equity method of accounting. Under the equity method of accounting, the investment is recorded initially at cost and subsequently adjusted for the Company’s share of net income or loss, less distributions, if any. The Company discontinues applying the equity method if the investment is reduced to zero.

On a periodic basis, management assesses whether there are any indicators that the carrying value of the Company’s investments in the unconsolidated LLCs may be impaired on a more than temporary basis. An investment is impaired only if management’s estimate of the fair-value of the investment is less than the carrying value of the investment on a more than temporary basis. To the extent impairment has occurred, the loss is measured as the excess of the carrying value of the investment over the fair-value of the investment. Management does not believe that the value of the Company’s unconsolidated investments in the LLCs was impaired as of December 31, 2019.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Plant, Property, and Equipment

Plant, property, and equipment are carried on the accompanying consolidated balance sheets at cost. Depreciation is computed for financial statement purposes using the straight-line method over the estimated useful lives of the respective assets. Useful lives range from 5 to 40 years. Leasehold improvements are amortized over shorter of the life of the lease or the leasehold improvement. Additions, renewals, and betterments expected to extend the lives of the assets are capitalized, while routine repairs and maintenance are charged to expense when incurred.

Impairment of Long-Lived Assets

In accordance with GAAP, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates an asset may not be recoverable, an impairment loss is recognized for the excess of the carrying amount over the fair value of an asset to be held and used or over the fair value less cost to sell an asset to be disposed. During the years ended December 31, 2019 and 2018, there were no events or changes in circumstances indicating that the carrying amount of the long-lived assets may not be recoverable.

Intangible Assets

Intangible assets are carried on the accompanying consolidated balance sheets at amortized cost. These assets consisted of deferred financing, contract and software costs. Amortization is computed for financial statement purposes using the straight-line method over the terms of the respective agreements. Useful lives range from 5 to 15 years.

Goodwill

The Company elected not to adopt the provisions of FASB ASU 2014-02, *Intangibles – Goodwill and Other (Topic 350) – Accounting for Goodwill*, which permits a private company to amortize goodwill on a straight-line basis over a period of ten years, or less if the company demonstrates that another useful life is more appropriate. Accordingly, the Company does not amortize goodwill. On an annual basis, the Company evaluates the recoverability of the goodwill by performing an annual impairment test.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value of Financial Instruments

Substantially all of the financial instruments are carried at fair value or amounts approximating fair value. For cash and cash equivalents, accounts receivables, accounts payable, and other current assets and liabilities, the carrying amounts approximate fair value due to their short-term maturity. It was not practical to estimate the fair value of investments in the equity of non-traded LLCs. The investments in HLH Coastal Living Holdings, LLC and Quality Placement for Seniors, LLC is carried at the original cost and adjusted annually for the Company's proportionate share of the LLCs' income and losses, less distributions, if any. The fair value of long-term debt is determined using current applicable rates for similar instruments and approximates its carrying value.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with high-quality financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) up to \$250,000 and \$500,000, respectively. The Company has cash and cash equivalents balances at December 31, 2019 and 2018 that exceed the balance insured by the FDIC and SIPC in the amount of \$7,855,900 and \$8,853,600, respectively.

With respect to patient accounts receivable, the Company performs ongoing evaluations of its customers and maintains reserves for potential credit losses. The Company does not require collateral for its services.

Workers' Compensation Payable

Workers' compensation payable predominantly consists of the reserves to cover the Company's estimated liabilities for its workers' compensation claims. The determination of these reserves is based upon a number of factors, including current and historical claims activity, claims payment patterns, and medical cost trends and developments in existing claims. Reserves are adjusted from time to time to reflect new claims, claim developments, or systemic changes, and such adjustments are reflected in the results of operations in the periods in which the reserves are changed.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Workers' Compensation Costs

As of May 1, 2007 the Company's workers' compensation coverage is provided through Safety National Casualty Corporation (the "SNCC Plan"), as a Self-Insurer Specific Excess Workers' Compensation and Employers' Liability Insurance. Under the SNCC Plan in effect through May 1, 2019, workers' compensation losses were subject to a deductible amount of \$600,000 for each occurrence, accident, loss, or claim, with a combined minimum aggregate amount of \$25,000,000 based on an inception payroll of \$40,633,700. This represents the minimum amount of premium to be paid by the Company.

As of May 1, 2019 the Company's workers' compensation coverage is provided through Liberty Mutual Insurance Corporation (the "LMIC Plan"), as a Self-Insurer Specific Excess Workers' Compensation and Employers' Liability Insurance. Under the LMIC Plan in effect through May 1, 2020, workers' compensation losses were subject to a deductible amount of \$600,000 for each occurrence, accident, loss, or claim, with no upper aggregate amount, based on an inception payroll of \$41,341,500. This represents the minimum amount of premium to be paid by the Company.

Because the Company bears the economic burden under the SNCC Plan, the claims, which are the primary component of the Company's workers' compensation costs, are recorded in the period incurred. Workers compensation insurance includes ongoing healthcare and indemnity coverage whereby claims are paid over numerous years following the date of injury. Accordingly, the accrual of related incurred costs during each reporting period includes estimates calculated by applying an aggregate loss development rate to worksite employee payroll levels.

Deferred Rent

The Company recognizes rent expense for operating lease, including the effect of rent escalations, on a straight-line basis over the lease term. The difference between the cash paid to landlord and the amount recognized as rent expense on a straight-line basis is included in deferred rent.

Management Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes

The Company elected Subchapter S status of the Internal Revenue Code (IRC) for federal and state income tax purposes. Under the applicable statutory rules, income and losses of an S-corporation flow through to the shareholder of the Company and are not taxed at the corporate level. However, the Company is responsible for California franchise tax amounting to the greater of \$800 or 1.5% of taxable income of the Subchapter S-corporation.

