

# **Heath Village, Inc.**

Financial Statements and  
Supplementary Information

June 30, 2024 and 2023

# Heath Village, Inc.

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June 30, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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 (Less Than) in Excess of 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  
December 30, 2024

**Heath Village, Inc.**Balance Sheets  
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>		<u>2024</u>	<u>2023</u>
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and cash equivalents	\$ 2,013,425	\$ 4,884,834	Current maturities of:		
Investments	2,385,568	2,290,976	Long-term debt	\$ 826,212	\$ 793,140
Accounts receivable, net	1,804,512	1,264,747	Finance lease obligations	21,621	58,064
Current portion of mortgage note receivable	7,655	7,355	Accounts payable:		
Prepaid expenses and other current assets	502,297	479,422	Trade	961,254	683,282
Due from affiliates	22,186	104,793	Capital related	260,549	124,094
			Accrued expenses	3,291,734	3,563,765
			Due to affiliates	14	-
			Current portion of:		
Total current assets	6,735,643	9,032,127	Deferred revenues from advance fees	126,395	157,301
			Annuities payable	26,527	27,607
<b>Investments</b>	22,573,493	19,688,248			
			Total current liabilities	5,514,306	5,407,253
<b>Mortgage Note Receivable</b>	253,759	261,414			
			<b>Long-Term Debt, Net</b>	34,272,126	35,082,296
<b>Property and Equipment, Net</b>	58,913,020	61,558,480			
			<b>Finance Lease Obligations</b>	13,947	33,624
<b>Finance Lease Right-of-Use Assets</b>	34,713	90,639			
			<b>Deferred Revenues From Advance Fees</b>	2,465,927	2,651,176
<b>Resident Security Deposits</b>	1,251,505	1,129,653			
			<b>Annuities Payable</b>	97,842	105,834
<b>Derivative Financial Instrument</b>	1,833,799	1,305,755			
			<b>Resident Security Deposits</b>	1,251,505	1,129,653
			Total liabilities	43,615,653	44,409,836
			<b>Net Assets</b>		
			Without donor restrictions	44,586,969	45,536,929
			With donor restrictions	3,393,310	3,119,551
			Total net assets	47,980,279	48,656,480
Total assets	<u>\$ 91,595,932</u>	<u>\$ 93,066,316</u>	Total liabilities and net assets	<u>\$ 91,595,932</u>	<u>\$ 93,066,316</u>

See notes to financial statements

## Heath Village, Inc.

### Statements of Operations

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Operating Revenues</b>		
Net resident service revenues	\$ 30,723,674	\$ 27,769,567
Net assets released from restrictions	276,306	324,835
Other revenues	176,267	173,099
	<u>31,176,247</u>	<u>28,267,501</u>
<b>Expenses</b>		
Nursing services	12,270,228	10,312,086
General and administrative	4,759,359	4,681,878
Depreciation	5,033,635	4,947,639
Amortization of finance lease right-of-use assets	55,926	52,817
Plant operations	4,776,334	4,463,320
Dietary	4,400,112	3,928,691
Housekeeping and laundry	1,668,258	1,578,723
Social services and activities	1,073,541	1,028,265
Interest	1,243,004	1,278,264
	<u>35,280,397</u>	<u>32,271,683</u>
Total expenses		
	<u>35,280,397</u>	<u>32,271,683</u>
Operating loss	(4,104,150)	(4,004,182)
<b>Other Income (Loss)</b>		
Investment income, net	2,730,646	2,534,525
Change in fair value of derivative financial instrument	528,044	1,878,081
Contribution to affiliate	(200,000)	-
Forgiveness of amounts due from affiliate	-	(204,866)
Contributions without donor restrictions	95,500	76,000
	<u>95,500</u>	<u>76,000</u>
Revenues (less than) in excess of expenses and change in net assets without donor restrictions	<u>\$ (949,960)</u>	<u>\$ 279,558</u>

