FREEDOM PROPERTIES - HEMET, LLC

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2023

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Members
Freedom Properties - Hemet, LLC
Hemet, California

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of Freedom Properties - Hemet, LLC (a California limited liability company) (the Company), which comprise the balance sheet as of December 31, 2023, and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the effects of recognizing deferred entrance fees as income upon constructive receipt of payment and expensing incremental costs of obtaining customer contracts as discussed in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 1 to the financial statements, the Company recognizes income from nonrefundable deferred entrance fees when the funds are constructively received, and the Company expenses incremental costs of obtaining long-term contracts with customers when incurred. Accounting principles generally accepted in the United States of America (U.S. GAAP) require that revenues from nonrefundable deferred entrance fees be recognized when future goods or services are transferred during optional future periods covering a resident's life expectancy. Further, U.S. GAAP requires that the incremental costs of obtaining a contract should be deferred and amortized on a systematic basis consistent with the pattern in which revenue related to the contract is being recognized. If the financial statements were corrected for these departures from U.S. GAAP, assets would increase by approximately $6,500,000; liabilities would increase by approximately $9,826,000; beginning members' equity would decrease by approximately $2,862,000; revenue from resident services, including deferred entrance fees and nonrefundable advance fees, would decrease by approximately $474,000; and expenses would decrease by approximately $10,000.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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 Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
May 21, 2024

FREEDOM PROPERTIES - HEMET, LLC
BALANCE SHEET
DECEMBER 31, 2023

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 3,557,762
Accounts Receivable	1,240,716
Less: Allowance for Credit Losses	(90,936)
Net Accounts Receivable	1,149,780
Inventories	140,437
Prepaid Expenses	150,742
Total Current Assets	4,998,721
PROPERTY AND EQUIPMENT	
Land	2,153,427
Building and Improvements	27,301,100
Machinery and Equipment	3,948,264
Furniture and Fixtures	9,373,280
Vehicles	280,420
Construction in Progress	59,750
Total Property and Equipment, at Cost	43,116,241
Less: Accumulated Depreciation	(32,319,098)
Property and Equipment, at Net Book Value	10,797,143
OTHER ASSETS	
Restricted Cash	700,000
Accounts Receivable, Long Term	184,500
Total Other Assets	884,500
Total Assets	$ 16,680,364

See accompanying Notes to Financial Statements.

FREEDOM PROPERTIES - HEMET, LLC
BALANCE SHEET (CONTINUED)
DECEMBER 31, 2023

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES	
Accounts Payable	$ 706,758
Accrued Expenses	980,912
Related-Party Payable	414,003
Current Portion of Note Payable to Master Trust	550,000
Line of Credit	1,500,000
Total Current Liabilities	4,151,673
LONG-TERM LIABILITIES	
Note Payable to Master Trust, Net of Current Portion	7,250,000
Notes Payable to Members	1,000,800
Notes Payable to Related Party	1,299,200
Deposits from Residents	112,575
Total Long-Term Liabilities	9,662,575
Total Liabilities	13,814,248
MEMBERS' EQUITY	2,866,116
Total Liabilities and Members' Equity	$ 16,680,364

See accompanying Notes to Financial Statements.

FREEDOM PROPERTIES - HEMET, LLC
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2023

REVENUES	
Resident Services	$ 10,481,071
Patient Services, Net	7,435,568
Nonresident Services	237,508
Total Revenues	18,154,147
CAREGIVER AND ANCILLARY SERVICE COSTS	1,101,886
NET REVENUES	17,052,261
OPERATING EXPENSES	
Resident Care	3,947,364
Dietary	3,106,119
Housekeeping	841,644
Plant Facility Operating Costs	1,804,224
General and Administrative Expenses	6,896,714
Depreciation and Amortization	1,370,727
Total Operating Expenses	17,966,792
LOSS FROM OPERATIONS	(914,531)
OTHER INCOME (EXPENSE)	
Interest Expense	(121,724)
Interest Income	152,904
Other Income	919,478
Total Other Income (Expense)	950,658
INCOME BEFORE PROVISION FOR INCOME TAXES	36,127
PROVISION FOR INCOME TAXES	25,180
NET INCOME	$ 10,947

See accompanying Notes to Financial Statements.

FREEDOM PROPERTIES - HEMET, LLC
STATEMENT OF CHANGES IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2023

BALANCE - DECEMBER 31, 2022	$ 2,855,169
Net Income	10,947
BALANCE - DECEMBER 31, 2023	$ 2,866,116

See accompanying Notes to Financial Statements.

