Heath Village, Inc.

Financial Statements and
Supplementary Information

June 30, 2023 and 2022

Heath Village, Inc.

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Independent Auditors' Report

To the Board of Trustees of
Heath Village, Inc.

Opinion

We have audited the financial statements of Heath Village, Inc. (the Village), which comprise the balance sheets as of June 30, 2023 and 2022, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Village as of June 30, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Village and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, 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 the Village'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 GAAS 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 GAAS, 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 the Village'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 the Village'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenues in Excess of (Less Than) Expenses is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Baker Tilly US, LLP

Pittston, Pennsylvania
January 23, 2024

Heath Village, Inc.

Balance Sheets
June 30, 2023 and 2022

Assets

	2023	2022
Current Assets		
Cash and cash equivalents	$ 4,884,834	$ 6,337,910
Investments	2,290,976	2,484,416
Accounts receivable, net	1,264,025	1,452,214
Current portion of mortgage note receivable	7,355	7,067
Prepaid expenses and other current assets	480,144	488,183
Due from affiliates	104,793	3,203
Total current assets	9,032,127	10,772,993
Investments	19,688,248	16,777,754
Mortgage Note Receivable	261,414	268,769
Property and Equipment, Net	61,558,480	65,151,885
Finance Lease Right-of-Use Assets	90,639	-
Resident Security Deposits	1,129,653	933,608
Derivative Financial Instrument	1,305,755	-
Total assets	$ 93,066,316	$ 93,905,009

Liabilities and Net Assets

	2023	2022
Current Liabilities		
Current maturities of:		
Long-term debt	$ 793,140	$ 768,252
Finance lease obligations	58,064	-
Accounts payable:		
Trade	683,282	728,511
Capital related	124,094	151,684
Accrued expenses	3,563,765	3,417,126
Current portion of:		
Deferred revenues from advance fees	157,301	260,296
Annuities payable	27,607	67,085
Total current liabilities	5,407,253	5,392,954
Long-Term Debt, Net	35,082,296	35,859,394
Finance Lease Obligations	33,624	-
Derivative Financial Instrument	-	572,326
Deferred Revenues From Advance Fees	2,651,176	2,922,108
Annuities Payable	105,834	218,722
Resident Security Deposits	1,129,653	933,608
Total liabilities	44,409,836	45,899,112
Net Assets		
Without donor restrictions	45,536,929	45,257,371
With donor restrictions	3,119,551	2,748,526
Total net assets	48,656,480	48,005,897
Total liabilities and net assets	$ 93,066,316	$ 93,905,009

See notes to financial statements

Heath Village, Inc.

Statements of Operations
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Revenues		
Net resident service revenues	$ 27,769,567	$ 25,320,099
Net assets released from restrictions	324,835	604,636
COVID-19 relief funding revenues	-	1,211,871
Other revenues	173,099	249,851
Total operating revenues	28,267,501	27,386,457
Expenses		
Nursing services	10,312,086	9,383,214
General and administrative	4,681,878	4,612,968
Depreciation	4,947,639	5,114,468
Amortization of finance lease right-of-use assets	52,817	-
Plant operations	4,463,320	4,037,984
Dietary	3,928,691	3,333,274
Housekeeping and laundry	1,578,723	1,380,111
Social services and activities	1,028,265	890,792
Interest	1,278,264	1,297,274
Total expenses	32,271,683	30,050,085
Operating loss	(4,004,182)	(2,663,628)
Other Income (Loss)		
Investment income (loss), net	2,534,525	(2,391,409)
Change in fair value of derivative financial instrument	1,878,081	4,744,159
Forgiveness of amounts due from affiliate	(204,866)	-
Contributions without donor restrictions	76,000	90,300
Revenues in excess of (less than) expenses and change in net assets without donor restrictions	$ 279,558	$ (220,578)

See notes to financial statements

Heath Village, Inc.

Statements of Changes in Net Assets
Years Ended June 30, 2023 and 2022

	2023	2022
Net Assets Without Donor Restrictions		
Revenues in excess of (less than) expenses and change in net assets without donor restrictions	$ 279,558	$ (220,578)
Net Assets With Donor Restrictions		
Contributions	261,704	162,254
Investment income (loss), net	434,156	(265,071)
Net assets released from restrictions	(324,835)	(604,636)
Change in net assets with donor restrictions	371,025	(707,453)
Change in net assets	650,583	(928,031)
Net Assets, Beginning	48,005,897	48,933,928
Net Assets, Ending	$ 48,656,480	$ 48,005,897