See notes to financial statements

**Heath Village, Inc.**Statements of Changes in Net Assets  
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Net Assets Without Donor Restrictions</b>		
Revenues (less than) in excess of expenses and change in net assets without donor restrictions	<u>\$ (949,960)</u>	<u>\$ 279,558</u>
<b>Net Assets With Donor Restrictions</b>		
Contributions	136,051	261,704
Investment income, net	414,014	434,156
Net assets released from restrictions	<u>(276,306)</u>	<u>(324,835)</u>
Change in net assets with donor restrictions	<u>273,759</u>	<u>371,025</u>
Change in net assets	(676,201)	650,583
<b>Net Assets, Beginning</b>	<u>48,656,480</u>	<u>48,005,897</u>
<b>Net Assets, Ending</b>	<u><u>\$ 47,980,279</u></u>	<u><u>\$ 48,656,480</u></u>

*See notes to financial statements*

**Heath Village, Inc.**

## Statements of Cash Flows

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (676,201)	\$ 650,583
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,033,635	4,947,639
Amortization of finance lease right-of-use assets	55,926	52,817
Change in finance lease right-of-use asset and obligations	1,944	2,680
Amortization of deferred financing costs	16,042	16,042
Change in allowance for credit losses	(145,000)	-
Net realized and unrealized gains and losses on investments	(2,829,894)	(2,700,136)
Change in value of annuities payable	18,265	(95,461)
Proceeds from advance fees, community fees	398,000	301,000
Amortization of advance fees	(635,055)	(701,222)
Change in fair value of derivative financial instrument	(528,044)	(1,878,081)
Gain on sale of property and equipment	(16,458)	(570)
Contribution to affiliate	200,000	-
Forgiveness of amounts due from affiliate	-	204,866
Changes in assets and liabilities:		
Accounts receivable	(394,765)	188,189
Prepaid expenses and other current assets	(22,875)	8,039
Due from/to affiliates	82,621	(101,590)
Accounts payable, trade	277,972	(45,229)
Accrued expenses	(272,031)	146,639
Resident security deposits, liability	121,852	196,045
Net cash provided by operating activities	<u>685,934</u>	<u>1,192,250</u>
<b>Cash Flows From Investing Activities</b>		
Contribution to affiliate	(200,000)	-
Forgiveness of amounts due from affiliate	-	(204,866)
Net purchases of investments	(149,943)	(16,918)
Decrease in mortgage note receivable	7,355	7,067
Proceeds from sale of property and equipment	19,595	550
Purchase of property and equipment	(2,254,857)	(1,381,824)
Net cash used in investing activities	<u>(2,577,850)</u>	<u>(1,595,991)</u>
<b>Cash Flows From Financing Activities</b>		
Repayment of long-term debt	(793,140)	(768,252)
Repayment of finance lease obligations	(58,064)	(54,428)
Proceeds from advance fees, Mayflower Plan	20,900	26,295
Net payments under gift annuity arrangements	(27,337)	(56,905)
Net cash used in financing activities	<u>(857,641)</u>	<u>(853,290)</u>
Net decrease in cash, cash equivalents and restricted cash and cash equivalents	(2,749,557)	(1,257,031)
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning</b>	<u>6,014,487</u>	<u>7,271,518</u>
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 3,264,930</u>	<u>\$ 6,014,487</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 1,231,814</u>	<u>\$ 1,262,512</u>
<b>Noncash Investing and Financing Activities</b>		
Obligations incurred for the acquisition of property and equipment	<u>\$ 136,455</u>	<u>\$ 124,094</u>
Finance lease obligations incurred for right-of-use assets	<u>\$ -</u>	<u>\$ 28,857</u>
<b>Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Balance Sheets</b>		
Cash and cash equivalents	\$ 2,013,425	\$ 4,884,834
Resident security deposits	<u>1,251,505</u>	<u>1,129,653</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 3,264,930</u>	<u>\$ 6,014,487</u>

See notes to financial statements



# Heath Village, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

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## 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 operated an assisted living facility known as Canterbury Village in West Orange, New Jersey that closed during 2024.

