THE ELIZABETH HOSPICE, INC.
Escondido, California

FINANCIAL STATEMENTS
June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Elizabeth Hospice, Inc.
Escondido, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Elizabeth Hospice, Inc., which comprise the balance sheets as of June 30, 2023 and 2022, 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 Elizabeth Hospice, Inc. as of June 30, 2023 and 2022, and the 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.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Elizabeth Hospice, Inc. 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 accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Elizabeth Hospice, Inc.'s ability to continue as a going concern for one year from the date the financial statements are available to be issued.

(Continued)

Auditor's 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 auditor's 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 consolidated 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 consolidated 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 Elizabeth Hospice, Inc.'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 Elizabeth Hospice, Inc.'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.

Crowe LLP

Crowe LLP

Tampa, Florida
November 2, 2023

THE ELIZABETH HOSPICE, INC.
BALANCE SHEETS
June 30, 2023 and 2022

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,210,309	$ 7,260,537
Patient accounts receivable, net	5,155,495	4,966,285
Pledges receivable	780,000	-
Prepaid expenses and other	1,025,643	891,855
Total current assets	11,171,447	13,118,677
Pledges receivable, net of current portion	600,000	-
Property and equipment, net	11,562,218	2,717,421
Right of use assets	1,515,049	-
Investments	31,548,852	28,608,979
Total assets	$ 56,397,566	$ 44,445,077
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 1,044,974	$ 1,360,431
Accrued expenses	5,659,102	4,760,052
Deferred revenue	23,580	19,980
Line of credit	603,800	-
Current portion of long-term debt	152,485	-
Lease liability, current portion	374,148	-
Total current liabilities	7,858,089	6,140,463
Lease liability, net of current portion	1,170,054	-
Long-term debt, net of current portion	7,842,734	-
	16,870,877	6,140,463
Net assets		
Without donor restrictions		
Undesignated	15,124,698	17,400,457
Board designated	14,886,883	12,924,834
Total net assets without donor restrictions	30,011,581	30,325,291
With donor restrictions	9,515,108	7,979,323
Total net assets	39,526,689	38,304,614
	$ 56,397,566	$ 44,445,077

See accompanying notes to financial statements.

THE ELIZABETH HOSPICE, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended June 30, 2023 and 2022

	2023	2022
Net assets without donor restrictions		
Revenues and other support		
Net patient service revenue	$ 30,361,267	$ 38,006,947
Contributions and fundraising	2,116,687	1,402,677
Special events	100,856	129,303
Interest and dividends, net of fees	280,657	229,746
Realized gains (losses) on investments	(305,828)	352,401
Unrealized gains (losses) on investments	1,914,977	(2,720,092)
Other revenue	466,545	392,511
Net assets released from restriction	553,013	460,502
	35,488,174	38,253,995
Expenses		
Direct patient care	20,533,028	21,760,270
Indirect patient care	7,078,418	7,673,618
Community outreach	669,425	711,344
Management and general	6,471,683	6,893,250
Fundraising	1,049,330	970,004
	35,801,884	38,008,486
Change in net assets without donor restrictions	(313,710)	245,509
Net assets with donor restrictions		
Contributions	1,224,496	208,202
Interest and dividends, net of fees	172,332	108,394
Net realized and unrealized gains (losses) on investments	691,970	(1,125,867)
Net assets released from restriction	(553,013)	(460,502)
Change in net assets with donor restrictions	1,535,785	(1,269,773)
Change in net assets	1,222,075	(1,024,264)
Net assets at beginning of year	38,304,614	39,328,878
Net assets at end of year	$ 39,526,689	$ 38,304,614

See accompanying notes to financial statements.

