Heath Village, Inc.

Financial Statements and
Supplementary Information

June 30, 2026 and 2025

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, 2026 and 2025, and the related statements of operations and 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, 2026 and 2025, 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.

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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 accompanying Schedules of Revenues in Excess of (Less Than) Expenses identified in the table of contents, are presented for purposes of additional analysis and are 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

Philadelphia, Pennsylvania
October 28, 2026

Heath Village, Inc.

Balance Sheets
June 30, 2026 and 2025

	2026	2025
Assets		
Current Assets		
Cash and cash equivalents	$ 1,523,100	$ 1,708,517
Investments	2,832,709	2,387,661
Accounts receivable, net	1,501,903	1,597,523
Current portion of mortgage note receivable	8,291	7,966
Prepaid expenses and other current assets	642,847	520,217
Due from affiliates	36	20
Total current assets	6,508,886	6,221,904
Investments	28,662,603	25,608,531
Mortgage Note Receivable	237,502	245,793
Property and Equipment, Net	66,755,026	60,605,129
Finance Lease Right-of-Use Assets	158,529	163,192
Resident Security Deposits	1,367,168	1,147,715
Derivative Financial Instrument	1,358,507	1,007,662
Total assets	$ 105,048,221	$ 94,999,926

	2026	2025
Liabilities and Net Assets		
Current Liabilities		
Current maturities of:		
Long-term debt	$ 1,308,804	$ 856,884
Finance lease obligations	68,260	57,037
Accounts payable:		
Trade	1,001,172	973,182
Capital related	1,563,878	1,310,102
Accrued expenses	3,796,643	3,664,522
Current portion of:		
Deferred revenues from advance fees	93,322	121,183
Annuities payable	31,767	33,167
Total current liabilities	7,863,846	7,016,077
Long-Term Debt, Net	40,736,116	37,132,042
Finance Lease Obligations	90,573	108,662
Deferred Revenues From Advance Fees	2,440,387	2,342,165
Annuities Payable	114,692	125,810
Resident Security Deposits	1,367,168	1,147,715
Total liabilities	52,612,782	47,872,471
Net Assets		
Without donor restrictions	46,109,793	43,413,973
With donor restrictions	6,325,646	3,713,482
Total net assets	52,435,439	47,127,455
Total liabilities and net assets	$ 105,048,221	$ 94,999,926

See notes to financial statements

Heath Village, Inc.

Statements of Operations
Years Ended June 30, 2026 and 2025

	2026	2025
Operating Revenues		
Net resident service revenues	$ 36,465,945	$ 33,900,822
Net assets released from restrictions	282,549	221,092
Other revenues	145,914	398,954
Total operating revenues	36,894,408	34,520,868
Expenses		
Nursing services	13,646,317	13,274,637
General and administrative	5,576,003	5,183,232
Depreciation	5,133,004	5,157,286
Amortization of finance lease right-of-use assets	59,080	55,032
Plant operations	5,279,164	5,157,632
Dietary	5,164,259	4,759,269
Housekeeping and laundry	1,800,570	1,724,517
Social services and activities	1,215,113	1,137,277
Interest	1,193,821	1,218,923
Total expenses	39,067,331	37,667,805
Operating loss	(2,172,923)	(3,146,937)
Other Income (Loss)		
Investment income, net	4,409,648	2,697,078
Change in fair value of derivative financial instrument	350,845	(826,137)
Contributions without donor restrictions	108,250	103,000
Revenues in excess of (less than) expenses and change in net assets without donor restrictions	$ 2,695,820	$ (1,172,996)

See notes to financial statements

Heath Village, Inc.

Statements of Changes in Net Assets
Years Ended June 30, 2026 and 2025

	2026	2025
Net Assets Without Donor Restrictions		
Revenues in excess of (less than) expenses and change in net assets without donor restrictions	$ 2,695,820	$ (1,172,996)
Net Assets With Donor Restrictions		
Contributions	1,742,799	177,074
Change in value of gift annuities	(19,949)	(18,099)
Investment income, net	1,171,863	382,289
Net assets released from restrictions	(282,549)	(221,092)
Change in net assets with donor restrictions	2,612,164	320,172
Change in net assets	5,307,984	(852,824)
Net Assets, Beginning	47,127,455	47,980,279
Net Assets, Ending	$ 52,435,439	$ 47,127,455

See notes to financial statements

Heath Village, Inc.