See notes to financial statements

Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Change in net assets	$ 650,583	$ (928,031)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,947,639	5,114,468
Amortization of finance lease right-of-use assets	52,817	-
Change in finance lease right-of-use asset and obligations	2,680	-
Amortization of deferred financing costs	16,042	16,042
Change in allowance for uncollectible accounts	-	(250,000)
Net realized and unrealized gains and losses on investments	(2,700,136)	2,833,417
Change in value of annuities payable	(95,461)	9,513
Proceeds from advance fees, Community fees	301,000	549,000
Amortization of advance fees	(701,222)	(662,410)
Change in fair value of derivative financial instrument	(1,878,081)	(4,744,159)
Gain on sale of property and equipment	(570)	-
Forgiveness of amounts due from affiliate	204,866	-
Changes in assets and liabilities:		
Accounts receivable	188,189	264,743
Prepaid expenses and other current assets	8,039	137,296
Due from affiliates	(101,590)	11,310
Accounts payable, trade	(45,229)	104,798
Accrued expenses	146,639	(921,333)
Resident security deposits, liability	196,045	169,910
Net cash provided by operating activities	1,192,250	1,704,564
Cash Flows From Investing Activities		
Forgiveness of amounts due from affiliate	(204,866)	-
Net sales of investments	(16,918)	360,524
Decrease in mortgage note receivable	7,067	6,790
Proceeds from sale of property and equipment	550	-
Purchase of property and equipment	(1,381,824)	(1,253,602)
Net cash used in investing activities	(1,595,991)	(886,288)
Cash Flows From Financing Activities		
Repayment of long-term debt	(768,252)	(740,760)
Repayment of finance lease obligations	(54,428)	-
Refunds of advance fees	-	(17,500)
Proceeds from advance fees, Mayflower Plan	26,295	226,128
Net payments under gift annuity arrangements	(56,905)	(72,691)
Net cash used in financing activities	(853,290)	(604,823)
Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents	(1,257,031)	213,453
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	7,271,518	7,058,065
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 6,014,487	$ 7,271,518
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 1,262,512	$ 1,283,318
Noncash Investing and Financing Activities		
Obligations incurred for the acquisition of property and equipment	$ 124,094	$ 151,684
Finance lease obligations incurred for right-of-use assets	$ 28,857	$ -
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Balance Sheets		
Cash and cash equivalents	$ 4,884,834	$ 6,337,910
Resident security deposits	1,129,653	933,608
Total cash, cash equivalents and restricted cash and cash equivalents	$ 6,014,487	$ 7,271,518

See notes to financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Heath Village, Inc. (the Village) is a not-for-profit organization that operates a retirement community providing housing, health care and other related services to its residents through the operation of a 108-bed skilled nursing facility, 39 residential health care units and 198 independent living apartment units. The Village's operations are located in Hackettstown, New Jersey.

The sole member of the Village is Heath Alliance for Care, Inc. (Alliance). Alliance is also the sole member of The House of the Holy Comforter (the House), a not-for-profit organization that operates an assisted living facility known as Canterbury Village in West Orange, New Jersey.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash, cash equivalents and restricted cash and cash equivalents include investments purchased with an initial maturity of three months or less.

Accounts Receivable, Net

The Village assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management based on factors such as aging of the accounts receivable, and anticipated collection of the consideration. Accounts are written off through bad debt expense when the Village has exhausted all collection efforts and accounts are deemed impaired. The allowance for uncollectible accounts was $ $500,000 at June 30, 2023 and 2022.

Investments and Investment Risk

Investments include assets restricted by donors for the provision of benevolent care and assets set aside by the board of trustees for future capital expenditures over which the board retains control and may, at its discretion, subsequently use for other purposes.

Investments in equity securities with readily determinable fair values and all investments in debt securities and certificates of deposit are measured at fair value in the balance sheets. Cash and cash equivalents are carried at cost, which approximates fair value.

Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law. Investments available for current operations have been classified as short-term investments in the balance sheets.

The Village's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the balance sheets are subject to various risks, including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the balance sheets could change materially in the near term.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Lease Obligations and Right-of-Use Assets

The Village evaluates at contract inception whether a lease exists and recognizes a lease obligation and right-of-use (ROU) asset for all leases with a term greater than 12 months. Leases are classified as either finance or operating. The Village did not have any leases classified as operating leases as of June 30, 2023. All lease liabilities are measured as the present value of the future lease payments using a discount rate. The future lease payments used to measure the lease liability include fixed payments, as well as the exercise price of any options to purchase the underlying asset that have been deemed reasonably certain of being exercised, if applicable. Future lease payments for optional renewal periods that are not reasonably certain of being exercised are excluded from the measurement of the lease liability. For all leases, the ROU asset is initially derived from the measurement of the lease liability and adjusted for certain items, such as initial direct costs and lease incentives received. ROU assets are subject to long-lived impairment testing. Amortization of finance lease ROU assets is recognized on a straight-line basis over the lesser of the lease term and the estimated useful life of the asset. Interest expense associated with finance lease obligations is included within interest expense in the accompanying statements of operations. The lease term is determined based on the date the Village acquires control of the leased assets through the end of the lease term.