The Company recognizes a financial statement benefit of a tax position only after determining that the relevant tax authority would be more likely than not to sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company believes its income tax filing positions and deductions will be sustained upon examination, and, accordingly, no reserves or related accruals for interest and penalties have been recorded as of December 31, 2019 and 2018.

The Company's tax returns are no longer subject to income tax examinations by taxing authorities for years before 2016 for their federal and 2015 for their state tax filings.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. Upon adoption of ASU 2016-02, the operating leases disclosed in Note 9 will be reported on the consolidated balance sheets as gross-up assets and liabilities. In November 2019, the FASB issued ASU 2019-10 deferring the effective date of ASU 2016-02 to annual reporting periods beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated balance sheets or consolidated financial statement disclosures.

The Company reviewed all other significant newly-issued accounting pronouncements and concluded that they either are not applicable to its operations or that no material effect is expected on its consolidated financial statements as a result of future adoption.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

The Company evaluated events occurring between December 31, 2019 and September 28, 2020, the date these consolidated financial statements were available to be issued, and determined that there were no material subsequent events that required recognition or disclosure in these consolidated financial statements, except as noted below.

The recent coronavirus outbreak (COVID-19), which was designated as a pandemic by the World Health Organization in March 2020, continues to spread both in the United States and globally. The pandemic has adversely impacted health and economic conditions, and has greatly contributed to significant deterioration and instability in the financial markets. Related government and private sector responsive actions may adversely affect the Company's operations, employee availability, financial condition, liquidity, and cash flows. At this time, it is impossible to predict the ultimate impact of the COVID-19 pandemic as the situation is rapidly evolving.

NOTE 3 - INVESTMENTS

The accompanying consolidated financial statements include investments in HLH Coastal Living Holdings, LLC ("HLH") and Quality Placement for Seniors, LLC ("QPS"). The Company accounts for the investments in HLH and QPS under the equity method of accounting as the Company does not control these entities. Significant accounting policies used by these entities are similar to those used by the Company. At December 31, 2019 and 2018, Company's ownership interest in HLH was 40.00% and 40.00%, respectively. At December 31, 2019 and 2018, Company's ownership interest in QPS was 50.00% and 0%, respectively.

The following is a summary of investment activity for the years ended December 31, 2019 and 2018:

	<u>HLH</u>	<u>QPS</u>
Balance at December 31, 2017	\$ -	\$ -
Plus: contributions	280,000	-
Less: distributions	-	-
Less: (loss) from investment	<u>(6,600)</u>	<u>-</u>
Balance at December 31, 2018	\$ 273,400	\$ -
Plus: contributions	-	15,000
Less: distributions	(5,300)	-
Less: income from investment	<u>59,000</u>	<u>1,800</u>
Balance at December 31, 2019	\$ <u>327,100</u>	\$ <u>16,800</u>

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PLANT, PROPERTY, AND EQUIPMENT

At December 31, 2019 and 2018, plant, property, and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 966,000	\$ 966,000
Facility buildings	5,412,200	5,352,700
Parking structure	309,100	316,100
Fixed equipment	385,300	391,900
Leasehold improvements	3,076,000	3,256,700
Major movable	1,900,100	2,003,700
Minor movable	1,425,500	1,538,400
Furniture and fixtures	1,944,600	1,861,800
Construction-in-progress	<u>145,100</u>	<u>147,600</u>
	15,563,900	15,834,900
Less: accumulated depreciation and amortization	<u>(10,021,600)</u>	<u>(9,857,000)</u>
	\$ <u>5,542,300</u>	\$ <u>5,977,900</u>

Depreciation and amortization expense on plant, property and equipment for the years ended December 31, 2019 and 2018 were \$718,200 and \$720,200, respectively.

NOTE 5 - INTANGIBLE ASSETS

At December 31, 2019 and 2018, intangible assets consisted of the following:

	<u>2019</u>	<u>2018</u>
Deferred financing costs	\$ 48,600	\$ 48,600
Other	<u>95,800</u>	<u>45,800</u>
	144,400	94,400
Less: accumulated amortization	<u>(78,400)</u>	<u>(64,100)</u>
	\$ <u>66,000</u>	\$ <u>30,300</u>

Amortization expense related to intangible assets for the years ended December 31, 2019 and 2018 were \$14,300 and \$17,900, respectively.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - LINE OF CREDIT

The Company has a line of credit with Rabobank, which permits maximum borrowings up to \$2,000,000 and bears interest at 1-Month Libor rate plus 2.75%, with a floor of 2.75% (4.51% and 5.27%, respectively, at December 31, 2019 and 2018). The line of credit matured on November 30, 2019. During the year ended December 31, 2019, the line of credit was renewed and is set to mature on November 30, 2020. The line of credit is secured essentially by all assets of the Company and is guaranteed by a shareholder. As of December 31, 2019 and 2018, there was no amount outstanding under this line of credit.

