

# **ADVISORY LOAN INSURANCE COMMITTEE**

**September 11, 2025**



**Cal-Mortgage Loan Insurance Division  
Department of Health Care Access and Information**

2020 West El Camino Avenue, Suite 1231  
Sacramento, California, 95833  
916-319-8800



2020 West El Camino Avenue, Suite 800  
Sacramento, CA 95833  
hcai.ca.gov



## Cal-Mortgage Loan Insurance Program Advisory Loan Insurance Committee (ALIC)

### AGENDA

Thursday, September 11, 2025  
at 10:30 a.m.

The ALIC may not discuss or act on any matter raised during the public comment section that is not included on this agenda, except to place the matter on a future meeting agenda. (Government Code §§ 11125, 11125.7, subd. (a).)

#### Location:

2020 West El Camino Avenue, Conference Room 1237, Sacramento, CA 95833

Microsoft Teams Link: [Click here to join the meeting](#)

Call-in audio only: (916) 535-0978, Conference ID: 309 589 823#

#### Item No. 1 Call to Order and Welcome

*Jay Harris, Committee Chair (or designee)*

- Roll call of ALIC members

#### Item No. 2 Public Comment Regarding Action Items on Today's Agenda

*Jay Harris, Committee Chair (or designee)*

#### Item No. 3 ALIC Chair and HCAI Executive Staff Remarks

- Jay Harris, Chair, ALIC Committee
- Elizabeth Landsberg, HCAI Director
- Scott Christman, MPDS, HCAI Chief Deputy Director
- Dean O' Brien, MBA, Cal-Mortgage Deputy Director

#### Item No. 4 Approval of the Minutes of the August 14, 2025, Meeting – Action Item

*Jay Harris, Committee Chair (or designee)*

#### Item No. 5 Loan Insurance Application Review: Channing House (Applicant) – Action Item

*Dennis Lo, Senior Account Manager*

The Applicant is a California not-for-profit public benefit corporation and an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986. The Applicant owns and operates a Continuing Care Retirement Community in Palo Alto. The purpose of the insured loan of \$36.2 million loan is to (i) finance the

costs of an independent living (IL) expansion project that includes purchasing a 13-unit apartment complex at 430 Forest Avenue in Palo Alto and related capital improvements for converting the property to the Applicant's IL satellite facility; (ii) fund the HCAI insurance premium; and (iii) fund the cost of issuance.

Item No. 6 Cal-Mortgage Reports – Informational Item

A. Project Monitoring

*Consuelo Hernandez, Cal-Mortgage Supervisor*

Ms. Hernandez will report on statistics about the existing portfolio of Cal-Mortgage Borrowers.

B. Pending Projects

*Consuelo Hernandez, Cal-Mortgage Supervisor*

Ms. Hernandez will report on current or prospective borrower applications.

C. Problem Project Report

*Dean O' Brien, MBA, Cal-Mortgage Deputy Director*

Mr. O' Brien will report on projects appearing on the Cal-Mortgage Problem Projects Report.

D. Distressed Hospital Loan Program and Small and Rural Hospital Relief Program

*Dean O' Brien, MBA, Cal-Mortgage Deputy Director*

Mr. O' Brien will report on the activities of the Distressed Hospital Loan Program and Small and Rural relief Program.

Item No. 7 Federal and State Budgets Discussion

*Jay Harris, Committee Chair (or designee)*

*Dean O' Brien, MBA, Cal-Mortgage Deputy Director*

The ALIC Committee and Mr. O' Brien will discuss the potential impact of the Federal and State Budgets on the Cal-Mortgage Loan Insurance Program.

Item No. 8 Future Agenda Items/Announcements from Committee Members

*Jay Harris, Committee Chair (or designee)*

Item No. 9 General Public Comment

*Jay Harris, Committee Chair (or designee)*

Item No. 10 Adjournment  
*Jay Harris, Committee Chair (or designee)*

Board Members: Jay Harris, Chair\*  
Derik Ghookasian, Vice Chair\*  
Soyla Reyna-Griffin\*  
Jonathon Andrus\*  
John Woodward\*  
Richard Tannahill\*  
Scott Coffin\*  
Mary Connick\*

\*Attending Virtually

HCAI Staff: Elizabeth Landsberg, Director  
Scott Christman, MPDS, Chief Deputy Director  
Dean O' Brien, MBA, Cal-Mortgage Deputy Director  
Consuelo Hernandez, Cal-Mortgage Supervisor

The Advisory Loan Insurance Committee agenda and other notices about meetings are posted online and can be found by searching for the Advisory Loan Insurance Committee and meeting month at <https://hcai.ca.gov/public-meetings>.

For further information about this meeting, please contact Joanna Luce at (916) 319-8828, [Joanna.Luce@hcai.ca.gov](mailto:Joanna.Luce@hcai.ca.gov), or send a letter to The Department of Health Care Access and Information, 2020 West El Camino Avenue, Sacramento, CA 95833. Attn: Joanna Luce

The Advisory Loan Insurance Committee may take action under any agenda item.

Every effort will be made to address each agenda item as listed. However, the agenda order is tentative and subject to change without prior notice. Items not listed on the agenda will not be considered. The Advisory Loan Insurance Committee may take a brief break during the meeting. Members of the public are NOT required to identify themselves or provide other information to attend or participate in this meeting. If Microsoft Teams (or other platform) requires a name, you may enter "Anonymous". You may also input fictitious information for other requested information if required to attend the meeting (e.g., [anonymous@anonymous.com](mailto:anonymous@anonymous.com)).

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least seven (7) business days before the meeting will help ensure availability of the requested accommodation.

If you need help understanding or translating into another language, or if you need sign language services, please contact Joanna Luce at (916) 319-8828 or [Joanna.Luce@hcai.ca.gov](mailto:Joanna.Luce@hcai.ca.gov). Let us know at least seven days before the meeting so we can set up the services you need.

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### **Korean/ 한국어**

이 회의 안건을 이해하는 데 도움이 필요하거나, 다른 언어로 번역이 필요하거나, 수화 서비스가 필요한 경우: Please contact Joanna Luce at (916) 319-8828 or [Joanna.Luce@hcai.ca.gov](mailto:Joanna.Luce@hcai.ca.gov). 필요한 서비스를 제공할 수 있도록 회의 개최 7일 전까지 알려주십시오.

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### **Tagalog/Tagalog**

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### **Vietnamese/Tiếng Việt**

Nếu quý vị cần trợ giúp để hiểu hoặc để dịch sang ngôn ngữ khác hoặc nếu quý vị cần dịch vụ ngôn ngữ ký hiệu, vui lòng liên hệ Joanna Luce at (916) 319-8828 or [Joanna.Luce@hcai.ca.gov](mailto:Joanna.Luce@hcai.ca.gov). Vui lòng cho chúng tôi biết ít nhất bảy ngày trước cuộc họp

để chúng tôi có thể bố trí các dịch vụ mà quý vị cần

**Chinese Cantonese(Traditional)/中文 粵語**

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## **Agenda Item 4**

**Approval of the Minutes of the  
August 14, 2025 Meeting  
Action Item**



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## **ADVISORY LOAN INSURANCE COMMITTEE MINUTES**

**August 14, 2025**

### **1. CALL TO ORDER**

Mr. Jay Harris, ALIC Chair, called to order the meeting of the Advisory Loan Insurance Committee (Committee) of the Cal-Mortgage Loan Insurance Program (Cal-Mortgage) of the Department of Health Care Access and information (HCAI) at 10:30 a.m.

Before Mr. Harris performed a voice roll call of Committee member and asked the Committee members to state their name and acknowledge they are present at today's meeting when their name is called.

### **COMMITTEE MEMBERS' PRESENT**

Jay Harris, Chair, via teleconference  
Derik Ghookasian, Vice Chair, via teleconference  
Richard Tannahill, Member, via teleconference  
Scott Coffin, Member, via teleconference  
Mary Connick, Member, via teleconference

### **COMMITTEE MEMBERS ABSENT**

Soyla Reyna-Griffin, Member  
John Woodward, Member  
Jonathon Andrus, Member

### **ADDITIONAL ATTENDEES**

Scott Christman, MPDS, HCAI, Chief Deputy Director  
Dean O'Brien, MBA, HCAI, Cal-Mortgage, Deputy Director  
Consuelo Hernandez, HCAI, Cal-Mortgage, Supervisor  
Geoff Trautman, HCAI, Staff Attorney  
Arne Bracchi, HCAI, Cal-Mortgage, Account Manager  
Lauren Hadley, HCAI, Cal-Mortgage, Senior Account Manager  
Dennis Lo, HCAI, Senior Account Manager  
Tom Wenas, HCAI, Cal-Mortgage, Account Manager  
Frank Perry, HCAI, Cal-Mortgage, Reports and Data Manager  
Michael Scannell, HCAI, Cal-Mortgage, Office Technician  
Dr. Phil Wong, Chief Executive Officer, Gateways Hospital and Mental Health Center  
Ms. Fay Ji, Chief Financial Officer, Gateways Hospital and Mental Health Center  
Mr. Brian Thorne, Chief Development Officer, Gateways Hospital and Mental Health Center

Dr. John Calderone, Gateways Hospital and Mental Health Center Board Chair  
Mr. Grant Wilson, Financial Advisor, HG Wilson Municipal Finance Inc.  
Ms. Megan Hartman, Senior Manager, Wipfli LLP  
Mr. Matthew Wilson, Attorney, Wilson Law Group  
Mr. Mike Cavanaugh, Underwriter, Hilltop Securities  
Ms. Hannah Hrich, Municipal Credit Analyst,

## **2. PUBLIC COMMENT REGARDING ACTION ITEMS ON TODAY'S AGENDA**

Mr. Harris asked if there were any comments from the public on today's agenda. Hearing no public comments made, Mr. Harris moved to Agenda Item 3, ALIC Chair and HCAI Executive Staff Remarks

## **3. ALIC CHAIR AND HCAI EXECUTIVE STAFF REMARKS**

- **ALIC Chair**

Mr. Harris did not make any opening remarks, and then he turned over the meeting to Mr. Scott Christman, MPDS, HCAI, Chief Deputy Director, for his opening remarks.

- **HCAI Director**

Ms. Elizabeth Landsberg, HCAI Director, did not attend today's meeting.

- **HCAI Chief Deputy Director**

Mr. Christman told the Committee that Ms. Landsberg sends her regrets for being unable to attend today's meeting and said that he is happy to provide the Director's Report to the Committee.

Mr. Christman provided an update to the Committee on a health trailer bill enacted in the recent State Budget that requires Pharmacy Benefit Managers (PBM) to report their data to the Health Care Payments Data Program (HPD), which is the All-Payers' Claims Database managed by HCAI. PBMs' will report information about discounts and rebates; fees and other payments, including payments made to PBM owned pharmacies. The Department of Managed Care will be responsible for licensing PMBs to do business in the State. Mr. Christman noted that a fact sheet has been published on the HPD program page regarding the implementation timeline for the PBMs' data collection. The first step is to engage with the PBMs' themselves and seat a new PBM representative on the existing HPD Advisory Committee. That work is getting started right away.

Mr. Christman then told the Committee the Department of Health and Human Services Agency (Agency) has asked HCAI to take on some new program responsibilities. The new responsibilities are the transfers of the Office of the Patient Advocate and the Data Exchange Framework. These two programs exist at the Agency level and are now being transferred to HCAI. Mr. Christman said HCAI is excited to take on these new responsibilities and the programs fit well with HCAI's existing program portfolio and alignments; HCAI's mission statement;

and with HCAI's largest new program, the Office of Health Care Affordability. Mr. Christman provided a brief description of what each new responsibility entails for HCAI.

Mr. Christman then talked about the health workforce development program at HCAI. Noting that he has talked about BH-Connect in the past. BH-Connect is the behavioral health community based organized networks of equitable care. As of July 1, 2025, two new workforce programs have been launched in support of BH-Connect. The first BH-Connect program is a medical behavioral health student loan repayment program. Mr. Christman said HCAI has already received more than 2000 applications for this program and HCAI is excited for the response to this new program. The second program BH-Connect is a residency training program. This program has a service obligation and provides grants directly to the residency and fellowship programs to increase the availability of behavioral health providers in Medi-Cal safety net settings. More to come on these two programs.

Mr. Christman then mentioned the emerging rural health transformation program that was part of the HR-1 Budget Reconciliation Act at the federal level. Agency has asked HCAI to administer this new grant program. This program is for rural health provider organizations. HCAI is on standby and getting ready to launch this new program with limited information. Mr. Christman stated that Mr. Dean O'Brien, MBA, HCAI, Cal-Mortgage, Deputy Director, can share more on this item later on in the agenda.

At the conclusion of Mr. Christman's remarks there was a short discussion between the Committee and Mr. Christman.

- **Cal-Mortgage Deputy Director**

Mr. O'Brien stated he will save his opening remarks for the Deputy Director's reports section of the agenda.

Mr. Harris moved to Agenda Item No. 4, Approval of the Minutes of the June 14, 2025, meeting.

#### **4. APPROVAL OF THE MINUTES OF THE JUNE 12, 2025, MEETING**

Mr. Harris requested one correction to the previous Committee meeting's minutes. In the middle of page 9, Medicaid is misspelled. With no other corrections requested for the meeting minutes Mr. Harris asked for public comments on this agenda item. Hearing none, Mr. Harris then asked for a motion to approve the meeting minutes. Mr. Derik Ghookasian, ALIC Vice Chair, made the motion to approve the minutes with one correction. Scott Coffin, ALIC member second the motion. Before the Committee voted on this agenda item, Mr. Harris called for public comments. Hearing none, Mr. Harris preformed a voice roll-call vote. The motion passed, 5-0.

After the Committee vote on this agenda item, Mr. Harris asked Mr. O'Brien to introduce the Applicant in Agenda Item No. 5, Loan Application Review: Gateways Hospital and Mental Health Center.

**5. LOAN INSURANCE APPLICATION REVIEW: GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER (APPLICANT)**

*Arne Bracchi, Account Manager*

The Applicant is a California not-for-profit corporation operating with several locations in Los Angeles. The purpose of the proposed insured \$57.2 million loan is to (i) fund \$29.8 million to construct a 37-bed behavioral health facility, (ii) pay off a \$21.0 million loan, (iii) reimburse the applicant \$4.1 million for the purchase of two cottages, (iv) fund capitalized interest, (v) fund a debt service reserve, (vi) fund the HCAI insurance premium, and (vii) fund the cost of issuance.

Mr. O'Brien welcomed everyone to today's meeting and then made a housekeeping remark before stating Cal-Mortgage was very happy to be welcoming back the Applicant before the Committee. Mr. O'Brien then made brief remarks of the Applicant's history with the Cal-Mortgage program and then introduced Arne Bracchi, Account Manager, to introduce today's Applicant to the Committee.

Mr. Bracchi introduced himself and the following representatives present on behalf of the Applicant:

Dr. Phil Wong, Chief Executive Officer, Gateways Hospital and Mental Health Center

Ms. Fay Ji, Chief Financial Officer, Gateways Hospital and Mental Health Center

Mr. Brian Thorne, Chief Development Officer, Gateways Hospital and Mental Health Center

Dr. John Calderone, Gateways Hospital and Mental Health Center Board Chair

Mr. Grant Wilson, Financial Advisor, HG Wilson Municipal Finance Inc.

Ms. Megan Hartman, Senior Manager, Wipfli LLP

Mr. Matthew Wilson, Attorney, Wilson Law Group

Mr. Bracchi provided the Committee with a summary background of the Applicant and the scope of their project with his recommendation to approve the request for loan insurance. Mr. Bracchi then called on Dr. Phil Wong, Chief Executive Officer, Gateways Hospital and Mental Health Center to present his opening remarks before the Committee asked their questions on today's loan insurance application.

Dr. Wong made brief opening remarks regarding the history of their corporation and stated their goal today is same goal when they first opened their doors 70 years ago, to provide mental health services to the underserved population and to build a continual care system that include housing, residential outpatient services, and an acute psychiatric hospital for the needs of our mentally ill population. Then Dr. Wong gave an extensive description of each service they provide to their clients.

Following Dr. Wong's opening remarks, a discussion of the loan application with the Committee and the Applicant occurred.

The following subjects related to the Applicant's project were discussed: the Applicant's history with Cal-Mortgage; referrals for admission; operational costs; staffing needs, recruitment, and retention; government legislation and funding cuts; government funded programs; private donations and fundraising; profitability; fees for service; accounts receivables, revenue, and cash flow; contract negotiations with Los Angeles County Department of Mental Health; CalAIM reimbursements; Jewish Federation Relationship; Eaton and Altadena fires; housing for fire victims; Hilltop Securities; premium bonds; expansion of management depth to handle the corporation's new expansion projects; OSHPD's approvals for the Glendale Heights construction; 10-percent contingency on the construction budget; and the opening date of the Glendale Heights location.

At the conclusion of this discussion and all questions were answered to the Committee's satisfaction Mr. Harris opened the discussion to the public for comment. No public comments were offered on the Applicant's loan application. Mr. Harris then called for a motion to vote on the loan application project. Ms. Mary Connick, ALIC member, made a motion to approve the application for loan insurance. Mr. Derik Ghookasian, ALIC Vice Chair, seconded the motion. Mr. Harris then preformed a voice roll-call vote. The Committee voted to approve the application. The motion passed, 5-0. Ms. Soyla Reyna-Griffin, ALIC member, Mr. John Woodward, ALIC member, and Mr. Jonathon Andrus, ALIC member, did not attend today's meeting.

At the conclusion of the discussion and the vote on this agenda item, Mr. Harris then moved the meeting to Agenda Item 6, Deputy Director's Reports.

## **6. DEPUTY DIRECTOR'S REPORTS**

- **Project Monitoring – Consuelo Hernandez, Supervisor**

Mr. Harris asked Mr. O'Brien to preside over the Cal-Mortgage Reports.

Ms. Hernandez told the Committee there has been an improvement in receiving financial statements since the last ALIC meeting. This is because of the timing of when financial statements are due. Our account managers continue to reach out to our borrowers to make sure we get their current financial statements.

Ms. Hernandez said the borrowers that have missed their debt service coverage ratios are mostly borrowers listed on our internal Watch List and Problem Projects Report and that we continue to keep a close watch on these borrowers.

Ms. Hernandez also reported account managers are being encouraged to visit their borrowers as they have time available with their current workload.

At the conclusion of this report Ms. Hernandez then moved on to present the Pending Projects Report.

- **Pending Projects – Consuelo Hernandez**

Ms. Hernandez informed the Committee that since the last ALIC meeting on July 29, 2025, Cal-Mortgage closed the loan for Sequoia Living in the amount of \$151.0 million. Ms. Hernandez thanked Ms. Lauren Hadley, Senior Account Manager, for her good job and the hard work she put into this project to get the loan closed quickly. HCAI received a \$5.5 million premium from this loan.

Ms. Hernandez said the next ALIC meeting will be September for Channing House, a Continuing Care Retirement Community in Palo Alto. Channing House is a current borrower with HCAI. They have two current loans, one for \$54.0 million and the second loan is \$44.0 million. The new loan will be for \$40.0 million. Ms. Hernandez gave a brief description of Channing House and their project; and said we are working diligently with them to bring their application for loan insurance to the ALIC September meeting.

At the conclusion of Ms. Hernandez's report, Ms. Hrich asked Ms. Hernandez if there was an update on Oroville Hospital. Ms. Hernandez said Oroville Hospital is waiting to get their 2024 audited financial statements finalized to submit their loan application. There was a brief conversation with Cal-Mortgage and Ms. Hrich about Oroville Hospital.

At the conclusion of this conversation Mr. O'Brien asked if there were any additional questions from the public or Committee members. Hearing none, Mr. Harris moved to Agenda Item 7, Federal and State Budgets Discussion.

- **Problem Project Report – Dean O'Brien, Cal-Mortgage Deputy Director**

Mr. O'Brien said there are no new additions to the current Problem Projects Report and then discussed the borrowers that are experiencing financial difficulties; and the action plan devised to address each borrower and their financial struggles. Mr. O'Brien then provided the Committee with additional updates on the following borrowers:

St. Rose Hospital (St. Rose): Mr. O'Brien started this update stating tri-weekly chats with Alameda Health System (AHS) and St. Rose's management team continue. Mr. O'Brien then reviewed St. Rose's May 31, 2025 internally prepared financial statement and the pending year end audited financial statement; confirmation of St. Rose's receipt of Alameda County Measure A funds; certification for the new sub-acute unit; bids and build of cardiac catheterization of lab; and receipt of a \$62.4 million behavioral health continuum infrastructure program grant to build a 20-bed dedicated geriatric psychiatric unit.

San Benito Health Care District (San Benito): Mr. O'Brien began this update stating the transaction with Insite Health (Insite) has been canceled. According to the press release it was a joint decision by San Benito and Insite. Mr. O'Brien noted San Benito has done a really good job with cost containment strategies, but

a lot of this was ushered in under bankruptcy protection and San Benito has since exited bankruptcy protection. Mr. O'Brien said that we will continue to monitor San Benito on a monthly basis. The current insured loan pays off in March 2029, potentially in 2028 with a fully funded Debt Service Reserve Fund.

Hill Country Community Clinic (Hill Country): Mr. O'Brien told the Committee Hill Country will likely be coming off of the Problem Projects Report (PPR) soon. Financial improvements continue since selling the Center For Hope in Redding and moving operations back to Round Mountain. They are working on getting caught up on their overdue audited financial statements. Once we receive the audited overdue financial statements they will come off of the PPR.

Verdugo Mental Health and California-Nevada Methodist Homes: These borrowers are resolved default settlement agreements and Cal-Mortgage is continuing to collect regular payments without issues.

The Committee did not have any questions about this report.

- **Distressed Hospital Loan Program (DHLP) and Small and Rural Hospital Relief Program (SRHRP)**

Mr. O'Brien told the Committee that the quarterly financial reports from all sixteen hospitals are expected and due on August 15, 2025, so he does not have a financial update since the last Committee meeting.

Mr. O'Brien reported on the recent distressed hospital roundtable discussion hosted by California State Treasurer, Fiona Ma. The discussion included hospital Chief Executive Officers and Chief Financial Officers; and that this discussion was a listening feedback session. The topics of discussion included how the DHLP funds were used; challenges the hospitals still face; staff recruitment and retention; management of revenue cycles; cyber-attacks; and the future focus of growing their own staff with in-house residency and training programs.

Mr. O'Brien gave brief specific updates for Kaweah Delta Health Care District, Madera Community Hospital, and Hazel Hawkins Memorial Hospital.

At the conclusion of the DHLP discussion, Ms. Hannah Hrich, T Rowe Price asked about Oroville Hospital and Channing House under 6b. Pending Projects Report. Mr. O'Brien said he would report on the SRHRP program and then circle back to the Pending Projects Report.

Mr. O'Brien said currently there are about \$59.3 million in grant funds available. To date fifteen grants have been awarded totaling \$8.9 million. Mr. O'Brien noted that most of the grant awards have been for seismic evaluations and not big construction. It is expected in the second quarter of 2026 the hospitals will be past the evaluation stage and start construction that SRHRP can help them with.

Currently SRHRP is working with a handful of hospitals to help them finish their applications. Those awards total around \$2.1 million. Mr. O'Brien said that Cal-Mortgage has a good working relationship with many hospitals and hope they will come back to do repeat deals for their construction costs. SRHRP is focused on increasing program awareness and has upcoming webinars scheduled.

Next Mr. O'Brien gave the Committee an overview about the new Rural Transformation Grant Program (Program). There are not a lot of details on this program as yet and stated that Cal-Mortgage is not administering this program. The HR-1 federal bill includes \$50.0 billion for states to administer a rural transformation grant program to support rural providers. This money is intended through grants and technical assistance to backfill some of the Medi-Care cuts. The money will be disbursed at \$10.0 billion per year over the next five years. The State Office of Rural Health housed within HCAI is being asked to take the lead on this new program. There has been one meeting to date so far. Cal-Mortgage, DHLP, and SRHRP programs are being asked to share their perspective on what is working and what is not working in these programs. Department of Health Care Services is also working on this program to move the application process forward. More details to come on this new Program.

At the conclusion of Mr. O'Brien's report on this agenda item the Committee had no questions. Mr. O'Brien then asked Ms. Consuelo Hernandez, HCAI, Cal-Mortgage Supervisor, to present 6a. Project Monitoring Report and 6b. Pending Projects Report.

## **7. FEDERAL AND STATE BUDGETS DISCUSSION**

Mr. Harris asked Mr. O'Brien to lead this discussion for Ms. Landsberg. A lengthy discussion occurred with Mr. O'Brien and the Committee. The discussion covered the following subjects: the uncertainty of the future of health care with Medi-Care cuts; the new federal Rural Transformation Grant Program; current federal programs that may end; the effects of the federal cuts to the Cal-Mortgage Portfolio; distressed hospitals; and what Cal-Mortgage will look for in revenue streams and feasibility on new Cal-Mortgage applications for loan insurance. Mr. O'Brien stated he appreciated this forum and the importance of coming together as a group to share and discuss what is being seen on the health care from in terms of the federal and state budget cuts.

At the conclusion of this discussion Mr. Harris called for public comment on this agenda item. No public comments were made.

## **8. FUTURE AGENDA ITEMS/ANNOUNCEMENTS FROM COMMITTEE MEMBERS**

Mr. Harris asked that the Federal and State Budgets discussion be kept as an agenda item for discussions with Ms. Landsberg and the Committee at future meetings.

**9. GENERAL PUBLIC COMMENT**

No public comments were made.

**10. ADJOURN**

Mr. Geoff Trautman, HCAI, Staff Attorney told Mr. Harris, with four Committee members currently on the meeting call, that we can simply adjourn the meeting. The meeting was adjourned at 11:58 a.m.

The Minutes of the above meeting were approved during the meeting of the Committee held on September 11, 2025.

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Jay Harris, Chair

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Joanna Luce, Executive Secretary

## **Agenda Item 5**

**Loan Insurance Application Review:**

**Channing House (Applicant)**

**Action Item**

**Cal-Mortgage Application**  
**September 11, 2025 ALIC Meeting**



850 Webster St, Palo Alto, CA 94301

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Exhibit II Proposed Bond Model

Exhibit III Audited Financial Statements FYE 2022 – 2025

Exhibit IV Interim Financial Statements YTD May 31, 2025

Exhibit V Financial Feasibility Report

Exhibit VI Appraisal Summary

## **PROJECT SUMMARY & FEASIBILITY ANALYSIS**

For the September 11, 2025 Meeting of the Advisory Loan Insurance Committee

### **Project Summary**

**Applicant:** Channing House (Corporation)  
850 Webster St, Palo Alto, CA 94301

**Project No.:** 1099

**Account Manager:** Dennis Lo

### **Executive Summary:**

The Corporation is a California nonprofit public benefit corporation and an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986. The Corporation owns and operates a Continuing Care Retirement Community (CCRC), which consists of 173 Independent Living (IL) units, 39 Assisted Living (AL) beds and a 26-bed Skilled Nursing Facility (SNF), located on one acre of real property in Palo Alto, California, approximately 25 miles south of San Francisco.

The proposed insured loan of \$36,175,000 (the 2025 Bonds) will be used to (i) finance the costs of an IL expansion project (Project) that includes the purchase of a 13-unit apartment complex at 430 Forest Avenue (Forest Property) in Palo Alto and related capital improvements to convert the property to a IL facility (Satellite Facility); (ii) fund debt service reserve; (iii) fund HCAI insurance premium; and (iv) pay certain costs of issuance of the 2025 Bonds.

### **Existing Facility and Project Description:**

#### **The Existing Facility**

The Corporation's current CCRC is located at 850 Webster St. (Existing Facility) within two miles of Stanford University and just southeast of the Palo Alto downtown business district. The Existing Facility consists of (i) an 11-story, approximately 330,000 square foot building (Tower) that houses 173 IL units and 12 AL rooms, and (ii) a two-story approximately 48,000 square foot building (Health Center) located adjacent to the Tower, which contains 27 AL beds (in 24 rooms) and a 26-bed SNF. Amenities are open for all residents, including an indoor swimming pool, fitness center, dining room, auditorium, library, conference rooms, guest rooms, lobby, activity rooms, and underground parking. Most of the amenities are located at the Tower while the Health Center has dining area, a library, and a massage room.

#### **The Project**

The Satellite Facility, which was built in 2018 by architect David Solnick and developer Prabhas Kejriwal of Sageleaf Forest, LLC., is a two-building apartment complex located at 430 Forest Avenue, Palo Alto, approximately two blocks (0.3 miles) from the Existing Facility. The main building has ten two-bedroom units ranging in size from 1,054 square feet to 1,471 square feet and a four-bedroom penthouse with a floor area of 3,696 square

feet. The other building has two townhouses, each of which has two bedrooms and a study that are 2,164 square feet and 2,331 square feet. There is an underground parking lot for residents.

The Corporation will set up an office in the Satellite Facility. Staff will be stationed in the office as a service contact point for residents. Transportation will also be provided for residents to commute between the Existing Facility and the Satellite Facility.

According to the Agreement for Purchase and Sale of Commercial Real Estate (Purchase Agreement) dated July 25, 2025, the purchase price of the Forest Property is \$35 million, with a closing date within 4 months after signing of the Purchase Agreement, currently scheduled in late October. Some of the apartments are currently occupied by tenants, but 11 units will be vacant by the end of 2025 and the leases of the two remaining units will expire before June 2026. After closing, the Corporation will spend approximately \$700,000 to install an emergency response system and bathroom remodeling (converting to walk-in shower, upon request) in the units. The Corporation has submitted a licensing application to the California Department of Social Services (CDSS) for the new IL units.

The Corporation has historically experienced over 97% occupancy of their IL units in the last three fiscal years. Many of its IL units are small, with 135 out of 173 IL units (78%) being one-bedroom or studio. Due to high occupancy and small unit size, the Corporation has been searching for a suitable apartment building with larger units in the neighborhood to expand its IL capacity. With the Satellite Facility in service, the Corporation can integrate it with the Existing Facility to offer a full continuum of care that will help diversify the Corporation's revenue stream.

The Corporation has hired Gauger+ Associates as its Marketing Consultant to formulate and implement a marketing plan (Marketing Plan) for the Project. Gauger+ Associates is an independent marketing agency with branding, advertising and interactive web design experience. Their clients came from different industries including food, beverage, homebuilding, apparel, automotive, entertainment, financial and legal services, health and beauty aids, jewelry, pharmaceuticals, sporting goods, recreational products, technology, retail, non-profits, and travel.

The Marketing Plan, which commenced in August 2025, includes conducting market research, preparation of sales materials and virtual tour videos, setting up model apartments, and events scheduling to follow up with interested prospects. The Marketing Plan also suggests assigning a special team for the sale of the two townhouses and the penthouse that are positioned in the high-end market segment. The Corporation plans to start receiving 10% deposit from unit sales in January 2026 and targets to sell one unit per month starting from March 2026.

#### **Financing History with HCAI:**

The relationship between the Department of Health Care Access and Information (HCAI) and the Corporation dates back over 34 years. HCAI currently insures two bond series for the Corporation that both closed in 2017. The first loan insured by HCAI was

done in 1991, in which HCAI insured \$9.8 million Certificates of Participation (COP) to financing the Corporation's seismic and capital improvement projects.

In 2010, HCAI insured a \$63.5 million bond issue (2010 Bonds) to refinance the \$23 million COP issued in 1999 (for certain seismic project) and financing a major renovation project that included construction of the Health Center and conversion of vacant AL/SNF units to 14 IL units on the second floor of the Tower.

In 2017, HCAI insured two bond series: 1) the \$52.6 million bonds (2017A Bonds) were used to refinance the 2010 Bonds, 2) the \$44.3 million bonds (2017B Bonds) were used to finance a capital improvement project that included updating the fire alarm and sprinkler system in the Tower, HVAC system replacement, internet cabling upgrade, and other small projects such as entry door fire resistant improvement, wireless network extension, and window replacements.

With the addition of the proposed 2025 Bonds, the total outstanding balance of the Corporation's long-term debts with HCAI will be \$124.1 million.

### **Corporation Background:**

The Corporation was founded in 1960 by Dr. Russel V.A. Lee, one of the creators of the Palo Alto Medical Foundation and its first president. Through his medical practice, Dr. Lee recognized the need to find new approaches to providing care for the nation's aging population. In 1964, the Corporation completed construction of the facility, and the first residents moved in.

The Corporation's mission is to provide a CCRC where older adults thrive in a vibrant setting that supports active, engaged and healthy living; and to provide a sustainable, innovative community that promotes this lifestyle, while embracing respect and dignity for all who live and work at Channing House.

### **Executive Management:**

**Chief Executive Officer (CEO):** Ms. Rhonda Bekkedahl joined the Corporation in November 2011 as the Director of Finance and Technology. She was promoted to CEO in May 2019. Ms. Bekkedahl's previous positions include Auditor (Deloitte & Touche and Kaiser Permanente), Controller, and Chief Financial Officer (in healthcare and technology). Immediately prior to joining Channing House, she was co-owner of an international technology company. Ms. Bekkedahl is a licensed Nursing Home Administrator and holds certification for Residential Care Facility for the Elderly. She received a Bachelor's Degree in Business Administration with an emphasis in Accounting from Colorado State University and a Master's Degree in Gerontology from the University of Southern California.

**Chief Financial Officer (CFO):** Ms. Jaisie Lozano joined the Corporation as the Finance Director in February 2019. She was promoted to CFO in 2021, overseeing the accounting, finance, technology, and marketing functions of the Corporation. Ms. Lozano has over two decades of experience in the finance sector of senior living industry. She is also a former Finance Director of one of Cal-Mortgage project

borrowers, Northern California Retired Officers Community dba Paradise Valley Estates. She received a Bachelor's Degree in Business Administration with an emphasis in Accounting from California State University, Sacramento and she is currently enrolled in the Boise State University MBA program with an anticipated graduation date of December 2025.

**Chief Operating Officer (COO):** Ms. Elvyra Abare joined the Corporation as COO in September 2024. Ms. Abare has over 20 years of experience as a senior living manager. Prior to joining the Corporation, she had been the Executive Director of Canterbury Woods in Pacific Grove, California for six years. She has also served as an administrator, director of staff development, resident care coordinator, and unit manager of SNFs. Ms. Abare is a licensed Nursing Home Administrator and holds certification for Residential Care Facility for the Elderly. She received a Master's Degree in Economics from Bratsk Industrial Institute, Bratsk, Russia.

### **Board of Trustees:**

The Corporation currently is governed by a Board of Trustees (BOT) and has no corporate members. The Corporation's bylaws provide that the BOT will consist of no less than nine and no more than 15 trustees. Trustees are elected by the BOT and may serve up to three successive three-year terms. At least one but no more than three trustees are elected from residents of the Corporation's facility. Resident trustees may serve up to three successive three-year terms and have the benefits, duties, and responsibilities of other trustees but may not serve as chair or vice chair of the BOT. The BOT currently has 12 trustees as shown below.

<b>Name</b>	<b>Background</b>	<b>Term</b>
Bern Beecham, Chair	Municipal Government, retired	2032
Maureen Sheehan, Vice Chair	Pediatric Nurse Practitioner, retired	2029
Zeng Yu Chen, Treasurer	Certified Public Accountant	2028
Marcia Pugsley, Secretary [R]	HR/Social Worker, retired	2027
Cal Brennehan	Physician, retired	2027
Bruce McFarlane	Certified Public Accountant	2029
Pancho Chang	Attorney and Non-Profit Executive, retired	2031
Tom DuBois	Municipal Government	2032
Jonathan Schatz	Senior Living Management Officer/Attorney	2032
Patti Fry	Information Systems Consultant, retired	2034
Eric Wang	Attorney	2034
Sue Gilbert [R]	Corporate Finance, retired	2032
[R] = Resident Trustee		

### **Succession Plan:**

There are no anticipated changes in the senior management team. According to the Corporation's Succession Plan, the current CEO, with the BOT's approval, will designate a key individual(s) as an Acting CEO in case of a short-term (less than three months) absence. For a longer period of absence from the CEO, the BOT Chair will

assign an Interim CEO, who shall be selected from the executive staff members, BOT members, and external consultants.

If a permanent replacement of the CEO is required, the BOT Chair will appoint, with BOT's approval, at least three BOT members to form a Search Committee, which will then hire an external headhunter to search for appropriate candidates for the job and recommend to the Search Committee. The Search Committee will meet with the recommended candidates and select the top candidates for presentation to the BOT, which will interview each recommended candidate and make the final decision.

The Corporation will also develop a plan to ensure open communications with the BOT, staff members, other stakeholders, and the facility residents. The BOT Chair will be designated as the chief spokesperson.

**Credit Rating and Premium:**

The Corporation will not obtain an independent credit rating for the proposed 2025 Bonds. The premium for insuring the 2025 Bonds is 3.0 percent. The Certification and Inspection Fee is 0.4 percent. The total premium and fee are approximately \$1.9 million.

**Legal Status and Eligibility:**

The Corporation is a California non-profit, public benefit corporation, qualified under Section 501(c)(3) of the Internal Revenue Code. The Project is an IL expansion of the Corporation, which is eligible for loan insurance as a multi-level health facility and nursing home as defined in Section 129010(g) of the Health and Safety Code.

**Licensing and Certification:**

The Corporation is licensed to operate and maintain a 26-bed SNF by the California Department of Public Health (CDPH) and is licensed by the California Department of Social Services (CDSS) as a CCRC with a capacity of 264.

According to the CDSS website, there were two Type A citations against the Corporation in 2025. Both citations are related to errors in administering medications to residents. The Corporation identified the errors and took appropriate actions immediately, including close monitoring health conditions of the affected residents and reporting to CDSS. Correction plans are in place and training has been provided to the relevant staff.

According to CDPH's website, the Corporation's SNF did not have any survey deficiencies between 2022 and 2024. There was a Level 1 deficiency, which is interpreted by CDPH as an incident that has the potential for causing no more than a minor negative effect on the residents. No actual harm with potential for minimal harm.

The Corporation's SNF is not Medicare certified and is 100 percent private pay. There are no ratings from the Centers for Medicare & Medicaid Services (CMS) for the Corporation's SNF.

**Services and Fee Structure:**

The Corporation is an entrance fee basis Type A CCRC which offers a relatively consistent monthly fee. Residents pay a flat monthly fee (subject to annual adjustment) for IL residence. When residents permanently move to AL/SNF, they will switch from paying IL monthly fee to AL/SNF monthly fee, also known as Health Services Monthly Fee, which are \$8K for single occupancy at the Existing Facility and \$9K for the Satellite Facility. An additional \$3.7K will be charged for double occupancy in general. Details of IL monthly fee will be described below.

Subject to availability, the Corporation also accepts direct admission of its AL and SNF units without CCRC contract at different fee schedule. Currently, there are eight direct admission residents in AL/SNF.

**Residency Agreement**

There are two residency agreements currently being offered by the Corporation: traditional agreement and 80% refundable agreement. Under a traditional agreement, a one-time entrance fee is paid by residents and fully amortized in 36 months with no entrance fees being refunded thereafter. For the 80% refundable agreement, residents are refunded for 80% of the original entrance fee (netting any processing fees) after they move out and the unit is occupied by a new resident for 90 days. Most current residents (190 out of 198 outstanding contracts) of the Corporation have chosen traditional contracts.

**Independent Living**

The Corporation charges a one-time entrance fee at the time of admission to the community. Entrance fee for single occupancy of IL units ranges from \$338K to \$2.6 million based on refundable option and unit's size. For double occupancy, an additional entrance fee of \$80K is charged depending on size and location of the unit.

Monthly service fee for IL units ranges from \$5K to \$12K for a single occupant and an additional \$3,750 for double occupancy, depending on the IL unit selected. The monthly service fee charged for a particular unit is the same regardless of the entrance fee refundable option. The monthly service fee covers the residency, meal (one free meal per day), wellness monitoring, laundry, utilities, weekly housekeeping, parking, fitness center, swimming pool, and activities arranged by the Corporation. In addition, the Corporation provides ancillary services on a fee basis. Monthly service fees may be adjusted by the Corporation upon 30 days' advance written notice to residents.

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Table A and B below show the entrance fee and IL monthly fee for each type of IL unit for new admission starting from March 2025 of the Existing Facility and the Satellite Facility, respectively.

