

SUMMIT RIDGE CARE LLC
(a limited liability company)

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024

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INDEPENDENT AUDITORS' REPORT

To the Members of
Summit Ridge Care LLC

Opinion

We have audited the accompanying financial statements of Summit Ridge Care LLC (a limited liability company), which comprise the balance sheet as of December 31, 2024, and the related statements of operations and members' deficiency, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Ridge Care LLC as of December 31, 2024, and the results of its operations, changes in members' deficiency, and its 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Summit Ridge Care LLC 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 Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 Summit Ridge Care LLC'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Summit Ridge Care LLC'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.

A handwritten signature in black ink that reads "Brand Sonnenschein LLP". The signature is written in a cursive, flowing style.

April 30, 2025

SUMMIT RIDGE CARE LLC
(a limited liability company)
BALANCE SHEET
AT DECEMBER 31, 2024

ASSETS

Current assets

Cash and cash equivalents (note 2)	\$ 578,387
Cash - restricted (patient funds) (note 2)	50,394
Accounts receivable - net (note 3)	3,062,313
Prepaid expenses and other	<u>141,307</u>

Total current assets 3,832,401

Property and equipment - net (note 4)	2,444,582
Right-of-use assets (note 12)	11,960,643
Due from related entities (note 13)	<u>6,919,544</u>

TOTAL ASSETS \$ 25,157,170

LIABILITIES AND MEMBERS' DEFICIENCY

Current liabilities

Line of credit (note 11)	\$ 1,500,000
Accounts payable	1,009,945
Accrued expenses and withheld taxes	523,844
Due to private and third-party payors (note 15)	977,921
Patients' funds payable	48,668
Operating lease payable (note 12)	1,212,871
Due to prior owner (note 9)	<u>76,033</u>
Total current liabilities	5,349,282

Operating lease payable (note 12)	10,747,772
Due to related entities (note 13)	<u>15,212,039</u>

Total liabilities 31,309,093

Members' deficiency (6,151,923)

TOTAL LIABILITIES AND MEMBERS' DEFICIENCY \$ 25,157,170

SUMMIT RIDGE CARE LLC
(a limited liability company)
STATEMENTS OF OPERATIONS AND MEMBERS' DEFICIENCY
YEAR ENDED DECEMBER 31, 2024

Revenues	\$ 18,136,630
Operating expenses	<u>18,916,355</u>
Loss from operations	(779,725)
Non-operating revenues (expenses):	
Interest income	4,781
Interest expense	<u>(49,592)</u>
NET LOSS	(824,536)
Members' deficiency - December 31, 2023	<u>(5,313,887)</u>
	(6,138,423)
Members' equity distributed	<u>(13,500)</u>
MEMBERS' DEFICIENCY - DECEMBER 31, 2024	<u><u>\$ (6,151,923)</u></u>

SUMMIT RIDGE CARE LLC
(a limited liability company)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2024

Cash flows from operating activities

Net loss	\$ (824,536)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	235,997
Increase in assets	
Accounts receivable	(8,261)
Prepaid expenses and other	(19,695)
Increase (decrease) in liabilities	
Accounts payable	(561,497)
Accrued expenses and withheld taxes	369,977
Due to prior owner	32
Due to private and third-party payors	81,484
Patients' funds payable	(6,381)
Net cash used in operating activities	<u>(732,880)</u>

Cash flows from investing activities

Purchase of property and equipment	<u>(75,072)</u>
Net cash used in investing activities	<u>(75,072)</u>

Cash flows from financing activities

Net payments from related entities	433,532
Members' equity distributed	<u>(13,500)</u>
Net cash provided by financing activities	<u>420,032</u>

Net decrease in cash, restricted cash, and cash equivalents (387,920)

Cash, restricted cash, and cash equivalents - December 31, 2023 1,016,701

CASH, RESTRICTED CASH,

AND CASH EQUIVALENTS - DECEMBER 31, 2024 \$ 628,781

SUMMIT RIDGE CARE LLC
(a limited liability company)
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2024

NOTE 1 – FORMATION AND DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and business – Summit Ridge Care LLC (the “Company”) was formed in the State of New Jersey on September 25, 2018. The Company commenced operations of a 152-bed nursing facility in West Orange, New Jersey on September 25, 2018. The members of the Company are generally protected from liability for acts and obligations of the Company. The operating agreements provide, among other things, for the Company to continue at the will of the General Members, unless sooner terminated as provided in the agreement. The Company leases land, building, and rights to its license in West Orange, New Jersey, from a related entity.