FREEDOM PROPERTIES - HEMET, LLC
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Residents	$ 11,892,119
Interest Expense	(121,724)
Interest Income	152,904
Other Income	919,478
Reimbursements for Services to Nonresidents	5,918,028
Cash Paid to Suppliers and Employees	(17,874,710)
Income Taxes Paid	(25,180)
Net Cash Provided by Operating Activities	860,915
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Property and Equipment	(897,386)
Net Cash Used by Investing Activities	(897,386)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Note Payable to Master Trust	500,000
Payments on Note Payable to Master Trust	(470,000)
Proceeds from Note Payable to Related Party	575,000
Payments on Note Payable to Related Party	(75,000)
Net Cash Provided by Financing Activities	530,000
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	493,529
Cash and Cash Equivalents and Restricted Cash - Beginning of Year	3,764,233
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	$ 4,257,762

See accompanying Notes to Financial Statements.

FREEDOM PROPERTIES - HEMET, LLC
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2023

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Income	$ 10,947
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	1,370,727
Change an Allowance for Credit Losses	83,693
(Increase) Decrease in:	
Accounts Receivable	(336,920)
Prepaid Expenses	(32,703)
Increase (Decrease) in:	
Accounts Payable	64,470
Accrued Expenses	(435,686)
Related-Party Payable	143,467
Deposits from Residents	(7,080)
Net Cash Provided by Operating Activities	$ 860,915

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Freedom Properties - Hemet, LLC (the Company) is a California limited liability company that owns and operates a continuing care retirement community (CCRC) known as The Village.

The Village provides permanent living, assisted living, skilled nursing, and other ancillary services through the operation of a retirement facility (the Retirement Center), which includes 245 residential units and a health care facility (the Health Care Center), which includes 104 beds. The Company operates under the continuing care concept whereby residents enter into agreements that require payment of a onetime entrance fee and a monthly charge. Generally, these payments will entitle residents to the use and privileges of the facility for life.

Limited Liability Company Operating Agreement

The following represents a summary of significant financial terms of the Company's Limited Liability Company Operating Agreement (the Operating Agreement).

The Company was organized as a limited liability company in the state of California on July 31, 1999, and will continue until December 31, 2050, unless dissolved prior to that date in accordance with the Operating Agreement. The members' liability to general creditors is limited to their investments in the Company. Profits and losses for financial statement purposes are allocated to the members in proportion to their percentage interests.

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), with the exception of the effects of recognition of deferred entrance fees and costs of acquiring contracts with customers, as discussed in Revenue Recognition from Contracts with Customers. References to the ASC hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board (FASB) as the source of authoritative U.S. GAAP.

Cash and Cash Equivalents and Restricted Cash

For purposes of the statement of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less, as well as restricted cash.

As of December 31, 2023, in accordance with requirements from the State of California Department of Social Services, the Company holds $700,000 in a reserve account established and maintained for the benefit of residents of The Village who are entitled to receive a refund of any portion of their initial loan deposit payment that remains payable after the sixth year of residency.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents and Restricted Cash (Continued)

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the balance sheet that sum to the total of the same such amounts shown in the statement of cash flows for the year ended December 31, 2023:

Cash and Cash Equivalents	$ 3,557,762
Restricted Cash	700,000
Total Cash and Cash Equivalents and Restricted Cash as Shown on Statement of Cash Flows	$ 4,257,762

Accounts Receivable

Accounts receivable consist of amounts due from residents, occupants, or third-party payors for which the Company has an unconditional right to receive payment and represent receivables for monthly service fees, skilled nursing services, assisted living services, and other ancillary services, net of contractual allowances, as well as amounts due from residents for obligations related to accrued additional costs. Receivables for monthly service fees and health care services rendered are primarily due on a net 30-day term. Accounts for which no payments have been received after 60 days are considered delinquent, and customary collection efforts are taken. Accounts receivable are periodically evaluated for collectability based on past credit history with residents, occupants, or third-party payors and their current financial condition. After six months of unsatisfactory contact, the Company writes off what it believes will be uncollectible after obtaining approval from management. Receivables for resident obligations are generally collected upon cancellation of contracts, which is estimated to occur long term.

The Company provides an allowance for credit losses, as needed, to present the net amount of accounts receivable expected to be collected. The allowance represents the estimate of expected credit losses based on historical experience, current economic conditions, and certain forward-looking information. At December 31, 2023, an allowance for credit losses totaled $90,936.

Inventories

Inventories consist of food, service ware, linen, and other necessary supplies. These inventories are valued at the lower of cost or net realizable value on a first-in, first-out basis.