THE ELIZABETH HOSPICE, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	$ 1,222,075	$ (1,024,264)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	403,749	441,729
Net realized and unrealized gains on investments	(2,301,119)	3,493,558
Reduction in carrying amount of right-of-use assets	346,157	-
Changes in assets and liabilities		
Patient accounts receivable	(189,210)	(7,365)
Pledges receivable	(1,380,000)	-
Prepaid expenses and other	(133,788)	317,001
Change in operating lease liability	(317,004)	-
Accounts payable	(315,457)	192,038
Accrued expenses	899,050	(528,560)
Deferred revenue	3,600	6,715
Net cash from operating activities	(1,761,947)	2,890,852
Cash flows from investing activities		
Purchase of property and equipment	(9,248,546)	(229,881)
Proceeds from sales of investments	26,401,073	12,275,767
Purchases of investments	(27,039,827)	(15,989,300)
Net cash from investing activities	(9,887,300)	(3,943,414)
Cash flows from financing activities		
Proceeds from borrowings of long-term debt	8,100,000	-
Principal payments on long-term debt	(104,781)	-
Proceeds from borrowings on line of credit	603,800	-
Net cash from financing activities	8,599,019	-
Net change in cash and cash equivalents	(3,050,228)	(1,052,562)
Cash and cash equivalents at beginning of year	7,260,507	8,313,069
Cash and cash equivalents at end of year	$ 4,210,279	$ 7,260,507
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	$ 122,044	$ -

See accompanying notes to financial statements.

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: The Elizabeth Hospice, Inc. (the “Organization") is organized under the charitable public benefit nonprofit corporate laws of the state of California. The Organization's primary purposes are to provide end-of-life care services to terminally ill patients, contribute to the sense of well-being of terminally ill patients and their families, and to train professionals and volunteers in the hospice concept.

Since August 2017, through a management service agreement (MSA), the Organization partners with Elizabeth Supportive Medical Services ("ESMS"), an aligned physician medical group, that allows for expansion of reimbursable services provided by the Organization. Revenue from this agreement for the years ended June 30, 2023 and 2022 was $52,633 and $54,831, respectively, and is included in other revenue in the statements of operations and changes in net assets. As part of the agreement, the Organization provides a line of credit to ESMS with an available principal amount of up to $750,000, with interest at the current prime rate and secured by the assets of ESMS. The line of credit expires in July 2027. ESMS had no borrowings outstanding on the line of credit at June 30, 2023 and 2022.

Since February 2022, through a consulting services agreement (CSA), the Organization provides consulting and financial management to Snowline Hospice in return for compensation equal to a monthly fee, travel expenses, and business expenses incurred in the performance of the services. Revenue from this agreement for the years ended June 30, 2023 and 2022 was $34,117 and $16,888, respectively, and is included in other revenue in the statements of operations and changes in net assets.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation: The financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as without donor restrictions or with donor restrictions and are detailed as follows:

> Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. Net assets without donor restrictions are comprised of Board designated and undesignated amounts. As of June 30, 2023 and 2022, board designated net assets consist of $14,886,883 and $12,924,834, respectively, designated for an endowment created during the year ended June 30, 2017.
>
> Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature and will be met by the passage of time or the actions of the Organization. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2023 and 2022, purpose or time restricted net assets consisted of donor restricted funds designated for various programs and unspent endowment earnings.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to $250,000. Additionally, for purposes of the statements of cash flows, the Organization considers all highly liquid investments of operating cash purchased with an original maturity of three months or less to be cash equivalents.

(Continued)

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient Accounts Receivable: The patient accounts receivable balance represents the unpaid amounts billed to patients and third-party payors. Contractual adjustments and discounts are recorded to report receivables for patient care services at their net realizable value. Past due receivables are determined based on contractual terms. The Organization does not accrue interest on any of its accounts receivables.

Investments: All investments are valued at their fair values in the balance sheets. Unrealized gains and losses are included in the change in net assets. See Note 4 for additional information on the nature of the Organization's investments.

Property and Equipment: Property and equipment are stated at cost or, if donated to the Organization, at their fair value on the date of the gift. Additions and improvements over $2,000 are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is computed over the estimated useful lives of the various classes of assets using the straight-line method.

Gifts of long-lived assets such as land, buildings, and equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets: On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2023 and 2022, management believes that no assets were impaired.

Net Patient Service Revenue: Net patient service revenues are reported at the amount that reflects the ultimate consideration the Organization expects to receive in exchange for providing patient care. These amounts are due from third-party payors, primarily commercial health insurers and government programs (Medicare and Medicaid), and includes variable consideration for revenue adjustments due to settlements of audits and reviews, as well as certain hospice-specific revenue capitations. For the years ended June 30, 2023 and 2022, approximately 92% and 94%, respectively, of the Organization's net patient service revenue was derived from the Medicare and Medicaid programs. Amounts are generally billed monthly or subsequent to patient discharge. Subsequent changes in the transaction price initially recognized are not significant.

