

ANNUAL REPORT CHECKLIST

PROVIDER(S): Compass Health, Inc.

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

Arroyo Grande Care Center and Wyndham Residence

PROVIDER CONTACT PERSON: Patricia Beattie

TELEPHONE NO.: (805) 474-7010 x 115 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: \$ 12,297
N/A If applicable, late fee in the amount of: \$ _____
- 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.
- 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.

April 26, 2023

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, 2022 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 \$2,006,885.

Sincerely,



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



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

5/1/2023

4/27/2022

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must have ADDITIONAL INSURED provisions or be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Lockton Insurance Brokers, LLC 777 S. Figueroa Street, 52nd Fl. CA License #0F15767 Los Angeles CA 90017 (213) 689-0065	CONTACT NAME: PHONE (A/C, No. Ext):		FAX (A/C, No):
	E-MAIL ADDRESS:		
INSURER(S) AFFORDING COVERAGE			NAIC #
INSURER A: Admiral Insurance Company			24856
INSURER B: Liberty Mutual Fire Insurance Company			23035
INSURER C:			
INSURER D:			
INSURER E:			
INSURER F:			

COVERAGES COMHE01 **CERTIFICATE NUMBER:** 2543384 **REVISION NUMBER:** XXXXXXXX

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input checked="" type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR <input checked="" type="checkbox"/> Professional Liab <input checked="" type="checkbox"/> SIR 250K GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC <input type="checkbox"/> OTHER:	N	N	257AL22A1106AR	5/1/2022	5/1/2023	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 50,000 MED EXP (Any one person) \$ Not Applicable PERSONAL & ADV INJURY \$ XXXXXXXX GENERAL AGGREGATE \$ 3,000,000 PRODUCTS - COMP/OP AGG \$ XXXXXXXX \$
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> OWNED AUTOS ONLY <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS ONLY <input type="checkbox"/> NON-OWNED AUTOS ONLY			NOT APPLICABLE			COMBINED SINGLE LIMIT (Ea accident) \$ XXXXXXXX BODILY INJURY (Per person) \$ XXXXXXXX BODILY INJURY (Per accident) \$ XXXXXXXX PROPERTY DAMAGE (Per accident) \$ XXXXXXXX \$ XXXXXXXX
	UMBRELLA LIAB <input type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> DED <input type="checkbox"/> RETENTION \$			NOT APPLICABLE			EACH OCCURRENCE \$ XXXXXXXX AGGREGATE \$ XXXXXXXX \$ XXXXXXXX
B	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N <input checked="" type="checkbox"/> N	N/A	EW2-64N-445459-012	5/1/2022	5/1/2023	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$ 1,000,000 E.L. DISEASE - EA EMPLOYEE \$ 1,000,000 E.L. DISEASE - POLICY LIMIT \$ 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)
 Location: Woodside, 1425 Woodside Drive, San Luis Obispo, CA 93401.

CERTIFICATE HOLDER**CANCELLATION** See Attachment

2543384
 Evidence of Insurance

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

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Evidence of Insurance

To whom it may concern:

In our continuing effort to provide timely certificate delivery, Lockton Companies is transitioning to **paperless delivery** of Certificates of Insurance, thus, this is your final hard-copy delivery.

To ensure electronic delivery for future renewals of this certificate, we need your email address. Please contact us via one of the methods below, referencing Certificate ID **2543384**.

- Email: PacificDelivery@lockton.com
- Phone: (213) 689-2300

If you received this certificate through an internet link where the current certificate is viewable, we have your email and no further action is needed.

In the event your mailing address has changed, will change in the future, or you no longer require this certificate, please let us know using one of the methods above.

The above inbox and phone number below are for automating electronic delivery of certificates only. Please do NOT send future certificate requests to the above inbox or call into the number below.

Thank you for your cooperation and willingness in reducing our environmental footprint.

Lockton Insurance Brokers, LLC - Pacific Series

Lockton Insurance Brokers, LLC
License #0F15767
777 S Figueroa Street, 52nd Fl / Los Angeles, CA 90017-5524
213-689-0065 / FAX: 213-689-0550
lockton.com

**LONG TERM CARE PROVIDER PROFESSIONAL
AND GENERAL LIABILITY CLAIMS MADE POLICY**

Clauses contained herein restrict, limit, or result in amendment to the Limits of Liability, or recovery as a result of the Named Insured's failure to fulfill various obligations. Insurer's obligations under this policy shall commence after the Insured has fulfilled payment obligations of Premium and Self-Insured Retention.

POLICY NO.: 257AL22A1106AR

DECLARATIONS

Item 1. NAMED INSURED:

Compass Health, Inc.

Item 2. MAILING ADDRESS:

200 South 13th Street, Suite 208
Grover Beach, California 93433

Item 3. POLICY PERIOD:

From: 1 May, 2022

To: 1 May, 2023

Both dates at 12:01 a.m. local standard time at the address in Item 2 above.

Item 4. PARTNERSHIPS AND
JOINT VENTURES:

None.

Item 5. RETROACTIVE DATE:

1 May, 2005 or as stated in Endorsement No. 1, whichever the later.

Item 6. DIFFERENCE BETWEEN THE LIMITS OF LIABILITY AS MORE FULLY DECLARED IN
ENDORSEMENT NO. 2 AND THE SELF-INSURED RETENTION IN ITEM 7:

This Policy is subject to the terms and Conditions herein, including but not limited to an Inner Aggregate Self Insured Retention as described in Endorsement No. 2. All payments made under any Inner Aggregate scheduled in Endorsement No. 2 shall inure to the benefit of the Limits of Liability hereon, and shall be part of the Limits hereon, not in addition to the Limits hereon.

The Insurer's obligation under this Policy shall be after the Insured has fulfilled its payment obligations under the Self Insured Retention and the Inner Aggregate Retention.

PROFESSIONAL LIABILITY EACH
MEDICAL INCIDENT LIMIT: \$1,000,000

PROFESSIONAL LIABILITY IN THE
AGGREGATE EACH LOCATION LIMIT: \$3,000,000

PROFESSIONAL LIABILITY IN THE ANNUAL
OVERALL AGGREGATE LIMIT: \$7,000,000

GENERAL LIABILITY INC PRODUCTS AND COMPLETED OPERATIONS EACH CIRCUMSTANCE LIMIT:	\$1,000,000
FIRE DAMAGE LIMIT:	\$50,000
MEDICAL EXPENSES LIMIT:	\$ Nil
GENERAL LIABILITY INCLUDING PRODUCTS AND COMPLETED OPERATIONS EACH LOCATION AGGREGATE LIMIT:	\$3,000,000
GENERAL LIABILITY INC PRODUCTS AND COMPLETED OPERATIONS OVERALL AGGREGATE LIMIT:	\$7,000,000
SUBJECT TO AN OVERALL AGGREGATE LIMIT OF:	\$1,000,000 any one claim \$7,000,000 in the Policy aggregate

Item 7. SELF INSURED RETENTION:

\$250,000 each claim, with defense costs inside the retention.

Item 8. BUSINESS DESCRIPTION:

The operation and management of Long Term Care Facilities.

Item 9. NOTICE OF CLAIM:

Berkley Claims
c/o Hamlin & Burton Liability Management
220 E Central Parkway, Suite 2070
Altamonte Springs, FL 32701

Email: bhplclaims@hamlinandburton.com

Item 10. NOTICE OF CANCELLATION:

Berkley Healthcare Medical Professional
c/o 16305 Swingley Ridge Road, Suite 450
Chesterfield, MO 63017

Item 11. ENDORSEMENTS ATTACHED
TO THIS POLICY:

Endorsement No. 1	Schedule of Insureds
Endorsement No. 2	Limits of Liability, Self-Insured Retention, Inner Aggregate Retention, and Overall Aggregate Limit
Endorsement No. 3	Limited Coverage for Sexual Abuse
Endorsement No. 4	Employee Benefits Liability Coverage
Endorsement No. 5	Minimum Earned Premium
Endorsement No. 6	Law and Jurisdiction Clause
Endorsement No. 7	Service of Suit Endorsement
Endorsement No. 8	Evacuation Expense Reimbursement
Endorsement No. 9	Limited Punitive and Exemplary Damages
Endorsement No.10	Terrorism Exclusion

Endorsement No.11 Computer System or Electronic Data Exclusion
Endorsement No.12 Opioids and Narcotics Exclusion
Endorsement No.13 Communicable Disease Exclusion

Item 12. PREMIUM FOR THIS POLICY:

\$227,500 (Hereto 100.000%) payable in full at inception.

Item 13. EXTENDED REPORTING PERIOD
AND PREMIUM COMPUTATION:

Terms to be developed upon request, not to exceed 36 months.