Basis of accounting – The books and records of the Company are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Cash equivalents – Cash equivalents represent short-term investments with original maturity dates of three months or less.

Restricted cash – patient funds – The Company adopted Financial Accounting Standards Board (“FASB”) standard “ASU-2016-18, Statement of Cash Flows (Topic 230): Restricted Cash.” This standard requires that cash, restricted cash, and cash equivalents be included in beginning and ending cash, restricted cash, and cash equivalents on the statement of cash flows. The Company is required to maintain patient funds in a separate restricted account. The amount at all times must be equal to or exceed the aggregate of all outstanding obligations to the patients.

Trade accounts receivable – Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company has adopted Accounting Standards Update (“ASU”) No. 2016-13, Measurement of Credit Losses on Financial Instruments, and its related amendments using the prospective method. The new standard changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments, including trade receivables, from an incurred loss model to an expected loss model and adds certain new required disclosures. Under the expected loss model, entities will recognize credit losses to be incurred over the entire contractual term of the instrument rather than delaying recognition of credit losses until it is probable the loss has been incurred. In accordance with Accounting Standards Codification (“ASC”) ASC 326, the Company evaluates certain criteria, including aging and historical write-offs, current economic condition of specific payors, and future economic conditions to determine the appropriate allowance for credit losses. The impact of the adoption of ASC 326 to the Company's opening balance of net assets was not material.

Property and equipment – Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to operations as incurred. Significant renovations and replacements, which improve and extend the life of the asset are capitalized.

Income taxes – The Company is treated as a partnership for federal income tax purposes and does not incur income taxes. Instead, their earnings and losses are included in the personal returns of the members and taxed depending on their personal tax situations. The policy of the Company is to record interest expense and penalties relating to income taxes in operating expense.

SUMMIT RIDGE CARE LLC
(a limited liability company)
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2024

NOTE 1 – FORMATION AND DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In 2020, the State of New Jersey passed the Business Alternative Income Tax Act (“BAIT”). This law allowed LLCs to pay tax due on partnership earnings instead of on the individual owner’s return. The tax rates are graduated and range from 5.675% to 10.9% of earnings. The Company recorded New Jersey BAIT taxes of \$13,500 as a distribution, during 2024.

Advertising – Advertising costs, except for costs associated with direct-response advertising, are charged to earnings when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received.

Revenues – Revenue is derived primarily from providing healthcare services to patients. Revenues are recognized when services are provided to the patients at the amount that reflects the consideration to which the Company expects to be entitled from patients and third-party payors, including Medicaid, Medicare, and insurers (private and Medicare replacement plans), in exchange for providing patient care. The healthcare services in transitional and skilled, home health, and hospice patient contracts include routine services in exchange for a contractual agreed-upon amount or rate. Routine services are treated as a single-performance obligation satisfied over time as services are rendered. As such, patient care services represent a bundle of services that are not capable of being distinct. Additionally, there may be ancillary services, which are not included in the daily rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time, if and when those services are rendered.

Revenue recognized from healthcare services is adjusted for estimates of variable consideration to arrive at the transaction price. The Company determines the transaction price based on contractually agreed-upon amounts or rates, adjusted for estimates of variable consideration. The Company uses the expected value method to determine the variable component that should be used to arrive at the transaction price, using contractual agreements and historical reimbursement experience within each payor type. The amount of variable consideration, which is included in the transaction price may be constrained and is included in the net revenue only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. If actual amounts of consideration ultimately received differ from estimates, the Company adjusts these estimates, which would affect net service revenue in the period such variances become known.

