

ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED:

12/31/2018

PROVIDER(S): Compass Health, Inc

CCRC(S): Bayside Care Center and Casa de Flores

Arrigo Grande Care Center and Wyndham Residence

PROVIDER CONTACT PERSON: Patricia Beattie

TELEPHONE NO.: (805) 474-7010

EMAIL: Patricia@compass-health.com

A complete annual report must consist of 3 copies of all of the following:

☒ Annual Report Checklist.

☒ Annual Provider Fee in the amount of: \$ 6,037

☐ If applicable, late fee in the amount of: \$ N/A

☒ Certification by the provider's **Chief Executive Officer** that:

☒ The reports are correct to the best of his/her knowledge.

☒ Each continuing care contract form in use or offered to new residents has been approved by the Department.

☒ The provider is maintaining the required *liquid* reserves and, when applicable, the required refund reserve. N/A. No refundable contracts

☒ Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.

☒ Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.

☒ Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon. (NOTE: Form 5-5 must be signed and have the required disclosures attached (H&SC section 1790(a)(2) and (3)).

☒ "Continuing Care Retirement Community Disclosure Statement" for **each** community.

☒ Form 7-1, "Report on CCRC Monthly Service Fees" for **each** community.

N/A ☒ Form 9-1, "Calculation of Refund Reserve Amount", if applicable.

☒ Key Indicators Report (signed by CEO or CFO (or by the authorized person who signed the provider's annual report)). The KIR may be submitted along with the annual report, but is not required until 30 days later.

September 20, 2019

Continuing Care Contracts Branch

California Department of Social Services

To Whom It May Concern:

I, Darren Smith, certify that the annual audit, reports and any amendments thereto submitted for December 31, 2018 for Compass Health, Inc., dba Bayside Care Center, Casa de Flores as well as Arroyo Grande Care Center and Wyndham Residence have been audited by a Certified Public Accountant and are true and correct to the best of my knowledge.

The continuing care contract forms currently in use and offered to new residents at Bayside Care Center, Casa de Flores, Arroyo Grande Care Center and Wyndham Residence have been approved by the Department of Social Services.

Compass Health, Inc. is maintaining the required liquid reserve of \$3,485,773.

Sincerely,

Darren Smith, CEO
Compass Health, Inc.
(805) 474-7010 x 109

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to be 'JHK' or similar, written in a cursive style.

July 03, 2019

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	ASSETS	
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,772,800	\$ 4,380,300
Accounts receivable, net	8,177,000	8,332,300
Supplies	3,100	3,000
Prepaid expenses	710,200	705,300
Due from related parties, net	<u>1,509,500</u>	<u>1,549,300</u>
Total current assets	19,172,600	14,970,200
INVESTMENT	273,400	-
PLANT, PROPERTY, AND EQUIPMENT, net	5,977,900	5,825,900
INTANGIBLE ASSETS, net	30,300	48,200
DEPOSITS AND OTHER ASSETS	<u>105,000</u>	<u>105,000</u>
Total assets	\$ <u>25,559,200</u>	\$ <u>20,949,300</u>
	LIABILITIES AND SHAREHOLDER'S EQUITY	
CURRENT LIABILITIES:		
Accounts payable	\$ 1,385,900	\$ 1,449,300
Accrued compensation and related expenses	5,524,100	6,311,600
Income taxes payable	144,700	134,500
Security deposits and other liabilities	2,758,800	2,278,000
Current portion of long-term debt	<u>183,900</u>	<u>174,400</u>
Total current liabilities	9,997,400	10,347,800
LONG-TERM DEBT, net of current portion	901,300	1,085,200
DEFERRED RENT	<u>1,778,900</u>	<u>1,849,200</u>
Total liabilities	12,677,600	13,282,200
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>8,383,700</u>	<u>3,516,900</u>
	10,395,500	5,528,700
Minority interest	<u>2,486,100</u>	<u>2,138,400</u>
Total shareholder's equity	<u>12,881,600</u>	<u>7,667,100</u>
Total liabilities and shareholder's equity	\$ <u>25,559,200</u>	\$ <u>20,949,300</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES:		
Net patient service revenue	\$ 68,634,500	\$ 68,517,000
Net residential board and care revenue	<u>6,247,700</u>	<u>6,627,600</u>
Total revenues	<u>74,882,200</u>	<u>75,144,600</u>
EXPENSES:		
Nursing services	28,794,100	29,985,600
Plant operations and maintenance	3,657,000	3,589,100
Housekeeping and laundry	2,692,400	2,645,900
Dietary	6,269,400	6,389,900
Social services and activities	1,625,700	1,653,100
Education	629,700	591,300
General and administrative	20,805,900	20,791,300
Interest expense	64,100	87,800
Pharmacy	1,744,300	1,835,200
Laboratory	211,500	225,400
Other expenses	122,300	150,300
X-ray	<u>240,200</u>	<u>250,300</u>
Total expenses	<u>66,856,600</u>	<u>68,195,200</u>
INCOME BEFORE MINORITY INTEREST AND INCOME TAX PROVISION	8,025,600	6,949,400
MINORITY INTEREST	<u>(1,172,700)</u>	<u>(1,043,300)</u>
INCOME BEFORE INCOME TAX PROVISION	6,852,900	5,906,100
INCOME TAX PROVISION	<u>(157,200)</u>	<u>(159,700)</u>
NET INCOME	6,695,700	5,746,400
DISTRIBUTIONS TO SHAREHOLDER	(1,828,900)	(10,292,900)
RETAINED EARNINGS, beginning of year	<u>3,516,900</u>	<u>8,063,400</u>
RETAINED EARNINGS, end of year	\$ <u>8,383,700</u>	\$ <u>3,516,900</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	\$ 6,695,700	\$ 5,746,400
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Minority interest	1,172,700	1,043,300
Depreciation and amortization	738,100	734,900
(Gain) on sale of plant, property, and equipment	(1,300)	(13,200)
Deferred rent	(70,300)	3,200
Loss from investment	6,600	-
Changes in assets and liabilities:		
Decrease in accounts receivable, net	155,300	795,600
(Increase) in supplies	(100)	(400)
(Increase) in prepaid expenses	(4,900)	(152,000)
Decrease in due from related parties, net	39,800	2,400
(Decrease) increase in accounts payable	(63,400)	39,700
(Decrease) in accrued compensation and related expenses	(787,500)	(76,200)
Increase (decrease) in income taxes payable	10,200	(6,200)
Increase in security deposits and other liabilities	<u>480,800</u>	<u>790,700</u>
Net cash and cash equivalents provided by operating activities	<u>8,371,700</u>	<u>8,908,200</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Acquisition of plant, property, and equipment	(875,500)	(340,900)
Proceeds from sale of plant, property, and equipment	4,600	18,700
Acquisition of investment	<u>(280,000)</u>	<u>-</u>
Net cash and cash equivalents (used in) investing activities	<u>(1,150,900)</u>	<u>(322,200)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
(Principal payments on) long-term debt	(174,400)	(165,300)
Distributions to minority interest	(825,000)	(1,000,000)
Distributions to shareholder	<u>(1,828,900)</u>	<u>(10,292,900)</u>
Net cash and cash equivalents (used in) financing activities	<u>(2,828,300)</u>	<u>(11,458,200)</u>
Net change in cash and cash equivalents	4,392,500	(2,872,200)
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,380,300</u>	<u>7,252,500</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>8,772,800</u>	\$ <u>4,380,300</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, 2018 AND 2017