### 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 credit losses 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 credit losses was \$355,000 and \$500,000 at June 30, 2024 and 2023.

### 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 (less than) in excess of 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.

## Heath Village, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

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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.

The Village reviews its long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. If these future cash flows are less than the carrying value of the asset, an impairment loss is recognized for the difference between the estimated fair value and the carrying value of the asset. No impairment loss was recognized in 2024 or 2023.

### **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, 2024 and 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 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 2024 and 2023. Accumulated amortization was \$94,915 and \$78,873 at June 30, 2024 and 2023, 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.

## Heath Village, Inc.

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Notes to Financial Statements

June 30, 2024 and 2023

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 \$64,000 and \$116,000 at June 30, 2024 and 2023, 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.

## Heath Village, Inc.

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Notes to Financial Statements

June 30, 2024 and 2023

**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 represent 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.

### **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.

## Heath Village, Inc.

Notes to Financial Statements  
June 30, 2024 and 2023

### Revenues (Less Than) in Excess of Expenses

The statements of operations include the determination of revenues (less than) in excess of expenses. Changes in net assets without donor restrictions which are excluded from revenues (less than) in excess of 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.

### Reclassification

Certain 2023 amounts have been reclassified to conform to the current year presentation.

### Subsequent Events

The Village evaluated subsequent events for recognition or disclosure through December 30, 2024, the date the financial statements were available to be issued.

## 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:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 2,013,425	\$ 4,884,834
Accounts receivable, net	<u>1,804,512</u>	<u>1,264,747</u>
Total	<u>\$ 3,817,937</u>	<u>\$ 6,149,581</u>

The Village's investments are comprised of \$21,565,751 at June 30, 2024 and \$18,859,673 at June 30, 2023, 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.

## Heath Village, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

### 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, 2024 and 2023:

	2024				
	Skilled Nursing and Ancillary	Independent Living	Residential Health Care	Other	Total
Private	\$ 10,449,549	\$ 8,559,618	\$ 2,295,852	\$ 548,185	\$ 21,853,204
Medicare and other	6,832,027	-	-	-	6,832,027
Medicaid	1,403,388	-	-	-	1,403,388
	<u>\$ 18,684,964</u>	<u>\$ 8,559,618</u>	<u>\$ 2,295,852</u>	<u>\$ 548,185</u>	<u>30,088,619</u>
Amortization of advance fees					<u>635,055</u>
Net resident service revenues					<u>\$ 30,723,674</u>
	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
	<u>\$ 16,271,580</u>	<u>\$ 8,093,774</u>	<u>\$ 2,206,295</u>	<u>\$ 496,696</u>	<u>27,068,345</u>
Amortization of advance fees					<u>701,222</u>
Net resident service revenues					<u>\$ 27,769,567</u>

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.

## Heath Village, Inc.

Notes to Financial Statements  
June 30, 2024 and 2023

### 4. Investments

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

	<u>2024</u>	<u>2023</u>
Board-designated and donor-restricted:		
Cash and cash equivalents	\$ 1,063,505	\$ 980,581
Certificates of deposit	799,880	1,398,767
Common stocks:		
Consumer staples	1,158,416	935,125
Health care	3,164,456	3,300,563
Information technology	5,475,282	4,531,003
Industrials	4,460,556	3,812,043
Energy	1,528,193	1,182,024
Consumer discretionary	1,399,956	982,152
Financials	3,306,513	2,787,503
Materials	59,306	138,370
Telecommunications services	1,764,837	1,478,039
Real estate	197,340	150,124
Utilities	6,231	6,530
Preferred stocks:		
Investment grade	136,748	96,810
Other	-	67,168
Mutual funds, fixed income	200,931	-
Exchange traded funds	236,911	132,422
	<u>24,959,061</u>	<u>21,979,224</u>
Total	24,959,061	21,979,224
Less amounts available to meet current liabilities	<u>2,385,568</u>	<u>2,290,976</u>
Total noncurrent board-designated and donor-restricted investments	<u>\$ 22,573,493</u>	<u>\$ 19,688,248</u>

