MANCHESTER MANOR SNF OPERATIONS LLC, ARBORS OF HOP BROOK ALF OPERATIONS LLC, MANCHESTER MANOR SNF REALTY LLC, AND ARBORS OF HOP BROOK ALF REALTY LLC

COMBINED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2023

Combined Financial Statements and Supplementary Information

MANCHESTER MANOR SNF OPERATIONS LLC,
ARBORS OF HOP BROOK ALF OPERATIONS LLC,
MANCHESTER MANOR SNF REALTY LLC, AND
ARBORS OF HOP BROOK ALF REALTY LLC

DECEMBER 31, 2023

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Pease Bell CPAs, LLC
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INDEPENDENT AUDITOR'S REPORT

To the Members of
Manchester Manor SNF Operations LLC, Arbors of Hop Brook ALF Operations LLC,
Manchester Manor SNF Realty LLC, and Arbors of Hop Brook ALF Realty LLC

Opinion

We have audited the accompanying financial statements of Manchester Manor SNF Operations LLC, Arbors of Hop Brook ALF Operations LLC, Manchester Manor SNF Realty LLC, and Arbors of Hop Brook ALF Realty LLC (Connecticut limited liability companies) (collectively, the "Company" or "Companies"), which comprise the combined balance sheet as of December 31, 2023, and the related combined statements of income, comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Companies as of December 31, 2023, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Combined Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Combined Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.

- Obtain an understanding of internal control relevant to the 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 the Companies' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Companies' 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.

Pease Bell CPAs, LLC

Cleveland, Ohio
August 19, 2024

MANCHESTER MANOR SNF OPERATIONS LLC,
ARBORS OF HOP BROOK ALF OPERATIONS LLC,
MANCHESTER MANOR SNF REALTY LLC, AND
ARBORS OF HOP BROOK ALF REALTY LLC

COMBINED BALANCE SHEET

DECEMBER 31, 2023

ASSETS

CURRENT ASSETS	
Cash	$ 1,419,590
Resident trust funds	23,700
Resident accounts receivable, net of allowance for credit losses of $167,923	2,371,009
Other receivables	202,729
Prepaid expenses and other current assets	187,376
TOTAL CURRENT ASSETS	4,204,404
PROPERTY AND EQUIPMENT, NET	21,097,349
OTHER ASSETS	
Goodwill, net	3,513,656
Escrow deposits	405,784
Security deposits	5,000
Advances receivable - affiliates	5,560,578
Advances receivable - members	3,029,062
Interest rate swap contract	94,387
TOTAL OTHER ASSETS	12,608,467
	$ 37,910,220

See notes to combined financial statements.

**MANCHESTER MANOR SNF OPERATIONS LLC,
ARBORS OF HOP BROOK ALF OPERATIONS LLC,
MANCHESTER MANOR SNF REALTY LLC, AND
ARBORS OF HOP BROOK ALF REALTY LLC**

COMBINED BALANCE SHEET

DECEMBER 31, 2023

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Current maturities of notes payable	$	223,535
Resident trust funds liability		23,700
Line of credit		2,175,263
Accounts payable		501,852
Accounts payable - related parties		121,476
Accrued expenses		235,205
Accrued payroll and related costs		493,585
TOTAL CURRENT LIABILITIES		3,774,616
LONG-TERM LIABILITIES		
Notes payable, net of current maturities and and debt issuance costs		18,540,224
Resident security deposit liability		212,554
Reserve fund liability		3,190,184
Advances payable - affiliates		6,252,009
Advances payable - members		2,695,599
TOTAL LONG-TERM LIABILITIES		30,890,570
TOTAL LIABILITIES		34,665,186
MEMBERS' EQUITY		3,245,034
	$	37,910,220

See notes to combined financial statements.

MANCHESTER MANOR SNF OPERATIONS LLC,
ARBORS OF HOP BROOK ALF OPERATIONS LLC,
MANCHESTER MANOR SNF REALTY LLC, AND
ARBORS OF HOP BROOK ALF REALTY LLC

COMBINED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2023

REVENUES	
Net resident service revenues	$ 22,269,533
Other revenue	607,586
TOTAL REVENUES	22,877,119
OPERATING EXPENSES	
Nursing	7,776,581
General and administrative	3,331,399
Dietary	2,066,976
Ancillary services	1,772,883
Management fee	1,148,255
Facility maintenance	768,306
Depreciation and amortization	722,131
Housekeeping and laundry	549,117
Amortization of goodwill	410,000
Activities	295,917
Provision for expected credit losses	118,253
Social services	114,591
TOTAL OPERATING EXPENSES	19,074,409
INCOME FROM OPERATIONS	3,802,710
OTHER EXPENSE	
Interest expense, net	(1,367,916)
NET INCOME	$ 2,434,794

See notes to combined financial statements.

MANCHESTER MANOR SNF OPERATIONS LLC,
ARBORS OF HOP BROOK ALF OPERATIONS LLC,
MANCHESTER MANOR SNF REALTY LLC, AND
ARBORS OF HOP BROOK ALF REALTY LLC

COMBINED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2023

NET INCOME	$	2,434,794
Other comprehensive income (loss) - unrealized loss on interest rate swap		(61,326)
COMPREHENSIVE INCOME	$	2,373,468

See notes to combined financial statements.