Statements of Cash Flows
Years Ended June 30, 2026 and 2025

	2026	2025
Cash Flows From Operating Activities		
Change in net assets	$ 5,307,984	$ (852,824)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,133,004	5,157,286
Amortization of finance lease right-of-use assets	59,080	55,032
Amortization of deferred financing costs	24,380	20,906
Change in allowance for credit losses	(59,000)	220,000
Net realized and unrealized gains and losses on investments	(5,327,476)	(2,764,767)
Change in value of annuities payable	19,949	18,099
Proceeds from advance fees, community fees	597,000	432,000
Amortization of advance fees	(526,639)	(560,974)
Change in fair value of derivative financial instrument	(350,845)	826,137
Gain on sale of property and equipment	(3,108)	(6,349)
Changes in assets and liabilities:		
Accounts receivable	154,620	(13,011)
Prepaid expenses and other current assets	(122,630)	(17,920)
Due from/to affiliates	(16)	22,152
Accounts payable, trade	27,990	11,928
Accrued expenses	132,121	372,788
Resident security deposits, liability	219,453	(103,790)
Net cash provided by operating activities	5,285,867	2,816,693
Cash Flows From Investing Activities		
Net sales (purchases) of investments	1,828,356	(272,364)
Decrease in mortgage note receivable	7,966	7,655
Proceeds from sale of property and equipment	3,108	6,349
Purchase of property and equipment	(11,029,125)	(5,799,842)
Net cash used in investing activities	(9,189,695)	(6,058,202)
Cash Flows From Financing Activities		
Repayment of long-term debt	(879,274)	(826,211)
Proceeds from long-term debt	4,910,888	3,754,262
Repayment of finance lease obligations	(61,283)	(53,380)
Payment of financing costs	-	(58,369)
Net (payments) receipts under gift annuity arrangements	(32,467)	16,509
Net cash provided by financing activities	3,937,864	2,832,811
Net increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents	34,036	(408,698)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	2,856,232	3,264,930
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 2,890,268	$ 2,856,232
Supplemental Disclosure of Cash Flow Information		
Interest paid, net of amounts capitalized	$ 1,172,390	$ 1,199,905
Noncash Investing and Financing Activities		
Obligations incurred for the acquisition of property and equipment	$ 1,563,878	$ 1,310,102
Finance lease obligations incurred for right-of-use assets	$ 54,417	$ 183,511
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Balance Sheets		
Cash and cash equivalents	$ 1,523,100	$ 1,708,517
Resident security deposits	1,367,168	1,147,715
Total cash, cash equivalents and restricted cash and cash equivalents	$ 2,890,268	$ 2,856,232

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, 29 residential health care rooms and 179 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).

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

Accounts receivable are reported net of an allowance for credit losses to present the Village's estimate of expected losses as of the balance sheet dates. The adequacy of the Village's allowance for credit losses is reviewed on an ongoing basis, using historical payment trends, write-off experience, analysis of receivables portfolios by payor source and aging of receivables, a review of specific accounts, as well as expected future economic conditions. The allowance for credit losses was $516,000 and $575,000 at June 30, 2026 and 2025, respectively. The accounts receivable, net balance was $1,804,512 as of June 30, 2024.

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.

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 2026 or 2025.

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, 2026 and 2025. 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 $24,380 and $20,906 was recognized in fiscal years 2026 and 2025, respectively. Accumulated amortization was $140,201 and $115,821 at June 30, 2026 and 2025, 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 marketed some of its apartment units under the Mayflower Plan, which required residents to pay an additional advance fee, generally prior to occupancy. This option was discontinued during 2026. Under the remaining 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 $128,250 and $74,000 at June 30, 2026 and 2025, 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 revenue without donor restrictions or revenue with donor restrictions, as applicable.

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.

Contract Balances

Contract assets represent the Village's right to consideration in exchange for goods or services that the Village has transferred to a resident when that right is conditioned on something other than the passage of time (for example, the Village's future performance). Contract liabilities represent the Village's obligation to transfer goods or services to a resident for which the Village has received consideration (or the amount is due) from the patient/resident.

The Village's beginning and ending contract liabilities are separately presented on the balance sheets as of June 30, 2026 and 2025 as to deferred revenues from advance fees. Contract liabilities as of June 30, 2024, consisting of deferred revenue from advance fees were $2,592,322. The Village did not have any contract assets as of June 30, 2026, 2025 and 2024.

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 restrictions.

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 a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. Net assets with donor restrictions as of June 30, 2026 and 2025 are primarily related to the Friendship Fund for benevolent care.

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. 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.