NOTE 7 - ACCRUED COMPENSATION AND RELATED EXPENSES

At December 31, 2019 and 2018, accrued compensation and related expenses consisted of the following:

	<u>2019</u>	<u>2018</u>
Accrued payroll	\$ 1,915,200	\$ 1,837,100
Accrued vacation, holiday, and sick	1,366,000	1,358,000
Workers' compensation payable	2,071,500	1,999,900
Other accrued liabilities	<u>283,800</u>	<u>329,100</u>
	\$ <u>5,636,500</u>	\$ <u>5,524,100</u>

NOTE 8 - LONG-TERM DEBT

At December 31, 2019 and 2018, long-term debt consisted of the following:

	<u>2019</u>	<u>2018</u>
Note payable to a financial institution in the amount of \$2,100,000, secured by a first trust deed on Vineyard Hills Health Center, payable monthly in the amount of \$19,800 with interest at 5.35% per annum, due March 2024.	\$ 901,200	\$ 1,085,200
Less: current portion	<u>(194,000)</u>	<u>(183,900)</u>
	\$ <u>707,200</u>	\$ <u>901,300</u>

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT – CONTINUED

Principal maturities of long-term debt subsequent to December 31, 2019 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 194,000
2021	204,700
2022	215,900
2023	227,600
2024	<u>59,000</u>
	\$ <u>901,200</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

a) Lease Commitments

The Company leases its Bayside Care Center and Casa de Flores facilities in Morro Bay, California under an operating lease with an unrelated party. The lease agreement expires in July 2023. The minimum monthly rent payments total approximately \$160,000 with an annual increase of 3.00%.

The Company leases its Arroyo Grande Care Center facility in Arroyo Grande, California under an operating lease with related parties. The lease agreement expires in January 2029 and has one extension for five years. The premises are owned by shareholders of Compass Holding, Inc. The minimum monthly rent payments total approximately \$47,000, with an annual increase of 3.25%.

The Company leases its Wyndham Residence facility in Arroyo Grande, California under an operating lease with a related party. The lease agreement expires in May 2045. The minimum monthly rent payments total approximately \$42,000. It also has an operating ground lease with a related party. The ground lease agreement expires in December 2054. The minimum monthly rent payments total approximately \$4,900.

The Company leases its San Luis Transitional Care Center facility in San Luis Obispo, California under an operating lease with a related party. The lease agreement expires in August 2025 and has one option to extend until January 2033. The minimum monthly rent payments total approximately \$23,500 with an increase every two years based on consumer price index, with maximum of 5.00%.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - COMMITMENTS AND CONTINGENCIES – CONTINUED

a) Lease Commitments – Continued

The Company leases its Mission View Health Care Center facility in San Luis Obispo, California under an operating lease with a related party. The lease agreement expires in June 2026 and has one option to extend for ten years and two options to extend for five years each. The minimum monthly rent payments total approximately \$56,900, with an annual increase of 3.25%.

The Company leases an office facility in Grover Beach, California under an operating lease with a related party. The lease agreement expires in February 2023. The minimum monthly rent payments total \$11,100, with an increase every year based on consumer price index, with a minimum increase of 3.00% and maximum of 5.00%.

The Company leases its San Luis Post Acute Center facility in San Luis Obispo, California under an operating lease with an unrelated party. The lease agreement expires in January 2024 and has two options to extend for five years each. The minimum monthly rent payments total approximately \$39,200, with an annual maximum increase of 6.00%.

The following is a schedule of future minimum annual rental payments required under those operating lease agreements:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 4,677,700
2021	4,801,600
2022	4,929,100
2023	4,024,600
2024	2,367,900
2025 and thereafter	<u>16,328,500</u>
	\$ <u>37,129,400</u>

For the years ended December 31, 2019 and 2018, the Company incurred rent expense of \$3,886,600 and \$4,590,500, respectively.

b) Litigation

During the normal course of business, the Company is involved in litigations. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Company's future consolidated financial position or result of its operations.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - COMMITMENTS AND CONTINGENCIES – CONTINUED

c) Guarantor

The Company is a guarantor for two loans on real property owned by related parties. At December 31, 2019, the contingent liabilities guaranteed by these two loans consisted of the following:

	<u>Guarantor Value</u>
Real property located at 404 Front St., Avila Beach, CA owned by Playa Dulce, LLC and operated by Old Custom House, Inc.	\$ 4,358,400
Real property located at 1575 Bishop Street, San Luis Obispo, CA owned by Playa Dulce, LLC and operated by the Company.	\$ 847,700

NOTE 10 - 401(k) PROFIT SHARING PLAN

The Company has adopted a 401(k) profit sharing plan (the “Plan”) covering all employees who are at least eighteen years of age and have completed one year of employment. Participating employees may elect to defer up to 19% of their compensation, subject to certain limitations. The Company may make matching contributions equal to a discretionary percentage of the participant’s elective deferral. For the years ended December 31, 2019 and 2018, the Company’s matching contribution to the Plan amounted to \$193,000 and \$231,300, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

The Company has seven operating lease agreements with related parties (See also Note 9). For the years ended December 31, 2019 and 2018, the Company recorded approximately \$2,028,500 and \$1,984,800, respectively, in rent expense. There was no amount due to related parties at December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the Company had advances of \$1,513,500 and \$1,509,500 due from related parties, net. The advances are unsecured, non-interest bearing and due on demand.

Amounts due from related parties, net are as follows as of December 31:

	<u>2019</u>	<u>2018</u>
The Old Custom House Inc.	\$ 1,521,100	\$ 1,521,100
Playa Dulce LLC	2,100	13,500
Various	<u>(9,700)</u>	<u>(25,100)</u>
	<u>\$ 1,513,500</u>	<u>\$ 1,509,500</u>

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019



SETO KIRAKOSIAN
Accountancy, Corp

To the Board of Directors of
Compass Health, Inc. and Subsidiary
Grover Beach, California

Independent Auditors' Report on Supplementary Information

We have audited the consolidated financial statements of Compass Health, Inc. and Subsidiary (the "Company"), as of and for the years ended December 31, 2019 and 2018, and our report thereon dated September 28, 2020, which expressed an unmodified opinion on those financial statements, appears on page 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on page 23 to 25 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. The supplementary information on page 26 to 41 has been prepared for filing with the State of California, Department of Social Services, in accordance with Section 1792 of the California Health and Safety Code, and is presented for purpose of additional analysis and is not a required part of the consolidated financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole and presents fairly in all material respects the continuing care reserve requirements of the Company at December 31, 2019, in conformity with the report preparation provisions of the California Health and Safety Code Section 1792.