MANCHESTER MANOR SNF OPERATIONS LLC,
ARBORS OF HOP BROOK ALF OPERATIONS LLC,
MANCHESTER MANOR SNF REALTY LLC, AND
ARBORS OF HOP BROOK ALF REALTY LLC

COMBINED STATEMENT OF CHANGES IN MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2023

	Members' Equity	Accumulated Other Comprehensive Income	Total
BALANCE - DECEMBER 31, 2022	$ 735,457	$ 155,713	$ 891,170
Net income	2,434,794	-	2,434,794
Member distributions	(19,604)	-	(19,604)
Other comprehensive income (loss) - unrealized loss on interest rate swap	-	(61,326)	(61,326)
BALANCE - DECEMBER 31, 2023	$ 3,150,647	$ 94,387	$ 3,245,034

See notes to combined financial statements.

MANCHESTER MANOR SNF OPERATIONS LLC,
ARBORS OF HOP BROOK ALF OPERATIONS LLC,
MANCHESTER MANOR SNF REALTY LLC, AND
ARBORS OF HOP BROOK ALF REALTY LLC

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 2,434,794
Adjustments to reconcile net income to net cash and restricted cash provided by operating activities:	
Depreciation and amortization	722,131
Amortization of goodwill	410,000
Amortization of debt issuance costs	78,652
Provision for expected credit losses	118,253
Reserve fund revenue recognized	(290,187)
Changes in operating assets and liabilities:	
Resident accounts receivable	(140,586)
Other receivables	197,791
Prepaid expenses and other current assets	(100,294)
Security deposits	(5,000)
Resident trust funds liability	23,700
Accounts payable	(192,791)
Accounts payable - related parties	8,464
Accrued expenses	(79,270)
Accrued payroll and related costs	(155,937)
Resident security deposit liability	57,930
Reserve fund liability	278,886
NET CASH AND RESTRICTED CASH PROVIDED BY OPERATING ACTIVITIES	3,366,536
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(735,834)
Advances to affiliates, net	(1,477,141)
Advances to members, net	(15,088)
NET CASH AND RESTRICTED CASH USED IN INVESTING ACTIVITIES	(2,228,063)
CASH FLOWS FROM FINANCING ACTIVITIES	
Borrowings on line of credit, net	700,517
Proceeds from capital expenditure note payable	250,692
Net repayments of advances from affiliates	(2,953,423)
Member distributions	(19,604)
NET CASH AND RESTRICTED CASH USED IN FINANCING ACTIVITIES	(2,021,818)
NET DECREASE IN CASH AND RESTRICTED CASH	(883,345)
Cash and restricted cash at beginning of year	2,732,419
CASH AND RESTRICTED CASH AT END OF YEAR	$ 1,849,074

See notes to combined financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of entities: Manchester Manor SNF Operations LLC and Arbors of Hop Brook ALF Operations LLC (collectively, the "Operating Companies" or "Lessees") and Manchester Manor SNF Realty LLC and Arbors of Hop Brook ALF Realty LLC (individually or collectively, the "Lessors") are Connecticut limited liability companies affiliated through common ownership and registered to do business in the state of Connecticut. The Operating Companies and Lessors (collectively, the "Company" or "Companies") own and operate a skilled nursing facility and an assisted living facility (the "Facilities") located in Manchester, Connecticut with a combined capacity of 240 beds as detailed below.

Legal Name of Operating Entity	DBA Name of Entity	Facility Location	Licensed Beds
Manchester Manor SNF Operations LLC	Manchester Rehabilitation and Healthcare Center	Manchester, CT	126
Arbors of Hop Brook ALF Operations LLC	Arbors of Hop Brook Life Plan Retirement Community	Manchester, CT	114

Arbors of Hop Brook Life Plan Retirement Community operates as a Continuing Care Retirement Community ("CCRC") as licensed by the Connecticut Department of Public Health and administered by the Department of Social Services.

Acquisition and transfer of operations: In conjunction with the Lessors' acquisition of the Facilities in 2022, the Operating Companies assumed the Facility operating license, Medicare and Medicaid provider numbers and agreements, and certain other Facility contracts from the former unrelated operator. No value was assigned to these intangible assets. The Operating Companies, at their sole discretion, hired the existing employees as of the date of transfer. The Companies commenced operations in July 2022. Subsequent to the transfer of operations, certain accounts receivable of the Company were collected by the former operator and certain receivables of the former operator were collected by the Company. The net amount due from the former operator is $185,086 at December 31, 2023 and is reported within other receivables in the accompanying combined balance sheet.

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

Principles of combination: The accompanying combined financial statements include the accounts of the Companies, which are related through common ownership. The Operating Companies are guarantors of the Lessors' notes payable. Intercompany balances and transactions have been eliminated in the combination.

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

Variable interest entities: The Company follows Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-17 "Targeted Improvements to Related Party Guidance for Variable Interest Entities", which allows a private company to elect, under certain circumstances, not to consolidate certain variable interest entities, including variable interest entities in common control leasing arrangements. Accordingly, the Company does not consolidate CT-3 Consulting LLC (the "management company" or "CT-3"), which is a commonly-controlled entity that manages the operations of the Facilities.