Investment return is comprised of the following in:

	<u>2024</u>	<u>2023</u>
Without donor restrictions:		
Interest and dividend income	\$ 381,468	\$ 314,215
Net realized loss on sales of investments	(314,405)	(55,149)
Net change in unrealized gains on investments	2,784,668	2,377,839
Investment expenses	<u>(121,085)</u>	<u>(102,380)</u>
Total	<u>2,730,646</u>	<u>2,534,525</u>
With donor restrictions:		
Interest and dividend income	73,944	73,482
Net realized gain on sales of investments	130,768	107,794
Net change in unrealized gains on investments	228,863	269,652
Investment expenses	<u>(19,561)</u>	<u>(16,772)</u>
Total	<u>414,014</u>	<u>434,156</u>
Total investment return	<u>\$ 3,144,660</u>	<u>\$ 2,968,681</u>

## Heath Village, Inc.

Notes to Financial Statements  
June 30, 2024 and 2023

### 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:

	<u>2024</u>	<u>2023</u>
Mortgage note receivable	\$ 261,414	\$ 268,769
Less current portion	<u>7,655</u>	<u>7,355</u>
Noncurrent portion	<u>\$ 253,759</u>	<u>\$ 261,414</u>

The Village recognized interest income on the mortgage note receivable \$10,592 in 2024 and \$10,881 in 2023. These amounts are classified as investment income in the statements of operations.

### 6. Property and Equipment

Property and equipment is as follows:

	<u>2024</u>	<u>2023</u>
Land	\$ 4,592,220	\$ 4,592,220
Land improvements	6,919,790	6,763,979
Buildings and building improvements	87,642,760	86,899,403
Furniture and equipment	<u>20,509,414</u>	<u>20,173,047</u>
Total	119,664,184	118,428,649
Less accumulated depreciation	<u>64,070,913</u>	<u>59,824,407</u>
Total	55,593,271	58,604,242
Construction-in-progress	<u>3,319,749</u>	<u>2,954,238</u>
Property and equipment, net	<u>\$ 58,913,020</u>	<u>\$ 61,558,480</u>

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



## Heath Village, Inc.

Notes to Financial Statements  
June 30, 2024 and 2023

### 7. Long-Term Debt

Long-term debt is as follows at June 30:

	<u>2024</u>	<u>2023</u>
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 (5.23% at June 30, 2024).	\$ 35,484,673	\$ 36,277,813
Less current maturities	826,212	793,140
Less deferred financing costs	<u>386,335</u>	<u>402,377</u>
Long-term debt, net	<u>\$ 34,272,126</u>	<u>\$ 35,082,296</u>

#### 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 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, 2024. On October 7, 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:	
2025	\$ 826,212
2026	856,884
2027	888,684
2028	918,396
2029	955,764
Thereafter	<u>31,038,733</u>
Total	<u>\$ 35,484,673</u>

#### 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 be paid to terminate the swap agreement. The Village estimates that it would have received \$1,833,799 and \$1,305,755 as of June 30, 2024 and 2023, respectively, to terminate the swap agreement. These amounts are classified as derivative financial instruments in the balance sheets.

## Heath Village, Inc.

Notes to Financial Statements  
June 30, 2024 and 2023

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 \$528,044 in 2024 and \$1,878,081 in 2023. Interest received on the interest swap agreement was \$675,245 and \$21,478 in 2024 and 2023, respectively.