**Table A – Entrance Fee and IL Monthly Fee (Existing Facility)**

Unit Type	No. Units	Sq Ft	Entrance Fee* (\$,000)				IL Monthly Fee (\$)			
			2/F	3-5/F	6-7/F	8-10/F	2/F	3-5/F	6-7/F	8-10/F
Studio (S)	19	345		338 608	380 684	420 756		5,200	5,450	5,450
Studio (M)	11	400		393 707	442 796	485 873		6,000	6,300	6,300
Studio (L)	7	450		442 796	495 891	550 990		6,200	6,500	6,500
Alcove	16	530		520 936	585 1,053	645 1,161		6,800	7,200	7,200
1BR (S)	6	590		580 1,044	660 1,188	725 1,305		7,000	7,600	7,600
1BR (M)	20	650	788 1,418	675 1,215	760 1,368	835 1,503	7,900	7,200	8,100	8,100
1BR (L)	36	700		855 1,539	985 1,773	1,080 1,944		8,000	8,600	8,600
		750		950 1,710				9,200		
		800			1,015 1,827				9,700	
1BR (XL)	20	850		1,045 1,881	1,190 2,142	1,310 2,358		9,600	10,200	10,200
		875			1,200 2,160	1,320 2,376			10,300	10,300
		877		1,065 1,917	1,210 2,178	1,330 2,394		9,700	10,300	10,300
2BR	12	1,008	1,290 2,322				10,500			
2BR (M)	12	1,008	0	1,140 2,052	1,285 2,313	1,410 2,538		10,200	11,000	11,000
2BR (L)	12	1,050	1,365 2,457	1,165 2,097	1,317 2,371	1,449 2,608	11,500	10,900	11,600	11,600
2BR (XL)	1	1,180	1,400 2,520				11,900			
2BR (XL)	1	1,230			1,450 2,610				12,000	
An additional \$80K (0% refundable) and \$144K (80% refundable) of entrance fee and \$3,750 of monthly fee for double occupancy										
*Top figures – entrance fee (non-refundable); Bottom figures – entrance fee (80% refundable)										

**Table B – Entrance Fee and IL Monthly Fee (Satellite Facility)**

Unit Type	No	Sq Ft	Entrance Fee (\$,000)		Monthly Fee (\$)
			Traditional	80% Refundable	
2BR	C	1,054	\$ 1,957	\$ 3,522	\$ 8,295
2BR	F	1,089	\$ 2,009	\$ 3,616	\$ 8,295
2BR	D	1,134	\$ 2,060	\$ 3,708	\$ 8,595
2BR	J	1,158	\$ 2,163	\$ 3,893	\$ 8,595
2BR	E	1,159	\$ 2,163	\$ 3,893	\$ 8,595
2BR	A	1162	\$ 2,163	\$ 3,893	\$ 8,595
2BR	B	1,192	\$ 2,215	\$ 3,987	\$ 8,895
2BR	G	1,202	\$ 2,235	\$ 4,023	\$ 8,895
2BR	H	1,420	\$ 2,637	\$ 4,746	\$ 9,295
2BR	I	1,471	\$ 2,730	\$ 4,914	\$ 9,295
2BR	TH1	2,164	\$ 4,120	\$ 7,416	\$ 10,295
3BR	TH2	2,331	\$ 4,326	\$ 7,787	\$ 10,295
4BR	PH	3,696	\$ 6,901	\$ 12,422	\$ 10,295
Additional Fee for Double Occupancy			\$79.9	\$143.8	\$3,795

**Assisted Living**

The Corporation has an interdisciplinary care team to monitor and periodically assess resident's functional capabilities, physical status, mental condition, and social factors to decide together with resident's physician and representatives, the appropriate level of service for residents.

AL residents receive all the services described above for IL residents. In addition, AL residents receive: 1) assistance with activities of daily living including assistance with bathing; dressing; feeding; grooming; toileting; storage and distribution; and assistance with administration of medications; 2) arrangement of medical and dental appointments, including transportation; 3) supervision of residents' schedules and activities; 4) monitoring of food intake and special diets; and 5) assistance in carrying out physicians' orders. Residents with memory loss also reside in the assisted living level of care. Activities intended to enhance the quality of life for AL residents with memory loss are also included.

### **Skilled Nursing Facility**

The Corporation's SNF offers both convalescent and custodial care. Residents receive 24-hour licensed nursing care that includes routine nursing care, skin and wound care, incontinence care, and arrangements for diagnostic and therapeutic services, all performed under the supervision of the resident's physician. Residents receive all meals and participate in daily activities at the SNF. Social services and specialized dietary care are provided on an ongoing basis. Rehabilitation services and speech, occupational and physical therapy are available upon doctor's orders.

### **Sources and Uses of Funds:**

The sources and uses of funds of the 2025 Bonds are summarized as follows:

Sources:	2025A	2025B	Total
Par Amount	18,085,000.00	18,090,000.00	36,175,000.00
Premium	0.00	0.00	0.00
Total Bond Proceeds	18,085,000.00	18,090,000.00	36,175,000.00
Other Sources:			
Equity Contribution	2,009,444.44	2,010,000.00	4,019,444.44
Total Owner's Equity	2,009,444.44	2,010,000.00	4,019,444.44
Total Loan Proceeds	20,094,444.44	20,100,000.00	40,194,444.44

Uses:	2025A	2025B	Total
Acquisition of Forest Property	17,226,983.96	17,773,016.04	35,000,000.00
Conversion to IL units	349,951.62	350,048.38	700,000.00
Total Project Fund	17,576,935.58	18,123,064.42	35,700,000.00
Debt Service Reserve Fund	710,350.00	859,275.00	1,569,625.00
Cost of Issuance	324,955.08	325,044.92	650,000.00
Underwriter's Discount	162,765.00	162,810.00	325,575.00
Cal-Mortgage Insurance Premium Fee (3%)	1,246,495.50	557,445.66	1,803,941.16
Cal-Mortgage Inspection Fee (0.4%)	72,340.00	72,360.00	144,700.00
Additional Proceeds	603.28		603.28
	20,094,444.44	20,100,000.00	40,194,444.44

### **Financing:**

The 2025 Bonds have two series: Series 2025A and Series 2025B, with total proceeds of \$36,175,000 issuing at par. They will be financed through taxable (revenue) bonds issued by the California Municipal Finance Authority and insured by HCAI with the following terms:

1. Series 2025A will have a 30-year term and mature in 2055. Series 2025B is a short-term bond series and matures in 2030.
2. All bonds are to be issued at fixed rates. Coupon rates for Series 2025A and 2025B are 6.50% and 4.75%, respectively. A combined true interest cost of 7.64% for the 2025 Bonds.

3. Series 2025B will be paid off with the Project's initial entrance fee starting in 2026. The Maximum Annual Debt Service (MADS) for Series 2025A is \$1,420,700. By combining the annual debt services of 2017A and 2017B Bonds, the MADS of the Corporation after the Series 2025B is fully redeemed will be \$7,996,525.
4. Total Debt Service Reserve Fund is \$1,569,625, which is 50 percent of the MADS for the Series 2025A and 1-year interest payment for Series 2025B.

**Financing Team:**

Role	Entity
Auditor	Moss Adams LLP
Bond Counsel	Orrick Herrington & Sutcliffe, LLP
Underwriter	B.C. Ziegler and Company
Borrower Counsel	Hanson Bridgett, LLP
Issuer	California Municipal Finance Authority
Trustee	The Bank of New York Mellon Corporation
Feasibility Consultant	Hendrickson Consulting

**Security:**

HCAI shall receive a security interest on the Corporation's property, which property shall include real property consisting solely of the addresses in the following table:

Facility	Address	APN
Existing Facility	850 Webster Street, Palo Alto, CA 94301	120-05-098
Satellite Facility	430,432, 434, and 436 Forest Avenue Palo Alto CA 94301	120-16-108
		120-16-109
		120-16-110
		120-16-111

Such security shall be secured through first deeds of trust, fixture filings, UCC-1s, and a gross revenue pledge perfected by a Deposit Account Control Agreement and a Securities Account Control Agreement, covering the property of the Corporation.

**Appraisals and Loan-to-Value Ratio:**

Michael G. Boehm, MAI, CRE of Senior Living Services, Inc., prepared the appraisal report dated August 1, 2025 (Appraisal Report) for both the Existing Facility and the Satellite Facility. Based on the income approach with 8% capitalization rate and 9.5% per annum as discount rate for calculating present value of annual net operating cash flow, the aggregate market value of both facilities as of the 2025 Bonds closing (in October 2025) is \$148,925,000 while the same as of projected stabilized occupancy is \$153,500,000. The combined remaining economic life of both facilities is 40 years.

The loan-to-value ratio based on the aggregate loan amount of 2017A, 2017B, the two series of 2025 Bonds and the above combined market value of both facilities at closing

is 83.3%. After the Satellite Facility reaches stabilized occupancy and the 2025B Series are fully redeemed, the loan-to-value ratio would be 67.5%.

### **Market Analysis:**

The following market analysis is extracted from the Appraisal Report.

#### **Primary Market Area (PMA)**

The PMA in this market analysis is defined as the area estimated as a 7-mile radius from the Corporation, including all of Palo Alto and extending northward to about Belmont in San Mateo County and southward to about Sunnyvale. Within the PMA lies the exclusive and very affluent communities of Menlo Park, Atherton, Portola Valley, Woodside, Los Altos Hills and Los Altos.

#### **Market Competition**

Five competitors of the Corporation are identified in the PMA as follows:

Name	Built in	Care Level	Rooms/ Sizes (sq)	Entrance Fee	Refund	Monthly Fee	Occ
The Hamilton	1997	IL:36 AL:0 SNF:0	2-3BR/ 1,354-2,574	\$1.2mn- \$3.0mn	97.5%	\$4,480+	97%
Vi Palo Alto	2005	IL:388 AL:62 SNF:44	1-3BR/ 826-4,212	\$1.5mn- \$10.2mn	50%	\$6,270- \$14,220	99%
Moldaw Residences	2009	IL:170 AL:23 SNF:0	1BR/ 700-1,600	\$904K- \$2.0mn	85%	\$5,630- \$11,500+	86%
Terraces - Los Altos	1951	IL:105 AL:46 SNF:30	1-2BR/ 650-970	\$520K- \$754K	0%	\$6,989- \$9,515	95%
Sequoias Portola Valley	1961	IL:193 AL:43 SNF:46	Studio-2BR/ 358-1,445	\$157K- \$1.15mn	0%	\$4,768- \$5,222	97%

In addition to the existing CCRCs summarized above, the Appraisal Report also performed a survey of local jurisdictions and the State of California and noted two additional potentially competitive active entrance fee basis senior housing projects on the Peninsula/South Bay. The first potential project is located about five miles northwest of the Corporation within the PMA. It is still at a very preliminary stage (seeking entitlements from Redwood City). The project includes a high rise 30-story development in central/downtown Redwood City on about two acres of land. This project by WellQuest and Steve Reller would include about 280 apartments with a targeted average entrance fee of about \$2 million. The second project is located at a currently vacant CCRC (former Los Gatos Meadows CCRC closed in 2019) in southernmost Los Gatos at about 32 miles southeast of the Corporation outside the PMA). The second project was recently approved for a campus redevelopment into a new and modern CCRC.

### **Penetration Analysis**

According to the data from Environmental Systems Research Institute, Inc. (ESRI), one of the world's leading suppliers of geographic information system and geodatabase management applications, there are 12,581 income qualified (annual income \$50K+) senior households (age 75+) in the PMA in 2025 (15,205 in 2030), which is the market demand. Total supplies in the PMA are assumed at 1,942, with 942 estimated existing IL units (87% of total IL units) and 1,000 estimated rental units. The saturation rate (ratio of total available units to total market demand) is 15.4% in 2025 and 12.8% in 2030, which is considered as moderately competitive. The penetration rate (total market percentage which the Corporation alone must capture to absorb its units) is 1.8% in 2025 and 1.5% in 2030, which is regarded as positive for the Project.

In addition to the above penetration rate, the market analysis also studied the local care giver population (Age 45-65, annual income \$75,000) since care givers have significant input into the housing decisions of their parents, and they may move closer to the senior community and often contribute financially to the housing cost. Palo Alto area has a ratio of 23.7x (qualified care givers to total available senior units in the area) which is the second highest among 40 market area in California including Los Angeles, San Diego and San Francisco Bay Area, and is considered a positive market indicator for the Corporation.

### **Environmental:**

AEI Consultant performed a Phase I Environmental Site Assessment at the Forest Property and prepared a report (Phase 1 Report) dated July 17, 2025. No recognized environmental conditions were identified. The Phase I Report was reviewed by the Department of Toxic Substances Control who concurs with the conclusions of the Phase I Report that there are no on-Site Recognized Environmental Conditions.

### **Outstanding Litigation:**

The Corporation is not currently involved in any litigation.

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**Financial Performance Analysis:**

The following table summarizes the Corporation's audited financial performance from the fiscal year ended February 28, 2022, to May 31, 2025:

Dollars in Thousands (except the ratios)	Fiscal Year Ended February 28,				3-month Internal
	2022	2023	2024	2025	5.31.25
Cash & Cash Equivalents	22,809	23,410	27,251	32,162	30,505
Current Assets	27,828	27,695	31,729	36,550	32,451
Total Assets	165,798	157,260	156,596	156,553	156,056
Current Liabilities	7,803	6,412	7,258	7,118	5,966
Total Liabilities	160,059	160,590	163,075	165,070	165,493
Net Worth	5,739	(3,329)	(6,479)	(8,517)	(9,437)
Operating Revenue	22,315	22,875	26,209	27,904	7,159
Operating Expenses	25,257	26,761	28,029	28,710	7,450
Operating Income	(2,942)	(3,886)	(1,820)	(806)	(291)
EBITDA	3,841	2,207	8,224	9,021	1,663
Net Income	(5,912)	(9,069)	(3,149)	(2,039)	(1,118)
Debt Service Coverage Ratio	1.74	1.54	1.35	1.71	1.81*
Days Cash on Hand	372.48	356.05	398.43	456.01	412.57
Current Ratio	3.57	4.32	4.37	5.13	5.44
*Running 12-month figure					

The Corporation maintained over 350 Days Cash on Hand in the past four fiscal years. As of May 2025, the Corporation's had \$30.5 million cash and cash equivalents. Since 2023, the Corporation has received over \$10 million in annual entrance fees. Since most residents of the Corporation chose the traditional residency agreement, the refunded entrance fee is low with an average of less than \$400K annually in the last four fiscal years. As of May 2025, the total refundable entrance fee on the Corporation's balance sheet was \$9.2 million while total deferred revenues from entrance fees (to be amortized over the actuarially determined estimated life of residents) was \$57.1 million.

Other than the entrance fee liabilities as above, the Corporation's biggest long-term liability is two bond series with Cal-Mortgage loan insurance program (i.e., 2017A Bonds and 2017B Bonds), with an aggregate outstanding balance of \$87.9 million. Total outstanding long-term debt after including the proposed 2025 Bonds with Cal-Mortgage program will be \$124.1 million. The \$18.1 million principal amount of 2025B bonds will be fully repaid with new entrance fees for the Project.

The Corporation is projected to sell one new IL unit from the Satellite Facility per month starting in early 2026, at an average entrance fee of a two-bedroom unit under \$2.2 million. With that fill up schedule, the Corporation expects to fully redeem the 2025B bond series before the Fiscal Year Ending February 28, 2027. After that, the aggregate debt service of three outstanding bond series (i.e., 2017A, 2017B, and 2025A) will be

under \$8 million per year. As shown in the 2025 audit report, the Corporation had an average of \$4.6 million net cash flow from operating and financing activities in the last two fiscal years. The 2025A Series bonds will incur an additional \$1.4 million annual debt service, which is manageable under the Corporation's current liquidity condition.

While the Corporation expects to fill up most of the units at the Satellite Facility before FYE 2027 (Feb 2027), half of the loan proceeds of 2025 Bonds (i.e., Series 2025A) are structured as long-term bonds for the Corporation's capital improvement expenses. The Tower was built in the 1960s and needs cosmetic upgrades. The Corporation has had sizable renovation projects in the past, but certain communal areas such as the main lobby, elevators, and some amenities need to be upgraded or replaced. The Corporation is at the final stage of planning a capital improvement project that will be implemented next year with part of the initial entrance fee income from the Satellite Facility with fully redeemed 2025B Series bonds. The capital improvement project is expected to keep the Corporation competitive in the CCRC market at Palo Alto, an area with a large high-income population.

The Corporation has a defined benefit pension plan that has been replaced by a defined contribution plan for all employees since 2002. The outstanding pension liability as of FYE 2025 was \$157,461. A deferred compensation plan has been offered to key management staff since 2008.

The Corporation has recorded negative net incomes in the past fiscal years. Net income is negative due to the Corporation having large non-cash expense items such as over \$4 million annual interest expense, and depreciation expense at over \$7 million per year. Without these non-cash expenses, the Corporation's EBITDA (Earnings Before Interest Tax Depreciation Amortization) has been positive since 2019.

Over 94% of revenue came from monthly service fees (73%) and amortization of entrance fees (21%). Interest and investment income shared only about 4% of total revenue, averaging \$1.2 million annually in the last four fiscal years.

On the expense side, salaries were maintained at 42% of total expenses in the last three fiscal years while purchased services ramped up from 11% in FY 2023 to 15% in FY 2025. As mentioned above, depreciation shared 22% - a significant part of total expenses as well as interest expense shared 13% on average.

The Corporation met all financial covenants, Debt Service Coverage Ratio (DSCR), Days Cash on Hand (DCOH), and Current Ratio (CR) in the last four fiscal years.

A detailed financial spreadsheet can be found in Exhibit I. The ratios may differ slightly from the following Feasibility Analysis section due to assumptions and formulations of the ratios.

### **Portfolio Comparison:**

The following table compares the financial covenant ratios of the Corporation with the other entrance fee CCRC's in the Cal-Mortgage portfolio having operating revenues

between \$26 million and \$47 million for the fiscal year 2024. The financial statistics used are from the most recently completed audits for each facility.

<b>Rental Basis Multilevel Senior Living Facility Comparisons in Cal-Mortgage Portfolio</b>				
<b>Project</b>	<b>Area</b>	<b>CR</b>	<b>DSCR</b>	<b>DCOH</b>
<b><i>The Corporation</i></b>	<b><i>Palo Alto</i></b>	<b><i>5.13</i></b>	<b><i>1.71</i></b>	<b><i>456</i></b>
Atherton Baptist Homes	Los Angeles	5.81	3.50	402
NCCRH dba Carmel Valley Manor	Carmel	4.67	5.41	717
Pilgrim Place	Los Angeles	4.13	1.98	225
NCROC dba Paradise Valley Estate	Fairfield	4.57	0.65	196
Average		4.86	2.65	399
Median		4.67	1.98	402

When comparing the Corporation's performance to its peer group, its liquidity ratios rank above both the median and average, while its debt service coverage ratio ranks close to the median.

#### **Community Needs/Benefit:**

The Corporation provides a continuum of services (IL, AL, and SNF) which enables residents to age in place as their needs evolve. Residents receive physical, occupational, and speech therapy on-site to help them age in place and maintain their independence with activities of daily living such as walking, bathing, feeding, and toileting. Providers specializing in podiatry, dentistry, primary care, optometry and dietetic services visit residents in the facility.

The Corporation considers the unique needs and identities of its residents regardless of their cultures, languages, values, abilities or disabilities, and other factors. The Corporation hires staff from diverse backgrounds and several staff speak Spanish, Tagalog, Russian, Chinese and more, enriching the experience of non-English speaking residents.

The Corporation makes its services available to any persons within or outside its service area who meet its eligibility criteria, including the appropriateness of the facility to their care needs, financial qualification, an age minimum, and satisfaction of DDSS regulatory requirements.

The Corporation also meets the alternative criteria under Section 129085 by subsidizing the costs of residents' care to qualified residents who encounter financial hardship.

## **Feasibility Analysis**

### **Feasibility Study Summary:**

A Financial Feasibility Report dated August 6, 2025 (Feasibility Study), was prepared by Bill Hendrickson from Hendrickson Consulting for the proposed 2025 Bonds. The Feasibility Study assumes:

1. A \$36.2 million bond issuance will be used to reimburse the Corporation for the purchase of Forest Property and convert it into a IL Satellite Facility.
2. The projection is generally based on historical financial information and occupancy data.
3. The projection is based on a maximum coupon rate of 6.5% for the \$18.1 million 30-year long-term bonds and 4.75% for the \$18.1 million 5-year short-term bonds. Semi-annual interest and principal payments to bondholders will begin on May 15, 2026.

The Feasibility Study forecasts financial statements for the period of FY 2026 (the projection for FY 2026 is based on the Corporation's budget) to FY 2031 and concludes that:

1. The DSCR is expected to exceed 1.5x MADS between FY 2026 and FY 2028 and exceed 2.0X MADS for the remaining projection period.
2. Cash to long-term debt ratio is expected to be above 40 percent after fully redeeming the short-term bond at FYE 2027.
3. The DCOH will be greater than 500 days from FYE 2027 onward.

### **Occupancy Assumptions:**

#### **IL**

The IL occupancy of the Existing Facility was assumed to be 98% (170 out of 173 available units) during the projection period. For the Satellite Facility, the Corporation projects one year (from March 2026 to February 2027) to fill up the facility at an average of one move-in per month with stabilized occupancy at 92% (12 out of 13 available units). The average occupancy will be 46% (6 out of 13 available units) in FY 2027 and 92% for the remaining projection period.

#### **AL/SNF**

Occupancy of AL and SNF are assumed to be 67% (26 out of 39 available beds) and 54% (14 out of 26 available beds), respectively, throughout the projection period. The lower occupancy is in part due to the goals of keeping units/beds available for contract residents and maximizing placement in private rooms.

Based on the Corporation's Annual Operating Data (AOD) filing for the 2017A/B Bonds, the average occupancy of IL, AL, and SNF of the Existing Facility between FY 2022 and

FY 2025 was 99%, 74%, and 56%, respectively. The occupancy assumptions for the projection align with the Corporation's historical occupancy.

### **Entrance Fee and Monthly Fee Assumptions:**

#### **Entrance Fee**

The average entrance fee through the projection period is based on the weighted average entrance fees of all units and the second-person fee. The estimated average entrance fee of the Existing Facility is \$900K in FY 2027, which is lower than the actual figures in FY 2025 and FY 2026. The estimated average entrance fee of the Satellite Facility is \$2.9 million in FY 2027. An inflation assumption of 4% per year was applied to the entrance fee. The assumption seems to be in line with historical figures.

It is assumed that there will be 14 IL move-ins per year during the projection period, except for FY 2027 (March 2026 to February 2027) where the Satellite Facility is filling up. No move-outs or resales of the Satellite Facility IL units in the projection until FY 2030, and one resale each year thereafter. All new residents are projected to select the traditional contract with non-refundable option after three years. While new residents do have the option of selecting a refundable contract, historically most new residents do not choose it, and the projections reflect the more likely scenario of selecting traditional contracts. The move-in assumptions are comparable to historical figures.

According to the AOD filed by the Corporation, the annual new IL intake ranged from 11 to 16 units between FY 2022 and FY 2025, with an average of 13.25 units. The new admission volume is limited due to the availability of vacant units. There is a waitlist (40 applicants) for admitting the existing facility implicates a room for growth. The new admission volume will be expected to increase with this IL expansion project.

#### **Monthly Fee**

The IL monthly fee revenue projection is based on average monthly fees of all units and the second person fee of the Existing Facility (\$8,738 in FY 2026) and the Satellite Facility (\$11,368 in FY 2026), with an inflation of 4% per year. Based on the AOD between FY 2022 and FY 2025, the average IL monthly fee increased at 7.2% per year. The IL monthly fee assumptions appear to be more conservative than historical increases.

The revenue projection of AL and SNF monthly fee is based on average Health Services Monthly Fee (AL: \$6,923; SNF: \$6,250 in FY 2026) for both existing and new residents, with an inflation of 5% per year. Starting from March 2025, the Health Services Monthly Fees are \$8,000 and \$9,000 per month for new residents of the Existing Facility and Satellite Facility, respectively. The revenue assumptions appear to be in line with historical figures.

In addition to CCRC contract residents, the Corporation also accepts direct admission of its AL and SNF, with 7 to 8 residents in the last two years, generating approximately

\$100,000 income per month. The census is expected to remain at this level in the projection with inflation at 4.0% per year.

**Other Incomes:**

Other incomes in the projection include investment return, donation, and other operating income such as private duty aide payments, SNF ancillary charges, food, guest rooms, donations, and other miscellaneous revenues.

The projection assumes \$250K annual donation, which largely aligns with historical data (average unrestricted donation was \$240K in the last four fiscal years). The projection assumes an investment return of 4.0% of the previous year's unrestricted cash and investment fund and 3.0% of restricted debt services reserve fund. Based on the audit filings between FY 2022 and FY 2025, the interest income and investment return averaged 3.1% of the total cash and reserve fund balance.

**Expense Assumptions:**

**Operating Expenses**

The operating expenses of the Existing Facility in FY 2026, excluding interest and depreciation, are estimated at \$23.1 million, a 6.5% increase from FY 2025. The number of full-time equivalent employees is budgeted at 141 in FY 2026.

For the Satellite Facility, it is estimated that \$900K will be spent on operations for the year when the facility reaches stabilized occupancy in FY 2028. This includes \$400K in in-lieu property tax payments, \$230K in salaries and benefits for 3 FTEs (1.0 housekeeping, 1.0 dietary, 0.5 activities, and 0.5 maintenance) and \$270K for food, utilities, insurance, supplies, and security services.

All expenses are increased at an inflation rate of 4.0% per year, which is in line with historical increases

**Capital Improvement Expenses**

Total capital expenses during the projection period are estimated at \$33.8 million, with an annual expense range from \$4 to \$7 million. The Corporation spent approximately \$2.6 million per year on capex for the last three fiscal years. The above estimated aggregate capex is \$18 million more than the historical level over the six-year projection period. In addition to the Satellite Facility that is projected to cost additional capex, the Corporation plans to launch a sizeable capital improvement project starting from next year to improve the common area of the Tower.

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### **Financial Projections:**

	Actual		Projection					
Fiscal Year End	2024	2025	2026	2027	2028	2029	2030	2031
DSCR	1.55	1.96	1.53	1.53	1.97	2.05	2.54	2.69
DCOH	391	449	400	546	546	566	628	694
CR	3.87	4.62	4.30	5.88	5.67	5.85	6.44	7.06
Cash to Debt	28.6%	34.8%	24.1%	43.6%	45.6%	50.3%	59.4%	70.1%

The above financial projections were extracted from the Feasibility Study which may not match those shown in Exhibit I due to methodology of calculation.

### **Sensitivity Analysis:**

There are four sensitivity scenarios covered in the Feasibility Study:

**Sensitivity 1:** This scenario assumes that the Satellite Facility is only able to fill 10 of the 13 units (77%) over the 24-month period (instead of 12 months in the base case) and needs to lower entrance fees by a weighted average of 25% (from an average of \$2.9 million to \$2.2 million). This lowers the entrance fee pool to \$22.0 million, sufficient to pay the 2025B short-term bonds. The lower entrance fee pool could also result from difficulties in selling the higher-priced penthouse and townhouses.

**Sensitivity 2:** This scenario assumes the occupancy of Existing Facility is reduced to 160 units (92.5%).

**Sensitivity 3:** This scenario assumes the 2025A long-term bonds have a 1% higher coupon rate at 7.5% p.a.

**Sensitivity 4:** This scenario estimates that annual salary/benefit and other expense inflation is 6.0% p.a. with no parallel adjustment to the fee inflation assumptions.

The resulting financial covenants projection at fiscal years end 2027 to 2031 for the base case and each of the sensitivity scenario are summarized as follows:

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Financial Ratios Projection					
Fiscal Year End	2027	2028	2029	2030	2031
Base Case					
DSCR	1.53	1.97	2.05	2.54	2.69
DCOH	546	546	566	628	694
S1 – Lower Fill Up and Average Price					
DSCR	1.47	1.76	1.93	2.32	2.45
DCOH	265	362	278	425	475
S2 – Lower Occupancy					
DSCR	1.39	1.71	1.77	2.23	2.35
DCOH	534	509	505	540	582
S3 – Higher Interest Rate					
DSCR	1.50	1.92	1.98	2.48	2.61
DCOH	548	541	558	614	675
S4 – Higher Expense					
DSCR	1.48	1.84	1.84	2.24	2.28
DCOH	533	515	508	534	555

**Staff Comment:**

As shown in the Feasibility Report, the base case DSCR and DCOH are forecasted to exceed the 1.25x DSCR and 120 DCOH covenant requirements. While the Corporation has experienced consistently high occupancy of its existing IL units, there may be question whether the proposed fill up schedule and stabilized occupancy assumptions for the Satellite Facility in the base case are optimistic.

Scenario 1 demonstrates that the inability for the Corporation to fill up the Satellite Facility as projected would cause DSCR to decline slightly but has no material impact on the feasibility of proposed financing. DCOH would be more affected but would still far exceed the covenant requirements of 120 days. There is a probability that this scenario could occur as the entrance and monthly fees are higher for the Satellite Facility compared to the Existing Facility, and finding new residents to fill these higher fee units may be difficult.

Scenario 2 demonstrates a lower target occupancy rate will cause a negative impact to the DSCR but has an insignificant effect to the Corporation's liquidity. Given the historical high occupancy of over 97%, probability of this scenario happening is relatively low.

Scenario 3 is a standard sensitivity scenario for Cal-Mortgage loan financing to ensure the Corporation's affordability in case of a higher financing cost. Results show that both DSCR and DCOH will still be above the minimum requirements.

Scenario 4 demonstrates that the Corporation's financial performance wouldn't be significantly affected during the projection period even with higher cost inflation. Between FY 2022 and FY 2025, the average annual operating cost inflation was 4.4%.

## **Potential Challenges**

For the fill up schedule, the average entrance fee of 2-bedroom units at the Satellite Facility is \$2.4 million, which is 81% higher than those at the Existing Facility (\$1.3 million). These new IL units and their prospective residents are in a different market segment from those in the Existing Facility, and it may take extra time for the Corporation to adjust their marketing strategies. In addition, competition in the PMA also draws the demand and could slow down the fill up progress. The Satellite Facility is a remote site 0.3 miles from the Existing Facility, which could be considered less desirable to potential new residents. Even if it is only a short walk and there are free on-demand transportation arrangements, it could still be viewed as less convenient to access amenities compared to an on-site unit. In addition, the Tower was built several decades ago, and prospective residents may prioritize newer facilities. Finally, the Corporation will take some time to upgrade the security system and bathroom of new IL units after acquisition in late October. Some units are still occupied by tenants until June 2026. All of these are negative factors that could slow the fill up progress.

As to the stabilized occupancy at 92% (12 out of 13 units), the Satellite Facility has two townhouses at an average entrance fee of \$4.2 million and a 4-bedroom penthouse for an entrance fee of \$6.9 million, for traditional non-refundable contract. Those are at the very high market segment of CCRC market and those seniors at this market segment have even more options for their retirement residential and health care arrangements.

## **Mitigation**

According to the market analysis in the Appraisal Report, experience at other senior buy-in facilities suggests that the largest units of CCRC are the most attractive to residents who are usually leaving larger single-family homes. With the high value housing market in Palo Alto, a sufficient qualified demand for the Corporation's new IL units, which are all two-bedroom or larger units, is reasonable. The upcoming renovation project will upgrade the Tower's attractiveness and help with selling the Project. The Corporation also hired an external consultant to set up a detailed marketing plan for the Project.

The Corporation also expects to adjust the pricing for the townhouses and penthouse if they are still vacant after 18 months of acquisition. The financial impact of the Corporation from a slower fill up and lower stabilized occupancy, as reflected in the DSCR under Sensitivity 1 scenario, is manageable. The impact on debt affordability is not material because only the entrance fee from unit resale, not the initial entrance fees from filling up, are included in the ratio calculation and there are only two resale units of the Satellite Facility during the projection period. Nonetheless, the Corporation's liquidity will be moderately affected with an approximately 50% drop of its DCOH during the projection period, ranging from 265 to 475 between FY 2027 and FY 2031 as documented under sensitivity scenario 1.

In summary, the projection in the Feasibility Study, which is largely based on historical data, demonstrates the financial viability of this Project and the potential benefits to both the Corporation's long-term development and the community's senior living demand.

**Strengths:**

1. **High Occupancy:** The Corporation's IL facility has consistently a high occupancy and provides stable monthly fee income, which is the major revenue source. To put the additional large IL units from the Satellite Facility in the mix, the Corporation improves the availability and variety of its IL facility.
2. **Experience:** The Corporation has been serving the elderly in Palo Alto since 1960s. A long history and experience serving local community enhances the marketability of the facilities as seniors will consider a corporation's financial stability as a key factor to choose the retirement community.

**Weaknesses:**

1. There is a moderate pricing gap between the Satellite Facility and the Existing Facility. The fill up progress and stabilized occupancy may be less favorable than expectation.

**Mitigation:** The Corporation has prepared a marketing plan for the Satellite Facility. In addition, the Corporation has sufficient liquidity to manage the debt services and operations while reassessing the market and revising its pricing strategies (see Sensitivity 1 above for the details). The Satellite Facility shares only 4% of the total operating cost of the Corporation, which gives financial flexibility to the Corporation in case of an unfavorable outcome. In addition, the Corporation has a better ratio of AL/SNF to IL units than some of its competitors in the PMA, which is appealing to prospective residents.

2. The Corporation recorded negative net income in the past fiscal years and caused negative net worth since FY 2022. The net worth balance will keep decreasing in the projection period as the aggregate debt service increases with the addition of the 2025 Bonds.

**Mitigation:** The operations keep improving based on the projection. The Feasibility Study projected that the operation deficit will be decreasing from \$2.3 million at FYE 2026 to \$415K at FYE 2031. More importantly, the Corporation's EBITDA and operating cash flow stays positive all along and ensures its debt affordability and liquidity.

**Recommendation:**

I recommend that HCAI issue a commitment for six months to insure a loan to the Corporation, not to exceed \$36.5 million, for the previously described financing with the following conditions:

- A. HCAI shall receive a security interest on the Corporation's property as follows:
  1. 850 Webster Street, Palo Alto, CA 94301
  2. 430,432, 434, and 436 Forest Avenue Palo Alto CA 94301

Such security shall be secured through first deeds of trust, fixture filings, UCC-1s, and a gross revenue pledge perfected by a Deposit Account Control Agreement and a Securities Account Control Agreement, covering the property of the Corporation.

- B. HCAI shall reserve the right to receive a security interest evidenced by deeds of trust on all real property acquired by the Corporation after the close of the loan insured by HCAI.
- C. The proposed services to be provided as a part of this Project and the transaction structure shall not differ from those set forth in the Financial Feasibility Report, dated August 6, 2025, the Application for Loan Insurance, the Project Description and Scope as agreed to by HCAI.
- D. The bonds shall have a term not to exceed the lesser of 30 years from the date of the loan or 75 percent of the estimate economic useful life of the Corporation's real property. Principal shall be amortized beginning on or before May 15, 2026. The no-call period, if any, shall not extend beyond the first eight years of the loan, thereafter the redemption price for the following two years shall not exceed 102 percent for the first year and 101 percent for the second year, after which there shall be no prepayment penalty, unless otherwise agreed to by HCAI.
- E. Within 90 days from the date of HCAI's commitment letter, the Corporation shall obtain approval from a lender or issuer.
- F. The Regulatory Agreement, Contract of Insurance, and Deed of Trust used for this transaction shall be HCAI's latest form of each with such changes as may be required by HCAI.
- G. The Regulatory Agreement shall contain provisions that the Corporation shall maintain the following:
  - A current ratio of at least 1.50 to 1, beginning Fiscal Year End (FYE) 2026 and thereafter, as determined by the annual audited financial statements.
  - A debt service coverage ratio of at least 1.25 to 1, beginning FYE 2026 and thereafter, as determined by the annual audited financial statements.
  - A non-restricted cash balance of at least 120 days cash, beginning FYE 2026 and thereafter, as determined by the annual audited financial statements.
- H. The Debt Service Reserve Fund shall be established at loan closing in the amount equal to the lesser of (i) 50 percent of the maximum annual debt service of the bonds, (ii) 125 percent of the average annual debt service of the bonds, or (iii) 10 percent of the outstanding principal amount of the bonds, or other amount to be determined by HCAI.
- I. Prior to the sale or pricing of the insured loan transaction, HCAI shall receive the following:
  - 1. Confirmation that there has been no adverse material change in the financial condition of the Corporation or in any other market condition including, but not

limited to, potential revenue sources and levels, expenses of operation, staffing levels, or any other condition or occurrence adversely affecting the Corporation's ability to pay debt service or comply with any of the terms and conditions of the Regulatory Agreement.

2. Copies of the preliminary: (a) Sources and Uses of Funds, including documentary evidence verifying owner's equity, and (b) Debt Service Schedule, with all updates of both, each of which must be acceptable to HCAI.
3. Proforma title report for issuance of ALTA Lender's title policy (6-17-06), or other form acceptable to HCAI, with exceptions to title acceptable to HCAI and with HCAI designated as a beneficiary and in an amount equal to the bond par amount, with the following endorsements:
  - a. CLTA 100.2-06, or ALTA 9-06 (Restrictions, Encroachments, Minerals)
  - b. CLTA 103.1-06/103.2-06/103.3-06/103.4-06, or ALTA 28-06 (Easement)
  - c. CLTA 103.11-06/103.12-06, or ALTA 17-06/17.1-06 (Access and Entry)
  - d. CLTA 116.02-06, or ALTA 22.1-06 (Location and Map)
  - e. CLTA 116.4.1-06, or ALTA 19-06 (Contiguity – Multiple Parcels)
  - f. CLTA 123.1-06/123.2-06, or ALTA 3-06/3.1-06 (Zoning)

HCAI may require additional endorsements and forms.

4. Evidence that the following insurance coverage is in effect for:
  - a. Statutory worker's compensation and employer's liability.
  - b. Bodily injury and property damage liability.
  - c. Such other insurance as required in the Regulatory Agreement, unless otherwise waived by HCAI.
5. Updates, if any, to the Financial Feasibility Report, which must be acceptable to HCAI.
6. A satisfactory copy of a Deposit Account Control Agreement ready for signatures.
7. A satisfactory copy of a Securities Account Control Agreement ready for signatures.
8. An approval from California Department of Social Services for the Corporation to accept 10% deposit from sale of the units at 430, 432, 434, and 436 Forest Avenue Palo Alto CA 94301.
9. HCAI shall receive a corporate resolution authorizing the transaction and the execution of the Regulatory Agreement, Contract of Insurance, and Deed of Trust.
10. Documents indicating that any other conditions required by the Advisory Loan Insurance Committee and the Director of HCAI have been satisfied.

- J. Prior to closing of the loan insured transaction, HCAI shall receive final copies of:  
(a) Sources and Uses of Funds and (b) Debt Service Schedule after the bonds have been priced.
- K. At the loan closing, HCAI shall receive an ALTA loan title policy (6-17-06), or other form acceptable to HCAI, with exceptions to title acceptable to HCAI, and with HCAI designated as a beneficiary in an amount equal to the bond par amount with the endorsements previously described.

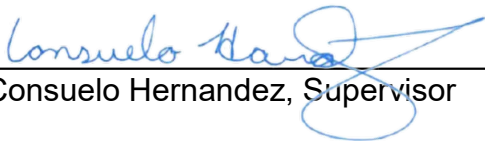
In the event that additional facts, or changes in the law, or changes in the structure of the transaction come to the attention of HCAI, then HCAI may require additional conditions.



\_\_\_\_\_  
Dennis Lo, Account Manager

Date: 8/28/2025

I approve the above recommendation.



\_\_\_\_\_  
Consuelo Hernandez, Supervisor

Date: 8/29/2025

I approve the above recommendation.



\_\_\_\_\_  
Dean O'Brien, Deputy Director

Date: 8/29/2025

\* \* \* \* \*

Copy of the foregoing approved Project Summary & Feasibility Analysis (PS&FA) mailed/emailed on August 26, 2025, to the Applicant, and a copy delivered to the Supervisor, the Deputy Director, and HCAI's Attorney.

*Dennis Lo*

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Account Manager

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On August 28, 2025, the Account Manager contacted Ms. Rhonda Bekkedahl, the Chief Executive Officer of the Corporation, who stated to the Account Manager that the Corporation (1) excepting minor corrections, acknowledged all of the facts as presented in this PS&FA; (2) agreed to all of the representations in this PS&FA; and (3) agreed to all of the conditions contained in this PS&FA.

*Dennis Lo*

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Account Manager

\* \* \* \* \*

**Advisory Loan Insurance Committee Action:**

Date of meeting: September 11, 2025

The Project was recommended for approval. The motion was made by Committee Member [ ] and seconded by Committee Member [ ].