Hospice services are provided on a daily basis and the type of service provided is determined based on a physician’s determination of each patient’s specific needs on that given day. Reimbursement rates for hospice services are on a *per diem* basis regardless of the type of service provided or the payor. Reimbursement rates from government programs are established by the appropriate governmental agency and are standard across all hospice providers. Reimbursement rates from health insurers are negotiated with each payor and generally structured to closely mirror the Medicare reimbursement model. The types of hospice services provided and associated reimbursement model for each are as follows:

(Continued)

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Routine Home Care occurs when a patient receives hospice care in their home, including a nursing home setting. The routine home care rate is paid for each day that a patient is in a hospice program and is not receiving one of the other categories of hospice care. For Medicare patients, the routine home care rate reflects a two-tiered rate, with a higher rate for the first 60 days of a hospice patient's care and a lower rate for days 61 and after. In addition, there is a Service Intensity Add-on payment which covers direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient's life, reimbursed up to four hours per day in fifteen minute increments at the continuous home care rate.

General Inpatient Care occurs when a patient requires services in a controlled setting for a short period of time for pain control or symptom management which cannot be managed in other settings. General inpatient care services must be provided in a Medicare or Medicaid certified hospital or long-term care facility or at a freestanding inpatient hospice facility with the required registered nurse staffing.

Continuous Home Care is provided to patients while at home, including a nursing home setting, during periods of crisis when intensive monitoring and care, primarily nursing care, is required in order to achieve palliation or management of acute medical symptoms. Continuous home care requires a minimum of 8 hours of care within a 24-hour day, which begins at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed nurse practitioner. While the published Medicare continuous home care rates are daily rates, Medicare pays for continuous home care in fifteen minute increments. This fifteen minute rate is calculated by dividing the daily rate by 96.

Respite Care permits a hospice patient to receive services on an inpatient basis for a short period of time in order to provide relief for the patient's family or other caregivers from the demands of caring for the patient. A hospice can receive payment for respite care for a given patient for up to five consecutive days at a time, after which respite care is reimbursed at the routine home care rate.

Each level of care represents a separate promise under the contract of care and is provided independently for each patient, contingent upon the patient's specific medical needs as determined by a physician. However, the clinical criteria used to determine a patient's level of care is consistent across all patients, given that each patient is subject to the same payor rules and regulations. As a result, the Organization has concluded that each level of care is capable of being distinct and is distinct in the context of the contract. Furthermore, the Organization has determined that each level of care represents a stand ready service provided as a series of either days or hours of patient care. The Organization believes that the performance obligations for each level of care meet criteria to be satisfied over time. The Organization recognizes revenue based on the service output. The Organization believes this to be the most faithful depiction of the transfer of control of services as the patient simultaneously receives and consumes the benefits provided by the Organization's performance. Revenue is recognized on a daily or hourly basis for each patient in accordance with the reimbursement model for each type of service. The Organization's performance obligations relate to contracts with an expected duration of less than one year. Therefore, the Organization has elected to apply the optional exception provided in Accounting Standards Codification (ASC) 606 and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above relate to bereavement services provided to patients' families for up to 12 months after death of patient.

(Continued)