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 October 28, 2026, 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:

	2026	2025
Cash and cash equivalents	$ 1,523,100	$ 1,708,517
Accounts receivable, net	1,501,903	1,597,523
Current portion of mortgage note receivable	8,291	7,966
Total	$ 3,033,294	$ 3,314,006

The Village's investments are comprised of $25,169,666 at June 30, 2026 and $24,282,710 at June 30, 2025, 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 to meet 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, 2026 and 2025:

	2026				
	Skilled Nursing and Ancillary	Independent Living	Residential Health Care	Other	Total
Private	$ 13,279,042	$ 9,093,182	$ 2,882,401	$ 710,209	$ 25,964,834
Medicare and other	8,412,157	-	-	-	8,412,157
Medicaid	1,562,315	-	-	-	1,562,315
	$ 23,253,514	$ 9,093,182	$ 2,882,401	$ 710,209	35,939,306
Amortization of advance fees					526,639
Net resident service revenues					$ 36,465,945

	2025				
	Skilled Nursing and Ancillary	Independent Living	Residential Health Care	Other	Total
Private	$ 11,584,154	$ 8,777,325	$ 2,719,694	$ 559,205	$ 23,640,378
Medicare and other	8,266,186	-	-	-	8,266,186
Medicaid	1,433,284	-	-	-	1,433,284
	$ 21,283,624	$ 8,777,325	$ 2,719,694	$ 559,205	33,339,848
Amortization of advance fees					560,974
Net resident service revenues					$ 33,900,822

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:

	2026	2025
Board-designated and donor-restricted:		
Cash and cash equivalents	$ 2,367,075	$ 1,259,093
Certificates of deposit	323,762	574,895
Common stocks:		
Consumer staples	439,916	516,490
Health care	3,537,894	3,239,468
Information technology	7,093,395	5,913,505
Industrials	7,142,688	6,122,960
Energy	1,344,141	1,169,110
Consumer discretionary	1,908,298	1,701,558
Financials	4,744,924	4,585,946
Materials	64,495	37,265
Telecommunications services	1,995,569	1,958,789
Real estate	290,745	208,988
Utilities	7,724	6,107
Preferred stocks:		
Investment grade	90,581	90,900
Mutual funds, fixed income	109,570	577,446
Exchange traded funds	34,535	33,672
Total	31,495,312	27,996,192
Less amounts available to meet current liabilities	2,832,709	2,387,661
Total noncurrent board-designated and donor-restricted investments	$ 28,662,603	$ 25,608,531

Investment return is comprised of the following:

	2026	2025
Without donor restrictions:		
Interest and dividend income	$ 350,646	$ 400,793
Net realized gain (loss) on sales of investments	1,470,104	(99,950)
Net change in unrealized gains and losses on investments	2,736,803	2,535,497
Investment expenses	(147,905)	(139,262)
Total	4,409,648	2,697,078
With donor restrictions:		
Interest and dividend income	76,134	74,574
Net realized gain on sales of investments	214,270	89,592
Net change in unrealized gains and losses on investments	906,299	239,628
Investment expenses	(24,840)	(21,505)
Total	1,171,863	382,289
Total investment return	$ 5,581,511	$ 3,079,367

5. Mortgage Note Receivable

During 2003, the Village sold land and a building to the Friendship Center, Inc. (the Center). 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:

	2026	2025
Mortgage note receivable	$ 245,793	$ 253,759
Less current portion	8,291	7,966
Noncurrent portion	$ 237,502	$ 245,793

The Village recognized interest income on the mortgage note receivable of $9,979 in 2026 and $10,292 in 2025. These amounts are classified as investment income, net in the statements of operations.

6. Property and Equipment

Property and equipment is as follows:

	2026	2025
Land	$ 4,592,220	$ 4,592,220
Land improvements	7,196,179	7,054,235
Buildings and building improvements	95,570,519	87,605,348
Furniture and equipment	24,022,448	21,110,500
Total	131,381,366	120,362,303
Less accumulated depreciation	71,772,426	68,251,879
Total	59,608,940	52,110,424
Construction-in-progress	7,146,086	8,494,705
Property and equipment, net	$ 66,755,026	$ 60,605,129

Construction-in-progress is primarily related to various renovation and expansion projects on the Village's campus. There are no commitments on these projects as of June 30, 2026.