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

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

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

Resident funds held in trust: Resident trust funds consist of funds held in trust for residents' personal needs. These funds are maintained in cash accounts separate from the Companies' operating cash accounts and a corresponding liability is recorded in current liabilities in the accompanying combined balance sheet. These restricted cash accounts are included in cash and restricted cash in the accompanying combined statement of cash flows.

Reserve funds and Connecticut Department of Social Services escrow requirements: Arbors of Hop Brook Life Plan Retirement Community is licensed by Connecticut's Department of Public Health under guidance from the Department of Social Services to operate as a CCRC. Under CGS§ 17b-524, providers may collect (1) entrance fees upon entering into a contract with a resident and prior to the resident's occupation date and (2) reserve funds upon the resident's occupation date. The Company establishes separate escrow accounts for each type of resident payment with a bank or trust company.

Entrance fees in escrow are released to the Company upon a resident's occupation date and are either returned to the resident or utilized to cover required funding of reserve funds. The Company did not have any entrance fees in escrow at December 31, 2023.

Reserve funds are collected from residents upon move in and recorded as a liability. A certain percentage of reserve funds are refunded to the resident at the time of move out. Required reserve fund payments vary depending on room type and the refundable percentage. The non-refundable portion, which is considered advance payments for future services, is amortized into revenue based on contractual agreements with the residents. Reserve fund revenue totaled $290,187 in 2023 and is reported within other revenue in the accompanying combined statement of income. Reserve fund liability at December 31, 2023 consists of the following:

Reserve fund liability – refundable	$ 2,749,508
Reserve fund liability – non-refundable	440,676
Total reserve fund liability	$ 3,190,184

Reserve funds in escrow must be sufficient to cover (1) all principal and interest or rental or lease payments due during the next six months for any first mortgage loan or any other long-term financing for the facility and (2) total operating costs for a one-month period less the debt service for (1) above and capital expenditures. The following presents reserve fund requirements and reserve fund escrow at December 31, 2023:

(1) Lease payments over next 6 months	$ 225,000
Reserve fund escrow	335,020
Sufficiency	$ 110,020

(2) Operating costs – 1 month	$ 393,931
Less: lease payment	(37,500)
Less: capital expenditure	(26,866)
Net requirement	329,565
Reserve fund escrow	335,020
Sufficiency	$ 5,455

Escrow deposits: The Company's escrow deposits consist of the reserve fund required by the Connecticut Department of Social Services described above and escrow accounts maintained by the Company's mortgage lender on behalf of the Company. These reserves are maintained at amounts considered by the Company to be adequate and in compliance with the Connecticut General Statutes and the mortgage note agreement described in Note 4, respectively. These restricted cash reserves are included in cash and restricted cash in the accompanying combined statement of cash flows. Escrow deposits at December 31, 2023 consist of the following:

Reserve fund escrow	$ 335,020
Repair reserve escrow	28,348
Real estate tax escrow	42,416
Total	$ 405,784

Resident accounts receivable: Resident accounts receivable represents amounts due from payors for amounts billed for resident services provided. The Company provides an allowance for credit losses that is estimated utilizing current accounts receivable aging reports, historical collections data and other factors. In addition, the Company monitors collections and payments from payors and maintains an allowance based upon applying an expected credit loss rate to receivables based on the historical loss rate from similar payors adjusted for current conditions, including any specific payor collection issues identified, and forecasts of economic conditions. Management monitors these factors and determines the estimated provision for credit losses. Historical credit losses have generally resulted from uncollectible private balances, some uncollectible coinsurance and deductibles, and other factors. Receivables that are deemed to be uncollectible are written-off. The allowance for credit losses is assessed by management, with changes in estimated losses being recorded in the combined statement of income in the period identified. It is reasonably possible that the Company's estimate of the allowance for credit losses will change in the near term. At December 31, 2023, the allowance for credit losses totaled $167,923, which management believes is adequate.

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

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

Allowance for credit losses – beginning of year	$ 56,025
Additional provision for expected credit losses	118,253
Write-offs of receivables	(6,355)
Allowance for credit losses – end of year	$ 167,923

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

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

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

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

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

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

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

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

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

Disaggregation of Revenues and Accounts Receivable

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

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

Buildings	39 years
Leasehold improvements	10 years
Furniture and equipment	5 years

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

As described in Note 5, the Operating Companies lease the Facilities, and most of the furniture and equipment needed to operate the Facilities, from the Lessors.

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

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

Goodwill: Goodwill represents the excess of the acquisition price over the fair value of net assets acquired through business combinations. Goodwill is allocated to the operating segment that benefits from the synergies arising from the business combination. The Company amortizes goodwill on a straight-line basis over a ten (10) year period unless a shorter period can be demonstrated to be applicable. Amortization expense for 2023 totaled $410,000. When events or circumstances indicate that goodwill may be impaired, goodwill is tested for impairment at the entity level. Impairment, if any, will be recognized for the difference between the fair value of the Company and its carrying amount and will be limited to the carrying amount of goodwill. No such event occurred in 2023. Annual amortization expense for the years 2024 through 2031 will be $410,000 per year, and $233,656 for the year 2032.