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance which vary in amount. The Organization also provides service to patients without a reimbursement source and may offer those patients discounts from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance, along with those uninsured patients, based on historical experience and current conditions. The estimate of any contractual adjustments, discounts, or implicit price concessions reduces the amount of revenue initially recognized. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the patients' ability to pay (i.e., change in credit risk) are recorded as bad debt expense. The Organization has no material adjustments related to subsequent changes in the estimate of the transaction price or subsequent changes as the result of an adverse change in the patient's ability to pay for any period reported.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Compliance with such laws and regulations may be subject to future government review and interpretation. Additionally, the contracts the Organization has with commercial health insurance payors provide for retroactive audit and review of claims. Settlement with third party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. The variable consideration is estimated based on the terms of the payment agreement, existing correspondence from the payor and our historical settlement activity. These estimates are adjusted in future periods, as new information becomes available. Management intends to fully cooperate with any governmental agencies in requests for information. Noncompliance with laws and regulations can make the Organization subject to regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Organization currently has select claims under a post-pay review by government agencies. The Organization received demand letters in December 2022 and January 2023, noting overpayment amounts for paid claims totaling approximately $1,524,000 and as a result, recorded a reduction in net patient service revenue for such an amount. These amounts are to be recouped over time through future Medicare payments. At June 30, 2023, approximately $840,000 are owed under these demand letters. The Organization has accrued for this amount on the balance sheet within accrued expenses. The Organization is currently in the process of appealing the settlements.

For the Organization's patients in the nursing home setting in which Medicaid pays the nursing home room and board, the Organization serves as a pass-through between Medicaid and the nursing home. The Organization is responsible for paying the nursing home for that patient's room and board. Medicaid reimburses the Organization for 95% of the amount paid to the nursing home. The Organization has concluded that the 5% difference between the amount paid to the nursing home and the amount received from Medicaid is an adjustment to transaction price and, as a result, the 5% is recognized as a reduction to revenue recognized in the accompanying financial statements.

Hospice organizations are subject to two specific payment limit caps under the Medicare program. One limit relates to inpatient care days that exceed 20% of the total days of hospice care provided for the year. The Organization did not exceed the 20% cap related to inpatient days in June 30, 2023 and 2022. The second limit relates to an aggregate Medicare reimbursement cap calculated by the Organization. The Organization did not exceed the Medicare reimbursement cap for the years ended June 30, 2023 and 2022.

(Continued)

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charity Care: The Organization determines each patient's ability to pay during the admission process. When a patient meets certain criteria, part or all of the patient's charges are deemed charity care and are not billed for collection. Because the Organization does not pursue collection of amounts determined to qualify as charity care, those amounts are excluded from net patient service revenue. The cost of charity care provided was approximately $150,000 and $170,000 for the years ended June 30, 2023 and 2022, respectively. This cost estimate was based on the Organization-wide cost to charge ratio.

Contributions: Contributions received and unconditional promises to give are recorded as revenue without donor restrictions or revenue with donor restrictions depending on the existence of donor restrictions and the nature of such restrictions, if they exist.

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 and reported in the statements of operations and changes in net assets as net assets released from restriction.

If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as without donor restrictions.

Leases: ASU 2016-02 - Leases (“ASC 842”) requires lessees to recognize a lease liability and a right-of-use (ROU) asset on the balance sheet for most operating leases, except for those leases with an original term of 12 months or less. Accounting for finance leases is substantially unchanged.

The Organization adopted ASC 842 as of July 1, 2022 using a modified retrospective transition, with the cumulative-effect adjustment recorded to the opening balance of net assets as of the effective date. Financial results reported in periods prior to 2023 are unchanged. The Organization also elected the package of transition practical expedients, which among other things, does not require reassessment of lease classification.

The adoption of ASC 842 resulted in the recognition of $1,861,206 of lease liabilities with corresponding right-of-use assets of $1,861,206 for operating leases as of July 1, 2022.

At the inception of an arrangement, the Organization determines if an arrangement is lease based on all relevant facts and circumstances. Leases are classified as operating or finance leases at the lease commencement date. Operating leases are included in operating lease ROU assets, short-term operating lease liabilities and long term operating lease liabilities on the balance sheets. Leases are classified between short-term and long-term liabilities based on their payment terms. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Leases with a term of 12 months or less (short-term leases) are not recorded on the balance sheets.

ROU assets represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. ROU assets also include prepaid rent and are adjusted by the unamortized balance of lease incentives.

As the implicit rate is generally not readily determinable for all of the Organization’s leases, the Organization utilized the risk free rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments.

(Continued)

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Some leases include one or more options to extend the lease, with extension terms that can extend the lease term by one to five years. The exercise of lease extension options is at the Organization's sole discretion. The lease term includes options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. The Organization generally concludes options to extend the lease are reasonably certain to be exercised when it is cost prohibitive to relocate operations or pursue alternative leased assets.