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	<u>2018</u>	<u>2017</u>
Cash paid during the year for:		
Income taxes	\$ <u>147,100</u>	\$ <u>165,800</u>
Interest paid	\$ <u>64,100</u>	\$ <u>87,800</u>

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING
ACTIVITIES:

During 2017, the Company wrote off goodwill in the amount of \$1,000,000 along with the corresponding liability for the entire amount, which was included in long-term accrued expenses.

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 1,040 employees, with approximately 849 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).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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").

Net Patient Service Revenue

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, 2018 and 2017 were \$3,039,800 and \$3,285,500, respectively.

Revenues from direct billings under federal Medicare program and state Medi-Cal program, net of contractual allowances, during the years ended December 31, 2018 and 2017 were approximately 91%, each year, of net patient service revenue.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Patient Service Revenue - Continued

At December 31, 2018 and 2017, the amounts due from federal and state third-party payors were approximately \$6,615,200 and \$6,635,800, respectively, and are included in accounts receivable in the accompanying consolidated financial statements.

Net Residential Board and Care Revenue

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.

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 and Allowance for Doubtful Accounts

Accounts receivable consists of amounts billed to patients and tenants, net of an allowance for doubtful amounts. Management estimates the allowance for doubtful accounts based on historical losses, net of subsequent recoveries. Accounts are considered past due if the client has not paid within the time allowed on the contract. The Company does not charge interest on accounts receivable. At December 31, 2018 and 2017, allowances for doubtful accounts were \$259,700 and \$262,000, respectively.

Investment

The Company evaluates its investment in a limited liability company (“LLC”) to determine whether the LLC 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.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investment – Continued

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 investment in HLH Coastal Living Holdings, 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 investment in the unconsolidated LLC 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 investment in the LLC was impaired as of December 31, 2018.

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.

COMPASS HEALTH, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2018 and 2017, 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 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 the Financial Accounting Standards Board (FASB) Accounting Standards Update (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.

During the year ended December 31, 2017, the management of the Company wrote off goodwill along with the corresponding long-term accrued expenses. This transaction had no effect on the consolidated statements of operations and shareholder's equity during both initial recognition and subsequent write off of goodwill and the corresponding long-term accrued expenses.

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 because of the relatively short period of time between the origination of these instruments and their expected realization or payment.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value of Financial Instruments – Continued

It was not practical to estimate the fair value of an investment in the equity of non-traded LLC. The investment in HLH Coastal Living Holdings, LLC is carried at the original cost and adjusted annually for the Company's proportionate share of the LLC's income and losses, less distributions, if any.

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, 2018 and 2017 that exceed the balance insured by the FDIC and SIPC in the amount of \$8,853,600 and \$4,687,200, respectively.

With respect to accounts receivable, the Company's customer base consists of a large number of customers. The Company performs credit evaluations and writes off uncollectible amounts as they become known.

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.

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.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Workers' Compensation Costs – Continued

Under the SNCC Plan in effect through May 1, 2018, 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 \$40,346,100. This represents the minimum amount of premium to be paid by the Company.

Effective May 2, 2018, the Company renewed the policy for an additional twelve months holding all terms the same, based on an inception payroll of \$40,633,700.

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.

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.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes – Continued

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, 2018 and 2017.

The Company's tax returns are no longer subject to income tax examinations by taxing authorities for years before 2015 for their federal and 2014 for their state tax filings.

Recently Adopted Accounting Guidance

In May 2014, the FASB issued 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. In August 2015, the FASB issued ASU 2015-14 deferring the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

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 consolidated 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 – Commitments and Contingencies, will be reported on the statement of consolidated financial position as gross-up assets and liabilities. ASU 2016-02 is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its statement of consolidated financial position or consolidated financial statement disclosures.

COMPASS HEALTH, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Adopted Accounting Guidance - Continued

In the normal course of business, the Company evaluates new accounting pronouncements to determine the potential impact they may have on its consolidated financial statements. Based upon this review, the Company does not expect any of the recently issued accounting pronouncements, which have not already been adopted by the Company, to have a material impact on its consolidated financial statements.