Debt issuance costs: Debt issuance costs represent charges incurred for obtaining the mortgage note payable described in Note 4 and are presented as a direct deduction from the related debt liability. Debt issuance costs are amortized on a straight-line basis over the initial term of the note agreement, which approximates the effective interest method. Amortization of debt issuance costs totaled $78,652 in 2023 and is included in interest expense in the accompanying combined statement of income. At December 31, 2023, unamortized debt issuance costs included as a debt discount are $124,533.

Compensated absences: Employees of the Company are entitled to paid vacation days depending on job classification, length of service, and hours worked. At December 31, 2023, the total amount accrued for compensated absences was $186,088 and is included in accrued payroll and related costs in the accompanying combined balance sheet.

Resident security deposits: The Company collects security deposits from the non-CCRC residents of Arbors of Hop Brook Life Plan Retirement Community upon occupation. These security deposits are refunded to the resident upon their departure from the Facility, net of unpaid charges. A resident security deposit liability of $212,554 is reported within long-term liabilities in the accompanying combined balance sheet at December 31, 2023.

Advertising costs: The Company expenses advertising costs in the period in which they are incurred. Advertising expenses totaled $142,117 in 2023.

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

The Company pays income taxes at the entity level on taxable income in the state of Connecticut per the state's Pass-Through Entity Tax ("PTET") regulations. PTET election removes certain state and local income tax deduction limitations related to the members personal federal income taxes. The Company has determined these payments are made exclusively on behalf of the members and therefore the Company includes the payments within member distributions. Accordingly, no provision for state taxes has been recorded in the accompanying combined financial statements. PTET payments included in member distributions totaled $19,604 in 2023.

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

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

Joint and several liability arrangements: The Company and an affiliated entity allocate their obligations resulting from joint and several liability arrangements based on an agreement between Company and the affiliate wherein the Company and the affiliate have each agreed to pay their respective portion of the total liability based on the actual proceeds received from the line of credit and mortgage note payable.

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

Combined statement of cash flows: Interest paid in 2023 totaled $1,268,452.

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

Cash	$ 1,419,590
Resident trust funds	23,700
Escrow deposits	405,784
Total cash and restricted cash shown in combined statement of cash flows	$ 1,849,074

Fair value measurements: Inputs used to derive the fair value of assets and liabilities are analyzed and assigned a Level 1, 2 or 3 priority in accordance with accounting principles generally accepted in the United States of America, with Level 1 being the highest and Level 3 being the lowest in the hierarchy. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets. Level 3 inputs are based on valuations derived from valuation techniques in which one or more significant inputs are unobservable.

Financial instruments: The fair value of the Company's interest rate swap, which is based on Level 2 inputs, is based on pricing models in which all significant inputs, such as interest rate and yield curves, are observable in active markets. The Company believes that the fair value reported would not be materially different from the amounts that would be realized upon settlement.

Derivative instruments: Accounting standards require all derivatives to be recognized as either assets or liabilities, at fair value, in the combined balance sheet. Gains and losses resulting from changes in the fair value of derivatives are recorded either as a separate component of comprehensive income or members' equity or in the combined statement of income depending upon whether the instruments meet the criteria for hedge accounting. The Company's use of derivatives was limited to the interest rate swap contract as described in Note 4.

Comprehensive income: The term "comprehensive income" represents the change in the members' equity of the Company from transactions and other events and circumstances resulting from non-member sources. The Company has reported its comprehensive income in the accompanying combined statement of comprehensive income. The Company's comprehensive income reflects changes in the fair value of its interest rate swap contract, which is recorded directly to members' equity and not included in net income.

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

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

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

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

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

Subsequent events: In preparing these combined financial statements, management has evaluated events and transactions for potential recognition or disclosure through August 19, 2024, the date the combined financial statements were available to be issued.

NOTE 2 – PROPERTY AND EQUIPMENT

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

Buildings	$ 17,110,817
Land	2,410,675
Furniture and equipment	1,597,985
Leasehold improvements	655,550
	21,775,027
Less – accumulated depreciation and amortization	1,010,942
	20,764,085
Construction-in-progress	333,264
	$ 21,097,349

Depreciation and amortization expense for 2023 totaled $722,131.

Construction-in-progress consists of costs incurred for various facility improvements by the Company. These projects have not yet been completed and placed into service as of December 31, 2023. No provision for depreciation is recorded on construction-in-progress until such time as the relevant assets are completed and placed in service.

NOTE 3 – REVOLVING LINE OF CREDIT

Manchester Manor SNF Operations LLC has a $3,000,000 revolving line of credit agreement with a financial institution under which it may borrow, subject to certain borrowing base limitations. The line of credit is shared with an affiliate with each entity responsible for its draws and related interest. The line of credit has been extended through August 1, 2025. Borrowings under the line bear interest at the one-month Secured Overnight Financing Rate ("SOFR") (5.35% at December 31, 2023) plus an applicable base rate margin of 3.00%. The interest rate at December 31, 2023 was 8.35%. The outstanding balance on the line of credit at December 31, 2023 is $2,175,263. Arbors of Hop Brook ALF Operations LLC is a guarantor on the line of credit.

The line of credit is secured by the assets of Manchester Manor SNF Operations LLC and its affiliate and is guaranteed by the members of the Company. The loan agreement contains certain restrictions and financial covenants with which the Company was in compliance at December 31, 2023.