A handwritten signature in blue ink, appearing to be 'SK' with a long horizontal flourish extending to the right.

September 28, 2020

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEETS

DECEMBER 31, 2019

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

	AGCC	ALTC	BCC	CDF	CHI	DCC	MVHC	SLPA	SLTC	TPY	VHHC	WYND	Eliminations	Total
CURRENT ASSETS:														
Cash and cash equivalents	\$ (77,400)	\$ (248,200)	\$ (14,700)	\$ (19,100)	\$ 6,215,000	\$ 420,900	\$ (63,700)	\$ 215,000	\$ (11,300)	\$ (1,700)	\$ 870,100	\$ 246,800	\$ -	\$ 7,531,700
Accounts receivable, net	1,336,000	630,200	1,422,000	(1,100)	900	900,300	1,832,400	836,900	488,700	(100)	1,751,300	21,100	-	9,218,600
Supplies	-	-	-	-	-	-	-	-	-	-	-	2,900	-	2,900
Prepaid expenses	142,900	-	160,400	17,300	119,000	77,800	52,000	147,000	32,500	300	125,200	4,300	-	878,700
Due from related parties, net	-	312,000	25,876,600	(25,876,600)	5,011,800	(3,659,100)	700	(312,000)	-	-	2,454,400	-	(2,294,300)	1,513,500
Total current assets	1,401,500	694,000	27,444,300	(25,879,500)	11,346,700	(2,260,100)	1,821,400	886,900	509,900	(1,500)	5,201,000	275,100	(2,294,300)	19,145,400
INVESTMENTS	-	-	-	-	343,900	-	-	-	-	-	-	-	-	343,900
PLANT, PROPERTY, AND EQUIPMENT, net	245,000	-	392,500	1,002,300	85,600	1,202,400	9,400	328,100	100,300	-	2,176,700	-	-	5,542,300
INTANGIBLE ASSETS, net	-	-	-	-	-	-	-	49,500	-	-	16,500	-	-	66,000
DEPOSITS AND OTHER ASSETS	18,000	-	-	-	13,000	-	34,000	-	-	-	-	-	-	65,000
Total assets	<u>\$ 1,664,500</u>	<u>\$ 694,000</u>	<u>\$ 27,836,800</u>	<u>\$ (24,877,200)</u>	<u>\$ 11,789,200</u>	<u>\$ (1,057,700)</u>	<u>\$ 1,864,800</u>	<u>\$ 1,264,500</u>	<u>\$ 610,200</u>	<u>\$ (1,500)</u>	<u>\$ 7,394,200</u>	<u>\$ 275,100</u>	<u>\$ (2,294,300)</u>	<u>\$ 25,162,600</u>
CURRENT LIABILITIES:														
Accounts payable	\$ 147,200	\$ 27,700	\$ 226,400	\$ 75,400	\$ 119,900	\$ 132,800	\$ 228,400	\$ 281,800	\$ 89,300	\$ -	\$ 187,900	\$ 40,400	\$ -	\$ 1,557,200
Accrued compensation and related expenses	448,200	263,300	440,700	88,300	2,441,800	197,500	568,100	88,300	120,300	558,200	320,600	101,200	-	5,636,500
Income taxes payable	-	-	-	-	150,000	-	-	-	-	-	-	-	-	150,000
Security deposits and other liabilities	848,400	54,500	86,100	38,200	429,100	24,200	40,200	1,500	5,300	(4,300)	7,700	8,800	-	1,539,700
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	194,000	-	-	194,000
Total current liabilities	1,443,800	345,500	753,200	201,900	3,140,800	354,500	836,700	371,600	214,900	553,900	710,200	150,400	-	9,077,400
LONG-TERM DEBT, net of current portion	-	-	-	-	-	-	-	-	-	-	707,200	-	-	707,200
DEFERRED RENT	-	-	916,000	-	-	-	-	-	-	-	-	-	-	916,000
Total liabilities	1,443,800	345,500	1,669,200	201,900	3,140,800	354,500	836,700	371,600	214,900	553,900	1,417,400	150,400	-	10,700,600
COMMITMENTS AND CONTINGENCIES	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SHAREHOLDER'S EQUITY:														
Controlling interests:														
Common stock, no par value; 1,000 shares authorized; 1,000 shares issued and outstanding	900	-	30,000	-	1,000	-	-	-	-	-	-	-	-	31,900
Paid-in-capital	209,300	-	-	-	1,770,600	(1,598,500)	-	-	-	-	3,267,700	-	(1,669,200)	1,979,900
Retained earnings	10,500	348,500	26,137,600	(25,079,100)	6,876,800	641,500	1,028,100	892,900	395,300	(555,400)	617,800	124,700	(1,254,800)	10,184,400
	220,700	348,500	26,167,600	(25,079,100)	8,648,400	(957,000)	1,028,100	892,900	395,300	(555,400)	3,885,500	124,700	(2,924,000)	12,196,200
Minority interest	-	-	-	-	-	(455,200)	-	-	-	-	2,091,300	-	629,700	2,265,800
Total shareholder's equity	220,700	348,500	26,167,600	(25,079,100)	8,648,400	(1,412,200)	1,028,100	892,900	395,300	(555,400)	5,976,800	124,700	(2,294,300)	14,462,000
Total liabilities and shareholder's equity	<u>\$ 1,664,500</u>	<u>\$ 694,000</u>	<u>\$ 27,836,800</u>	<u>\$ (24,877,200)</u>	<u>\$ 11,789,200</u>	<u>\$ (1,057,700)</u>	<u>\$ 1,864,800</u>	<u>\$ 1,264,500</u>	<u>\$ 610,200</u>	<u>\$ (1,500)</u>	<u>\$ 7,394,200</u>	<u>\$ 275,100</u>	<u>\$ (2,294,300)</u>	<u>\$ 25,162,600</u>