Property and Equipment

Property and equipment are stated at cost. Major improvements and betterments are capitalized. Maintenance and repairs are expensed as incurred. Property and equipment are depreciated over estimated useful lives ranging from 5 to 40 years. Depreciation is computed using the straight-line method for financial purposes and accelerated methods for income tax purposes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

The estimated useful lives of the related assets are as follows:

Building and Improvements	7 to 40 Years
Machinery and Equipment	5 to 12 Years
Furniture and Fixtures	7 to 12 Years
Vehicles	5 Years

Depreciation and amortization expense for the year ended December 31, 2023, totaled $1,370,727. At December 31, 2023, fully depreciated property and equipment totaled $8,756,532, which are still in use.

Long-Lived Assets

The Company accounts for impairment and disposition of long-lived assets in accordance with FASB ASC 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amounts. There was no impairment of value of such assets for the year ended December 31, 2023.

Revenue Recognition from Contracts with Customers

The Company recognizes income from nonrefundable deferred entrance fees when the funds are constructively received, which is a departure from FASB ASC 606, *Revenue from Contracts with Customers*, as more specifically described below. The Company recognizes revenue from assistance with activities of daily living, memory care services, inpatient therapy, health care, and related personalized health services in accordance with the provisions of FASB ASC 606.

The Company enters into residency agreements (the Resident Agreement) with all of its customers. Prior to actual occupancy by a resident, a contribution may be required pursuant to each Resident Agreement. The provisions of the Resident Agreement include, but are not limited to, such items as the unit to be occupied, initial monthly fee, amount of entrance fee, basic services to be provided during the duration of the agreement, and methods of cancellation and refunds or contingent repayments subject to resale of the residence.

Generally, the Company is deemed to have Type A life care contracts with residents that are all-inclusive continuing care contracts that include residential facilities, other amenities, and access to health care services, primarily assisted living and nursing care. Type A contracts are deemed to have one performance obligation, which is that the CCRC is standing ready each month to provide a service; each resident can continue to live in the CCRC and access the appropriate level of care based on his or her needs. A Type A contract also allows a resident the ability to cancel the Resident Agreement at any time. Thus, the resident agreement for a Type A life care contract is generally deemed to be a monthly contract with the option to renew.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition from Contracts with Customers (Continued)

The Type A life care contract provides a material right to occupy an appropriate-level living unit for life and to receive certain services for which residents are required to pay an entrance fee. Prior to actual occupancy by the resident, a contribution (referred to as a Loan Deposit) is required to be deposited with the Master Trust (as defined in Note 7) pursuant to a Resident Agreement. Under the Residence Agreement, the contribution received will be refundable under the following terms and conditions:

Cancellation During the Trial Residence Period – Under California law, there is a probationary period of 90 days after the date of the signed agreement during which either the Company or the resident may cancel the agreement with or without cause. Death of the resident during the period will cancel the agreement. In the event of cancellation, the resident shall be entitled to a refund in accordance with California law, which states that the Company may deduct from the contribution amount a reasonable fee to cover costs and any charges incurred but not paid.

Cancellation After 90 Days and Before 2 Years – A resident may cancel his or her agreement at any time after the trial residence period for any reason by giving the Company 90 days' written notice. Death of the resident will cancel the agreement. However, if an agreement applies to more than one resident, it will remain in effect after the death of one of the residents and be adjusted as described in the agreement. The Company may cancel the agreement at any time after the trial residence period for good cause upon 90 days' written notice to the resident. Examples of good cause are defined in the agreement. Upon termination of the agreement, during the period from 90 days to 2 years of occupancy, the resident or his or her estate will be entitled to a repayment of a portion of his or her Loan Deposit, less a predetermined percentage per month of occupancy and any charges incurred but not paid, as determined by the terms and conditions of the individual agreements.

Cancellation After 2 Years – The criteria for cancellation after 2 years is the same as the criteria described above for cancellation after 90 days and before 2 years. If termination occurs after 2 years, the resident or his or her estate may be entitled to a portion of his or her Loan Deposit, less any charges incurred but not paid, as determined by the terms and conditions of the individual agreements.

Contract Revenues

The following are descriptions of the services provided and the accounting policies related to the contracted services in accordance with the provisions of current U.S. GAAP.

Resident Fees – Resident living service fees, which are for basic support services, are paid on a monthly basis. Monthly fees are established at the inception of occupancy and may be increased at most annually by the Company, with appropriate notice as specified in the individual agreements, generally based on increases in operating costs or inflationary increases. Revenue for resident fees is recognized as the Company satisfies the performance obligation, which is monthly.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition from Contracts with Customers (Continued)

Contract Revenues (Continued)

Patient Services – The Company also receives revenue for health care services from residents and various third-party insurance payors for patient services. Patient services fees are generally assessed at a predetermined fixed daily rate contracted with the third-party payors and private-pay residents and are recorded net of the provision for contractual allowances, which represents the difference between established rates and per diem reimbursement. Revenue for patient services fees is recognized when the transfer of control of the services provided to the resident occurs, which is generally over time.

