

Donald W. Powell – State Bar No. 3238
CARMICHAEL & POWELL, P.C.
6225 North 24TH Street, Suite 125
Phoenix, Arizona 85016
Telephone (602) 861-0777
Email: d.powell@cplawfirm.com

Attorneys for Debtor

IN THE UNITED STATES BANKRUPTCY COURT
IN AND FOR THE DISTRICT OF ARIZONA

In re)	
)	No. 2:18-01882-DPC
CK ASSISTED LIVING OF ARIZONA,)	
LLC,)	CHAPTER 11
)	
Debtor.)	DISCLOSURE STATEMENT
)	
)	

THE DEBTOR PROVIDES THIS DISCLOSURE STATEMENT TO CREDITORS OF SUCH DEBTOR AND OTHER INTERESTED PARTIES. THE PURPOSE OF THIS DISCLOSURE STATEMENT IS TO GIVE INFORMATION WHICH THE DEBTOR BELIEVES TO BE MATERIAL, IMPORTANT AND ADEQUATE FOR MAKING AN INFORMED DECISION IN VOTING ON THE REORGANIZATION PLAN PROPOSED BY THE DEBTOR AND ON FILE WITH THIS COURT. A CLASS OF CREDITORS HAS ACCEPTED THE PLAN, IF AMONG THOSE CREDITORS, WITHIN SUCH CLASS, WHO VOTE ON THE PLAN AT LEAST TWO-THIRDS IN AMOUNT AND MORE THAN ONE-HALF IN NUMBER OF THE ALLOWED CLAIMS IN SUCH CLASS VOTE FAVORABLY FOR THE PLAN.

IF, HOWEVER, THE REQUISITE ACCEPTANCES ARE NOT OBTAINED, THE COURT MAY NEVERTHELESS CONFIRM THE PLAN OF REORGANIZATION IF THE COURT FINDS THAT SUCH PLAN OF REORGANIZATION ACCORDS FAIR AND

1 EQUITABLE TREATMENT TO THE CLASS REJECTING IT. IF SUCH REQUISITE
2 ACCEPTANCES ARE NOT OBTAINED, THE DEBTOR WILL URGE THE COURT TO
3 NEVERTHELESS CONFIRM THE PLAN OF REORGANIZATION.

4 NO REPRESENTATIONS CONCERNING THE DEBTOR ARE
5 AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS
6 STATEMENT. ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE
7 ACCEPTANCES WHICH IS OTHER THAN AS CONTAINED IN THIS STATEMENT
8 SHOULD NOT BE RELIED UPON IN ARRIVING AT A DECISION, AND SUCH
9 REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL
10 FOR THE DEBTOR, WHO, IN TURN, SHALL DELIVER SUCH INFORMATION TO THE
11 BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

12 PLEASE BE AWARE THAT THE UNITED STATES BANKRUPTCY COURT
13 HAS NOT APPROVED OR VERIFIED THE ACCURACY OF THE STATEMENTS SET
14 FORTH IN THIS DISCLOSURE STATEMENT.

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18 I. History of Debtor.

19 The business of the Debtor is the operation of an assisted living facility for
20 elderly and disabled individuals in Prescott, Arizona. The Articles of Organization were
21 filed with the Arizona Corporation Commission on December 28, 2015. The owner of
22 the Debtor is STEVEN WALSKI; he is the Manager and sole Member.

23 STEVEN WALSKI is 43 years of age and previously administered the
24 health and welfare pension funds for a healthcare workers union in Chicago, Illinois, for
25 10 years. He was the licensed administrator to manage a 200 bed nursing home for 3
26 years. Additionally, STEVEN WALSKI owed an assisted living facility in Scottsdale,
27 Arizona.