7. Long-Term Debt

Long-term debt is as follows at June 30:

	2026	2025
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 (3.88% at June 30, 2026).	$ 33,801,576	$ 34,658,462
Sodexo Loan, 2025 Food Services Equipment Loan, non-interest bearing, with payments beginning November 7, 2025 and maturing January 31, 2031.	202,612	-
Delayed draw term loan, due in monthly installments beginning November 2026. Interest is due monthly beginning January 1, 2025 at a variable interest rate (5.90% at June 30, 2026).	8,440,150	3,754,262
Total	42,444,338	38,412,724
Less current maturities	1,308,804	856,884
Less deferred financing costs	399,418	423,798
Long-term debt, net	$ 40,736,116	$ 37,132,042

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 pay the costs of issuance and certain other costs in connection with the issuance of the 2018 Bond. Interest on the 2018 Bond 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.

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, based on one-month adjusted SOFR rate as defined in the credit agreement. Principal payments will be due monthly beginning in November 2026. The credit agreement is secured by the Village's brokerage account with Wells Fargo included in investments in the accompanying balance sheet. Under the terms of the credit agreement, the Village is required to maintain certain financial covenants.

Sodexo Loan

On July 14, 2025, the Village entered into a loan agreement with The Wood Company, a wholly owned subsidiary of Sodexo Operations, LLC, for the acquisition of food service equipment. Under the agreement, Sodexo purchased $225,000 of food service equipment for the Village, and the Village is obligated to repay the cost of the equipment to Sodexo. The obligation is non-interest-bearing. Payments commenced on November 7, 2025, and are scheduled to continue through January 31, 2031, at which time the obligation is expected to be fully repaid.

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

Years ending June 30:	
2027	$ 1,308,804
2028	1,335,412
2029	1,396,976
2030	1,456,808
2031	1,497,054
Thereafter	35,449,284
Total	$ 42,444,338

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 $1,358,507 and $1,007,662 as of June 30, 2026 and 2025, respectively, to terminate the swap agreement. These amounts are classified as derivative financial instruments in the balance sheets.

Changes in the fair value of the swap agreement are included in revenues in excess of (less than) 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 $350,845 in 2026 and $(826,137) in 2025. Payments received under the interest rate swap agreement were $278,723 and $505,030 in 2026 and 2025, respectively, and were recorded as a reduction of interest expense.

8. Accrued Expenses

Accrued expenses are as follows at June 30:

	2026	2025
Sick wages	$ 579,135	$ 876,156
Vacation and personal time wages	909,363	855,844
Salaries, wages and related payroll taxes	504,532	428,268
Deferred compensation	605,011	525,006
Other accrued expenses	1,000,885	792,724
Nursing home assessment	103,350	89,208
Interest payable	94,367	97,316
Total	$ 3,796,643	$ 3,664,522

9. Retirement Plan

The Village sponsors two defined contribution retirement plans. Contributions to the plans were $166,580 in 2026 and $143,765 in 2025.

10. Related-Party Transactions

The Village had net amounts due from Alliance of $36 and $20 in 2026 and 2025, respectively, which is classified as due from affiliates, current assets, in the accompanying balance sheets.

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

	2026		
	Total	**Level 1**	**Level 2**
Reported at fair value:			
Investments (Note 4):			
Certificates of deposit	$ 323,762	$ -	$ 323,762
Common stocks	28,569,789	28,569,789	-
Preferred stocks	90,581	90,581	-
Mutual funds	109,570	109,570	-
Exchange traded funds	34,535	34,535	-
Total investments measured at fair value	29,128,237	$ 28,804,475	$ 323,762
Cash and cash equivalents	2,367,075		
Total investments	$ 31,495,312		
Assets:			
Derivative financial instrument	$ 1,358,507	$ -	$ 1,358,507

	2025		
	Total	**Level 1**	**Level 2**
Reported at fair value:			
Investments (Note 4):			
Certificates of deposit	$ 574,895	$ -	$ 574,895
Common stocks	25,460,186	25,460,186	-
Preferred stocks	90,900	90,900	-
Mutual funds	577,446	577,446	-
Exchange traded funds	33,672	33,672	-
Total investments measured at fair value	26,737,099	$ 26,162,204	$ 574,895
Cash and cash equivalents	1,259,093		
Total investments	$ 27,996,192		
Assets:			
Derivative financial instrument	$ 1,007,662	$ -	$ 1,007,662

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.