The Motion passed x - x

## Exhibit I

### Detailed Financial Spread

Channing House	2/28/2022	2/28/2023	2/29/2024	2/28/2025	3/31/2025
Statement for Channing House with	Historical	Historical	Historical	Historical	Historical
currency of USD	12M	12M	12M	12M	3M
General/ Middle Market	Unqualified	Unqualified	Unqualified	Unqualified	Company
Statement in Actual (U.S. Dollar)					Prepared
July 28, 2025 9:25 AM					
CalMortgage (GEN)					
Debt Service Coverage	1.74	1.54	1.35	1.71	1.81
Days Cash on Hand	372.48	356.05	398.43	456.01	412.57
Current Ratio	3.57	4.32	4.37	5.13	5.44
Quick Ratio	3.56	4.31	4.37	5.13	5.44
Working Capital	20,025,512.00	21,283,124.00	24,470,524.00	29,431,914.00	26,485,308.00
Actual Payables in Days	47.39	16.53	89.15	81.31	51.57
Actual Receivables in Days	16.03	0.89	1.41	1.12	16.14
Pre-Tax (Operating) Profit Margin	(25.51)	(28.83)	(20.39)	(10.93)	(15.61)
Net Profit Margin	(26.49)	(39.64)	(12.02)	(7.31)	(15.61)
EBITDA	3,840,935.00	2,206,864.00	8,224,007.00	9,021,374.00	1,662,605.00
Debt/Tangible Net Worth	27.89	(48.23)	(25.17)	(19.38)	(11.91)

Channing House Statement for Channing House with currency of USD General/ Middle Market Statement in Actual (U.S. Dollar) July 28, 2025 9:25 AM	2/28/2022 Historical 12M Unqualified		2/28/2023 Historical 12M Unqualified		2/29/2024 Historical 12M Unqualified		2/28/2025 Historical 12M Unqualified		5/31/2025 Historical 3M Company Prepared	
Assets Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Cash	4,688,419	2.8	5,642,274	3.6	4,677,468	3.0	442,278	0.3	962,072	0.6
Marketable Securities	18,121,026	10.9	17,767,535	11.3	22,573,348	14.4	31,719,796	20.3	29,542,750	18.9
Cash and Cash Equivalents	22,809,445	13.8	23,409,809	14.9	27,250,816	17.4	32,162,074	20.5	30,504,822	19.5
Trustee Held	3,469,825	2.1	3,538,258	2.2	3,608,759	2.3	3,682,508	2.4	0	0.0
Assets Limited To Use	3,469,825	2.1	3,538,258	2.2	3,608,759	2.3	3,682,508	2.4	0	0.0
Accounts Receivable	980,011	0.6	55,968	0.0	101,216	0.1	85,741	0.1	1,266,382	0.8
Supplies	34,838	0.0	34,726	0.0	35,210	0.0	41,521	0.0	0	0.0
Other Inventory	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total Inventory	34,838	0.0	34,726	0.0	35,210	0.0	41,521	0.0	0	0.0
Prepaid Expenses and Deferreds	534,046	0.3	656,213	0.4	732,557	0.5	578,313	0.4	679,918	0.4
Total Current Assets	27,828,165	16.8	27,694,974	17.6	31,728,558	20.3	36,550,157	23.3	32,451,122	20.8
Trustee Held	11,455,499	6.9	7,932,717	5.0	7,793,322	5.0	6,244,130	4.0	6,855,010	4.4
Asset Limited to Use	11,455,499	6.9	7,932,717	5.0	7,793,322	5.0	6,244,130	4.0	6,855,010	4.4
Land and Improvements	936,951	0.6	936,951	0.6	936,951	0.6	936,951	0.6	0	0.0
Buildings and Improvements	170,501,791	102.8	172,019,208	109.4	172,395,895	110.1	172,861,391	110.4	112,119,572	71.8
Machinery & Equipment	8,592,696	5.2	10,343,461	6.6	10,983,295	7.0	11,990,010	7.7	0	0.0
Other Fixed Assets - Construction in Progress	1,835,229	1.1	704,271	0.4	1,837,360	1.2	3,815,305	2.4	0	0.0
Construction in Progress	1,835,229	1.1	704,271	0.4	1,837,360	1.2	3,815,305	2.4	0	0.0
Gross Fixed Assets	181,866,667	109.7	184,003,891	117.0	186,153,501	118.9	189,603,657	121.1	112,119,572	71.8
Accumulated Depreciation (-)	(55,434,839)	(33.4)	(62,453,839)	(39.7)	(69,162,013)	(44.2)	(76,002,340)	(48.5)	0	0.0
Accumulated Depreciation (-)	(55,434,839)	(33.4)	(62,453,839)	(39.7)	(69,162,013)	(44.2)	(76,002,340)	(48.5)	0	0.0
Net Fixed Assets	126,431,828	76.3	121,550,052	77.3	116,991,488	74.7	113,601,317	72.6	112,119,572	71.8
Other Assets -Limited as to Use	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Project Fund	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Bond Funds	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Other Assets	82,571	0.0	82,571	0.1	82,571	0.1	157,571	0.1	172,380	0.1
Bond Issuance Costs Net of Amortization	0	0.0	0	0.0	0	0.0	0	0.0	4,458,359	2.9
TOTAL ASSETS	165,798,063	100.0	157,260,314	100.0	156,595,939	100.0	156,553,175	100.0	156,056,443	100.0
Liabilities Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Current Portion Long Term Debt Bank/Bonds	1,970,000	1.2	2,070,000	1.3	2,175,000	1.4	2,285,000	1.5	2,400,000	1.5
Trade Accounts Payable	2,457,594	1.5	894,128	0.6	5,083,034	3.2	4,833,243	3.1	3,225,958	2.1
Accrued Wages/Salaries	1,679,371	1.0	1,809,624	1.2	0	0.0	0	0.0	0	0.0
Interest Payable	0	0.0	0	0.0	0	0.0	0	0.0	339,856	0.2
Other Accruals	1,695,688	1.0	1,638,098	1.0	0	0.0	0	0.0	0	0.0
Total Accruals	3,375,059	2.0	3,447,722	2.2	0	0.0	0	0.0	339,856	0.2
Estimated Third Party Payors	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total Current Liabilities	7,802,653	4.7	6,411,850	4.1	7,258,034	4.6	7,118,243	4.5	5,965,814	3.8
Health Center Bonds	98,077,805	59.2	95,843,670	60.9	93,504,533	59.7	91,055,396	58.2	93,072,721	59.6
Long Term Debt Bank/Bond	98,077,805	59.2	95,843,670	60.9	93,504,533	59.7	91,055,396	58.2	93,072,721	59.6
Capital Lease Obligations	0	0.0	0	0.0	0	0.0	0	0.0	14,809	0.0
Pension and Trust Obligations	180,361	0.1	109,919	0.1	136,844	0.1	157,461	0.1	157,461	0.1
Deferred Revenue from Entrance Fees	51,734,286	31.2	53,763,325	34.2	55,075,639	35.2	57,546,504	36.8	57,090,016	36.6
Entrance Fees Refundable upon Reoccupancy	2,263,839	1.4	4,460,991	2.8	7,099,465	4.5	9,192,661	5.9	9,192,661	5.9
Refundable Deposits/Entrance Fees(CCRC)	2,263,839	1.4	4,460,991	2.8	7,099,465	4.5	9,192,661	5.9	9,192,661	5.9
Total Liabilities	160,058,944	96.5	160,589,755	102.1	163,074,515	104.1	165,070,265	105.4	165,493,482	106.0
Net Worth Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Unrestricted	5,293,008	3.2	(3,770,233)	(2.4)	(6,966,777)	(4.4)	(8,998,253)	(5.7)	(9,437,039)	(6.0)
Temporarily Restricted	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Permanently Restricted	446,111	0.3	440,792	0.3	488,201	0.3	481,163	0.3	0	0.0
Unrestricted	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Net Assets	5,739,119	3.5	(3,329,441)	(2.1)	(6,478,576)	(4.1)	(8,517,090)	(5.4)	(9,437,039)	(6.0)
TOTAL LIABILITIES & NET WORTH	165,798,063	100.0	157,260,314	100.0	156,595,939	100.0	156,553,175	100.0	156,056,443	100.0

2/28/2022  
Historical  
12M  
Unqualified

2/28/2023  
Historical  
12M  
Unqualified

2/29/2024  
Historical  
12M  
Unqualified

2/28/2025  
Historical  
12M  
Unqualified

5/31/2025  
Historical  
3M  
Company  
Prepared

	USD	%	USD	%	USD	%	USD	%	USD	%
Revenue Common Size										
Independent Living	0	0.0	0	0.0	0	0.0	0	0.0	4,370,805	61.1
Assisted Living	0	0.0	0	0.0	0	0.0	0	0.0	571,379	8.0
Skilled Nursing	0	0.0	0	0.0	0	0.0	0	0.0	321,617	4.5
Resident Revenue	15,884,370	71.2	16,956,520	74.1	18,849,667	71.9	21,298,013	76.3	395,050	5.5
Other	0	0.0	487,222	2.1	785,686	3.0	836,724	3.0	0	0.0
Resident Revenue	15,884,370	71.2	17,443,742	76.3	19,635,353	74.9	22,134,737	79.3	5,658,851	79.0
Amortization of Entrance Fees Earned	5,148,501	23.1	5,200,754	22.7	6,471,355	24.7	5,546,814	19.9	1,500,000	21.0
Grants Unrestricted	301,120	1.3	0	0.0	0	0.0	0	0.0	0	0.0
Government Revenues	301,120	1.3	0	0.0	0	0.0	0	0.0	0	0.0
Other Revenue	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Unrestricted Donations/Contributions	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Assets Released from Restrictions	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Fundraising(Contributions	460,656	2.1	202,074	0.9	95,567	0.4	198,576	0.7	0	0.0
Other Revenue	520,572	2.3	0	0.0	0	0.0	0	0.0	0	0.0
Assets Released from Restrictions	0	0.0	28,143	0.1	6,690	0.0	24,103	0.1	0	0.0
Other Revenue	981,228	4.4	230,217	1.0	102,257	0.4	222,679	0.8	0	0.0
Total Operating Revenue	22,315,219	100.0	22,874,713	100.0	26,208,965	100.0	27,904,230	100.0	7,158,851	100.0
Customize	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Gross Profit	22,315,219	100.0	22,874,713	100.0	26,208,965	100.0	27,904,230	100.0	7,158,851	100.0
Operating Expenses Common Size										
Salaries	13,227,504	59.3	13,163,354	57.5	13,436,483	51.3	13,766,063	49.3	0	0.0
Personnel Expense	13,227,504	59.3	13,163,354	57.5	13,436,483	51.3	13,766,063	49.3	0	0.0
Purchased Services	2,242,545	10.0	3,399,587	14.9	4,153,871	15.8	4,970,485	17.8	0	0.0
Purchased Services	2,242,545	10.0	3,399,587	14.9	4,153,871	15.8	4,970,485	17.8	0	0.0
Supplies	1,276,671	5.7	1,408,872	6.2	1,601,985	6.1	1,587,966	5.7	0	0.0
Other Operating Expenses	2,181,109	9.8	0	0.0	0	0.0	0	0.0	0	0.0
Medical Services	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Food Services	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Operating and Maintenance	0	0.0	1,769,797	7.7	1,617,651	6.2	1,372,239	4.9	5,708,246	79.7
Administrative	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Housekeeping & Transportation	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Depreciation	6,329,421	28.4	7,019,001	30.7	7,218,754	27.5	7,013,374	25.1	1,741,841	24.3
Total Operating Expenses	25,257,250	113.2	26,760,611	117.0	28,028,744	106.9	28,710,127	102.9	7,450,087	104.1
Operating Profit	(2,942,031)	(13.2)	(3,885,898)	(17.0)	(1,819,779)	(6.9)	(805,897)	(2.9)	(291,236)	(4.1)
Other R. & E. (Net Income) Common Size										
Investment - Unrestricted	432,494	1.9	916,629	4.0	857,349	3.3	1,081,077	3.9	0	0.0
Interest Income	432,494	1.9	916,629	4.0	857,349	3.3	1,081,077	3.9	0	0.0
Investment Income	284,253	1.3	650,250	2.8	(225,258)	(0.9)	774,192	2.8	142,750	2.0
Restricted Grants	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Restricted Contributions	45,566	0.2	0	0.0	47,409	0.2	0	0.0	0	0.0
Restricted Grants and Donations	45,566	0.2	0	0.0	47,409	0.2	0	0.0	0	0.0
Donations Received	0	0.0	44,800	0.2	0	0.0	(7,038)	0.0	62,500	0.9
Other Income	0	0.0	0	0.0	0	0.0	0	0.0	14,250	0.2
Other Income	0	0.0	44,800	0.2	0	0.0	(7,038)	0.0	76,750	1.1
Net Assets Released from Restrictions	0	0.0	(28,143)	(0.1)	0	0.0	0	0.0	0	0.0
Total Other Income	762,313	3.4	1,583,536	6.9	679,500	2.6	1,848,231	6.6	219,500	3.1
Interest Expense	3,423,569	15.3	4,256,423	18.6	4,154,388	15.9	4,046,514	14.5	1,038,614	14.5
Other Expenses	0	0.0	0	0.0	0	0.0	46,350	0.2	7,500	0.1
In Kind / Non Cash Expense (Included from NIADS)	0	0.0	0	0.0	0	0.0	46,350	0.2	7,500	0.1
Other Expense	89,567	0.4	36,941	0.2	48,590	0.2	0	0.0	0	0.0
Total Other Expenses	3,513,136	15.7	4,293,364	18.8	4,202,978	16.0	4,092,864	14.7	1,046,114	14.6
Profit Before Tax	(5,692,854)	(25.5)	(6,595,726)	(28.8)	(5,343,257)	(20.4)	(3,050,530)	(10.9)	(1,117,850)	(15.6)
Unrealized Gain/(Loss) (included in NIADS)	(258,804)	(1.2)	(2,472,834)	(10.8)	2,194,122	8.4	1,012,016	3.6	0	0.0
Profit Before Extraord. Items	(5,951,658)	(26.7)	(9,068,560)	(39.6)	(3,149,135)	(12.0)	(2,038,514)	(7.3)	(1,117,850)	(15.6)
Extraordinary Gain/(Loss) (excluded from NIADS)	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Unrealized Gain/(Loss) (excluded from NIADS)	39,603	0.2	0	0.0	0	0.0	0	0.0	0	0.0
NET INCOME	(5,912,055)	(26.5)	(9,068,560)	(39.6)	(3,149,135)	(12.0)	(2,038,514)	(7.3)	(1,117,850)	(15.6)

Channing House Statement for Channing House with currency of USD General/ Middle Market Statement in Actual (U.S. Dollar) July 28, 2025 9:25 AM	2/28/2022 Historical 12M Unqualified		2/28/2023 Historical 12M Unqualified		2/29/2024 Historical 12M Unqualified		2/28/2025 Historical 12M Unqualified		5/31/2025 Historical 3M Company Prepared	
Changes in Retained Earnings Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Beginning Net Worth	11,651,174	203.0	5,739,119	(172.4)	(3,329,441)	51.4	(6,478,576)	76.1	(8,517,090)	90.3
Changes in Retained Earnings:										
Net Income (Loss)	(5,912,055)	(103.0)	(9,068,560)	272.4	(3,149,135)	48.6	(2,038,514)	23.9	(1,117,850)	11.8
Prior Period Adjustment	0	0.0	0	0.0	0	0.0	0	0.0	197,901	(2.1)
Total Change in RE	(5,912,055)	(103.0)	(9,068,560)	272.4	(3,149,135)	48.6	(2,038,514)	23.9	(919,949)	9.7
Changes in Net Worth Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Changes in Other NW										
Change in Net Worth	(5,912,055)	(103.0)	(9,068,560)	272.4	(3,149,135)	48.6	(2,038,514)	23.9	(919,949)	9.7
Ending Total Net Worth	5,739,119	100.0	(3,329,441)	100.0	(6,478,576)	100.0	(8,517,090)	100.0	(9,437,039)	100.0
Other Lines Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Principal Payments on ST and LTD	1,970,000	0.0	2,070,000	0.0	2,175,000	0.0	2,285,000	0.0	2,400,000	0.0
Number of Months	12	0.0	12	0.0	12	0.0	12	0.0	3	0.0
Cash Flows from Entrance Fees	0	0.0	9,855,240	0.0	10,422,143	0.0	11,212,475	0.0	137,500	0.0
Cash Refund of Entrance Fees	0	0.0	428,295	0.0	0	0.0	1,101,600	0.0	0	0.0

## Exhibit II

### Proposed Bond Model

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Cal-Mortgage Insured Revenue Bonds  
California Municipal Finance Authority  
(Channing Hosue), Series 2025

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Taxable Fixed Rate Bonds  
50% Paydown with IEF Pool

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## SOURCES AND USES OF FUNDS

Cal-Mortgage Insured Revenue Bonds  
California Municipal Finance Authority  
(Channing Hosue), Series 2025

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Taxable Fixed Rate Bonds  
50% Paydown with IEF Pool

Dated Date                    10/23/2025  
Delivery Date                10/23/2025

Sources:	Series 2025A	Series 2025B	Total
Bond Proceeds:			
Par Amount	18,085,000.00	18,090,000.00	36,175,000.00
Other Sources of Funds:			
Equity Contribution	2,009,444.44	2,010,000.00	4,019,444.44
	20,094,444.44	20,100,000.00	40,194,444.44
<hr/>			
Uses:	Series 2025A	Series 2025B	Total
Project Fund Deposits:			
Acquisition	17,226,983.96	17,773,016.04	35,000,000.00
Due Diligence	349,951.62	350,048.38	700,000.00
	17,576,935.58	18,123,064.42	35,700,000.00
Other Fund Deposits:			
Debt Service Reserve Fund_A	702,612.50	-	702,612.50
Debt Service Reserve Fund_B	-	859,275.00	859,275.00
	702,612.50	859,275.00	1,561,887.50
Delivery Date Expenses:			
Cost of Issuance	324,955.08	325,044.92	650,000.00
Underwriter's Discount	162,765.00	162,810.00	325,575.00
Cal-Mortgage Premium (3%)	1,250,902.50	557,445.66	1,808,348.16
Cal-Mortgage Inspection Fee (0.40%)	72,340.00	72,360.00	144,700.00
	1,810,962.58	1,117,660.58	2,928,623.16
Other Uses of Funds:			
Additional Proceeds	3,933.78	-	3,933.78
	20,094,444.44	20,100,000.00	40,194,444.44

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## BOND PRICING

Cal-Mortgage Insured Revenue Bonds  
California Municipal Finance Authority  
(Channing Hosue), Series 2025

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Taxable Fixed Rate Bonds  
50% Paydown with IEF Pool

Bond Component	Maturity Date	Amount	Rate	Yield	Price
<hr/>					
Series 2025A, Term 2055:					
	05/15/2055	18,085,000	6.500%	6.500%	100.000
Series 2025B, TMPS-50:					
	05/15/2030	18,090,000	4.750%	4.750%	100.000
<hr/>					
		36,175,000			
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Dated Date	10/23/2025	
Delivery Date	10/23/2025	
First Coupon	05/15/2026	
Par Amount	36,175,000.00	
Original Issue Discount	-	
<hr/>		
Production	36,175,000.00	100.000000%
Underwriter's Discount	-325,575.00	-0.900000%
<hr/>		
Purchase Price	35,849,425.00	99.100000%
Accrued Interest	-	
<hr/>		
Net Proceeds	35,849,425.00	

## BOND SUMMARY STATISTICS

### Cal-Mortgage Insured Revenue Bonds California Municipal Finance Authority (Channing Hosue), Series 2025

#### Taxable Fixed Rate Bonds 50% Paydown with IEF Pool

Dated Date	10/23/2025
Delivery Date	10/23/2025
First Coupon	05/15/2026
Last Maturity	05/15/2055
Arbitrage Yield	7.451052%
True Interest Cost (TIC)	7.641300%
Net Interest Cost (NIC)	6.538674%
All-In TIC	8.038089%
Average Coupon	6.451530%
Average Life (years)	10.328
Weighted Average Maturity (years)	10.328
Duration of Issue (years)	5.167
Par Amount	36,175,000.00
Bond Proceeds	36,175,000.00
Total Interest	24,103,272.21
Net Interest	24,428,847.21
Bond Years from Dated Date	373,605,527.78
Bond Years from Delivery Date	373,605,527.78
Total Debt Service	60,278,272.21
Maximum Annual Debt Service	19,828,884.71
Average Annual Debt Service	2,039,107.12
Underwriter's Fees (per \$1000)	
Average Takedown	-
Other Fee	9.000000
Total Underwriter's Discount	9.000000
Bid Price	99.100000

Bond Component	Par Value	Price	Average Coupon	Average Life	PV of 1 bp change
TMPS-50	18,090,000.00	100.000	4.750%	0.572	7,416.90
Term 2055	18,085,000.00	100.000	6.500%	20.086	23,691.35
	36,175,000.00			10.328	31,108.25

	TIC	All-In TIC	Arbitrage Yield
Par Value	36,175,000.00	36,175,000.00	36,175,000.00
+ Accrued Interest	-	-	-
+ Premium (Discount)	-	-	-
- Underwriter's Discount	-325,575.00	-325,575.00	
- Cost of Issuance Expense		-650,000.00	
- Other Amounts	-1,953,048.16	-1,953,048.16	-1,953,048.16
Target Value	33,896,376.84	33,246,376.84	34,221,951.84
Target Date	10/23/2025	10/23/2025	10/23/2025
Yield	7.641300%	8.038089%	7.451052%

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## BOND MATURITY TABLE

Cal-Mortgage Insured Revenue Bonds  
California Municipal Finance Authority  
(Channing Hosue), Series 2025

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Taxable Fixed Rate Bonds  
50% Paydown with IEF Pool

Maturity Date	Series 2025A	Series 2025B	Total
03/01/2026	-	2,895,000	2,895,000
04/01/2026	-	2,900,000	2,900,000
05/01/2026	-	2,895,000	2,895,000
05/15/2026	-	-	-
06/01/2026	-	2,900,000	2,900,000
07/01/2026	-	2,900,000	2,900,000
08/01/2026	-	3,600,000	3,600,000
09/01/2026	-	-	-
05/15/2027	-	-	-
05/15/2028	235,000	-	235,000
05/15/2029	250,000	-	250,000
05/15/2030	270,000	-	270,000
05/15/2031	285,000	-	285,000
05/15/2032	305,000	-	305,000
05/15/2033	325,000	-	325,000
05/15/2034	345,000	-	345,000
05/15/2035	370,000	-	370,000
05/15/2036	395,000	-	395,000
05/15/2037	420,000	-	420,000
05/15/2038	450,000	-	450,000
05/15/2039	480,000	-	480,000
05/15/2040	510,000	-	510,000
05/15/2041	545,000	-	545,000
05/15/2042	585,000	-	585,000
05/15/2043	625,000	-	625,000
05/15/2044	665,000	-	665,000
05/15/2045	710,000	-	710,000
05/15/2046	755,000	-	755,000
05/15/2047	810,000	-	810,000
05/15/2048	860,000	-	860,000
05/15/2049	920,000	-	920,000
05/15/2050	980,000	-	980,000
05/15/2051	1,045,000	-	1,045,000
05/15/2052	1,120,000	-	1,120,000
05/15/2053	1,195,000	-	1,195,000
05/15/2054	1,270,000	-	1,270,000
05/15/2055	1,360,000	-	1,360,000
	18,085,000	18,090,000	36,175,000

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## AGGREGATE DEBT SERVICE

Cal-Mortgage Insured Revenue Bonds  
California Municipal Finance Authority  
(Channing Hosue), Series 2025

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Taxable Fixed Rate Bonds  
50% Paydown with IEF Pool

Period Ending	Series 2025A	Series 2025B	Series 2017A	Series 2017B	Aggregate Debt Service
02/28/2026	-	-	960,075	1,079,062.50	2,039,137.50
02/28/2027	1,247,362.64	18,581,522.07	4,026,150	2,393,325.00	26,248,359.71
02/28/2028	1,175,525.00	-	4,015,650	2,403,325.00	7,594,500.00
02/28/2029	1,402,887.50	-	4,031,550	2,386,750.00	7,821,187.50
02/28/2030	1,402,125.00	-	4,034,350	2,383,750.00	7,820,225.00
02/28/2031	1,405,225.00	-	4,028,250	2,390,000.00	7,823,475.00
02/28/2032	1,402,187.50	-	4,023,250	2,395,250.00	7,820,687.50
02/28/2033	1,403,012.50	-	4,024,050	2,394,625.00	7,821,687.50
02/28/2034	1,402,537.50	-	4,005,975	2,412,750.00	7,821,262.50
02/28/2035	1,400,762.50	-	4,002,600	2,419,375.00	7,822,737.50
02/28/2036	1,402,525.00	-	4,006,600	2,415,000.00	7,824,125.00
02/28/2037	1,402,662.50	-	4,014,500	2,405,000.00	7,822,162.50
02/28/2038	1,401,175.00	-	4,007,700	2,414,000.00	7,822,875.00
02/28/2039	1,402,900.00	-	4,010,400	2,412,187.50	7,825,487.50
02/28/2040	1,402,675.00	-	4,007,300	2,414,250.00	7,824,225.00
02/28/2041	1,400,500.00	-	3,998,400	2,424,375.00	7,823,275.00
02/28/2042	1,401,212.50	-	-	6,420,500.00	7,821,712.50
02/28/2043	1,404,487.50	-	-	6,422,500.00	7,826,987.50
02/28/2044	1,405,162.50	-	-	6,422,250.00	7,827,412.50
02/28/2045	1,403,237.50	-	-	6,419,250.00	7,822,487.50
02/28/2046	1,403,550.00	-	-	6,417,875.00	7,821,425.00
02/28/2047	1,400,937.50	-	-	6,422,250.00	7,823,187.50
02/28/2048	1,405,075.00	-	-	6,421,625.00	7,826,700.00
02/28/2049	1,400,800.00	-	-	-	1,400,800.00
02/28/2050	1,402,950.00	-	-	-	1,402,950.00
02/28/2051	1,401,200.00	-	-	-	1,401,200.00
02/28/2052	1,400,387.50	-	-	-	1,400,387.50
02/28/2053	1,405,025.00	-	-	-	1,405,025.00
02/28/2054	1,404,787.50	-	-	-	1,404,787.50
02/28/2055	1,399,675.00	-	-	-	1,399,675.00
02/28/2056	1,404,200.00	-	-	-	1,404,200.00
	41,696,750.14	18,581,522.07	61,196,800	82,089,275.00	203,564,347.21

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## BOND DEBT SERVICE

Cal-Mortgage Insured Revenue Bonds  
California Municipal Finance Authority  
(Channing Hosue), Series 2025

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Taxable Fixed Rate Bonds  
50% Paydown with IEF Pool

Period Ending	Principal	Coupon	Interest	Debt Service
02/28/2027	18,090,000	4.750%	1,738,884.71	19,828,884.71
02/28/2028	-	-	1,175,525.00	1,175,525.00
02/28/2029	235,000	6.500%	1,167,887.50	1,402,887.50
02/28/2030	250,000	6.500%	1,152,125.00	1,402,125.00
02/28/2031	270,000	6.500%	1,135,225.00	1,405,225.00
02/28/2032	285,000	6.500%	1,117,187.50	1,402,187.50
02/28/2033	305,000	6.500%	1,098,012.50	1,403,012.50
02/28/2034	325,000	6.500%	1,077,537.50	1,402,537.50
02/28/2035	345,000	6.500%	1,055,762.50	1,400,762.50
02/28/2036	370,000	6.500%	1,032,525.00	1,402,525.00
02/28/2037	395,000	6.500%	1,007,662.50	1,402,662.50
02/28/2038	420,000	6.500%	981,175.00	1,401,175.00
02/28/2039	450,000	6.500%	952,900.00	1,402,900.00
02/28/2040	480,000	6.500%	922,675.00	1,402,675.00
02/28/2041	510,000	6.500%	890,500.00	1,400,500.00
02/28/2042	545,000	6.500%	856,212.50	1,401,212.50
02/28/2043	585,000	6.500%	819,487.50	1,404,487.50
02/28/2044	625,000	6.500%	780,162.50	1,405,162.50
02/28/2045	665,000	6.500%	738,237.50	1,403,237.50
02/28/2046	710,000	6.500%	693,550.00	1,403,550.00
02/28/2047	755,000	6.500%	645,937.50	1,400,937.50
02/28/2048	810,000	6.500%	595,075.00	1,405,075.00
02/28/2049	860,000	6.500%	540,800.00	1,400,800.00
02/28/2050	920,000	6.500%	482,950.00	1,402,950.00
02/28/2051	980,000	6.500%	421,200.00	1,401,200.00
02/28/2052	1,045,000	6.500%	355,387.50	1,400,387.50
02/28/2053	1,120,000	6.500%	285,025.00	1,405,025.00
02/28/2054	1,195,000	6.500%	209,787.50	1,404,787.50
02/28/2055	1,270,000	6.500%	129,675.00	1,399,675.00
02/28/2056	1,360,000	6.500%	44,200.00	1,404,200.00
	36,175,000		24,103,272.21	60,278,272.21

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## BOND DEBT SERVICE

Series 2025A  
Cal-Mortgage Insured Revenue Bonds  
California Municipal Finance Authority  
(Channing Hosue), Series 2025

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Taxable Fixed Rate Bonds  
50% Paydown with IEF Pool

Period Ending	Principal	Coupon	Interest	Debt Service
02/28/2027	-	-	1,247,362.64	1,247,362.64
02/28/2028	-	-	1,175,525.00	1,175,525.00
02/28/2029	235,000	6.500%	1,167,887.50	1,402,887.50
02/28/2030	250,000	6.500%	1,152,125.00	1,402,125.00
02/28/2031	270,000	6.500%	1,135,225.00	1,405,225.00
02/28/2032	285,000	6.500%	1,117,187.50	1,402,187.50
02/28/2033	305,000	6.500%	1,098,012.50	1,403,012.50
02/28/2034	325,000	6.500%	1,077,537.50	1,402,537.50
02/28/2035	345,000	6.500%	1,055,762.50	1,400,762.50
02/28/2036	370,000	6.500%	1,032,525.00	1,402,525.00
02/28/2037	395,000	6.500%	1,007,662.50	1,402,662.50
02/28/2038	420,000	6.500%	981,175.00	1,401,175.00
02/28/2039	450,000	6.500%	952,900.00	1,402,900.00
02/28/2040	480,000	6.500%	922,675.00	1,402,675.00
02/28/2041	510,000	6.500%	890,500.00	1,400,500.00
02/28/2042	545,000	6.500%	856,212.50	1,401,212.50
02/28/2043	585,000	6.500%	819,487.50	1,404,487.50
02/28/2044	625,000	6.500%	780,162.50	1,405,162.50
02/28/2045	665,000	6.500%	738,237.50	1,403,237.50
02/28/2046	710,000	6.500%	693,550.00	1,403,550.00
02/28/2047	755,000	6.500%	645,937.50	1,400,937.50
02/28/2048	810,000	6.500%	595,075.00	1,405,075.00
02/28/2049	860,000	6.500%	540,800.00	1,400,800.00
02/28/2050	920,000	6.500%	482,950.00	1,402,950.00
02/28/2051	980,000	6.500%	421,200.00	1,401,200.00
02/28/2052	1,045,000	6.500%	355,387.50	1,400,387.50
02/28/2053	1,120,000	6.500%	285,025.00	1,405,025.00
02/28/2054	1,195,000	6.500%	209,787.50	1,404,787.50
02/28/2055	1,270,000	6.500%	129,675.00	1,399,675.00
02/28/2056	1,360,000	6.500%	44,200.00	1,404,200.00
	18,085,000		23,611,750.14	41,696,750.14

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## BOND DEBT SERVICE

Series 2025B  
Cal-Mortgage Insured Revenue Bonds  
California Municipal Finance Authority  
(Channing Hosue), Series 2025

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Taxable Fixed Rate Bonds  
50% Paydown with IEF Pool

Period Ending	Principal	Coupon	Interest	Debt Service
02/28/2027	18,090,000	4.750%	491,522.07	18,581,522.07
	18,090,000		491,522.07	18,581,522.07

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## YIELD TO MATURITY

Cal-Mortgage Insured Revenue Bonds  
California Municipal Finance Authority  
(Channing Hosue), Series 2025

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Taxable Fixed Rate Bonds  
50% Paydown with IEF Pool

### YTM

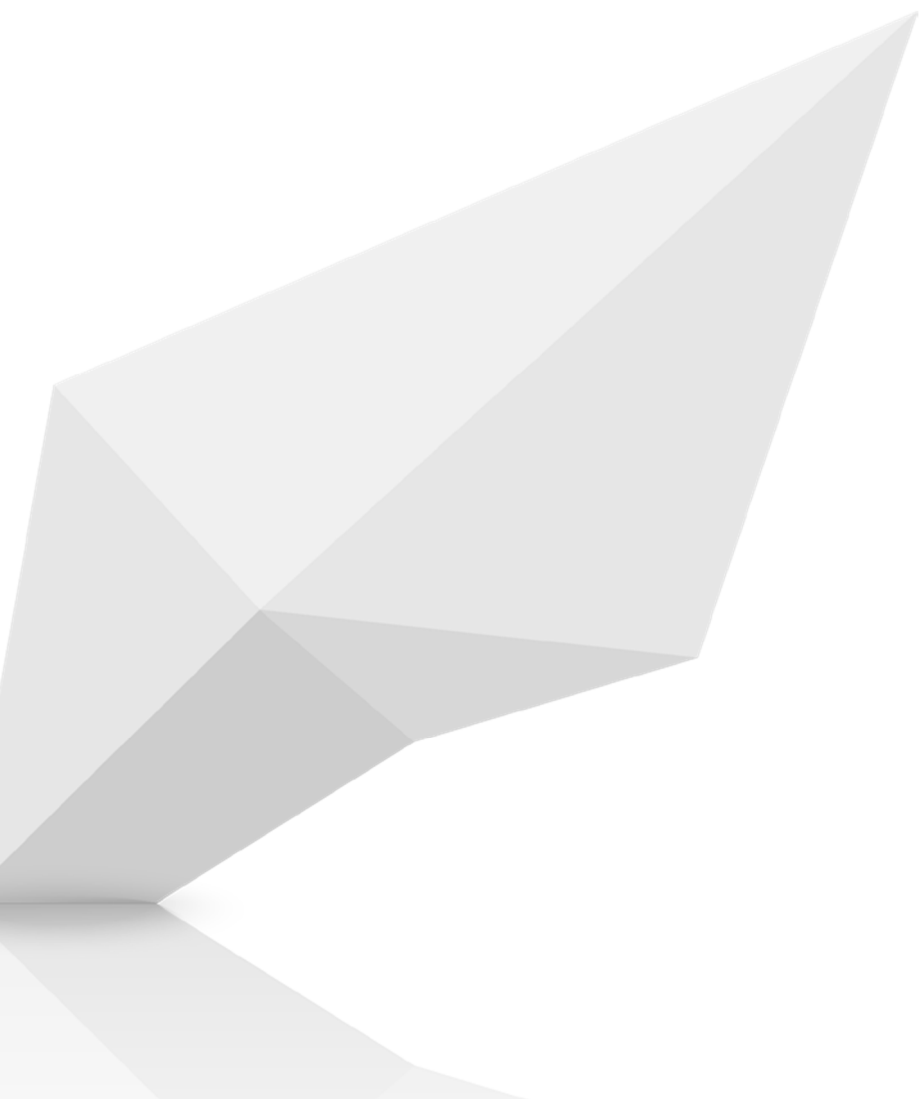
YTM	6.4132%
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Exhibit III  
Audited Financial Statements  
FYE 2022 – 2025

# Channing House

Financial Statements

Years Ended February 28, 2023 and 2022



**WIPFLI**

# Channing House

Years Ended February 28, 2023 and 2022

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## **Independent Auditor's Report**

To the Board of Trustees  
Channing House  
Palo Alto, California

### ***Opinion***

We have audited the accompanying financial statements of Channing House (the "Organization"), which comprise the statements of financial position as of February 28, 2023 and 2022, and the related statements of activities 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 financial statements referred to above present fairly, in all material respects, the financial position of Channing House as of February 28, 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 ("GAAP").

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of Channing House and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### ***Auditor's Responsibilities for the Audits 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 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 Channing House'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 Channing House'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.

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

Irvine, California

June 12, 2023

# Channing House

## Statements of Financial Position

<i>As of February 28, 2023 and 2022</i>	2023	2022
<b><u>Assets</u></b>		
Current assets		
Cash	\$ 5,642,274	\$ 4,688,419
Accounts receivable	55,968	980,011
Investments	17,767,535	18,121,026
Assets limited as to use, current	3,538,258	3,469,825
Supplies inventory	34,726	34,838
Prepaid expenses	656,213	534,046
Total current assets	27,694,974	27,828,165
Long-term assets		
Assets limited as to use, net of current portion	7,932,717	11,455,499
Property and equipment, net	121,550,052	126,431,828
Other assets	82,571	82,571
Total long-term assets	129,565,340	137,969,898
Total assets	\$ 157,260,314	\$ 165,798,063
<b><u>Liabilities and Net Assets (Deficit)</u></b>		
Current liabilities		
Accounts payable	\$ 894,128	\$ 2,457,594
Accrued payroll and benefits	1,809,624	1,679,371
Accrued expenses	1,638,098	1,695,688
Current maturities of bonds payable	2,070,000	1,970,000
Total current liabilities	6,411,850	7,802,653
Long-term liabilities		
Pension liability	109,919	180,361
Refundable entrance fees	4,460,991	2,263,839
Deferred revenue from entrance fees	53,763,325	51,734,286
Bonds payable, net of current portion and unamortized bond premium and issuance costs	95,843,670	98,077,805
Total long-term liabilities	154,177,905	152,256,291
Total liabilities	160,589,755	160,058,944
Net assets (deficit)		
Without donor restrictions		
Undesignated	(8,632,370)	65,739
Board designated	4,862,137	5,227,269
With donor restrictions	440,792	446,111
Total net assets (deficit)	(3,329,441)	5,739,119
Total liabilities and net assets (deficit)	\$ 157,260,314	\$ 165,798,063

See accompanying notes to financial statements.

# Channing House

## Statements of Activities and Changes in Net Assets

<i>Years Ended February 28, 2023 and 2022</i>	2023	2022
Revenues, gains, and other support		
Monthly care fees	\$ 16,956,520	\$ 15,864,778
Residential entrances fees earned	5,200,754	5,148,501
Interest and dividend income	916,629	432,494
Other services	487,222	540,164
Government grant revenue	-	301,120
Donations and other	202,074	460,656
Total revenues, gains, and other support	23,763,199	22,747,713
Net assets released from restrictions	28,143	7,509
Expenses		
Salaries and benefits	13,163,354	13,227,504
Purchased services	3,399,587	3,134,339
Supplies	1,408,872	1,243,099
Utilities	1,434,363	1,112,559
Other	335,434	217,837
Depreciation	7,019,001	6,329,421
Interest expense	4,256,423	3,423,569
Total expenses	31,017,034	28,688,328
Loss before nonoperating loss	(7,225,692)	(5,933,106)
Nonoperating gain (loss)		
Other components of net periodic pension cost	(36,941)	(89,567)
Net unrealized loss on trading securities	(2,482,975)	(258,804)
Net realized gain on investments	672,226	284,253
Total nonoperating loss	(1,847,690)	(64,118)
Net loss	(9,073,382)	(5,997,224)
Net unrealized loss on investments other than trading securities	(110,242)	(78,858)
Change in pension obligation	120,383	118,461
Net change in net assets without donor restrictions	(9,063,241)	(5,957,621)
Net assets with donor restrictions		
Donations	44,800	53,075
Loss from investments with donor restrictions, net	(21,976)	-
Net assets released from restrictions	(28,143)	(7,509)
Net change in net assets with donor restrictions	(5,319)	45,566
Change in net assets	(9,068,560)	(5,912,055)
Net assets (deficit), beginning of year	5,739,119	11,651,174
Net assets (deficit), end of year	\$ (3,329,441)	\$ 5,739,119

See accompanying notes to financial statements.

# Channing House

## Statements of Cash Flows

<i>Years Ended February 28, 2023 and 2022</i>	2023	2022
Cash flows from operating activities		
Monthly care fees	\$ 16,903,464	\$ 15,387,341
Entrance fees received from residents	10,404,044	11,101,945
Other receipts from operations	487,222	540,164
Investment income received	928,787	432,494
Donations and miscellaneous revenues	246,874	515,090
Government grant revenue received	-	301,120
Cash paid to employees and suppliers	(21,309,901)	(19,271,061)
Interest paid, net of amount capitalized	(4,452,125)	(3,594,439)
Net cash flows from operating activities	3,208,365	5,412,654
Cash flows from investing activities		
Proceeds from sales of investments	2,748,841	2,623,011
Cost of purchases of investments	(5,000,678)	(96,994)
Change in assets limited as to use for bond funds	(1,363,979)	124,206
Purchases of property and equipment	(2,137,225)	(13,237,716)
Net cash flows from investing activities	(5,753,041)	(10,587,493)
Cash flows from financing activities		
Payments on bond payable	(1,970,000)	(505,000)
Net cash flows from financing activities	(1,970,000)	(505,000)
Net change in cash and cash equivalents and restricted cash equivalents	(4,514,676)	(5,679,839)
Cash and cash equivalents and restricted cash equivalents, beginning of year	17,251,310	22,931,149
Cash and cash equivalents and restricted cash equivalents, end of year	\$ 12,736,634	\$ 17,251,310
Reconciliation of changes in net assets		
to net cash flows from operating activities		
Change in net assets	\$ (9,068,560)	\$ (5,912,055)
Adjustments to reconcile change in net assets to net cash flows		
from operating activities		
Depreciation	7,019,001	6,329,421
Amortization of bond issuance costs	237,454	237,454
Amortization of bond premium, net of discount	(401,589)	(401,591)
Amortization of resident entrance fees earned	(5,200,754)	(5,148,501)
Unrealized loss on investments	2,627,351	337,662
Realized gain on investments	(672,226)	(284,253)
Loss on disposal of property and equipment	-	1,359
Entrance fees, net of refunds	9,426,945	11,101,945
Changes in operating assets and liabilities		
Accounts receivable	924,043	(477,437)
Supplies inventory	112	(31,409)
Prepaid expenses	(122,167)	100,223
Other assets	-	(82,571)
Accounts payable	(1,563,466)	(592,223)
Accrued payroll and benefits	130,253	259,921
Accrued expenses	(57,590)	3,624
Pension liability	(70,442)	(28,915)
Net cash flows from operating activities	\$ 3,208,365	\$ 5,412,654
Supplemental disclosures of cash flow information		
Fixed assets included in accounts payable	\$ 59,810	\$ 1,923,789
See accompanying notes to financial statements.		

# Channing House

## Notes to Financial Statements

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### Note 1: Organization

Channing House (the Organization) is a nonprofit public benefit corporation licensed by the State of California Department of Public Health and the California Department of Social Services to provide housing, related facilities and health services for seniors. Channing House was incorporated in 1960 under the laws of the State of California. The community includes 175 independent living apartments, 38 assisted living beds, and 26 skilled nursing beds.

Channing House is subject to statutory liquid reserve requirements. At February 28, 2023 and 2022, the Organization's liquid reserves, as calculated in accordance with the continuing care contract statutes of the California Health and Safety Code, were in excess of such requirements.

Channing House is exempt from property taxes; however, it makes an "in-lieu-of" payment to the City of Palo Alto based upon the assessed valuation of land, improvements, and unsecured property.

### Note 2: Summary of Significant Accounting Policies

#### Basis of Accounting

The Organization's policy is to prepare its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP), which includes the standards set forth by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities* and the guidelines set forth in the industry audit and accounting guide "Health Care Organizations" issued by the American Institute of Certified Public Accountants (AICPA).

#### Use of Estimates

The preparation of financial statements in conformity with 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. Such management estimates include fair value of investments, future service obligation, depreciation, deferred revenue from entrance fees, and pension costs. Actual results could differ from those estimates.