Item 14. SCHEDULE OF SUBSCRIBING UNDERWRITERS:

<u>Insurer</u>	<u>Participation Percentage</u>
Admiral Insurance Company	100.000%



President



Secretary

Date: 1 May, 2022

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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SETO KIRAKOSIAN

Accountancy, Corp

Independent Auditors' Report

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

Opinion

We have audited the accompanying consolidated financial statements of Compass Health, Inc. (a California S Corporation) and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, Compass Health, Inc. and Subsidiary adopted the new accounting guidance Accounting Standards Update 2016-02, *Leases (Topic 842)*, effective January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Compass Health, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Compass Health, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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



Sierra Madra, California
April 28, 2023

COMPASS HEALTH, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	ASSETS	
	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,626,400	\$ 11,778,500
Restricted cash	187,900	187,900
Accounts receivable, net	7,236,200	7,225,200
Supplies	2,900	3,900
Prepaid expenses	995,700	850,700
Due from related parties, net	1,473,400	1,458,000
Total current assets	16,522,500	21,504,200
PLANT, PROPERTY, AND EQUIPMENT, net	4,778,500	4,628,000
INTANGIBLE ASSETS, net	43,800	51,200
DEPOSITS AND OTHER ASSETS	65,000	65,000
OPERATING LEASE RIGHT-OF-USE ASSETS	19,306,100	-
Total assets	\$ 40,715,900	\$ 26,248,400
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,646,500	\$ 1,702,600
Accrued compensation and related expenses	6,338,800	6,684,500
Income taxes payable	90,800	192,800
Security deposits and other liabilities	2,982,300	5,883,600
Current portion of long-term debt	242,100	229,500
Current portion of operating lease liabilities	3,716,800	-
Total current liabilities	15,017,300	14,693,000
LONG-TERM DEBT, net of current portion	62,500	304,600
OPERATING LEASE LIABILITIES, net of current portion	15,589,300	-
Total liabilities	30,669,100	14,997,600
COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDER'S EQUITY:		
Common stock, no par value; 1,000 shares authorized; 1,000 shares issued and outstanding	31,900	31,900
Retained earnings	10,014,900	11,218,900
Total shareholder's equity	10,046,800	11,250,800
Total liabilities and shareholder's equity	\$ 40,715,900	\$ 26,248,400

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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
REVENUES:		
Net patient service revenue	\$ 63,290,400	\$ 62,211,200
Net residential board and care revenue	7,524,200	6,631,100
Net other revenue	<u>112,700</u>	<u>2,769,700</u>
Total revenues	<u>70,927,300</u>	<u>71,612,000</u>
EXPENSES:		
Nursing services	28,805,900	26,622,300
Plant operations and maintenance	3,854,600	3,379,600
Housekeeping and laundry	2,923,800	2,761,700
Dietary	6,896,900	6,142,000
Social services and activities	1,636,800	1,505,000
Education	526,700	458,600
General and administrative	19,376,800	19,861,300
Interest expense	25,100	35,200
Pharmacy	1,227,100	1,264,500
Laboratory	292,800	289,000
X-ray	<u>154,200</u>	<u>158,900</u>
Total expenses	<u>65,720,700</u>	<u>62,478,100</u>
INCOME BEFORE MINORITY INTEREST AND INCOME TAX PROVISION	5,206,600	9,133,900
INCOME ATTRIBUTED TO THE MINORITY INTEREST	<u>-</u>	<u>(478,500)</u>
INCOME BEFORE INCOME TAX PROVISION	5,206,600	8,655,400
INCOME TAX PROVISION	<u>(103,400)</u>	<u>(169,400)</u>
NET INCOME	5,103,200	8,486,000
DISTRIBUTIONS TO SHAREHOLDER	(6,307,200)	(12,295,800)
MINORITY INTEREST PURCHASE	-	(1,353,600)
RETAINED EARNINGS, beginning of year	<u>11,218,900</u>	<u>16,382,300</u>
RETAINED EARNINGS, end of year	\$ <u>10,014,900</u>	\$ <u>11,218,900</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	\$ 5,103,200	\$ 8,486,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Income attributed to the minority interest	-	478,500
Depreciation and amortization	512,300	530,100
Net (income) from investments	-	(164,800)
Net (gain) on investments	-	(180,700)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(11,000)	1,891,300
Decrease (increase) in supplies	1,000	(900)
(Increase) in prepaid expenses	(145,000)	(12,500)
(Increase) decrease in due from related parties, net	(15,400)	141,200
(Decrease) in accounts payable	(56,100)	(369,900)
(Decrease) in accrued compensation and related expenses	(345,700)	(409,800)
(Decrease) in income taxes payable	(102,000)	(15,700)
(Decrease) in security deposits and other liabilities	<u>(2,901,300)</u>	<u>(2,805,400)</u>
Net cash provided by operating activities	<u>2,040,000</u>	<u>7,567,400</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of plant, property, and equipment	(655,400)	(118,500)
Proceeds from investments, net	<u>-</u>	<u>823,800</u>
Net cash (used in) provided by investing activities	<u>(655,400)</u>	<u>705,300</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
(Principal payments on) long-term debt	(229,500)	(217,400)
Minority interest purchase	-	(6,900,000)
Distributions to shareholder	<u>(6,307,200)</u>	<u>(12,295,800)</u>
Net cash (used in) financing activities	<u>(6,536,700)</u>	<u>(19,413,200)</u>
Net change in cash, cash equivalents, and restricted cash	(5,152,100)	(11,140,500)
Cash, cash equivalents, and restricted cash at beginning of year	<u>11,966,400</u>	<u>23,106,900</u>
Cash, cash equivalents, and restricted cash at end of year	\$ <u>6,814,300</u>	\$ <u>11,966,400</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, 2022 AND 2021

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	<u>2022</u>	<u>2021</u>
Cash paid during the year for:		
Income taxes	\$ <u>205,400</u>	\$ <u>185,200</u>
Interest paid	\$ <u>25,100</u>	\$ <u>35,200</u>

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 829 employees, with approximately 667 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. San Luis Post Acute Center in San Luis Obispo, California (162-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"). On August 31, 2021, Compass Health, Inc. purchased the remaining 50% interest in Coastal, LLC.

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").

Recently Adopted Accounting Guidance

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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.

The Company adopted FASB ASU 2016-02 effective January 1, 2022 using the modified retrospective method. Accordingly, financial information for periods prior to the date of initial application has not been adjusted. The Company has elected the package of practical expedients for adoption that permitted the Company not to reassess its prior conclusions regarding lease identification, lease classification and initial direct costs.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Adopted Accounting Guidance – Continued

The Company also elected a short-term lease exception policy and an accounting policy not to separate non-lease components from lease components. The Company did not elect to use an allowable expedient that permitted the use of hindsight in performing evaluations of its leases.

Upon adoption of FASB ASU 2016-02, the Company recognized operating lease liabilities of \$22,845,100, which represented the present value of the remaining minimum lease payments, discounted using the Company's incremental borrowing rate. The Company also recognized a corresponding operating lease right-of-use (ROU) asset of the same amount, \$22,845,100. At December 31, 2022, the ending balance of operating lease liabilities and the corresponding ROU assets amounted to \$19,306,100 and are included in the accompanying consolidated balance sheets.

Adoption of FASB ASU 2016-02 had no significant impact on the Company's cash flows from operations or its results of operations. The Company implemented internal controls necessary to ensure compliance with the accounting and disclosure requirements of this new guidance.

Leases

The Company accounts for its leasing activities in accordance with accounting guidance for leases under FASB ASU 2016-02. In adopting this new guidance, the Company utilized expedients that allowed it to retain the classification, as either an operating lease or a finance lease, which was previously determined under prior accounting guidance for leases. The Company reassesses this classification upon renewal, extension or the modification of an existing lease agreement. The Company determines the appropriate classification upon entering into a new contract determined to contain a lease. All of the Company's leases are classified as operating leases.

Operating lease assets and liabilities are recognized at the lease commencement date, or were recognized upon adoption of FASB ASU 2016-02. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent the Company's right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets.

The Company's facility leases generally do not provide information to determine the implicit interest rate in the agreements. This requires the Company to estimate an incremental borrowing rate to be used in calculating operating lease liabilities as of the adoption or commencement date. The estimated incremental borrowing rate used was 5.35%.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leases – Continued

The cost of an operating lease is recognized over the lease term on a straight-line basis. The lease term commences on the date the Company has the right to control the use of the leased property. Certain leases may contain provisions for fixed-step escalations in payments over the base lease term, as well as renewal periods. The effects of the fixed-step escalations are reflected in rent expense on a straight-line basis over the expected lease term. Differences between amounts paid and amounts expensed are reflected in the adjustments to the ROU assets.