Estimates – The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Guaranteed payments to members – Guaranteed payments to members that are intended as compensation for services rendered are accounted for as expenses of the Company rather than as allocations of the Company’s net earnings. Guaranteed payments that are intended as payments of interest on capital accounts are not accounted for as expenses of the Company, but rather, as part of the allocation of net earnings.

SUMMIT RIDGE CARE LLC
(a limited liability company)
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2024

NOTE 1 – FORMATION AND DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases – In 2022, the Company adopted ASC-842 Leases. With this adoption, the Company determined which contracts conveyed the Company a right to control identified property, plant, or equipment for a period of time in exchange for consideration and were deemed leases. The Company classified these contracts as Right-of-Use (“ROU”) assets. ROU assets and lease liabilities are recognized based on the present value of lease payments over the lease term with lease expense recognized on a straight-line basis.

Lease agreements may contain rent escalation clauses, rent holidays, or certain landlord incentives, including tenant improvement allowances. ROU assets include amounts for scheduled rent increases and may be reduced by lease incentive amounts. Using the transition approach, the Company elected to use the following practical expedients and, therefore, did not reassess any of the following: (1) whether any expired or existing contracts are or contain leases; (2) the lease classification of pre-ASC-842 operating leases, which continue to be reported as operating leases, and the lease classification of pre-ASC-842 capital leases, which are now reported as financing leases; and (3) initial direct costs for any existing leases.

With implementation, the Company also elected the following practical expedients: (1) using the Company’s implicit borrowing rate (if available at the time of the lease origination); or (2) using a risk-free discount rate (US Treasury Rate) for the lease-derived ROU assets. ROU assets were treated separately from non-lease components of all asset classes. For leases utilizing the risk-free rate expedient, the Company elected to use a period comparable with that of the lease term, as an accounting policy election for all leases. The Company also made an accounting policy election to not record ROU assets or lease liabilities for leases with an initial term of 12 months or less and will recognize payments for such leases in its Statements of Earnings and Members’ Deficiency on a straight-line basis over the lease term. There were no residual value guarantees in any of the leases. The Company used hindsight in determining the lease term.

Subsequent events – The Company has reviewed subsequent events and transactions for potential recognition and disclosure in the financial statements through April 30, 2025, the date the financial statements were available to be issued. There were no subsequent events identified.

NOTE 2 – CASH, RESTRICTED CASH, AND CASH EQUIVALENTS

The balance in cash, restricted cash, and cash equivalents at December 31, 2024, consists of the following:

Operating cash	\$ 578,387
Restricted cash – patient funds	<u>50,394</u>
Total cash, restricted cash, and cash equivalents	\$ <u>628,781</u>

SUMMIT RIDGE CARE LLC
(a limited liability company)
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2024

NOTE 3 – ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses included in accounts receivable for the year ended December 31, 2024:

Activity:		
Balance – December 31, 2023	\$	385,800
Provision for credit losses		726,746
Less: write-offs		525,699
Recoveries		<u>14,153</u>
Balance – December 31, 2024	\$	<u>601,000</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2024, are summarized as follows:

	Life (Years)	
Leasehold improvements	15	\$ 3,029,244
Furniture and fixtures	3-7	<u>288,536</u>
		3,317,780
Less: accumulated depreciation		<u>873,198</u>
		\$ <u>2,444,582</u>

Depreciation expense was \$235,997 for the year.

NOTE 5 – REVENUES

Approximately 5% of the revenues for the year were derived from billings to the New Jersey Department of Health Services for stays by Medicaid patients and, approximately 43% of the revenues for the year were derived from New Jersey Managed Care Organizations (“MCOs”).

Approximately 14% of the revenues for the year were derived from the Federal government for stays by Medicare patients covered by Part A and for services provided, which are covered by Medicare Part B.