# Channing House

## Notes to Financial Statements

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### Note 2: Summary of Significant Accounting Policies (Continued)

#### Net Asset Classifications

Contributions of cash and other assets are classified as one of the following two categories:

**Without Donor Restrictions** – Net assets without donor restrictions are those not subject to donor imposed stipulations and also represent unconditional promises to give by donors without any use or time restrictions. Included within net assets without donor restrictions are Board-designated funds, named the Channing House Heritage Circle Fund (Heritage Circle). The Board of Trustees of Channing House is authorized to spend the principal, income and appreciation of these funds as it shall deem reasonable, in order to further the mission and purpose of Channing House. Board-designated funds at February 28, 2023 and 2022, respectively, consisted of the following:

	2023	2022
Heritage Circle	\$ 4,862,137	\$ 5,227,269
Totals	\$ 4,862,137	\$ 5,227,269

**With Donor Restrictions** – Net assets with donor restrictions represent unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. Donor restrictions released in the year received are recorded as contributions without donor restrictions. This category also includes net assets subject to donor-imposed stipulations that are to be maintained by the Organization in perpetuity. Channing House had no net assets required to be maintained in perpetuity as of February 28, 2023 or 2022. Contribution revenue is recognized in the appropriate net asset classification when the gift is unconditionally promised.

#### Performance Indicator

“Net loss” as reflected in the accompanying statements of activities and changes in net assets is the performance indicator. The performance indicator reflects Channing House’s operational performance excluding net unrealized gain or loss on investments other than trading securities, changes in pension obligation, donations with donor restrictions, and income or loss from investments with donor restrictions.

#### Cash and Cash Equivalents

Channing House considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. Cash equivalents includes cash designated for specific projects.

# Channing House

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies (Continued)**

#### **Concentration of Credit Risk**

Financial instruments potentially subjecting Channing House to concentrations of credit risk consist primarily of bank demand deposits and money market mutual funds in excess of the Federal Deposit Insurance Corporation threshold of \$250,000. Demand deposits are placed with local financial institutions, and management has not experienced any loss related to these demand deposits in the past. At February 28, 2023 and 2022, cash account balances exceeded the federally insured limit by \$5,614,511 and \$4,499,519, respectively. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the financial statements.

#### **Accounts Receivable**

Channing House extends credit to its residents for the payment of the monthly care fees, since each resident is directly responsible to pay Channing House. Management estimates an allowance for doubtful accounts based on prior experience and analysis of the collectability of specific accounts. No allowance for doubtful accounts was deemed necessary as of February 28, 2023 and 2022. The accounts receivable balance as of February 28, 2021 was \$502,574.

#### **Supplies Inventory**

Supplies inventory is stated at cost, which is determined on the first-in, first-out method of accounting or net realizable value. Inventory consisted of dining and facilities supplies as of February 28, 2023 and 2022.

#### **Investments**

Investments are carried at fair value. The cost of investments sold is determined on an average cost basis. Investment income includes interest and dividend earnings, changes in fair value, and any gains or losses realized upon liquidation, maturity, or sale of investments, net of any investment fees. Investment income or loss and unrealized gains or losses are included in the statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is accrued when earned. Dividend income is recorded at the ex-dividend date.

#### **Assets Limited as to Use**

Assets limited as to use consist of investments that are restricted in its use by regulatory or other agreements. These accounts are primarily escrow funds in U.S. government securities, which were established pursuant to the trust agreement executed in connection with the issuance of the Series 2017 Revenue Bonds (see Note 5). Assets limited as to use are carried at fair value. Assets limited as to use, current represents amounts that will fund current debt service liabilities.

# Channing House

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies (Continued)**

#### **Property and Equipment**

Property and equipment are stated at cost or, if donated, at the estimated fair market value at the date of donation. The cost basis includes any interest, finance charges, and other related costs capitalized during construction. Depreciation is based upon the straight-line method over the estimated useful lives of the various classes of property, which range from 3 to 50 years.

#### **Asset Impairment**

Channing House periodically evaluates the carrying value of their long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No impairment charges were recognized for the years ended February 28, 2023 and 2022.

#### **Bond Issuance Costs and Original Issue Premium**

Channing House recognizes financing costs incurred in connection with the issuance of bonds payable as a direct reduction of the related debt and original issue premium as a direct addition to the related debt. Bond issuance costs and original issue premium have been amortized over the term of the related debt using the straight-line method. Amortization of bond issuance costs and original issue premium are included with interest expense in the accompanying statements of activities and changes in net assets.

#### **Resident Entrance Fees**

Upon entering Channing House, residents pay an entrance fee, which varies by resident depending upon the size and location of the apartment. Monthly care fees also vary based on apartment size and location. Residents are provided housing, meals, and nursing care while a resident of Channing House.

Channing House offers a nonrefundable contract, whereby a decreasing portion of the entrance fee is repayable by cancellation or termination of the care agreement during the first six years of occupancy, subject to a 10% minimum retention by Channing House. Nonrefundable resident entrance fees are recorded as deferred revenue and are amortized on a straight-line basis over the actuarially determined life expectancy of the resident, or the contract term, if shorter.

Channing House also offers a refundable contract, whereby 80% of the entrance fee is repaid at move-out or termination of the contract, upon reoccupancy of the apartment. Refundable contract fees repayable upon reoccupancy are recorded as a liability in the statements of financial position.

# Channing House

## Notes to Financial Statements

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### Note 2: Summary of Significant Accounting Policies (Continued)

#### Income Taxes

Channing House has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the financial statements. Channing House adopted the provisions of FASB ASC Topic 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on March 1, 2008. The Organization had no unrecognized tax benefits at February 28, 2023 or 2022. Channing House files federal and California exempt organization returns.

#### Revenue Recognition

Revenue is recognized at the amount that reflects the consideration to which Channing House expects to be entitled to in exchange for the services provided.

The Organization has applied the practical expedient provided by FASB ASC 340-40-25-4, and all incremental resident contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Organization otherwise would recognize is one year or less in duration.

**Monthly care fees:** Under resident agreements, Channing House provides senior living services to residents for a stated monthly fee. Revenue is recognized on a monthly basis as the performance obligations are satisfied.

**Resident entrance fees earned:** Channing House receives an upfront entrance fee when the resident agreement is signed. In exchange for this fixed entrance fee and the monthly care fees, the resident has the right to occupy a unit. The resident agreement creates a performance obligation to be satisfied over the resident's remaining life at Channing House. Revenue associated with the entrance fee is recognized using a straight-line method over the actuarially determined estimated life of the resident. Resident life expectancies are re-evaluated annually and any changes in the revenue as a result of that re-evaluation will be recognized in the period noted. The associated performance obligation is satisfied upon termination of the residency agreement. See Note 7 for changes in deferred revenue from entrance fees.

**Other services:** Channing House provides additional services to residents for a stated fee such as apartment renovations, parking, housekeeping, catering, guest room, transportation, and other services. Revenue is recognized as the performance obligations are satisfied.

# Channing House

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies (Continued)**

#### **Government Grant Revenue**

Government grant revenue includes Provider Relief Funds disbursed by the U.S. Department of Health & Human Services as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) that was signed into law on March 27, 2020. The CARES Act established the Provider Relief Fund (PRF) to be used for economic support of health care entities in connection with healthcare-related expenses or lost revenues attributable to COVID-19 and treatment of uninsured COVID-19 patients. The PRF funds have been accounted for as conditional contributions under ASC 958-605, *Not-for-Profit Entities—Revenue Recognition*. Because PRF payments can only be used to prevent, prepare for, or respond to COVID-19, they are considered donor-restricted. Due to the linkage of the conditions with the restrictions, the restrictions were simultaneously satisfied upon meeting the conditions, and therefore PRF funds totaling \$301,120 has been recognized as government grant revenue without donor restrictions in the accompanying statements of activities and changes in net assets during the year ended February 28, 2022. Channing House did not recognized any PRF grant revenue for the year ended February 28, 2023.

#### **Fair Value of Financial Instruments**

Unless otherwise indicated, the fair value of all reported assets and liabilities that represent financial instruments approximate their carrying values. Channing House's policy is to recognize transfers in and transfers out of Level I and Level II as of the end of the reporting period. Refer to Note 9 for fair value hierarchy disclosures of investments.

#### **Adoption of Accounting Pronouncements**

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit-Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The amendments in this update will require entities to present contributed nonfinancial assets as a separate line item in the statement of activities, expand disclosures on the various contributed nonfinancial assets recognized, including disaggregated category types, the valuation techniques and inputs used to arrive at fair value, and the policy for either monetizing or utilizing contributed nonfinancial assets. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after June 15, 2021, applied on a retrospective basis. Early adoption is permitted. Organization has evaluated the impact of adopting ASU 2020-07 and the financial statements and the adoption did not have a material impact on the financial statements.

#### **Recent Accounting Pronouncements – Not Yet Adopted**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities and changes in net assets will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard was delayed in 2019 and will be effective for fiscal years beginning after December 15, 2022. Management is currently evaluating the impact of adopting ASU No. 2016-13 on the Organization's financial statements and related disclosures.

# Channing House

## Notes to Financial Statements

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### Note 2: Summary of Significant Accounting Policies (Continued)

#### Subsequent Events

Management has evaluated subsequent events through the date of the independent auditor's report, the date the financial statements were available to be issued.

### Note 3: Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date consisted of the following as of February 28, 2023 and 2022:

	2023	2022
Cash	\$ 5,642,274	\$ 4,688,419
Accounts receivable	55,968	980,011
Investments	17,767,535	18,121,026
Totals	23,465,777	23,789,456
Less: Net assets with donor restrictions	(440,792)	(446,111)
Total financial assets available for general expenditure	\$ 23,024,985	\$ 23,343,345

Channing House has certain Board-designated investments, which could be made available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. As part of Channing House's liquidity management plan, cash in excess of daily requirements is invested in accordance with its investment policy.

# Channing House

## Notes to Financial Statements

### Note 4: Investments and Assets Limited as to Use

Investments and assets limited as to use, at fair value, consisted of the following at February 28, 2023 and 2022:

	2023	2022
Investments		
Interest-bearing cash	\$ 8,692	\$ 386,621
Money market mutual funds	-	370,093
Fixed income mutual funds	10,928,991	10,150,180
Equity mutual funds	6,818,445	7,201,350
Corporate stocks	11,407	12,782
Total investments	\$ 17,767,535	\$ 18,121,026
Assets limited as to use		
Money market mutual funds	\$ 7,085,668	\$ 11,806,177
U.S. government securities	4,385,307	3,119,147
Total assets limited as to use	11,470,975	\$ 14,925,324
Total investments and assets limited as to use	\$ 29,238,510	\$ 33,046,350

Assets limited as to use were established pursuant to the trust agreement executed in connection with the issuance of the Series 2017 Revenue Bonds (see Note 5). Assets limited as to use consisted of the following at February 28, 2023 and 2022:

	2023	2022
Reserve account	\$ 3,218,843	\$ 3,349,511
Principal/interest/cost of issuance account	2,665,020	2,569,201
Project fund	5,512,598	9,006,608
Revenue fund	74,514	4
Total assets limited as to use	\$ 11,470,975	\$ 14,925,324

# Channing House

## Notes to Financial Statements

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### Note 5: Fair Value Measurements

FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level I:** Quoted prices in active markets for identical assets or liabilities.

**Level II:** Observable inputs other than Level I prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value per share (or its equivalent) with the ability to redeem the investments in the near term.

**Level III:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodology used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

*Interest-bearing Cash:* Interest-bearing cash is valued at cost plus accrued interest which approximates fair value.

*Mutual Funds:* Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

*U.S. Government Securities:* U.S. government securities are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities.

*Corporate Stocks:* Corporate stocks are valued at the closing price reported on the active market on which the individual securities are traded.

# Channing House

## Notes to Financial Statements

### Note 5: Fair Value Measurements (Continued)

The following table presents the fair value measurements of investments recognized in the accompanying financial statements on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at February 28, 2023 and 2022.

February 28, 2023:

	Fair Value	Level I	Level II	Level III
Interest-bearing cash	\$ 8,692	\$ 8,692	\$ -	\$ -
Money market mutual funds	7,085,668	7,085,668	-	-
Fixed income mutual funds	10,928,991	10,928,991	-	-
Equity mutual funds	6,818,445	6,818,445	-	-
U.S. government securities	4,385,307	-	4,385,307	-
Corporate stock	11,407	11,407	-	-
<b>Totals</b>	<b>\$ 29,238,510</b>	<b>\$ 24,853,203</b>	<b>\$ 4,385,307</b>	<b>\$ -</b>

February 28, 2022:

	Fair Value	Level I	Level II	Level III
Interest-bearing cash	\$ 386,621	\$ 386,621	\$ -	\$ -
Money market mutual funds	12,176,270	12,176,270	-	-
Fixed income mutual funds	10,150,180	10,150,180	-	-
Equity mutual funds	7,201,350	7,201,350	-	-
U.S. government securities	3,119,147	-	3,119,147	-
Corporate stock	12,782	12,782	-	-
<b>Totals</b>	<b>\$ 33,046,350</b>	<b>\$ 29,927,203</b>	<b>\$ 3,119,147</b>	<b>\$ -</b>

As required by FASB ASC Topic 820, the investments are classified within the level of the lowest significant input considered in determining fair value.

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that Channing House would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of February 28, 2023 and 2022. Current estimates of fair value may differ significantly from the amounts presented.

# Channing House

## Notes to Financial Statements

### Note 5: Fair Value Measurements (Continued)

The following is a reconciliation of investments and assets limited as to use from the fair value hierarchy above to amounts presented on the statements of financial position:

	2023	2022
Investments	\$ 17,767,535	\$ 18,121,026
Assets limited as to use, current	3,538,258	3,469,825
Assets limited as to use, long-term	7,932,717	11,455,499
<b>Totals</b>	<b>\$ 29,238,510</b>	<b>\$ 33,046,350</b>

### Note 6: Property and Equipment, Net

Property and equipment consisted of the following at February 28, 2023 and 2022:

	2023	2022
Land improvements	\$ 936,951	\$ 936,951
Buildings and improvements	172,019,208	170,501,791
Equipment and furnishings	10,343,461	8,592,696
Construction in progress	704,271	1,835,229
<b>Totals</b>	<b>184,003,891</b>	<b>181,866,667</b>
Less: accumulated depreciation	(62,453,839)	(55,434,839)
<b>Total property and equipment, net</b>	<b>\$ 121,550,052</b>	<b>\$ 126,431,828</b>

Depreciation expense was \$7,019,001 and \$6,329,421 for the years ended February 28, 2023 and 2022, respectively. Capitalized interest expense was \$915,136 for the year ended February 28, 2022. There was no capitalized interest expense for the year ended February 28, 2023.

### Note 7: Deferred Revenue from Entrance Fees

The change in deferred entrance fees during the years ended February 28, 2023 and 2022, consisted of the following activity:

	2023	2022
Balance, beginning of year	\$ 51,734,286	\$ 45,780,842
New entrance fees received in cash	9,855,240	10,382,951
New entrance fees received in promissory notes	-	949,594
Portion of new entrance fees that is refundable	(2,197,152)	-
Refunds of entrance fees	(428,295)	(230,600)
Amortization of fees	(5,200,754)	(5,148,501)
<b>Balance, end of year</b>	<b>\$ 53,763,325</b>	<b>\$ 51,734,286</b>

# Channing House

## Notes to Financial Statements

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### Note 8: Future Service Obligation

Channing House is obligated to provide its residents continuous care throughout the residents' stay at the community. Management's estimate of the liability for "future service obligation" represents the excess of the discounted net care expenses over the deferred revenue from entrance fees. The obligation is discounted at 5.5% for both February 28, 2023 and 2022. No future service obligation liability was required to be recorded as of February 28, 2023 and 2022.

### Note 9: Retirement Plans

**Defined benefit plan** – Channing House has a frozen noncontributory defined benefit pension plan (the Plan), which covers all employees having completed one year of service and having attained the age of 21 as of December 31, 2001. The Board of Trustees approved changes to the defined benefit pension plan that effectively froze the plan as of December 31, 2001. No new participants are permitted into the plan and no future benefits will accrue for participants in the plan on or before December 31, 2001.

Benefits are computed by a formula based upon years of service and the employee's average compensation over the final five years of employment, subject to a minimum benefit. Channing House's funding policy for the Plan is to contribute an amount for each plan year that is no less than the minimum amount required by law under the Employee Retirement Income Security Act of 1974 (ERISA) and the IRC using the Unit Credit actuarial cost method. At Channing House's discretion, additional amounts may be contributed in excess of the minimum required contribution. Total benefits and expenses paid amounted to \$125,613 and \$341,482 for the years ended February 28, 2023 and 2022, respectively.

The broad-based investment goals of the Plan are to: (1) at a minimum, preserve the inflation-adjustment value of the pension assets after administrative costs and benefits payments; (2) prudently invest assets in a high-quality, diversified manner; (3) achieve the optimal return possible within the specified risk parameters; (4) achieve the actuarial earnings assumptions; and (5) adhere to the established guidelines.

# Channing House

## Notes to Financial Statements

### Note 9: Retirement Plans (Continued)

The following table presents the changes in the benefit obligations, fair value of assets, and funded status of the Plan as of February 28, 2023 and 2022:

	2023	2022
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,187,255	\$ 1,441,989
Service cost	13,000	14,000
Interest cost	37,430	35,565
Actuarial liability (gain) loss	(154,075)	37,183
Expenses and benefits paid	(125,613)	(341,482)
Benefit obligation at end of year	957,997	1,187,255
Change in plan assets:		
Plan assets at beginning of year	1,006,894	1,232,713
Actual return	(33,203)	107,132
Employer contributions	-	14,021
Expenses and benefits paid	(125,613)	(346,972)
Plan assets at end of year	848,078	1,006,894
Funded status	(109,919)	(180,361)
Total recognized in accumulated net assets without donor restrictions	445,380	565,763
Prepaid pension cost	\$ 335,461	\$ 385,402

The components of net periodic benefit cost and other changes in plan assets and benefit obligations included the following for the years ended February 28, 2023 and 2022:

	2023	2022
Service cost	\$ 13,000	\$ 14,000
Interest cost	37,430	35,565
Expected return on asset	(47,063)	(58,738)
Amortization of net loss during the year	46,574	57,740
Additional amount recognized due to significant event recognition	-	55,000
Net periodic pension cost	49,941	103,567
Other changes in plan assets and benefit obligations in net assets without donor restrictions:		
Net actuarial gain	(120,383)	(118,461)
Total recognized in net periodic pension cost and net assets without donor restrictions	\$ (70,442)	\$ (14,894)

# Channing House

## Notes to Financial Statements

### Note 9: Retirement Plans (Continued)

The components of net periodic pension benefit cost (other than service cost) are included in the total nonoperating loss on the statement of activities and changes in net assets.

The following weighted-average assumptions were used to determine the Plan's benefit obligation and net periodic pension expense at February 28, 2023 and 2022:

	2023	2022
Discount rate – plan obligation	5.2 %	3.2 %
Discount rate – net periodic pension cost	3.2 %	2.6 %
Expected return on plan assets	5.0 %	5.0 %

Plan assets – The fair values of Channing House's pension plan assets by asset category were as follows as of February 28, 2023 and 2022, pursuant to FASB ASC Topic 820, as more fully described in Note 5:

February 28, 2023:

	Fair Value	Level I	Level II	Level III
Investment contract with insurance company	\$ 845,072	\$ -	\$ -	\$ 845,072
Money market funds	3,006	-	3,005	-
<b>Totals</b>	<b>\$ 848,078</b>	<b>\$ -</b>	<b>\$ 3,005</b>	<b>\$ 845,072</b>

February 28, 2022:

	Fair Value	Level I	Level II	Level III
Investment contract with insurance company	\$ 938,149	\$ -	\$ -	\$ 938,149
Money market funds	68,745	-	68,745	-
<b>Totals</b>	<b>\$ 1,006,894</b>	<b>\$ -</b>	<b>\$ 68,745</b>	<b>\$ 938,149</b>

The investment contract with insurance company was valued at contract value as estimated by the Pension Plan Administrator. Contract value approximates fair value.

The composition of plan assets were as follows at February 28, 2023 and 2022:

	2023	2022
Insurance company general account	99 %	93 %
Money market funds	1 %	7 %
<b>Totals</b>	<b>100 %</b>	<b>100 %</b>

# Channing House

## Notes to Financial Statements

### Note 9: Retirement Plans (Continued)

The following table reconciles the beginning and ending balances of recurring fair value measurements recognized in the accompanying financial statements using significant unobservable (Level III) inputs:

	2023	2022
Investment contract with insurance company at beginning of year	\$ 938,149	\$ 1,094,954
Actual return on plan assets:		
Relating to assets still held at the reporting date	(73,647)	(159,719)
Purchases, sales, and settlements	(19,430)	2,914
Investment contract with insurance company at end of year	\$ 845,072	\$ 938,149

Estimated future benefit payments – Expected benefits to be paid in the next ten years as calculated by consulting the actuary are as follows:

Fiscal Year	Expected Payment
2024	\$ 101,000
2025	94,000
2026	88,000
2027	84,000
2028	88,000
2029 - 2033	350,000

**Defined contribution plan** – Effective January 1, 2002, Channing House established a 403(b) plan for substantially all employees. Participants may contribute a percentage of compensation up to the maximum permitted by the IRC. Employer contributions and costs are based on a percentage of covered employees' salaries. Employer contribution expense was \$333,597 and \$318,628 for the years ended February 28, 2023 and 2022, respectively.

**Deferred compensation plan** – Effective November 1, 2008, Channing House established a 457(b) plan for key management staff. This plan is intended to constitute an unfunded, eligible deferred compensation plan as described in IRC Section 457(b). This deferred compensation plan calls for discretionary contributions as approved each year by the Board of Trustees. Participants may contribute a percentage of compensation up to the maximum permitted by the IRC. Employer contribution expense was \$56,411 and \$78,955 for the years ended February 28, 2023 and 2022, respectively.

# Channing House

## Notes to Financial Statements

### Note 10: Long-Term Bonds Payable, Net

Long-term bonds payable, net at February 28, 2023 and 2022 consisted of the following:

	2023	2022
Series 2017A bonds	\$ 50,495,000	\$ 52,275,000
Series 2017B bonds	43,930,000	44,120,000
<b>Totals</b>	<b>94,425,000</b>	<b>96,395,000</b>
Less: Current maturities of bonds payable	(2,070,000)	(1,970,000)
Add: unamortized bond premium - Series 2017A	3,260,713	3,450,657
Add: unamortized bond premium - Series 2017B	5,220,585	5,432,230
Less: unamortized debt issuance costs - Series 2017A	(2,011,662)	(2,128,282)
Less: unamortized debt issuance costs - Series 2017B	(2,980,966)	(3,101,800)
<b>Long-term bonds payable, net</b>	<b>\$ 95,843,670</b>	<b>\$ 98,077,805</b>

In July 2010, Channing House issued \$64,020,000 of Insured Revenue Bonds Series 2010 (Series 2010), net of bond discount of \$577,847, which were due in varying annual principal installments through May 2040. The stated interest ranged from 3.00% to 6.125% with an average coupon of 5.95%. In conjunction with the issuance of the Insured Revenue and Refunding Bond Series 2017A (Series 2017A) described below, the Series 2010 bonds were legally defeased to an escrow account in accordance with the escrow agreement included in the Series 2017A bonds in the amount of \$60,424,105, which was comprised of bond principal of \$52,250,000 and funded interest of \$8,174,105.

In April 2017, the California Municipal Finance Authority issued \$54,045,000 Series 2017A bonds at a premium of \$4,368,722 and bearing interest at an average coupon rate of 4.31%. The bonds are subject to redemptions, as scheduled, prior to final maturity in May 2040.

In October 2017, the California Municipal Finance Authority issued \$44,120,000 of Insured Revenue Bonds Series 2017B (Series 2017B). The bonds were issued at a premium of \$6,349,360 and bear interest at an average coupon rate of 5.00%. The bonds are subject to redemptions, as scheduled, prior to final maturity in May 2047.

The Series 2017A and Series 2017B bonds (Series 2017 Bonds) are subject to certain financial performance covenants. Also, under the terms of the Series 2017 Bonds, Channing House is required to maintain certain deposits with a trustee. Management believes Channing House was in compliance with the debt service coverage ratio, current ratio, and days cash on hand covenants as of and for the year ended February 28, 2023. The Series 2017 Bonds are collateralized by current and future gross revenues of Channing House and real property.

# Channing House

## Notes to Financial Statements

### Note 10: Long-Term Bonds Payable, Net (Continued)

Maturities of the Series 2017 Bonds during each of the next five years and thereafter were as follows:

<i>Years Ending February 28,</i>	Expected Payment
2024	\$ 2,070,000
2025	2,175,000
2026	2,285,000
2027	2,400,000
2028	2,520,000
Thereafter	82,975,000
Total	\$ 94,425,000

### Note 11: Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at February 28, 2023 and 2022:

	2023	2022
Resident assistance	\$ 328,533	\$ 350,509
Scholarship	112,259	95,602
Totals	\$ 440,792	\$ 446,111

### Note 12: Composition and Disaggregation of Monthly Care Fees Revenue

The following represents monthly care fees revenue by line of service for the years ended February 28, 2023 and 2022:

	2023	2022
Independent Living	\$ 14,268,997	\$ 13,028,026
Assisted Living	1,779,008	1,527,736
Skilled Nursing	908,515	863,850
Other	-	445,166
Monthly care fees revenue	\$ 16,956,520	\$ 15,864,778

# Channing House

## Notes to Financial Statements

### Note 13: Statements of Cash Flows

The following table provides a reconciliation of cash and cash equivalents and restricted cash equivalents reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows for the years ended February 28, 2023 and 2022:

	2023	2022
Cash	\$ 5,642,274	\$ 4,688,419
Cash equivalents included in investments	8,692	756,714
Restricted cash equivalents included in assets limited as to use	7,085,668	11,806,177
Total cash and cash equivalents and restricted cash equivalents shown on the statements of cash flows	\$ 12,736,634	\$ 17,251,310

### Note 14: Natural and Functional Expenses

Channing House provides health services, dining services, and residential services. The financial statements report certain expense categories that are attributable to more than one service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function include depreciation and utilities, which are allocated to a function based on square footage, and interest, which is allocated to a function based on a units-of-service basis. Expenses related to providing these services for the years ended February 28, 2023 and 2022, were as follows:

Years ended February 28,	Program Services			Support Services	Total Expenses
	Health Services	Dining Services	Residential Services	General & Admin	
2023					
Salaries and benefits	\$ 5,373,601	\$ 3,121,331	\$ 2,421,423	\$ 2,246,999	\$ 13,163,354
Purchased services	164,862	188,493	830,062	2,216,170	3,399,587
Supplies	129,736	1,148,181	97,977	32,978	1,408,872
Utilities	186,467	143,437	1,032,741	71,718	1,434,363
Depreciation	1,340,154	652,741	4,699,735	326,371	7,019,001
Interest	812,689	395,832	2,849,987	197,915	4,256,423
Other operating expenses	7,947	24,639	30,873	271,975	335,434
Total expenses	\$ 8,015,456	\$ 5,674,654	\$ 11,962,798	\$ 5,364,126	\$ 31,017,034

# Channing House

## Notes to Financial Statements

### Note 14: Natural and Functional Expenses (Continued)

Years ended February 28, 2022	Program Services			Support Services	Total Expenses
	Health Services	Dining Services	Residential Services	General & Admin	
Salaries and benefits	\$ 5,549,304	\$ 2,954,869	\$ 2,377,763	\$ 2,345,568	\$ 13,227,504
Purchased services	132,874	690,427	637,466	1,673,572	3,134,339
Supplies	140,366	936,796	128,248	37,689	1,243,099
Utilities	144,633	111,256	801,042	55,628	1,112,559
Depreciation	1,208,491	588,613	4,238,011	294,306	6,329,421
Interest	653,670	318,379	2,292,330	159,190	3,423,569
Other operating expenses	12,128	12,273	40,554	152,882	217,837
<b>Total expenses</b>	<b>\$ 7,841,466</b>	<b>\$ 5,612,613</b>	<b>\$ 10,515,414</b>	<b>\$ 4,718,835</b>	<b>\$ 28,688,328</b>

### Note 15: Health and Safety Code Section 1790(A)(3) Disclosure

The Board of Trustees of Channing House is committed to an annual allocation of assets to fund board-approved capital improvements. These improvements are necessary and consistent with Channing House's tax-exempt purpose to maintain and provide facilities essential to meet the housing, nursing care, and other needs of its senior residents.

Improvements included the following: a) major renovations including the upgrade project of \$13,991,886 for February 28, 2022 and none for 2023; and b) Apartment renovations of \$995,985 and \$293,731 for the years ended February 28, 2023 and 2022, respectively.

In order to maintain and improve safety, comfort, and marketability of Channing House, the Board of Trustees in the 2018 year issued \$44,120,000 of Series 2017B Insured Revenue Bonds. Consistent with Channing House's nonprofit status, these bonds were used in the following manner: a) Withdrawals for construction costs of \$3,588,091 and \$9,489,168 for the years ended February 28, 2023 and 2022, respectively; b) the Bond Reserve Account was maintained with a balance of \$3,218,843 and \$3,349,511 as of February 28, 2023 and 2022, respectively; and c) the Interest Fund was maintained with a balance of \$1,098,723 and \$1,124,957 as of February 28, 2023 and 2022, respectively.

### Note 16: Risks and Contingencies

**Litigation** – Channing House is party to claims and legal actions in the normal course of business. In the opinion of management, and based on current facts and circumstances, the resolution of such matters is not expected to have a material adverse effect on the financial position of Channing House.

**Malpractice insurance coverage** – Channing House is covered for malpractice insurance under an occurrence basis policy with coverage of \$5,000,000 for each occurrence. GAAP require that a healthcare organization disclose the estimated costs of claims in the period of the incident, if it is reasonably possible that liabilities may be incurred, and losses can be reasonably estimated. Management believes that any unreported liability will not have a material adverse effect on Channing House's financial position or results of operations.

# Channing House

## Notes to Financial Statements

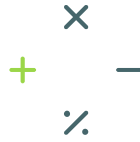
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### **Note 16: Risks and Contingencies (Continued)**

**COVID-19 pandemic** – In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. The COVID-19 outbreak in the United States has not resulted in a Channing House closure; however, facility closures or disruption in operations of its customers, suppliers, or third-party payers, could adversely impact its results of operations to the extent that COVID-19, or any other health emergency, harms the global economy. The ultimate duration and intensity of the impact of COVID-19 and resulting disruption to Channing House’s operations are uncertain.

### **Note 17: Reclassifications**

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 presentation. Total assets, total liabilities, total net assets, and total change in net assets were unaffected.



Report of Independent Auditors and  
Financial Statements



February 29, 2024 and February 28, 2023

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## **Report of Independent Auditors**

The Board of Directors  
Channing House

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Channing House, which comprise the statement of financial position as of February 29, 2024, and the related statements of activities and changes in net assets, and cash flows for the year 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 Channing House as of February 29, 2024, 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 Opinion***

We conducted our audit 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 Channing House 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 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 Channing House's ability to continue as a going concern within one year after the date that the financial statements are issued.

### ***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 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 Channing House'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 Channing House'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.

### ***Prior Period Financial Statements***

The financial statements of Channing House as of and for the year ended February 28, 2023, were audited by other auditors whose report thereon, dated June 12, 2023, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California  
June 20, 2024

## **Financial Statements**

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**Channing House**  
**Statements of Financial Position**  
**February 29, 2024 and February 28, 2023**

	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 4,677,468	\$ 5,642,274
Accounts receivable, net	101,216	55,968
Investments	22,573,348	17,767,535
Assets limited as to use, current	3,608,759	3,538,258
Inventory	35,210	34,726
Prepaid expenses	<u>732,557</u>	<u>656,213</u>
Total current assets	<u>31,728,558</u>	<u>27,694,974</u>
Assets limited as to use, net of current portion	7,793,322	7,932,717
Property and equipment, net	116,991,488	121,550,052
Other assets	<u>82,571</u>	<u>82,571</u>
Total assets	<u><u>\$ 156,595,939</u></u>	<u><u>\$ 157,260,314</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 5,083,034	\$ 4,341,850
Current portion of bonds payable, net	<u>2,175,000</u>	<u>2,070,000</u>
Total current liabilities	<u>7,258,034</u>	<u>6,411,850</u>
Pension liability	136,844	109,919
Entrance fees refundable upon re-occupancy	7,099,465	4,460,991
Deferred revenue from entrance fees	55,075,639	53,763,325
Bonds payable, net of current portion	<u>93,504,533</u>	<u>95,843,670</u>
Total liabilities	<u>163,074,515</u>	<u>160,589,755</u>
Net assets		
Without donor restrictions		
Undesignated	(11,929,203)	(8,632,370)
Board designated	4,962,426	4,862,137
With donor restrictions	<u>488,201</u>	<u>440,792</u>
Total net deficit	<u>(6,478,576)</u>	<u>(3,329,441)</u>
Total liabilities and net deficit	<u><u>\$ 156,595,939</u></u>	<u><u>\$ 157,260,314</u></u>

See accompanying notes.

**Channing House**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended February 29, 2024 and February 28, 2023**

	2024	2023
REVENUES, GAINS, AND OTHER SUPPORT		
Monthly care fees	\$ 18,849,667	\$ 16,956,520
Resident entrance fees earned	6,471,355	5,200,754
Interest and dividend income	857,349	916,629
Other services	785,686	487,222
Donations and other	95,567	202,074
Operating revenues	27,059,624	23,763,199
Net assets released from restriction for operations	6,690	28,143
Total revenues	27,066,314	23,791,342
EXPENSES		
Salaries and benefits	13,436,483	13,163,354
Purchased services	4,153,871	3,399,587
Supplies	1,601,985	1,408,872
Utilities	1,314,826	1,434,363
Other	302,825	335,434
Depreciation	7,218,754	7,019,001
Interest expense	4,154,388	4,256,423
Total expenses	32,183,132	31,017,034
LOSS BEFORE NONOPERATING GAIN (LOSS)	(5,116,818)	(7,225,692)
NONOPERATING GAIN (LOSS)		
Other components of net periodic pension cost	(48,590)	(36,941)
Net unrealized gain (loss) on trading securities	2,074,036	(2,482,975)
Net realized (loss) gain on investments	(225,258)	672,226
Total nonoperating gain (loss)	1,800,188	(1,847,690)
NET LOSS	(3,316,630)	(9,073,382)
Net unrealized gain (loss) on investments other than trading	104,223	(110,242)
Change in pension obligation	15,863	120,383
Net decrease in net assets without donor restrictions	(3,196,544)	(9,063,241)
Net assets with donor restrictions		
Donations	3,500	44,800
Income (loss) from investments with donor restrictions, net	50,599	(21,976)
Release from restrictions for use in operations	(6,690)	(28,143)
Net decrease in net assets with donor restrictions	47,409	(5,319)
CHANGE IN NET ASSETS	(3,149,135)	(9,068,560)
NET (DEFICIT) ASSETS, beginning of year	(3,329,441)	5,739,119
NET DEFICIT, end of year	\$ (6,478,576)	\$ (3,329,441)

See accompanying notes.

**Channing House**  
**Statements of Cash Flows**  
**Years Ended February 29, 2024 and February 28, 2023**

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Monthly care fees	\$ 18,804,419	\$ 16,903,464
Entrance fees received from residents	10,422,143	9,855,240
Other receipts from operations	785,686	487,222
Investment income received	907,948	928,787
Donations and miscellaneous revenues	92,377	246,874
Refunds of entrance fees paid	-	(428,295)
Cash paid to employees and suppliers	(20,446,186)	(20,332,802)
Interest paid	<u>(4,353,024)</u>	<u>(4,452,125)</u>
Net cash provided by operating activities	<u>6,213,363</u>	<u>3,208,365</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	25,238,556	2,748,841
Purchase of investments	(25,254,319)	(5,000,678)
Change in assets limited as to use	-	(1,363,979)
Purchases of property and equipment	<u>(2,324,251)</u>	<u>(2,137,225)</u>
Net cash used in investing activities	<u>(2,340,014)</u>	<u>(5,753,041)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bonds payable	<u>(2,070,000)</u>	<u>(1,970,000)</u>
Net cash used in financing activities	<u>(2,070,000)</u>	<u>(1,970,000)</u>
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	1,803,349	(4,514,676)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	<u>12,736,634</u>	<u>17,251,310</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of year	<u><u>\$ 14,539,983</u></u>	<u><u>\$ 12,736,634</u></u>

See accompanying notes.

**Channing House**  
**Statements of Cash Flows**  
**Years Ended February 29, 2024 and February 28, 2023**

	<u>2024</u>	<u>2023</u>
RECONCILIATION OF CHANGE IN NET ASSETS		
TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,149,135)	\$ (9,068,560)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	7,218,754	7,019,001
Amortization of bond issuance costs	237,452	237,454
Amortization of bond premium, net of discount	(401,589)	(401,589)
Amortization of resident entrance fees earned	(6,471,355)	(5,200,754)
Unrealized (gain) loss on investments	(2,178,259)	2,627,351
Realized loss (gain) on investments	225,258	(672,226)
Loss on disposal of property and equipment	27,728	-
Entrance fees received from residents	10,422,143	9,855,240
Changes in operating assets and liabilities		
Accounts receivable	(45,248)	924,043
Inventory	(484)	112
Prepaid expenses	(76,344)	(122,167)
Accounts payable and accrued expenses	359,715	(1,919,098)
Pension liability	44,727	(70,442)
Net cash provided by operating activities	<u>\$ 6,213,363</u>	<u>\$ 3,208,365</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Fixed assets included in accounts payable	\$ 363,667	\$ 59,810
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 4,677,468	\$ 5,642,274
Cash and cash equivalents in investments	6,454,954	8,692
Cash and cash equivalents in assets limited as to use	<u>3,407,561</u>	<u>7,085,668</u>
Total cash, cash equivalents and restricted cash on the statements of cash flows	<u>\$ 14,539,983</u>	<u>\$ 12,736,634</u>

See accompanying notes.

# Channing House

## Notes to Financial Statements

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### Note 1 – Summary of Significant Accounting Policies

**History and organization** – Channing House is a nonprofit public benefit corporation licensed by the State of California Department of Public Health and the California Department of Social Services to provide housing, related facilities, and health services for senior persons. Channing House was incorporated in 1960 under the laws of the State of California. The community includes 175 apartments, 38 assisted living beds, and 26 skilled nursing beds.

Channing House is subject to statutory reserve requirements. At both February 29, 2024 and February 28, 2023, Channing House's reserves, as calculated in accordance with the continuing care contract statutes of the California Health and Safety Code, were in excess of such requirements.

Channing House is exempt from property taxes; however, it makes an "in-lieu-of" payment to the City of Palo Alto based upon the assessed valuation of land, improvements, and unsecured property.

**Net asset classifications** – The accompanying financial statements have been prepared in accordance with the standards set forth by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, and the guidelines set forth in the industry audit and accounting guide "*Health Care Organizations*" issued by the American Institute of Certified Public Accountants. Under these guidelines, contributions of cash and other assets are classified as one of the following two categories:

*Without donor restrictions* – Represents unconditional promises to give by donors without any use or time restrictions. The Board of Trustees of Channing House is authorized to spend the principal, income, and appreciation of these funds, as it shall deem reasonable, in order to further the mission and purpose of Channing House. Board designated funds at February 29, 2024 and February 28, 2023 consisted of the following:

	2024	2023
Heritage Circle	\$ 4,962,426	\$ 4,861,944
Others	-	193
Total	<u>\$ 4,962,426</u>	<u>\$ 4,862,137</u>

*With donor restrictions* – Represents unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. Donor restrictions released in the year received are recorded as contributions without donor restrictions. This category also includes net assets subject to donor-imposed stipulations that they be maintained by the organization in perpetuity. Channing House had no net assets required to be maintained in perpetuity as of February 29, 2024 and February 28, 2023. Contribution revenue is recognized in the appropriate net asset classification when the gift is unconditionally promised.

## Channing House

### Notes to Financial Statements

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**Performance indicator** – “Net loss,” as reflected in the accompanying statements of activities and changes in net assets, is the performance indicator. The performance indicator reflects Channing House’s operational performance excluding net unrealized gain (loss) on investments other than trading securities, change in pension obligation, receipt of restricted donations, and income earned from investments with donor restrictions.

**Cash and cash equivalents** – Channing House considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. Cash equivalents includes cash designated for specific projects.

**Concentration of credit risk** – Financial instruments potentially subjecting Channing House to concentrations of credit risk consist primarily of bank demand deposits in excess of the Federal Deposit Insurance Corporation insurance thresholds and cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds. Demand deposits are placed with local financial institutions, and management has not experienced any loss related to these demand deposits in the past. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the financial statements. The risk associated with the investments is mitigated through diversification.

**Accounts receivable** – Channing House extends credit to its residents for the payment of the monthly care fees, as each resident is directly responsible to pay Channing House. Management estimates an allowance for doubtful accounts based on prior experience, estimated future credit losses and analysis of the collectability of specific accounts. As of February 29, 2024 and February 28, 2023, no allowance for doubtful accounts was deemed necessary.

**Inventory** – Inventory is stated at cost, which is determined on the first-in, first-out method of accounting. Inventory consisted of dining and gift shop supplies as of February 29, 2024 and February 28, 2023.

**Investments** – Investments are carried at fair value based on quoted market prices. The cost of investments sold is determined on an average cost basis. Investment income or loss, and unrealized gains or losses are included in the statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions, unless the income or loss is restricted by donor or law.

**Assets limited as to use** – Assets limited as to use consist of investments that are restricted in its use by regulatory or other agreements. These accounts are money market mutual funds and escrow funds in U.S. government securities, which were established pursuant to the trust agreement executed in connection with the issuance of the Series 2017 Revenue Bonds (see Note 4). Assets limited as to use are carried at fair value based on quoted market prices. Assets limited as to use, current, represents amounts that will fund current debt service liabilities.