Subsequent Events

The Company evaluated events occurring between December 31, 2018 and July 03, 2019 (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.

NOTE 3 - INVESTMENT

The accompanying consolidated financial statements include an investment in HLH Coastal Living Holdings, LLC (“HLH”). The Company accounts for the investment in HLH under the equity method of accounting as the Company does not control this entity. Significant accounting policies used by this entity are similar to those used by the Company. At December 31, 2018 and 2017, Company’s ownership interest in HLH was 40.00% and 0.00%, respectively.

The following is a summary of investment activity for the years ended December 31, 2018 and 2017:

	<u>Amount</u>
Balance at December 31, 2016	\$ -
Plus: contributions	-
Less: distributions	-
Less: (loss) income from investment	<u>-</u>
Balance at December 31, 2017	\$ -
Plus: contributions	280,000
Less: distributions	-
Less: (loss) income from investment	<u>(6,600)</u>
Balance at December 31, 2018	\$ <u><u>273,400</u></u>

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PLANT, PROPERTY, AND EQUIPMENT

At December 31, 2018 and 2017, plant, property, and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 966,000	\$ 966,000
Facility buildings	5,352,700	5,352,700
Parking structure	316,100	309,100
Fixed equipment	391,900	334,000
Leasehold improvements	3,256,700	2,494,100
Major movable	2,003,700	1,889,900
Minor movable	1,538,400	1,531,800
Furniture and fixtures	1,861,800	1,852,900
Construction-in-progress	<u>147,600</u>	<u>234,000</u>
	15,834,900	14,964,500
Less: accumulated depreciation and amortization	<u>(9,857,000)</u>	<u>(9,138,600)</u>
	<u>\$ 5,977,900</u>	<u>\$ 5,825,900</u>

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 were \$720,200 and \$716,700, respectively.

NOTE 5 - INTANGIBLE ASSETS

At December 31, 2018 and 2017, intangible assets consisted of the following:

	<u>2018</u>	<u>2017</u>
Deferred financing costs	\$ 48,600	\$ 48,600
Other	<u>45,800</u>	<u>45,800</u>
	94,400	94,400
Less: accumulated amortization	<u>(64,100)</u>	<u>(46,200)</u>
	<u>\$ 30,300</u>	<u>\$ 48,200</u>

Amortization expense related to intangible assets for the years ended December 31, 2018 and 2017 were \$17,900 and \$18,200, 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% (5.27% and 4.83%, respectively, at December 31, 2018 and 2017). The line of credit matured on October 31, 2018. During the year ended December 31, 2018, the line of credit was renewed and is set to mature on November 30, 2019. The line of credit is secured essentially by all assets of the Company and is guaranteed by a shareholder. As of December 31, 2018 and 2017, there was no amount outstanding under this line of credit.

NOTE 7 - ACCRUED COMPENSATION AND RELATED EXPENSES

At December 31, 2018 and 2017, accrued compensation and related expenses consisted of the following:

	<u>2018</u>	<u>2017</u>
Accrued payroll	\$ 1,837,100	\$ 2,004,600
Accrued vacation, holiday, and sick	1,358,000	1,266,000
Workers' compensation payable	1,999,900	2,708,700
Other accrued liabilities	<u>329,100</u>	<u>332,300</u>
	<u>\$ 5,524,100</u>	<u>\$ 6,311,600</u>

NOTE 8 - LONG-TERM DEBT

At December 31, 2018 and 2017, long-term debt consisted of the following:

	<u>2018</u>	<u>2017</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.	\$ 1,085,200	\$ 1,259,600
Less: current portion	<u>(183,900)</u>	<u>(174,400)</u>
	<u>\$ 901,300</u>	<u>\$ 1,085,200</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, 2018 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 183,900
2020	194,000
2021	204,700
2022	215,900
2023	227,700
2024 and thereafter	<u>59,000</u>
	\$ <u>1,085,200</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 \$155,000 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 \$45,500, 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 2020 and has one remaining option to extend for five years and one option to extend until January 2033. The minimum monthly rent payments total approximately \$23,000 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 \$55,100, 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 \$10,600, 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 Alto Lucero Transitional Care Center facility in Santa Barbara, California under an operating lease with an unrelated party. The lease agreement expires in September 2026 and has one option to extend for ten years. The minimum monthly rent payments total approximately \$54,000, with an annual maximum increase of 3.00%.

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>
2019	\$ 4,742,500
2020	4,772,400
2021	4,708,400
2022	4,836,100
2023	3,934,400
2024 and thereafter	<u>20,195,000</u>
	<u>\$ 43,188,800</u>

For the years ended December 31, 2018 and 2017, the Company incurred rent expense of \$4,590,500 and \$4,565,200, respectively.

COMPASS HEALTH, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - COMMITMENTS AND CONTINGENCIES – CONTINUED

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.

c) Guarantor

The Company is a guarantor for two loans on real property owned by related parties. At December 31, 2018, 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 and operated by Old Custom House, Inc.	\$ 1,068,600
Real property located at 1575 Bishop Street, San Luis Obispo, CA owned by Playa Dulce, LLC and operated by the Company.	\$ 946,000

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, 2018 and 2017, the Company's matching contribution to the Plan amounted to \$231,345 and \$229,300, 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, 2018 and 2017, the Company recorded approximately \$1,984,800 and \$1,939,000, respectively, in rent expense. There was no amount due to related parties at December 31, 2018 and 2017.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - RELATED PARTY TRANSACTIONS – CONTINUED

As of December 31, 2018 and 2017, the Company had advances of \$1,509,500 and \$1,549,300 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>2018</u>	<u>2017</u>
The Old Custom House Inc.	\$ 1,521,100	\$ 1,521,100
Playa Dulce LLC	13,500	400
Various	<u>(25,100)</u>	<u>27,800</u>
	<u>\$ 1,509,500</u>	<u>\$ 1,549,300</u>

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018



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, 2018 and 2017, and our report thereon dated July 03, 2019, 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 40 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, 2018, 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', is written over a horizontal line.