Real estate leases comprise the majority of the Organization's leasing activities. The Organization accounts for the lease and non-lease components of these leases as a single lease component.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of operations and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes: The Organization is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

U.S. GAAP requires that a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Organization's Form 990 has not been subject to examination by the Internal Revenue Service or the state of California for the last three years. The Organization does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Organization recognizes interest and/or penalties related to income tax matters in income tax expense. The Organization did not have any amounts accrued for interest and penalties at June 30, 2023 and 2022.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2023 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2023. Management performed their analysis through November 2, 2023, which is the date the financial statements were available to be issued.

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2023	2022
Cash and cash equivalents	$ 4,210,309	$ 7,260,537
Patient accounts receivable, net	5,155,495	4,966,285
Investments	31,548,852	28,608,979
	40,914,656	40,835,801
Less net assets with donor restrictions	(9,515,108)	(7,979,323)
	$ 31,399,548	$ 32,856,478

(Continued)

NOTE 2 - LIQUIDITY AND AVAILABILITY (Continued)

As part of the Organization's liquidity management plan, management invests cash in excess of daily requirements in short-term investments, treasury sweeps, and money market instruments. In addition to cash on hand, the Organization has two lines of credit available in the amount of $2,500,000 and $1,000,000; the latter secured by unrestricted investments.

The Organization also manages a pool of funds invested in the public securities markets. Management of these funds are governed by the Organization's Investment Policy Statement. The Board of Directors has delegated authority to supervise these investments to the Finance Committee. The Organization's primary objective is to preserve and protect its assets by earning a total return for each category of assets (a "Fund"), which is appropriate for each Fund's time horizon, distribution requirements, and risk tolerance.

The Organization currently maintains the following funds:

Intermediate Fund
Long Term Fund
Endowment Fund
Board Directed Endowment
Anonymous Endowment

The Intermediate and Long Term Fund are unrestricted and have a value of $8,552,632 and $8,064,967 as of June 30, 2023 and 2022, respectively. The Endowment Fund, Board Directed Endowment, and Anonymous Endowment are Board designated and donor restricted with a value of $22,996,220 and $20,544,012 as of June 30, 2023 and 2022, respectively.

NOTE 3 - PATIENT ACCOUNTS RECEIVABLE

Receivables from patients and third-party payors for the years ended June 30 are as follows:

	2023	2022
Medicare	$ 3,884,682	$ 3,236,385
Medicaid	1,036,576	1,452,488
Commercial and other	528,536	581,720
	5,449,794	5,270,593
Less implicit price concessions	(294,299)	(304,308)
	$ 5,155,495	$ 4,966,285

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Organization has the ability to access as of the measurement date. The fair values of money market funds, common stocks, exchange traded funds, mutual funds, and hedge funds that are readily marketable are determined by obtaining quoted prices from nationally recognized securities exchanges.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Organization had no investments measured using Level 2 inputs at June 30, 2023 and 2022.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. The Organization had no investments measured using Level 3 inputs at June 30, 2023 and 2022.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2023			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	$ 4,515,186	$ -	$ -	$ 4,515,186
Exchange traded funds	11,803,944	-	-	11,803,944
Equity mutual funds	6,512,432	-	-	6,512,432
Fixed income mutual funds	7,625,322	-	-	7,625,322
Hedge funds	1,091,968	-	-	1,091,968
Total investments	$ 31,548,852	$ -	$ -	$ 31,548,852

	Fair Value Measurements at June 30, 2022			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	$ 4,703,769	$ -	$ -	$ 4,703,769
Exchange traded funds	14,701,108	-	-	14,701,108
Equity mutual funds	659,647	-	-	659,647
Fixed income mutual funds	6,977,640	-	-	6,977,640
Hedge funds	1,566,815	-	-	1,566,815
Total investments	$ 28,608,979	$ -	$ -	$ 28,608,979

(Continued)

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

The following schedule summarizes return on investments for the years ended June 30:

	2023	2022
Interest and dividends, net of fees	$ 452,989	$ 338,140
Realized (losses) gains on investments	(450,815)	594,869
	2,174	933,009
Unrealized gains (losses) on investments	2,751,934	(4,088,427)
	$ 2,754,108	$ (3,155,418)

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Organization.