**Property and equipment** – Property and equipment are stated at cost. The cost basis includes any interest, finance charges, and other related costs capitalized during construction. Depreciation is based upon the straight-line method over the estimated useful lives of the various classes of property, which range from 3 to 50 years. Channing House records assets acquired by donation at the estimated fair-market value at the date of donation.

## Channing House

### Notes to Financial Statements

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**Asset impairment** – Channing House periodically evaluates the carrying value of their long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No impairment charges were recognized for the years ended February 29, 2024 and February 28, 2023.

**Bond issuance costs** – Channing House recognizes financing costs incurred in connection with the issuance of bonds payable as a direct reduction of the related debt. Bond issuance costs are amortized over the term of the related debt using the straight-line method. Unamortized bond issuance costs amounted to \$4,755,175 and \$4,992,628 at February 29, 2024 and February 28, 2023, respectively. Amortization expense of \$237,452 and \$237,454 is included in interest expense for the years ended February 29, 2024 and February 28, 2023, respectively.

**Resident entrance fees** – Upon entering Channing House, residents pay an entrance fee, which varies by resident depending upon the size and location of the apartment. Monthly care fees also vary based on apartment size and location. Residents are provided housing, meals, and nursing care while a resident of Channing House.

Channing House offers a nonrefundable contract, whereby a decreasing portion of the entrance fee is repayable by cancellation or termination of the care agreement during the first six years of occupancy, subject to a 10% minimum retention by Channing House. Nonrefundable resident entrance fees are recorded as deferred revenue and are amortized on a reasonable basis over the actuarially determined life expectancy of the resident, or the contract term, if shorter.

Channing House also offers a refundable contract, whereby 80% of the entrance fee is repaid at move-out or termination of the contract, upon re-occupancy of the apartment. Refundable contract fees repayable upon re-occupancy are recorded as a liability in the statements of financial position.

**Income taxes** – Channing House has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the financial statements. Channing House adopted the provisions of FASB ASC Topic 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on March 1, 2008. They had no unrecognized tax benefits at February 29, 2024 and February 28, 2023. Channing House files federal and California exempt organization returns.

**Revenue recognition** – Revenue is recognized at the amount that reflects the consideration to which Channing House expects to be entitled to in exchange for the services provided.

## Channing House

### Notes to Financial Statements

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*Monthly care fees* – Under resident agreements, Channing House provides senior living services to residents for a stated monthly fee. Revenue is recognized on a monthly basis as the performance obligations are satisfied. The following represents monthly care fees revenue by line of service for the years ended February 29, 2024 and February 28, 2023:

	2024	2023
Independent living	\$ 15,767,538	\$ 14,268,757
Assisted living	1,831,809	1,779,178
Skilled nursing	935,980	908,585
Direct admit	314,340	-
	<u>\$ 18,849,667</u>	<u>\$ 16,956,520</u>
Monthly care fees revenue	<u>\$ 18,849,667</u>	<u>\$ 16,956,520</u>

*Resident entrance fees earned* – Channing House receives an upfront entrance fee when the resident agreement is signed. In exchange for this fixed entrance fee and the monthly care fees, the resident has the right to occupy a unit. The resident agreement creates a performance obligation to be satisfied over the resident's remaining life at Channing House. Revenue associated with the entrance fee is recognized using a reasonable method over the actuarially determined estimated life of the resident. Resident life expectancies are re-evaluated annually and any changes in the revenue as a result of that re-evaluation will be recognized in the period noted. The associated performance obligation is satisfied upon termination of the residency agreement. See Note 9 for changes in deferred revenue from entrance fees.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such management estimates include fair value of investments, future service obligation, depreciation, deferred revenue from entrance fees, and pension costs. Actual results could differ from those estimates.

**Fair value of financial instruments** – Unless otherwise indicated, the fair value of all reported assets and liabilities that represent financial instruments approximate their carrying values. Channing House's policy is to recognize transfers in and transfers out of Level 1 and Level 2 as of the end of the reporting period. Refer to Note 8 for fair value hierarchy disclosures of investments.

**Reclassifications** – Certain reclassifications have been made to the 2023 financial statements to conform to the 2024 presentation. These reclassifications had no material effect on the financial statements.

# Channing House

## Notes to Financial Statements

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**Recent accounting pronouncements** – In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 replaces the current incurred loss impairment methodology for credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Channing House will be required to use a forward-looking expected credit loss model for accounts receivable and other financial instruments. The adoption of ASU 2016-13 is effective for Channing House beginning January 1, 2023. The adoption of ASU 2016-13 did not have a material impact on Channing House's financial statements, and resulted in enhanced disclosures.

### Note 2 – Investments and Assets Limited As To Use

Investments and assets limited as to use, at fair value, consisted of the following at February 29, 2024 and February 28, 2023:

	2024	2023
Investments		
Interest-bearing cash	\$ -	\$ 8,692
Money market mutual funds	6,454,954	-
Fixed income mutual funds	5,001,110	10,928,991
Equity mutual funds	5,997,368	6,818,445
Mutual funds - other	5,119,916	-
Stocks	-	11,407
	<u>22,573,348</u>	<u>17,767,535</u>
Total investments		
Assets limited as to use		
Money market mutual funds	3,407,561	7,085,668
U.S. government securities	7,994,520	4,385,307
	<u>11,402,081</u>	<u>11,470,975</u>
Total assets limited as to use		
	<u>\$ 33,975,429</u>	<u>\$ 29,238,510</u>

## Channing House

### Notes to Financial Statements

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Assets limited as to use are included in U.S. government securities. Such funds were established pursuant to the trust agreement executed in connection with the issuance of the Series 2017 Revenue Bonds (see Note 4). Assets limited as to use consisted of the following at February 29, 2024 and February 28, 2023:

	2024	2023
Reserve account	\$ 3,302,235	\$ 3,218,843
Principal and interest account	2,713,364	2,665,020
Project fund	5,326,783	5,512,598
Revenue fund	59,699	74,514
	<u>59,699</u>	<u>74,514</u>
Total assets limited as to use	<u>\$ 11,402,081</u>	<u>\$ 11,470,975</u>

Additional disclosures about fair value measurements are included in Note 8.

### Note 3 – Property and Equipment, Net

Property and equipment consisted of the following at February 29, 2024 and February 28, 2023:

	2024	2023
Land and improvements	\$ 936,951	\$ 936,951
Building and improvements	172,395,895	172,019,208
Equipment and furnishings	10,983,295	10,343,461
Construction in progress	1,837,360	704,271
	<u>1,837,360</u>	<u>704,271</u>
Total	186,153,501	184,003,891
Less: accumulated depreciation	<u>(69,162,013)</u>	<u>(62,453,839)</u>
Property and equipment, net	<u>\$ 116,991,488</u>	<u>\$ 121,550,052</u>

Depreciation expense was \$7,218,754 and \$7,019,001 for the years ended February 29, 2024 and February 28, 2023, respectively.

## Channing House

### Notes to Financial Statements

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#### Note 4 – Bonds Payable, Net

Bonds payable, net, at February 29, 2024 and February 28, 2023 consisted of the following:

	2024	2023
Series 2017A bonds	\$ 48,630,000	\$ 50,495,000
Series 2017B bonds	43,725,000	43,930,000
<b>Total</b>	<b>92,355,000</b>	<b>94,425,000</b>
Less: Current maturities of bonds payable	(2,175,000)	(2,070,000)
Add: unamortized bond premium - Series 2017A	3,070,768	3,260,713
Add: unamortized bond premium - Series 2017B	5,008,940	5,220,585
Less: unamortized debt issuance costs - Series 2017A	(1,895,043)	(2,011,662)
Less: unamortized debt issuance costs - Series 2017B	(2,860,132)	(2,980,966)
<b>Bonds payable, net</b>	<b>\$ 93,504,533</b>	<b>\$ 95,843,670</b>

In April 2017, the California Municipal Finance Authority issued \$54,045,000 of Insured Revenue and Refunding Bond Series 2017A (Series 2017A) at a premium of \$4,368,722 and bearing interest at an average coupon rate of 4.31%. The bonds are subject to redemptions, as scheduled, prior to final maturity in May 2040.

In October 2017, the California Municipal Finance Authority issued \$44,120,000 of Insured Revenue Bonds Series 2017B (Series 2017B). The bonds were issued at a premium of \$6,349,360 and bear interest at an average coupon rate of 5.00%. The bonds are subject to redemptions, as scheduled, prior to final maturity in May 2047.

The Series 2017A and Series 2017B bonds (Series 2017 Bonds) are subject to certain financial performance covenants. Also, under the terms of the Series 2017 Bonds, Channing House is required to maintain certain deposits with a trustee. Management believes Channing House was in compliance with its covenants as of and for the year ended February 29, 2024. The Series 2017 Bonds are collateralized by current and future gross revenues of Channing House and real property.

Maturities of the Series 2017 Bonds during each of the next five years and thereafter are as follows:

<u>Year Ending</u>	<u>Payment</u>
February 28, 2025	\$ 2,175,000
February 28, 2026	2,285,000
February 28, 2027	2,400,000
February 29, 2028	2,520,000
February 28, 2029	2,635,000
Thereafter	80,340,000
<b>Total maturities</b>	<b>\$ 92,355,000</b>

# Channing House

## Notes to Financial Statements

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### Note 5 – Pension Plan

Channing House has a noncontributory defined benefit pension plan (the “Plan”), which covers all employees having completed one year of service and having attained the age of 21 as of December 31, 2001. Benefits are computed by a formula based upon years of service and the employee’s average compensation over the final five years of employment, subject to a minimum benefit. The Plan was frozen on December 31, 2001.

The broad-based investment goals of the Plan are to: (1) at a minimum, preserve the inflation-adjustment value of the pension assets after administrative costs and benefit payments; (2) prudently invest assets in high-quality, diversified manner; (3) achieve the optimal return possible within the specified risk parameters; (4) achieve the actuarial earnings assumptions; and (5) adhere to the established guidelines.

The following table presents the changes in the benefit obligations, fair value of assets, and funded status of the Plan as of February 29, 2024 and February 28, 2023:

	2024	2023
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 957,997	\$ 1,187,255
Service cost	12,000	13,000
Interest cost	49,267	37,430
Actuarial liability loss (gain)	13,763	(154,075)
Expenses and benefits paid	(122,350)	(125,613)
Benefit obligation at end of year	<u>\$ 910,677</u>	<u>\$ 957,997</u>
Change in plan assets:		
Plan assets beginning of year	\$ 848,078	\$ 1,006,894
Actual return	30,303	(33,203)
Employer contributions	17,802	-
Expenses and benefits paid	(122,350)	(125,613)
Plan assets end of year	<u>773,833</u>	<u>848,078</u>
Funded status	(136,844)	(109,919)
Total recognized in accumulated net assets without donor restrictions	<u>429,517</u>	<u>445,380</u>
Prepaid pension cost	<u>\$ 292,673</u>	<u>\$ 335,461</u>

## Channing House

### Notes to Financial Statements

The components of net periodic benefit cost and other changes in Plan assets and benefit obligations include the following for the years ended February 29, 2024 and February 28, 2023:

	2024	2023
Service cost	\$ 12,000	\$ 13,000
Interest cost	49,267	37,430
Expected return on asset	(39,580)	(47,063)
Amortization of net loss during the year	38,903	46,574
Net periodic pension cost	60,590	49,941
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions		
Net actuarial gain	(15,863)	(120,383)
Total recognized in net periodic pension cost and net assets without donor restrictions	<u>\$ 44,727</u>	<u>\$ (70,442)</u>

The components of net periodic pension benefit cost (other than service cost) are included in the net decrease in net assets without donor restriction on the statement of activities and changes in net assets, under "other components of net periodic pension cost".

The following weighted-average assumptions were used to determine the Plan's benefit obligation and net periodic pension expense at February 29, 2024 and February 28, 2023:

	2024	2023
Discount rate - plan obligation	5.3%	5.2%
Discount rate - net periodic pension cost	5.2%	3.2%
Expected return on plan assets	5.0%	5.0%

**Plan assets** – The fair values of Channing House's pension plan assets by asset category are as follows at February 29, 2024 and February 28, 2023, pursuant to FASB ASC Topic 820, as more fully described in Note 8:

	Total 2024	Level 1	Level 2	Level 3
Investment contract with insurance company	\$ 765,406	\$ -	\$ -	\$ 765,406
Money market funds	8,427	-	8,427	-
Total investments	<u>\$ 773,833</u>	<u>\$ -</u>	<u>\$ 8,427</u>	<u>\$ 765,406</u>
	Total 2023	Level 1	Level 2	Level 3
Investment contract with insurance company	\$ 845,072	\$ -	\$ -	\$ 845,072
Money market funds	3,006	-	3,006	-
Total investments	<u>\$ 848,078</u>	<u>\$ -</u>	<u>\$ 3,006</u>	<u>\$ 845,072</u>

## Channing House

### Notes to Financial Statements

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The investment contract with insurance company is valued at contract value as estimated by the pension plan administrator. Contract value approximates fair value.

The composition of Plan assets are as follows at February 29, 2024 and February 28, 2023:

	<u>2024</u>	<u>2023</u>
Insurance contract with insurance company	99%	99%
Money market funds	<u>1%</u>	<u>1%</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>

The following table reconciles the beginning and ending balances of recurring fair value measurements recognized in the accompanying financial statements using significant unobservable (Level 3) inputs:

	<u>2024</u>	<u>2023</u>
Investment contract with insurance company, beginning	\$ 845,072	\$ 938,149
Actual return on plan assets:		
Relating to assets still held at the reporting date	(85,517)	(73,647)
Purchases, sales, and settlements	<u>5,851</u>	<u>(19,430)</u>
Investment contract with insurance company, ending	<u><u>\$ 765,406</u></u>	<u><u>\$ 845,072</u></u>

**Estimated future benefit payments** – Expected benefits to be paid in the next ten years as calculated by consulting the actuary are:

<u>Fiscal Year</u>	<u>Expected Payment</u>
2025	\$ 99,000
2026	\$ 92,000
2027	\$ 89,000
2028	\$ 91,000
2029	\$ 83,000
2030-2035	\$ 331,000

**Plan amendment** – At December 31, 2001, the Board of Trustees approved changes to the defined benefit pension plan that effectively froze the Plan. No new participants are permitted into the Plan and no future benefits will accrue for participants in the Plan on or before December 31, 2001.

**Defined contribution plan** – Effective January 1, 2002, Channing House established a 403(b) plan for substantially all employees. Participants may contribute a percentage of compensation up to the maximum permitted by the IRC. Employer contributions and costs are based on a percentage of covered employees' salaries. Employer contributions were \$334,619 and \$318,628 for the years ended February 29, 2024 and February 28, 2023, respectively.

## Channing House

### Notes to Financial Statements

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**Deferred compensation plan** – Effective November 1, 2008, Channing House established a 457(b) plan for key management staff. This plan is intended to constitute an unfunded, eligible deferred compensation plan as described in IRC Section 457(b). This deferred compensation plan calls for discretionary contributions as approved each year by the Board of Trustees. Participants may contribute a percentage of compensation up to the maximum permitted by the IRC. Employer contributions were \$66,869 and \$56,411 for the years ended February 29, 2024 and February 28, 2023, respectively.

#### **Note 6 – Future Service Obligation**

Channing House is obligated to provide its residents continuous care throughout the residents' stay at the community. Management's estimate of the liability for "future service obligation" represents the excess of the discounted net care expenses over the deferred revenue from entrance fees. The obligation is discounted at 5.5% for both February 29, 2024 and February 28, 2023. The obligations were zero as of both February 29, 2024 and February 28, 2023.

#### **Note 7 – Net Assets with Donor Restrictions**

Net assets with donor restrictions consisted of the following at February 29, 2024 and February 28, 2023:

	2024	2023
Resident assistance	\$ 366,245	\$ 328,533
Scholarship	121,956	112,259
Total	<u>\$ 488,201</u>	<u>\$ 440,792</u>

#### **Note 8 – Fair Value of Financial Instruments**

FASB ASC Topic 820, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** – Quoted prices in active markets for identical assets or liabilities.

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value per share (or its equivalent) with the ability to redeem the investments in the near term.

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

## Channing House

### Notes to Financial Statements

Following is a description of the valuation methodology used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

*Investments and assets limited as to use* – Fair values, which are the amounts reported in the statement of financial position, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

The following table presents the fair value measurements of investments recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the Topic 820 fair value hierarchy in which the fair value measurements fall at February 29, 2024 and February 28, 2023:

2024				
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets measured at fair value on a recurring basis: <sup>(1)</sup>				
Investments: <sup>(2)</sup>				
Money market mutual funds	\$ 6,454,954	\$ 6,454,954	\$ -	\$ -
Fixed income mutual funds	5,001,110	5,001,110	-	-
Equity mutual funds	5,997,368	5,997,368	-	-
Mutual funds - other	5,119,916	5,119,916	-	-
Assets limited as to use: <sup>(1)</sup>				
Money market mutual funds	3,407,561	3,407,561	-	-
U.S. government securities	7,994,520	-	7,994,520	-
<b>Total</b>	<b>\$ 33,975,429</b>	<b>\$ 25,980,909</b>	<b>\$ 7,994,520</b>	<b>\$ -</b>
2023				
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets measured at fair value on a recurring basis: <sup>(1)</sup>				
Investments: <sup>(2)</sup>				
Fixed income mutual funds	\$ 10,928,991	\$ 10,928,991	\$ -	\$ -
Equity mutual funds	6,818,445	6,818,445	-	-
Interest-bearing cash	8,692	8,692	-	-
Common stocks	11,407	11,407	-	-
Assets limited as to use: <sup>(1)</sup>				
Money market mutual funds	7,085,668	7,085,668	-	-
U.S. government securities	4,385,307	-	4,385,307	-
<b>Total</b>	<b>\$ 29,238,510</b>	<b>\$ 24,853,203</b>	<b>\$ 4,385,307</b>	<b>\$ -</b>

## Channing House

### Notes to Financial Statements

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(1) For cash and cash equivalents and assets limited to use, the net carrying value approximates fair value at period end.

(2) The fair values of investments which are included in the accompanying balance sheets are determined based on quoted market prices in active markets. Investments consist of cash equivalents, common stocks, mutual funds, equity mutual funds, and fixed income mutual funds as detailed in Note 2.

As required by Topic 820, the investments are classified within the level of the lowest significant input considered in determining fair value.

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that Channing House would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of February 29, 2024 and February 28, 2023. Current estimates of fair value may differ significantly from the amounts presented.

#### **Note 9 – Deferred Revenue From Entrance Fees**

Changes in deferred revenue from entrance fees are as follows for the years ended February 29, 2024 and February 28, 2023:

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 53,763,325	\$ 51,734,286
New entrance fees received	10,422,143	9,855,240
Portion of new entrance fees that is refundable	(2,638,474)	(2,197,152)
Refunds of entrance fees	-	(428,295)
Amortization of fees	<u>(6,471,355)</u>	<u>(5,200,754)</u>
Balance, end of year	<u><u>\$ 55,075,639</u></u>	<u><u>\$ 53,763,325</u></u>

#### **Note 10 – Health and Safety Code Section 1790(A)(3) Disclosure**

In 2017, The Board of Trustees of Channing House established a Capital Reserve Fund to be used to pay for future board-approved capital improvements. These improvements are necessary and consistent with Channing House's tax-exempt purpose to maintain and provide facilities essential to meet the housing, nursing care, and other needs of its senior residents.

Improvements include the following for the years ended February 29, 2024 and February 28, 2023, respectively: a) Technology improvements of \$230,073 and \$330,969; b) building systems, and equipment and furnishing improvements of \$677,336 and \$1,801,441; and c) apartment renovations of \$543,322 and \$995,985.

## Channing House

### Notes to Financial Statements

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In order to maintain and improve safety, comfort, and marketability of Channing House, in 2018, the Board of Trustees issued \$44,120,000 of Series 2017B Insured Revenue Bonds. Consistent with Channing House's nonprofit status, these bonds were used in the following manner: a) withdrawals for construction costs of \$479,432 and \$3,558,091 for the years ended February 29, 2024 and February 28, 2023, respectively; b) the Bond Reserve Account was maintained with a balance of \$3,302,235 and \$3,218,843 as of February 29, 2024 and February 28, 2023, respectively; and c) the Interest Fund was maintained with a balance of \$1,074,064 and \$1,098,723 as of February 29, 2024 and February 28, 2023, respectively.

#### **Note 11 – Contingencies**

**Litigation** – Channing House is party to claims and legal actions in the normal course of business. In the opinion of management, and based on current facts and circumstances, the resolution of such matters is not expected to have a material adverse effect on the financial position of Channing House.

**Malpractice insurance coverage** – Channing House is covered for malpractice insurance under an occurrence basis policy with coverage of \$5,000,000 for each occurrence. Accounting principles generally accepted in the United States of America require that a healthcare organization disclose the estimated costs of claims in the period of the incident, if it is reasonably possible that liabilities may be incurred, and losses can be reasonably estimated. Management is unable to reasonably estimate the range of future costs, if any, of unasserted claims arising from incidents in current and prior periods. Management believes that any unreported liability will not have a material adverse effect on Channing House's financial position or results of operations.

## Channing House

### Notes to Financial Statements

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#### Note 12 – Natural and Functional Expenses

Channing House provides health services, dining services, and residential services. The financial statements report certain expense categories that are attributable to more than one service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function include depreciation and utilities, which are allocated to a function based on square footage, and interest, which is allocated to a function based on a units-of-service basis. Expenses related to providing these services for the years ended February 29, 2024 and February 28, 2023 are as follows:

Year Ended February 29, 2024					
	Program Services			Support Services	Total Expenses
	Health Services	Dining Services	Residential Services	General & Admin	
Salaries and benefits	\$ 5,313,875	\$ 3,287,592	\$ 2,372,122	\$ 2,462,894	\$ 13,436,483
Purchased services	397,747	250,411	1,054,844	2,450,869	4,153,871
Supplies	134,898	1,325,842	99,511	41,734	1,601,985
Utilities	170,927	131,483	946,675	65,741	1,314,826
Depreciation	1,378,293	671,317	4,833,484	335,659	7,218,754
Interest	793,207	386,343	2,781,667	193,172	4,154,388
Other operating expenses	6,467	26,968	30,348	239,042	302,825
Total expenses	<u>\$ 8,195,415</u>	<u>\$ 6,079,956</u>	<u>\$ 12,118,651</u>	<u>\$ 5,789,111</u>	<u>\$ 32,183,132</u>

Year Ended February 28, 2023					
	Program Services			Support Services	Total Expenses
	Health Services	Dining Services	Residential Services	General & Admin	
Salaries and benefits	\$ 5,373,601	\$ 3,121,331	\$ 2,421,423	\$ 2,246,999	\$ 13,163,354
Purchased services	164,862	188,493	830,062	2,216,170	3,399,587
Supplies	129,736	1,148,181	97,977	32,978	1,408,872
Utilities	186,467	143,437	1,032,741	71,718	1,434,363
Depreciation	1,340,154	652,741	4,699,735	326,371	7,019,001
Interest	812,689	395,832	2,849,987	197,915	4,256,423
Other operating expenses	7,947	24,639	30,873	271,975	335,434
Total expenses	<u>\$ 8,015,456</u>	<u>\$ 5,674,654</u>	<u>\$ 11,962,798</u>	<u>\$ 5,364,126</u>	<u>\$ 31,017,034</u>

## Channing House

### Notes to Financial Statements

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#### Note 13 – Liquidity and Availability

As of February 29, 2024 and February 28, 2023, Channing House had working capital of \$24,470,524 and \$21,283,124, respectively. Financial assets available for general expenditure within one year of the balance sheet date consisted of the following as of February 29, 2024 and February 28, 2023:

	2024	2023
Cash and cash equivalents	\$ 4,677,468	\$ 5,642,274
Accounts receivable, net	101,216	55,968
Investments	<u>22,573,348</u>	<u>17,767,535</u>
Subtotal financial assets	27,352,032	23,465,777
Less: net assets with donor restrictions	<u>(488,201)</u>	<u>(440,792)</u>
Total financial assets available for general expenditure	<u><u>\$ 26,863,831</u></u>	<u><u>\$ 23,024,985</u></u>

Channing House has certain board-designated investments, which could be made available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. As part of Channing House's liquidity management plan, cash in excess of daily requirements is invested in accordance with its investment policy.

#### Note 14 – Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Channing House recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. Channing House's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements were issued.

Channing House has evaluated subsequent events through June 20, 2024, which is the date the financial statements were issued.



Report of Independent Auditors  
and Financial Statements



February 28, 2025 and February 29, 2024

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## **Report of Independent Auditors**

The Board of Trustees  
Channing House

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Channing House, which comprise the statements of financial position as of February 28, 2025 and February 29, 2024, and the related statements of activities and changes in net deficit 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 Channing House as of February 28, 2025 and February 29, 2024, and the results of its operations 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 Channing House 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 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 Channing House's ability to continue as a going concern within one year after the date that the financial statements are issued.

### ***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 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 Channing House'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 Channing House'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.

*Baker Tilly US, LLP*

San Francisco, California

June 24, 2025

## **Financial Statements**

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**Channing House**  
**Statements of Financial Position**  
**February 28, 2025 and February 29, 2024**

	<u>2025</u>	<u>2024</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 442,278	\$ 4,677,468
Accounts receivable, net	85,741	101,216
Investments	31,719,796	22,573,348
Assets limited as to use, current	3,682,508	3,608,759
Inventory	41,521	35,210
Prepaid expenses	578,313	732,557
Total current assets	<u>36,550,157</u>	<u>31,728,558</u>
Assets limited as to use, net of current portion	6,244,130	7,793,322
Property and equipment, net	113,601,317	116,991,488
Other assets	157,571	82,571
Total assets	<u><u>\$ 156,553,175</u></u>	<u><u>\$ 156,595,939</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 4,833,243	\$ 5,083,034
Current portion of bonds payable, net	2,285,000	2,175,000
Total current liabilities	<u>7,118,243</u>	<u>7,258,034</u>
Pension liability	157,461	136,844
Entrance fees refundable upon re-occupancy	9,192,661	7,099,465
Deferred revenue from entrance fees	57,546,504	55,075,639
Bonds payable, net of current portion	91,055,396	93,504,533
Total liabilities	<u>165,070,265</u>	<u>163,074,515</u>
Net assets (deficit)		
Without donor restrictions		
Undesignated	(14,044,760)	(11,929,203)
Board-designated	5,046,507	4,962,426
With donor restrictions	481,163	488,201
Total net deficit	<u>(8,517,090)</u>	<u>(6,478,576)</u>
Total liabilities and net deficit	<u><u>\$ 156,553,175</u></u>	<u><u>\$ 156,595,939</u></u>

See accompanying notes.

**Channing House**  
**Statements of Activities and Changes in Net Deficit**  
**Years Ended February 28, 2025 and February 29, 2024**

	<u>2025</u>	<u>2024</u>
REVENUES, GAINS, AND OTHER SUPPORT		
Monthly care fees	\$ 21,298,013	\$ 18,849,667
Resident entrance fees earned	5,546,814	6,471,355
Interest and dividend income	1,081,077	857,349
Other services	836,724	785,686
Donations and other	198,576	95,567
Operating revenues	28,961,204	27,059,624
Net assets released from restriction for operations	24,103	6,690
Total revenues	<u>28,985,307</u>	<u>27,066,314</u>
EXPENSES		
Salaries and benefits	13,766,063	13,436,483
Purchased services	4,970,485	4,153,871
Supplies	1,587,966	1,601,985
Utilities	1,271,113	1,314,826
Other	101,126	302,825
Depreciation	7,013,374	7,218,754
Interest expense	4,046,514	4,154,388
Total expenses	<u>32,756,641</u>	<u>32,183,132</u>
LOSS BEFORE NONOPERATING GAIN	(3,771,334)	(5,116,818)
NONOPERATING GAIN		
Other components of net periodic pension cost	(46,350)	(48,590)
Net unrealized gain on trading securities	947,968	2,074,036
Net realized gain (loss) on investments	774,192	(225,258)
Total nonoperating gain	<u>1,675,810</u>	<u>1,800,188</u>
NET LOSS	(2,095,524)	(3,316,630)
Net unrealized gain on investments other than trading	43,435	104,223
Change in pension obligation	20,613	15,863
Net decrease in net deficit without donor restrictions	<u>(2,031,476)</u>	<u>(3,196,544)</u>
Net assets with donor restrictions		
Donations	3,500	3,500
Income from investments with donor restrictions, net	13,565	50,599
Release from restrictions for use in operations	(24,103)	(6,690)
Net (decrease) increase in net assets with donor restrictions	<u>(7,038)</u>	<u>47,409</u>
CHANGE IN NET DEFICIT	(2,038,514)	(3,149,135)
NET DEFICIT, beginning of year	<u>(6,478,576)</u>	<u>(3,329,441)</u>
NET DEFICIT, end of year	<u><u>\$ (8,517,090)</u></u>	<u><u>\$ (6,478,576)</u></u>

See accompanying notes.

**Channing House**  
**Statements of Cash Flows**  
**Years Ended February 28, 2025 and February 29, 2024**

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Monthly care fees	\$ 21,313,488	\$ 18,804,419
Entrance fees received from residents	8,017,679	7,783,669
Other receipts from operations	836,724	785,686
Investment income received	1,094,642	907,948
Donations and miscellaneous revenues	177,973	92,377
Cash paid to employees and suppliers	(22,047,337)	(20,446,186)
Interest paid	<u>(4,246,902)</u>	<u>(4,353,024)</u>
Net cash provided by operating activities	<u>5,146,267</u>	<u>3,574,889</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	5,951,889	18,783,602
Purchase of investments	(10,589,089)	(25,254,319)
Purchases of property and equipment	<u>(3,394,243)</u>	<u>(2,324,251)</u>
Net cash used in investing activities	<u>(8,031,443)</u>	<u>(8,794,968)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bonds payable	(2,175,000)	(2,070,000)
Entrance fees received from residents	3,194,796	2,638,474
Refunds of entrance fees	<u>(1,101,600)</u>	<u>-</u>
Net cash used in financing activities	<u>(81,804)</u>	<u>568,474</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(2,966,980)	(4,651,605)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	<u>8,085,029</u>	<u>12,736,634</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u><u>\$ 5,118,049</u></u>	<u><u>\$ 8,085,029</u></u>

See accompanying notes.

**Channing House**  
**Statements of Cash Flows**  
**Years Ended February 28, 2025 and February 29, 2024**

	<u>2025</u>	<u>2024</u>
RECONCILIATION OF CHANGE IN NET DEFICIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net deficit	\$ (2,038,514)	\$ (3,149,135)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	7,013,374	7,218,754
Amortization of bond issuance costs	237,453	237,452
Amortization of bond premium, net of discount	(401,590)	(401,589)
Amortization of resident entrance fees earned	(5,546,814)	(6,471,355)
Unrealized gain on investments	(991,403)	(2,178,259)
Realized (gain) loss on investments	(774,192)	225,258
Loss on disposal of property and equipment	10,215	27,728
Entrance fees received from residents	8,017,679	7,783,669
Changes in operating assets and liabilities		
Accounts receivable	15,475	(45,248)
Inventory	(6,311)	(484)
Prepaid expenses	154,244	(76,344)
Other assets	(75,000)	-
Accounts payable and accrued expenses	(506,086)	359,715
Pension liability	37,737	44,727
Net cash provided by operating activities	<u>\$ 5,146,267</u>	<u>\$ 3,574,889</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Fixed assets included in accounts payable	\$ 239,175	\$ 363,667
Reconciliation of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	\$ 442,278	\$ 4,677,468
Cash and cash equivalents in assets limited as to use	<u>4,675,771</u>	<u>3,407,561</u>
Total cash, cash equivalents, and restricted cash on the statements of cash flows	<u>\$ 5,118,049</u>	<u>\$ 8,085,029</u>

See accompanying notes.

# Channing House

## Notes to Financial Statements

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### Note 1 – Summary of Significant Accounting Policies

**History and organization** – Channing House is a nonprofit public benefit corporation licensed by the State of California Department of Public Health and the California Department of Social Services to provide housing, related facilities, and health services for senior persons. Channing House was incorporated in 1960 under the laws of the State of California. The community includes 173 apartments, 39 assisted living beds, and 26 skilled nursing beds.

Channing House is subject to statutory reserve requirements. At both February 28, 2025 and February 29, 2024, Channing House's reserves, as calculated in accordance with the continuing care contract statutes of the California Health and Safety Code, were in excess of such requirements.

Channing House is exempt from property taxes; however, it makes an "in lieu of" payment to the City of Palo Alto based upon the assessed valuation of land, improvements, and unsecured property.

**Net asset classifications** – The accompanying financial statements have been prepared in accordance with the standards set forth by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, and the guidelines set forth in the industry audit and accounting guide *Health Care Entities* issued by the American Institute of Certified Public Accountants. Under these guidelines, contributions of cash and other assets are classified as one of the following two categories:

*Without donor restrictions* – Represents unconditional promises to give by donors without any use or time restrictions. The Board of Trustees of Channing House is authorized to spend the principal, income, and appreciation of these funds, as it deems reasonable, in order to further the mission and purpose of Channing House. Board-designated funds at February 28, 2025 and February 29, 2024, consisted of the following:

	2025	2024
Heritage Circle Fund	\$ 5,046,507	\$ 4,962,426
Total	\$ 5,046,507	\$ 4,962,426

The Heritage Circle Fund (the Fund) is an investment in Channing House's future by residents, trustees, and staff. Each year, grants from the Fund are awarded for projects that enrich and strengthen Channing House in ways that the annual budget may not be able to support. This board-designated fund also serves as a resource for the future and may be utilized to address emergency needs of the community.

*With donor restrictions* – Represents unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. Donor restrictions released in the year received are recorded as contributions without donor restrictions. This category also includes net assets subject to donor-imposed stipulations that they be maintained by the organization in perpetuity. Channing House had no net assets required to be maintained in perpetuity as of February 28, 2025 and February 29, 2024. Contribution revenue is recognized in the appropriate net asset classification when the gift is unconditionally promised.

## Channing House

### Notes to Financial Statements

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**Performance indicator** – “Net loss,” as reflected in the accompanying statements of activities and changes in net deficit, is the performance indicator. The performance indicator reflects Channing House’s operational performance excluding net unrealized gain on investments other than trading securities, change in pension obligation, receipt of restricted donations, and income earned from investments with donor restrictions.

**Cash and cash equivalents** – Channing House considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. Cash equivalents includes cash designated for specific projects.

**Concentration of credit risk** – Financial instruments potentially subjecting Channing House to concentrations of credit risk consist primarily of bank demand deposits in excess of the Federal Deposit Insurance Corporation insurance thresholds and cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds. Demand deposits are placed with local financial institutions, and management has not experienced any loss related to these demand deposits in the past. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the financial statements. The risk associated with the investments is mitigated through diversification.

**Accounts receivable** – Channing House extends credit to its residents for the payment of the monthly care fees, as each resident is directly responsible to pay Channing House. Management estimates an allowance for credit losses based on prior experience, estimated future credit losses, and analysis of the collectability of specific accounts. As of February 28, 2025 and February 29, 2024, no allowance for credit losses was deemed necessary.

The following table provides information about Channing House’s receivables pursuant to ASC 606-10-50-11:

	February 28, 2025	February 29, 2024	February 28, 2023
Accounts receivable, net	\$ 85,741	\$ 101,216	\$ 55,968
Total	<u>\$ 85,741</u>	<u>\$ 101,216</u>	<u>\$ 55,968</u>

**Inventory** – Inventory is stated at the lower of cost, which is determined on the first-in, first-out method of accounting, or net realizable value. Inventory consisted of dining and gift shop supplies as of February 28, 2025 and February 29, 2024.

**Investments** – Investments are carried at fair value based on quoted market prices. The cost of investments sold is determined on an average cost basis. Investment income or loss and unrealized gains or losses are included in the statements of activities and changes in net deficit as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

## Channing House

### Notes to Financial Statements

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**Assets limited as to use** – Assets limited as to use consist of investments that are restricted in their use by regulatory or other agreements. These accounts are money market mutual funds and escrow funds in U.S. government securities, which were established pursuant to the trust agreement executed in connection with the issuance of the Series 2017 Revenue Bonds (see Note 4). Assets limited as to use are carried at fair value based on quoted market prices. Assets limited as to use, current, represents amounts that will fund current debt service liabilities.

**Property and equipment, net** – Property and equipment are stated at cost. The cost basis includes any interest, finance charges, and other related costs capitalized during construction. Depreciation is based upon the straight-line method over the estimated useful lives of the various classes of property, which range from 3 to 50 years. Channing House records assets acquired by donation at the estimated fair market value at the date of donation.

**Asset impairment** – Channing House periodically evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No impairment charges were recognized for the years ended February 28, 2025 and February 29, 2024.

**Bond issuance costs** – Channing House recognizes financing costs incurred in connection with the issuance of bonds payable as a direct reduction of the related debt. Bond issuance costs are amortized over the term of the related debt using the straight-line method. Unamortized bond issuance costs amounted to \$4,517,722 and \$4,755,175 at February 28, 2025 and February 29, 2024, respectively. Amortization expense of \$237,453 and \$237,452 is included in interest expense for the years ended February 28, 2025 and February 29, 2024, respectively.

**Resident entrance fees** – Upon entering Channing House, residents pay an entrance fee, which varies by resident depending upon the size and location of the apartment. Monthly care fees also vary based on apartment size and location. Residents are provided housing, meals, and nursing care while living in Channing House.

Channing House offers a nonrefundable contract, whereby a decreasing portion of the entrance fee is repayable by cancellation or termination of the care agreement during the first six years of occupancy, subject to a 10% minimum retention by Channing House. Nonrefundable resident entrance fees are recorded as deferred revenue and are amortized on a reasonable basis over the actuarially determined life expectancy of the resident, or the contract term, if shorter.

Channing House also offers a refundable contract, whereby 80% of the entrance fee is repaid after move-out or termination of the contract, upon re-occupancy of the apartment. Refundable contract fees repayable upon re-occupancy are recorded as a liability in the statements of financial position.

**Income taxes** – Channing House has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the financial statements. Channing House has adopted the provisions of ASC Topic 740, *Income Taxes*, relating to accounting for uncertain tax positions. Channing House had no unrecognized tax benefits at February 28, 2025 and February 29, 2024. Channing House files federal and California exempt organization returns.

## Channing House

### Notes to Financial Statements

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**Revenue recognition** – Revenue is recognized at the amount that reflects the consideration to which Channing House expects to be entitled to in exchange for the services provided. Channing House accounts for its revenue recognition under ASC 606, *Revenue from Contracts with Customers*.

**Monthly care fees** – Under resident agreements, Channing House provides senior living services to residents for a stated monthly fee. Revenue is recognized on a monthly basis as the performance obligations are satisfied. The following represents monthly care fees revenue by line of service for the years ended February 28, 2025 and February 29, 2024:

	2025	2024
Independent living	\$ 17,020,166	\$ 15,767,538
Assisted living	2,144,461	1,831,809
Skilled nursing	937,086	935,980
Direct admit	1,196,300	314,340
	<u>1,196,300</u>	<u>314,340</u>
Monthly care fees revenue	<u>\$ 21,298,013</u>	<u>\$ 18,849,667</u>

**Resident entrance fees earned** – Channing House receives an upfront entrance fee when the resident agreement is signed. In exchange for this fixed entrance fee and the monthly care fees, the resident has the right to occupy a unit. The resident agreement creates a performance obligation to be satisfied over the resident's remaining life at Channing House. Revenue associated with the entrance fee is recognized using a reasonable method over the actuarially determined estimated life of the resident. Resident life expectancies are reevaluated annually, and any changes in the revenue as a result of that reevaluation will be recognized in the period noted. The associated performance obligation is satisfied upon termination of the residency agreement. See Note 9 for changes in deferred revenue from entrance fees.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such management estimates include fair value of investments, future service obligation, depreciation, deferred revenue from entrance fees, and pension costs. Actual results could differ from those estimates.

**Fair value of financial instruments** – Unless otherwise indicated, the fair values of all reported assets and liabilities that represent financial instruments approximate their carrying values. Channing House's policy is to recognize transfers in and transfers out of Level 1 and Level 2 as of the end of the reporting period. Refer to Note 8 for fair value hierarchy disclosures of investments.

**Reclassifications** – Certain reclassifications have been made to the 2024 financial statements to conform to the 2025 presentation. These reclassifications had no material effect on the financial statements.

## Channing House

### Notes to Financial Statements

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#### Note 2 – Investments and Assets Limited as to Use

Investments and assets limited as to use, at fair value, consisted of the following at February 28, 2025 and February 29, 2024:

	2025	2024
Investments		
Money market mutual funds	\$ 3,637,840	\$ 6,454,954
Fixed-income mutual funds	17,108,370	7,437,712
Equity mutual funds	10,973,586	8,680,682
Total investments	31,719,796	22,573,348
Assets limited as to use		
Money market mutual funds	4,675,771	3,407,561
U.S. government securities	5,250,867	7,994,520
Total assets limited as to use	9,926,638	11,402,081
Total investments and assets limited as to use	<u>\$ 41,646,434</u>	<u>\$ 33,975,429</u>

Assets limited as to use are included in U.S. government securities. Such funds were established pursuant to the trust agreement executed in connection with the issuance of the Series 2017 Revenue Bonds (see Note 4). Assets limited as to use consisted of the following at February 28, 2025 and February 29, 2024:

	2025	2024
Reserve account	\$ 3,295,765	\$ 3,302,235
Principal and interest account	2,836,789	2,713,364
Project fund	3,556,451	5,326,783
Revenue fund	237,633	59,699
Total assets limited as to use	<u>\$ 9,926,638</u>	<u>\$ 11,402,081</u>

Additional disclosures about fair value measurements are included in Note 8.