COMPASS HEALTH, INC. AND SUBSIDIARY														
SUPPLEMENTARY INFORMATION														
CONSOLIDATING STATEMENTS OF OPERATIONS AND SHAREHOLDER'S EQUITY														
FOR THE YEAR ENDED DECEMBER 31, 2019														
SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION														
	AGCC	ALTC	BCC	CDF	CHI	DCC	MVHC	SLPA	SLTC	TPY	VHHC	WYND	Eliminations	Total
REVENUES:														
Net patient service revenue	\$ 9,967,000	\$ 10,499,700	\$ 10,514,000	\$ -	\$ -	\$ 6,773,800	\$ 13,890,300	\$ 1,214,600	\$ 3,599,400	\$ 3,648,000	\$ 9,598,200	\$ -	\$ -	\$ 69,705,000
Net residential board and care revenue	-	-	-	3,141,800	-	-	-	-	-	-	-	2,984,200	-	6,126,000
Management fees	(570,900)	(530,700)	(517,100)	(158,000)	4,423,100	(379,400)	(781,500)	(65,300)	(253,500)	(468,900)	(549,200)	(148,600)	-	-
Total revenues	9,396,100	9,969,000	9,996,900	2,983,800	4,423,100	6,394,400	13,108,800	1,149,300	3,345,900	3,179,100	9,049,000	2,835,600	-	75,831,000
EXPENSES:														
Nursing services	3,869,200	5,063,700	4,386,300	959,600	300	2,725,600	6,240,500	550,000	1,331,500	-	4,122,200	709,400	-	29,958,300
Plant operations and maintenance	359,000	643,900	603,900	350,900	27,900	298,800	556,200	77,000	182,000	-	449,600	187,400	-	3,736,600
Housekeeping and laundry	356,500	328,000	488,300	129,300	-	250,600	460,700	61,100	62,300	-	379,100	160,700	-	2,676,600
Dietary	812,000	855,400	829,600	717,300	-	554,800	970,200	131,000	287,400	-	861,300	499,100	-	6,518,100
Social services and activities	256,200	233,200	209,700	138,900	-	144,700	348,300	35,500	15,500	-	188,300	115,500	-	1,685,800
Education	92,700	95,000	97,400	-	-	91,200	112,500	15,500	1,600	-	81,300	-	-	587,200
General and administrative	2,085,500	1,657,100	2,750,800	1,012,700	2,657,800	1,476,800	3,128,700	611,500	1,005,000	391,900	2,018,200	1,024,400	-	19,820,400
Interest expense	-	-	-	-	3,600	-	-	-	100	-	53,700	-	-	57,400
Pharmacy	340,200	163,700	245,600	-	-	182,400	413,400	5,200	236,600	-	222,000	-	-	1,809,100
Laboratory	21,100	13,100	17,600	-	-	18,600	44,900	500	38,800	-	28,400	-	-	183,000
Other expenses	(16,700)	(58,300)	(17,700)	-	315,900	(14,500)	(34,400)	(500)	(16,100)	-	(20,000)	-	-	137,700
X-ray	45,200	11,900	27,700	-	-	23,800	43,700	1,300	59,700	-	34,600	-	-	247,900
Total expenses	8,220,900	9,006,700	9,639,200	3,308,700	3,005,500	5,752,800	12,284,700	1,488,100	3,204,400	391,900	8,418,700	2,696,500	-	67,418,100
INCOME BEFORE MINORITY INTEREST AND INCOME TAX PROVISION	1,175,200	962,300	357,700	(324,900)	1,417,600	641,600	824,100	(338,800)	141,500	2,787,200	630,300	139,100	-	8,412,900
MINORITY INTEREST	-	-	-	-	(629,700)	-	-	-	-	-	-	-	-	(629,700)
INCOME BEFORE INCOME TAX PROVISION	1,175,200	962,300	357,700	(324,900)	787,900	641,600	824,100	(338,800)	141,500	2,787,200	630,300	139,100	-	7,783,200
INCOME TAX PROVISION	-	-	-	-	(149,400)	-	-	-	-	-	(12,600)	-	-	(162,000)
NET INCOME	1,175,200	962,300	357,700	(324,900)	638,500	641,600	824,100	(338,800)	141,500	2,787,200	617,700	139,100	-	7,621,200
DISTRIBUTIONS TO SHAREHOLDER	-	-	-	-	(5,820,500)	-	-	-	-	-	-	-	-	(5,820,500)
INTERCOMPANY TRANSFERS	(343,000)	(689,700)	2,998,500	(1,308,500)	4,721,700	(742,000)	(165,400)	1,231,700	(172,700)	(2,639,500)	(1,603,500)	(28,300)	(1,259,300)	-
RETAINED EARNINGS, beginning of year	(821,700)	75,900	22,781,400	(23,445,700)	7,337,100	741,900	369,400	-	426,500	(703,100)	1,603,600	13,900	4,500	8,383,700
RETAINED EARNINGS, end of year	\$ 10,500	\$ 348,500	\$ 26,137,600	\$ (25,079,100)	\$ 6,876,800	\$ 641,500	\$ 1,028,100	\$ 892,900	\$ 395,300	\$ (555,400)	\$ 617,800	\$ 124,700	\$ (1,254,800)	\$ 10,184,400