Deferred Financing Costs

The Village presents deferred financing costs as a direct reduction of its long-term debt. Financing costs of $481,250 as of June 30, 2023 and 2022 were incurred in connection with the issuance of long-term debt, have been deferred, and are being amortized over the terms of the related debt on a straight-line basis, which approximates the effective interest method. Amortization of the costs is included in interest expense in the accompanying statements of operations. Amortization expense of $16,042 was recognized in fiscal years 2023 and 2022. Accumulated amortization was $78,873 and $62,831 at June 30, 2023 and 2022, respectively.

Resident Security Deposits

Resident security deposits are accounted for as trust funds and maintained separate from other funds.

Advance Fees

Under certain agreements for apartment units and residential health care units, the Village receives payments in advance (Community Fees). The Community Fees received are refundable on a decreasing basis for four months. After four months of occupancy, no refund is due or payable.

In addition to Community Fees, the Village markets some of its apartment units under the Mayflower Plan, which requires residents to pay an additional advance fee, generally prior to occupancy. Under current Mayflower Plan agreements, residents receive a monthly rental credit for three, five, six or eight years, according to the terms of the agreement. Fees paid with a three and five year rental credit period are refundable on a decreasing basis for 12 months; after 12 months of occupancy, no refund is due or payable. Fees paid with a six year rental credit period are refundable on a decreasing basis for three years; after three years of occupancy, no refund is due or payable. Fees paid with an eight year rental credit period are refundable on a decreasing basis for three years; after three years of occupancy, no refund is due or payable.

Refunds to residents are generally paid by the Village within 90 days after the resident's apartment or residential health care unit has been vacated. Contractual refund obligations under existing agreements approximate $116,000 and $261,000 at June 30, 2023 and 2022, respectively.

The Community Fees are amortized to income using the straight-line method over the annually adjusted estimated remaining life expectancies of the residents. Fees received under the Mayflower Plan are amortized to income using the straight-line method over the remaining rental credit period or the estimated remaining life expectancies of the residents, whichever is shorter. Unamortized balances of Community Fees and fees received under the Mayflower Plan are classified as deferred revenues from advance fees in the balance sheets. The estimated amount of rental credits to be recognized as revenue during the next fiscal year under the Mayflower Plan is classified as a current liability in the balance sheets.

The majority of services provided to the Village's apartment and residential health care residents are paid for on a fee-for-service basis and are not included in the Community Fees or the fees paid under the Mayflower Plan.

Charitable Gift Annuities

The Village received charitable gift annuities as contributions. Under these arrangements, the Village recorded the assets at fair value and the liabilities to the donor or their beneficiaries at the present value of the estimated future payments to be distributed by the Village to such individuals. The amount of the contribution is the difference between the asset and the liability and is recorded as operating or restricted revenue, in accordance with donor restrictions.

Derivative Financial Instrument

The Village has an interest rate swap agreement, which is considered a derivative financial instrument, to manage the variable rate interest payments due on its long-term debt (Note 7). The interest rate swap agreement is reported at fair value in the balance sheets and related changes in fair value are reported in other income (loss) in the statements of operations.

Net Assets

Net assets, revenues, gains and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor-imposed restrictions. All revenue not restricted by donors and donor-restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restriction.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Net Resident Service Revenues

Net resident service revenues are reported at the amount that reflects the consideration the Village expects to receive in exchange for the services provided. Estimated net realizable amounts from residents, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Net resident service revenues are recognized as performance obligations are satisfied.

Net resident service revenues are primarily comprised of skilled nursing, residential health care and independent living revenue streams, which are primarily derived from providing housing, skilled nursing, residential health care and independent living services to residents at a stated daily, monthly or hourly fee, net of any explicit or implicit price concessions. The Village has determined that the services included in the stated daily, monthly or hourly fee for each level of care represents a series of distinct services that have the same timing and pattern of transfer. Therefore, the Village considers the services provided to residents in each level of care to be one performance obligation which is satisfied over time as services are provided. As such, skilled nursing, residential health care and independent living are recognized on a daily, month-to-month or hourly basis as services are rendered.