### Delayed Draw Term Loan

On November 29, 2024, the Bank entered into a credit agreement with the Village for a delayed draw term loan in the maximum principal amount of \$9,000,000 to finance the renovation of 37 existing independent living rooms into assisted living rooms. Interest is payable monthly beginning in January 2025. Principal payments will be due monthly beginning in November 2026.

### 8. Accrued Expenses

Accrued expenses are as follows at June 30:

	<u>2024</u>	<u>2023</u>
Sick wages	\$ 935,634	\$ 979,262
Vacation and personal time wages	939,876	832,147
Salaries, wages and related payroll taxes	347,522	221,193
Other accrued expenses	883,899	1,116,963
Retirement plan contribution	-	227,831
Nursing home assessment	85,599	82,313
Interest payable	99,204	104,056
Total	<u>\$ 3,291,734</u>	<u>\$ 3,563,765</u>

### 9. Retirement Plan

The Village sponsors two defined contribution retirement plans. Contributions to the plans were \$245,640 in 2024 and \$381,193 in 2023.

### 10. Related-Party Transactions

The Village had amounts receivable from Alliance and the House of \$22,172 and \$104,793 in 2024 and 2023, 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 in 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 a contribution of \$200,000 to the House to assist with costs related to the closure of the facility.

### 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.

## Heath Village, Inc.

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Notes to Financial Statements  
June 30, 2024 and 2023

### 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.

## Heath Village, Inc.

Notes to Financial Statements  
June 30, 2024 and 2023

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

	2024		
	Total	Level 1	Level 2
Reported at fair value:			
Investments (Note 4):			
Certificates of deposit	\$ 799,880	\$ -	\$ 799,880
Common stocks	22,521,086	22,521,086	-
Preferred stocks	136,748	136,748	-
Mutual funds	200,931	200,931	-
Exchange traded funds	236,911	236,911	-
Total investments measured at fair value	23,895,556	\$ 23,095,676	\$ 799,880
Cash and cash equivalents	1,063,505		
Total investments	\$ 24,959,061		
Assets:			
Derivative financial instrument	\$ 1,833,799	\$ -	\$ 1,833,799
	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

### Financial Instruments

Investments are valued at fair value based on quoted market prices in active markets for common stocks, preferred stocks, mutual funds 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 be paid to terminate the agreement.

## Heath Village, Inc.

Notes to Financial Statements  
June 30, 2024 and 2023

### 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:

	2024			
	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 12,995,901	\$ 2,082,922	\$ 7,183	\$ 15,086,006
Payroll taxes and employee benefits	3,210,836	470,949	1,812	3,683,597
Supplies and other	4,503,088	1,525,364	359	6,028,811
Food	1,222,495	14,769	-	1,237,264
Utilities	1,333,002	-	-	1,333,002
Real estate taxes	908,154	-	-	908,154
Insurance	11,340	659,658	-	670,998
Depreciation	5,033,635	-	-	5,033,635
Amortization of finance lease right-of-use assets	55,926	-	-	55,926
Interest	1,243,004	-	-	1,243,004
Total	<u>\$ 30,517,381</u>	<u>\$ 4,753,662</u>	<u>\$ 9,354</u>	<u>\$ 35,280,397</u>
	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	<u>\$ 27,589,805</u>	<u>\$ 4,676,015</u>	<u>\$ 5,863</u>	<u>\$ 32,271,683</u>

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.

## Heath Village, Inc.

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Notes to Financial Statements

June 30, 2024 and 2023

### 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, ROU 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.

ROU 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. ROU 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 ROU 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.

ROU assets are assessed for impairment in accordance with the Village's long-lived asset policy. The Village reassesses lease classification and remeasures ROU 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.