NOTE 5 - PROPERTY AND EQUIPMENT

The Organization's property and equipment and the related accumulated depreciation at June 30 are as follows:

	2023	2022
Land	$ 5,559,409	$ 879,235
Buildings	2,903,684	2,902,014
Office equipment	1,720,030	1,702,473
Furniture and fixtures	565,852	565,852
Construction in progress	4,549,145	-
	15,298,120	6,049,574
Less accumulated depreciation	(3,735,902)	(3,332,153)
	$ 11,562,218	$ 2,717,421

Depreciation expense for the years ended June 30, 2023 and 2022 was $403,748 and $441,729, respectively.

In March 2023, the Organization broke ground on a location to provide a permanent office residence to staff and the community. The estimated remaining construction cost at June 30, 2023 is $665,508. The estimated completion date of the project is October 15, 2023.

(Continued)

NOTE 6 - LINES OF CREDIT

The Organization maintains a $1,000,000 line of credit with a financial institution bearing interest at LIBOR plus 1.75% (6.93% and 3.00% as of June 30, 2023 and 2022). The line of credit is secured by cash, investments, and other assets of the Organization and has no expiration date. The Organization had no borrowings outstanding on the line of credit at June 30, 2023 and 2022.

In November 2022 the Organization obtained a $2,500,000 line of credit with a financial institution bearing interest at the Prime rate less 0.50% (7.75% as of June 30, 2023). The line of credit is secured by all business assets of the Organization and expires in November 2023. The Organization had borrowings of $603,800 and $0 outstanding on the line of credit at June 30, 2023 or 2022, respectively.

NOTE 7 – NOTE PAYABLE

In November 2022, the Organization obtained financing through First Republic Bank in the amount of $8,100,000 structured as a note payable bearing interest at a fixed rate of 3.65% per annum. Debt proceeds were used to pay for the Gateway building purchase. The note payable has a maturity date of November 2052. The balance outstanding on this note at June 30, 2023 was $7,995,219.

The note requires the Organization to meet certain financial and non-financial covenants. At June 30, 2023, the Organization was in compliance with all such financial covenants.

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets that are donor restricted at June 30 are as follows:

	2023	2022
Time or purpose		
Unappropriated endowment earnings	$ 906,231	$ 590,853
Staff education	109,647	130,000
Time restricted	1,380,000	-
Other	90,905	230,145
	2,486,783	950,998
Perpetually restricted		
Endowments for education	1,700,000	1,700,000
Endowments for charity care	1,804,000	1,804,000
Endowments for hospice and palliative care	2,643,998	2,643,998
Endowments for undesignated purposes	880,327	880,327
	7,028,325	7,028,325
	$ 9,515,108	$ 7,979,323

Net assets with donor restrictions were released from restriction for the years ended June 30 for the following purposes:

	2023	2022
Unappropriated endowment earnings	$ 374,144	$ 454,561
Other	178,869	5,941
	$ 553,013	$ 460,502

(Continued)

NOTE 9 - ENDOWMENT ASSETS

Overview: The Organization's endowments consist of various investment securities, most of which are traded on public markets. The endowments are made up of board designated, purpose or time restricted, and perpetually restricted assets. As required by U.S. GAAP, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Organization's Board of Directors has determined the requirements of California's version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") to center around the preservation of the fair value of the original investment as of the date of the asset transfer. The investments resulting from donations directing that they be invested in perpetuity are classified as perpetually restricted. The earnings generated by these investments are classified as purpose or time restricted. The purpose or time restricted earnings are reclassified as without donor restrictions upon their appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by California's version of UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate its endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies of the Organization