1 II. Bankruptcy History.

2 The Chapter 11 proceeding was filed on February 28, 2018. On March 6,
3 2018, an Order Authorizing Employment and Appointment of Attorney was entered
4 regarding the law firm of CARMICHAEL & POWELL, P.C. Copies of any documents
5 relating to this Disclosure Statement can be obtained upon request from DONALD W.
6 POWELL, attorney for the Debtor, 6225 North 24th Street, Suite 125, Phoenix, Arizona
7 85016, telephone number (602) 861-0777.
8

9 III. Incidents Precipitating Chapter 11.

10 The business operations of the Debtor were purchased from MICHAEL and
11 KIM KENYON ("KENYONS") in February, 2016. CAPITAL FUND 1, LLC ("CAPITAL"),
12 financed the purchase and possesses a first position Deed of Trust on the real property
13 at 6336 N. Pottery Place, Prescott, Arizona ("Real Property"), with a present balance of
14 approximately \$375,000.00. The balance of the purchase price of the business
15 operations from the KENYONS is evidenced by a carry-back Promissory Note in favor of
16 KENYONS secured by a second position Deed of Trust on the Real Property in an
17 amount approximating \$78,000.00 and a lien on the personal property in an amount
18 approximating \$182,000.00.

19 In August, 2017, an amount approximating \$40,000.00 was due the
20 KENYONS; the Debtor did not possess sufficient funds to satisfy such payment
21 requirement. Additionally, in late 2017, certain payments due CAPITAL were missed.
22 As a result, CAPITAL instituted a Deed of Trust foreclosure sale. Thereafter,
23 KENYONS also instituted a Deed of Trust foreclosure sale. To stay the foreclosure
24 sales, a Chapter 11 Petition was filed by the Debtor.

25 IV. Assets and Liquidation Analysis.

26 The fair market value of the Real Property approximates \$560,000.00.
27 The liquidation value of such Real Property approximates \$500,000.00. Office furniture,
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1 fixtures and equipment are owned by the Debtor with a fair market value approximating
2 \$5,000.00. The liquidation value of such personal property approximates \$3,000.00.

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4 The fair market value referenced herein represents what such assets
5 would bring pursuant to sale with substantial efforts rendered in a normal course of sale
6 procedure. The liquidation value represents a forced sale of the assets without
7 reasonable and normal business marketing efforts applicable. Such values above
8 delineated are the personal opinions of STEVEN WALSKI and a recent appraisal on the
9 Real Property.

10 The bank deposits of the Debtor presently total approximately \$5,000.00.
11 The Debtor has been advised a possibility exists that restrictions are present on the Real
12 Property which could prohibit the Debtor from operating its business. Two title
13 companies have issued conflicting reports regarding such issue. At this time, a third title
14 company is conducting its review of the matter and will be rendering a report concerning
15 its findings. If any type of an impediment is applicable, the Debtor will pursue claims for
16 damages.
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19 V. Valuation of Claims.

20 The Debtor possesses administrative expenses to CARMICHAEL &
21 POWELL, P.C., in an amount of \$12,796.90 as of April 30, 2018; a prepetition retain is in
22 trust of \$6,737.50. As previously stated, CAPITAL possesses a first position Deed of
23 Trust in an amount approximating \$375,000.00 while KENYONS possess a second
24 position Deed of Trust in an amount approximately \$78,000.00 and a lien on the
25 personal property in an amount approximating \$182,000.00.

26 INTERNAL REVENUE SERVICE ("IRS") has a priority claim for prepetition
27 withholding taxes approximating \$19,500.00. As the fair market value of the personal
28 property on which KENYONS possess a lien approximates \$5,000.00, the KENYONS

1 thus have an unsecured claim of \$177,000.00. The claims of other unsecured creditors
2 approximate \$37,000.00.

3 VI. Preparation and Accounting Information.

4 The books and records of the Debtor have been prepared under the
5 supervision of LAURA WILLIAMS and STEVEN WALSKI. Normal accounting
6 procedures were utilized at all times in determining valuation of assets, liquidation
7 values, and amounts of claims.

8
9 VII. Post-Petition Matters.