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, 2022 and 2021 were \$5,930,400 and \$5,433,600, respectively.

Revenues from direct billings under federal Medicare program and state Medi-Cal program, net of contractual allowances, during the years ended December 31, 2022 and 2021 were approximately 90% and 89%, respectively, of net patient service revenue.

At December 31, 2022 and 2021, the amounts due from federal and state third-party payors were approximately \$5,688,100 and \$5,979,900, 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, is not accounted under FASB ASU 2016-02.

The provision for bad debts is considered an implicit price concession and is 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 is recognized as bad debt expense.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenues – Continued

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.

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.

Through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Paycheck Protection Program and Health Care Enhancement Act (PPPCHE), the federal government has allocated funds to be distributed through the Provider Relief Fund (PRF). PRF supports healthcare providers in the battle against the COVID-19 pandemic. Qualified providers of health care, services, and support may receive PRF payments for healthcare-related expenses or lost revenue due to COVID-19. These distributions do not need to be repaid to the US government, assuming providers comply with the terms and conditions.

During the year ended December 31, 2021, the Company received \$2,697,600 from the PRF. As of December 31, 2022 and 2021, unspent funds from the PRF amounted to \$0 and \$238,300, respectively, which are included in security deposits and other liabilities in the accompanying consolidated balance sheets. PRF earned during the year are included in net other revenue. The management believes the Company is in compliance with the terms and conditions of the PRF.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash, Cash Equivalents and Restricted Cash

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. Amounts included in restricted cash represent those required to be set aside under the Quality and Accountability Supplemental Payment Program. These amounts are recorded at cost, which approximates fair value.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 6,626,400	\$ 11,778,500
Restricted cash	<u>187,900</u>	<u>187,900</u>
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	\$ <u>6,814,300</u>	\$ <u>11,966,400</u>

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, 2022 and 2021, allowance for price concessions and doubtful accounts were \$217,500 and \$213,500, 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 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 an 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 accounted for investments in HLH Coastal Living Holdings, LLC and Quality Placement for Seniors, LLC over which it exercised significant influence, but did 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. As of December 31, 2022 and 2021, the Company did not have any investments in the unconsolidated LLCs.

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 the 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, 2022 and 2021, 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.

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 receivable, accounts payable, and other current assets and liabilities, the carrying amounts approximate fair value due to their short-term maturity.

The fair value of long-term debt is determined using current applicable rates for similar instruments and approximates its carrying value.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, restricted cash and accounts receivable. The Company places its cash, cash equivalents and restricted cash 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, cash equivalents, and restricted cash balances at December 31, 2022 and 2021 that exceed the balance insured by the FDIC and SIPC in the amount of \$7,345,200 and \$12,193,400, respectively.

With respect to 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.

Workers' Compensation Costs

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, 2021, 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 \$50,185,825. This represents the minimum amount of premium to be paid by the Company.

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 LMIC Plan in effect through May 1, 2022, 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 \$45,658,000. This represents the minimum amount of premium to be paid by the Company.

Under the LMIC Plan in effect through May 1, 2023, 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 \$44,565,500. This represents the minimum amount of premium to be paid by the Company.

Because the Company bears the economic burden under these plans, 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.

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, 2022 and 2021. The Company's tax returns are no longer subject to income tax examinations by taxing authorities for years before 2019 for their federal and 2018 for their state tax filings.

Risks and Uncertainties

The Company is subject to risks and uncertainties as a result of the outbreak of a novel strain of coronavirus (COVID-19) that was declared to be a pandemic in March 2020. The severity of the continued impact of the COVID-19 pandemic on the Company's business depends on a number of factors, including, but not limited to, how long the pandemic will last, whether/when recurrences of the virus and its variants may arise, what restrictions may be enacted or re-enacted, and the availability and acceptance of vaccines, all of which are uncertain and cannot be predicted. As such, the extent to which the COVID-19 pandemic may materially impact the Company's financial condition, liquidity, or results of operations remains highly uncertain.

Recent Accounting Pronouncements

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, 2022 and April 28, 2023, 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.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS

The Company had investments in HLH Coastal Living Holdings, LLC (“HLH”) and Quality Placement for Seniors, LLC (“QPS”), which were accounted for under the equity method of accounting as the Company did not control these entities. Significant accounting policies used by these entities were similar to those used by the Company. At December 31, 2022 and 2021, the Company’s ownership interest in HLH and QPS was 0.00%.

The following is a summary of investment activity for the years ended December 31, 2022 and 2021:

	HLH	QPS
Balance at December 31, 2020	\$ 456,600	\$ 21,700
Less: distributions & proceeds from investments	(823,800)	-
Plus: income (loss) from investments	168,400	(3,600)
Plus: gain (loss) from investments	198,800	(18,100)
Balance at December 31, 2021	\$ -	\$ -
Less: distributions	-	-
Plus: income (loss) from investments	-	-
Balance at December 31, 2022	\$ -	\$ -

NOTE 4 - PLANT, PROPERTY, AND EQUIPMENT

At December 31, 2022 and 2021, plant, property, and equipment consisted of the following:

	2022	2021
Land	\$ 966,000	\$ 966,000
Facility buildings	5,360,700	5,335,000
Parking structure	291,800	306,500
Fixed equipment	251,800	315,900
Leasehold improvements	2,501,100	3,181,900
Major movable	707,800	1,421,000
Minor movable	464,700	1,232,900
Furniture and fixtures	388,800	1,057,900
Construction-in-progress	57,300	35,700
	10,990,000	13,852,800
Less: accumulated depreciation and amortization	(6,211,500)	(9,224,800)
	\$ 4,778,500	\$ 4,628,000

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PLANT, PROPERTY, AND EQUIPMENT – CONTINUED

Depreciation and amortization expense on plant, property and equipment for the years ended December 31, 2022 and 2021 were \$504,900 and \$522,700, respectively.

NOTE 5 - INTANGIBLE ASSETS

At December 31, 2022 and 2021, intangible assets consisted of the following:

	2022	2021
Deferred financing costs	\$ 48,600	\$ 48,600
Other	50,000	95,800
	98,600	144,400
Less: accumulated amortization	(54,800)	(93,200)
	\$ 43,800	\$ 51,200

Amortization expense related to intangible assets for the years ended December 31, 2022 and 2021 were \$7,400 for each year.

NOTE 6 - LINE OF CREDIT

The Company has a line of credit with Mechanics Bank, 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% (7.50% and 3.25%, respectively, at December 31, 2022 and 2021). The line of credit matured on June 30, 2022. During the year ended December 31, 2022, the line of credit was renewed and is set to mature on August 30, 2023. The line of credit is secured essentially by all assets of the Company and is guaranteed by a shareholder. As of December 31, 2022 and 2021, there was no amount outstanding under this line of credit.

NOTE 7 - ACCRUED COMPENSATION AND RELATED EXPENSES

At December 31, 2022 and 2021, accrued compensation and related expenses consisted of the following:

	2022	2021
Accrued payroll	\$ 1,811,600	\$ 1,676,600
Accrued vacation, holiday, and sick	1,522,500	2,785,700
Workers' compensation payable	2,730,000	2,010,500
Other accrued liabilities	274,700	211,700
	\$ 6,338,800	\$ 6,684,500

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT

At December 31, 2022 and 2021, long-term debt consisted of the following:

	<u>2022</u>	<u>2021</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. As a result of the note payable amendment on May 20, 2020, three monthly principal payments were deferred and new monthly payments effective August 1, 2020 are \$21,000.	\$ 304,600	\$ 534,100
Less: current portion	(242,100)	(229,500)
	\$ 62,500	\$ 304,600

Principal maturities of long-term debt subsequent to December 31, 2022 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 242,100
2024	62,500
	\$ 304,600

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 related party. The lease agreement expires in July 2025 and has five options to extend for five years each. The minimum monthly rent payments total approximately \$159,900 with an annual increase of 3.25%.

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 \$51,700, 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.

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 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 \$25,000 with an increase every two years based on consumer price index, with maximum of 5.00%.

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 \$62,600, 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 expired in February 2023. The minimum monthly rent payments total \$12,600, with an increase every year based on consumer price index, with a minimum increase of 3.00% and maximum of 5.00%. In January 2023, the Company entered into a new operating lease agreement with the same related party for this office facility for an initial term of five years.

