

ADVISORY LOAN INSURANCE COMMITTEE

September 21, 2023



**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



HCAI Director

Elizabeth A. Landsberg

Deputy Director

Jeremy P. Marion

NOTICE OF PUBLIC MEETING

**CAL-MORTGAGE LOAN INSURANCE DIVISION
ADVISORY LOAN INSURANCE COMMITTEE (ALIC)**

Date:

Thursday, September 21, 2023, 10:30 a.m.

Location:

Department of Health Care
Access and Information
2020 West El Camino Avenue
Conference Room 1237
Sacramento, CA 95833

Committee Members

Jay Harris, Chair
Derik Ghookasian,
Vice Chair
Soyla Reyna-Griffin
Jonathon Andrus
John Woodward
Richard Tannahill
Scott Coffin

Teams Link for Virtual Participation for Members of the Public:

[Microsoft Teams](#)

Call in (audio only)

916-535-0978

Pin: 154 161 555#

AGENDA

- Item 1 **Call to Order**
 - Roll call of ALIC Members
Jay Harris, Chair, ALIC Committee

- Item 2 **Public Comment Regarding Action Items on Today's Agenda**
Jay Harris, Chair, ALIC Committee

- Item 3 **ALIC Chair and HCAI Executive Staff Remarks**
 - *Jay Harris, Chair, ALIC Committee*
 - *HCAI Chief Deputy Director, Scott Christman*
 - *Cal-Mortgage Deputy Director, J.P. Marion*

- Item 4 **Approval of the Minutes of the July 13, 2023, Meeting – Action Item**
Jay Harris, Chair, ALIC Committee

Item 5 **Loan Insurance Application Review, Ararat Home of Los Angeles, Inc.
(Applicant) – Action Item**
Dennis Lo, Account Manager

The Applicant is a 501(c)(3) corporation incorporated in 1949 that owns and operates a Continuing Care Retirement Center (CCRC) in Mission Hills, a skilled nursing facility in Eagle Rock, and a second CCRC in Glendale. The proposed insured loan of \$12,000,000 is to reimburse the Applicant for acquisition of its Ararat Garden CCRC, which occurred in March 2023.

Item 6 **Cal-Mortgage Reports – Informational Item**

- Project Monitoring
Dean O'Brien, Cal-Mortgage Supervisor

Mr. O'Brien will report on statistics about the existing portfolio of Cal-Mortgage borrowers.

- Pending Projects
Consuelo Hernandez, Cal-Mortgage Supervisor

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

- Problem Project Report
J.P. Marion, Cal-Mortgage Deputy Director

Mr. Marion will report on projects appearing on the Cal-Mortgage Problem Project Report.

Item 7 **Future Agenda Items/Announcements from Committee Members**
Jay Harris, Chair, ALIC Committee

Item 8 **General Public Comment**
Jay Harris, Chair, ALIC Committee

Item 9 **Adjourn Meeting**
Jay Harris, Chair, ALIC Committee

Agenda items may not be called in the order presented. This agenda is also posted on the Internet at: <https://hcai.ca.gov/public-meetings/>. To request any background materials prior to the meeting, please contact Joanna Luce at (916) 319-8828 or Joanna.Luce@hcai.ca.gov.

Pursuant to the Americans with Disabilities Act, individuals with disabilities may request a reasonable accommodation or modification to access and participate in the meeting. Reasonable accommodation requests may be directed at least five (5) working days in advance of this event to Joanna Luce at (916) 319-8828 or Joanna.Luce@hcai.ca.gov. HCAI will make every reasonable effort to fulfill the request.

If you have any questions or comments, you may contact Joanna Luce at (916) 319-8828 or by email at Joanna.Luce@hcai.ca.gov.

Agenda Item 4 – Meeting Minutes for July 13, 2023



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



ADVISORY LOAN INSURANCE COMMITTEE MINUTES

July 13, 2023

1. CALL TO ORDER

Mr. Jay Harris, ALIC Vice 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 11:01 a.m.