10 On March 1, 2018, an Order was entered setting a Chapter 11 Status
11 Conference for April 3, 2018. STEVEN WALSKI and the undersigned appeared at the
12 Status Conference. Discussions were had regarding the case. A Status Conference
13 Report was subsequently filed.

14 On March 16, 2018, a Stipulated and Agreed Order Directing United States
15 Trustee to Select a Patient Care Ombudsman for Appointment was entered. That same
16 day an Order Approving Appointment of State Long Term Care Ombudsman as Patient
17 Care Ombudsman was entered regarding Lizabeth Woods, the long term care
18 ombudsman for the State of Arizona.

19 On March 26, 2018, CAPITAL filed a Motion for Relief from Automtatic
20 Stay regarding the Real Property. A timely Objection was filed by the Debtor.

21 A Notice of Non-Consent to Debtor's Use of Cash Collateral was filed by
22 CAPITAL on April 10, 2018. The Debtor filed a Motion for Use of Cash Collateral on
23 April 16, 2018.

24 Hearings concerning stay relief and the use of cash collateral have been
25 held. A Stipulated Order Providing for Use of Cash Collateral and Adequate Protection
26 of Secured Creditors Liens and Stipulation Lifting Automatic Stay between CAPITAL
27 and the Debtor has been finalized; a copy of the Stipulated Order is attached to the Plan.
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1 VIII. Business Expectations.

2 The assisted living facility owned by the Debtor is comprised of 8 rooms for
3 residents. Two larger sized rooms exist whereby 2 residents can reside. In the larger
4 sized rooms, if 2 residents are residing simultaneously, the monthly charge per person
5 varies between \$3,000.00 and \$4,000.00. If 1 resident elects to reside in the larger
6 sized room alone, the minimum monthly charge is \$4,000.00. Additionally, applicable
7 are 3 medium sized rooms wherein the cost is \$3,500.00 to \$4,500.00 monthly. Three
8 smaller sized rooms are present with the monthly fee ranging from \$2,800.00 to
9 \$3,700.00 monthly.

10 Accordingly, the facility possesses 8 rooms with 10 beds. At this time, 7
11 residents are at the facility with a new resident expected at any time.

12 The entire facility approximates 3,000.00 square feet, and besides the 8
13 rooms, is comprised of a kitchen, dining area, family room, and living room. Twenty-four
14 hour care is present with 3 meals daily provided. The Debtor employs 5 caregivers with
15 1 caregiver present per 12 hour shift. The Debtor experiences a high reputation for
16 quality services and benefits to the residents. A significant referral net work allows the
17 Debtor to remain at full occupancy; when a vacancy arises, a replacement is quickly
18 received.

19 IX. Executory Contracts.

20 The Debtor enters into a Residency Agreement with each of its residents.
21 All such Residency Agreements are assumed.

22 X. Tax Consequences of Confirmation of the Plan.

23 The confirmation and consummation of the Plan may result in Federal
24 income tax consequences to holders of claims. Tax consequences to a particular
25 creditor will depend on the particular circumstances regarding the claim of that creditor.
26 It is recommended that holders of claims consult their own tax advisors as to the
27 consequences to them of the Plan under Federal and applicable State and local tax
28 laws.

1 XI. Alternatives to the Plan.

2 The alternatives to confirmation of the Plan of Reorganization of the Debtor
3 are the continuation of the Chapter 11 proceedings, conversion to Chapter 7 bankruptcy,
4 or dismissal of this matter. The Debtor does not believe the continuation of this matter
5 without a confirmed Plan of Reorganization is beneficial to any of the interested parties.
6 Likewise, the Debtor does not believe that dismissal will be of benefit to the interested
7 parties. The other consideration is conversion to Chapter 7. In a Chapter 7 liquidation,
8 a Trustee will be appointed, and the Trustee will require the services of an attorney and
9 the services of an accountant. The Debtor believes unsecured creditors will receive
10 significantly more under the Plan of Reorganization of the Debtor as opposed to Chapter
11 7 liquidation.