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 \$42,800, 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</u> <u>December 31,</u>	<u>Amount</u>
2023	\$ 4,749,600
2024	4,377,000
2025	3,465,400
2026	1,679,400
2027	1,288,900
2028 and thereafter	<u>11,088,700</u>
	26,649,000
Less: interest/imputed interest	<u>(7,342,900)</u>
Total operating lease liabilities	19,306,100
Less: current portion	<u>(3,716,800)</u>
	<u>\$ 15,589,300</u>

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - COMMITMENTS AND CONTINGENCIES – CONTINUED

a) Lease Commitments – Continued

Rent expense during the year ended December 31, 2022 amounted to \$4,691,000, which also represents cash paid for amounts included in the measurement of operating lease liabilities. Rent expense during the year ended December 31, 2021 amounted to \$4,616,700.

As of December 31, 2022, the weighted average remaining lease term was 11.24 years, and the weighted average discount rate was 5.35%.

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 results of its operations.

c) Guarantor

The Company is a guarantor for three loans on real property owned by related parties. At December 31, 2022, the contingent liabilities guaranteed by these three 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.	\$ 4,123,500
Real property located at 1575 Bishop Street, San Luis Obispo, CA owned by Playa Dulce, LLC and operated by the Company.	\$ 511,400
Real property located at 1405 Teresa Drive, Morro Bay, CA owned by 1405 Teresa Drive, LLC and operated by the Company.	\$ 14,142,000

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, 2022 and 2021, the Company's matching contribution to the Plan amounted to \$182,700 and \$162,200, respectively.

COMPASS HEALTH, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - RELATED PARTY TRANSACTIONS

The Company has eight operating lease agreements with related parties (See also Note 9). For the years ended December 31, 2022 and 2021, the Company recorded approximately \$3,982,400 and \$3,919,500, respectively, in rent expense. There was no amount due to related parties at December 31, 2022 and 2021.

As of December 31, 2022 and 2021, the Company had advances of \$1,473,400 and \$1,458,000 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>2022</u>	<u>2021</u>
The Old Custom House Inc.	\$ 1,521,100	\$ 1,521,100
Playa Dulce LLC	2,100	7,000
Various	<u>(49,800)</u>	<u>(70,100)</u>
	<u>\$ 1,473,400</u>	<u>\$ 1,458,000</u>

NOTE 12 - MINORITY INTEREST PURCHASE

On August 31, 2021, Compass Health, Inc. purchased the remaining 50% interest in the subsidiary, Coastal, LLC for \$6,900,000. The purchase price was recorded as follows:

Decrease in minority interest	\$ 3,566,500
Decrease in Compass Health, Inc.'s paid-in-capital	1,979,900
Decrease in Compass Health, Inc.'s retained earnings	<u>1,353,600</u>
	<u>\$ 6,900,000</u>

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2022



SETO KIRAKOSIAN

Accountancy, Corp

Independent Auditors' Report on Supplementary Information

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

We have audited the consolidated financial statements of Compass Health, Inc. and Subsidiary (the "Company"), as of and for the years ended December 31, 2022 and 2021, and our report thereon dated April 28, 2023, 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 pages 25 to 27 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 pages 28 to 49 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, 2022, in conformity with the report preparation provisions of the California Health and Safety Code Section 1792.

A handwritten signature in black ink, appearing to read 'Seto K.', written in a cursive style.

April 28, 2023

COMPASS HEALTH, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
CONSOLIDATING BALANCE SHEETS

DECEMBER 31, 2022

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

	AGCC	BCC	CDF	CHI	DCC	MVHC	SLPA	SLTC	TPY	VHHC
CURRENT ASSETS:										
Cash and cash equivalents	\$ (20,600)	\$ (224,000)	\$ (2,700)	\$ 5,189,200	\$ 824,200	\$ 11,100	\$ (178,900)	\$ -	\$ (900)	\$ 699,500
Restricted cash	-	187,900	-	-	-	-	-	-	-	-
Accounts receivable, net	1,180,400	1,499,200	25,500	38,000	960,500	1,279,800	1,286,000	-	-	959,000
Supplies	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	136,500	230,000	18,900	16,600	106,000	57,300	228,800	30,900	-	161,600
Due from related parties, net	-	31,559,100	(31,559,100)	1,470,600	(2,269,700)	3,000	(900)	-	-	2,270,400
Total current assets	1,296,300	33,252,200	(31,517,400)	6,714,400	(379,000)	1,351,200	1,335,000	30,900	(900)	4,090,500
INVESTMENT IN SUBSIDIARY	-	-	-	3,281,200	-	-	-	-	-	-
PLANT, PROPERTY, AND EQUIPMENT, net	146,300	516,500	778,100	29,700	937,700	-	225,500	237,100	-	1,907,600
INTANGIBLE ASSETS, net	-	-	-	-	-	-	39,400	-	-	4,400
DEPOSITS AND OTHER ASSETS	18,000	-	-	13,100	-	33,900	-	-	-	-
OPERATING LEASE RIGHT-OF-USE ASSETS	3,506,800	4,676,000	-	12,000	-	2,483,300	532,600	742,000	-	-
Total assets	\$ 4,967,400	\$ 38,444,700	\$ (30,739,300)	\$ 10,050,400	\$ 558,700	\$ 3,868,400	\$ 2,132,500	\$ 1,010,000	\$ (900)	\$ 6,002,500
CURRENT LIABILITIES:										
Accounts payable	\$ 208,900	\$ 334,700	\$ 66,400	\$ 197,000	\$ 152,600	\$ 238,200	\$ 182,200	\$ 20,000	\$ -	\$ 189,200
Accrued compensation and related expenses	1,189,800	604,800	164,300	1,996,100	179,300	506,700	591,400	3,300	668,700	318,500
Income taxes payable	-	-	-	90,800	-	-	-	-	-	-
Security deposits and other liabilities	22,000	267,500	3,900	1,913,600	37,000	77,200	64,400	6,800	(9,900)	584,300
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	242,100
Current portion of operating lease liabilities	451,500	1,694,700	-	12,000	-	636,600	490,700	262,200	-	-
Total current liabilities	1,872,200	2,901,700	234,600	4,209,500	368,900	1,458,700	1,328,700	292,300	658,800	1,334,100
LONG-TERM DEBT, net of current portion	-	-	-	-	-	-	-	-	-	62,500
OPERATING LEASE LIABILITIES, net of current portion	3,055,300	2,981,300	-	-	-	1,846,700	41,900	479,800	-	-
Total liabilities	4,927,500	5,883,000	234,600	4,209,500	368,900	3,305,400	1,370,600	772,100	658,800	1,396,600
COMMITMENTS AND CONTINGENCIES	-	-	-	-	-	-	-	-	-	-
SHAREHOLDER'S EQUITY:										
Common stock, no par value; 1,000 shares authorized;	900	30,000	-	1,000	-	-	-	-	-	-
1,000 shares issued and outstanding	39,000	32,531,700	(30,973,900)	5,839,900	189,800	563,000	761,900	237,900	(659,700)	4,605,900
Retained earnings	-	-	-	-	-	-	-	-	-	-
Total shareholder's equity	39,900	32,561,700	(30,973,900)	5,840,900	189,800	563,000	761,900	237,900	(659,700)	4,605,900
Total liabilities and shareholder's equity	\$ 4,967,400	\$ 38,444,700	\$ (30,739,300)	\$ 10,050,400	\$ 558,700	\$ 3,868,400	\$ 2,132,500	\$ 1,010,000	\$ (900)	\$ 6,002,500

COMPASS HEALTH, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENTS OF OPERATIONS AND SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2022