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide funding for operating expenses of programs supported by its endowments, while maintaining the original corpus of the endowments. In order to meet this objective, the endowment asset portfolio is structured to achieve a compound annual return, net of investment management expenses, of 4% to 6% for the Intermediate Fund portfolio and 6% to 8% for the Long-Term, Endowment, and Board Directed funds. Risk parameters are set so that reasonable volatility, including larger potential fluctuations of principal, will be tolerated over the investment horizon, in as much as it is consistent with the volatility of a comparable market index. Endowment assets include assets of donor-restricted funds that the Organization must hold in perpetuity and assets of the Organization that the Board of Directors has designated for endowment purposes.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a broadly diversified portfolio to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Organization disburses funds as needed within the guidelines of the endowments. Over the long-term, the Organization expects the current spending policy to allow its endowment to grow at the average annual rate of inflation over ten years. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Fund with Deficiencies: A donor-restricted endowment fund is considered to be underwater if the fair value of the fund is less than the original gift amount or the amount required to be maintained by the donor or by law. At times, the Organization may have individual donor-restricted endowment funds that are underwater. The Organization has a policy that permits spending from underwater funds depending on the degree to which the fund is underwater, unless specifically prohibited by the donor or relevant laws and regulations. There were no such deficiencies as of June 30, 2023 and 2022.

(Continued)

NOTE 9 - ENDOWMENT ASSETS (Continued)

Change in Endowment Net Assets: The Organization's change in endowment assets, by net asset composition, for the years ended June 30 is as follows:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
2023				
Beginning balance	$ 12,924,834	$ 590,852	$ 7,028,328	$ 20,544,014
Interest and dividends, net of	287,640	172,332	-	459,972
Net realized and unrealized gains	1,196,908	691,970	-	1,888,878
Additions	477,500	-	-	477,500
Appropriations for expenditure	-	(374,144)	-	(374,144)
Total endowment	$ 14,886,882	$ 1,081,010	$ 7,028,328	$ 22,996,220

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
2022				
Beginning balance	$ 14,039,581	$ 2,062,886	$ 7,028,328	$ 23,130,795
Interest and dividends, net of	165,355	108,394	-	273,749
Net realized and unrealized	(1,797,533)	(1,125,867)	-	(2,923,400)
Additions	517,431	-	-	517,431
Appropriations for expenditure	-	(454,561)	-	(454,561)
Total endowment	$ 12,924,834	$ 590,852	$ 7,028,328	$ 20,544,014

NOTE 10 - OPERATING LEASE COMMITMENTS

The Organization has various operating leases for office spaces that expire on various dates through January 2027. Total rent expense amounted to $1,300,625 and $1,252,667 for the years ended June 30, 2023 and 2022, respectively.

(Continued)

NOTE 10 - OPERATING LEASE COMMITMENTS (Continued)

A summary of amounts reported within the balance sheet is as follows:

Assets	
Operating Lease ROU Asset	$ 1,515,049
Liabilities	
Current Lease Liability	$ 374,148
Long Term Lease Liability	1,170,054
Total Lease Liabilities	$ 1,544,202
Weighted-average remaining lease term (years)	4.61
Weighted-average discount rate	2.88%

Future minimum lease commitments are as follows:

2024	$ 374,148
2025	358,427
2026	335,014
2027	249,034
2028	201,144
Thereafter	103,205
	1,620,972
Less imputed interest	(76,770)
Present value of lease liability	1,544,202
Less current lease liabilities	(374,148)
Long-term lease liabilities	$ 1,170,054

(Continued)

NOTE 11 - FUNCTIONAL EXPENSES

Expenses categorized by their functional classification for the years ended June 30 are as follows:

	For the year ended June 30, 2023					
	Direct Patient Care	Indirect Patient Care	Community Outreach	Management and General	Fundraising	Total
Accounting fees	$ -	$ -	$ -	$ 62,801	$ -	$ 62,801
Advertising and promo	-	4,969	181,633	71,204	30,844	288,650
Benefits	574,845	124,966	14,282	96,403	21,423	831,919
Conferences, meetings	9,575	33,730	73,499	118,537	44,305	279,646
Depreciation	278,986	60,649	6,931	46,786	10,397	403,749
DME	1,078,591	-	-	-	-	1,078,591
Drugs	873,080	-	-	-	-	873,080
Facility related	1,352,195	293,956	33,595	226,766	50,392	1,956,904
Fee for service other	877,219	77,704	-	1,634,108	-	2,589,031
Information technology	348,736	111,682	9,035	152,707	66,981	689,141
Inpatient services	16,179	-	-	-	-	16,179
Insurance	675	-	-	313,829	-	314,504
Legal expenses	-	21,020	-	105,665	54,976	181,661
Medical supplies	829,747	-	-	-	-	829,747
Office expenses	169,141	64,413	4,980	106,666	14,504	359,704
Other employee benefits	2,193,185	1,089,512	59,457	617,998	128,183	4,088,335
Other patient expenses	220,395	493	-	-	11,428	232,316
Other salaries and wages	9,878,009	4,606,367	235,176	2,643,674	553,008	17,916,234
Payroll taxes	793,516	376,038	20,173	189,905	43,449	1,423,081
Pension plan accruals	233,548	128,925	7,606	45,458	18,499	434,036
Transportation	61,249	-	-	-	-	61,249
Travel expenses	744,157	83,994	23,058	39,176	941	891,326
	$ 20,533,028	$ 7,078,418	$ 669,425	$ 6,471,683	$ 1,049,330	$ 35,801,884