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:

	2026			
	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 14,257,232	$ 2,434,254	$ 6,574	$ 16,698,060
Payroll taxes and employee benefits	4,373,304	691,691	1,881	5,066,876
Supplies and other	4,549,804	1,656,462	325	6,206,591
Food	1,456,972	21,665	-	1,478,637
Utilities	1,580,784	-	-	1,580,784
Real estate taxes	871,302	-	-	871,302
Insurance	11,868	767,308	-	779,176
Depreciation	5,133,004	-	-	5,133,004
Amortization of finance lease right-of-use assets	59,080	-	-	59,080
Interest	1,193,821	-	-	1,193,821
Total	$ 33,487,171	$ 5,571,380	$ 8,780	$ 39,067,331

	2025			
	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 13,799,906	$ 2,139,968	$ 7,255	$ 15,947,129
Payroll taxes and employee benefits	3,919,854	559,093	2,062	4,481,009
Supplies and other	4,479,918	1,765,639	341	6,245,898
Food	1,291,054	20,313	-	1,311,367
Utilities	1,598,885	-	-	1,598,885
Real estate taxes	947,493	-	-	947,493
Insurance	11,663	693,120	-	704,783
Depreciation	5,157,286	-	-	5,157,286
Amortization of finance lease right-of-use assets	55,032	-	-	55,032
Interest	1,218,923	-	-	1,218,923
Total	$ 32,480,014	$ 5,178,133	$ 9,658	$ 37,667,805

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, 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.

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

	2026	2025
Finance lease expense:		
Amortization of ROU assets	$ 59,080	$ 55,032
Interest on lease liabilities	5,450	5,092
Total lease expense	$ 64,530	$ 60,124

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 3.65% and 3.55% in 2026 and 2025, respectively. As of June 30, 2026, the weighted average remaining lease term was 2.52 years.

The table below summarizes the Village's scheduled future minimum lease payments for years ending after June 30, 2026:

Years ending June 30:	
2027	$ 68,260
2028	67,388
2029	26,101
2030	4,294
Total lease payments	166,043
Less present value discount	7,210
Total lease liabilities	158,833
Less current portion	68,260
Long-term lease liabilities	$ 90,573

Heath Village, Inc.

Schedules of Revenues in Excess of (Less Than) Expenses
Years Ended June 30, 2026 and 2025

	2026	2025
Operating Revenues		
Net resident service revenues:		
Skilled nursing and ancillary	$ 23,253,514	$ 21,283,624
Residential health care	2,882,401	2,719,694
Independent living	9,093,182	8,777,325
Amortization of advance fees	526,639	560,974
Other	710,209	559,205
Net resident service revenues	36,465,945	33,900,822
Net assets released from restrictions	282,549	221,092
Other revenues	145,914	398,954
Total operating revenues	36,894,408	34,520,868
Expenses		
Nursing services:		
Salaries and wages	8,621,780	8,498,145
Payroll taxes and employee benefits	2,644,629	2,413,892
Other expenses	2,379,908	2,362,600
Total	13,646,317	13,274,637
General and administrative:		
Salaries and wages	2,437,596	2,143,673
Payroll taxes and employee benefits	692,647	560,146
Other expenses	2,445,760	2,479,413
Total	5,576,003	5,183,232
Plant operations:		
Salaries and wages	1,516,506	1,381,137
Payroll taxes and employee benefits	465,171	392,311
Other expenses	3,297,487	3,384,184
Total	5,279,164	5,157,632
Dietary:		
Salaries and wages	2,071,520	1,955,133
Payroll taxes and employee benefits	635,414	555,355
Other expenses	2,457,325	2,248,781
Total	5,164,259	4,759,269

Heath Village, Inc.

Schedules of Revenues in Excess of (Less Than) Expenses
Years Ended June 30, 2026 and 2025

	2026	2025
Housekeeping and laundry:		
Salaries and wages	$ 1,227,668	$ 1,199,804
Payroll taxes and employee benefits	376,573	340,803
Other expenses	196,329	183,910
Total	1,800,570	1,724,517
Social services and activities:		
Salaries and wages	822,991	769,237
Payroll taxes and employee benefits	252,442	218,502
Other expenses	139,680	149,538
Total	1,215,113	1,137,277
Total expenses excluding depreciation and interest	32,681,426	31,236,564
Operating income before depreciation, amortization of finance lease right-of-use assets and interest	4,212,982	3,284,304
Depreciation	5,133,004	5,157,286
Amortization of finance lease right-of-use assets	59,080	55,032
Interest	1,193,821	1,218,923
Total	6,385,905	6,431,241
Operating loss	(2,172,923)	(3,146,937)
Other Income (Loss)		
Investment income, net	4,409,648	2,697,078
Change in fair value of derivative financial instrument	350,845	(826,137)
Contributions without donor restrictions	108,250	103,000
Revenues in excess of (less than) expenses	$ 2,695,820	$ (1,172,996)