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

	AGCC	BCC	CDF	CHI	DCC	MVHC	SLPA	SLTC	TPY	VHHC
REVENUES:										
Net patient service revenue	\$ 10,813,500	\$ 11,523,600	\$ -	\$ -	\$ 7,398,900	\$ 13,397,100	\$ 8,820,400	\$ 1,200	\$ 4,029,000	\$ 7,306,700
Net residential board and care revenue	-	-	4,216,600	-	-	-	-	-	-	-
Net other revenue	9,500	7,900	(300)	(827,600)	6,500	16,600	20,100	200	-	900
Management fees	(565,300)	(646,200)	(211,300)	4,083,900	(423,600)	(750,100)	(503,400)	-	(404,100)	(416,900)
Total revenues	10,257,700	10,885,300	4,005,000	3,256,300	6,981,800	12,663,600	8,337,100	1,400	3,624,900	6,890,700
EXPENSES:										
Nursing services	4,730,100	5,251,600	1,240,500	129,600	2,959,300	6,049,600	4,104,200	-	600	3,508,400
Plant operations and maintenance	365,800	769,300	486,400	45,800	331,600	530,800	544,000	34,400	-	507,900
Housekeeping and laundry	396,700	549,400	159,700	-	294,600	511,400	401,200	-	-	431,500
Dietary	1,049,600	1,257,800	724,700	8,700	597,300	1,058,900	867,100	(100)	-	776,400
Social services and activities	334,500	253,200	199,900	-	136,600	330,500	115,200	-	-	115,400
Education	70,100	102,200	-	-	80,300	130,000	59,400	-	-	84,700
General and administrative	2,143,400	2,662,200	1,337,400	2,671,900	1,471,900	2,979,900	2,294,000	457,900	222,700	2,118,600
Interest expense	100	-	-	2,000	-	-	-	-	-	23,000
Pharmacy	195,200	231,000	-	-	133,500	360,600	175,700	-	-	131,100
Laboratory	58,900	56,300	-	-	32,100	57,200	49,500	-	-	38,800
X-ray	30,100	22,100	-	-	20,000	36,700	24,100	-	-	21,200
Total expenses	9,374,500	11,155,100	4,148,600	2,858,000	6,057,200	12,045,600	8,634,400	492,200	223,300	7,757,000
INCOME BEFORE INCOME TAX PROVISION	883,200	(269,800)	(143,600)	398,300	924,600	618,000	(297,300)	(490,800)	3,401,600	(866,300)
INCOME TAX PROVISION	-	-	-	(90,800)	-	-	-	-	-	(12,600)
NET INCOME	883,200	(269,800)	(143,600)	307,500	924,600	618,000	(297,300)	(490,800)	3,401,600	(878,900)
DISTRIBUTIONS TO SHAREHOLDER	-	-	-	(6,307,200)	-	-	-	-	-	-
INTERCOMPANY TRANSFERS	(31,200)	3,020,200	(2,201,900)	639,700	(695,200)	260,700	(294,800)	1,638,400	(3,518,600)	1,285,200
RETAINED EARNINGS, beginning of year	(813,000)	\$ 29,781,300	\$ (28,628,400)	\$ 11,199,900	\$ (39,600)	\$ (315,700)	\$ 1,354,000	\$ (909,700)	\$ (542,700)	\$ 4,199,600
RETAINED EARNINGS, end of year	\$ 39,000	\$ 32,531,700	\$ (30,973,900)	\$ 5,839,900	\$ 189,800	\$ 563,000	\$ 761,900	\$ 237,900	\$ (659,700)	\$ 4,605,900

COMPASS HEALTH, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
CONSOLIDATED STATEMENT OF CASH FLOWS – DIRECT METHOD
FOR THE YEAR ENDED DECEMBER 31, 2022
SEE INDEPENDENT AUDITORS’ REPORT ON SUPPLEMENTARY INFORMATION

CASH FLOW FROM OPERATING ACTIVITIES:	
Cash received from patients and third-party payers	\$ 71,147,200
Other cash received	95,000
Cash paid for operating expenses	(28,852,900)
Cash paid to employees	(40,136,500)
Interest received	17,700
Interest paid	(25,100)
Income taxes paid	<u>(205,400)</u>
Net cash provided by operating activities	<u>2,040,000</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchase of plant, property, and equipment	<u>(655,400)</u>
Net cash (used in) investing activities	<u>(655,400)</u>
CASH FLOW FROM FINANCING ACTIVITIES:	
Principal payments on long-term debt	(229,500)
Distributions to shareholder	<u>(6,307,200)</u>
Net cash (used in) financing activities	<u>(6,536,700)</u>
Net change in cash, cash equivalents, and restricted cash	(5,152,100)
Cash, cash equivalents, and restricted cash at beginning of year	<u>11,966,400</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 6,814,300</u>

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

BALANCE SHEETS

COMBINING ARROYO GRANDE CARE CENTER AND WYNDHAM RESIDENCE

DECEMBER 31, 2022

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

	<u>AGCC</u>	<u>WYND</u>	<u>Total</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ (20,600)	\$ 329,500	\$ 308,900
Restricted cash	-	-	-
Accounts receivable, net	1,180,400	7,800	1,188,200
Supplies	-	2,900	2,900
Prepaid expenses	136,500	9,100	145,600
Due from related parties, net	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	1,296,300	349,300	1,645,600
PLANT, PROPERTY, AND EQUIPMENT, net	146,300	-	146,300
INTANGIBLE ASSETS, net	-	-	-
DEPOSITS AND OTHER ASSETS	18,000	-	18,000
OPERATING LEASE RIGHT-OF-USE ASSETS	<u>3,506,800</u>	<u>7,353,400</u>	<u>10,860,200</u>
Total assets	<u>\$ 4,967,400</u>	<u>\$ 7,702,700</u>	<u>\$ 12,670,100</u>
CURRENT LIABILITIES:			
Accounts payable	\$ 209,000	\$ 57,300	\$ 266,300
Accrued compensation and related expenses	1,189,700	115,900	1,305,600
Income taxes payable	-	-	-
Security deposits and other liabilities	22,000	15,500	37,500
Current portion of long-term debt	-	-	-
Current portion of operating lease liabilities	<u>451,500</u>	<u>169,100</u>	<u>620,600</u>
Total current liabilities	1,872,200	357,800	2,230,000
LONG-TERM DEBT, net of current portion	-	-	-
OPERATING LEASE LIABILITIES, net of current portion	<u>3,055,300</u>	<u>7,184,300</u>	<u>10,239,600</u>
Total liabilities	<u>4,927,500</u>	<u>7,542,100</u>	<u>12,469,600</u>
COMMITMENTS AND CONTINGENCIES	-	-	-
SHAREHOLDER'S EQUITY:			
Common stock, no par value	900	-	900
Retained earnings	<u>39,000</u>	<u>160,600</u>	<u>199,600</u>
Total shareholder's equity	<u>39,900</u>	<u>160,600</u>	<u>200,500</u>
Total liabilities and shareholder's equity	<u>\$ 4,967,400</u>	<u>\$ 7,702,700</u>	<u>\$ 12,670,100</u>

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

**STATEMENTS OF OPERATIONS AND SHAREHOLDER'S EQUITY (DEFICIENCY)
COMBINING ARROYO GRANDE CARE CENTER AND WYNDHAM RESIDENCE**

FOR THE YEAR ENDED DECEMBER 31, 2022

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

	AGCC	WYND	Total
REVENUES:			
Net patient service revenue	\$ 10,813,500	\$ -	\$ 10,813,500
Net residential board and care revenue	-	3,307,600	3,307,600
Net other revenue	9,500	-	9,500
Management fees	(565,300)	(163,000)	(728,300)
	<u>10,257,700</u>	<u>3,144,600</u>	<u>13,402,300</u>
EXPENSES:			
Nursing services	4,730,100	832,000	5,562,100
Plant operations and maintenance	365,800	238,600	604,400
Housekeeping and laundry	396,700	179,300	576,000
Dietary	1,049,600	556,500	1,606,100
Social services and activities	334,500	151,500	486,000
Education	70,100	-	70,100
General and administrative	2,143,400	1,016,900	3,160,300
Interest expense	100	-	100
Pharmacy	195,200	-	195,200
Laboratory	58,900	-	58,900
X-ray	30,100	-	30,100
	<u>9,374,500</u>	<u>2,974,800</u>	<u>12,349,300</u>
INCOME BEFORE INCOME TAX PROVISION	883,200	169,800	1,053,000
INCOME TAX PROVISION	-	-	-
	<u>883,200</u>	<u>169,800</u>	<u>1,053,000</u>
NET INCOME	883,200	169,800	1,053,000
DISTRIBUTIONS TO SHAREHOLDER	-	-	-
INTERCOMPANY TRANSFERS	(31,200)	(102,500)	(133,700)
RETAINED EARNINGS (DEFICIENCY), beginning of year	(813,000)	\$ 93,300	\$ (719,700)
RETAINED EARNINGS (DEFICIENCY), end of year	<u>\$ 39,000</u>	<u>\$ 160,600</u>	<u>\$ 199,600</u>

COMPASS HEALTH, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
STATEMENT OF CASH FLOWS – DIRECT METHOD
COMBINED ARROYO GRANDE CARE CENTER AND WYNDHAM RESIDENCE
FOR THE YEAR ENDED DECEMBER 31, 2022
SEE INDEPENDENT AUDITORS’ REPORT ON SUPPLEMENTARY INFORMATION

CASH FLOW FROM OPERATING ACTIVITIES:	
Cash received from patients and third-party payers	\$ 14,704,800
Other cash received	8,400
Cash paid for operating expenses	(7,822,000)
Cash paid to employees	(6,591,200)
Interest received	1,100
Interest paid	<u>(100)</u>
Net cash provided by operating activities	<u>301,000</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchase of plant, property, and equipment	<u>(40,600)</u>
Net cash (used in) investing activities	<u>(40,600)</u>
CASH FLOW FROM FINANCING ACTIVITIES:	
Intercompany transfers	<u>(133,700)</u>
Net cash (used in) financing activities	<u>(133,700)</u>
Net change in cash, cash equivalents, and restricted cash	126,700
Cash, cash equivalents, and restricted cash at beginning of year	<u>182,200</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 308,900</u>