COMPASS HEALTH, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
CONSOLIDATED STATEMENT OF CASH FLOWS – DIRECT METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019
SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

CASH FLOW FROM OPERATING ACTIVITIES:	
Cash received from patients and third-party payers	\$ 75,238,100
Other cash paid	(232,600)
Cash paid for operating expenses	(26,226,900)
Cash paid to employees	(42,694,600)
Interest received	34,100
Interest paid	(57,400)
Income taxes paid	<u>(156,700)</u>
Net cash and cash equivalents provided by operating activities	<u>5,904,000</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Acquisition of plant, property, and equipment	(280,800)
Acquisition of investment, net	<u>(9,800)</u>
Net cash and cash equivalents (used in) investing activities	<u>(290,600)</u>
CASH FLOW FROM FINANCING ACTIVITIES:	
Principal payments on long-term debt	(184,000)
Distributions to minority interest	(850,000)
Distributions to shareholder	<u>(5,820,500)</u>
Net cash and cash equivalents (used in) financing activities	<u>(6,854,500)</u>
Net change in cash and cash equivalents	(1,241,100)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,772,800</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 7,531,700</u>

FORM 1-1
RESIDENT POPULATION

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	65
[2]	Number at end of fiscal year	60
[3]	Total Lines 1 and 2	125
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	62.5
All Residents		
[6]	Number at beginning of fiscal year	175
[7]	Number at end of fiscal year	164
[8]	Total Lines 6 and 7	339
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	169.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	0.37

FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>	<u>TOTAL</u>
[1] Total Operating Expenses (including depreciation and debt service - interest only)	\$12,947,900
[a] Depreciation	\$248,533
[b] Debt Service (Interest Only)	\$0
[2] Subtotal (add Line 1a and 1b)	\$248,533
[3] Subtract Line 2 from Line 1 and enter result.	\$12,699,367
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	37%
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$4,682,657
	x .001
[6] Total Amount Due (multiply Line 5 by .001)	\$4,683

PROVIDER: Compass Health, Inc.

COMMUNIT Bayside Care Center and Casa de Flores

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	24
[2]	Number at end of fiscal year	52
[3]	Total Lines 1 and 2	76
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	38
All Residents		
[6]	Number at beginning of fiscal year	143
[7]	Number at end of fiscal year	143
[8]	Total Lines 6 and 7	286
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	143
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	0.27

FORM 1-2
ANNUAL PROVIDER FEE

Line	TOTAL
[1] Total Operating Expenses (including depreciation and debt service - interest only)	\$10,917,400
[a] Depreciation	\$87,412
[b] Debt Service (Interest Only)	\$0
[2] Subtotal (add Line 1a and 1b)	\$87,412
[3] Subtract Line 2 from Line 1 and enter result.	\$10,829,988
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	27%
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$2,877,899
	x .001
[6] Total Amount Due (multiply Line 5 by .001)	\$2,878

PROVIDER Compass Health, Inc.

COMMUNITY Arroyo Grande Care Center and Wyndham Residence

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	03/01/12	\$183,946	\$53,582	\$0	\$237,528
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$53,582	\$0	\$237,528

*(Transfer this amount to
Form 5-3, Line 1)*

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Compass Health, Inc.

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Total Interest Paid During Fiscal Year	Amount of Most Recent Payment on the Debt	Number of Payments over next 12 months	Reserve Requirement (see instruction 5) (columns (c) x (d))
1	N/A				\$0
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:		\$0	\$0	0	\$0

*(Transfer this amount to
Form 5-3, Line 2)*

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Compass Health, Inc.

FORM 5-3**CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	<u>\$237,528</u>
2	Total from Form 5-2 bottom of Column (e)	<u>\$0</u>
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	<u>\$2,639,237</u>
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	<u><u>\$2,876,765</u></u>

PROVIDER: Compass Health, Inc.

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		<u>\$12,947,900</u>
2	Deductions:		
a.	Interest paid on long-term debt (see instructions)	<u>\$0</u>	
b.	Credit enhancement premiums paid for long-term debt (see instructions)	<u>\$0</u>	
c.	Depreciation	<u>\$248,533</u>	
d.	Amortization	<u>\$0</u>	
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>\$9,983,214</u>	
f.	Extraordinary expenses approved by the Department	<u>\$0</u>	
3	Total Deductions		<u>\$10,231,747</u>
4	Net Operating Expenses		<u>\$2,716,153</u>
5	Divide Line 4 by 365 and enter the result.		<u>\$7,442</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		<u><u>\$558,150</u></u>

PROVIDER: Compass Health, Inc.

COMMUNITY: Bayside Care Center and Casa de Flores

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		<u>\$10,917,400</u>
2	Deductions:		
a.	Interest paid on long-term debt (see instructions)	<u>\$0</u>	
b.	Credit enhancement premiums paid for long-term debt (see instructions)	<u>\$0</u>	
c.	Depreciation	<u>\$87,412</u>	
d.	Amortization	<u>\$0</u>	
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>\$11,411,278</u>	
f.	Extraordinary expenses approved by the Department	<u>\$0</u>	
3	Total Deductions		<u>\$11,498,690</u>
4	Net Operating Expenses		<u>-\$581,290</u>
5	Divide Line 4 by 365 and enter the result.		<u>-\$1,593</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		<u><u>-\$119,475</u></u>

PROVIDER: Compass Health, Inc.