The Village receives revenue for services under third-party payor programs, including Medicare, Medicaid and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are included in the determination of the estimated transaction price for providing services. The Village estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends and retroactive adjustments are recognized in future periods as final settlements are determined.

COVID-19 Relief Funding Revenues

COVID-19 relief funding revenues includes amounts received from federal, state and local funding sources related to the COVID-19 pandemic. The Village accounts for this funding in accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions and accordingly, revenues are recognized when barriers are substantially met, which occurs when the Village complies with the terms and conditions related to the purposes of the grant rather than those that are administrative in nature.

In March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law to combat the financial effects of COVID-19. The CARES Act created a Provider Relief Fund to provide financial support for senior living and other healthcare providers. The Village received $1,211,871 in 2022, related to this funding. No funding was received in 2023.

In accordance with the terms and conditions of the respective funding sources, the Village could apply the funding against lost revenues and eligible expenses. The Village's methodology for calculating lost revenues was based on the difference between current period actual resident service revenues as compared to calendar year 2019 actual resident service revenues.

Noncompliance with the terms and conditions could result in repayment of some or all of the support, which can be subject to government review and interpretation. The Department of Health and Human Services (HHS) has indicated Relief Fund payments are subject to future reporting and audit requirements. These matters could cause reversal or claw-back of amounts previously recognized; however, an estimate of the possible effects cannot be made as of the date the financial statements were issued. In addition, it's unknown whether there will be further developments in the regulatory guidance.

The Village incurred lost revenues and eligible expenses in accordance with terms and conditions of the funding source and therefore recognized $1,211,871 in 2022 which is included in COVID-19 relief funding revenues in the accompanying statements of operations.

Income Taxes

The Village is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC.

Measure of Operations

The Village's operating loss includes all operating revenues and expenses that are an integral part of its program and supporting activities. Nonoperating activities are limited to activities considered to be more unusual and nonrecurring in nature.

Revenues in Excess of (Less Than) Expenses

The statements of operations include the determination of revenues in excess of (less than) expenses. Changes in net assets without donor restrictions which are excluded from revenues in excess of (less than) expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Subsequent Events

The Village evaluated subsequent events for recognition or disclosure through January 23, 2024, the date the financial statements were available to be issued.

Reclassification

Certain 2022 amounts have been reclassified to confirm to the 2023 financial statements presentation.

New Accounting Standards

Reference Rate Reform

In March 2020, the FASB issued Accounting Standards Update (ASU) No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions that reference London Interbank Offer Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. Entities may elect the optional expedients and exceptions in ASU No. 2020-04 as of March 12, 2020 and through December 31, 2024. The Village elected the optional practical expedient included in ASU No. 2020-04 during 2023 that allowed for a modification to the reference rate in the Village's long-term debt (Note 7) to be accounted for as if the modification was not substantial and therefore would not be treated as a debt extinguishment. The adoption of the optional practical expedient has not and is not expected to have a material effect on the financial statements.

Leases

Effective July 1, 2022, the Village adopted the FASB's ASU No. 2016-02, *Leases (Topic 842),* and all related amendments using the modified retrospective approach. The Village's 2022 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating leases are expensed on a straight-line basis as lease expense over the noncancelable lease term. Expenses for finance leases are comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method. At the date of adoption, the Village recorded finance lease right-of-use assets and lease liabilities of $116,333.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Village elected:

- The package of practical expedients permitted under the transition guidance which does not require the Village to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs; and

- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the Village's right-of-use assets.

The new standard also provides for several accounting policy elections, as follows:

- The Village has elected the policy not to separate lease and nonlease components for all asset classes;

- When the rate implicit in the lease is not determinable, rather than use the Village's incremental borrowing rate, the Village elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes; and

- The Village elected not to apply the recognition requirements leases with an original term of 12 months or less, for which the Village is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.

Additional required disclosures for Topic 842 are contained in Note 16.

Credit Losses

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. During November 2018, April 2019, May 2019, November 2019 and March 2020, respectively, the FASB also issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; ASU No. 2019-05, *Targeted Transition Relief*; ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; and ASU No. 2020-03, *Codification Improvements to Financial Instruments*.

ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASU Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, and ASU Nos. 2019-11 and 2020-03 amend ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. The Village is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its results of operations, financial position and cash flows.

2. Liquidity and Availability of Resources

Financial assets available for general expenditure within one year of the balance sheet dates, consist of the following at June 30:

	2023	2022
Cash and cash equivalents	$ 4,884,834	$ 6,337,910
Accounts receivable, net	1,264,025	1,452,214
Total	$ 6,148,859	$ 7,790,124

The Village's investments are comprised of $18,859,673 at June 30, 2023 and $16,513,644 at June 30, 2022, which are board-designated. Although the Village does not intend to utilize these funds for general expenditure as part of its annual budget and approval process, amounts designated could be made available as necessary. The remainder of the investments are donor-restricted investments.