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

**BALANCE SHEETS
COMBINING BAYSIDE CARE CENTER AND CASA DE FLORES**

DECEMBER 31, 2022

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

	BCC	CDF	Total
CURRENT ASSETS:			
Cash and cash equivalents	\$ (224,000)	\$ (2,700)	\$ (226,700)
Restricted cash	187,900	-	187,900
Accounts receivable, net	1,499,200	25,500	1,524,700
Supplies	-	-	-
Prepaid expenses	230,000	18,900	248,900
Due from related parties, net	31,559,100	(31,559,100)	-
Total current assets	33,252,200	(31,517,400)	1,734,800
PLANT, PROPERTY, AND EQUIPMENT, net	516,500	778,100	1,294,600
INTANGIBLE ASSETS, net	-	-	-
DEPOSITS AND OTHER ASSETS	-	-	-
OPERATING LEASE RIGHT-OF-USE ASSETS	4,676,000	-	4,676,000
Total assets	\$ 38,444,700	\$ (30,739,300)	\$ 7,705,400
CURRENT LIABILITIES:			
Accounts payable	\$ 334,700	\$ 66,400	\$ 401,100
Accrued compensation and related expenses	604,800	164,300	769,100
Income taxes payable	-	-	-
Security deposits and other liabilities	267,500	3,900	271,400
Current portion of long-term debt	-	-	-
Current portion of operating lease liabilities	1,694,700	-	1,694,700
Total current liabilities	2,901,700	234,600	3,136,300
LONG-TERM DEBT, net of current portion	-	-	-
OPERATING LEASE LIABILITIES, net of current portion	2,981,300	-	2,981,300
Total liabilities	5,883,000	234,600	6,117,600
COMMITMENTS AND CONTINGENCIES	-	-	-
SHAREHOLDER'S EQUITY:			
Common stock, no par value	30,000	-	30,000
Retained earnings (deficiency)	32,531,700	(30,973,900)	1,557,800
Total shareholder's equity (deficiency)	32,561,700	(30,973,900)	1,587,800
Total liabilities and shareholder's equity (deficiency)	\$ 38,444,700	\$ (30,739,300)	\$ 7,705,400

COMPASS HEALTH, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

**STATEMENTS OF OPERATIONS AND SHAREHOLDER'S EQUITY (DEFICIENCY)
COMBINING BAYSIDE CARE CENTER AND CASA DE FLORES**

FOR THE YEAR ENDED DECEMBER 31, 2022

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

	BCC	CDF	Total
REVENUES:			
Net patient service revenue	\$ 11,523,600	\$ -	\$ 11,523,600
Net residential board and care revenue	-	4,216,600	4,216,600
Net other revenue	7,900	(300)	7,600
Management fees	(646,200)	(211,300)	(857,500)
Total revenues	10,885,300	4,005,000	14,890,300
EXPENSES:			
Nursing services	5,251,600	1,240,500	6,492,100
Plant operations and maintenance	769,300	486,400	1,255,700
Housekeeping and laundry	549,400	159,700	709,100
Dietary	1,257,800	724,700	1,982,500
Social services and activities	253,200	199,900	453,100
Education	102,200	-	102,200
General and administrative	2,662,200	1,337,400	3,999,600
Interest expense	-	-	-
Pharmacy	231,000	-	231,000
Laboratory	56,300	-	56,300
X-ray	22,100	-	22,100
Total expenses	11,155,100	4,148,600	15,303,700
INCOME BEFORE INCOME TAX PROVISION	(269,800)	(143,600)	(413,400)
INCOME TAX PROVISION	-	-	-
NET INCOME	(269,800)	(143,600)	(413,400)
DISTRIBUTIONS TO SHAREHOLDER	-	-	-
INTERCOMPANY TRANSFERS	3,020,200	(2,201,900)	818,300
RETAINED EARNINGS (DEFICIENCY), beginning of year	\$ 29,781,300	\$ (28,628,400)	\$ 1,152,900
RETAINED EARNINGS (DEFICIENCY), end of year	\$ 32,531,700	\$ (30,973,900)	\$ 1,557,800

COMPASS HEALTH, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
STATEMENT OF CASH FLOWS – DIRECT METHOD
COMBINED BAYSIDE CARE CENTER AND CASA DE FLORES
FOR THE YEAR ENDED DECEMBER 31, 2022

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

CASH FLOW FROM OPERATING ACTIVITIES:	
Cash received from patients and third-party payers	\$ 15,668,200
Other cash received	8,000
Cash paid for operating expenses	(8,356,600)
Cash paid to employees	(8,051,700)
Interest received	<u>200</u>
Net cash (used in) operating activities	<u>(731,900)</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchase of plant, property, and equipment	<u>(351,500)</u>
Net cash (used in) investing activities	<u>(351,500)</u>
CASH FLOW FROM FINANCING ACTIVITIES:	
Intercompany transfers	<u>818,300</u>
Net cash provided by financing activities	<u>818,300</u>
Net change in cash, cash equivalents, and restricted cash	(265,100)
Cash, cash equivalents, and restricted cash at beginning of year	<u>226,300</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ (38,800)</u>

FORM 1-1
RESIDENT POPULATION

<u>Line</u>	Continuing Care Residents	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	87
[2]	Number at end of fiscal year	84
[3]	Total Lines 1 and 2	171
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	85.5
All Residents		
[6]	Number at beginning of fiscal year	175
[7]	Number at end of fiscal year	169
[8]	Total Lines 6 and 7	344
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	172
[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).	0.50

FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$15,303,700
[a]	Depreciation	\$170,383
[b]	Debt Service (Interest Only)	\$0
[2]	Subtotal (add Line 1a and 1b)	\$170,383
[3]	Subtract Line 2 from Line 1 and enter result.	\$15,133,317
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	50%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$7,522,666
		x .001
[6]	Total Amount Due (multiply Line 5 by .001)	\$7,523

PROVIDER: Compass Health, Inc.
COMMUNITY: Bayside Care Center and Casa de Flores

FORM 1-1
RESIDENT POPULATION

<u>Line</u>	Continuing Care Residents	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	53
[2]	Number at end of fiscal year	54
[3]	Total Lines 1 and 2	107
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	53.5
All Residents		
[6]	Number at beginning of fiscal year	139
[7]	Number at end of fiscal year	137
[8]	Total Lines 6 and 7	276
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	138
[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).	0.39

FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$12,349,300
[a]	Depreciation	\$35,685
[b]	Debt Service (Interest Only)	\$0
[2]	Subtotal (add Line 1a and 1b)	\$35,685
[3]	Subtract Line 2 from Line 1 and enter result.	\$12,313,615
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	39%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$4,773,757
		x .001
[6]	Total Amount Due (multiply Line 5 by .001)	\$4,774

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	\$229,478	\$22,992	\$0	\$252,471
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
		TOTAL:	\$22,992	\$0	\$252,471

(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)	\$252,471
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)	\$914,939
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$1,167,410

PROVIDER: Compass Health, Inc.

FORM 5-4

CALCULATION OF NET OPERATING EXPENSES

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$15,303,700
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	\$170,383
	d. Amortization	\$0
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$12,205,193
	f. Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$12,375,576
4	Net Operating Expenses	\$2,928,124
5	Divide Line 4 by 365 and enter the result.	\$8,022
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$601,650

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	\$12,349,300
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	\$35,685
	d. Amortization	\$0
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$11,156,174
	f. Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$11,191,859
4	Net Operating Expenses	\$1,157,442
5	Divide Line 4 by 365 and enter the result.	\$3,171
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$237,825

PROVIDER: Compass Health, Inc.