Nonresident Services – Nonresident services are revenues recognized at a point in time primarily for nonresident guest meals, catering, and short-term guest accommodations.

The following is a description of a service provided and the accounting policy related to the contracted service that is a departure from the provisions of current U.S. GAAP.

Revenue from Entrance Fees – U.S. GAAP requires that a deferred entrance fee be amortized to income over future periods based on the estimated life expectancy of the resident. The Company recognizes income from deferred entrance fees upon constructive receipt of payment or on the cash-basis method. The amount of the fee constructively received by the Company is, at that time, recognized as income and is considered a net payment upon termination.

Contract Assets and Contract Liabilities

The following is a contract liability resulting from contracts with customers in accordance with the provisions of current U.S. GAAP.

Deposits from Residents – Deposits from residents represent refundable security deposits from residents, as well as deposits on future contracts from prospective residents that are fully refundable upon demand.

Costs of Acquiring Contracts

The following is a description of the accounting policy for a contract-related balance that is a departure from the provisions of current U.S. GAAP.

Costs of Acquiring Contracts – U.S. GAAP requires incremental costs of obtaining a contract should be deferred and amortized on a systematic basis consistent with the pattern in which revenue related to the contract is being recognized. Costs of acquiring contracts are the incremental costs of acquiring long-term contracts with customers, which primarily consist of commissions paid to salespeople. These costs are expensed as incurred and are included in the accompanying statement of operations as general and administrative expenses.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising and Promotional Costs

Advertising and promotional costs are charged to operations when incurred. For the year ended December 31, 2023, advertising and promotional costs and related expenses totaled $356,134 and are included in general and administrative expenses in the accompanying statement of operations.

Income Taxes

The Company is organized as a limited liability company. Taxation of a limited liability company passes the burden of income taxes from the Company to its members. The state of California imposes a minimum franchise tax plus an annual fee on limited liability companies with annual revenues in excess of $5,000,000.

The Company's policy is to recognize interest and/or penalties related to all tax positions in income tax expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. No interest or penalties were accrued as of December 31, 2023.

The Company files income tax returns in the U.S. federal and state of California jurisdictions. Years prior to 2020 are no longer subject to U.S. federal income tax examination, and the Company is no longer subject to major state income tax examinations for years before 2019.

Use of Estimates

The process of preparing financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Adoption of New Accounting Standard

The Company has adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses. The Partnership adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on the Partnership's financial statements but did change how the allowance for credit losses is determined.

NOTE 2 REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table presents the Company's revenue disaggregated by service and payor type for the year ended December 31, 2023:

Revenues from Contracts with Customers:	
Resident Services:	
Deferred Entrance Fees (Cash Basis)	$ 2,781,080
Resident Fee Revenue for Monthly Fees and Ancillary Charges	7,699,991
Total	10,481,071
Patient Service Revenue for Health Care Services:	
Third-Party Payors (Net of Contractual Allowances and Discounts of $744,857)	4,062,027
Self-Pay (Net of Discounts of $458,142)	3,373,541
Patient Services, Net	7,435,568
Nonresident Services	237,508
Total Revenues from Contracts with Customers	$ 18,154,147

The beginning and end of year balances of the Company's various contract-related balances were as follows:

	January 1, 2023	December 31, 2023
Accounts Receivable	$ 904,845	$ 1,240,716
Deposits from Residents	$ 119,655	$ 112,575

NOTE 3 CONCENTRATIONS, RISKS, AND UNCERTAINTIES

The Company maintains a restricted cash account and cash balances at several banks. At December 31, 2023, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000. The Company's deposits in these financial institutions at times exceeded the amount insured by the FDIC. The risk is managed by maintaining deposits in high-quality financial institutions.

Credit is extended to all residents based on financial condition, and generally, collateral is not required. Credit losses are provided for in the financial statements and consistently have been within management's expectations.

NOTE 3 CONCENTRATIONS, RISKS, AND UNCERTAINTIES (CONTINUED)

On March 11, 2020, the World Health Organization declared the spread of coronavirus (COVID-19) a worldwide pandemic. The COVID-19 pandemic has had a significant impact on global markets, supply chains, businesses, and communities. Specific to the Company, COVID-19 has impacted various parts of its operations and financial results, including, but not limited to, additional costs for emergency preparedness, disease control and containment, shortages of health care personnel, and loss of revenue due to government shutdown orders. Although restrictions have been lifted, occupancy and inflationary challenges continue, and the Company sustained a loss from operations in 2023. It is uncertain as to the full magnitude that the pandemic will have on the Company's future results of operations.