(Continued)

NOTE 11 - FUNCTIONAL EXPENSES (Continued)

	For the year ended June 30, 2022					
	Direct Patient Care	Indirect Patient Care	Community Outreach	Management and General	Fundraising	Total
Accounting fees	$ -	$ -	$ -	$ 95,552	$ -	$ 95,552
Advertising and promo	716	4,917	216,471	96,449	19,562	338,115
Benefits	630,801	55,659	24,737	92,765	18,553	822,515
Conferences, meetings	13,668	38,922	7,018	134,383	31,807	225,798
Depreciation	338,769	29,891	13,285	49,819	9,964	441,728
DME	1,318,541	-	-	-	-	1,318,541
Drugs	1,035,484	-	-	-	-	1,035,484
Facility related	1,384,764	122,185	54,304	203,642	40,728	1,805,623
Fee for service other	538,408	7,945	-	1,594,060	24	2,140,437
Information technology	394,618	69,294	15,482	155,188	49,363	683,945
Inpatient services	48,505	-	-	-	-	48,505
Insurance	746	-	-	284,416	-	285,162
Legal expenses	-	-	-	55,426	25,481	80,907
Medical supplies	919,244	-	-	-	-	919,244
Office expenses	183,091	78,302	9,891	116,898	14,482	402,664
Other employee benefits	2,408,312	1,430,959	62,256	673,681	132,330	4,707,538
Other patient expenses	158,668	4,594	-	-	5,694	168,956
Other salaries and wages	10,561,997	5,221,284	278,095	3,021,811	562,845	19,646,032
Payroll taxes	829,488	410,519	21,163	210,333	43,002	1,514,505
Pension plan accruals	210,409	112,449	6,865	61,080	15,820	406,623
Transportation	62,992	-	-	-	-	62,992
Travel expenses	721,049	86,698	1,777	47,747	349	857,620
	$ 21,760,270	$ 7,673,618	$ 711,344	$ 6,893,250	$ 970,004	$ 38,008,486

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facility related and depreciation which are allocated on a square-footage basis, as well as benefits and information technology which are allocated on a number of employees basis.

(Continued)

NOTE 12 - RETIREMENT PLAN

The Organization maintains a qualified deferred compensation 401(k) plan for full time employees over age 21 that have completed one month of service. Under the plan, employees may elect to defer up to a percentage of pretax annual compensation, subject to the Internal Revenue Service limits. The Organization matches 50% of the participant's contribution to the Plan, not to exceed six percent of the participant's gross compensation. The Organization contributed $445,762 and $406,624 for the years ended June 30, 2023 and 2022, respectively.

The Organization offers a 457(b) deferred compensation plan. A select group of management employees are eligible to participate in the plan. The plan provides for employer contributions at the employers sole discretion. The Organization made no contributions to the plan for the years ended June 30, 2023 and 2022. Plan participants have the option to make personal contributions to the plan. The contributions are held in investment accounts, administered by a third party, pending distribution upon vesting portions and severance of employment of the participants. At June 30, 2023 and 2022, the Organization maintained approximately $554,000 and $525,000, respectively, in plan assets included within prepaid expenses and other and approximately $554,000 and $525,000, respectively, due to plan participants included within accrued expenses in the balance sheets.