NOTE 4 – NOTES PAYABLE

Notes payable at December 31, 2023 consist of the following:

Note payable - mortgage	$	14,137,600
Note payable – capex		250,692
Note payable – Seller		4,500,000
Total notes payable		18,888,292
Less: current maturities		223,535
Notes payable, net of current maturities		18,664,757
Less: debt issuance costs, net		124,533
Notes payable, net of current maturities and debt issuance costs	$	18,540,224

Note payable - mortgage: Manchester Manor SNF Realty LLC entered into a mortgage note payable in connection with the acquisition of the Facility. The mortgage note payable, which includes proceeds used by an affiliate to acquire its facility, totals $28,275,200. Manchester Manor SNF Realty LLC is responsible for $14,137,600 (fifty percent) of the total. A portion of the mortgage note payable totaling $14,137,600 is subject to an interest rate swap agreement (the "swap portion"). Manchester Manor SNF Realty LLC is responsible for $7,068,800 (fifty percent) of this total. Interest only payments at the swap interest rate of 6.41% are due monthly on the swap portion through January 2024. Beginning in February 2024, principal and interest payments based on a 25-year amortization schedule are due monthly through July 2024, the expiration date of the interest rate swap agreement. Beginning in August 2024, principal and interest on the remaining swap portion (with interest based on the one-month SOFR rate plus an applicable base rate margin of 3.00% per month) are due through July 2025, at which time all unpaid principal and interest on the swap portion are due.

The portion of the mortgage note payable not subject to the interest rate swap agreement totals $14,137,600 (the "non-swap portion"). Manchester Manor SNF Realty LLC is responsible for $7,068,800 (fifty percent) of this amount. Interest only payments at the one-month SOFR rate (5.35% at December 31, 2023) plus an applicable base rate margin of 3.00% are due monthly on the non-swap portion through January 2024. The interest rate at December 31, 2023 was 8.35%. Beginning in February 2024, principal and interest payments based on a 25-year amortization schedule are due monthly through July 2025, at which time all unpaid principal and interest on the non-swap portion are due. Interest during this period is based on the one-month SOFR rate plus an applicable base rate margin of 3.00% each month. Interest payable at December 31, 2023 totaled $115,737 and is included in accounts payable in the accompanying combined balance sheet.

Manchester Manor SNF Realty LLC and its affiliate have a one-year extension option on the note. Manchester Manor SNF Realty LLC's future principal payments required on the mortgage note payable are $223,535 and $13,914,065 in 2024 and 2025, respectively.

The mortgage note payable is secured by all assets of Manchester Manor SNF Realty LLC and its affiliate and is guaranteed by the Companies' members. Both companies are jointly and severally liable for the loan's outstanding balance. Arbors of Hop Brook ALF Operations LLC is a guarantor on the mortgage note payable. Manchester Manor SNF Realty LLC and its affiliate anticipate extending the note's maturity. The mortgage note payable contains certain restrictions and financial covenants with which the Company was in compliance at December 31, 2023.

Interest rate swap agreement: To manage the impact of changes in interest rates, Manchester Manor SNF Realty LLC and an affiliate entered into an interest rate swap contract (cash flow hedge) that effectively converted the interest rate on $14,137,600 of its variable rate mortgage note payable to a fixed rate of 6.41%. Manchester Manor SNF Realty LLC is responsible for $7,068,800 (fifty percent) of this amount. Net settlement under the swap was determined by applying the rate to the notional amount under the swap. The notional amount under the swap totaled $7,068,800 as of December 31, 2023. The interest rate swap agreement is designed to hedge the risk of changes in interest payments on the loan caused by changes in SOFR. The changes in the fair value of the interest rate swap are recognized as a separate component of comprehensive income (other comprehensive income (loss) – unrealized loss on interest rate swap) and an asset (interest rate swap contract). The fair market value of the interest rate swap contract is $94,387 as of December 31, 2023. Unrealized loss on the interest rate swap contract is $61,326 in 2023 and is reported in the combined statement of comprehensive income.

Note payable - capex: Manchester Manor SNF Operations LLC and an affiliate entered into a capital expenditure note payable agreement which allows the Company and its affiliates to draw a maximum of $2,400,000 through January 20, 2024, once certain lender terms and conditions are met. The Company and its affiliate drew a combined $497,086 in September 2023, of which $250,692 was allocated to Manchester Manor SNF Operations LLC. Interest only payments at the one-month SOFR rate (5.35% at December 31, 2023), plus an applicable base rate margin of 3.00%, are due monthly for the first eighteen months subsequent to the draw date. The interest rate at December 31, 2023 was 8.35%. No additional funds were drawn on the note through January 20, 2024, at which point the ability to draw funds expired. Arbors of Hop Brook ALF Operations LLC is a guarantor on the capital expenditure note payable

Beginning with the payment due in the nineteenth month (April 2025), principal and interest payments based on a 25-year amortization schedule are due monthly through July 2025, at which time all unpaid principal and interest are due. Manchester Manor SNF Operations LLC and its affiliate have a one-year extension option on the note. Future principal payments required on the capital expenditure note payable from Manchester Manor SNF Operations LLC are $250,692 in 2025.

Note payable – seller: In connection with the acquisition of its facility, Arbors of Hop Brook ALF Realty LLC entered into a note payable with the Seller. Interest only payments at 6% are due monthly through the note's extended maturity date of July 27, 2025, at which time the principal balance is due.