Management of the Company intends to fund future operations primarily through cash on hand at December 31, 2023, current availability of $1.5mil line of credit with a bank, and a commitment from ownership to loan the Company up to $2mil and believes that actions presently being taken regarding the Company's operating and financial requirements are improving the Company's financial performance and cash flows. The Company has increased monthly services fees by 4.9% in 2024, engaged a new related party consulting group to overhaul and expand marketing efforts to attract prospective residents, and negotiated new skilled nursing contracts which increased daily reimbursement. Management has agreed to continue to focus on pursuing admissions in the skilled nursing center, enhancing sales strategies and hiring licensed positions in order to minimize higher registry staffing costs.

Management believes that these plans will provide the Company with sufficient cash and cash flows to satisfy its obligations for the next 12 months from the date these financial statements are available to be issued. The accompanying financial statements do not include any adjustments as a result of these uncertainties should management and the Company be unable to achieve and complete their plans.

NOTE 4 PREPAID EXPENSES

Prepaid expenses at December 31, 2023 consist of the following:

Prepaid Insurance	$ 100,077
Prepaid Licenses	57,294
Other	(6,629)
Total Prepaid Expenses	$ 150,742

NOTE 5 ACCRUED EXPENSES

Accrued expenses at December 31, 2023 consist of the following:

Accrued Salaries and Wages	$	216,291
Accrued Payroll Taxes		21,180
Accrued Vacation and Other Benefits		153,672
Workers' Compensation Reserve		589,769
Total Accrued Expenses	$	980,912

NOTE 6 LINE OF CREDIT

The Company has an unsecured revolving line of credit with a bank whereby the Company may borrow a maximum of $1,500,000 with an interest rate at prime less 0.25%. At December 31, 2023, there was a $1,500,000 balance outstanding under this line of credit. The line of credit expires in July 2025 and is guaranteed by all members of the Company. The Company has agreed to certain covenants with the bank in connection with the line of credit. As of December 31, 2023, the Company was in compliance or has obtained a waiver with respect to the terms of the covenants.

NOTE 7 PAYABLE TO MASTER TRUST AND TRUST ARRANGEMENT

The residents of The Village established a trust fund for the purpose of providing permanent financing, operating capital, and statutory reserves for the benefit of the Retirement Center. The residents sign a Joinder in Master Trust Agreement, joining in and becoming grantors under a Master Trust Agreement (Master Trust) between the trustee and the grantors.

In addition, each grantor upon execution of a Joinder in Master Trust Agreement must deposit with the trustee the contribution amount required of such grantor as set forth in the Residence Agreement and the Deposit Subscription Agreement.

The grantors deposit the required contribution amount into the trust and acknowledge in a commitment letter that the trustee of the Master Trust is directed to transfer all requested funds in the form of an interest-free loan to the Company for the purpose of providing permanent financing and operating capital for the Retirement Center, subject to availability and specific loan limits described below.

NOTE 7 PAYABLE TO MASTER TRUST AND TRUST ARRANGEMENT (CONTINUED)

This loan is secured by the following:

A. A first priority deed of trust on The Village Retirement Center's real property and improvements.

B. A security agreement creating a fast security interest in all the improvements, fixtures, and personal property associated and used in connection with The Village Retirement Center.

C. An assignment of rent, leases, profits, and contracts including, but not limited to, any residence agreement and any management agreements entered into in conjunction with the operation of The Village Retirement Center.

The security shall also include any after-acquired collateral, as well as any insurance proceeds recovered for the loss of any property serving as collateral for this loan.

At December 31, 2023, the Master Trust note payable balance outstanding was $7,800,000.

Upon the resale of a resident's unit, any proceeds over and above the departing resident's loan balance remaining in the trust after admission of a new resident may be loaned to the Company. The total loans to the Company shall not exceed the lesser of $25,000,000 or 80% of the appraised value of the property. Payments of principal are made on an annual basis and are calculated based on a 40-year loan amortization with the final payment due March 31, 2038. The Company is required to make minimum annual principal payments of approximately $500,000 for each of the next five years.

A resident's balance is repaid upon termination of the Residence Agreement. In accordance with the Joinder in Master Trust Agreement, the residents request and direct that all principal payments received be paid directly to the Company for the benefit of the resident. The purpose of this provision is to effectuate partial payment of the deferred entrance fee amount owed by the resident to the Company under the Residence Agreement.