Effective July 2014, the New Jersey Department of Human Services changed its reimbursement methodology to an MCO system. Operations entered into contracts with state-approved MCOs that will be paying for all new Medicaid admissions. All subsequent rates will be negotiated between Operations and each MCO.

As a participant in the Solar Incentive New Jersey programs, the Company earns revenue whenever their solar panels produce 1 MWh (or 1,000 kWh) of electricity and reports this to the GATS. This is not a fixed amount per month, but rather a payment each time the Company reaches the 1,000 kWh threshold over the length of the 15-year program. Revenue from this program for the year was \$59,500.

SUMMIT RIDGE CARE LLC
(a limited liability company)
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2024

NOTE 6 – CONCENTRATION OF CREDIT RISK

The Company maintains its cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. At December 31, 2024, the Company had uninsured cash balances of approximately \$188,700.

At December 31, 2024, the Company had approximately 16% of its receivables due from the New Jersey Department of Health for Medicaid patients, and 26% of its receivables due from MCOs for Medicaid-approved patients, and 21% of its receivables due from the Federal government for Medicare recipients.

At December 31, 2024, approximately 21% of the accounts payable balance was payable to two vendors.

NOTE 7 – ECONOMIC DEPENDENCY

During 2024, the Company purchased a substantial portion of its services from three vendors. Purchases from these vendors totaled approximately \$2,661,000 and the balance due to these vendors, included in accounts payable at December 31, 2024, was approximately \$62,000.

NOTE 8 – ADVERTISING

Advertising expenses were \$50,798 for the year. There were no direct-response advertising costs either capitalized or expensed.

NOTE 9 – DUE TO PRIOR OWNER

The Company and the prior owner estimated certain closing adjustments, which will be finalized in the future. In addition, the Company had either received payments due to the prior owner or has had recoupments, which the prior owner was required to reimburse. The balance owed to the prior owner at December 31, 2024, was \$76,033.

NOTE 10 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest	\$ <u>50,051</u>
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SUMMIT RIDGE CARE LLC
(a limited liability company)
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2024

NOTE 11 – LINE OF CREDIT

On August 2020, the Company together with other related entities, entered into a revolving line of credit agreement for \$3,000,000 with a maturity date of June 5, 2023. The Company extended the line of credit for an additional twelve months through June 5, 2024. In 2024, the loan was further extended through June 5, 2025. Interest on bank expenses accrues at LIBOR plus 4.25% and is payable on the first day of each consecutive month beginning September 1, 2020. The base rate shall not be less than 0.75%. The interest rate at December 31, 2024, was 8.05%. At December 31, 2024 the balance of the line was \$1,500,000. The line is subject to certain financial covenants and is secured by certain assets of the Company. At December 31, 2024, the Company was in compliance with all covenants. The loan is personally guaranteed by a member of the Company.

NOTE 12 – LEASE

The Company has operating leases for the nursing facility, office space, equipment, and vehicles. ROU assets represent the Company's right to use an underlying asset for the lease term if greater than twelve months. Lease obligations represent the Company's liability to make lease payments arising from the lease. Operating lease ROU assets and related obligations are recognized at the commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. The Company used its incremental borrowing rate of 8% to calculate the present value of its operating lease liability. The incremental borrowing rate is based on the information available at the commencement date to determine the present value of lease payments. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

On July 1, 2022, the Company entered into a ten-year lease agreement for its nursing facility with a related entity. The lease term has consecutive automatic one-year extensions until either party decides to terminate. The annual base rent is 33% of the product obtained by multiplying 1.05 times the sum of (i) the landlord's annual principal and interest payments with respect to the loan, (ii) the landlord's annual mortgage insurance premiums with respect to the loan, and (iii) the landlord's annual deposits for reserves for replacements. All real estate taxes and other property costs are the responsibility of the Company.

The following table is a summary of components of lease expense and year-end ROU assets and lease liabilities relating to operating leases for the year ended December 31, 2024.