NOTE 5 – OPERATING LEASES

All disclosures related to the operating leases are for informational purposes only, as all effects of the operating leases are eliminated in the combination of the Companies' financial statements.

The Operating Companies lease the nursing home facilities from the Lessors under ten-year lease agreements. The leases are accounted for as operating leases and expire in July 2032. The leases require total combined annual payments of $2,217,073 in year one. The Manchester Manor SNF Operations LLC lease increases 2% annually throughout its term. For financial reporting purposes, the lease revenue is recorded on a straight-line basis considering total lease revenue over the term of the lease including the escalations in lease payments, which differs from the actual lease payments received. As of December 31, 2023, cumulative operating lease expense and revenue for financial reporting purposes exceeded required monthly lease payment receipts by $223,023 with such difference included in other assets in Manchester Manor SNF Realty LLC's balance sheet as unbilled lease receivable. The leases are on a triple-net basis; therefore, the Operating Companies are responsible for the payment of property taxes, insurance, maintenance, and various other use and occupancy costs.

Lease revenue and lease expense, which are eliminated in the accompanying combined statement of income, totaled $2,384,896 for 2023. Prepaid lease expense and prepaid lease liability, which are eliminated in the accompanying combined balance sheet, totaled $178,829 at December 31, 2023.

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

Operating lease expense	$ 2,384,896
Variable lease expense	-
Total operating lease expense	$ 2,384,896

Future minimum lease payments under the noncancelable leases with initial or remaining lease terms in excess of one year as of December 31, 2023 are as follows:

Year ending December 31,	
2024	$ 2,267,435
2025	2,303,784
2026	2,340,859
2027	2,378,676
2028	2,417,250
Thereafter	8,985,375
Total minimum lease payments	20,693,379
Less: imputed interest	4,096,190
Present value of minimum lease payments	$ 16,597,189

The Company does not have any material leases that have been signed but have yet to commence as of December 31, 2023. There was no variable lease expense for 2023.

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

Cash paid for amounts included in the measurement of lease liabilities	$ 2,231,799
Weighted average remaining lease term (years)	8.58
Weighted average discount rate	5.28%

NOTE 6 – RELATED PARTY TRANSACTIONS

Advances receivable - affiliates: The Company has made advances to various entities affiliated with the Company through common ownership in order to accommodate certain cash flow needs of the affiliated entities. The advances are non-interest bearing and totaled $5,560,578 as of December 31, 2023. These amounts are classified as advances receivable - affiliates in the accompanying combined balance sheet. Management does not expect to fully collect the balance within twelve months of the balance sheet date; therefore, these amounts advanced to affiliates have been classified as a long-term asset in the accompanying combined balance sheet.

Advances receivable - members: The Company has made advances to members of the Company. The advances are non-interest bearing and totaled $3,029,062 as of December 31, 2023. These amounts are classified as advances receivable - members in the accompanying combined balance sheet. Management does not expect to fully collect the balance within twelve months of the balance sheet date; therefore, these amounts advanced to members have been classified as a long-term asset in the accompanying combined balance sheet.

Advances payable - affiliates: The Company has received cash advances from various entities affiliated with the Company through common ownership in order to accommodate certain cash flow needs of the Company. The advances are non-interest bearing and totaled $6,252,009 as of December 31, 2023. Management does not expect to fully repay the balance within twelve months of the balance sheet date; therefore, these advances from affiliates have been classified as a non-current liability in the accompanying combined balance sheet.

Advances payable - members: The Company has received cash advances from certain members of the Company to accommodate certain cash flow needs. The advances are non-interest bearing and due on demand and totaled $2,695,599 as of December 31, 2023. Management does not expect to fully repay these amounts in fiscal year 2024; therefore, the amounts have been classified as noncurrent in the accompanying combined balance sheet.

Management fees: The Company has an agreement to purchase management services from an entity related to the Company through common ownership. Under the terms of the agreement, the Company is generally required to pay 5% of revenues in exchange for the management services and to reimburse the management company for the actual cost of managerial services. Management fees incurred and reimbursed costs under this agreement totaled $1,148,255 during 2023. Management fees payable totaled $121,476 at December 31, 2023 and are presented as accounts payable – related parties in the accompanying combined balance sheet.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

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

Professional liability insurance: The Company has general and professional liability insurance policies ("GL/PL"), which provides coverage on a claims-made basis. The GL/PL coverages have per facility limits of $1,000,000 per occurrence and a $3,000,000 annual aggregate. The policies renew annually and expire in July 2024. Management is not aware of any pending claims or claims incurred but not reported as of and through December 31, 2023, and therefore, the Company has not recorded anticipated insurance claims liabilities and related insurance recoveries for medical malpractice claims and similar contingent liabilities as of year-end.

Self-insured health care plan: The Company self-insures its employer provided health care insurance. The Company has entered into an agreement with an unrelated third-party broker to administer its self-insured plan. Claims in excess of certain limits are covered by a stop-loss policy. Monthly premiums paid by the Company per employee, as determined by the broker, are based on historical data and are expected to partially cover all claims both incurred and reported during a typical year and claims incurred but not yet reported, in addition to all costs associated with administering the Plan. The Company records an estimated accrual, when appropriate, if the Company has determined that claims incurred will exceed the amount of premiums paid or reflects a prepaid health insurance premium asset when premiums paid are determined to exceed the total estimate of claims for the year. The administrator of the plan then adjusts the subsequent year per employee premium taking into account any estimated over or underpayment into the insurance claims fund. At December 31, 2023, the Company recorded an accrual of $65,424 to account for 2023 claims incurred but not reported as of year-end. The related liability is included in accrued payroll and related costs in the accompanying combined balance sheet.