COMMITTEE MEMBERS PRESENT

Jay Harris, Vice Chair
Derik Ghookasian, Member
Jonathon Andrus, Member
Richard Tannahill, Member
Scott Coffin, Member

COMMITTEE MEMBERS ABSENT

David Kears, Chair
Soyla-Reyna Griffin, Member
John Woodward, Member

ADDITIONAL ATTENDEES

Scott Christman, HCAI, Chief Deputy Director
Jeremy (J.P.) Marion, HCAI, Cal-Mortgage, Deputy Director
Consuelo Hernandez, HCAI, Cal-Mortgage, Supervisor
Dean O'Brien, HCAI, Cal-Mortgage, Supervisor
Geoff Trautman, HCAI, Staff Attorney
Lauren Hadley, HCAI, Cal-Mortgage, Account Manager
Arne Bracchi, HCAI, Cal-Mortgage, Account Manager
Tom Wenas, HCAI, Cal-Mortgage, Account Manager
Joanna Luce, HCAI, Executive Secretary
Mary Schoeggl, OFHC Management Agent, CFO, PRS
Amy Hayman, D.A. Davidson & Co., Managing Director
Bill Hendrickson, Hendrickson Consulting, Principal

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

Before Mr. Harris called the meeting to order, Mr. Harris asked Mr. J.P. Marion, HCAI, Cal-Mortgage Deputy Director to confirm if all parties that are scheduled to be at today's meeting are present at the meeting. Mr. Marion confirmed the attendance of all expected attendees are present at today's meeting.

Mr. Marion welcomed everyone to today's meeting and then announced Mr. Dave Kears, Committee Chair is not present at today's meeting. In the absence of Mr. Kears, Mr. Marion asked Mr. Harris to lead the meeting through today's agenda items. Mr. Harris and Mr. Marion then had a brief discussion about the order of today's agenda items.

Mr. Harris proceeded to perform a visual roll call of the Committee members present at today's meeting and then asked for public comments regarding the action items on today's agenda. Hearing none, Mr. Harris immediately moved to Agenda Item 3, ALIC Chair and HCAI Executive Staff Remarks.

3. ALIC CHAIR AND HCAI EXECUTIVE STAFF REMARKS

- **ALIC Vice Chair**

Mr. Harris made brief comments about the departure of Mr. Kears from the Committee, and then called upon Mr. Scott Christman, HCAI, Chief Deputy Director for his opening remarks at today's meeting.

- **HCAI Chief Deputy Director**

Mr. Christman began his opening remarks by providing highlights of the recently passed state budget for the fiscal year 2023-2024 as they pertained to HCAI and the programs run by Cal-Mortgage. Mr. Christman briefly discussed the funds HCAI will receive in the new budget and the allocation of how the funds would be disbursed to the healthcare workforce development programs; CalRX; Distressed Hospital Loan Program (DHLP); and the Small and Rural Hospital Relief Program (SRHRP).

Mr. Christman then briefly discussed the status of two bills. The first bill, AB 1882 pertains to the messaging to consumers about hospital facilities seismic safety compliance projects, and the second bill AB 2511 pertains to skilled nursing facilities emergency power requirements.

After Mr. Christman concluded his remarks, Committee member Mr. Jonathon Andrus asked Mr. Christman for an update on AB 242. If passed, this bill would make permanent a program that authorizes federally certified Critical Access Hospitals in rural areas to employ physicians as an employee.

There was a brief discussion between Mr. Christman and the Committee about the status of AB 242.

Mr. Andrus then asked Mr. Christman for updates pertaining to the Office of Health Care Affordability (OCHA). Mr. Christman provided a brief background of OCHA's advisory board and advisory committee; the purpose and function of each committee; and their respective activities. At the conclusion of Mr. Christman's opening remarks, Mr. Marion began his opening remarks for this meeting.

- **Cal-Mortgage Deputy Director**

Mr. Marion began his remarks with updating the Committee on the activities of Cal-Mortgage since the last meeting, stating that the program has been busy working with a few applicants for loan insurance.

Mr. Marion said the staff have been very busy focusing their work on the DHLP applications. Mr. Marion provided a brief background and purpose of the DHLP and additional details about partnering with the California Health Facilities Financing Authority to administer the DHLP; and a timeline of milestones the DHLP has achieved to date. Then a detailed discussion between Mr. Marion and the Committee about the DHLP occurred.

Mr. Marion made brief remarks about Mr. Kears, announcing Mr. Kears has officially resigned from the Committee. Mr. Marion gave the Committee a brief history of Mr. Kears' work in the healthcare industry in California and with the Committee. Mr. Marion went on to express on behalf of the Cal-Mortgage program, the citizens of Alameda County, and the state of California how appreciative we all are for Mr. Kears' service and dedication to all of us with his work in the healthcare industry. Mr. Marion said he is working with HCAI's Director's Office to draft a formal resolution to formally thank Mr. Kears for his services and that he will deliver the resolution to Mr. Kears. Mr. Marion said that the program will continue to search to find a new member to fill the vacancy on the Committee left by Mr. Kears, and that if anyone has ideas for a candidate, to please let him know.