## Heath Village, Inc.

Notes to Financial Statements  
June 30, 2024 and 2023

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

	<u>2024</u>	<u>2023</u>
Finance lease expense:		
Amortization of ROU assets	\$ 55,926	\$ 52,817
Interest on lease liabilities	1,944	2,680
	<u>          </u>	<u>          </u>
Total lease expense	<u>\$ 57,870</u>	<u>\$ 55,497</u>

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 3.33% and 3.10% in 2024 and 2023, respectively. As of June 30, 2024, the weighted average remaining lease term was 2.12 years.

The table below summarizes the Village's scheduled future minimum lease payments for years ending after June 30, 2024:

Years ending June 30:	
2025	\$ 21,621
2026	7,903
2027	3,528
2028	3,528
2029	294
	<u>          </u>
Total lease payments	36,874
Less present value discount	<u>1,306</u>
Total lease liabilities	35,568
Less current portion	<u>21,621</u>
Long-term lease liabilities	<u>\$ 13,947</u>

## Heath Village, Inc.

Schedules of Revenues (Less Than) in Excess of Expenses  
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Operating Revenues</b>		
Net resident service revenues:		
Skilled nursing and ancillary	\$ 18,684,964	\$ 16,271,580
Residential health care	2,295,852	2,206,295
Independent living	8,559,618	8,093,774
Amortization of advance fees	635,055	701,222
Other	548,185	496,696
	<u>30,723,674</u>	<u>27,769,567</u>
Net assets released from restrictions	276,306	324,835
Other revenues	176,267	173,099
	<u>31,176,247</u>	<u>28,267,501</u>
<b>Expenses</b>		
Nursing services:		
Salaries and wages	7,794,293	6,036,546
Payroll taxes and employee benefits	1,925,708	1,867,091
Other expenses	2,550,227	2,408,449
	<u>12,270,228</u>	<u>10,312,086</u>
General and administrative:		
Salaries and wages	2,087,184	1,959,925
Payroll taxes and employee benefits	472,024	556,242
Other expenses	2,200,151	2,165,711
	<u>4,759,359</u>	<u>4,681,878</u>
Plant operations:		
Salaries and wages	1,421,127	1,391,554
Payroll taxes and employee benefits	351,112	430,404
Other expenses	3,004,095	2,641,362
	<u>4,776,334</u>	<u>4,463,320</u>
Dietary:		
Salaries and wages	1,843,675	1,462,531
Payroll taxes and employee benefits	455,511	452,358
Other expenses	2,100,926	2,013,802
	<u>4,400,112</u>	<u>3,928,691</u>



## Heath Village, Inc.

Schedules of Revenues (Less Than) in Excess of Expenses  
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Housekeeping and laundry:		
Salaries and wages	\$ 1,186,259	\$ 1,076,888
Payroll taxes and employee benefits	293,085	333,079
Other expenses	188,914	168,756
Total	<u>1,668,258</u>	<u>1,578,723</u>
Social services and activities:		
Salaries and wages	753,468	681,444
Payroll taxes and employee benefits	186,157	210,769
Other expenses	133,916	136,052
Total	<u>1,073,541</u>	<u>1,028,265</u>
Total expenses excluding depreciation and interest	<u>28,947,832</u>	<u>25,992,963</u>
Operating income before depreciation, amortization of finance lease right of use assets and interest	<u>2,228,415</u>	<u>2,274,538</u>
Depreciation	5,033,635	4,947,639
Amortization of finance lease right-of-use assets	55,926	52,817
Interest	1,243,004	1,278,264
Total	<u>6,332,565</u>	<u>6,278,720</u>
Operating loss	(4,104,150)	(4,004,182)
<b>Other Income (Loss)</b>		
Investment income, net	2,730,646	2,534,525
Change in fair value of derivative financial instrument	528,044	1,878,081
Contribution to affiliate	(200,000)	-
Forgiveness of amounts due from affiliate	-	(204,866)
Contributions without donor restrictions	95,500	76,000
Revenues (less than) in excess of expenses	<u>\$ (949,960)</u>	<u>\$ 279,558</u>