NOTE 8 – CONCENTRATIONS

Medicare and Medicaid: Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. All of the Company's 126 skilled nursing beds are designated for care of patients under Connecticut's Medicaid program.

The following table summarizes net resident service revenues with customers by payor source for 2023:

Private Pay	$ 7,949,318	35.7%
Medicare	6,174,496	27.7%
Medicaid	5,345,906	24.0%
Managed Medicare	2,642,896	11.9%
Hospice	156,917	0.7%
Total	$ 22,269,533	100.0%

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

Private Pay	$	624,758	26.3%
Medicare		690,669	29.1%
Medicaid		656,368	27.7%
Managed Medicare		517,303	21.8%
Hospice		49,834	2.2%
		2,538,932	107.1%
Less: Allowance for credit losses		167,923	7.1%
Total	$	2,371,009	100.0%

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

Medicare Reimbursement

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

Connecticut Medicaid Reimbursement

Patient services rendered to Medicaid program beneficiaries were reimbursed on a per-diem basis at the previous year's rate adjusted for certain inflation rates for the 2023 Medicaid year (July 1, 2022 to June 30, 2023). Reimbursement rates for the 2024 Medicaid year (July 1, 2023 to June 30, 2024) are calculated utilizing a prospective acuity-based or case mix payment system.

Vendors: The Company is dependent on third-party service providers, manufacturers, distributors, and dealers for a substantial portion of its rehabilitation services, and for all its food, pharmaceutical and healthcare services and supplies. During 2023, purchases from its largest vendor accounted for approximately 20% of the total for such services and supplies. Amounts owed to this vendor at December 31, 2023 totaled approximately 22% of total accounts payable. Management believes no significant risk is present under these arrangements due to other service providers and suppliers being readily available.

NOTE 9 – MEMBERS' EQUITY

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

Pease Bell CPAs, LLC
peasebell.com

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Members of
Manchester Manor SNF Operations LLC, Arbors of Hop Brook ALF Operations LLC,
Manchester Manor SNF Realty LLC, and Arbors of Hop Brook ALF Realty LLC

We have audited the combined financial statements of Manchester Manor SNF Operations LLC, Arbors of Hop Brook ALF Operations LLC, Manchester Manor SNF Realty LLC, and Arbors of Hop Brook ALF Realty LLC (collectively, the "Company" or the "Companies") as of and for the year ended December 31, 2023 and our report thereon dated August 15, 2024, which expressed an unmodified opinion on those combined financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information included in the accompanying combining schedules on pages 27 through 29 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Pease Bell CPAs, LLC

Cleveland, Ohio
August 19, 2024

CLEVELAND
1111 Superior Ave E, Suite 2500
Cleveland, OH 44114 | P: 216.348.9600

AKRON
3501 Embassy Pkwy, Suite 200
Akron, OH 44333 | P: 330.666.4199

NEW JERSEY
411 Boulevard of the Americas, Suite 503
Lakewood, NJ 08701 | P: 216.348.9600

MANCHESTER MANOR SNF OPERATIONS LLC, ARBORS OF HOP BROOK ALF OPERATIONS LLC, MANCHESTER MANOR SNF REALTY LLC, AND ARBORS OF HOP BROOK ALF REALTY LLC

COMBINING BALANCE SHEET

DECEMBER 31, 2023

ASSETS

	Manchester Manor SNF Operations LLC	Arbors of Hop Brook ALF Operations LLC	Manchester Manor SNF Realty LLC	Arbors of Hop Brook ALF Realty LLC	Eliminations	Total
CURRENT ASSETS						
Cash	$ 862,248	$ 238,393	$ 249,026	$ 69,923	$ -	$ 1,419,590
Resident trust funds	23,700	-	-	-	-	23,700
Resident accounts receivable, net	2,322,528	48,481	-	-	-	2,371,009
Other receivables	171,076	31,568	-	85	-	202,729
Prepaid expenses and other current assets	217,082	149,123	-	-	(178,829)	187,376
TOTAL CURRENT ASSETS	3,596,634	467,565	249,026	70,008	(178,829)	4,204,404
PROPERTY AND EQUIPMENT, NET	501,874	628,188	14,974,481	4,992,806	-	21,097,349
OTHER ASSETS						
Goodwill, net	-	-	-	3,513,656	-	3,513,656
Escrow deposits	-	335,020	70,764	-	-	405,784
Security deposits	5,000	-	-	-	-	5,000
Advances receivable - affiliates	3,706,937	3,078,842	2,181,506	-	(3,406,707)	5,560,578
Advances receivable - members	-	15,088	-	3,013,974	-	3,029,062
Interest rate swap contract	-	-	94,387	-	-	94,387
Operating lease right-of-use assets, net	13,260,154	3,114,012	-	-	(16,374,166)	-
Unbilled lease receivable	-	-	223,023	-	(223,023)	-
TOTAL OTHER ASSETS	16,972,091	6,542,962	2,569,680	6,527,630	(20,003,896)	12,608,467
	$ 21,070,599	$ 7,638,715	$ 17,793,187	$ 11,590,444	$ (20,182,725)	$ 37,910,220

See independent auditor's report on supplementary information.