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13 XII. Summary of Plan of Reorganization.

14 Set forth below is the Plan of Reorganization of the Debtor.

15 Classification of Creditors.

16 The classes of creditors are divided as follows:

17 Class 1 Expenses of Administration.

18 Class 2 CAPITAL.

19 Class 3 KENYONS.

20 Class 4 IRS.

21 Class 5 Unsecured creditors.

22 Class 6. Owner.

23 Treatment Provisions for Claims of Creditors.

24 The claims of creditors will be satisfied and treated as below set forth:

25 Class 1. The Debtor has certain administrative claimants. The
26 Debtor will pay any approved sums to administrative claimants within 30 days of the
27 applicable Court Order, unless the applicable administrative claimant agrees to a later
28 date. Any sums due the United States Trustee are within this Class; it is believed the

1 Debtor is current with quarterly payments due the United States Trustee, and will so
2 remain current. This Class is not impaired by the Plan.

3 Class 2. CAPITAL possesses the first lien position Deed of Trust on
4 the real property owned by the Debtor at 6336 N. Pottery Place, Prescott, Arizona ("Real
5 Property"). The Debtor is entering into a Stipulated Order Providing for Use of Cash
6 Collateral and Adequate Protection of Secured Creditor's Liens and Stipulation Lifting
7 Automatic Stay ("Stipulated Order") with CAPITAL. A copy of the executed but not yet
8 Court approved Stipulated Order is attached as Exhibit A; all of the terms of the
9 Stipulated Order are incorporated into this Plan. Upon confirmation, the monthly
10 payment of the Debtor to CAPITAL shall be \$4,500.00. The Debtor will separately pay
11 the real property taxes and insurance. The remaining balance due CAPITAL shall be
12 fully due and payable 5 years from the date of confirmation. The lien of CAPITAL shall
13 be retained until CAPITAL has been paid pursuant to the terms of this Class. Interest
14 shall be paid at the contract rate. This Class is impaired by the Plan.

15 Class 3. KENYONS possess the second lien position Deed of Trust on
16 the Real Property and a Financing Statement on the personal property of the Debtor.
17 Beginning 30 days after the date of confirmation, and continuing on the same day of
18 each month thereafter, the Debtor shall pay KENYONS \$500.00 per month on the
19 second lien position Deed of Trust. The remaining balance due KENYONS shall be
20 fully due and payable 5 years from the date of confirmation. The lien of KENYONS shall
21 be retained until KENYONS have been paid pursuant to the terms of this Class. Interest
22 on the second position Deed of Trust shall be paid at the contract rate.

23 The fair market value of the personal property upon which KENYONS
24 possess a Financing Statement is \$5,000.00. Accordingly, KENYONS shall be paid
25 such amount of \$5,000.00 in monthly installments of \$100.00 beginning 30 days after
26 the date of confirmation and continuing on the same day of each month thereafter until
27 such amount of \$5,000.00, plus interest at the contract rate, are paid. Any amount not
28 paid as above stated on the personal property lien shall be treated under Class 5.

1 The Real Property and the business located thereon were purchased by
2 the Debtor from KENYONS. Presently, an issue has arisen regarding restrictions on the
3 use of the Real Property which were unknown to the Debtor at the time of the closing of
4 the applicable Purchase Contract. If an impediment is ultimately determined to be
5 applicable, litigation will be filed concerning the failure to provide clear title to the Real
6 Property, without restrictions, to the Debtor. If it is determined that such litigation would
7 involve KENYONS as named Defendants, this Class, alternatively, will be amended to
8 possibly exclude any payments to KENYONS. This Class is impaired by the Plan.

9 Class 4. IRS is due prepetition withholding taxes. Beginning 30 days
10 after the date of confirmation, and continuing on the same day of each month thereafter,
11 the Debtor shall pay IRS a monthly amount to allow the valid and proven claims of IRS
12 to be paid within 5 years of the date of the Petition filing. Interest will be paid as
13 required by law. This Class is impaired by the Plan.