September 19, 2019

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION
CONSOLIDATING BALANCE SHEETS

DECEMBER 31, 2018

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

	AGCC	ALTC	BCC	CDF	CHI	DCC	IVHC	SLTC	TPY	VHVC	WYND	Eliminations	Total
CURRENT ASSETS													
Cash and cash equivalents	\$ (117,700)	\$ (182,100)	\$ (102,800)	\$ (29,400)	\$ 7,668,800	\$ 292,500	\$ (100,200)	\$ (19,900)	\$ (3,700)	\$ 1,668,300	\$ 199,600	\$ -	\$ 8,772,800
Accounts receivable, net	758,200	1,556,900	1,141,600	8,200	1,900	760,900	1,795,900	535,700	-	1,641,600	(23,900)	-	8,177,000
Supplies	-	-	-	-	-	-	-	-	-	-	3,100	-	3,100
Prepaid expenses	129,300	104,000	150,400	26,000	26,600	73,100	45,600	33,300	1,600	114,200	6,100	-	710,200
Due from related parties, net	2,000	(100)	24,268,500	(24,268,500)	2,057,700	(3,230,700)	-	100	-	2,850,000	-	(169,500)	1,509,500
Total current assets	771,800	1,478,700	25,457,700	(24,263,700)	9,755,000	(2,104,200)	1,741,300	549,300	(2,100)	5,774,100	184,300	(169,500)	19,172,600
INVESTMENT	-	-	-	-	273,400	-	-	-	-	-	-	-	273,400
PLANT, PROPERTY, AND EQUIPMENT, net	326,100	352,100	489,100	1,026,700	98,600	1,252,500	-	127,500	-	2,305,300	-	-	5,977,900
INTANGIBLE ASSETS, net	-	-	-	-	9,700	-	-	-	-	20,600	-	-	30,300
DEPOSITS AND OTHER ASSETS	18,000	40,000	-	-	13,000	-	34,000	-	-	-	-	-	105,000
Total assets	\$ 1,115,900	\$ 1,870,800	\$ 25,946,800	\$ (23,237,000)	\$ 10,149,700	\$ (851,700)	\$ 1,775,300	\$ 676,700	\$ (2,100)	\$ 8,100,000	\$ 184,300	\$ (169,500)	\$ 25,559,200
CURRENT LIABILITIES													
Accounts payable	\$ 116,700	\$ 196,300	\$ 205,500	\$ 60,800	\$ 157,300	\$ 124,000	\$ 238,700	\$ 73,400	\$ -	\$ 194,800	\$ 28,400	\$ -	\$ 1,385,900
Accrued compensation and related expenses	609,300	727,800	861,700	90,700	566,800	304,300	859,000	169,400	698,500	501,000	135,600	-	5,524,100
Income taxes payable	-	-	-	-	144,700	-	-	-	-	-	-	-	144,700
Security deposits and other liabilities	1,001,400	132,700	1,027,400	57,200	172,200	23,400	318,200	7,400	2,500	10,000	6,400	-	2,758,800
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	183,900	-	-	183,900
Total current liabilities	1,727,400	1,056,800	2,094,600	208,700	1,041,000	451,700	1,405,900	250,200	701,000	889,700	170,400	-	9,997,400
LONG-TERM DEBT, net of current portion	-	-	-	-	-	-	-	-	-	901,300	-	-	901,300
DEFERRED RENT	-	738,100	1,040,800	-	-	-	-	-	-	-	-	-	1,778,900
Total liabilities	1,727,400	1,794,900	3,135,400	208,700	1,041,000	451,700	1,405,900	250,200	701,000	1,791,000	170,400	-	12,677,600
COMMITMENTS AND CONTINGENCIES	-	-	-	-	-	-	-	-	-	-	-	-	-
SHAREHOLDER'S EQUITY													
Controlling interest:													
Common stock, no par value; 1,000 shares authorized;	900	-	30,000	-	1,000	-	-	-	-	-	-	-	31,900
1,000 shares issued and outstanding	209,300	-	-	-	1,770,600	(1,594,300)	-	-	-	2,515,900	-	(921,600)	1,979,900
Paid-in-capital	(821,700)	75,900	22,781,400	(23,445,700)	737,100	741,900	369,400	426,500	(703,100)	1,603,600	13,900	4,500	8,383,700
Retained earnings	(611,500)	75,900	22,811,400	(23,445,700)	9,108,700	(852,400)	369,400	426,500	(703,100)	4,119,500	13,900	(917,100)	10,395,500
Minority interest	-	-	-	-	-	(451,000)	-	-	-	2,189,500	-	747,600	2,486,100
Total shareholder's equity	(611,500)	75,900	22,811,400	(23,445,700)	9,108,700	(1,303,300)	369,400	426,500	(703,100)	6,309,000	13,900	(169,500)	12,881,600
Total liabilities and shareholder's equity	\$ 1,115,900	\$ 1,870,800	\$ 25,946,800	\$ (23,237,000)	\$ 10,149,700	\$ (851,700)	\$ 1,775,300	\$ 676,700	\$ (2,100)	\$ 8,100,000	\$ 184,300	\$ (169,500)	\$ 25,559,200

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENTS OF OPERATIONS AND SHAREHOLDER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