MANCHESTER MANOR SNF OPERATIONS LLC, ARBORS OF HOP BROOK ALF OPERATIONS LLC, MANCHESTER MANOR SNF REALTY LLC, AND ARBORS OF HOP BROOK ALF REALTY LLC

COMBINING BALANCE SHEET

DECEMBER 31, 2023

LIABILITIES AND MEMBERS' EQUITY (DEFICIT)

	Manchester Manor SNF Operations LLC	Arbors of Hop Brook ALF Operations LLC	Manchester Manor SNF Realty LLC	Arbors of Hop Brook ALF Realty LLC	Eliminations	Total
CURRENT LIABILITIES						
Current maturities of notes payable	$ -	$ -	$ 223,535	$ -	$ -	$ 223,535
Current maturities of operating lease liabilities	1,140,629	294,622	-	-	(1,435,251)	-
Resident trust funds liability	23,700	-	-	-	-	23,700
Line of credit	2,175,263	-	-	-	-	2,175,263
Accounts payable	307,023	69,481	125,348	-	-	501,852
Accounts payable - related parties	87,964	33,512	-	-	-	121,476
Accrued expenses	180,727	48,278	147,529	37,500	(178,829)	235,205
Accrued payroll and related costs	388,547	105,038	-	-	-	493,585
TOTAL CURRENT LIABILITIES	4,303,853	550,931	496,412	37,500	(1,614,080)	3,774,616
LONG-TERM LIABILITIES						
Operating lease liabilities, net of current maturities	12,342,548	2,819,390	-	-	(15,161,938)	-
Notes payable, net of current maturities and debt issuance costs	250,692	-	13,789,532	4,500,000	-	18,540,224
Resident security deposit liability	-	212,554	-	-	-	212,554
Reserve fund liability	-	3,190,184	-	-	-	3,190,184
Advances payable - affiliates	623,153	975,077	226,142	7,834,344	(3,406,707)	6,252,009
Advances payable - members	99,999	-	2,595,600	-	-	2,695,599
TOTAL LONG-TERM LIABILITIES	13,316,392	7,197,205	16,611,274	12,334,344	(18,568,645)	30,890,570
TOTAL LIABILITIES	17,620,245	7,748,136	17,107,686	12,371,844	(20,182,725)	34,665,186
MEMBERS' EQUITY (DEFICIT)	3,450,354	(109,421)	685,501	(781,400)	-	3,245,034
	$ 21,070,599	$ 7,638,715	$ 17,793,187	$ 11,590,444	$ (20,182,725)	$ 37,910,220

See independent auditor's report on supplementary information.

MANCHESTER MANOR SNF OPERATIONS LLC, ARBORS OF HOP BROOK ALF OPERATIONS LLC, MANCHESTER MANOR SNF REALTY LLC, AND ARBORS OF HOP BROOK ALF REALTY LLC

COMBINING STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2023

	Manchester Manor SNF Operations LLC	Arbors of Hop Brook ALF Operations LLC	Manchester Manor SNF Realty LLC	Arbors of Hop Brook ALF Realty LLC	Eliminations	Total
REVENUES						
Net resident service revenues	$ 18,347,224	$ 3,922,309	$ -	$ -	$ -	$ 22,269,533
Other revenue	63,464	544,122	-	-	-	607,586
Lease revenue	-	-	1,934,896	450,000	(2,384,896)	-
TOTAL REVENUES	18,410,688	4,466,431	1,934,896	450,000	(2,384,896)	22,877,119
OPERATING EXPENSES						
Nursing	7,094,363	682,218	-	-	-	7,776,581
General and administrative	1,802,856	1,514,092	8,986	5,465	-	3,331,399
Dietary	1,024,352	1,042,624	-	-	-	2,066,976
Ancillary services	1,772,465	418	-	-	-	1,772,883
Management fee	924,933	223,322	-	-	-	1,148,255
Facility maintenance	293,687	474,619	-	-	-	768,306
Depreciation and amortization	24,080	66,610	348,779	282,662	-	722,131
Housekeeping and laundry	382,570	166,547	-	-	-	549,117
Amortization of goodwill	-	-	-	410,000	-	410,000
Activities	188,779	107,138	-	-	-	295,917
Provision for expected credit losses	118,253	-	-	-	-	118,253
Social services	114,591	-	-	-	-	114,591
Lease expense - facilities	1,934,896	450,000	-	-	(2,384,896)	-
TOTAL OPERATING EXPENSES	15,675,825	4,727,588	357,765	698,127	(2,384,896)	19,074,409
INCOME (LOSS) FROM OPERATIONS	2,734,863	(261,157)	1,577,131	(248,127)	-	3,802,710
OTHER EXPENSE						
Interest expense, net	(95,931)	(4,292)	(993,898)	(273,795)	-	(1,367,916)
NET INCOME (LOSS)	$ 2,638,932	$ (265,449)	$ 583,233	$ (521,922)	$ -	$ 2,434,794

See independent auditor's report on supplementary information.