As part of the Village's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Village invests excess cash in investments.

3. Net Resident Service Revenues

The Village disaggregates revenue from contracts with residents by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows affected by economic factors. Net resident service revenues consist of the following for the years ended June 30, 2023 and 2022:

	2023				
	Skilled Nursing and Ancillary	Independent Living	Residential Health Care	Other	Total
Private	$ 9,462,700	$ 8,093,774	$ 2,206,295	$ 496,696	$ 20,259,465
Medicare and other	5,690,768	-	-	-	5,690,768
Medicaid	1,118,112	-	-	-	1,118,112
	$ 16,271,580	$ 8,093,774	$ 2,206,295	$ 496,696	27,068,345
Amortization of advance fees					701,222
Net resident service revenues					$ 27,769,567

	2022				
	Skilled Nursing and Ancillary	Independent Living	Residential Health Care	Other	Total
Private	$ 7,775,674	$ 7,838,159	$ 1,907,754	$ 468,252	$ 17,989,839
Medicare and other	5,357,975	-	-	-	5,357,975
Medicaid	1,309,875	-	-	-	1,309,875
	$ 14,443,524	$ 7,838,159	$ 1,907,754	$ 468,252	24,657,689
Amortization of advance fees					662,410
Net resident service revenues					$ 25,320,099

The Village has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the principal payment arrangements with major third-party payors follows:

Medicare Part A - Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments.

Medicaid - Nursing services provided to Medicaid program beneficiaries are paid at prospectively determined rates per day. The rates are determined using state-wide nursing facility cost information and the Village's cost information from a prior year. The rates also vary according to a resident classification system that is based on clinical, diagnostic and other factors. The reimbursement methodology is subject to various limitations and adjustments.

As described above, the Medicare Part A and Medicaid rates are based on clinical, diagnostic and other factors. The determination of these rates is partially based on the Village's clinical assessment of its residents. The Village is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medicare and Medicaid programs.

4. Investments

The composition of investments is set forth in the following table at June 30:

	2023	2022
Board-designated and donor-restricted:		
Cash and cash equivalents	$ 980,581	$ 2,462,613
Certificates of deposit	1,398,767	-
Common stocks:		
Consumer staples	935,125	915,115
Health care	3,300,563	3,128,321
Information technology	4,531,003	4,045,651
Industrials	3,812,043	3,032,414
Energy	1,182,024	920,317
Consumer discretionary	982,152	880,164
Financials	2,787,503	1,421,543
Materials	138,370	117,830
Telecommunications services	1,478,039	1,486,242
Real estate	150,124	-
Utilities	6,530	6,816
Preferred stocks:		
Investment grade	96,810	96,770
Other	67,168	68,146
Exchange traded funds	132,422	680,228
Total	21,979,224	19,262,170
Less amounts available to meet current liabilities	2,290,976	2,484,416
Total noncurrent board-designated and donor-restricted investments	$ 19,688,248	$ 16,777,754

Investment return (loss) is comprised of the following in:

	2023	2022
Without donor restrictions:		
Interest and dividend income	$ 314,215	$ 236,844
Net realized (loss) gain on sales of investments	(55,149)	267,685
Net change in unrealized gains and losses on investments	2,377,839	(2,778,333)
Investment expenses	(102,380)	(117,605)
Total	2,534,525	(2,391,409)
With donor restrictions:		
Interest and dividend income	73,482	74,437
Net realized gain on sales of investments	107,794	83,130
Net change in unrealized gains and losses on investments	269,652	(405,899)
Investment expenses	(16,772)	(16,739)
Total	434,156	(265,071)
Total investment return (loss)	$ 2,968,681	$ (2,656,480)

5. Mortgage Note Receivable

During 2003, the Village sold land and a building to the Friendship Center, Inc. (the Center). The Executive Director of the Village is also the President of the Center's Board of Trustees. In connection with the sale, the Village entered into a mortgage note agreement with the Center. The mortgage note requires monthly payments of $1,498, including interest at 4%, through April 2046. The following is a summary of the mortgage note receivable:

	2023	2022
Mortgage note receivable	$ 268,769	$ 275,836
Current portion	7,355	7,067
Noncurrent portion	$ 261,414	$ 268,769

The Village recognized interest income on the mortgage note receivable $10,881 in 2023 and $11,159 in 2022. These amounts are classified as investment income in the statements of operations.