	AGCC	ALTC	BCC	CDF	CHI	DCC	MVHC	SLTC	TPY	VHHC	WYND	Eliminations	Total
REVENUES:													
Net patient service revenue	\$ 9,260,000	\$ 12,048,900	\$ 9,825,500	\$ -	\$ -	\$ 6,500,800	\$ 14,226,700	\$ 3,514,500	\$ 3,253,500	\$ 10,014,600	\$ -	\$ -	\$ 68,634,500
Net residential board and care revenue	-	-	-	3,415,100	-	-	-	-	-	-	2,832,600	-	6,247,700
Management fees	(526,300)	(641,500)	(509,300)	(170,500)	4,381,200	(360,400)	(775,100)	(230,700)	(446,400)	(560,100)	(141,900)	-	-
Total revenues	8,733,700	11,407,400	9,316,200	3,244,600	4,381,200	6,140,400	13,451,600	3,254,800	2,807,100	9,454,500	2,690,700	-	74,882,200
EXPENSES:													
Nursing services	4,011,500	5,832,600	4,519,600	970,600	-	2,497,300	5,551,700	1,074,200	-	3,709,600	627,000	-	28,794,100
Plant operations and maintenance	350,500	621,000	589,100	401,800	32,900	286,500	581,200	170,000	-	456,700	167,300	-	3,657,000
Housekeeping and laundry	345,100	388,500	510,300	133,700	-	247,300	463,500	64,200	-	381,700	158,200	-	2,692,400
Dietary	743,400	933,400	1,002,800	648,900	-	530,700	936,700	278,600	-	735,400	459,500	-	6,269,400
Social services and activities	260,700	281,900	201,500	140,300	-	117,800	304,800	24,900	-	181,200	112,600	-	1,625,700
Education	95,500	129,300	115,200	-	-	101,900	69,800	13,700	-	104,300	-	-	629,700
General and administrative	2,081,800	3,409,300	2,891,700	929,700	2,433,400	1,428,700	3,301,600	1,107,200	308,500	1,940,700	973,300	-	20,805,900
Interest expense	200	100	-	-	500	-	-	-	-	63,300	-	-	64,100
Pharmacy	256,200	193,100	196,900	-	-	155,800	486,700	240,900	-	214,700	-	-	1,744,300
Laboratory	3,100	16,300	16,600	-	-	22,800	64,100	51,900	-	36,700	-	-	211,500
Other expenses	(24,800)	(14,900)	(17,900)	-	284,400	(15,600)	(41,200)	(22,500)	-	(25,200)	-	-	122,300
X-ray	37,900	7,100	28,300	-	-	25,400	55,900	46,300	-	39,300	-	-	240,200
Total expenses	8,161,100	11,797,700	10,054,100	3,225,000	2,751,200	5,398,500	11,774,800	3,049,400	308,500	7,838,400	2,497,900	-	66,886,600
INCOME BEFORE MINORITY INTEREST AND INCOME TAX PROVISION	572,600	(390,300)	(737,900)	19,600	1,630,000	741,900	1,676,800	205,400	2,498,600	1,616,100	192,800	-	8,025,600
MINORITY INTEREST	-	-	-	-	(1,172,700)	-	-	-	-	-	-	-	(1,172,700)
INCOME BEFORE INCOME TAX PROVISION	572,600	(390,300)	(737,900)	19,600	457,300	741,900	1,676,800	205,400	2,498,600	1,616,100	192,800	-	6,852,900
INCOME TAX PROVISION	-	-	-	-	(144,600)	-	-	-	-	(12,600)	-	-	(157,200)
NET INCOME	572,600	(390,300)	(737,900)	19,600	312,700	741,900	1,676,800	205,400	2,498,600	1,603,500	192,800	-	6,695,700
DISTRIBUTIONS TO SHAREHOLDER	-	-	-	-	(1,828,900)	-	-	-	-	-	-	-	(1,828,900)
INTERCOMPANY TRANSFERS	(1,385,000)	822,700	1,577,400	(589,900)	7,037,000	(1,748,400)	(1,158,000)	(333,700)	(2,516,800)	(1,308,000)	(197,300)	-	-
RETAINED EARNINGS, beginning of year	190,700	(356,500)	21,941,900	(22,875,400)	1,816,300	1,748,400	(149,400)	554,800	(684,900)	1,308,100	18,400	4,500	3,516,900
RETAINED EARNINGS, end of year	(821,200)	75,900	22,781,400	(23,445,700)	7,337,100	741,900	369,400	476,500	(703,100)	1,603,600	13,900	4,500	8,383,700

COMPASS HEALTH, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
CONSOLIDATED STATEMENT OF CASH FLOWS – DIRECT METHOD
FOR THE YEAR ENDED DECEMBER 31, 2018
SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

CASH FLOW FROM OPERATING ACTIVITIES:	
Cash received from patients and third-party payers	\$ 75,037,500
Other cash paid	(132,300)
Cash paid for operating expenses	(24,674,100)
Cash paid to employees	(41,665,000)
Interest received	16,700
Interest paid	(64,100)
Income taxes paid	<u>(147,000)</u>
Net cash and cash equivalents provided by operating activities	<u>8,371,700</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Acquisition of plant, property, and equipment	(875,500)
Proceeds from sale of plant, property, and equipment	4,600
Acquisition of investment	<u>(280,000)</u>
Net cash and cash equivalents (used in) investing activities	<u>(1,150,900)</u>
CASH FLOW FROM FINANCING ACTIVITIES:	
Principal payments on long-term debt	(174,400)
Distributions to minority interest	(825,000)
Distributions to shareholder	<u>(1,828,900)</u>
Net cash and cash equivalents (used in) financing activities	<u>(2,828,300)</u>
Net change in cash and cash equivalents	4,392,500
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,380,300</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 8,772,800</u>

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	65
[2]	Number at end of fiscal year	66
[3]	Total Lines 1 and 2	131
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	65.5
All Residents		
[6]	Number at beginning of fiscal year	197
[7]	Number at end of fiscal year	175
[8]	Total Lines 6 and 7	372
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	186
[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).	0.35

FORM 1-2
ANNUAL PROVIDER FEE

Line	TOTAL
[1] Total Operating Expenses (including depreciation and debt service - interest only)	\$13,279,100
[a] Depreciation	\$214,103
[b] Debt Service (Interest Only)	
[2] Subtotal (add Line 1a and 1b)	\$214,103
[3] Subtract Line 2 from Line 1 and enter result.	\$13,064,997
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	35%
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$4,600,846
	x .001
[6] Total Amount Due (multiply Line 5 by .001)	\$4,601

PROVIDER: Compass Health, Inc.