COMMUNITY: Arroyo Grande Care Center and Wyndham Residence

Provider Name: COMPASS HEALTH, INC.
Fiscal Year End: 12/31/2022

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

Total Qualifying Assets as Filed:

Cash and Cash Equivalents	\$6,626,400
Line of Credit	
Other	\$0
Less Funds Reserved for Specific Designations	\$0
Total Qualifying Assets as Filed	<u>\$6,626,400</u>

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

Per Capita Cost of Operations Operating
Expenses (Form 5-4 (1) line #1) 15,303,700

Mean # of All Residents (Form 1-1 line #10) 172

Per Capita Cost of Operations 88,975

** 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: 12/31/2022

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

Total Qualifying Assets as Filed:

Cash and Cash Equivalents	\$6,626,400
Line of Credit	
Other	\$0
Less Funds Reserved for Specific Designations	\$0
Total Qualifying Assets as Filed	<u><u>\$6,626,400</u></u>

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

Per Capita Cost of Operations Operating
Expenses (Form 5-4 (2) line #1) 12,349,300

Mean # of All Residents (Form 1-1 (2) line #10) 138

Per Capita Cost of Operations 89,488

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

Reconciliation of Revenue to Consolidated Statement of Cash Flows

11,156,173.50 AGCC/WYD non-CCRC Revenue (A7 + A26) Ties to Form 5-4 (2) line 2 (e)		12,205,193.41 BCC/CDF non-CCRC Revenue (H19 + H26) Ties to Form 5-4 (1) line 2 (e)
55,523.14 AGCC CCRC Revenue		666,736.64 BCC CCRC Revenue
11,032,315.50 AGCC Non-CCRC Revenue		12,127,518.41 BCC Non-CCRC Revenue
11,087,838.64 AGCC Room & Board Revenue		12,794,255.05 BCC Room & Board Revenue
11,087,838.64 AGCC Room & Board		12,794,255.05 BCC Room & Board
1,143,725.36 AGCC Other Rev + Contractual Adj.		307,279.95 BCC Other Rev + Contractual Adj.
12,231,564.00 AGCC Revenue		13,101,535.00 BCC Revenue
3,185,779.00 WYN CCRC Revenue	13,101,535.00 BCC Revenue	4,153,164.00 CCRC
123,858.00 Non-CCRC	12,231,564.00 AGCC Revenue	77,675.00 Non-CCRC
3,309,637.00 WYND Room & Board Revenue	42,337,933.00 Other SNFS	4,230,839.00 CDF Room & Board Revenue
	67,671,032.00 SNF Revenues	
	4,230,839.00 CDF Revenue	
	3,309,637.00 WYND Revenue	
	- Bad Debt Allowance	
	7,540,476.00 RESIDENTIAL & BOARD & CARE	
	67,671,032.00 SNF Revenues	
	7,540,476.00 RCFE Revenues	
	(4,053,259.00) Less Therapy Revenues	
	71,158,249.00 2022 Revenues	
	71,158,249.00 2022 SNF + RCFE Revenues + Therapy Revenues	
	7,225,199.00 2021 Ending AR	
	(7,236,215.00) Less 2022 AR	
	71,147,200.00	
	Ties to Cash Received from patients and third-party payers from Statement of Cash Flows - Direct Method (page 27 audited FS)	

Reconciliation to Audited Financial Statements

Form 1-2, Line 1a - Reconciliation

Account Detail	BCC	CDF	
SNF - General & Admin	1,291,426		
RCF General & Admin		416,371	
SNF Depreciation & Amortization	74,835		
RCF Depreciation & Amortization		95,548	
SNF - Leases & Rentals	1,092,375		
RCF - Leases & Rentals		720,264	
SNF - Property Taxes	102,625		
RCF - Property Taxes		54,051	
SNF - Property Insurance	70,738		
RCF - Property Insurance		51,216	
SNF - Misc	-		
RCF - Misc		(90)	
Patient Supplies	8,756		
Priv Other Ancillaries 7300.45	2,375		
Mcare Other Ancillaries 7300.46	-		
Mcal Other Ancillaries 7300.47	19,032		
Total General & Administrative Costs	2,662,162	1,337,360	Ties to Audited FS pg. 26 line 12 under BCC & CDF respectively
From Audited FS pg 24			
SNF Depreciation & Amortization	74,835		
RCF Depreciation & Amortization	95,548		
Total Depreciation from FS	170,383		Ties to Form 1-2 Line 1a.

Form 5-1 Reconciliation

Account Detail	VHHC	
Principal Paid During Fiscal Year	229,478	Form 5-1 Column 1b \$217,559 ties to the current portion under 2021 on Audited, pg. 18, Note 8- Long Term Debt.
Interest Expense related to long term debt	22,992	Form 5-1 Column 1c
Accounts Payable Finance Charges	22,992	Ties to Audited FS pg. 26, line 12 under VHHC

Form 5-3 Line 3 - Reconciliation

Account Detail	Consolidated		
SNF - General & Admin	12,208,889		
RCF General & Admin	825,721		
SNF Depreciation & Amortization	416,779		
RCF Depreciation & Amortization	95,548		
SNF - Leases & Rentals	3,491,561		
RCF - Leases & Rentals	1,287,292		
SNF - Property Taxes	341,312		
RCF - Property Taxes	54,041		
SNF - Property Insurance	371,786		
RCF - Property Insurance	73,980		
SNF - Misc	-		
RCF - Misc	25,145		
Patient Supplies	33,799		
Priv Other Ancillaries	20,788		
Mcare Other Ancillaries	2,984		
Mcal Other Ancillaries	127,141		
Total General & Administrative Costs	19,376,766	Ties to Audited FS pg. 26 line 12 under Total	
SNF - Leases & Rentals		RCFE - Leases & Rentals	
Lease - Buildings	3,408,467	Lease - Buildings	1,282,528
Lease - Equipment	9,849	Lease - Equipment	264
Lease - Auto	73,245	Lease - Auto	4,500
	3,491,561		1,287,292
		Ties to RCF Leases & Rentals Above	
Ties to SNF Leases & Rentals Above			
SNF Leases - Buildings		RCFE Leases - Buildings	
AGCC	618,992	CDF	720,000
ALTC	-	Wynd	562,528
BCC	1,080,000		1,282,528
CHI	183,111		
MVHC	747,537		
SLPA	470,391		
SLTC	308,436		
	3,408,467		
SNF Leases - Buildings	3,408,467		
RCFE Leases - Buildings	1,282,528		
Total SNF & RCF Building Leases	4,690,995		
Deferred Rent			
	4,690,995		
Less Portion Paid to Related Parties (Not applicable to long-term debt)	(3,776,056)		
Facility Leasehold/Rental Payments	914,939	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)	15,303,700	Form 5-4 (1) Line 1
BCC Total Expenses	11,155,100	Audited FS pg. 26, line 17 under BCC
CDF Total Expenses	4,148,600	Audited FS pg. 26, line 17 under CDF
	15,303,700	Ties to Form 5-4 (1) Line 1
Variance	-	
Depreciation	170,383	Form 5-4 (1) Line 2c See Form 5-1 Reconciliation Above. Ties to Audited FS pg. 26, line 12
<hr/> <hr/> Revenue from Persons not under CCRC Contract		
See separate reconciliation to Consolidated Statement of Cash Flows (Direct Method)		

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

Reconciliation to Audited Financial Statements

Form 1-2, Line 1a - Reconciliation

Account Detail	AGCC	WYND	
SNF - General & Admin	1,353,732		
RCF General & Admin		401,841	
SNF Depreciation & Amortization	35,685		
RCF Depreciation & Amortization		-	
SNF - Leases & Rentals	619,601		
RCF - Leases & Rentals		567,028	
SNF - Property Taxes	39,984		
RCF - Property Taxes		-	
SNF - Property Insurance	52,626		
RCF - Property Insurance		22,764	
SNF - Misc	-		
RCF - Misc		25,235	
Patient Supplies	2,986		
Priv Other Ancillaries 7300.45	4,800		
Mcare Other Ancillaries 7300.46	2,157		
Mcal Other Ancillaries 7300.47	31,847		
Total General & Administrative Costs	2,143,418	1,016,868	Ties to Audited FS pg. 26 line 12 under AGCC & Wynd respectively
From Audited FS pg 22			
SNF Depreciation & Amortization	35,685		
RCF Depreciation & Amortization	-		
Total Depreciation from FS	35,685		Ties to Form 1-2 Line 1a.