6. Property and Equipment

Property and equipment is as follows:

	2023	2022
Land	$ 4,592,220	$ 4,592,220
Land improvements	6,763,979	6,644,671
Buildings and building improvements	86,899,403	86,507,757
Furniture and equipment	20,173,047	19,950,231
Total	118,428,649	117,694,879
Less accumulated depreciation	59,824,407	55,205,405
Total	58,604,242	62,489,474
Construction-in-progress	2,954,238	2,662,411
Property and equipment, net	$ 61,558,480	$ 65,151,885

Construction-in-progress is primarily related to various renovation projects on the Village's campus.

7. Long-Term Debt

Long-term debt is as follows at June 30:

	2023	2022
2018 Bond - due in monthly installments ranging from $64,834 in August 2020 to $173,737 in August 2050. Interest is due monthly beginning September 1, 2018, at a variable interest rate (5.10% at June 30, 2023).	$ 36,277,813	$ 37,046,065
Less current maturities	793,140	768,252
Less deferred financing costs	402,377	418,419
Long-term debt, net	$ 35,082,296	$ 35,859,394

2018 Bond

In August 2018, the Public Finance Authority and the Village entered into a Bond Agreement with BB&T Community Holdings Co. and Branch Banking and Trust Company (the Bank), whereby the Public Finance Authority issued, on behalf of the Village, the Series 2018 Revenue Bond (the 2018 Bond) in the amount of $38,500,000 to provide financing for the new nursing facility, fund interest on the 2018 Bond during construction of the facility and paying the costs of issuance and certain other costs in connection with the issuance of the 2018 Bond.

Interest on the 2018 Bonds was based on the equivalent of 79% of one-month LIBOR plus 95 basis points through March 31, 2023. On April 1, 2023, the Bond Agreement was amended to adjust the interest rate to 79% of the adjusted SOFR rate as defined in the Bond Agreement.

The 2018 Bond is secured by a mortgage lien on and security interest in the Village's property and equipment and a security interest in the Village's revenues, as defined. Also, under the terms of the bond agreement, the Village is required to maintain certain financial covenants. The Village did not meet their debt service coverage ratio requirement as of June 30, 2023. On January 5, 2024, the Bank waived the event of default related to the violation of the debt service coverage ratio requirement as of June 30, 2024.

Scheduled principal payments on long-term debt are as follows:

Years ending June 30:	
2024	$ 793,140
2025	826,212
2026	856,884
2027	888,684
2028	918,396
Thereafter	31,994,497
Total	$ 36,277,813

Interest Swap Agreement

In August 2018, the Village entered into a 15-year interest rate swap agreement related to the Series 2018 Bond with an effective date of July 1, 2020. The agreement expires in August 2033. According to the terms of the agreement, the Village has agreed to pay 2.43% in exchange for receiving 79% of SOFR having a 30-day maturity. The fair value of the swap agreement is estimated to be the amount the Village would pay to terminate the swap agreement. The Village estimates that it would have received $1,305,755 on June 30, 2023 and would have paid $572,326 on June 30, 2022 to terminate the swap agreement. These amounts are classified as derivative financial instrument in the balance sheets.

Changes in the fair value of the swap agreement are included in revenues (less than) in excess of expenses since the swap agreement is not designated as a hedging instrument. The change in the fair value of the swap agreement is classified as change in fair value of derivative financial instrument in the statements of operations and was $1,878,081 in 2023 and $4,744,159 in 2022. Interest received (paid) on the interest swap agreement was $21,478 in 2023 and $(864,218) in 2022.

8. Accrued Expenses

Accrued expenses are as follows:

	2023	2022
Sick wages	$ 979,262	$ 1,130,586
Vacation and personal time wages	832,147	670,974
Salaries, wages and related payroll taxes	221,193	615,350
Other accrued expenses	1,116,963	501,161
Retirement plan contribution	227,831	248,959
Nursing home assessment	82,313	145,750
Interest payable	104,056	104,346
Total	$ 3,563,765	$ 3,417,126

9. Retirement Plan

The Village sponsors two defined contribution retirement plans. Contributions to the plans were $381,193 in 2023 and $453,034 in 2022.

10. Related-Party Transactions

The Village had amounts receivable from Alliance and the House of $104,793 and $3,203 in 2023 and 2022, respectively which is classified as due from affiliates, current asset, in the balance sheets.

The Village entered into a loan agreement with the House for $200,000 om March 2023. Principal and interest on the loan were due May 2024. During 2023, the outstanding principal and accrued interest were forgiven when it was determined that the House would be unable to repay the outstanding amounts and are recognized in the accompanying statements of operations in 2023.