COMMUNITY: Arroyo Grande Care Center and Wyndham Residence

FORM 5-5

Fiscal Year Ended: 12/31/2019

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$2,876,765
[2] Operating Expense Reserve Amount	\$438,675
[3] Total Liquid Reserve Amount:	\$3,315,440

Qualifying assets sufficient to fulfill the above requirements are held as follows:

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	\$7,093,025	\$438,675
[5] Investment Securities		
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve		(not applicable)
[10] Other:		
(describe qualifying asset)		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	\$7,093,025 [12]	\$438,675
Reserve Obligation Amount: [13]	\$2,876,765 [14]	\$438,675
Surplus/(Deficiency): [15]	\$4,216,260 [16]	\$0

Signature:

(Authorized Representative)

Controller

(Title)

Date:

Provider Name:	<u>COMPASS HEALTH, INC.</u>
Fiscal Year End:	<u>12/31/2019</u>

DSS - Reserve Report - Part of Form 5-5
Description of Reserves under SB 1212

Total Qualifying Assets as Filed:

Cash and Cash Equivalents	\$7,531,700
Line of Credit	
Other	\$0
Less Funds Reserved for Specific Designations	\$0
Total Qualifying Assets as Filed	<u><u>\$7,531,700</u></u>

Provider:	<u>COMPASS HEALTH, INC.</u>
Community:	<u>BAYSIDE CARE CENTER & CASA DE FLORES</u>

Per Capita Cost of Operations Operating Expenses (Form 5-4 (1) line #1)	12,947,900
Mean # of All Residents (Form 1-1 line #10)	169.5
Per Capita Cost of Operations	<u><u>76,389</u></u>

** No funds have been set aside for capital improvements or any other reserves outside of the CCRC Liquid Reserve Requirement

Provider Name: COMPASS HEALTH, INC.
Fiscal Year End: 12/31/2019

DSS - Reserve Report - Part of Form 5-5
Description of Reserves under SB 1212

Total Qualifying Assets as Filed:

Cash and Cash Equivalents	\$7,531,700
Line of Credit	
Other	\$0
Less Funds Reserved for Specific Designations	\$0
Total Qualifying Assets as Filed	<u><u>\$7,531,700</u></u>

Provider: COMPASS HEALTH, INC.
Community: ARROYO GRANDE CARE CENTER &
WYNDHAM RESIDENCE

Per Capita Cost of Operations Operating
Expenses (Form 5-4 (2) line #1) 10,917,400

Mean # of All Residents (Form 1-1 (2) line #10) 143

Per Capita Cost of Operations 76,345

** No funds have been set aside for capital improvements or any other reserves outside of
the CCRC Liquid Reserve Requirement

Reconciliation to Audited Financial Statements

Form 1-2, Line 1a - Reconciliation

Account Detail	BCC	CDF	
SNF - General & Admin	1,233,396		
RCF General & Admin		289,117	
SNF Depreciation & Amortization	117,872		
RCF Depreciation & Amortization		130,661	
SNF - Leases & Rentals	1,249,306		
RCF - Leases & Rentals		510,632	
SNF - Property Taxes	66,135		
RCF - Property Taxes		48,643	
SNF - Property Insurance	53,357		
RCF - Property Insurance		33,426	
SNF - Misc	-		
RCF - Misc		221	
Patient Supplies	4,628		
Priv Other Ancillaries	16,133		
Mcare Other Ancillaries	76		
Mcal Other Ancillaries	9,899		
Total General & Administrative Costs	2,750,802	1,012,700	Ties to Audited FS pg. 27 line 11 under BCC & CDF respectively
From Audited FS pg 27			
SNF Depreciation & Amortization	117,872		
RCF Depreciation & Amortization	130,661		
Total Depreciation from FS	248,533		Ties to Form 1-2 Line 1a.

Form 5-1 Reconciliation

Account Detail	VHHC	
Principal Paid During Fiscal Year	183,900	Form 5-1 Line 1b **Ties to the 2019 Audited FS, pg. 20, Note 7- Long Term Debt, under 2018 "Current Portion of Long-Term Debt". "Current Portion" refers to year in which audit was conducted (2019).
Interest Expense related to long term debt - VHHC	53,582	Form 5-1 Line 1c
Accounts Payable Finance Charges - VHHC	118	
	53,700	Ties to Audited FS pg. 27, line 12 under VHHC

Form 5-3 Line 3 - Reconciliation

Account Detail	Consolidated			
SNF - General & Admin	13,447,291			
RCF General & Admin	711,413			
SNF Depreciation & Amortization	601,886			
RCF Depreciation & Amortization	130,662			
SNF - Leases & Rentals	2,902,432			
RCF - Leases & Rentals	1,073,160			
SNF - Property Taxes	283,336			
RCF - Property Taxes	48,643			
SNF - Property Insurance	325,513			
RCF - Property Insurance	51,697			
SNF - Misc	-			
RCF - Misc	21,472			
Patient Supplies	77,234			
Priv Other Ancillaries	28,367			
Mcare Other Ancillaries	12,292			
Mcal Other Ancillaries	105,002			
Total General & Administrative Costs	19,820,400	Ties to Audited FS pg. 27 line 11 under Total		
SNF - Leases & Rentals		RCFE - Leases & Rentals		
Lease - Buildings	2,813,921	Lease - Buildings	1,072,637	
Lease - Equipment	6,055	Lease - Equipment	523	
Lease - Auto	82,456	Lease - Auto	-	
	2,902,432	Ties to SNF Leases & Rentals Above	1,073,160	Ties to RCF Leases & Rentals Above
SNF Leases - Buildings		RCFE Leases - Buildings		
AGCC	563,840	CDF	510,109	
ALTC	(198,868)	Wynd	562,528	
BCC	1,248,522		1,072,637	
CHI	162,195			
MVHC	678,639			
SLPA	78,398			
SLTC	281,195			
	2,813,921			
SNF Leases - Buildings	2,813,921			
RCFE Leases - Buildings	1,072,637			
Total SNF & RCF Building Leases	3,886,558			
Deferred Rent	124,873			
	4,011,431			
Less Portion Paid to Related Parties (Not applicable to long-term debt)	(1,372,194)			
Facility Leasehold/Rental Payments	2,639,237	Ties to Form 5-3 line 3		