## Channing House

### Notes to Financial Statements

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#### Note 3 – Property and Equipment, Net

Property and equipment consisted of the following at February 28, 2025 and February 29, 2024:

	2025	2024
Land and improvements	\$ 936,951	\$ 936,951
Building and improvements	172,861,391	172,395,895
Equipment and furnishings	11,990,010	10,983,295
Construction in progress	3,815,305	1,837,360
	<hr/>	<hr/>
Total	189,603,657	186,153,501
Less accumulated depreciation	(76,002,340)	(69,162,013)
	<hr/>	<hr/>
Property and equipment, net	<u>\$ 113,601,317</u>	<u>\$ 116,991,488</u>

Depreciation expense was \$7,013,374 and \$7,218,754 for the years ended February 28, 2025 and February 29, 2024, respectively.

#### Note 4 – Bonds Payable, Net

Bonds payable, net, at February 28, 2025 and February 29, 2024, consisted of the following:

	2025	2024
Series 2017A bonds	\$ 46,670,000	\$ 48,630,000
Series 2017B bonds	43,510,000	43,725,000
	<hr/>	<hr/>
Total	90,180,000	92,355,000
Less current maturities of bonds payable	(2,285,000)	(2,175,000)
Add unamortized bond premium – Series 2017A	2,880,824	3,070,768
Add unamortized bond premium – Series 2017B	4,797,294	5,008,940
Less unamortized debt issuance costs – Series 2017A	(1,778,423)	(1,895,043)
Less unamortized debt issuance costs – Series 2017B	(2,739,299)	(2,860,132)
	<hr/>	<hr/>
Bonds payable, net	<u>\$ 91,055,396</u>	<u>\$ 93,504,533</u>

In April 2017, the California Municipal Finance Authority issued \$54,045,000 of Insured Revenue and Refunding Bond Series 2017A (Series 2017A) at a premium of \$4,368,722 and bearing interest at an average coupon rate of 4.31%. The bonds are subject to redemptions, as scheduled, prior to final maturity in May 2040.

In October 2017, the California Municipal Finance Authority issued \$44,120,000 of Insured Revenue Bonds Series 2017B (Series 2017B). The bonds were issued at a premium of \$6,349,360 and bear interest at an average coupon rate of 5.00%. The bonds are subject to redemptions, as scheduled, prior to final maturity in May 2047.

## Channing House

### Notes to Financial Statements

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The Series 2017A and Series 2017B bonds (Series 2017 Bonds) are subject to certain financial performance covenants. Also, under the terms of the Series 2017 Bonds, Channing House is required to maintain certain deposits with a trustee. Management believes Channing House was in compliance with its covenants as of and for the year ended February 28, 2025. The Series 2017 Bonds are collateralized by current and future gross revenues of Channing House and real property.

Maturities of the Series 2017 Bonds during each of the next five years and thereafter are as follows:

<u>Years Ending</u>	<u>Payment</u>
February 28, 2026	\$ 2,285,000
February 28, 2027	2,400,000
February 29, 2028	2,520,000
February 28, 2029	2,635,000
February 28, 2030	2,745,000
Thereafter	<u>77,595,000</u>
Total maturities	<u><u>\$ 90,180,000</u></u>

#### **Note 5 – Pension Plan**

Channing House has a noncontributory defined benefit pension plan (the “Plan”), which covers all employees having completed one year of service and having attained the age of 21 as of December 31, 2001. Benefits are computed by a formula based upon years of service and the employee’s average compensation over the final five years of employment, subject to a minimum benefit. The Plan was frozen on December 31, 2001.

The broad-based investment goals of the Plan are to: (1) at a minimum, preserve the inflation-adjusted value of the pension assets after administrative costs and benefit payments; (2) prudently invest assets in a high-quality, diversified manner; (3) achieve the optimal return possible within the specified risk parameters; (4) achieve the actuarial earnings assumptions; and (5) adhere to the established guidelines.

## Channing House

### Notes to Financial Statements

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The following table presents the changes in the benefit obligations, fair value of assets, and funded status of the Plan as of February 28, 2025 and February 29, 2024:

	2025	2024
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 910,677	\$ 957,997
Service cost	12,000	12,000
Interest cost	46,758	49,267
Actuarial liability loss	14,802	13,763
Expenses and benefits paid	(104,206)	(122,350)
Benefit obligation at end of year	<u>\$ 880,031</u>	<u>\$ 910,677</u>
Change in plan assets		
Plan assets at beginning of year	\$ 773,833	\$ 848,078
Actual return	35,823	30,303
Employer contributions	17,120	17,802
Expenses and benefits paid	(104,206)	(122,350)
Plan assets at end of year	<u>722,570</u>	<u>773,833</u>
Funded status	(157,461)	(136,844)
Total recognized in accumulated net assets without donor restrictions	<u>408,904</u>	<u>429,517</u>
Prepaid pension cost	<u>\$ 251,443</u>	<u>\$ 292,673</u>

The components of net periodic benefit cost and other changes in Plan assets and benefit obligations include the following for the years ended February 28, 2025 and February 29, 2024:

	2025	2024
Service cost	\$ 12,000	\$ 12,000
Interest cost	46,758	49,267
Expected return on asset	(36,049)	(39,580)
Amortization of net loss during the year	35,641	38,903
Net periodic pension cost	58,350	60,590
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions		
Net actuarial gain	(20,613)	(15,863)
Total recognized in net periodic pension cost and net assets without donor restrictions	<u>\$ 37,737</u>	<u>\$ 44,727</u>

## Channing House

### Notes to Financial Statements

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The components of net periodic pension benefit cost (other than service cost) are included in the net decrease in net deficit without donor restriction on the statements of activities and changes in net deficit, under “other components of net periodic pension cost.”

The following weighted-average assumptions were used to determine the Plan's benefit obligation and net periodic pension expense at February 28, 2025 and February 29, 2024:

	<u>2025</u>	<u>2024</u>
Discount rate – plan obligation	5.2%	5.3%
Discount rate – net periodic pension cost	5.3%	5.2%
Expected return on plan assets	5.0%	5.0%

**Plan assets** – The fair values of Channing House’s pension plan assets by asset category are as follows at February 28, 2025 and February 29, 2024, pursuant to ASC Topic 820, as more fully described in Note 8:

	<u>Total 2025</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment contract with insurance company	\$ 715,186	\$ -	\$ -	\$ 715,186
Money market funds	7,384	-	7,384	-
Total investments	<u>\$ 722,570</u>	<u>\$ -</u>	<u>\$ 7,384</u>	<u>\$ 715,186</u>

	<u>Total 2024</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment contract with insurance company	\$ 765,406	\$ -	\$ -	\$ 765,406
Money market funds	8,427	-	8,427	-
Total investments	<u>\$ 773,833</u>	<u>\$ -</u>	<u>\$ 8,427</u>	<u>\$ 765,406</u>

The investment contract with insurance company is valued at contract value as estimated by the pension plan administrator. Contract value approximates fair value.

The composition of Plan assets was as follows at February 28, 2025 and February 29, 2024:

	<u>2025</u>	<u>2024</u>
Insurance contract with insurance company	99%	99%
Money market funds	1%	1%
Total	<u>100%</u>	<u>100%</u>

## Channing House

### Notes to Financial Statements

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The following table reconciles the beginning and ending balances of recurring fair value measurements recognized in the accompanying financial statements using significant unobservable (Level 3) inputs:

	2025	2024
Investment contract with insurance company, beginning	\$ 765,406	\$ 845,072
Actual return on plan assets		
Relating to assets still held at the reporting date	(82,496)	(85,517)
Purchases, sales, and settlements	32,276	5,851
Investment contract with insurance company, ending	<u>\$ 715,186</u>	<u>\$ 765,406</u>

**Estimated future benefit payments** – Expected benefits to be paid in the next 10 years as calculated by consulting the actuary are:

<u>Fiscal Year</u>	<u>Expected Payment</u>
2026	\$ 97,000
2027	\$ 94,000
2028	\$ 95,000
2029	\$ 86,000
2030	\$ 79,000
2031–2035	\$ 311,000

**Plan amendment** – At December 31, 2001, the Board of Trustees approved changes to the defined benefit pension plan that effectively froze the Plan. No new participants are permitted into the Plan and no future benefits will accrue for participants in the Plan on or before December 31, 2001.

**Defined contribution plan** – Effective January 1, 2002, Channing House established a 403(b) plan for substantially all employees. Participants may contribute a percentage of compensation up to the maximum permitted by the IRC. Employer contributions and costs are based on a percentage of covered employees' salaries. Employer contributions were \$388,867 and \$334,619 for the years ended February 28, 2025 and February 29, 2024, respectively.

**Deferred compensation plan** – Effective November 1, 2008, Channing House established a 457(b) plan for key management staff. This plan is intended to constitute an unfunded, eligible deferred compensation plan as described in IRC Section 457(b). This deferred compensation plan calls for discretionary contributions as approved each year by the Board of Trustees. Participants may contribute a percentage of compensation up to the maximum permitted by the IRC. Employer contributions were \$66,869 and \$56,410 for the years ended February 28, 2025 and February 29, 2024, respectively.

## Channing House

### Notes to Financial Statements

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#### Note 6 – Future Service Obligation

Channing House is obligated to provide its residents continuous care throughout the residents' stays at the community. Management's estimate of the liability for "future service obligation" represents the excess of the discounted net care expenses over the deferred revenue from entrance fees. The obligation is discounted at 5.5% for both February 28, 2025 and February 29, 2024. The obligation was zero as of both February 28, 2025 and February 29, 2024.

#### Note 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at February 28, 2025 and February 29, 2024:

	2025	2024
Resident assistance	\$ 376,422	\$ 366,245
Scholarship	104,741	121,956
Total	<u>\$ 481,163</u>	<u>\$ 488,201</u>

#### Note 8 – Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** –Quoted prices in active markets for identical assets or liabilities.

**Level 2** –Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value per share (or its equivalent) with the ability to redeem the investments in the near term.

**Level 3** –Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodology used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

*Investments and assets limited as to use* – Fair values, which are the amounts reported in the statements of financial position, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

# Channing House

## Notes to Financial Statements

The following table presents the fair value measurements of investments recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the Topic 820 fair value hierarchy in which the fair value measurements fell at February 28, 2025 and February 29, 2024:

2025				
		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	Total			
Assets measured at fair value on a recurring basis <sup>(1)</sup>				
Investments <sup>(2)</sup>				
Money market mutual funds	\$ 3,637,840	\$ 3,637,840	\$ -	\$ -
Fixed-income mutual funds	17,108,370	17,108,370	-	-
Equity mutual funds	10,973,586	10,973,586	-	-
Assets limited as to use <sup>(1)</sup>				
Money market mutual funds	4,675,771	4,675,771	-	-
U.S. government securities	5,250,867	-	5,250,867	-
Total	<u>\$ 41,646,434</u>	<u>\$ 36,395,567</u>	<u>\$ 5,250,867</u>	<u>\$ -</u>
2024				
		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	Total			
Assets measured at fair value on a recurring basis <sup>(1)</sup>				
Investments <sup>(2)</sup>				
Money market mutual funds	\$ 6,454,954	\$ 6,454,954	\$ -	\$ -
Fixed-income mutual funds	7,437,712	7,437,712	-	-
Equity mutual funds	8,680,682	8,680,682	-	-
Assets limited as to use <sup>(1)</sup>				
Money market mutual funds	3,407,561	3,407,561	-	-
U.S. government securities	7,994,520	-	7,994,520	-
Total	<u>\$ 33,975,429</u>	<u>\$ 25,980,909</u>	<u>\$ 7,994,520</u>	<u>\$ -</u>

(1) For cash and cash equivalents and assets limited to use, the net carrying value approximates fair value at year-end.

(2) The fair values of investments that are included in the accompanying statements of financial position are determined based on quoted market prices in active markets. Investments consist of cash equivalents, equity mutual funds, and fixed-income mutual funds as detailed in Note 2.

## Channing House

### Notes to Financial Statements

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As required by Topic 820, the investments are classified within the level of the lowest significant input considered in determining fair value.

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that Channing House would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of February 28, 2025 and February 29, 2024. Current estimates of fair value may differ significantly from the amounts presented.

#### **Note 9 – Deferred Revenue from Entrance Fees**

Changes in deferred revenue from entrance fees are as follows for the years ended February 28, 2025 and February 29, 2024:

	2025	2024
Balance, beginning of year	\$ 55,075,639	\$ 53,763,325
New entrance fees received	11,212,475	10,422,143
Refundable portion of new entrance fees	(3,194,796)	(2,638,474)
Amortization of fees	(5,546,814)	(6,471,355)
Balance, end of year	<u>\$ 57,546,504</u>	<u>\$ 55,075,639</u>

#### **Note 10 – Health and Safety Code Section 1790(a)(3) Disclosure**

The Board of Trustees of Channing House recognize and plan for future capital expenditures of the community. These improvements are necessary and consistent with Channing House's tax-exempt purpose to maintain and provide facilities essential to meet the housing, nursing care, and other needs of its senior residents.

Improvements include the following for the years ended February 28, 2025 and February 29, 2024, respectively: a) technology improvements of \$458,420 and \$230,073; b) building systems and equipment and furnishing improvements of \$616,682 and \$677,336; and c) apartment renovations of \$521,624 and \$543,322.

In order to maintain and improve safety, comfort, and marketability of Channing House, in fiscal year 2018, the Board of Trustees issued \$44,120,000 of Series 2017B Insured Revenue Bonds. Consistent with Channing House's nonprofit status, these bonds were used in the following manner: a) \$1,993,879 and \$479,432 was withdrawn for construction costs for the years ended February 28, 2025 and February 29, 2024, respectively; b) the Bond Reserve Account was maintained with a balance of \$3,295,765 and \$3,302,235 as of February 28, 2025 and February 29, 2024, respectively; and c) the Interest Fund was maintained with a balance of \$1,087,284 and \$1,074,064 as of February 28, 2025 and February 29, 2024, respectively.

## Channing House

### Notes to Financial Statements

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#### **Note 11 – Contingencies**

**Litigation** – Channing House is party to claims and legal actions in the normal course of business. In the opinion of management, and based on current facts and circumstances, the resolution of such matters is not expected to have a material adverse effect on the financial position of Channing House.

**Malpractice insurance coverage** – Channing House is covered for malpractice insurance under an occurrence basis policy with coverage of \$5,000,000 for each occurrence. Accounting principles generally accepted in the United States of America require that a healthcare organization disclose the estimated costs of claims in the period of the incident if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. Management is unable to reasonably estimate the range of future costs, if any, of unasserted claims arising from incidents in current and prior periods. Management believes that any unreported liability will not have a material adverse effect on Channing House's financial position or results of operations.

## Channing House

### Notes to Financial Statements

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#### Note 12 – Natural and Functional Expenses

Channing House provides health services, dining services, and residential services. The financial statements report certain expense categories that are attributable to more than one service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function include depreciation and utilities, which are allocated to a function based on square footage, and interest, which is allocated to a function based on a units-of-service basis. Expenses related to providing these services for the years ended February 28, 2025 and February 29, 2024, are as follows:

Year Ended February 28, 2025					
	Program Services			Support Services	Total Expenses
	Health Services	Dining Services	Residential Services	General & Admin	
Salaries and benefits	\$ 5,542,507	\$ 3,632,978	\$ 1,797,385	\$ 2,793,193	\$ 13,766,063
Purchased services	392,067	227,351	1,604,332	2,746,735	4,970,485
Supplies	129,646	1,317,929	99,936	40,455	1,587,966
Utilities	165,245	127,111	915,201	63,556	1,271,113
Depreciation	1,339,079	652,217	4,695,967	326,111	7,013,374
Interest	772,610	376,311	2,709,437	188,156	4,046,514
Other operating expenses	-	29,915	34,587	36,624	101,126
Total expenses	<u>\$ 8,341,154</u>	<u>\$ 6,363,812</u>	<u>\$ 11,856,845</u>	<u>\$ 6,194,830</u>	<u>\$ 32,756,641</u>

Year Ended February 29, 2024					
	Program Services			Support Services	Total Expenses
	Health Services	Dining Services	Residential Services	General & Admin	
Salaries and benefits	\$ 5,313,875	\$ 3,287,592	\$ 2,372,122	\$ 2,462,894	\$ 13,436,483
Purchased services	397,747	250,411	1,054,844	2,450,869	4,153,871
Supplies	134,898	1,325,842	99,511	41,734	1,601,985
Utilities	170,927	131,483	946,675	65,741	1,314,826
Depreciation	1,378,293	671,317	4,833,484	335,660	7,218,754
Interest	793,207	386,343	2,781,667	193,171	4,154,388
Other operating expenses	6,467	26,968	30,348	239,042	302,825
Total expenses	<u>\$ 8,195,414</u>	<u>\$ 6,079,956</u>	<u>\$ 12,118,651</u>	<u>\$ 5,789,111</u>	<u>\$ 32,183,132</u>

## Channing House

### Notes to Financial Statements

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#### Note 13 – Liquidity and Availability

As of February 28, 2025 and February 29, 2024, Channing House had working capital of \$29,431,914 and \$24,470,524, respectively. Financial assets available for general expenditure within one year of the statement of financial position date consisted of the following as of February 28, 2025 and February 29, 2024:

	2025	2024
Cash and cash equivalents	\$ 442,278	\$ 4,677,468
Accounts receivable, net	85,741	101,216
Investments	<u>31,719,796</u>	<u>22,573,348</u>
Subtotal financial assets	32,247,815	27,352,032
Less net assets with donor restrictions	<u>(481,163)</u>	<u>(488,201)</u>
Total financial assets available for general expenditure	<u><u>\$ 31,766,652</u></u>	<u><u>\$ 26,863,831</u></u>

Channing House has certain board-designated investments, which could be made available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. As part of Channing House's liquidity management plan, cash in excess of daily requirements is invested in accordance with its investment policy.

#### Note 14 – Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Channing House recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. Channing House's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements were issued.

Channing House has evaluated subsequent events through June 24, 2025, which is the date the financial statements were issued.

Exhibit IV  
Interim Financial Statements  
YTD May 31, 2025



Channing House, CA - Quarterly Report

- 1 California Municipal Finance Authority, Insured Revenue Bonds, (Channing House Project), Series 2017B, \$44,120,000, Dated: October 25, 2017
- 2 California Municipal Finance Authority, Insured Revenue Refunding Bonds, (Channing House Project), Series 2017A, \$54,045,000, Dated: April 18, 2017

Series 2017B, 2017A

Management-prepared financial statements, including a statement of operations and statement of cash flows of the Borrower during such period and a statement of financial position as of the end of each such fiscal quarter, all prepared in reasonable detail and certified, subject to year-end adjustment, by an officer of the Borrower

Fiscal Quarter Ended 5/31/25

Please include a separate PDF document.

Series 2017B, 2017A

Calculation of the Debt Service Coverage Ratio for each fiscal quarter

Fiscal Quarter Ended 5/31/25

Revenues	
Total Revenue	7,555,951
Plus: Net Realized Gains (Losses)	(30,744)
Plus: Entrance fees received - turnover	-
Less: Refund or repayment turnover entrance fees	-
Less: Amortization of entrance fees	(1,831,488)
Plus: Net Assets released from restriction for operations	24,103
Total Revenues Available for Debt Service	5,717,822
Expenses	
Total Expenses	8,514,670
Less: Depreciation and Amortization	(1,719,383)
Less: Interest Expense	(1,038,610)
Plus: Loss on disposal of assets	-
Total Operating Expenses	5,756,677
Income Available for Debt Service	(38,855)
Maximum Annual Debt Service	6,552,625
Debt Service Coverage	(0.01)

Series 2017B, 2017A

Calculation of the Days Cash on Hand, for the second and last fiscal quarters of each year

Fiscal Quarter Ended 5/31/25

Unrestricted Cash and Investments	
Cash	962,072
Investments	29,542,750
Less: Temporarily Restricted Net Assets	(481,163)
Total Unrestricted Cash and Investments	30,023,659
Cash Operating Expenses	
Total Expenses	8,514,670
Less: Depreciation and Amortization	(1,719,383)
Less: Loss on disposal of assets	-
Total Cash Operating Expenses	6,795,287
Number of Days In Year	92
Daily Cash Expenses	73,862
Days Cash on Hand	406

Series 2017B, 2017A

Information with respect to the occupancy levels of all of the facilities operated by the Borrower by level of care as of the end of each fiscal quarter

Fiscal Quarter Ended 5/31/25

Fiscal Quarter Ended 2/28/2025

Level of Care	Units Occupied	Percentage Occupancy	Units Occupied	Percentage Occupancy
Residential Living	171	99%	175	100%
Assisted Living	28	72%	28	74%
Skilled Nursing	18	69%	15	58%
Overall	217	91%	218	91%

Series 2017B, 2017A

An Officer's Certificate of the Borrower stating that the Borrower is in compliance with all of the terms, provisions and conditions of the Regulatory Agreement and the Loan Agreement or, if not, specifying all such defaults and the nature thereof

Fiscal Quarter Ended 5/31/25

Please include a separate PDF document

I hereby certify that the Statements of Cash Flows as of May 31, 2025, constitutes the quarter information required by the Continuing Disclosure Agreement. I further certify that the information complies with the Continuing Disclosure Agreement and the Rule as required. DAC shall be entitled to rely on this certificate.

DocuSigned by:

*Rhonda Bekkedahl*

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**Rhonda Bekkedahl**  
**Chief Executive Officer**

I hereby certify that Channing House is in full compliance with all the terms, provisions and conditions of the Regulatory Agreement and the Loan Agreement for the Quarter Ended May 31, 2025.

DocuSigned by:

*Rhonda Bekkedahl*

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**Rhonda Bekkedahl**

**Chief Executive Officer**

# Channing House

## Statements of Financial Position

Description	May 31, 2025	February 28, 2025	Annual Change
<b>ASSETS</b>			
CURRENT ASSETS			
CASH			
Unrestricted Cash.....	\$ 962,072	\$ 442,277	\$ 519,795
<i>TOTAL CASH.....</i>	962,072	442,277	519,795
INVESTMENTS			
Investments - Reserve Fund.....	23,664,122	25,826,134	(2,162,012)
Board Designated Investments - Heritage Circle....	5,878,628	5,893,662	(15,034)
<i>TOTAL INVESTMENTS.....</i>	29,542,750	31,719,796	(2,177,046)
OTHER CURRENT ASSETS			
Accounts Receivable.....	28,882	85,741	(56,859)
Accounts Receivable - Entrance Fees.....	1,237,500	-	1,237,500
Prepays & Inventory.....	679,918	597,702	82,216
<i>TOTAL OTHER CURRENT ASSETS.....</i>	1,946,300	683,443	1,262,857
<i>TOTAL CURRENT ASSETS.....</i>	32,451,122	32,845,516	(394,394)
NON-CURRENT ASSETS			
Property & Equipment (Net).....	112,119,572	113,601,314	(1,481,742)
Other Assets.....	172,380	179,702	(7,322)
Investments - Debt Service Reserves.....	3,330,524	3,295,765	34,759
Restricted Investments - Bond Funds.....	3,524,486	6,630,872	(3,106,386)
Cost of Issuance - Bonds.....	4,458,359	4,517,724	(59,365)
<i>TOTAL NON-CURRENT ASSETS.....</i>	123,605,321	128,225,377	(4,620,056)
<b>TOTAL ASSETS.....</b>	<b>\$ 156,056,443</b>	<b>\$ 161,070,893</b>	<b>\$ (5,014,450)</b>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Accounts Payable/Accrued Liabilities.....	\$ 3,225,958	\$ 3,413,605	\$ (187,647)
Accrued Interest.....	339,856	1,397,508	(1,057,652)
Bonds Payable.....	2,400,000	2,285,000	115,000
<i>TOTAL CURRENT LIABILITIES.....</i>	5,965,814	7,096,113	(1,130,299)
NON-CURRENT LIABILITIES			
Unearned Entrance Fees .....	57,090,016	57,546,504	(456,488)
Refundable EFs Due Upon Reoccupancy.....	9,192,661	9,192,661	-
Bonds Payable 2017A, Net.....	45,288,338	47,495,824	(2,207,486)
Bonds Payable 2017B, Net.....	47,784,383	48,077,294	(292,911)
Lease Liability.....	14,809	22,132	(7,323)
Pension Liability.....	157,461	157,461	-
<i>TOTAL NON-CURRENT LIABILITIES.....</i>	159,527,668	162,491,876	(2,964,208)
<i>TOTAL LIABILITIES.....</i>	165,493,482	169,587,989	(4,094,507)
<i>TOTAL NET ASSETS.....</i>	(9,437,039)	(8,517,096)	(919,943)
<b>TOTAL LIABILITIES &amp; NET ASSETS.....</b>	<b>\$ 156,056,443</b>	<b>\$ 161,070,893</b>	<b>\$ (5,014,450)</b>

**Channing House**  
**Statements of Activities and Changes in Net Assets**  
*For the Three Months Ended May 31, 2025*

Description	Month-to-Date	Year-to-Date	YTD Budget	% Var	FY26 Budget
<b>OPERATIONS</b>					
<b>Operating Revenue</b>					
Independent Living Fees.....	\$ 1,495,595	\$ 4,492,085	\$ 4,370,805	3%	\$ 17,546,457
Assisted Living Fees.....	169,216	539,377	571,379	-6%	2,258,859
Skilled Nursing Fees.....	76,332	264,757	321,617	-18%	1,310,303
Direct Admit Fees.....	108,168	304,897	274,050	11%	1,096,200
Other Resident Fees.....	37,790	123,347	121,000	2%	484,000
Total Operating Revenue.....	1,887,101	5,724,463	5,658,851	1%	22,695,819
<b>Operating Expense</b>					
Administration.....	502,112	1,601,198	1,621,534	1%	6,460,700
Environmental Services.....	307,136	867,980	860,422	-1%	3,288,573
Utilities.....	102,579	276,878	284,129	3%	1,148,143
Dining Services.....	459,663	1,367,189	1,381,705	1%	5,428,066
Health Services.....	533,886	1,603,535	1,560,456	-3%	6,089,153
Total Operating Expense.....	1,905,376	5,716,780	5,708,246	0%	22,414,635
Operating Gain(Loss).....	(18,275)	7,683	(49,395)	116%	281,184
<b>NON-OPERATIONS</b>					
<b>Non-Operating Revenue</b>					
Earned Entrance Fees.....	475,104	1,831,488	1,500,000	22%	6,000,000
Interest and Dividends.....	68,408	318,754	142,750	123%	571,000
Donations - Restricted.....	100	2,600	62,500	-96%	250,000
Unrealized Gain/(Loss).....	401,370	(303,519)	-	-100%	-
Realized Gain/(Loss).....	7,172	(30,744)	-	-100%	-
Miscellaneous .....	(97)	51,684	14,250	263%	57,000
Total Non-Operating Revenue.....	952,056	1,870,264	1,719,500	9%	6,878,000
<b>Non-Operating Expense</b>					
Interest.....	339,856	1,038,610	1,038,614	0%	4,097,318
Depreciation.....	597,496	1,760,417	1,782,875	1%	7,131,499
Amortization.....	(13,678)	(41,034)	(41,034)	0%	(164,137)
Other/Miscellaneous.....	446	39,897	7,500	-432%	30,000
Total Non-Operating Expense.....	924,120	2,797,890	2,787,955	0%	11,094,680
Non-Operating Gain(Loss).....	27,936	(927,626)	(1,068,455)	13%	(4,216,680)
CHANGE IN NET ASSETS.....	\$ 9,661	\$ (919,943)	\$ (1,117,850)	18%	\$ (3,935,496)

Channing House  
Statements of Cash Flows  
For the Year To Date Periods Ending

	May 31, 2025	May 31, 2024
<b>Cash Flows from Operating Activities:</b>		
Monthly Care Fees.....	\$ 5,657,976	\$ 5,350,419
Entrance Fee Proceeds.....	137,500	1,450,250
Other Receipts from Operations.....	123,346	127,858
Investment Income Received.....	318,754	252,768
Donations, Grants and Misc. Revenues.....	2,600	97,036
Cash Paid to Employees and Suppliers.....	(5,727,903)	(5,762,245)
Interest Paid, net of amount capitalized.....	(2,096,263)	(2,150,638)
Net Cash Provided By (Used In) Operating Activities	(1,583,990)	(634,552)
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sale of Investments.....	10,651,520	12,356,300
Cost of Purchases of Investments.....	(8,839,281)	(15,023,859)
Change in Assets Limited as to Use for Bond Funds.....	3,102,171	3,714,490
Purchases of Property & Equipment.....	(525,625)	(678,743)
Net Cash Provided By (Used In) Investing Activities	4,388,785	368,188
<b>Cash Flows used in Financing Activities:</b>		
Payments on Bonds.....	(2,285,000)	(2,175,000)
Entrance Fee Refunds.....	-	-
Net Cash Provided By (Used In) Financing Activities	(2,285,000)	(2,175,000)
Net Change in Cash and Cash Equivalents.....	519,795	(2,441,364)
Cash and Cash Equivalents at Beginning of the Year.....	442,277	4,677,468
Cash and Cash Equivalents at Period Ended.....	\$ 962,072	\$ 2,236,104

Exhibit V

Financial Feasibility Report

# **HENDRICKSON CONSULTING**

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6 Beach Road – #494, Tiburon, California 94920 - (415) 889-5035 – [Bill1Hendrickson@gmail.com](mailto:Bill1Hendrickson@gmail.com)

## **FINAL REPORT**

### **CHANNING HOUSE**

### **FINANCIAL FEASIBILITY REPORT**

**AUGUST 6, 2025**

# HENDRICKSON CONSULTING

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6 Beach Road - #494, Tiburon, CA 94920 – (415) 889-5035 – BillHendrickson@gmail.com

August 6, 2025

Rhonda Bekkedahl  
Executive Director  
Channing House  
850 Webster Street  
Palo Alto, CA 94301

Dear Ms. Bekkedahl:

We are pleased to submit this feasibility study for Channing House, a 501(c)(3) corporation that owns and operates a continuing care retirement community (CCRC) in Palo Alto, California. Channing House includes 173 independent living units and 12 assisted living beds in an 11-story building, and 27 assisted living beds and a 26-bed skilled nursing facility in an adjacent two-story building. Channing House began operations in 1964. The proceeds of the \$36.2 million taxable 2025 Bonds will be used to fund the purchase of a nearby 13-unit residential property at 430 Forest Avenue, which will be converted to a CCRC for independent living residents.

The 2025 Bonds are anticipated to be issued in October 2025 and insured through Cal Mortgage. The 2025 Bonds are expected to have a 30-year term with \$18.1 million in short-term debt anticipated to be paid in fiscal year 2027. The forecasts are based on a maximum coupon rate of 6.5%. Interest and long-term debt principal payments to bondholders will begin on May 15, 2026 and May 15, 2028 respectively.

To evaluate the financial feasibility of the project we have reviewed critical information sources, including the following:

- the key revenue sources for Channing House,
- the key expenses for Channing House,
- the estimated costs and timing of the acquisition, and
- the terms and structure of the proposed bond issue.

The information obtained through this review has been used to forecast financial statements for the fiscal year ending February 28, 2026 to 2031. Based on our evaluation, the debt coverage ratio for actual debt payments is expected to equal or exceed 1.50x after issuance of the 2025 Bonds, and

2.00x after the Forest Avenue apartments are filled. In addition, the sources of funds will be adequate to meet operating expenses, working capital, and other capital requirements.

The forecasts contained in this report are based on several assumptions. To the extent that these assumptions are not realized, the actual results may vary accordingly. Implementation of policies and procedures to attain forecast results is the responsibility of Channing House and its management. Since future events are subject to uncertainty, we cannot guarantee these forecasts as specific results that will be achieved.

We appreciate the assistance provided by Channing House management during the preparation of this study.

Sincerely,

*William D. Hendrickson*

William D. Hendrickson  
Hendrickson Consulting

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**SECTION A**  
**CHANNING HOUSE**  
**STATEMENTS OF ACTIVITIES**  
**(\$000s)**

<b>Fiscal Year Ending 2/28</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
<b><u>REVENUE</u></b>								
Independent Living	\$15,768	\$17,021	\$17,930	\$19,389	\$21,050	\$21,892	\$22,768	\$23,679
Assisted Living/Memory Care	1,831	2,144	2,160	2,268	2,381	2,500	2,625	2,757
Skilled Nursing	936	937	1,050	1,103	1,158	1,216	1,276	1,340
Non-Contract AL/SN	314	1,196	1,300	1,352	1,406	1,462	1,521	1,582
Other Services	786	837	828	687	649	675	702	730
Amortized Entrance Fees	6,471	5,547	6,000	7,290	8,590	8,788	9,287	9,790
Donations/NARR/Other	103	223	250	250	250	250	250	250
Earnings	2,810	2,846	2,370	1,409	2,018	2,047	2,173	2,452
Other - Non-Operating	(33)	(26)	0	0	0	0	0	0
<b>Total Revenue</b>	<b>\$28,986</b>	<b>\$30,725</b>	<b>\$31,888</b>	<b>\$33,747</b>	<b>\$37,502</b>	<b>\$38,830</b>	<b>\$40,603</b>	<b>\$42,579</b>
<b><u>EXPENSES</u></b>								
Salaries	\$10,730	\$11,082	\$11,500	\$12,101	\$12,622	\$13,127	\$13,652	\$14,198
Benefits	2,706	2,684	2,900	3,052	3,183	3,319	3,452	3,590
Purchased Services	4,154	4,970	5,300	5,615	5,866	6,101	6,345	6,598
Other Expenses	3,218	2,960	3,552	3,739	3,995	4,155	4,321	4,494
Depreciation/Amortization	7,219	7,013	6,799	8,300	8,701	8,900	9,139	9,419
Interest	4,154	4,047	4,135	5,758	5,074	4,952	4,825	4,694
<b>Total Expenses</b>	<b>\$32,181</b>	<b>\$32,756</b>	<b>\$34,187</b>	<b>\$38,565</b>	<b>\$39,441</b>	<b>\$40,554</b>	<b>\$41,734</b>	<b>\$42,994</b>
<b>Change in Unrestr. Net Assets</b>	<b>(\$3,195)</b>	<b>(\$2,031)</b>	<b>(\$2,299)</b>	<b>(\$4,817)</b>	<b>(\$1,939)</b>	<b>(\$1,724)</b>	<b>(\$1,132)</b>	<b>(\$415)</b>
<b>Change in DR Assets</b>	<b>\$47</b>	<b>(\$7)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>CHANGE IN NET ASSETS</b>	<b>(\$3,148)</b>	<b>(\$2,038)</b>	<b>(\$2,299)</b>	<b>(\$4,817)</b>	<b>(\$1,939)</b>	<b>(\$1,724)</b>	<b>(\$1,132)</b>	<b>(\$415)</b>
<b>BALANCE (DEFICIT)</b>	<b>(\$6,479)</b>	<b>(\$8,517)</b>	<b>(\$10,816)</b>	<b>(\$15,633)</b>	<b>(\$17,572)</b>	<b>(\$19,295)</b>	<b>(\$20,427)</b>	<b>(\$20,842)</b>

**SECTION A**  
**CHANNING HOUSE**  
**STATEMENTS OF FINANCIAL POSITION**  
**(\$000s)**

<b>Fiscal Year Ending 2/28</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
<b><u>ASSETS</u></b>								
Cash/Investments - Unrestr.	\$26,763	\$31,681	\$30,008	\$45,247	\$45,952	\$49,126	\$56,098	\$63,819
Cash/Investments - Donor	488	481	481	481	481	481	481	481
Accounts Receivable	101	86	142	145	158	165	172	180
Other Current Assets	768	620	645	671	697	725	754	784
<b>Total Current Assets</b>	<b>\$28,120</b>	<b>\$32,868</b>	<b>\$31,276</b>	<b>\$46,543</b>	<b>\$47,289</b>	<b>\$50,497</b>	<b>\$57,505</b>	<b>\$65,265</b>
 Bond Funds - Restricted	 \$11,402	 \$9,927	 \$11,989	 \$10,630	 \$10,630	 \$10,630	 \$10,630	 \$10,630
Net PPE/Financing	116,991	113,600	148,933	148,132	146,432	142,532	138,643	134,736
Other	83	158	158	158	158	158	158	158
<b>TOTAL ASSETS</b>	<b>\$156,596</b>	<b>\$156,553</b>	<b>\$192,356</b>	<b>\$205,463</b>	<b>\$204,509</b>	<b>\$203,817</b>	<b>\$206,936</b>	<b>\$210,789</b>
<b><u>LIABILITIES</u></b>								
Accts. Payable/Accr. Exp.	\$5,083	\$4,834	\$4,877	\$5,390	\$5,474	\$5,637	\$5,805	\$5,979
Current Debt - Bonds	2,175	2,285	2,400	2,520	2,870	2,995	3,130	3,265
<b>Total Current Liabilities</b>	<b>\$7,258</b>	<b>\$7,119</b>	<b>\$7,277</b>	<b>\$7,910</b>	<b>\$8,344</b>	<b>\$8,632</b>	<b>\$8,935</b>	<b>\$9,244</b>
 Unamortized Entrance Fees	 \$62,175	 \$66,739	 \$71,071	 \$109,138	 \$112,721	 \$116,624	 \$123,866	 \$131,253
Other	137	157	157	157	157	157	157	157
Long-term Debt	93,505	91,055	124,666	103,892	100,858	97,699	94,405	90,976
<b>TOTAL LIABILITIES</b>	<b>\$163,075</b>	<b>\$165,070</b>	<b>\$203,171</b>	<b>\$221,096</b>	<b>\$222,081</b>	<b>\$223,112</b>	<b>\$227,363</b>	<b>\$231,630</b>
<b>NET ASSETS</b>	<b>(\$6,479)</b>	<b>(\$8,517)</b>	<b>(\$10,816)</b>	<b>(\$15,633)</b>	<b>(\$17,572)</b>	<b>(\$19,295)</b>	<b>(\$20,427)</b>	<b>(\$20,842)</b>
<b>TOTAL NET ASSETS/LIAB.</b>	<b>\$156,596</b>	<b>\$156,553</b>	<b>\$192,356</b>	<b>\$205,463</b>	<b>\$204,509</b>	<b>\$203,817</b>	<b>\$206,936</b>	<b>\$210,789</b>

**SECTION A**  
**CHANNING HOUSE**  
**STATEMENTS OF CASH FLOWS**  
**(\$000s)**

<b>Fiscal Year Ending 2/28</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
<b><u>OPERATING ACTIVITIES</u></b>								
Change in Net Assets	(\$3,148)	(\$2,038)	(\$2,299)	(\$4,817)	(\$1,939)	(\$1,724)	(\$1,132)	(\$415)
Depreciation and Amortization	7,219	7,013	6,799	8,300	8,701	8,900	9,139	9,419
Amortized Entrance Fees	(6,471)	(5,547)	(6,000)	(7,290)	(8,590)	(8,788)	(9,287)	(9,790)
Net Entrance Fees	10,422	10,111	10,332	45,357	12,173	12,691	16,529	17,177
Amortized Premium/Issuance	(164)	(164)	(164)	(164)	(164)	(164)	(164)	(164)
Changes in Assets/Liabilities	144	(370)	(37)	483	44	129	132	136
<b>Cash From Operating Act.</b>	<b>\$8,002</b>	<b>\$9,005</b>	<b>\$8,631</b>	<b>\$41,869</b>	<b>\$10,226</b>	<b>\$11,044</b>	<b>\$15,217</b>	<b>\$16,364</b>
<b><u>INVESTING ACTIVITIES</u></b>								
Acquisition Expenditures	\$0	\$0	(\$35,200)	(\$500)	\$0	\$0	\$0	\$0
Ongoing Capital Expenditures	(2,324)	(3,394)	(4,000)	(7,000)	(7,000)	(5,000)	(5,250)	(5,513)
<b>Cash From Investing Act.</b>	<b>(\$2,324)</b>	<b>(\$3,394)</b>	<b>(\$39,200)</b>	<b>(\$7,500)</b>	<b>(\$7,000)</b>	<b>(\$5,000)</b>	<b>(\$5,250)</b>	<b>(\$5,513)</b>
<b><u>FINANCING ACTIVITIES</u></b>								
Bonds - 2025	\$0	\$0	\$36,175	\$0	\$0	\$0	\$0	\$0
Cal Mortgage Fees	0	0	(1,953)	0	0	0	0	0
Discount/Issuance	0	0	(979)	0	0	0	0	0
Debt Principal Payments	(2,070)	(2,175)	(2,285)	(20,490)	(2,520)	(2,870)	(2,995)	(3,130)
<b>Cash From Financing Act.</b>	<b>(\$2,070)</b>	<b>(\$2,175)</b>	<b>\$30,958</b>	<b>(\$20,490)</b>	<b>(\$2,520)</b>	<b>(\$2,870)</b>	<b>(\$2,995)</b>	<b>(\$3,130)</b>
<b>Net Change in Cash/Inv.</b>	<b>\$3,608</b>	<b>\$3,436</b>	<b>\$389</b>	<b>\$13,879</b>	<b>\$706</b>	<b>\$3,174</b>	<b>\$6,972</b>	<b>\$7,721</b>
<b>Cash &amp; Investments</b>	<b>\$38,653</b>	<b>\$42,089</b>	<b>\$42,478</b>	<b>\$56,358</b>	<b>\$57,063</b>	<b>\$60,237</b>	<b>\$67,209</b>	<b>\$74,930</b>
Unrestricted/Designated	26,763	31,681	30,008	45,247	45,952	49,126	56,098	63,819
Restricted - Donor	488	481	481	481	481	481	481	481
Restricted - Bonds	11,402	9,927	11,989	10,630	10,630	10,630	10,630	10,630

## **B. BACKGROUND**

Channing House (CH) is a 501(c)(3) non-profit corporation which owns and operates a continuing care retirement community (CCRC) on one acre located in Palo Alto, approximately 25 miles south of the City of San Francisco. CH opened in 1964 and currently has 173 independent living (IL) units, 39 assisted living facility (ALF) beds, and a 26-bed skilled nursing facility (SNF). The campus includes an 11-story 330,000 square foot (sf) Main Building that houses amenities, the IL units, and 12 low-acuity ALF beds, and a 48,000 sf (with underground parking) two-story Health Center that houses 27 ALF beds and all SNF beds.