COMMUNITY: Bayside Care Center and Casa de Flores

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	15
[2]	Number at end of fiscal year	24
[3]	Total Lines 1 and 2	39
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	19.5
All Residents		
[6]	Number at beginning of fiscal year	143
[7]	Number at end of fiscal year	144
[8]	Total Lines 6 and 7	287
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	143.5
[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).	0.14

FORM 1-2
ANNUAL PROVIDER FEE

Line	TOTAL
[1] Total Operating Expenses (including depreciation and debt service - interest only)	\$10,659,000
[a] Depreciation	\$93,669
[b] Debt Service (Interest Only)	
[2] Subtotal (add Line 1a and 1b)	\$93,669
[3] Subtract Line 2 from Line 1 and enter result.	\$10,565,331
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	14%
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$1,435,707
	x .001
[6] Total Amount Due (multiply Line 5 by .001)	\$1,436

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	\$174,400	\$63,144	\$0	\$237,544
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
		TOTAL:	\$63,144	\$0	\$237,544

*(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)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) 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)	\$237,544
2	Total from Form 5-2 bottom of Column (e)	\$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	\$2,675,904
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$2,913,448

PROVIDER: Compass Health, Inc.

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		\$13,279,100
2	Deductions:		
	a. Interest paid on long-term debt (see instructions)	\$0	
	b. Credit enhancement premiums paid for long-term debt (see instructions)	\$0	
	c. Depreciation	\$214,103	
	d. Amortization	\$0	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$9,855,730	
	f. Extraordinary expenses approved by the Department	\$0	
3	Total Deductions		\$10,069,833
4	Net Operating Expenses		\$3,209,268
5	Divide Line 4 by 365 and enter the result.		\$8,793
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		\$659,475

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		\$10,659,000
2	Deductions:		
	a. Interest paid on long-term debt (see instructions)	\$0	
	b. Credit enhancement premiums paid for long-term debt (see instructions)	\$0	
	c. Depreciation	\$93,669	
	d. Amortization	\$0	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$10,989,407	
	f. Extraordinary expenses approved by the Department	\$0	
3	Total Deductions		\$11,083,076
4	Net Operating Expenses		-\$424,076
5	Divide Line 4 by 365 and enter the result.		-\$1,162
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		-\$87,150

PROVIDER: Compass Health, Inc.

COMMUNITY: Arroyo Grande Care Center and Wyndham Residence

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Compass Health, Inc.

Fiscal Year Ended: 12/31/2018

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2018 and are in compliance with those requirements.

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	<u>\$2,913,448</u>
[2] Operating Expense Reserve Amount	<u>\$572,325</u>
[3] Total Liquid Reserve Amount:	<u>\$3,485,773</u>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> <u>(market value at end of quarter)</u>	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>\$8,200,475</u>	<u>\$572,325</u>
[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]	<u>\$8,200,475</u>	<u>[12] \$572,325</u>
Reserve Obligation Amount: [13]	<u>\$2,913,448</u>	<u>[14] \$572,325</u>
Surplus/(Deficiency): [15]	<u>\$5,287,027</u>	<u>[16] \$0</u>

Signature:

(Authorized Representative)

Date:

Controller

(Title)

Provider Name: COMPASS HEALTH, INC.
Fiscal Year End: 12/31/2018

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

Total Qualifying Assets as Filed:

Cash and Cash Equivalents	\$8,772,800
Line of Credit	
Other	\$0
Less Funds Reserved for Specific Designations	\$0
Total Qualifying Assets as Filed	<u><u>\$8,772,800</u></u>

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

Per Capita Cost of Operations Operating Expenses (Form 5-4 (2) line #1)	10,569,000
Mean # of All Residents (Form 1-1 (2) line #10)	143.5
Per Capita Cost of Operations	<u><u>73,652</u></u>

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

Form 5-3 Line 3 - Reconciliation

Account Detail	Consolidated	
SNF - General & Admin	13,363,809	
RCF General & Admin	645,652	
SNF Depreciation & Amortization	647,758	
RCF Depreciation & Amortization	90,292	
SNF - Leases & Rentals	3,605,965	
RCF - Leases & Rentals	1,066,862	
SNF - Property Taxes	309,171	
RCF - Property Taxes	44,800	
SNF - Property Insurance	219,743	
RCF - Property Insurance	36,764	
SNF - Provision for Bad Debts	541,119	
RCF - Provision for Bad Debts	-	
SNF - Misc	1,042	
RCF - Misc	18,040	
Patient Supplies	79,945	
Priv Other Ancillaries	23,514	
Micare Other Ancillaries	13,912	
Mical Other Ancillaries	97,512	
Total General & Administrative Costs	20,805,900	Ties to Audited FS pg. 27 line 11 under Total
SNF - Leases & Rentals		
Lease - Buildings	3,524,166	
Lease - Equipment	5,674	
Lease - Auto	76,125	
	3,605,965	Ties to SNF Leases & Rentals Above
RCFE - Leases & Rentals		
Lease - Buildings	1,066,339	
Lease - Equipment	523	
Lease - Auto	-	
	1,066,862	Ties to RCF Leases & Rentals Above
SNF Leases - Buildings		
AGCC	546,092	
ALTC	632,687	
BCC	1,254,820	
CHI	155,373	
MVHC	656,991	
SLTC	278,203	
	3,524,166	
SNF Leases - Buildings	3,524,166	
RCFE Leases - Buildings	1,066,339	
Total SNF & RCF Building Leases	4,590,505	
Deferred Rent	70,231	
	4,660,736	
Less Portion Paid to Related Parties (Not applicable to long-term debt)	(1,984,832)	
Facility Leasehold/Rental Payments	2,675,904	Ties to Form 5-3 line 3