14 Class 5. The Debtor will pay unsecured creditors with valid and proven
15 claims a total amount of \$20,000.00 on a prorata basis. Such amount will be paid
16 \$4,000.00 6 months from the date of confirmation and every 6 months thereafter until the
17 total of \$20,000.00, plus interest at 3% per annum, have been paid. Any secured
18 personal property claim of Knight Capital, LCF Group or Small Business Funding will be
19 treated as unsecured as there is no value to the collateral positions of the above-stated
20 creditors due to the lien of KENYONS on the personal property of the Debtor. It is the
21 opinion of the Debtor that unsecured creditors having valid and proven claims in this
22 Class will receive approximately 10% of said claim. This Class is impaired by the Plan.

23 Class 6. The Owner of the Debtor is STEVEN WALSKI. Under the
24 Plan, he will retain full ownership of the Debtor. From personal funds, STEVEN
25 WALSKI will contribute a total of \$7,500.00 to assist in consummation of the Plan. It is
26 the belief of STEVEN WALSKI that if a Chapter 7 liquidation occurs, there will be
27 absolutely no funds left for him. Due to the amounts of administrative claims, secured
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1 creditors, tax claims, and unsecured claims, he believes no net value will be applicable
2 for the Debtor for an extensive period of time. STEVEN WALSKI is of the opinion that,
3 due to the fact there is no net value of the Debtor, such amount of \$7,500.00 is an
4 equivalent value of his interest in the Debtor. Such amount of \$7,500.00 shall be
5 contributed within 6 months of the date of confirmation. Any non-compliance with 11
6 U.S.C. § 1129(b)(2)(B)(I), which provides that each holder of an unsecured claim in a
7 Class receive or retain on account of such claim property of a value, as of the effective
8 date of the Plan, equal to the allowed amount of such claim, shall be resolved by the
9 new money which is being contributed to the Debtor, thereby satisfying the "new value
10 exception" to the absolute priority rule of the Bankruptcy Code. This Class is impaired
11 by the Plan.
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14 III. Execution and Implementation of the Plan.

15 STEVEN WALSKI shall continue to serve as the person to perform the
16 duties of the Debtor-In-Possession. The law firm of CARMICHAEL & POWELL, P.C.,
17 will represent the Debtor regarding consummation of the Plan of Reorganization. The
18 funds necessary to effectuate consummation of the Plan of Reorganization will derive
19 from business revenues received by the Debtor and the new money being contributed by
20 the owner.

21 IV. Contested Claims.

22 Contested claims by the Debtor shall be paid only upon their allowance by
23 the Court, and in such allowed amount according to the Class in which they belong.

24 V. Modification of the Plan.

25 The Debtor may propose amendments or modifications of this Plan at any
26 time prior to confirmation by compliance with 11 U.S.C. § 1127. After confirmation the
27 Debtor may, with approval of the Court, with notice and a hearing if the Court so orders,
28 and so long as it does not materially or adversely affect the interests of the creditors,

1 remedy any defect or omission or reconcile any inconsistencies in the Plan or in the
2 order of confirmation in such manner as may be necessary to carry out the purposes
3 and effect of the Plan.

4 VI. Jurisdiction of the Court.

5 The Court will retain jurisdiction, until the Plan has been fully
6 consummated, concerning, but not limited to, the following:

7 1. The classification of the claim of any creditor and the re-examination
8 of the claims which have been allowed for the purposes of voting and the determination
9 of such objections as may be filed to creditors' claims. The failure by the Debtor to
10 object to or examine any claim for purposes of voting shall not be deemed to be a waiver
11 of the Debtor's right to object to or re-examine the claim in whole or in part.

12 2. The determination of all questions and disputes regarding title to the
13 assets of the estate and determination of all causes of action, controversies, disputes or
14 conflicts whether or not subject to any action pending as of the date of confirmation
15 between the Debtor and any other party including, but not limited to, any right of the
16 Debtor to recover assets pursuant to the provisions of Title 11 of the United States Code.