Mr. Marion advised the Committee that the reason we are meeting in person today is that the Governor's Executive Order that authorizes virtual meetings expired at the end of June. There is pending legislation in bill SB 544, that amends the Bagley-Keene Act to allow committee meetings to meet via teleconference. The Bill has passed through the Senate and currently resides in the Assembly's Committee on Government Operations. The Bill seems to have support and now needs to find its way through the process. However, if the bill

does pass, likely because most new laws start running on January 1 of every calendar year, we may need to continue Committee meetings in person through 2023.

At the conclusion of Mr. Marion's opening remarks, Mr. Marion asked for questions from the Committee. The Committee members did not have any questions for Mr. Marion. Mr. Harris turned the meeting over to Mr. Christman for the swearing-in of the new Committee member, Mr. Scott Coffin.

4. SWEARING-IN OF NEW COMMITTEE MEMBER

Mr. Christman asked Mr. Marion to introduce Mr. Coffin, to the Committee. Mr. Marion gave a detailed biographical background of Mr. Coffin and his work in the healthcare industry prior to joining the Committee today and said the program is excited to have Mr. Coffin join the Committee. At the conclusion of Mr. Marion's introduction of Mr. Coffin, Mr. Christman spoke on behalf of Elizabeth Landsberg, HCAI Director who was not at today's meeting and himself to express deep appreciation to Mr. Kears for his length of service on the Committee and likewise to Mr. Coffin for joining the Committee. Mr. Christman then swore Mr. Coffin on to the Committee with the Oath of Office. After being sworn on to the Committee, Mr. Coffin made brief remarks recognizing Mr. Kears and his deep roots in Alameda County as well as a coach and mentor to himself.

5. ELECTION OF ALIC COMMITTEE CHAIR AND VICE CHAIR

Mr. Harris announced the need for a new Chair to the Committee and called for nominations. Mr. Derik Ghookasian nominated Mr. Jay Harris for the position of Chair of the Committee. Mr. Geoff Trautman, HCAI Staff Attorney, said a second for the nomination is not needed and provided a few housekeeping rules for the election. Mr. Harris then called for a roll call vote for the position of ALIC Chair. The result of the vote was 5-0 in favor of Mr. Harris becoming the ALIC Chair.

Mr. Harris then nominated Mr. Derik Ghookasian for the position of Vice Chair. Mr. Andrus, second the nomination. Mr. Harris then called for a roll call vote for the position of ALIC Vice Chair. The result of the vote was 5-0 in favor of Mr. Ghookasian becoming the ALIC Vice Chair.

6. APPROVAL OF THE MINUTES OF THE MAY 11, 2023 MEETING

A motion to approve the minutes as written was made by Mr. Jonathon Andrus. Mr. Derik Ghookasian seconded the motion. The motion passed, 5-0.

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7. LOAN INSURANCE APPLICATION REVIEW: ODD FELLOWS HOME OF CALIFORNIA (APPLICANT)

Lauren Hadley, Account Manager

The Applicant is a California Nonprofit public benefit corporation originally established in 1893 that operates two continuing care retirement communities, Saratoga Retirement Community in Saratoga, CA, and The Meadows of Napa Valley in Napa, CA. The purpose of the proposed insured loan of \$72 million is to: (i) refinance the outstanding \$64.63 million of the 2012 Bonds currently insured by HCAI; (ii) fund \$10 million of capital improvements at its two retirement communities; (iii) fund a debt service reserve fund; and (iv) fund the costs of issuance. The Applicant has had an insured loan in the HCAI portfolio since 1993.

Mr. Marion introduced Lauren Hadley, Account Manager for this Applicant to the Committee. Ms. Hadley provided the Committee with a summary background of the Applicant and the project with her recommendation to approve the request for loan insurance before introducing the following representatives present on behalf of the Applicant:

Mary Schoeggl, CFO, PRS, OFHC Management Agency
Amy Hayman, Managing Director, D.A. Davidson & Co
Bill Hendrickson, Principal, Hendrickson Consulting

Ms. Mary Schoeggl, Chief Financial Officer gave an opening statement to the Committee regarding their proposed project. At the conclusion of Ms. Schoeggl's opening statement Mr. Ghookasian opened up the discussion of this loan application with the Applicant to discuss the following subjects related to their project: Applicant's long history with Cal-Mortgage; five-star rating; a Paycheck Protection Program loan; the impact of the COVID-19 pandemic; occupancy of the nursing facilities in Napa and Saratoga; skilled nursing; skilled nursing regulations; payer mix; Medi-Care and the breakdown of Medi-Care patients; private rooms; long term care under the state's Medi-Caid program; independent living; adapting to the market; marketing plan; staffing issues; wages; technology; strategic planning and PRS perspective; new Chief Executive Officer; refinance of debt and the savings gained; older construction on the campuses; and the impact of the wildfires in Napa including significant cost increases of insurance rates due to the wildfires.