### **THE FOREST AVENUE ACQUISITION**

CH has historically experienced high occupancy levels in its 173 IL units, exceeding 97% for the last several years, despite having relatively few high-demand larger two-bedroom+ units. CH currently has only 35 two-bedroom apartments (20% of total) exceeding 1,000 sf, and only one unit \*exceeding 1,200 sf. Approximately one-third of the units (primarily studios) do not have a full kitchen. CH has been looking for a suitable residential building in the community to add to its IL unit total overall and add to its larger unit total in particular. The property is located two blocks (about 1,200 feet) from the CH campus on 430 Forest Avenue and includes 10 apartments ranging from 1,050 to 1,470 sf, two townhouses averaging 2,250 sf, and one 3,700 sf penthouse. The purchase price has been negotiated at \$35.0 million. Additionally, CH may spend up to \$700,000 on installation of an emergency response system and shower conversions (at the new entrant's request). Approximately 10 of the 13 units are now leased, with the last lease ending in June 2026. CH expects to begin marketing the units in September 2025 and expects move-ins to occur during fiscal year (FY) ending February 28, 2027.

### **THE RESIDENCY AGREEMENT**

Existing residents are covered under one of eight "Type A" Life Care contracts as defined by the Department of Social Services (DSS). These residents are provided with three meals per day, weekly housekeeping, and medical expenses (subject to some exclusions) not covered by Medicare. IL residents who transfer to ALF or SNF care pay their IL monthly rate. CH offers a "traditional" entrance fee as well as an 80% repayable entrance fee. All but 10 of the current 250 contract residents are covered by the traditional entrance fee contract option.

CH introduced a new "Life Plan" Residency Agreement with traditional and 80% options effective March 1, 2025. This replaced the Life Care contract for new entrants. The main changes from previous Life Care Agreements are to shorten the traditional entrance fee declining refund period from 72 months to 36 months, the number of IL meals from three to one per day, and to set a fixed rate for ALF and SNF services roughly equivalent to the one bedroom/one bath IL rate (\$8,000).

During the forecast period nearly all ALF and SNF residents will be covered under the earlier agreements (primarily those introduced in March 2011, 2015, and 2020).

### **THE BOARD OF TRUSTEES**

CH is governed by a 15-member Board of Trustees, whose members are eligible to serve up to three consecutive three-year terms. Current Board members have served an average of three years. Members also serve on various Board committees including Finance, Governance, Fund Development, and Audit. CH currently has two residents serving as resident Trustees.

## C. PROJECT DESCRIPTION

The proceeds of the 2025 Bonds will be used for the purchase of an 11-unit apartment building (with underground parking) and two townhouses, and their conversion to CCRC IL uses.

### **THE FOREST AVENUE PURCHASE/RENOVATION**

The 0.5-acre property to be acquired is located at 430 Forest Avenue in the City of Palo Alto. The property structures total approximately 29,200 sf, including underground parking. The property was developed in 2018 and has LEED Platinum certification. The current owners are Sageleaf Forest LLC. There are 10 apartments ranging in size from 1,050 to 1,470, two attached 2,160 sf+ townhouses, and one 3,700 sf penthouse located in the apartment building. The total purchase price has been set at \$35.0 million (\$2.7 million per unit, \$1,700 per rentable square foot). The transfer of ownership is scheduled to occur in October 2025.

CH and the owners executed a Letter of Intent (LOI) Agreement on May 30, 2025. Amongst other stipulations, CH agreed to pay the rents for vacant units from June through October. In total, an average of four units (ranging from 3-6) will be vacant for this four-month period and the total amount to be paid to the current owners between June and October is estimated at \$230,000. Current rents at 100% occupancy total \$165,000 per month (\$2.0 million per year), and average \$12,700 per apartment. CH may spend up to \$700,000 on an emergency response system and on upgrades to convert baths to walk-in showers at the request of the incoming Forest Avenue entrant.

### **FINANCING ASSUMPTIONS**

The financing assumptions reflected in **Table 1** have been provided by Zeigler & Co. The taxable bonds are dated October 23, 2025 and insured through the State of California's Cal Mortgage insurance program. Maximum coupon rates are estimated at 6.50% for the long-term bonds and 4.75% for the short-term bonds. The bond term extends through 2055. Interest payments are due on May 15 and November 15, beginning on May 15, 2026 for interest payments and May 15, 2028 for long-term debt principal payments. Although CH expects to receive more than \$35 million in entrance fees, only one-half (\$18.1 million) of these fees are being used for short-term debt. The remainder will be added to CH's existing reserves. Short-term debt is anticipated to be paid in FY 2027 as the first units are occupied. Other expenses include short and long-term debt reserves, Cal Mortgage fees, and financing issuance costs. There is no Capitalized Interest Fund. As shown, annual long-term debt payments are approximately \$1.4 million.

As shown in **Table 2**, combined annual CH debt is expected to increase to \$7.8 million. **Table 2** debt payments are shown for the fiscal year and may vary slightly from May 15 Bond year payments for the 2017 and 2025 Bonds.

**TABLE 1**  
**CHANNING HOUSE**  
**SOURCES/USES OF FUNDS**  
**(\$000s)**

<b>Fiscal Year Ending 2/28</b>	<b>TOTAL</b>	<b>Thru 2025</b>	<b>2026</b>	<b>2027</b>
<b><u>SOURCES</u></b>				
Bonds - Long-term	\$18,085	\$0	\$18,085	\$0
Bonds - Short-term	\$18,090	0	18,090	0
Premium	\$0	0	0	0
Cash Equity	\$4,019	0	4,019	0
<b>TOTAL SOURCES</b>	<b>\$40,194</b>	<b>\$0</b>	<b>\$40,194</b>	<b>\$0</b>
<b><u>USES</u></b>				
Acquisition	\$35,000	\$0	\$35,000	\$0
Improvements	\$700	0	200	500
Debt Reserve - Long-term	\$703	0	703	0
Debt Reserve - Short-term	\$859	0	859	0
Cal Mortgage Fees	\$1,953	0	1,953	0
Discount/Issuance Costs	\$979	0	979	0
<b>TOTAL USES</b>	<b>\$40,194</b>	<b>\$0</b>	<b>\$39,694</b>	<b>\$500</b>
<b>BALANCE</b>	<b>\$0</b>	<b>\$0</b>	<b>\$500</b>	<b>0</b>

**TABLE 2**  
**CHANNING HOUSE**  
**DEBT PAYMENT SCHEDULE**  
**(\$000s)**

<b>Fiscal Year Ending 2/28</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
<b><u>2017A BONDS</u></b>								
Interest	\$2,214	\$2,121	\$1,995	\$1,891	\$1,779	\$1,676	\$1,578	\$1,477
Principal	\$1,865	\$1,960	\$2,055	\$2,160	\$2,260	\$2,380	\$2,480	\$2,575
<b>Total Payments</b>	<b>\$4,079</b>	<b>\$4,081</b>	<b>\$4,050</b>	<b>\$4,051</b>	<b>\$4,039</b>	<b>\$4,056</b>	<b>\$4,058</b>	<b>\$4,052</b>
<b>Balance</b>	<b>\$48,630</b>	<b>\$46,670</b>	<b>\$44,615</b>	<b>\$42,455</b>	<b>\$40,195</b>	<b>\$37,815</b>	<b>\$35,335</b>	<b>\$32,760</b>
<b><u>2017B BONDS</u></b>								
Interest	\$2,191	\$2,180	\$2,140	\$2,128	\$2,119	\$2,108	\$2,095	\$2,082
Principal	\$205	\$215	\$230	\$240	\$260	\$255	\$265	\$285
<b>Total Payments</b>	<b>\$2,396</b>	<b>\$2,395</b>	<b>\$2,370</b>	<b>\$2,368</b>	<b>\$2,379</b>	<b>\$2,363</b>	<b>\$2,360</b>	<b>\$2,367</b>
<b>Balance</b>	<b>\$43,725</b>	<b>\$43,510</b>	<b>\$43,280</b>	<b>\$43,040</b>	<b>\$42,780</b>	<b>\$42,525</b>	<b>\$42,260</b>	<b>\$41,975</b>
<b><u>2025 BONDS</u></b>								
Interest	\$0	\$0	\$0	\$1,739	\$1,176	\$1,168	\$1,152	\$1,135
Principal	\$0	\$0	\$0	\$18,090	\$0	\$235	\$250	\$270
<b>Total Payments</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$19,829</b>	<b>\$1,176</b>	<b>\$1,403</b>	<b>\$1,402</b>	<b>\$1,405</b>
<b>Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$36,175</b>	<b>\$18,085</b>	<b>\$18,085</b>	<b>\$17,850</b>	<b>\$17,600</b>	<b>\$17,330</b>
<b><u>TOTAL DEBT</u></b>								
Interest	\$4,405	\$4,301	\$4,135	\$5,758	\$5,074	\$4,952	\$4,825	\$4,694
Principal	\$2,070	\$2,175	\$2,285	\$20,490	\$2,520	\$2,870	\$2,995	\$3,130
<b>Total Payments</b>	<b>\$6,475</b>	<b>\$6,476</b>	<b>\$6,420</b>	<b>\$26,248</b>	<b>\$7,594</b>	<b>\$7,822</b>	<b>\$7,820</b>	<b>\$7,824</b>
<b>EOY Balance</b>	<b>\$92,355</b>	<b>\$90,180</b>	<b>\$124,070</b>	<b>\$103,580</b>	<b>\$101,060</b>	<b>\$98,190</b>	<b>\$95,195</b>	<b>\$92,065</b>
Balance Premium/Issuance	\$3,325	\$3,160	\$2,996	\$2,832	\$2,668	\$2,504	\$2,340	\$2,176
<b>EOY Balance - Total</b>	<b>\$95,680</b>	<b>\$93,340</b>	<b>\$127,066</b>	<b>\$106,412</b>	<b>\$103,728</b>	<b>\$100,694</b>	<b>\$97,535</b>	<b>\$94,241</b>

## D. REVENUE AND EXPENSE ASSUMPTIONS

The following is a discussion of key historical and forecast utilization, revenue, and expense assumptions for CH. Forecasts are based on the FY 2024 and 2025 audits, internal financial statements through June 2025 (four months of the FY ending February 28, 2026), and the FY 2026 budget.

### **REVENUES**

CH relies on four key revenue sources: entrance fees, monthly/related fees, investment earnings, and donations. **Table 3** shows a summary of FY 2026 entrance fees and monthly fees for IL move-ins under the new Residency Agreement for both existing and Forest Avenue units. IL monthly fees are forecast to increase by 4.0% per year after FY 2026. Existing IL unit fees vary by floor level, with **Table 3** showing the mid-level rates (Floors 6-7).

### **CCRC Contract Monthly Fees**

**Table 4** shows a summary of monthly fee forecasts for all levels of care and all CCRC contract residents. Excluded are direct non-CCRC residents, which typically range from 5-10 in combined ALF and SNF levels of care. IL CCRC contract monthly fees have been increased by an average of 5.6% per year for the last five years (beginning March 1, 2021), including 5.0% effective March 1, 2025. IL occupancy levels have historically exceeded 95%. CH has been aggressively converting adjacent studios to larger one+ bedroom units in the last 10 years. For forecasting purposes no further combinations are assumed. ALF and SNF occupancies typically range from 65%-80% including direct admits. The lower occupancy is in part due to the goals of keeping units/beds available for contract residents and maximizing placement in private rooms. CH does not accept either Medi-Cal or Medicare.

For forecasting purposes, weighted average rates are forecast to increase by 4.0% per year for IL and 5.0% per year for ALF and SNF. The projected higher rate of increase for ALF and SNF is due to more transfers by post- March 1, 2015 contract holders in IL, who currently pay a higher IL rate than older contract residents (Type A contract holders pay their IL rate in ALF/SNF). Over the last 10-15 years CH has raised monthly fees for new entrants with each new Residency Agreement introduction.

**Table 4** also shows the occupancy and revenue assumptions for the 13 Forest Avenue IL units based on the fee levels shown in **Table 3**. Fill-up is expected to require one year (from March 2026 to February 2027) at an average of one move-in per month. Occupancy is expected to stabilize at 12 units (92%).

**TABLE 3**  
**CHANNING HOUSE**  
**KEY INDEPENDENT LIVING UNIT/FEE ASSUMPTIONS**  
**FISCAL YEAR 2026 DOLLARS**

UNIT/BED TYPE	TOTAL UNITS	SQUARE FEET	ENTRANCE FEE TRADITIONAL (2)	MONTHLY FEE (3)
<b><u>EXISTING (1)</u></b>				
Small Studio	19	345	\$380,000	\$5,450
Medium Studio	11	400	\$442,000	\$6,300
Large Studio	7	450	\$495,000	\$6,500
Alcove	16	530	\$585,000	\$7,200
Small 1 Bed/1 Bath	6	590	\$660,000	\$7,600
Medium 1 Bed/1 Bath	20	650	\$760,000	\$8,100
Large 1 Bed/1 Bath	36	700	\$985,000	\$8,700
Largest 1 Bed/1-2 Bath	20	865	\$1,200,000	\$10,200
Medium 2 Bed/2 Bath	14	1,010	\$1,285,000	\$11,000
Large 2 Bed/2 Bath	22	1,050	\$1,317,000	\$11,600
Large 2 Bed/2 Bath/Den	2	1,205	\$1,450,000	\$12,000
<b>TOTAL/AVERAGE</b>	<b>173</b>	<b>700</b>	<b>\$887,000</b>	<b>\$8,620</b>
Second Person	35		\$80,000	\$3,750
<b><u>FOREST AVENUE</u></b>				
Two-Bedroom	8	1,140	\$2,120,000	\$8,540
Two-Bedroom - Large	2	1,450	\$2,685,000	\$9,270
Two+ Bedroom - Townhouse	2	2,250	\$4,220,000	\$10,300
Four Bedroom - Penthouse	1	3,700	\$6,900,000	\$10,300
<b>TOTAL/AVERAGE</b>	<b>13</b>	<b>1,560</b>	<b>\$2,898,000</b>	<b>\$9,060</b>
Second Person	8		\$80,000	\$3,750

- (1) Rates generally for Floors 6-7. Floors 3-5 about 10% lower entrance and 6% lower monthly fees. Floors 8-10 10% higher entrance fees and similar monthly fees.  
(2) 80% Repayable fees priced 80% above traditional fees, monthly fees the same.  
(3) All new entrants will pay \$8,000 per month for ALF/SNF care plus ancillaries.

**TABLE 4**  
**CHANNING HOUSE**  
**REVENUE ASSUMPTIONS - CONTRACT RESIDENTS**  
**(\$000s)**

<b>Fiscal Year Ending 2/28</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
<b><u>INDEPENDENT LIVING</u></b>								
Available Units	173.0	173.0	173.0	186.0	186.0	186.0	186.0	186.0
Occupied Units - Existing	171.0	172.0	171.0	170.0	170.0	170.0	170.0	170.0
Occupied Units - Forest Ave				6.0	12.0	12.0	12.0	12.0
Occupied Units - Total	<b>171.0</b>	<b>172.0</b>	<b>171.0</b>	<b>176.0</b>	<b>182.0</b>	<b>182.0</b>	<b>182.0</b>	<b>182.0</b>
Percent Occupancy	98.8%	99.4%	98.8%	94.6%	97.8%	97.8%	97.8%	97.8%
Average Mo. Rate - Existing	\$7,684	\$8,247	\$8,738	\$9,087	\$9,451	\$9,829	\$10,222	\$10,631
Average Mo. Rate - Forest			\$11,368	\$11,822	\$12,295	\$12,787	\$13,299	\$13,831
Annual Revenues - Existing	\$15,768	\$17,021	\$17,930	\$18,538	\$19,280	\$20,051	\$20,853	\$21,687
Annual Revenues - Forest	\$0	\$0	\$0	\$851	\$1,771	\$1,841	\$1,915	\$1,992
<b>ANNUAL IL REVENUES</b>	<b>\$15,768</b>	<b>\$17,021</b>	<b>\$17,930</b>	<b>\$19,389</b>	<b>\$21,050</b>	<b>\$21,892</b>	<b>\$22,768</b>	<b>\$23,679</b>
<b><u>ASSISTED LIVING</u></b>								
Available Beds	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0
<b>Occupied Beds - Total</b>	<b>27.0</b>	<b>27.0</b>	<b>26.0</b>	<b>26.0</b>	<b>26.0</b>	<b>26.0</b>	<b>26.0</b>	<b>26.0</b>
Percent Occupancy	69.2%	69.2%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%
Aver. Monthly Rate - Contract	\$5,651	\$6,617	\$6,923	\$7,269	\$7,633	\$8,014	\$8,415	\$8,836
<b>ANNUAL ALF REVENUES</b>	<b>\$1,831</b>	<b>\$2,144</b>	<b>\$2,160</b>	<b>\$2,268</b>	<b>\$2,381</b>	<b>\$2,500</b>	<b>\$2,625</b>	<b>\$2,757</b>
<b><u>SKILLED NURSING</u></b>								
Available Beds	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0
<b>Occupied Beds</b>	<b>13.0</b>	<b>12.0</b>	<b>14.0</b>	<b>14.0</b>	<b>14.0</b>	<b>14.0</b>	<b>14.0</b>	<b>14.0</b>
Percent Occupancy	50.0%	46.2%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%
Aver. Monthly Rate - Contract	\$6,000	\$6,507	\$6,250	\$6,563	\$6,891	\$7,235	\$7,597	\$7,977
<b>ANNUAL SNF REVENUES</b>	<b>\$936</b>	<b>\$937</b>	<b>\$1,050</b>	<b>\$1,103</b>	<b>\$1,158</b>	<b>\$1,216</b>	<b>\$1,276</b>	<b>\$1,340</b>

## Entrance Fees

**Table 5** shows a summary of entrance fee forecasts for CH and for Forest Avenue. CH raised the entrance fees with the new Life Plan contract effective March 1, 2025 by varying amounts. Future prices are increased by 4.0% per year beginning on March 1, 2026.

Recently there have been 10-14 move-ins per year, in part related to high IL occupancy levels. Historically the move-ins have averaged above 15 per year. There have been three move-ins through July 2025, and nine are projected for the year (seven traditional, two 80%). Move-ins may be impacted moderately in FY 2027 as the Forest Avenue units are filled but are thereafter expected to average 14 per year.

CH expects Forest Avenue to fill to 12 units (92%) by the end of FY 2027. CH has not yet begun accepting 10% deposits for these units and, depending on DSS approval and the timing of the sales effort, may not have any 10% deposits prior to October 2025 Bond closing. CH does plan on collecting refundable \$1,000 deposits prior to closing. Demographic and economic market research has shown strong potential demand. A lower demand sensitivity is shown in **Section G**.

For forecasting purposes no move-outs or re-sales of Forest Avenue units are estimated until FY 2030, two years after stabilized occupancy is reached. If there are earlier second generation move-ins, the entrance fee receipts will be partially offset by refunds to prior owners (e.g. average 67% of the originally paid entrance fee in 2028, average 33% in 2029). Thereafter, the estimate is for one re-sale each year. All entrants are assumed to select the traditional entrance fee option.

**TABLE 5**  
**CHANNING HOUSE**  
**ENTRANCE FEE REVENUES**  
**(000s)**

<b>Fiscal Year Ending 2/28</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
Sales/Resales - Existing	13	11	9	12	14	14	14	14
Sales/Resales - Forest	0	0	0	12	0	0	1	1
Average Price - Existing	\$802	\$1,019	\$1,148	\$900	\$940	\$980	\$1,020	\$1,060
Average Price - Forest				\$2,947	\$3,070	\$3,190	\$3,320	\$3,450
Resale Proceeds - Existing	\$10,422	\$11,213	\$10,332	\$10,800	\$13,160	\$13,720	\$14,280	\$14,840
Sale/Resale Pr. - Forest				\$35,367	\$0	\$0	\$3,320	\$3,450
Refunds - Existing	\$0	(\$1,102)	\$0	(\$810)	(\$987)	(\$1,029)	(\$1,071)	(\$1,113)
Refunds - Forest				\$0	\$0	\$0	(\$166)	\$0
<b>NET ENTRANCE FEES</b>	<b>\$10,422</b>	<b>\$10,111</b>	<b>\$10,332</b>	<b>\$45,357</b>	<b>\$12,173</b>	<b>\$12,691</b>	<b>\$16,529</b>	<b>\$17,177</b>

### **Direct Admission Revenue**

CH accepts non-CCRC residents to its ALF and SNF levels of care. Over the last two years the census has averaged approximately 7 (3 ALF, 4 SNF) and revenue has reached about \$100,000 per month. The census is expected to remain at this level over the forecast period and increase with inflation by 4.0% per year.

### **Other Operating Revenue**

Other revenues consist of private duty aide payments, SNF ancillary charges, food, guest rooms, donations, and other miscellaneous revenues. Other revenues are forecast to increase by 4.0% per year after FY 2026. Other revenues in FY 2026 and FY 2027 include Forest Avenue rents collected from currently leased apartments beginning in November 2025 and ending in June 2026.

## **OPERATING CASH FLOW FORECASTS**

A summary of operating cash flow forecasts is shown in **Table 6**. This reflects monthly fee and entrance fee revenues, but excludes investment earnings, contributions, and net released assets. Operating expenses exclude depreciation, interest expenses, and capital expenditures.

Operating expenses are summarized in **Table 6**. CH's total operating expenses excluding interest and depreciation are estimated at \$23.1 million in FY 2026 (excluding Forest Avenue rent payments), an 6.5% increase from FY 2025. The number of full-time equivalent (FTE) employees is budgeted to remain at 141 in FY 2026.

Forest Avenue-related expenses are estimated to total \$900,000 in FY 2028, the first year of stabilized occupancy. This includes \$400,000 in in-lieu property tax payments, which potentially could be lower depending on negotiations with the City of Palo Alto. The other \$500,000 consists of \$230,000 in salaries and benefits for 3 FTEs (1.0 housekeeping, 1.0 dietary, 0.5 activities, and 0.5 maintenance) and \$270,000 for food, utilities, insurance, supplies, and security services. All expenses are increased at an inflation rate of 4.0% per year. Also shown are FY 2026 payments to the current property owners for an average of 4 vacant units between June and October 2025.

As shown, operating cash flows before entrance fees were negative in FY 2024 and turned positive in FY 2025, due largely to rate increases and to ALF/SNF direct admission growth. The positive margin is forecast to continue in FY 2026 based on financials through June and should increase significantly with the addition of the Forest Avenue units. Forest Avenue cashflows are estimated to exceed breakeven after 50% occupancy (6-7 units) after stabilized turnover is reached.

**TABLE 6**  
**CHANNING HOUSE**  
**SUMMARY OF OPERATING CASH FLOWS**  
**(\$000s)**

<b>Fiscal Year Ending 2/28</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
<b><u>REVENUE</u></b>								
Independent Living	\$15,768	\$17,021	\$17,930	\$19,389	\$21,050	\$21,892	\$22,768	\$23,679
Assisted Living	1,831	2,144	2,160	2,268	2,381	2,500	2,625	2,757
Skilled Nursing	936	937	1,050	1,103	1,158	1,216	1,276	1,340
Direct Admits - AL/SN	314	1,196	1,300	1,352	1,406	1,462	1,521	1,582
Other	786	837	600	624	649	675	702	730
Forest Rent Received	0	0	228	63	0	0	0	0
<b>Total Revenue</b>	<b>\$19,635</b>	<b>\$22,135</b>	<b>\$23,268</b>	<b>\$24,799</b>	<b>\$26,644</b>	<b>\$27,745</b>	<b>\$28,892</b>	<b>\$30,087</b>
<b><u>EXPENSES</u></b>								
Salaries	\$10,730	\$11,082	\$11,500	\$12,101	\$12,622	\$13,127	\$13,652	\$14,198
Benefits	2,706	2,684	2,900	3,052	3,183	3,319	3,452	3,590
Purchased Services	4,154	4,970	5,300	5,615	5,866	6,101	6,345	6,598
Other	3,218	2,960	3,323	3,739	3,995	4,155	4,321	4,494
Forest Rent Paid	0	0	229	0	0	0	0	0
<b>Total Expenses</b>	<b>\$20,808</b>	<b>\$21,696</b>	<b>\$23,252</b>	<b>\$24,507</b>	<b>\$25,666</b>	<b>\$26,702</b>	<b>\$27,770</b>	<b>\$28,881</b>
<b>Net Operating Cash Flow</b>	<b>(\$1,173)</b>	<b>\$439</b>	<b>\$16</b>	<b>\$292</b>	<b>\$978</b>	<b>\$1,043</b>	<b>\$1,122</b>	<b>\$1,206</b>
Net Entrance Fees	\$10,422	\$10,111	\$8,140	\$45,357	\$12,173	\$12,691	\$16,529	\$17,177
<b>Net Cash Flow w/ E. Fees</b>	<b>\$9,249</b>	<b>\$10,550</b>	<b>\$8,156</b>	<b>\$45,649</b>	<b>\$13,151</b>	<b>\$13,734</b>	<b>\$17,651</b>	<b>\$18,383</b>

### **OTHER REVENUES AND EXPENSES**

CH has historically raised approximately \$200,000 in unrestricted and released restricted donations annually from residents and others. CH invests in a wide variety of instruments, including publicly traded equity and fixed income mutual funds. Future interest, realized gains, and dividends are estimated at 4.0% of prior year unrestricted funds and 3.0% of restricted debt reserve cash and investment balances.

Interest expenses reflect the 2025 A and B Bond and 2017 Series A and B Bond payments.

## **E. FINANCIAL STATEMENT ASSUMPTIONS**

In addition to the CH operating assumptions, there are several other assumptions used to forecast the **Section A** financial statements.

### **STATEMENTS OF ACTIVITIES**

The Statement of Activities has two non-cash adjustments: amortized entrance fees and depreciation and amortization expense. The traditional entrance fees are amortized over the estimated life of entrants (10 years existing, 12 years new move-ins). Acquisition costs are depreciated over a period of 30 years, and ongoing capital expenditures are depreciated over a 10-year period. 2025 Bond issuance costs are amortized over 30 years.

### **STATEMENTS OF FINANCIAL POSITION**

Accounts receivable are estimated at 2 days of cash revenues. Other current assets are increased by 4.0% per year from FY 2025. Accounts payable are estimated at 60 days of cash operating expenses.

### **STATEMENTS OF CASH FLOWS**

Ongoing capital cost forecasts are based on CH's capital plan and average about \$4.0 million per year aside from the acquisition through FY 2028, and \$5.0 million thereafter. CH plans on spending an additional \$6.0 million in FY 2027 and FY 2028 on common area improvements to the main building and health center. CH has also discussed using a portion of the Forest Avenue entrance fees not applied to short-term debt for the purchase of another apartment building but has not identified a candidate at this time.

## F. KEY FINANCIAL RATIOS

**Table 7** shows a summary of CH's key financial ratios. As shown, maximum annual debt service (MADS) coverage exceeds 1.50x, and unrestricted days cash on hand exceeds 400 days.

**TABLE 7**  
**CHANNING HOUSE**  
**DEBT COVERAGE AND OTHER KEY RATIOS**  
**(\$000s)**

<b>Fiscal Year Ending 2/28</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
<b><u>CASH AVAILABLE FOR DEBT SERVICE</u></b>								
Change Unrestricted Net Assets	(\$3,195)	(\$2,031)	(\$2,299)	(\$4,817)	(\$1,939)	(\$1,724)	(\$1,132)	(\$415)
Depreciation and Amortization	7,219	7,013	6,799	8,300	8,701	8,900	9,139	9,419
Amortized Entrance Fees	(6,471)	(5,547)	(6,000)	(7,290)	(8,590)	(8,788)	(9,287)	(9,790)
Net Entrance Fees - Resales	10,422	10,111	10,332	9,990	12,173	12,691	16,363	17,177
Other	33	26	0	0	0	0	0	0
Unrealized Losses (Gains)	(2,178)	(991)	(1,000)	0	0	0	0	0
Interest Expensed	4,154	4,047	4,135	5,758	5,074	4,952	4,825	4,694
<b>Net Cash for Debt Service</b>	<b>\$9,984</b>	<b>\$12,628</b>	<b>\$11,968</b>	<b>\$11,941</b>	<b>\$15,419</b>	<b>\$16,031</b>	<b>\$19,909</b>	<b>\$21,086</b>
<b><u>DEBT SERVICE</u></b>								
Interest Paid	\$3,536	\$4,047	\$4,135	\$5,758	\$5,074	\$4,952	\$4,825	\$4,694
Principal	2,070	2,175	2,285	20,490	2,520	2,870	2,995	3,130
<b>Total Payments</b>	<b>\$5,606</b>	<b>\$6,222</b>	<b>\$6,420</b>	<b>\$26,248</b>	<b>\$7,594</b>	<b>\$7,822</b>	<b>\$7,820</b>	<b>\$7,824</b>
Unrestricted Cash and Equiv.	\$26,763	\$31,681	\$30,008	\$45,247	\$45,952	\$49,126	\$56,098	\$63,819
Long-term Debt	\$93,505	\$91,055	\$124,666	\$103,892	\$100,858	\$97,699	\$94,405	\$90,976
Operating Expenses w/Interest	\$24,962	\$25,743	\$27,387	\$30,265	\$30,740	\$31,654	\$32,595	\$33,575
Maximum Annual Debt Service	\$6,423	\$6,423	\$7,827	\$7,827	\$7,827	\$7,827	\$7,827	\$7,827
<b><u>KEY RATIOS</u></b>								
Debt Coverage Ratio - MADS	1.55	1.96	1.53	1.53	1.97	2.05	2.54	2.69
Unrestr. Days Cash on Hand	391	449	400	546	546	566	628	694
Cash to Debt	28.6%	34.8%	24.1%	43.6%	45.6%	50.3%	59.4%	70.1%
Current Ratio	3.87	4.62	4.30	5.88	5.67	5.85	6.44	7.06

## G. SENSITIVITY RATIOS

**Table 8** shows ratios for four sensitivity forecasts.

**Scenario 1 – Forest Avenue Low Sales/Occupancy/Slow Fill-up** – CH may not have received any 10% deposits for the 13 new IL units prior to 2025 Bond issuance in October. This scenario assumes that CH is only able to fill 10 of the 13 units (77%) over 24 months (versus 12 months in base case) and needs to lower entrance fees by a weighted average of 25% (from an average of \$2.9 million to \$2.2 million). This lowers the entrance fee pool to \$22.0 million, sufficient to pay short-term debt. The lower entrance fee pool could also result from difficulties in selling the higher-priced penthouse and townhouses.

**Scenario 2 – CH IL Lower Occupancy** – In the last four years CH has averaged 170+ occupied IL units, 98% of the 173 IL unit total. This is a very high and successful occupancy level (most CCRCs range from 92%-96%). In this scenario occupancy is reduced to 160 units (92.5%).

**Scenario 3 – Higher Debt Payments** - Under this scenario, annual debt payments are increased by \$200,000, equivalent to a 1.0% increase over the base case 6.50% coupon rates.

**Scenario 4 – High Operating Expense Inflation** - This scenario estimates that annual salary/benefit and other expense inflation is 6.0%, but that CH continues to increase rates by the 4.0% assumed in the base case.

**TABLE 8**  
**CHANNING HOUSE**  
**DEBT COVERAGE AND OTHER KEY RATIOS**  
**(\$000s)**

<b>Fiscal Year Ending 2/28</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
<b><u>Base Case</u></b>					
MADS Debt Coverage	1.53	1.97	2.05	2.54	2.69
Unrestricted Days Cash	546	546	566	628	694
<b><u>Sensitivity 1 - Lower Forest Ave. Sales/Occupancy</u></b>					
MADS Debt Coverage	1.47	1.76	1.93	2.32	2.45
Unrestricted Days Cash	265	362	278	425	475
<b><u>Sensitivity 2 - Lower CH Occupancy</u></b>					
MADS Debt Coverage	1.39	1.71	1.77	2.23	2.35
Unrestricted Days Cash	534	509	505	540	582
<b><u>Sensitivity 3 - High Interest Rates</u></b>					
MADS Debt Coverage	1.50	1.92	1.98	2.48	2.61
Unrestricted Days Cash	548	541	558	614	675
<b><u>Sensitivity 4 - High Expense Inflation</u></b>					
MADS Debt Coverage	1.48	1.84	1.84	2.24	2.28
Unrestricted Days Cash	533	515	508	534	555

Exhibit VI  
Appraisal Summary

**APPRAISAL REPORT**

CHANNING HOUSE & 430 FOSTER AVENUE  
850 WEBSTER STREET & 430 FOSTER AVENUE  
PALO ALTO, CALIFORNIA

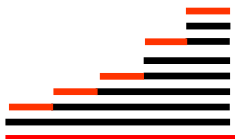
AS OF JULY 15, 2025  
SLVS FILE NO. 25-07-12

**PREPARED FOR**

CHANNING HOUSE

**PREPARED BY**

MICHAEL G. BOEHM, MAI, CRE



# Senior Living Valuation Services, Inc.

Appraisers & Consultants to the Senior Housing Industry

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August 1, 2025

Channing House  
850 Webster Street  
Palo Alto, CA 94301

Attention: Ms. Rhonda Bekkedahl, Chief Executive Officer

Re: Channing House CCRC & 430 Forest Avenue Expansion  
850 Webster Street & 430 Forest Avenue  
Palo Alto, California 94301  
SLVS File No. 25-07-12

Ms. Bekkedahl:

In accordance with your request, we have conducted the required investigation, gathered the necessary data, and made certain analyses that have enabled us to form an opinion of the market value of the above referenced existing and proposed to be expanded continuing care retirement community. This report has been prepared to be in a compliance with the requirements of the Uniform Standards of Professional Appraisal Practice. This is an Appraisal Report in a comprehensive, self contained narrative format.

The value stated herein is based on our understanding of the site and improvement descriptions as represented to us by the Client and professional consultants, as well as other available sources. It is your responsibility to read the report and inform the appraiser of any errors or omissions you are aware of prior to utilizing this report.

## **Market Value As Is @ 7/15/25**

Based on an inspection of the property and the investigation and analysis undertaken, we have formed the opinion, subject to the assumptions and limiting conditions set forth in this report, that as of July 15, 2025, the market value of the effective fee simple total going concern of Channing House and also 430 Forest Avenue before the purchase of 430 Foster Avenue but assuming that it occurs as scheduled on about October 1, 2025, is:

ONE HUNDRED FORTY EIGHT MILLION NINE HUNDRED FIFTY THOUSAND  
DOLLARS  
(\$148,950,000)

Ms. Rhonda Bekkedahl  
August 1, 2025  
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**Market Value At Closing of 430 Webster Avenue, Projected @ 10/1/25**

Based on an inspection of the property and the investigation and analysis undertaken, we have formed the opinion, subject to the assumptions and limiting conditions set forth in this report, that as of October 1, 2025, the projected closing date of the closing of the 430 Foster Avenue acquisition, that the prospective market value of the effective fee simple total going concern of Channing House and also 430 Forest Avenue, and including the discounting value of expansion unit first generation entry fees (\$33,925,000) and less the acquisition cost (\$35,000,000) of 430 Foster Avenue, will be:

ONE HUNDRED FORTY EIGHT MILLION NINE HUNDRED TWENTY FIVE THOUSAND  
DOLLARS  
(\$148,925,000)

**Market Value At Post Acquisition Effective Stabilized Occupancy, Projected @ 10/1/26**

Based on an inspection of the property and the investigation and analysis undertaken, we have formed the opinion, subject to the assumptions and limiting conditions set forth in this report, that as of October 1, 2026, the projected post acquisition effective expansion sellout and stabilized total campus occupancy date, that the prospective market value of the effective fee simple total going concern of Channing House and also 430 Forest Avenue, and not including the discounting value of expansion unit first generation entry fees at 430 Foster Avenue, will be:

ONE HUNDRED FIFTY THREE MILLION FIVE HUNDRED THOUSAND  
DOLLARS  
(\$153,500,000)

These subject value conclusions at each valuation date are summarized on the following page.

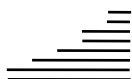
Based upon our experience of continuing care retirement communities, we would categorize the overall ongoing occupancy and cash flow risk of the existing subject at about the 20th percentile of all similar CCRC projects (20% less risky, 80% more risky).

**CHANNING HOUSE & 430 FOREST AVENUE  
SUMMARY OF VALUATIONS**

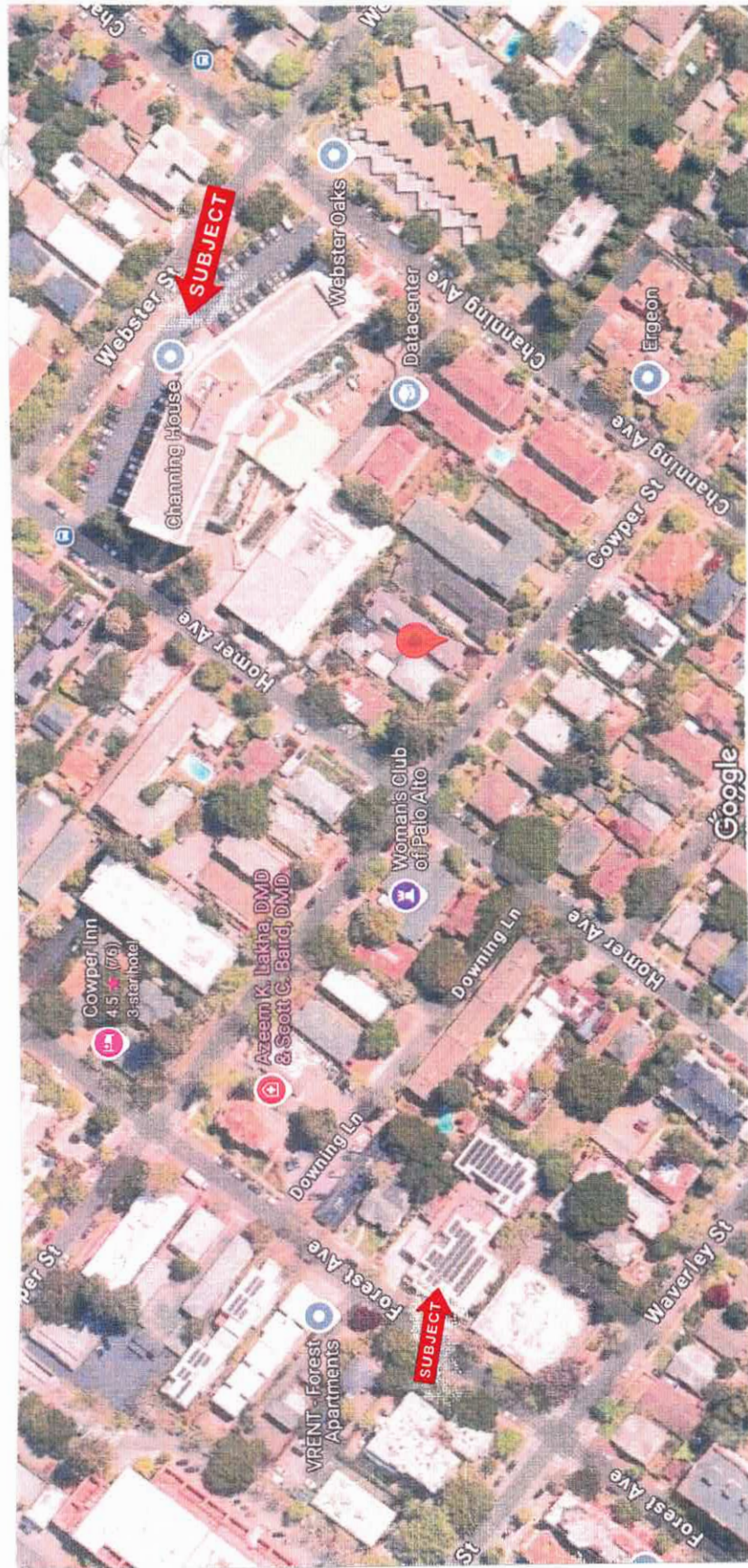
	Market Value As Of <u>7/15/25</u> (1)	Market Value As Of <u>10/1/25</u> (2)	Market Value As Of <u>10/1/26</u> (3)
First Generation Expansion Unit Entry Fees (13 units)	N/A	\$ 33,925,000	N/A
Net Ongoing Cash Flows Valuation (4)	\$148,950,000	\$150,000,000	\$153,500,000
Less: Total Cost to Acquire 430 Forest Avenue	<u>N/A</u>	<u>(\$ 35,000,000)</u>	<u>N/A</u>
Total Reported Valuations	<u>\$148,950,000</u> -----	<u>\$148,925,000</u> -----	<u>\$153,500,000</u> -----

Notes:

- (1) As Is Valuation, at July 15, 2025 (appraisal site inspection date; before the closing of 430 Forest Avenue but assuming it occurs as schedule at about 10/1/25).
- (2) At projected closing of 430 Forest Avenue expansion units, projected at about 10/1/25.
- (3) At post expansion total campus stabilized occupancy, projected at about 10/1/26.
- (4) Includes discounted fee simple value of ongoing cash flows including all net unit turnover and net operational cash flows for 173 existing or 186 post expansion entry fee apartment units, 39 assisted living units and 26 nursing beds (238 total as is campus units/beds and 251 total post expansion campus units/beds).



## Neighborhood Aerial Map



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Ms. Rhonda Bekkedahl

August 1, 2025

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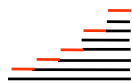
The narrative appraisal report that follows sets forth the identification of the property, property rights appraised, assumptions and limiting conditions, pertinent facts about the area and the subject property, comparable data, results of our investigation and analyses and the reasoning leading to the conclusions set forth. Please feel free to call me at (415) 385-2832 with any questions.