In July 2023, the Village provided an additional $200,000 to the House which is not expected to be repaid.

11. Medical Malpractice Claims Coverage

The Village maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents occurred or will be asserted that will exceed the Village's insurance coverages or will have a material adverse effect on the financial statements.

12. Contingencies

The senior living services industry is subject to numerous laws, regulations and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Village, if any, are not determinable.

13. Concentrations of Credit Risk

The Village grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements, primarily with Medicare and Medicaid.

The Village maintains cash accounts, which, at times, may exceed federally insured limits. The Village has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes that it is not subject to any significant credit risk on its cash accounts.

14. Fair Value Measurements and Financial Instruments

Fair Value Measurements

The Village measures its investments and derivative financial instruments on a recurring basis at fair value in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to dispose of a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Village for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

The fair value of the Village's investments and derivative financial instrument were determined using the following inputs at June 30:

	2023		
	Total	**Level 1**	**Level 2**
Reported at fair value:			
Investments (Note 4):			
Certificates of deposit	$ 1,398,767	$ -	$ 1,398,767
Common stocks	19,303,476	19,303,476	-
Preferred stocks	163,978	163,978	-
Exchange traded funds	132,422	132,422	-
Total investments measured at fair value	20,998,643	$ 19,599,876	$ 1,398,767
Cash and cash equivalents	980,581		
Total investments	$ 21,979,224		
Assets,			
Derivative financial instrument	$ 1,305,755	$ -	$ 1,305,755

	2022		
	Total	**Level 1**	**Level 2**
Reported at fair value			
Investments (Note 4):			
Common stocks	$ 15,954,413	$ 15,954,413	$ -
Preferred stocks	164,916	164,916	-
Exchange traded funds	680,228	680,228	-
Total investments measured at fair value	16,799,557	$ 16,799,557	$ -
Cash and cash equivalents	2,462,613		
Total investments	$ 19,262,170		
Liabilities,			
Derivative financial instrument	$ (572,326)	$ -	$ (572,326)

Financial Instruments

Investments are valued at fair value based on quoted market prices in active markets for common stocks, preferred stocks and exchange traded funds. Certificates of deposit are valued based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

The Village measured its derivative financial instrument at fair value based on the counterparty's proprietary models. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The method used to determine the fair value calculates the estimated future payments required by the derivative financial instrument and discounts these payments using an appropriate discount rate. The value represents the estimated exit price the Village would pay to terminate the agreement.

15. Functional Expenses

The Village provides housing, health care and other related services to its residents within its geographic location. Expenses related to providing these services are as follows for the year ended June 30:

	2023			
	Program Services	**General and Administrative**	**Fundraising**	**Total**
Salaries and wages	$ 10,648,963	$ 1,955,634	$ 4,291	$ 12,608,888
Payroll taxes and employee benefits	3,293,701	554,902	1,340	3,849,943
Supplies and other	4,327,737	1,539,342	232	5,867,311
Food	1,131,317	15,008	-	1,146,325
Utilities	1,263,625	-	-	1,263,625
Real estate taxes	634,408	-	-	634,408
Insurance	11,334	611,129	-	622,463
Depreciation	4,947,639	-	-	4,947,639
Amortization of finance lease right-of-use assets	52,817	-	-	52,817
Interest	1,278,264	-	-	1,278,264
Total	$ 27,589,805	$ 4,676,015	$ 5,863	$ 32,271,683

	2022			
	Program Services	**General and Administrative**	**Fundraising**	**Total**
Salaries and wages	$ 10,095,109	$ 1,979,843	$ 4,626	$ 12,079,578
Payroll taxes and employee benefits	2,561,716	447,580	1,629	3,010,925
Supplies and other	3,593,555	1,436,950	934	5,031,439
Food	994,982	9,791	-	1,004,773
Utilities	1,154,509	-	-	1,154,509
Real estate taxes	614,200	-	-	614,200
Insurance	11,304	731,615	-	742,919
Depreciation	5,114,468	-	-	5,114,468
Interest	1,297,274	-	-	1,297,274
Total	$ 25,437,117	$ 4,605,779	$ 7,189	$ 30,050,085

Certain categories of expenses are attributable to more than one program or supporting function. Expenses attributable to more than one functional expense category are allocated using a variety of allocation techniques such as square footage and time and effort.