Form 1-2, Line 1a - Reconciliation

Account Detail	AGCC	WYND
SNF - General & Admin	1,202,337	
RCF General & Admin		380,287
SNF Depreciation & Amortization	93,668	
RCF Depreciation & Amortization		-
SNF - Leases & Rentals	547,006	
RCF - Leases & Rentals		562,528
SNF - Property Taxes	65,249	
RCF - Property Taxes		-
SNF - Property Insurance	30,742	
RCF - Property Insurance		12,412
SNF - Provision for Bad Debts	99,641	
RCF - Provision for Bad Debts		-
SNF - Misc		
RCF - Misc		18,040
Patient Supplies	8,188	
Priv Other Ancillaries	2,988	
Mcare Other Ancillaries	4,137	
Mcal Other Ancillaries	27,861	
Total General & Administrative Costs	2,081,817	973,267
Ties to Audited FS pg. 27 line 11 under AGCC & Wynd respectively		
From Audited FS pg 22		
SNF Depreciation & Amortization	93,668	
RCF Depreciation & Amortization	-	
Total Depreciation from FS	93,668	
		Ties to Form 1-2 Line 1a.

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

Total Operating Expense (AGCC & WYND)	10,659,000	Form 5-4 (2) Line 1
AGCC Total Expenses	8,161,100	Audited FS pg. 27, line 17 under AGCC
WYND Total Expenses	2,497,900	Audited FS pg. 27, line 17 under WYND
	10,659,000	Ties to Form 5-4 (2) Line 1
Variance	-	
Depreciation	93,668	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	9,260,000	Audited FS pg. 27 line 1 under AGCC
Total Patient Service Revenue	-	Rev. received from WYND CCRC residents who transferred to AGCC between 2017 - 2018
CCRC Revenue	9,260,000	Total AGCC non-CCRC Revenue
WYND Revenue from Persons not under CCRC Contract	2,832,600	Audited FS pg. 27 line 2 under WYND
Total Patient Service Revenue	(1,103,193)	Total Rev from residents under CCRC contract in 2018 at WYND
CCRC Revenue	1,729,407	
Total Non-CCRC Revenue	10,989,407	Ties to Form 5-4 Line 2e

KEY INDICATORS REPORT

Date Prepared: 9/23/2019
Compass Health, Inc. dba Arroyo Grande Care Center and Wyndham Residence

Chief Executive Officer Signature

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

summarizes significant trends or variances in the key operational indicators.						Projected 2019	Forecast				Preferred Trend Indicator
	2014	2015	2016	2017	2018		2020	2021	2022	2023	
OPERATIONAL STATISTICS											
1. Average Annual Occupancy by Site (%)			88%	89%	93%	90.00%	90%	90%	90%	90%	N/A
MARGIN (PROFITABILITY) INDICATORS											
2. Net Operating Margin (%)			6.66%	8.00%	10.70%	10.00%	10.00%	10.00%	10.00%	10.00%	⬆
3. Net Operating Margin - Adjusted (%)			6.66%	8.00%	10.70%	10.00%	10.00%	10.00%	10.00%	10.00%	⬇
LIQUIDITY INDICATORS											
4. Unrestricted Cash and Investments (\$000)			\$8,803	\$5,929	\$8,772	\$8,000	\$8,250	\$8,400	\$8,500	\$8,600	⬆
5. Days Cash on Hand (Unrestricted)			295	295	297	295	295	295	295	295	⬆
CAPITAL STRUCTURE INDICATORS											
6. Deferred Revenue from Entrance Fees (\$000)			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7. Net Annual E/F proceeds (\$000)			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8. Unrestricted Net Assets (\$000)			\$1,480	\$1,500	\$956	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	N/A
9. Annual Capital Asset Expenditure (\$000)			\$95	\$100	\$125	\$100	\$125	\$125	\$125	\$125	N/A
10. Annual Debt Service Coverage Revenue Basis (x)			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	⬆
11. Annual Debt Service Coverage (x)			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	⬆
12. Annual Debt Service/Revenue (%)			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	⬇
13. Average Annual Effective Interest Rate (%)			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	⬇
14. Unrestricted Cash & Investments/ Long-Term Debt (%)			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	⬆
15. Average Age of Facility (years)			8.00	7.90	9.04	9.00	8.90	8.85	8.75	8.50	⬇

**Continuing Care Retirement Community
Disclosure Statement
General Information**

Date Prepared: 8/29/19

FACILITY NAME: Arroyo Grande Care Center/Wyndham Residence

ADDRESS: 1212 Farroll Ave and 222 South Elm Street, Arroyo Grande, CA

ZIP CODE: 93420

PHONE: (805) 474-7260

PROVIDER NAME: Compass Health, Inc.

FACILITY OPERATOR: Compass Health, Inc.