COMPASS HEALTH, INC.
 BAYSIDE CARE CENTER & CASA DE FLORES

Form 5-4 (1) Lines 1 2(c) & 2(e) - Reconciliation

Total Operating Expense (BCC & CDF)	12,947,900	Form 5-4 (1) Line 1
BCC Total Expenses	9,639,200	Audited FS pg. 27, line 17 under BCC
CDF Total Expenses	3,308,700	Audited FS pg. 27, line 17 under CDF
	12,947,900	Ties to Form 5-4 (1) Line 1
Variance	-	
Depreciation	248,533	Form 5-4 (1) Line 2c See Form 5-1 Reconciliation Above. Ties to Audited FS pg. 27, line 11
Revenue from Persons not under CCRC Contract		
See separate reconciliation to Consolidated Statement of Cash Flows (Direct Method)		

Reconciliation to Audited Financial Statements

Form 1-2, Line 1a - Reconciliation

Account Detail	AGCC	WYND	
SNF - General & Admin	1,321,467		
RCF General & Admin		422,719	
SNF Depreciation & Amortization	87,412		
RCF Depreciation & Amortization		-	
SNF - Leases & Rentals	564,075		
RCF - Leases & Rentals		562,528	
SNF - Property Taxes	34,062		
RCF - Property Taxes		-	
SNF - Property Insurance	45,480		
RCF - Property Insurance		18,271	
SNF - Misc	-		
RCF - Misc		20,882	
Patient Supplies	6,301		
Priv Other Ancillaries	418		
Mcare Other Ancillaries	3,661		
Mcal Other Ancillaries	22,624		
Total General & Administrative Costs	2,085,500	1,024,400	Ties to Audited FS pg. 27 line 11 under AGCC & Wynd respectively
From Audited FS pg 22			
SNF Depreciation & Amortization	87,412		
RCF Depreciation & Amortization	-		
Total Depreciation from FS	87,412		Ties to Form 1-2 Line 1a.

Form 5-4 (2) Lines 1, 2(c) & 2(e) - Reconciliation

Total Operating Expense (AGCC & WYND)	10,917,400	Form 5-4 (2) Line 1
AGCC Total Expenses	8,220,900	Audited FS pg. 27, line 17 under AGCC
WYND Total Expenses	2,696,500	Audited FS pg. 27, line 17 under Wynd
	10,917,400	Ties to Form 5-4 (2) Line 1
Variance	-	
Depreciation	87,412	Form 5-4 (2) Line 2c
		See Form 5-1 Reconciliation Above. Ties to Audited FS pg. 22, line 12
AGCC Revenue from Persons not under CCRC Contract		
See separate reconciliation to Consolidated Statement of Cash Flows (Direct Method)		

RECONCILIATION OF REVENUE TO CONSOLIDATED STATEMENT OF CASH FLOWS

11,411,277.73	AGCC/WYD non-CCRC Revenue (A7 + A26)
Ties to Form 5-4 (2) line 2 (e)	
361,566.27	AGCC CCRC Revenue
11,207,974.73	AGCC Non-CCRC Revenue
11,569,541.00	AGCC Room & Board Revenue
11,569,541.00	AGCC Room & Board
317,981.00	AGCC Other Rev + Contractual Adj.
11,887,522.00	AGCC Revenue
2,697,282.00	CCRC
203,303.00	Non-CCRC
2,900,585.00	WYND Room & Board Revenue

9,983,214.00	BCC/CDF non-CCRC Revenue (H19 + H26)
Ties to Form 5-4 (1) line 2 (e)	
372,763.00	BCC CCRC Revenue
9,947,360.00	BCC Non-CCRC Revenue
10,320,123.00	BCC Room & Board Revenue
10,320,123.00	BCC Room & Board
1,391,691.00	BCC Other Rev + Contractual Adj.
11,711,814.00	BCC Revenue
3,094,413.00	CCRC
35,854.00	Non-CCRC
3,130,267.00	CDF Room & Board Revenue

11,711,814.00	BCC Revenue
11,887,522.00	AGCC Revenue
52,278,486.00	Other SNFS
75,877,822.00	SNF Revenues

3,130,267.00	CDF Revenue
2,900,585.00	WYND Revenue
6,030,852.00	RESIDENTIAL & BOARD & CARE

315,595.00	RESIDENTIAL & BOARD & CARE
5,715,257.00	SSI REVENUES
6,030,852.00	
4,206.00	MEALS-GUESTS & EMPLOYEES
22,419.00	BARBER & BEAUTICIAN
35,877.00	MEAL TRAY
7,589.00	PAY TELEPHONE
41,100.00	ADMIT. PROCESSING FEE
1,116.00	OTHER REVENUE
6,143,159.00	RCFE Revenues

75,877,822.00	SNF Revenues
6,143,159.00	RCFE Revenues
(5,741,261.00)	Less Therapy Revenues
76,279,720.00	2018 Revenues

76,279,720.00	2019 SNF + RCFE Revenues + Therapy Revenues
8,176,981.00	2018 Ending AR
(9,218,641.00)	Less 2019 AR
75,238,060.00	Ties to Cash Received from patients and third-party payers from Statement of Cash Flows - Direct Method