The Master Trust also distributes to the Company any excess funds that are not invested in the form of an interest-free loan to the Company or held as reserves. Distributions of this kind also serve to effectuate partial payment of the deferred entrance fee amount owed by the resident to the Company under the Residence Agreement. Since the Company received an unsecured promise from the residents to pay the deferred entrance fee at the termination of the agreement, the fee does not become due until all the other services required to be rendered under the contract have, in fact, been fulfilled.

Upon termination of the Residence Agreement, the grantor or his or her estate instructs the Master Trust to distribute the balance of the grantor's Loan Deposit, partially to the grantor and partially to the Company, as a deferred entrance fee as previously described in Note 1.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Obligation to Provide Future Services

The Company annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of the monthly service fees and revenue from deferred entrance fees based upon the cash basis method. If the present value of the net cost of future services and use of facilities exceeds the present value of the future cash inflows from the monthly service fees and revenue from deferred entrance fees, a liability is recorded. Using a discount rate of 8%, the anticipated revenues are estimated to exceed the anticipated cost of future services for the year ended December 31, 2023; therefore, no liability was accrued.

The obligation of the Partnership to provide future health care services will probably increase as some residents may experience financial difficulties and may be unable to pay 100% of their health care charges. Management has identified three residents experiencing financial difficulties. Management has reasonably estimated that the Partnership's total future revenues might be reduced by $338,668 over 3.12 years, which is the average life expectancy of these residents.

Reservations and Designations

At December 31, 2023, there are no cash reserves maintained for contingencies or accumulated for specific projects or purposes other than as previously disclosed in Note 1.

Litigation

The Company experiences routine litigation in the normal course of its business. Management does not believe that any pending or threatened litigation will have material adverse effect on its financial statements.

NOTE 9 RELATED-PARTY TRANSACTIONS

Pursuant to the provisions of FASB ASU 2018-17, *Consolidation (Topic 810)*, the Company has elected to not apply variable interest entity guidance to legal entities under common control. The Company is not aware of any exposure to loss as a result of its involvement with these entities.

Freedom Management Company, an affiliate of Freedom Properties - Hemet, LLC, functions as the Company's management company under a formal management agreement. Under the agreement, the Company pays Freedom Management Company compensation equal to 5% of the gross monthly receipts of the Company's operations and deferred entrance fees. Included in accounts payable in the accompanying balance sheet is $406,467, which represents management fees due to Freedom Management Company at December 31, 2023. Management fees expensed during 2023 in the amount of $831,860 are included in general and administrative expenses in the accompanying statement of operations.

NOTE 9 RELATED-PARTY TRANSACTIONS (CONTINUED)

At December 31, 2023, the Company has notes outstanding with six members. The notes currently bear interest at 6.5% and are due in monthly payments of interest only through September 30, 2025 at which time any unpaid principal and interest are due. Prior to maturity, principal payments may be made at the Company's discretion. Any payments made during a month will be deemed to have been made on the last day of that month for purposes of calculating interest due. As of December 31, 2023, the outstanding balances on the notes payable totaled $1,000,800 and are included in notes payable to members in the accompanying balance sheet. The interest expense paid to the members during the year ended December 31, 2023 was $55,878, and is included in interest expense in the accompanying statement of operations.

At December 31, 2023, the Company has notes outstanding with Casa Pacifica, Sister location of Freedom Properties – Hemet. At December 31, 2023, the outstanding balances on the notes payable to related party totaled $1,299,200, of which $799,200 accrues interest at 6.5% and is due in April 2025 and $500,000 accrues interest at 3.0% and is due in May 2025. Prior to maturity, interest only payments are due monthly and principal payments may be made at the Company's discretion. Any payments made during a month will be deemed to have been made on the last day of that month for purposes of calculating interest due. Interest expense on the notes payable to related party for the year ended December 31, 2023 totaled $55,204, and is included in interest expense in the accompanying statement of operations.

The Company shares certain expenses with a commonly owned company. At December 31, 2023, the Company had a net payable to this entity for certain shared expenses totaling $414,003, which is included in related-party payable in the accompanying balance sheet.

The Company also pays to FMC Arizona LLC fees for accounting services. The fees expensed during the year ended December 31, 2023, totaled $42,000 and are included in general and administrative expenses in the accompany statement of operations.

NOTE 10 EMPLOYEE BENEFIT PLAN

The Company sponsors a qualified 401(k) plan for all eligible employees. Employees may contribute a percentage of their compensation for up to the maximum amounts as prescribed by law, with the employer matching a discretionary contribution equal to a percentage of the amount of the employee deferral as determined each year by the employer. Also, the Company may make a discretionary profit sharing contribution as determined each year by the employer. There were no employer matching or profit sharing contributions for the year ended December 31, 2023. Plan administrative expenses totaled $5,540 for the year ended December 31, 2023, and are included in general and administrative expenses in the accompanying statement of operations.