At the conclusion of this discussion, 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 loan application project. Mr. Harris then called for a motion to vote on the loan application project. Mr. Jonathon Andrus made the motion to approve the application for loan insurance. Mr. Scott Coffin seconded the motion.

The Committee voted to approve the application. The motion passed unanimously, 5-0.

There was a brief break in the meeting upon approval of the loan application.

8. DEPUTY DIRECTOR'S REPORT

- **Project Monitoring – Dean O'Brien**

Mr. Harris called upon Mr. Dean O'Brien, HCAI, Cal-Mortgage Supervisor to present the Project Monitoring report. Mr. O'Brien informed the Committee he did not have any significant updates for this report. Mr. O'Brien said that the Cal-Mortgage staff has been doing a good job to track down the financial statements of our borrowers. Saying further we are still seeing significant delays of the audited financials coming in due to staffing issues on the auditors side and back-office staff. We are doing our best to work with our projects granting waivers and extensions to provide the overdue financial statements.

Mr. O'Brien said the Debt Service Coverage Ratio (DSCR) has a slight uptick in value. Waiting to see if this improvement is a trend. The financial statements are not necessarily year-end statements. Most of the financial statements we have received are internally prepared. Given the current market we are in across all facility types, Mr. O'Brien is hesitant to call the slight improvement to the DSCR a trend.

Mr. O'Brien reported the staff is doing their best to get out and visit their projects now that things are back open again. By visiting our projects, we hope to create some new business and help the projects that seem to be struggling. Mr. O'Brien then reviewed with the Committee a short list of our projects where a site visit recently took place, is in progress, or has been scheduled.

At the conclusion of Mr. O'Brien's report the Committee did not have any questions for this report. Mr. Marion then introduced Ms. Consuelo Hernandez, HCAI, Cal-Mortgage Supervisor to present the Pending Projects Report.

- **Pending Projects – Consuelo Hernandez**

Ms. Hernandez informed the Committee that since the last Committee meeting, we successfully closed two projects, Community Medical Centers, Inc. and Aldersly, Inc.

Ms. Hernandez then stated two projects have been added to the Pending Applications list. However, the August Committee meeting will likely be canceled, but we will likely have a September Committee meeting with potentially two projects to present their application for loan insurance. The first application is from

Ararat Home of Los Angeles, Inc. They are seeking a loan to make capital improvements to their facility. The second application is from Alexander Valley Healthcare located in Cloverdale. They are seeking a loan to perform a complete renovation of a three-story facility they are in the process of purchasing. This project will allow them to consolidate the number of the clinics they operate in the area.

The Committee did not have any questions for Ms. Hernandez at the conclusion of her report. Mr. Harris then called upon Mr. Marion to present the Problem Project Report.

- **Problem Project Report – J.P. Marion**

Mr. Marion discussed the borrowers that are experiencing financial difficulties and the action plan devised to address each borrower as well as additional borrowers that we are tracking on our Watch List, and potentially may be added to a future Problem Project Report. Mr. Marion then provided the Committee with additional updates on the following borrowers:

California Nevada Methodist Homes (CNMH): Mr. Marion gave the Committee an update of CNMH's current status in their bankruptcy case and sale to Pacifica Senior Living (Pacifica) that includes a \$15 million Take Back Note. Monthly payments on the Take Back Note are being made as anticipated. Mr. Marion said there were no objections to the final bankruptcy plan and the bankruptcy court approved the plan on July 7, 2023. Mr. Marion said the program recently received the first distribution from the bankruptcy estate. The distribution was smaller than expected, but noted the bulk of the program's recoupment will be from the Take Back Note that is outstanding.

San Benito Health Care District (San Benito): Mr. Marion gave the Committee a brief update about this borrower's financial situation and said since the last Committee meeting San Benito filed Chapter 9 bankruptcy. Mr. Marion advised the Committee of the reasons for filing bankruptcy while they look for a suitor or partner. He also noted San Benito is currently in a non-disclosure agreement with an interested party that is very serious, and there is a possibility of a binding term sheet being signed within the next week or two. At some point the agreement with the interested party will become public as San Benito will have to seek approval of the agreement from the bankruptcy court. As soon as the binding term sheet is made public the program will know the name of the interested party in this transaction.