17 3. The modification of this Plan after confirmation pursuant to the
18 Bankruptcy Rules and Title 11 of the United States Code.

19 4. The enforcement and interpretation of the terms and conditions of
20 this Plan.

21 5. The entry of any order, including injunctions, necessary to enforce
22 the title, rights and powers of the Debtor and to impose such limitations, restrictions,
23 terms and conditions of such title, rights and powers.

24 6. The entry of any Order concluding in the termination of the case.
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1 VII. Post Confirmation Activities.

2 The assets of the Debtor will not be dissipated after confirmation of the
3 Plan.

4 VIII. United States Trustee Post-Confirmation.

5 The Debtor will satisfy, by cash payment and on a timely basis, the
6 quarterly fees due the United States Trustee post-confirmation, such quarterly fees to be
7 paid until a Final Decree has been entered. Further, the Debtor will file on a timely
8 basis, post-confirmation, the required Financial Reports due the United States Trustee,
9 with copies of all such Reports being filed to be served on the United States Trustee.

10 IX. Plan Default.

11 The Debtor's failure to make any payment due under the Plan within thirty
12 (30) days after the payment is due shall constitute a default unless the Debtor and the
13 affected creditor agree to delayed payment. A default in payment as to one creditor
14 shall constitute a default in payment as to all creditors. A default shall also occur when
15 any default provisions of any creditor's contract with the Debtor assumed or continued
16 by the Plan has been breached except to the extent that the default provisions or
17 applicability thereof are modified by the Plan. Upon default, creditors may immediately
18 move for conversion or dismissal of this case, pursuant to 11 U.S.C. § 1112.

19 X. Effect of Confirmation.

20 Except as otherwise provided in the Plan or the Order Confirming Plan,
21 confirmation acts as a discharge, effective the date of confirmation, of any and all
22 dischargeable debts of the Debtor that arose any time before the entry of the Order
23 Confirming Plan including, but not limited to, all principal and interest accrued thereon,
24 pursuant to §1141(d)(1) of the Bankruptcy Code. The discharge shall be effective as to
25 each dischargeable claim, regardless of whether a Proof of Claim thereon was filed,
26 whether the claim is an allowed claim or whether the holder thereof votes to accept the
27 Plan.
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1 In addition, any pre-confirmation obligations of the Debtor dealt with in the
2 Plan shall be considered new obligations of the Debtor, and such new obligations shall
3 not be considered in default unless and until the Debtor defaults on the new obligations
4 pursuant to the terms of the Plan. The new obligations provided for in the Plan shall be
5 in the place of, and completely substitute for, any pre-confirmation obligations of the
6 Debtor and, once the Plan is confirmed, the only obligations of the Debtor shall be such
7 new obligations as provided for under the Plan.

8 XI. Unclaimed Funds and Interest.

9 Distribution to claimants shall be mailed by the Debtor to claimants at the
10 address appearing on the master mailing matrix unless the claimant provides the Debtor
11 with an alternative address. For a period of one year from the date a distribution was
12 made by the Debtor but has gone uncollected by the claimant, the Debtor shall retain
13 any distributions otherwise distributable hereunder which remain unclaimed. Thereafter,
14 the unclaimed funds shall revert in the Debtor.

15 XII. Revesting.

16 Except as provided for in the Plan or in the Order Confirming Plan, on the
17 date of confirmation the Debtor shall be vested with all the property of the estate, free
18 and clear of all claims, liens, charges, and other interests of creditors, arising prior to the
19 date of confirmation. Upon the date of confirmation, the Debtor shall operate the
20 business free of any restrictions.

21 DATED this 29th day of May, 2018.

22 CARMICHAEL & POWELL, P.C.

23 By 

24 Donald W. Powell
25 6225 North 24th Street, Suite 125
26 Phoenix, Arizona 85016
27 Attorneys for Debtor
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