NOTE 11 EMPLOYEE RETENTION CREDITS

The Employee Retention Credit (ERC) is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. On December 27, 2020, the Consolidated Appropriations Act (CAA) was signed into law. Among other provisions, the CAA expanded the eligibility for ERC to include more entities as well as extending ERC into calendar year 2021 including the first, second and third calendar quarters. Furthermore, the refundable tax credit for the calendar year 2021 was expanded to 70% of the qualified wages. CAA provided these entities the ability to retroactively recover payroll taxes from earlier in 2020 during which they were previously ineligible. This is done by retroactively applying for the credit.

Employers, including tax-exempt organizations, are eligible for the credit if they operate a trade or business during calendar year 2020 and 2021 and experience either the full or partial suspension of the operation of their trade or business during any calendar quarter due to a significant decline in gross receipts or because of governmental orders limiting commerce, travel or group meetings due to COVID-19. The credit applies to qualified wages (including certain health plan expenses) paid during this period or any calendar quarter in which eligibility requirements were met.

Grants from the government are recognized when all conditions of such grants are fulfilled or there is reasonable assurance that they will be fulfilled. During the year ended December 31, 2023, the Partnership determined it met the compliance requirements and conditions of the ERC program, resulting in the recognition of combined ERC credits of $1,021,478 for the quarter ended March 31, 2021. The revenues related to these credits, net of professional fees of $102,000, are included in other income on the accompanying statement of operations.

There is a possibility that upon subsequent review the Internal Revenue Service (IRS) could reach a different conclusion regarding the Company's eligibility to retain the ERC credits received, which could result in repayment of the credits, interest and potential penalties. The amount of liability, if any, from potential ineligibility cannot be determined with certainty.

NOTE 12 SUBSEQUENT EVENTS

Events occurring after December 31, 2023, have been evaluated for possible adjustment to the financial statements or disclosure as of May 21, 2024, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

Members
Freedom Properties - Hemet, LLC
Hemet, California

We have audited the financial statements of Freedom Properties - Hemet, LLC (the Company) as of and for the year ended December 31, 2023, and our report thereon dated May 21, 2024, which appears on pages 1 and 2, was qualified, as the Company recognizes income from deferred entrance fees when the funds are constructively received and expenses incremental costs of obtaining long-term contracts with customers when incurred; however, accounting principles generally accepted in the United States of America require that revenues from nonrefundable deferred entrance fees be recognized when future goods or services are transferred during optional future periods covering a resident's life expectancy, and the incremental costs of obtaining a contract should be deferred and amortized on a systematic basis consistent with the pattern in which revenue related to the contract is being recognized. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules Form 5-1 through Form 5-5 and Form 7-1 are prepared for filing with the State of California Department of Social Services, in accordance with Section 1792 of the California Health and Safety Code, and 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, except for the effects on the financial statements due to the departures from accounting principles generally accepted in the United States of America described above, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

This report is intended solely for the information and use of the members and management of the Company and for filing with the State of California Department of Social Services and is not intended to be, and should not be, used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
May 21, 2024

FREEDOM PROPERTIES - HEMET, LLC
FORM 5-1
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(INCLUDING BALLOON DEBT)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	12/01/89	$ 470,000	$ -	$ -	$ 470,000
2	08/01/20	$ -	$ 55,878	$ -	$ 55,878
3	03/15/22	$ -	$ 46,453	$ -	$ 46,453
4					-
5					-
6					-
7					-
8					-
		TOTAL:	$ 102,331	$ -	$ 572,331

(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Freedom Properties-Hemet, LLC

FORM 5-1 TWO-WAY RECONCILIAITON
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(TWO-WAY RECONCILIATION OF PRINCIPAL PAID)

Long-Term Debt Obligation	(a) Date Incurred	(b) Required Principal Payments Paid During Fiscal Year per Form 5-1 Column (b)	(c) Voluntary Principal Payments Made in 2021	(d) Total Principal Paid Per Audited Financial Statements ((b) + (c))	General Ledger Account Number	General Ledger Account Name
1	12/01/89	$ 470,000		$ 470,000	21.00.2500.0	Master Trust Loan
2	08/01/20	$ -	$ -	$ -	21.00.2400.0	Partner Loans
3	03/15/22	$ -	$ -	$ -	21.00.2402.0	Note Payable Related Party
4						
5						
6						
7						
8						
	TOTAL:	$ 470,000	$ -	$ 470,000		