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

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

Total Operating Expense (AGCC & WYND)	12,349,300	Form 5-4 (2) Line 1
AGCC Total Expenses	9,374,500	Audited FS pg. 26, line 17 under AGCC
WYND Total Expenses	2,974,800	Audited FS pg. 26, line 17 under Wynd
	12,349,300	Ties to Form 5-4 (2) Line 1
Variance	-	
Depreciation	35,685	Form 5-4 (2) Line 2c See Form 5-1 Reconciliation Above. Ties to Audited FS pg. 26, line 12
AGCC Revenue from Persons not under CCRC Contract		
See separate reconciliation to Consolidated Statement of Cash Flows (Direct Method)		

**Continuing Care Retirement Community
Disclosure Statement**

Date Prepared: 4/25/23

FACILITY NAME: Compass Health Inc., dba Arroyo Grande Care Center & Wyndham Residence
 ADDRESS: 1212 Farroll Ave and 222 S 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: None
 YEAR _____ # OF _____ SINGLE MULTI- _____ MILES TO SHOPPING CTR: 1
 OPENED: 1995 ACRES: 5.58 STORY _____ STORY _____ OTHER: Both MILES TO HOSPITAL: 20

NUMBER OF UNITS:

RESIDENTIAL LIVING	HEALTH CARE
APARTMENTS — STUDIO: _____	ASSISTED LIVING: <u>57</u>
APARTMENTS — 1 BDRM: _____	SKILLED NURSING: <u>99</u>
APARTMENTS — 2 BDRM: _____	SPECIAL CARE: _____
COTTAGES/HOUSES: _____	DESCRIPTION: > _____
RLU OCCUPANCY (%) AT YEAR END: _____	OVERALL CCRC OCCUPANCY (%) AT YEAR END: _____

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)* Refundable Repayable 90% 75% 50% 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: > Per HSC 1771.8(i)(1), a facility resident participates as a nonvoting resident representative to the facility's governing body. Per HSC 1771.8(i)(2)(A), there currently is not an open seat on the governing body and if a seat opens up on the governing body that seat will be offered to a member of the resident committee.
 > _____

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 (<u>3</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	MEALS (<u>3</u> /DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" 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 checked="" 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 checked="" 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/Casa De Flores

Morro Bay, CA

(805)-772-2237, (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)

Danish Care Center

Atascadero CA

(805) 466-9254

Mission View Health Center

San Luis Obispo CA

(805) 543-0210

San Luis Transitional Care

San Luis Obispo CA

(805) 545-7575

FREE-STANDING SKILLED NURSING

LOCATION (City, State)

PHONE (with area code)

Vineyard Hills Health Center

Templeton CA

(805) 434-3035

San Luis Post Acute Center

San Luis Obispo CA

(805) 544-5100

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

PROVIDER NAME: Compass Health Inc.

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	75,831,000	76,599,700	71,612,000	70,927,300
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	67,360,700	64,104,200	61,912,800	65,720,700
NET INCOME FROM OPERATIONS	<u>8,470,300</u>	<u>12,495,500</u>	<u>9,699,200</u>	<u>5,103,200</u>
LESS INTEREST EXPENSE	57,400	43,200	35,200	25,100
PLUS CONTRIBUTIONS				
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)				
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	<u>8,412,900</u>	<u>12,452,300</u>	<u>9,664,000</u>	<u>5,078,100</u>
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

<u>LENDER</u>	<u>OUTSTANDING BALANCE</u>	<u>INTEREST RATE</u>	<u>DATE OF ORIGATION</u>	<u>DATE OF MATURITY</u>	<u>AMORTIZATION PERIOD</u>
Symetra Life Insurance Co.	304,588	5.35	4/1/2012	3/1/2024	11 yrs 11 mos.

FINANCIAL RATIOS (see next page for ratio formulas)

	2017 CCAC Medians 50th Percentile <i>(optional)</i>	<u>2020</u>	<u>2021</u>	<u>2022</u>
DEBT TO ASSET RATIO		.0133	0.0116	0.0015
OPERATING RATIO		.8374	0.8351	0.9269
DEBT SERVICE COVERAGE RATIO		55.16	43.07	23.64
DAYS CASH ON HAND RATIO		197.24	126.70	91.89

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	<u>2019</u>	<u>%</u>	<u>2020</u>	<u>%</u>	<u>2021</u>	<u>%</u>	<u>2022</u>
STUDIO							
ONE BEDROOM							
TWO BEDROOM							
COTTAGE/HOUSE							
ASSISTED LIVING	3,530-8,130	0%	3,530-8,130	0%	3,830-8,430	10 %	4,215-9,270
SKILLED NURSING	7,440-8525	7%	8,700-12,000	0%	8,700-12,000	0%	8,700-12,000
SPECIAL CARE							

COMMENTS FROM PROVIDER: > _____
 > _____
 > _____

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\text{Total Operating Expenses} \\ - \text{ Depreciation Expense} \\ - \text{ Amortization Expense}}{\text{Total Operating Revenues} - \text{ Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} \\ + \text{ Interest, Depreciation, and Amortization Expenses} \\ \text{Amortization of Deferred Revenue} + \text{ Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash \& Investments} \\ + \text{ Unrestricted Non-Current Cash \& Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

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)	N/A	\$ 3,830 – \$ 8,130	\$8,700 - \$12,000
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	N/A	10% \$4,215 – \$9,270	0% \$8,700 - \$12,000

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: September 1, 2022 for Assisted Living (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. **Date of Notice:** 6/24/2022 **Method of Notice:** Letter
- 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. **Date of Meeting:** 7/6/2022
- 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. **Date of Notice:** 6/22/2022
- 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. **Date of Posting:** 6/22/2022 **Location of Posting:** Announcement Board

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

PROVIDER: Compass 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

Attachment to Item [5]:

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	10%	\$4,215 to \$9,270
Skilled Nursing Care	0%	\$8,700 to \$12,000

Assisted Living

The monthly care fees for the Assisted Living level of care were increased by 10% in line with increased operating costs. The Assisted Living census increased in F/Y 2022 and is projected to hold level in F/Y 2023.

Skilled Nursing Care

The Private monthly care fees for Skilled Nursing Care (SNF) were not increased in F/Y 2022. The SNF census increased in F/Y 2022 and is projected to slightly decrease in F/Y 2023 due to the reopening of a competing SNF facility.

**Form 7-1 Attachment
Monthly Care Fee Increase**

Historically, year over year increases in operating expenses are closely tied to increases in the Consumer Price Index, not taking into account per patient day fixed costs. Based on the 5% CPI increase recently published by US Bureau of Labor Statistics and the real cost increases we are seeing on the ground, a 3% increase was applied to the Projected F/Y 2023 Operating Expenses over F/Y 2022 Operating Expenses.

**Form 7-1 Monthly Care Fee Increase (MCFI)
Annual Reporting Fiscal Year (F/Y) 2022**

Line	Fiscal Years	2021	2022	2023
1	F/Y 2021 Operating Expenses	(11,660,400)		
2	F/Y 2022 Operating Expenses		(12,349,300)	
3	Projected F/Y 2023 Results of Operations			(12,719,779)
4	F/Y 2023 Anticipated MCF Revenue Based on Current and Projected Occupancy ¹ and Other without a MCF			13,024,731
5	Projected F/Y 2023 (Net) Operating Results without a MCFI			304,952
6	Projected F/Y 2023 Anticipated Revenue Based on Current and Projected Occupancy ¹ and Other with MCFI 10% on Assisted Living Monthly Fees			13,339,512
7	Grand Total - Projected F/Y 2023 Net Operating Activiting after MCFI 9% on Assisted Living Monthly Fees			619,733

Audited financials Total Expenses (AGCC+WYN)

Audited financials Total Expenses (AGCC+WYN)

Monthly Care Fee Increase Assisted Living: 10%

Adjustments Explained:

- 1) Projected SNF occupancy based on current census is expected to decrease by 4% from F/Y 2022 to F/Y 2023 and Projected Assisted Living occupancy based on current census is expected to remain flat over F/Y 2022.
- 2) In F/Y 2022, Assited Living Revenue was 23% of the total MCF Revenue.

KEY INDICATORS REPORT

Date Prepared: 4/26/2023
 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.

	2018	2019	2020	2021	2022	Projected 2023	Forecast				Preferred Trend Indicator
							2024	2025	2026	2027	
OPERATIONAL STATISTICS											
1. Average Annual Occupancy by Site (%)	93%	90%	82%	80%	86%	86%	86%	86%	87%	87%	N/A
MARGIN (PROFITABILITY) INDICATORS											
2. Net Operating Margin (%)	10.70%	10.75%	15.40%	12.75%	7.40%	10.00%	10.00%	10.00%	10.00%	10.00%	↑
3. Net Operating Margin - Adjusted (%)	10.70%	10.75%	15.40%	12.75%	7.40%	10.00%	10.00%	10.00%	10.00%	10.00%	↓
LIQUIDITY INDICATORS											
4. Unrestricted Cash and Investments (\$000)	\$8,772	\$7,531	\$23,106	\$11,778	\$6,626	\$7,000	\$7,500	\$8,000	\$8,000	\$8,000	↑
5. Days Cash on Hand (Unrestricted)	297	250	711	366	194	200	225	250	250	250	↑
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	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	N/A	N/A
8. Unrestricted Net Assets (\$000)	\$956	\$1,676	\$2,388	\$2,027	\$1,645	\$1,500	\$1,300	\$1,300	\$1,250	\$1,250	N/A
9. Annual Capital Asset Expenditure (\$000)	\$125	\$100	\$125	\$100	\$125	\$100	\$125	\$125	\$150	\$150	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	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	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	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	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	N/A	N/A	↑
15. Average Age of Facility (years)	9.04	9.00	9.00	9.00	9.75	9.50	8.85	8.75	8.50	8.05	↓