16. Leases

The Village leases vehicles and equipment used in operations. Where these agreements satisfy ASC 842's identification and control tests, a lease term, right-of-use asset and lease liability were established by the Village for the equipment based on the relative standalone selling prices of the lease and nonlease components. The Village's leases generally have initial lease terms of three to five years or more and typically include one or more options to renew, with renewal terms that generally extend the lease term for an additional three to five years or more. The payment structure of many of the Village's leases include annual escalation clauses that are either fixed or variable in nature, some of which are dependent upon published indices. Leases with an initial term of 12 months or less are not recorded on the balance sheets and expenses for these leases are recognized on a straight-line basis over the lease term as an operating expense.

Right-of-use assets represent the Village's right to use an underlying asset for the lease term, while lease liabilities represent the Village's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the Village's leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Village's sole discretion. The Village regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Village includes such options in the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Village uses the rate implicit in the lease, or if not readily available, the Village uses a risk-free rate based on U.S. Treasury notes or bond rates for a similar term.

Right-of-use assets are assessed for impairment in accordance with the Village's long-lived asset policy. The Village reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Village made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Village:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Village obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights;

- Determined whether contracts contain embedded leases; and

- Determined for leases that contain a residual value guarantee, whether a payment at the end of the lease term was probable and, accordingly, whether to consider the amount of a residual value guarantee in future lease payments.

The Village does not have any material leasing transactions with related parties.

Below is a summary of expenses incurred pertaining to leases during the year ended June 30, 2023:

Finance lease expense:	
Amortization of right-of-use assets	$ 52,817
Interest on lease liabilities	2,680
Total lease expense	$ 55,497

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 3.10%. As of June 30, 2023, the weighted average remaining lease term was 2.19 years.

The table below summarizes the Village's scheduled future minimum lease payments for years ending after June 30, 2023:

Years ending June 30:	
2024	$ 58,064
2025	21,621
2026	7,903
2027	3,528
2028	3,528
Thereafter	294
Total lease payments	94,938
Less present value discount	3,250
Total lease liabilities	91,688
Less current portion	58,064
Long-term lease liabilities	$ 33,624

Schedules of Revenues in Excess of (Less Than) Expenses
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Revenues		
Net resident service revenues:		
Skilled nursing and ancillary	$ 16,271,580	$ 14,443,525
Residential health care	2,206,295	1,907,754
Independent living	8,093,774	7,838,159
Amortization of advance fees	701,222	662,410
Other	496,696	468,251
Net resident service revenues	27,769,567	25,320,099
Net assets released from restrictions	324,835	604,636
COVID-19 relief funding revenues	-	1,211,871
Other revenues	173,099	249,851
Total operating revenues	28,267,501	27,386,457
Expenses		
Nursing services:		
Salaries and wages	6,036,546	5,973,393
Payroll taxes and employee benefits	1,867,091	1,515,797
Other expenses	2,408,449	1,894,024
Total	10,312,086	9,383,214
General and administrative:		
Salaries and wages	1,959,925	1,984,468
Payroll taxes and employee benefits	556,242	449,209
Other expenses	2,165,711	2,179,291
Total	4,681,878	4,612,968
Plant operations:		
Salaries and wages	1,391,554	1,224,105
Payroll taxes and employee benefits	430,404	310,626
Other expenses	2,641,362	2,503,253
Total	4,463,320	4,037,984
Dietary:		
Salaries and wages	1,462,531	1,313,005
Payroll taxes and employee benefits	452,358	333,186
Other expenses	2,013,802	1,687,083
Total	3,928,691	3,333,274

Heath Village, Inc.

Schedules of Revenues in Excess of (Less Than) Expenses
Years Ended June 30, 2023 and 2022

	2023	2022
Housekeeping and laundry:		
Salaries and wages	$ 1,076,888	$ 967,989
Payroll taxes and employee benefits	333,079	245,635
Other expenses	168,756	166,487
Total	1,578,723	1,380,111
Social services and activities:		
Salaries and wages	681,444	616,618
Payroll taxes and employee benefits	210,769	156,472
Other expenses	136,052	117,702
Total	1,028,265	890,792
Total expenses excluding depreciation and interest	25,992,963	23,638,343
Operating income before depreciation, amortization of finance lease right of use assets and interest	2,274,538	3,748,114
Depreciation	4,947,639	5,114,468
Amortization of finance lease right-of-use assets	52,817	-
Interest	1,278,264	1,297,274
Total	6,278,720	6,411,742
Operating loss	(4,004,182)	(2,663,628)
Other Income (Loss)		
Investment income (loss), net	2,534,525	(2,391,409)
Change in fair value of derivative financial instrument	1,878,081	4,744,159
Forgiveness of amounts due from affiliate	(204,866)	-
Contributions without donor restrictions	76,000	90,300
Revenues in excess of (less than) expenses	$ 279,558	$ (220,578)