PROVIDER: Freedom Properties-Hemet, LLC

FORM 5-2
LONG-TERM DEBT INCURRED DURING FISCAL YEAR
(INCLUDING BALLOON DEBT)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	06/01/23	$ 8,750	$ 1,250	12	$ 15,000
2					-
3					-
4					-
5					-
6					-
7					-
8					-
		$ 8,750	$ 1,250	$ 12	$ 15,000

(Transfer this amount to

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Freedom Properties-Hemet, LLC

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$ 572,331
2	Total from Form 5-2 bottom of Column (e)	15,000
3	Facility leasehold or rental payment paid by provider during fiscal year	-
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$ 587,331

PROVIDER: Freedom Properties-Hemet, LLC

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$ 17,966,792
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$ -	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$ -	
	c.	Depreciation	$ 1,370,727	
	d.	Amortization	$ -	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$ 5,918,028	
	f.	Extraordinary expenses approved by the Department	$ -	
3		Total Deductions		7,288,755
4		Net Operating Expenses		10,678,037
5		Divide Line 4 by 365 and enter the result.		29,255
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$ 2,194,117

PROVIDER: Freedom Properties-Hemet, LLC
COMMUNITY: The Village

FORM 5-5
ANNUAL RESERVE CERTIFICATION

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Freedom Properties-Hemet, LLC
Fiscal Year Ended: 12/31/2023

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2023 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 2023 are as follows:

		Amount
[1]	Debt Service Reserve Amount	$117,331
[2]	Operating Expense Reserve Amount	$2,194,117
[3]	**Total Liquid Reserve Amount:**	$2,311,448

Qualifying assets sufficient to fulfill the above requirements are held as follows:

	Qualifying Asset Description	Amount (market value at end of quarter) Debt Service Reserve		Operating Reserve
[4]	Cash and Cash Equivalents	$200,000		$3,357,762
[5]	Investment Securities			$0
[6]	Equity Securities			
[7]	Unused/Available Lines of Credit			$0
[8]	Unused/Available Letters of Credit			
[9]	Debt Service Reserve			(not applicable)
[10]	Other: Accounts receivable, long term: These receivables are amounts due for Healthcare services, secured by the residents' refund from the Master Trust, in turn secured by first trust deed against the Retirement Center of The Village.	$184,500		
	Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	$384,500	[12]	$3,357,762
	Reserve Obligation Amount: [13]	$117,331	[14]	$2,194,117
	Surplus/(Deficiency): [15]	$267,169	[16]	$1,163,645

Signature:

(Authorized Representative)

Date: 5/21/2024

Manager/Chief Executive Officer
(Title)

FORM 5-5
ANNUAL RESERVE CERTIFICATION (CONTINUED)

Provider Name:	Freedom Properties-Hemet, LLC
Fiscal Year Ended:	12/31/2022

DSS - Reserve Report - Part of Form 5-5
Description of Reserves under SB 1212

Total Qualifying Assets as Filed:

Cash and Cash Equivalents	$ 3,557,762	
Line of Credit	-	Only drawn when necessary.
Other	$ 184,500	Accounts Receivable, long term: these receivables are amounts due for Healthcare services, secured by the residents' refund from the Master Trust, in turn secured by first trust deed against the Retirement Center of The Village.
Total Qualifying Assets as Filed	$ 3,742,262	

Reservations and Designations:	None

Per Capita Cost of Operations Operating Expenses (Form 5-4 line #1)	$ 17,966,792
Mean # of CCRC Residents (Form 1-1 line #10)	317
Per Capita Cost of Operations	$ 56,678

FORM 7-1
REPORT ON CCRC MONTHLY CARE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$1,888-$4,533	$4,625 – $6,550	$9,885
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	4.9%	4.9%	4.9%

☐ Check here if monthly care fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: May 1, 2023
(If more than one (1) increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation. **Date of Notice:** 3/31/2023 **Method of Notice:** letter

☒ At least 30 days prior to the increase in fees, the designated representative of the provider convened a meeting that all residents were invited to attend. **Date of Meeting:** 2/29/2023

☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases. **Date of Notice:** 1/31/2023

☒ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting. **Date of Posting:** 1/31/2023 **Location of Posting:** community bulletin board

[5] On an attached page, provide a concise explanation for the increase in monthly care fees including the amount of the increase and compliance with the Health and Safety Code sections. See **PART 7 REPORT ON CCRC MONTHLY CARE FEE** in the **Annual Report Instruction** booklet for further instructions.

PROVIDER: Freedom Properties-Hemet, LLC
COMMUNITY: The Village, Hemet, California

FORM 7-1

Global

INDEPENDENT
NETWORK MEMBER