Respectfully submitted,

SENIOR LIVING VALUATION SERVICES, INC.

Michael Boehm

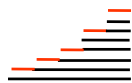
Michael G. Boehm, MAI, CRE  
President



Senior Living Valuation Services, Inc.

## **EXECUTIVE SUMMARY**

Property Name:	Channing House (continuing care/life plan retirement community/CCRC/LPC)
Locations:	850 Webster Avenue (Channing House) & 430 Foster Avenue (expansion units) Palo Alto, California 94301
Assessor's Parcel Nos.:	120-05-098 & 120-16-108 (Santa Clara County)
Property Rights Appraised:	Effective Fee Simple Total Going Concern
Dates of Value:	1) As Is, at July 15, 2025; 2) Prospectively at closing of 430 Forest Avenue acquisition, projected at October 1, 2025; 3) Prospectively at post expansion effective stabilized occupancy/ expansion sellout, projected at October 1, 2026.
Land Areas:	± 121,010 square feet (2.78 acres)(Channing House) & ± 13,145 square feet (0.30 acres)(430 Forest Avenue)
Zoning:	PC-8659, planned community 8659 (Channing House) & RM40, high density residential (430 Forest Avenue) within Palo Alto, allowing the existing subject retirement community after specific project review.
Improvements:	Type: Channing House- two connected, 11 and 2 story, Class B congregate retirement apartment/care component buildings over below grade parking garage; all as an integrated retirement community;  Type: 430 Forest Avenue- one, 3 story, Class C/D apartment building with below grade parking garage; to be converted into part of the existing Channing House CCRC;  Mix/Sizes: 238 total existing units/beds, including 173 entry fee apartments, 39 assisted living units and memory care units and 26 skilled nursing beds and segregated common areas and proposed to be expanded with 13 converted to CCRC apartment units; all within approximately 378,000 square feet of total post expansion campus gross building area (including an estimated 330,000 SF in the existing Channing House in all components) and 16,449 SF in the 430 Forest Avenue expansion;



Age: 1964/2006 (Channing House) & 2018 (430 Forest Avenue; Combined Effective Age, 20 years; Combined Remaining Useful Life: 40 Years.

Highest & Best Use  
(as vacant):

Senior Housing

Highest & Best Use  
(as improved):

As Existing and Operating with Expansion Units

Appraisal Projected  
Stabilized Occupancies:

IL- 96.0%- 178.6/186 units by August, 2026;  
AL & MC: 79.5% (31/39 units by August, 2029);  
SNF: 65.4% (17/26 beds by August 2027)

Projected Unit Turnover at  
Actuarial Stabilization:

16 units; 8.6% of all IL units (Period 2- 8/26)

Projected Net Income:

Period 1 (8/25 to 7/26)- \$9,225,045;  
Period 2 (8/26 to 7/27)- \$8,571,159;  
Period 3 (8/27 to 7/28)- \$9,492,307;  
Period 4 (8/28 to 7/29)- \$11,789,519;  
Period 11 (8/35 to 7/36)- \$15,314,777

Terminal Capitalization Rate:  
Discount Rate:

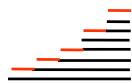
8.0%  
9.5%

Total Going Concern Market Value,  
As Is @ 7/15/25:

Cost Approach	Not Used
Income Approach	\$148,950,000
Sales Comparison Approach	Not Used
Value Conclusion	\$148,950,000

Total Going Concern Market Value,  
At 430 Forest Avenue Closing @ 10/1/25:

Cost Approach	Not Used
Income Approach	\$148,925,000
Sales Comparison Approach	Not Used
Value Conclusion	\$148,950,000



Total Going Concern Market Value,  
At Effective Stabilized Occupancy @ 10/1/26:

Cost Approach	Not Used
Income Approach	\$153,500,000
Sales Comparison Approach	Not Used
Value Conclusion	\$153,500,000

Estimated Marketing &  
Exposure Time: 3 to 6 months

**Agenda Item 6A**  
**Cal-Mortgage Reports –**  
**Project Monitoring**  
**Informational Item**

**Department of Health Care Access and Information  
Cal-Mortgage Loan Insurance Program**

**As of August 27, 2025**

**Summary of Monitoring  
Financial Statements Received  
Project Filing Status**

<b>Survey Date:</b>	<b>Jun 27, 2024</b>	<b>Aug 23, 2024</b>	<b>Apr 2, 2025</b>	<b>May 27, 2025</b>	<b>July 31, 2025</b>	<b>Aug 27, 2025</b>
Current	43	38	48	27	50	34
Behind 1 quarter	14	12	6	21	3	20
Behind 2 quarters	1	7	2	8	0	0
Behind 3 quarters	1	2	2	1	2	1
Total:	<b>59</b>	<b>59</b>	<b>58</b>	<b>57</b>	<b>55</b>	<b>55</b>

**Summary of Monitoring  
Debt Service Coverage Ratio  
Number of Projects that Exceed Required Ratio**

<b>Survey Date:</b>	<b>Jun 27, 2024</b>	<b>Aug 23, 2024</b>	<b>Apr 2, 2025</b>	<b>May 27, 2025</b>	<b>July 31, 2025</b>	<b>Aug 27, 2025</b>
DSCR at or greater than required:	47	51	48	48	45	49
DSCR less than required:	11	7	9	8	9	6
Problem Project:	1	1	1	1	1	0
Total:	<b>59</b>	<b>59</b>	<b>58</b>	<b>57</b>	<b>55</b>	<b>55</b>

**Summary of Monitoring  
Site Visits  
Number of Projects that are Current**

<b>Survey Date:</b>	<b>Jun 27, 2024</b>	<b>Aug 23, 2024</b>	<b>Apr 2, 2025</b>	<b>May 27, 2025</b>	<b>July 31, 2025</b>	<b>Aug 27, 2025</b>
Current:	21	23	9	8	6	7
Past Due:	38	36	49	49	49	48
Total:	<b>59</b>	<b>59</b>	<b>58</b>	<b>57</b>	<b>55</b>	<b>55</b>

**Agenda Item 6B**  
**Cal-Mortgage Reports –**  
**Pending Projects**  
**Informational Item**

**Department of Health Care Access and Information (HCAI)**  
**Cal-Mortgage Loan Insurance Program**  
**As of September 1, 2025**

**Projects Insured - Fiscal 2025-2026**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Loan Amount</u>	<u>Loan Type</u>	<u>Rating</u>
Sequoia Living Inc.	San Francisco	Multi- CCRC	\$151,555,000	Refinance Plus	BBB

**Projects Insured - Fiscal 2024 - 2025**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Loan Amount</u>	<u>Loan Type</u>	<u>Rating</u>
Moldaw	Palo Alto	Multi-CCRC	\$59,450,000	New	BBB-
La Maestra Community Health Centers	San Diego	Clinic-PC	\$14,225,000	New	
			<u>\$73,675,000</u>		

**Projects with Letters of Commitment**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
Gateways Hospital	Los Angeles	Hospital	\$57,000,000	New	BBB

**Applications Before Advisory Loan Insurance Committee**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
Channing House	Palo Alto	Multi - CCRC	\$36,175,000	New	

**Pending Applications**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
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**Pre - Applications**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
SAC Health	San Bernardino	Clinic - PC	\$45,000,000	New	
Oroville Hospital	Oroville	Hospital	\$215,000,000	New	
Lompoc Valley Medical Center	Lompoc	Hospital - Dist.	\$20,000,000	New	
Castle Family Health Centers	Atwater	Clinic - PC	\$40,600,000	New	
			<u>\$320,600,000</u>		

**Discussions**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
Odd Fellows	Saratoga	CCRC	\$78,000,000	New	
OLE Health	Fairfield	Clinic - PC	\$35,600,000	New	
Atherton Baptist Homes	Alhambra	CCRC	\$13,000,000	New	
Alexander Valley Healthcare	Cloverdale	Clinic - PC	\$39,530,000	New	
Tulare District Hospital	Tulare	Hospital - Dist.	\$50,000,000	New	
Del Puerto Health Care District	Patterson	Clinic - Dist.	\$24,999,999	New	
			<u>\$241,129,999</u>		

Facility Type Abbreviations

ADHC-DD	Adult Day Health Care-Developmentally Disabled
CDRF	Chemical Dependency Recovery Facility
Clinic-PC	Clinic for Primary Care
GH-DD	Group Home for the Developmentally Disabled
GH-Mental Health	Group Home - Mental Health
Hosp	General Acute Care Hospital
Hosp-Dist.	Acute Care Hospital - Healthcare District
Multi-CCRC	Multi-level Facility - Entrance Fee Continuing Care Retirement Community
Multi-Others	Multi-level Facility - Multiple Levels of Care, Month-to-Month Rental Community
SNF	Skilled Nursing Facility

**Agenda Item 6C**  
**Cal-Mortgage Reports –**  
**Problem Projects Report**  
**Informational Item**

Department of Health Care Access and  
Information Cal-Mortgage Loan Insurance Program

# **Problem Projects Report**

**August 2025**

Distribution: Elizabeth A. Landsberg, Director  
Scott Christman, Chief Deputy Director  
Dean O'Brien, Deputy Director, Cal-Mortgage  
Advisory Loan Insurance Committee Members

## Problem Projects Report - Update for August 2025

Facility Name	Location	Type	Risk Rating as of 8/1/25	Current Obligation (Millions)	Percent In Debt Reserve Fund <sup>1</sup>	Payment Status?	Technical Default? (or other issues)	HFCLIF <sup>2</sup> Payment Likelihood? <sup>3</sup>	Change Since Last Report	Page	
I. <u>HFCLIF Payments Expected</u>											
II. <u>Ongoing HFCLIF Payments</u>											
St. Rose Hospital	Hayward	Hospital	E	\$16.4 - Note \$10 - LOC	N/A	Current	Liquidity, Ratio Default	Yes	Payments are being made per the terms of the Debt Relief Agreement executed October 2024. Per the terms of the Agreement the Department has paid the following utilizing the HFCLIF; \$10M line of credit paid in full and closed in December 2024, the first six month payment on the term loan note of \$1.9M was also paid in December 2024.The second payment on the Note was paid on May 2, 2025 in the amount of \$1.9M. Total paid to date is \$13,957,324. The next payment on the Note will be in November 2025.  Starting on January 1, 2030, the Corporation will begin repayment of all payments the Department has made from the HFCLIF, which is currently projected at \$25.5M.	1	
III. <u>Financial Performance Problems</u>											
San Benito Health Care District	Hollister	Hosp - District	C	\$	6.8	100% (6-Month)	Current	Liquidity, Ratio Default	Low - March '26	June YTD (12 mo.) net income of \$31.12M and 112 DCOH.  Insight transaction cancelled on 8/13/25.	5
Hill Country Community Clinic	Round Mountain /Redding	FQHC	C	\$	2.9	100% (6-Month)	Current	Liquidity, Ratio Default	Low	Redding clinic, Center of Hope, sold on April 22, 2024. The clinic will keep approximately \$3 million cash on hand through the end of 2025. Loan payments are punctual.	8
IV. <u>Defaulted Projects: Pending Asset Sales</u>											
None											
V. <u>Resolved Defaulted Projects</u>											
Verdugo Mental Health	Glendale	Clinic-MH							Last payment received on August 7, 2025. Current balance is \$3,636,241.82	10	
Lake Merrit - Cal-Nevada/Pacifica	Oakland	CCRC							Last payment received on August 1, 2025. Current balance is \$13,479,833.96	11	

<sup>1</sup> The insured project's Debt Service Reserve Fund (DSRF)

<sup>2</sup> Health Facility Construction Loan Insurance Fund

<sup>3</sup> Likelihood means probability or possibility of using HFCLIF for next payment.

Department of Health Care Access and Information  
Cal-Mortgage Loan Insurance Program  
Problem Project Monthly Report – August 2025

## **II. Financial Performance Problems**

**Project:** St. Rose Hospital

**Numbers:** 1084, 0932

### **Description:**

Hayward Sisters Hospital dba St. Rose Hospital (Corporation) is a general acute care 171 bed facility in Hayward, CA which offers emergency; subacute care; cardiology; orthopaedics; rehabilitation; and both inpatient and outpatient services that was founded in 1962. From 2013 until the end of 2024, the Corporation was run via a management agreement with Alecto Healthcare LLC (Alecto). In the third quarter of 2024 the Department of Health Care Access and Information (Department) Cal-Mortgage Loan Insurance Program (Cal-Mortgage) was notified of Alecto's CEO's intention to retire; discontinue management services; and not acquire the Corporation under the Management Services Agreement (MSA). In response to the Alecto decision, the Corporation issued a Request for Proposal (RFP) in an attempt to find a new long-term operator or partner. As a result of the RFP process, Alameda Health Systems (AHS) was the only entity that expressed an interest, and on April 15, 2024, executed a Letter of Interest to become the sole corporate member of the Corporation. AHS assumed control of all operations at the Corporation effective October 31, 2024. Under the new organizational structure, the Corporation continues its existence as a California nonprofit public benefit corporation and will remain the owner and licensed operator of St. Rose Hospital.

### **Background:**

In May 2009 the Department insured a total of \$42.1M of fixed rate bonds for the Corporation with Series 2009A tax-exempt bonds of \$31.15M and Series 2009B taxable bonds of \$10.95M (collectively "2009 Bonds"). The 2009 Bonds were used for the expansion of the fifth floor to accommodate 30 private rooms; replacement and repairs to the existing structure; and to complete seismic requirements to meet SB 1953 compliance by 2030.

In December 2010, the Corporation was having financial issues and drew on a \$7M Alameda County emergency reserve fund to pay \$4M for Hospital Provider Fees and \$3M to pay down an outstanding balance on a Department insured line of credit (LOC). As a result of this and other performance issues, the Department eventually took actions towards the end of Fiscal Year End (FYE) 2012 to avert bankruptcy enforced the replacement of all board members with five new board members, including two members from the Department's Advisory Loan Insurance Advisory Committee. After restructuring the Board of Directors and various management roles, the Corporation ultimately entered into a management agreement with Alecto, a for-profit organization. As Alecto was a for-profit organization with the option to buy the Corporation, the Corporation needed to refinance out of the 2009A tax-exempt bonds to avert a possible tax liability that could have inadvertently been triggered had Alecto exercised the buy option. Therefore, in 2016, the 2009A bonds were refinanced into a \$38M Department insured bank loan with City National Bank (2016 CNB). In August 2022, the 2016 CNB loan was refinanced again with CNB in the amount of \$24.36M (2022 CNB). In 2009 the Department also insured a \$10M LOC with CNB to ensure adequate operating liquidity for the Corporation.

In early 2023, a group of community stakeholders led by Eden Health District engaged Innova Healthcare Solutions to conduct a study on the future sustainability of St. Rose Hospital. The study revealed that St. Rose Hospital was not sustainable as a stand-alone hospital without substantial and ongoing increases in public funding. The report further recommended the Corporation's board pursue an affiliation with a health system that had sufficient resources to secure the Corporation's ability to operate. The Corporation's board engaged Kaufman Hall and Steven Hollis as consultants to assist with an RFP. Through the RFP process, the Corporation signed an exclusive 90-day non-disclosure affiliation agreement with AHS. During the first part of 2024, AHS began its due diligence efforts, and the parties began discussions regarding potential acquisition.

On August 19, 2024, the Corporation and AHS entered into a Membership Issuance Agreement, by which AHS became the sole corporate member of St. Rose, along with certain other related agreements. On October 31, 2024, the Department, the Corporation, and AHS executed a Debt Service Relief Agreement (DSRA) by which the Department agreed to cure the Corporation's defaults by making payment on the LOC and term note from the Department's Health Facility Construction Loan Insurance Fund (HFCLIF), with such HFCLIF payment to be repaid by the Corporation to the Department as specified in the DSRA. Per the DSRA, on December 10, 2024, the Department made payment on the \$10M LOC, on December 20, 2024, the Department made the first \$1.9M six-month installment payment on the term note, and on May 2, 2025, the Department made the second \$1.9M six-month installment payment on the term note.

**Summary of DSRA Terms:**

- Full payoff of the LOC and for the initial thirty-six months, monthly payments toward the term loan will be made fully by the Department using money from the HFCLIF.
- Thereafter for the following twenty-four months, both the Corporation and the Department will each make payments on the term loan of 50 percent.
- Thereafter the Corporation will commence making the full note payments, until natural defeasance of the term loan on December 1, 2029.
- Starting on January 1, 2030, the Corporation will begin repayment of all payments the Department has made from the HFCLIF projected at \$25.48 million, the rate will be the same as the term at 4.44 percent over 5-year repayment period.

In addition, the AHS transition and DSRA execution the Corporation was also able to secure additional funding in December 2023 when the Corporation was allocated a \$17,650,000 Distressed Hospital Loan Program (DHLP) award. These working capital loans were awarded to 16 of the hospitals experiencing the highest levels of financial distress in the entire state. As part of the requirements under the DHLP turnaround plans were required to be submitted as part of the application process and updated every quarter.

In March 2025 AHS agreed to provide \$15M LOC to the Corporation for the purposes of addressing cash shortages and meeting operating expenses while the turn-around plan is in progress. The LOC funds will come from AHS's Liquidity Facility.

The following table shows key financial statistics of the Corporation:

<b>Dollars in Thousands</b>	<b>Internal 5/31/2025</b>	<b>Internal 9/30/2024</b>	<b>Audit</b>	<b>Audit</b>	<b>Audit</b>	<b>Audit</b>
	<b>(8 months)</b>	<b>(12 months)</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Cash & Equivalents	\$40,561	\$8,807	\$8,768	\$11,652	\$26,175	\$36,831
Net Accounts Receivable	\$9,663	\$11,022	\$11,226	\$8,867	\$9,269	\$6,782
Total Assets	\$108,631	\$81,534	\$68,449	\$68,242	\$81,597	\$94,642
Total Current Liabilities	\$55,639	\$61,776	\$35,940	\$21,930	\$26,647	\$26,791
Total Liabilities	\$92,248	\$77,402	\$59,298	\$49,238	\$59,567	\$67,678
Net Assets	\$16,383	\$4,132	\$9,151	\$19,004	\$22,030	\$26,964
Revenue	\$107,977	\$137,533	\$119,316	\$122,295	120,745	\$125,420
Operating Profit/Loss	\$13,169	(\$3,862)	(\$10,470)	(\$4,773)	(\$4,683)	(\$2,776)
Net Income/Loss	\$12,418	(\$5,458)	(\$9,853)	(\$5,712)	(\$5,641)	(\$4,637)
DSCR	5.39	0.02	(1.25)	0.30	0.61	1.03
Days Cash on Hand	106.12	23.10	25.20	24.97	79.85	110.76
Current Ratio	1.29	0.69	0.88	1.47	1.76	2.05

Fiscal year-end is September 30.

**Current Situation: (as of August 25, 2025)****Risk Rating: E**

June financials have not yet been finalized. May financials (the most recent data available) were received from the Corporation on July 25, 2025. As of May 31, 2025, the Corporation showed year-to-date net income of \$12.48M which compared favorably to a budgeted loss of \$12.0M due to the receipt of \$30.3M in Alameda County Measure A Funds. This funding exceeded the budgeted amount of \$7.1M and exceeded the FY2024 funding of \$21.2M. Debt Service Coverage Ratio, when compared to FYE 9/30/2024, increased to a positive 5.39, while Days Cash on Hand rose to 106.12. The Current Ratio of 1.29 also improved in value as reflected by the Measure A Funds. The audit report for 2024 included a footnote on the topic of going concern specifically the significant losses from operations and cash flow difficulties for the past three years. Continuation as a going concern is dependent on the Corporation's ability to increase collections, decrease expenses and raise additional capital. In order for the Corporation to accomplish this, they affiliated with Alameda Health Systems with the goal of continuing to be a vital safety net hospital serving the central and southern Alameda County community. For the month of May, operating revenue totaled \$40.0M, which, as mentioned above, exceeded budget. Operating expenses for the month were \$11.7M, which slightly exceeded budget by \$0.15M or 1.4%. The results are due to higher operating expenses in the categories of fringe benefits, repairs/maintenance, and registry/contract labor. The next DSRA six-month payment will be made on November 1, 2025, for the monthly payments of November 2025 through April 2026. Notifications for payment will go out to interested parties in October 2025.

The Corporation applied for a loan modification for the DHLP and was approved on May 8, 2025. The Corporation's board approved the modification during its board meeting on May 27, 2025. The payment deferral period will be extended by 12 months until July 1, 2026.

Tri-weekly meetings with the Corporation's General Counsel Mike Sarrao, Chief Administrative Officer Mario Harding and Controller Rosario Eugenio are being held. The purpose of these meetings is to discuss and receive updates regarding the Corporation's turnaround plan and financial operations. The latest meeting was held on August 22, 2025, and the following was discussed :

- The Corporation has hired new leadership for the following positions: ED Nurse Manager, Nurse Manger of Surgical Services/OR, Manager of ICU and Dialysis, Radiology Manager, Director or Quality & Risk, Director of Support Services and Human Resources Manager. AHS has also deployed a new Executive Team to help support Mario Harding, the Chief Administrative Officer, which includes a new VP of Support Services, and VP of Patient Care Services
- Management has renegotiated its agreement with Alameda Alliance to align with AHS with a retro rate effective date of November 2024, which has improved reimbursement and increased cash flow.
- Management is working on getting final Medicare/Medi-Cal certification for the sub-acute unit. They currently have 6 SNF commercial patients but need to reach an average of 7 patients to receive certification. Management is reaching out to external stakeholders to assist with getting approval.
- Received four bids for the buildout of a new cardiac catheterization lab and Corporation has decided on a contractor. Estimated cost is \$4.5M-\$5M and OSHPD has approved plans. Construction funding mostly will come from a \$3.5M donation from Alameda Alliance.
- Continued focus on building a referral network for primary and specialty care through partnerships with local AHS clinics.
- Recently awarded \$62.4M Behavioral Health Continuum Infrastructure Program (BHCIP) for the construction of a 20-bed medical psychiatry unit and 20 bed geriatric psychiatry unit (preliminary stages).

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**Assessment:**

Profitability:

Liquidity:

Line of Credit:

Debt Service Reserve Fund:

Debt Service Payments:

HFCLIF:

YTD 5/31/2025 (8 mo.): \$12,418,212

Days Cash on Hand: 106 days

Paid 12/10/24

Not required per terms of note

To be paid out of HFCLIF, then reimbursed

Next installment due 12/1/2025

St. Rose CAO (via AHS):

St. Rose Controller:

Counsel:

Mario Harding

Rosario Eugenio

Michael Sarrao, Esq.

**Account Manager:** Arne Bracchi

**Supervisor:** Consuelo Hernandez

### III. Financial Performance Problems

**Project:** San Benito Health Care District

**Number:** 1076

**Description:**

San Benito Health Care District (District) operates the 25-bed Hazel Hawkins Memorial Hospital, four rural health clinics, two community health clinics, a distinct part skilled nursing facility, four satellite lab/draw stations, a home health agency in Hollister, and a rural health clinic in San Juan Bautista, California. In March 2013, HCAI insured a \$24.9M bond issue for the refunding of \$16M in outstanding bond debt, reimbursing the District \$10M for construction costs for a Women's Center, and \$2.4M toward the cost of issuance (2013 Bonds). The District refinanced the 2013 Bonds on February 11, 2021 (2021 Bonds) and achieved a net present value (NPV) savings of 10.42 percent, or \$1.7M. The refinance provided annual cash flow savings of approximately \$380,000. In addition, the refinance allowed the outstanding balance to decline from \$16.48M to \$12.57M. The 2021 Bonds have a current outstanding balance of \$6.8M with a final maturity on March 1, 2029.

**Background:**

Between 2014 and 2020, the District's financial condition struggled due to a decline in census and ever-increasing expenses. In 2018, the District began the application process to convert to a Critical Access Hospital (CAH) and the Centers for Medicare and Medicaid Services (CMS) approved its application effective March 26, 2020. As part of the reclassification to a CAH, the District decreased its licensed beds from 62 to 25. Between April 2020 and June 2022, the District's financial condition improved due to the increased Medicare rates as part of the CAH reclassification, improved census related to COVID, and supplemental COVID funding.

In the third quarter of calendar year 2022, the District began experiencing liquidity issues due to two factors. First, CMS indicated that the District was overpaid during FYE 2022 by \$5.2M. A one-year repayment plan was established in the amount of \$441,036 per month. In addition, CMS indicated that an additional \$5.2M was to be reduced from future payments in FYE 2023, thus the District's inpatient rates were reduced by 20 percent and outpatient rates were reduced by 13 percent. The District was able to negotiate the one-year CMS repayment plan for a five-year repayment plan.

Second, the District ended its commercial provider agreement with Anthem Blue Cross (Anthem) on August 10, 2022. Anthem deactivated payments to the District on the commercial provider agreement, and inadvertently deactivated payments to the District on its Medi-Cal provider agreement. Anthem identified that it may take 45 days to correct the accidental deactivation of the payments for the Medi-Cal provider agreement. The District identified that approximately \$4M in claims were delayed due to this payment processing issue with Anthem. The District eventually reached a new commercial provider agreement with Anthem covering the 2023 calendar year. The outstanding Anthem Medi-Cal receivables were subsequently processed and paid.

The District initiated an aggressive cost savings plan to address its immediate cash-flow needs, while the District explored sources to provide temporary liquidity and collected on its receivables. The San Benito County Board of Supervisors agreed to advance the District its annual property tax revenue normally paid in April; the District received \$2.2M of property tax revenue in December 2022. In January 2023, the District obtained a \$3.09M loan from the California Health Facilities Financing Authority's Nondesignated Public Hospital Bridge Loan Program II to provide additional liquidity. The District receives over \$13M in supplemental funding annually; however, the majority of the funding is normally not received until months later and sometimes in the following fiscal year. The District worked with various agencies to receive its supplemental payments in advance, thus improving its liquidity.

**Current Situation: (As of August 15, 2025)****Risk Rating: C**

On May 22, 2023, the District's Board of Directors authorized the filing of a Chapter 9 bankruptcy petition and adopting a pendency plan outlining a strategy to proceed forward. The District officially filed for Chapter 9 on May 23, 2023. In December the District defended itself in a trial due to Unions' claiming that the District did not meet the criteria to file for bankruptcy protection, which lead to wage and benefit cost cutting measures. On March 21, 2024, the Judge dismissed the District's bankruptcy case citing that the District is not insolvent and therefore not eligible for Chapter 9 relief. The District filed an appeal and on March 21, 2025, an appeals court upheld the bankruptcy court's decision. The dismissal from bankruptcy may result in the District having to repay the reduction in salaries and benefits put in place during bankruptcy, in addition to paying increased salaries and benefits each month going forward. The District is in mediation with the California Nurses Association union on the salaries and benefits that were removed during the bankruptcy. Given that the District faces higher salaries and benefit expenses, the District's financial performance could deteriorate later this year.

The District engaged B Riley Advisory Services to search for a strategic partner to help ensure the long-term viability of the District. The District received interest from several potential partners or buyers. On January 2, 2024, the District received a LOI from Insight Foundation of America (Insight) proposing a purchase of the District's assets estimated between \$59M and \$65M. At a June 5, 2024, District Board meeting, the District's Board voted to continue negotiations with Insight. The proposal with Insight was modified from an outright purchase to a five-year lease-to-own option. The Insight proposal was included on the November 5, 2024, San Benito County ballot as Measure X and was passed with 51 percent. The District was negotiating definitive agreements with Insight and anticipated presenting the agreements to the Board during the third quarter of 2025, however, the transaction was canceled on August 13, 2025. The District identified the leading cause as the unprecedented uncertainties stemming from the federal government's recent legislation, the HR-1 One Big Beautiful Bill Act.

The District received a \$10 million loan award from the Distressed Hospital Loan Program (DHLP). The DHLP loan closed on July 1, 2024, and the District received their first disbursement of \$2.7 million on July 5, 2024.

The following table shows historical results for a number of key financial statistics:

Statement Date (6/30 FYE)	6/30/2025	6/30/2024	6/30/2023	6/30/2022	6/30/2021
Months Covered	12	12	12	12	12
Audit Method	Internal	Unqualified	Unqualified	Unqualified	Unqualified
Cash & Investments	\$46,674,801	\$34,905,203	\$13,413,099	\$14,442,002	\$18,508,626
Net Worth	\$70,341,169	\$39,159,279	\$23,542,007	\$23,197,870	\$20,527,771
Net Revenue	\$185,436,763	\$157,743,290	\$161,907,260	\$149,021,950	\$140,543,291
EBITDA	\$35,474,212	\$20,987,546	\$4,625,783	\$6,928,468	\$4,988,398
Net Income	\$31,126,910	\$15,617,272	\$344,137	\$2,670,099	\$294,627
Debt Service Coverage Ratio	16.57	2.59	5.34	3.09	2.11
Current Ratio	3.31	1.83	1.56	1.50	1.75
Days Cash on Hand	112	89	32	37	49

For the 12-month period ended June 30, 2025, the District had a net income of \$31.12M compared to a budgeted net income of \$9.67M. This resulted in a debt service coverage ratio of positive 16.57. The District had \$46.67M in cash, equal to 112 days cash on hand.

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**Assessment:**

Profitability:

Liquidity:

Debt Service Reserve Fund:

Debt Service Payments:

HFCLIF:

CEO:

CFO:

6/30/2025 (12 mo.): \$31,126,910

Days Cash on Hand: 112

100% funded: \$936,400

Current

3/1/2026 (P&amp;I): low probability

Mary Casillas

Mark Robinson

**Account Manager:** Lauren Hadley**Supervisor:** Consuelo Hernandez

Department of Health Care Access and Information  
Cal-Mortgage Loan Insurance Program  
Problem Project Monthly Report – August 2025

### III. Financial Performance Problems

**Project:** Hill Country Community Clinic

**Number:** 1034

**Description:**

Hill Country Community Clinic (Corporation) is a California nonprofit public benefit corporation under Section 501(c)(3) of the Internal Revenue Code. The Corporation owns and operates a healthcare facility in Round Mountain, Shasta County, to provide primary care and health education services to the Northeast portion of the County. In addition, the Corporation also operates a clinic and homeless shelter for transitional youth in Redding, Shasta County, namely Center of Hope (COH), to provide primary care, mental health, and chiropractic service. In December 2004, the Corporation earned a Section 330 Federally Qualified Health Center (FQHC) designation.

In October 2007, the Department insured a bond series in the amount of \$5,250,000 for the Corporation (2007 Bonds). The 2007 Bonds were used to finance an expansion project that added a 12,500-square-foot space onto the Corporation's existing Round Mountain facility for housing, six new medical exam rooms, three dental operatories, a mental health suite, a teen activity center, a new helicopter landing pad, and storage facilities.

The 2007 Bonds were refinanced in November 2016 in an amount of \$4,420,000 (2016 Bonds). The outstanding balance of the 2016 Bonds is \$3,070,000.

On November 6, 2019, the Department consented to an additional \$10 million indebtedness acquired by the Corporation from Nonprofit Finance Fund and Dignity Health Partners to structure a New Market Tax Credit (NMTC) transaction that would finance the construction of COH, which was opened in July 2021. Beginning on December 15, 2021, quarterly principal and interest payments of \$194,325 are payable on the 15th day of March, June, September, and December. All unpaid principal and interest due will be paid in December 2026.

**Background:**

The Corporation's operating income started dropping during the COVID-19 pandemic beginning in 2020. In 2022 and 2023, the Corporation's financial performance got worse and recorded net loss of \$1.5 million and \$3.7 million respectively. The Corporation's cash depleted quickly from \$1.7 million in 2021 to less than \$500k in 2022, due to operating losses and construction of the COH. Based on the financial performance ended December 31, 2022, the auditor, FORVIS LLC, opined in the audit report for Fiscal Year 2020 that due to decreased working capital, coupled with the additional debt service payments required to be made in relation to the COH project, and the impact of the COVID-19 pandemic raises substantial doubt about the Corporation's ability to continue as a going concern.

Cal-Mortgage staff made a site visit at the Corporation on August 18, 2023, and took a tour of the COH, which opened in July 2021 as the Corporation's flagship clinic site located in Redding. During the meeting with the CEO and CFO at the COH, the CFO expressed that the Corporation is facing serious liquidity problems due to changes of reimbursement requirements from the County, broken revenue cycle; physician and medical staff turnover; and dropping utilization. The CEO also admitted the COH was overbuilt for current demand for services and has caused a huge financial burden, which coincided with the COVID-19 pandemic that brought adverse impact to the Corporation's operation.

The Corporation and Shasta Community Health Center (SCHC) entered into an Asset Purchase Agreement on April 22, 2024, by which the Corporation transferred the ownership of COH and the respective NMTC loan to SCHC. In return, the Corporation received \$5.6 million cash from the transaction. After partial payment of overdue unsecured debts and settling the outstanding professional

fee such as the legal fee for the transaction, business consultant fee, and service fee for fiscal audit, the Corporation maintained \$3 million cash for operations in May 2024.

**Current Situation: (As of August 21, 2025)**

**Risk Rating: C**

The June 30, 2025, financial statement showed cash was maintained at \$2.8 million. Monthly bond payments are made punctually.

The Corporation filed audit filings for FYE 2021 in April 2025. The Corporation met both DSCR and DCOH financial covenants but failed to meet the CR covenant. A waiver for missing the FYE 2021, CR covenant was issued in April. Due to the negative operating results for the 36 months after FYE 2021, FORVIS raised substantial doubt about the Corporation's ability to continue as a going concern in the 2021 audit report, even though the auditor also recognized the recent operation improvement and financial turnaround of the Corporation. The Corporation is working with FORVIS on audit filings for FY 2022, 2023, and 2024.

The Corporation provided highlights of financial activities as of June 30, 2025, which showed a net income of \$222K for the first six months of this year.

The following table shows key financial statistics of the Corporation.

Dollars in Thousand	Audited	Internal*			
	12.31.2021	12.31.2022	12.31.2023	12.31.2024	6.30.2025
<b>Cash &amp; Equivalents</b>	1,593,473	520,133	1,385,937	3,330,922	2,815,272
<b>Total Assets</b>	48,033,924	48,369,764	49,059,936	47,697,000	48,191,522
<b>Total Liabilities</b>	40,380,292	42,482,509	46,051,278	48,160,000	48,998,324
<b>Net Worth</b>	7,653,632	5,887,255	3,008,658	(463,000)	(806,802)
<b>Net Income</b>	575,686	(1,509,340)	(3,655,806)	(683,926)	222,458
<b>Debt Service Coverage Ratio</b>	1.90	1.01	(4.63)	1.73	2.63
<b>Days Cash on Hand</b>	30.50	8.47	24.07	71.20	57.32
<b>Current Ratio</b>	1.12	0.91	0.84	0.71	0.67
*According to the Corporation's CFO, Christi Hines, the internal prepared financial statements have not been reconciled and are subject to material adjustment after reconciliation.					

**Assessment:**

Profitability:	6/30/2025 (6 mo.): \$222,458
Liquidity:	Days Cash on Hand: 57.32
Debt Service Reserve Fund:	100% funded: \$142,600.94
Debt Service Payments:	Current
CEO:	Jo Campbell
CFO:	Christi Hines

**Account Manager:** Dennis Lo

**Supervisor:** Consuelo Hernandez

Department of Health Care Access and Information  
Cal-Mortgage Loan Insurance Program  
Problem Project Monthly Report – August 2025

**V. Resolved Defaulted Projects**

**Project:** Verdugo Mental Health

**Number:** 0973

**Description:**

The Las Candelas Nonprofit Group, in conjunction with the Glendale Hospital, established the Verdugo Mental Health Center (Clinic) in 1957. Services focused on abused and emotionally disturbed children, seriously mentally ill adults, and those recovering from substance abuse and other addictions. In December 1993, the Department insured a loan to purchase, renovate, and equip an outpatient/administrative facility. This loan was refinanced in April 2005 for the balance of \$810,000. In April 2006, the Department approved a \$5,505,000 loan to construct a 14,740 square foot outpatient clinic. The clinic is a two-story building with partial subterranean parking, joined with existing retrofitted, 4281 square foot clinic.

**Background:**

Verdugo filed Chapter 7 bankruptcy due to a special education local plan area liability of \$566,000, growing net losses resulting from cuts in reimbursements for patient services, and declining fundraising. On December 9, 2010, the Department issued a Declaration of Default and Notice to Cure for \$5,220,000.

All bonds were redeemed by the trustee on April 18, 2011, using funds drawn from the HFCLIF and the balance of the trustee accounts, which was \$5,732,382.18. A \$5,000,000 bankruptcy court order approved, HCAI financed sale to DiDi Hirsch Psychiatric (DiDi Hirsch) closed on May 13, 2011.

**Current Situation:** (as of August 7, 2025)

**Risk Rating:** None

The August 2025 amortized payment of \$21,080.20 was made on August 7, 2025. The current outstanding balance is \$3,636,241.82. The 2024 audited financial statements were received on February 11, 2025.

**Assessment:**

Profitability: (DiDi Hirsch)	\$3,972,218 (6/30/24 Audit)
Liquidity: (DiDi Hirsch)	\$24,239,782 cash & investment (6/30/24 Audit)
DSCR: (DiDi Hirsch)	6.05 (6/30/24 Audit)
Loan Balance:	\$3,636,241.82
Payments:	Current (8/1/2025)
Final Maturity:	6/1/2044
Interest Rate:	3%
Payment Terms:	\$21,080.20 monthly until maturity on 6/1/2044

**CEO:** Jonathan Goldfinger, MD

**CFO:** Howard Goldman

**Account Manager:** Dennis Lo

**Supervisor:** Consuelo Hernandez

Department of Health Care Access and Information  
Cal-Mortgage Loan Insurance Program  
Problem Project Monthly Report – August 2025

## **V. Financial Performance Problems**

**Project:** California Nevada Methodist Homes

**Numbers:** 1018, 1053, 1088

**Description:**

California Nevada Methodist Homes (Corporation) was founded over 60 years ago. It operates two continuing care retirement communities (CCRCs)—Forest Hill Manor (FHM) in Pacific Grove and Lake Park Retirement Residence (LPRR) in Oakland.

**Background:**

On October 1, 2015, the Department of Health Care Access and Information (Department) insured Revenue Bonds Series 2015 (Bonds) for the Corporation in the amount of \$32,920,000. The Bonds were used to refinance the Department insured 2006 bonds and fund \$6.3 million in capital improvements.

The Corporation has had several financial setbacks dating back to 2007, which contributed to its net losses since Fiscal Year End (FYE) 2009. Approximately \$27.5 million of the \$42.3 million 2006 bonds were used for the expansion of FHM. Construction was scheduled to be completed in late 2007, but construction was delayed by 16 months. The construction delays caused the opening of FHM to be set back until March 2009, right at the beginning of the recession. By March 2009, Independent Living (IL) cottage deposits had declined, and the Corporation has not been able to increase occupancy at FHM. The purpose of the 2015 Bonds was to provide interest rate savings, along with an additional \$6.3 million for renovations and upgrades to the Corporation's facilities. The renovations were believed to be necessary to improve occupancy and increase the marketability of vacant IL units. The units have not sold at the pace that was projected in the feasibility study done by Bill Hendrickson at the time of the bond closing.

On March 16, 2021, the Corporation filed a voluntary petition commencing Chapter 11 for relief under the Bankruptcy Code continuing in possession of its property and operation of its businesses as debtor-in-possession (DIP). The Corporation missed the monthly debt service payments from February 2020 through December 2022. On December 6, 2022, the sale of the Corporation to Pacifica Companies, LLC (Pacifica) was finalized. The Department elected to accelerate the bonds per section 7.2 of the Indenture and the bonds were paid in full and redeemed on March 3, 2023. The Plan of Liquidation was approved during the court hearing on June 30, 2023, and became effective on July 5, 2023. The Department received a wire of \$2,358,613.01 on July 6, 2023. The wire was the amount due to the Department as part of the liquidation plan.

On September 8, 2023, the Corporation entered a final decree to close their Chapter 11 case with the Bankruptcy Court. The final decree was approved by the Court on October 4, 2023.

**Current Situation:** (as of July 18August 14, 2025)

**Risk Rating:** N/A

There are some unresolved disputes over administrative expense claims still to be resolved; it is anticipated that there is no money left in the reserve account to be recouped. Any money left after all expenses have been paid will be returned to the Department. The Department's legal counsel reached out to the bankruptcy attorney a few times to confirm if any money was left in the reserve account and how much would be returned to the Department. The Corporation's legal counsel informed the Department's attorney that the Corporation was still waiting to get its auditor's final edits and approval of the notes to the audited financials. The Corporation's legal counsel added and believed that final administrative tasks needed to be completed before the Corporation could complete its dissolution and make payment to the Department of its remaining funds. Currently, the audit's anticipated completion date has not yet been confirmed.

However, there has not been any response even after a follow-up email was sent to the debtor's counsel

in late June 2025. The Department's legal counsel will make another attempt to get an update / response before the end of July, by reaching out to another counsel.

Under the amended Purchase Sale Agreement, the Department and Pacifica have negotiated a workout plan that involved a carryback secured note (Note) with Pacifica dba Lake Merritt Senior Living LLC as the obligor. The Note is secured by a Deed of Trust recorded against LPRR. The Note is for \$15 million and amortized over 240 months, but payable in full on or before month 120. Interest is 3 percent, and a \$3 million loan forgiveness will be issued upon payoff. Pacifica has made the required monthly payment of \$83,189.64 punctually with no issues. The current outstanding balance is \$13,479,833.9613,529,200.60.

**Assessment:**

Pacifica CEO:

Deepak Israni

Pacifica Counsel:

Thomas P. Sayer

**Account Manager:** Tom Wenas

**Supervisor:** Consuelo Hernandez