Operating lease cost	\$ 2,651,585
Short-term/variable lease cost	<u>557,756</u>
Total	\$ <u>3,209,341</u>

OPERATING LEASES

Operating lease ROU assets	\$ <u>11,960,643</u>
Operating lease current liabilities	\$ 1,212,871
Operating lease long-term liabilities	<u>10,747,772</u>
Total operating lease liabilities	\$ <u>11,960,643</u>

SUMMIT RIDGE CARE LLC
(a limited liability company)
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2024

NOTE 12 – LEASE (CONTINUED)

WEIGHTED-AVERAGE REMAINING LEASE

TERM

Operating leases 7.5 years

WEIGHTED-AVERAGE DISCOUNT RATE

Operating leases 8 %

Undiscounted maturities of lease liabilities were as follows:

For the Years Ended December 31	Operating Lease
2025	\$ 2,125,890
2026	2,125,890
2027	2,125,890
2028	2,125,890
2029	2,125,890
Thereafter	<u>5,314,725</u>
Total undiscounted maturities of lease liabilities	15,944,175
Less: discount on lease liabilities	<u>(3,983,532)</u>
TOTAL LEASE LIABILITIES	\$ <u>11,960,643</u>

The following table presents supplemental cash flow information for the year ended December 31, 2024:

2024 cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows for operating leases \$ 2,651,585

NOTE 13 – RELATED-ENTITY TRANSACTIONS

Related-entity loans due to affiliated entities that are controlled by the Company's members were \$15,212,039, of which \$933,758 were due to the related management company, at December 31, 2024. Related-entity loans due from affiliated entities that are controlled by the Company's members were \$6,919,544 at December 31, 2024. The loans are deemed to be non-interest-bearing. There is no formal plan for repayment of these demand loans.

The Company recorded \$914,030 of management fees for the year to a related management company, which is related through common ownership.

The Company leases its facility from a related entity (note 12).

SUMMIT RIDGE CARE LLC
(a limited liability company)
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2024

NOTE 14 – EMPLOYEE BENEFIT PLAN

The Company implemented a qualified Salary-Reduction Profit-Sharing Plan (the “Plan”) for eligible non-union employees under section 401(K) of the Internal Revenue Code. The Plan provides for voluntary employee contributions through salary reductions and voluntary employer contributions at the discretion of the Company. No employer contributions were made during the year.

NOTE 15 – DUE TO PRIVATE AND THIRD-PARTY PAYORS

The Company has received funds from various private and third-party payors, which are presently being repaid or may have to be repaid upon audit.

NOTE 16 – CONTRACTED SERVICES

A significant portion of the facility services are contracted from outside services.

NOTE 17 – CONTINGENCIES

Revenues are based on current billings. Certain adjustments may be made in subsequent periods as a result of audits or appeals, the final results of which are not determinable as of the date of the financial statements. Such adjustments, if any, will be reflected in revenues in the period in which they are ascertained.

The Company maintains a self-insurance retention plan for its general liability insurance coverage. The plan runs from April 1, 2024 to March 31, 2025 and has been extended for another year. The plan has a \$250,000 deductible per case, which includes attorney fees and indemnity costs paid out. There is also a \$4,500,000 deductible on the aggregate, at which time the insurance provider covers the costs.

The Company is currently involved in multiple lawsuits which could require a significant payout. The potential payout could range from \$150,000 to \$550,000. At December 31, 2024, there was no accrual for these potential legal payouts.

The Company, along with other companies related through common ownership, maintains a high-deductible health plan policy, which runs from June 1 through December 31. For the Plan period ended December 31, 2024, the Company was responsible to pay for claims up to \$250,000 per employee, with no aggregate deductibles.

The Company has a corporate credit card with a maximum spending limit of \$150,000. At December 31, 2024, the balance due on the card and included in accounts payable was \$38,864.

The New Jersey Department of Health is currently in the process of revising the methodology used to calculate the Medicaid-reimbursement rate paid to the Company. The effect of these revisions on future operations cannot be determined at this time.