RELATED FACILITIES: _____

RELIGIOUS AFFILIATION: _____

YEAR 1995 # OF ☐ SINGLE ☐ MULTI-

MILES TO SHOPPING CTR: 1.2

ACRES: 5.58 STORY 1 STORY ☒ OTHER: Both

MILES TO HOSPITAL: 1

NUMBER OF UNITS:

RESIDENTIAL LIVING

APARTMENTS — STUDIO: _____

APARTMENTS — 1 BDRM: _____

APARTMENTS — 2 BDRM: _____

COTTAGES/HOUSES: _____

RLU OCCUPANCY (%) AT YEAR END: _____

HEALTH CARE

ASSISTED LIVING: 57

SKILLED NURSING: 99

SPECIAL CARE: _____

DESCRIPTION: > _____

> _____

TYPE OF OWNERSHIP:

☐ NOT-FOR-PROFIT

☒ FOR-PROFIT

ACCREDITED?: ☐ YES ☐ NO BY: _____

FORM OF CONTRACT:

☒ CONTINUING CARE

☐ LIFE CARE

☐ ENTRANCE FEE

☐ FEE FOR SERVICE

(Check all that apply)

☐ ASSIGNMENT OF ASSETS

☐ EQUITY

☐ MEMBERSHIP

☐ RENTAL

REFUND PROVISIONS: (Check all that apply) ☐ 90% ☐ 75% ☐ 50% ☐ FULLY AMORTIZED ☐ OTHER: _____

RANGE OF ENTRANCE FEES: \$ 0 - \$ 0

LONG-TERM CARE INSURANCE REQUIRED? ☐ YES ☒ NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: _____

ENTRY REQUIREMENTS: MIN. AGE: 65

PRIOR PROFESSION: _____

OTHER: _____

RESIDENT REPRESENTATIVE(S) TO, AND RESIDENT MEMBER(S) ON, THE BOARD (briefly describe provider's compliance and residents' role): >

Wyndham Residence has a voting resident representative on Compass

> Health's Board. This person is provided with materials about Board meetings so that they may represent the resident's association.

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING (3 TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	MEALS (3 /DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input type="checkbox"/>	<input type="checkbox"/>
CARD ROOMS	<input type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>			

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Compass Health, Inc.

OTHER CCRCs

LOCATION (City, State)

PHONE (with area code)

Bayside Care Center/

Morro Bay, CA

(805) 772-2237

Casa de Flores

Morro Bay, CA

(805) 772-7372

MULTI-LEVEL RETIREMENT COMMUNITIES

LOCATION (City, State)

PHONE (with area code)

FREE-STANDING SKILLED NURSING

LOCATION (City, State)

PHONE (with area code)

Alto Lucero Transitional Care

Santa Barbara, CA

(805) 687-6651

Danish Care Center

Atascadero, CA

(805) 466-9254

Mission View Health Center

San Luis Obispo, CA

(805) 543-0210

SUBSIDIZED SENIOR HOUSING

LOCATION (City, State)

PHONE (with area code)

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Compass Health, Inc.

	2015	2016	2017	2018
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME				
(Excluding amortization of entrance fee income)	70,802,600	73,498,900	75,144,600	74,882,200
LESS OPERATING EXPENSES				
(Excluding depreciation, amortization, and interest)	64,564,300	65,360,000	67,372,500	66,054,400
NET INCOME FROM OPERATIONS	6,238,300	8,138,900	7,772,100	8,827,800
LESS INTEREST EXPENSE	85,000	81,000	87,800	64,100
PLUS CONTRIBUTIONS				
PLUS NON-OPERATING INCOME (EXPENSES)				
(excluding extraordinary items)				
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	6,153,300	8,057,900	7,684,300	8,763,700
NET CASH FLOW FROM ENTRANCE FEES				
(Total Deposits Less Refunds)	0	0	0	0

DESCRIPTION OF SECURED DEBT *(as of most recent fiscal year end)*

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
Symetra Life Insurance Company	1,021,456	5.35	4/1/2012	3/1/2024	11 yrs 11 months

FINANCIAL RATIOS (see next page for ratio formulas)

	2017 CCAC Medians 50 th Percentile	2016	2017	2018
DEBT TO ASSET RATIO	<i>(optional)</i>	.0486	.0518	.0352
OPERATING RATIO		.8903	.8977	.8829
DEBT SERVICE COVERAGE RATIO		37.31	35.81	40.27
DAYS CASH ON HAND RATIO		114.27	81.00	105.84

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	2015	%	2016	%	2017	%	2018
STUDIO							
ONE BEDROOM							
TWO BEDROOM							
COTTAGE/HOUSE							
ASSISTED LIVING	3,240-7,615	3	3,440-7,845	2	3,440-8,080	0	3,440-8,080
SKILLED NURSING	6,665-7,905	0	6,665-7,905	0	6,665-7,905	7	7,440-8,525
SPECIAL CARE							

COMMENTS FROM PROVIDER: >

> _____
 > _____
 > _____

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)		\$3,440 - \$8,080	\$6,665 - \$7,905
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)		0%	7% \$7,440 - \$8,525

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: June 1, 2018
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- ☐ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- ☐ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- ☐ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- ☐ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- ☐ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- ☐ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Compas Health, Inc.

COMMUNITY: Arroyo Grande Care Center and Wyndham Residence

Compass Health, Inc. dba Arroyo Grande Care Center and Wyndham Residence

Form 7-1 Attachment

Increase in Monthly Serve Fee

Rate increases on monthly fees for the following levels of care were approved by the Board based on projected operating costs of the continuing care retirement community, projected per capita costs and economic indicators.

	Rate Increase	Range of Monthly Fees
Assisted Living	0%	\$3,440 to \$8,080
Skilled nursing care	7%	\$7,440 - \$8,525

Assisted Living

The monthly care fees are evaluated by Management to meet expectations of the upcoming budget. The budget process utilizes previous year's actual costs to project future expenses such as salaries, benefits, food costs, utilities, contract services, supplies and other operating costs.

Skilled Nursing Care

The monthly care fees are evaluated by Management to meet expectations of the upcoming budget. As well to comply with State and Federal requirements for staffing ratios.