Mr. Marion then answered questions from the Committee specific to San Benito.

Verdugo Mental Health: This borrower is now a direct note with Didi Hirsch, which took over Verdugo through bankruptcy and is now making payments on their direct note as agreed upon.

Jewish Home of San Francisco: Mr. Marion said this project is on our Watch List. He gave an update of this borrower and their struggles of liquidity. Their census seems to be improving at the facility. They have officially hired a new CEO, Dr. Adrienne Green. We will conduct a site visit with Dr. Green in the near future once she has settled into her new position.

There was a brief conversation between Mr. Marion and the Committee covering the subjects of Dr. Green and issues distressed hospitals are currently facing in a post COVID-19 pandemic environment.

Asian Community Health Care Centers: Mr. Marion said this borrower has a similar situation to Jewish Home of San Francisco. We are currently monitoring their situation.

Hill Country Community Clinic (Hill Country): Mr. Marion and Mr. O'Brien gave the Committee a detailed history and report of their current financial issues. A site visit is planned. Mr. Marion said we continue to monitor this borrower closely and they will be a new project on the Problem Project Report next month.

9. FUTURE AGENDA ITEMS/ANNOUNCEMENTS FROM COMMITTEE MEMBERS

There was no discussion made under this agenda item.

10. GENERAL PUBLIC COMMENT

No public comments were made.

11. ADJOURN

Mr. Harris made a motion to adjourn the meeting and the meeting was adjourned at 12:46 p.m.

The Minutes of the above meeting were approved during the meeting of the Committee held on September 21, 2023.

Jay Harris, Chair

Joanna Luce, Executive Secretary

Agenda Item 5 – Ararat Home of Los Angeles, Inc. Project

**Cal-Mortgage Application
September 21, 2023 ALIC Meeting**



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Exhibit II Proposed Bond Model

Exhibit III Audited Financial Statements FYE 2018 – 2022

Exhibit IV Interim Financial Statements YTD June 30, 2023

Exhibit V Financial Feasibility Report

PROJECT SUMMARY & FEASIBILITY ANALYSIS

For the September 21, 2023 Meeting of the Advisory Loan Insurance Committee

Project Summary

Applicant: Ararat Home of Los Angeles, Inc. (Corporation)
15105 Mission Hills Road, Mission Hills, CA 91345

Project No.: 1092

Account Manager: Dennis Lo

Executive Summary:

The Corporation is a California nonprofit public benefit corporation exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code, and exempt from California State income taxes under provisions of the California Revenue and Taxation Code. The Corporation was incorporated in 1949. The Corporation owns and operates a Continuing Care Retirement Community (CCRC) in Mission Hills, California (Ararat Home), and a skilled nursing facility in Eagle Rock, California (Eagle Rock SNF). In addition, the Corporation recently acquired a CCRC in Glendale, California (Ararat Gardens). The three campuses in total offer 73 Independent Living (IL) units, 153 Assisted Living (AL) units, and 324 beds in three Skilled Nursing Facilities (SNFs). While the Corporation promotes Armenian heritage and culture in America, admission is open to individuals aged 60 or older regardless of race, religion, or national origin.

The proposed insured loan of \$10,485,000 (the 2023 Bonds) will be used to partially reimburse the Corporation for the acquisition of Ararat Gardens (Project) in March 2023. The purchase price of Ararat Gardens was \$14,500,000.

Project Description and Current Facility:

Ararat Gardens, formerly known as Windsor or Windsor Manor, is an existing CCRC located at 1230 E. Windsor Road, Glendale, California, situated on a 2.56-acre site. The 115,209 square foot community was constructed in 1972 and had recently completed a partial renovation. Ararat Gardens currently has 73 IL units, 39 AL units, and 28 SNF beds. The facility is comprised of the primary building, which is part one-story and part four-story, with a subterranean basement and three cottage style, duplex units. The primary building features a central courtyard and surface parking areas at the southeast and northwest portion of the site. There is a lobby area with a reception desk. Most of the administrative offices are located adjacent to the main lobby. Common areas include activity rooms, a dining area, therapy room and a private dining room. The basement also features a theatre, billiards room and meeting room. There are resident laundry rooms and a commercial laundry area. The nursing care wing contains a separate and secured resident "pod" containing a dining area, warming kitchen, common television, and activity room along with the resident rooms. All support areas, including a full commercial kitchen and commercial laundry room, are located at the central portion of the property. Ararat Gardens also includes a 9,137-square foot site, considered to be excess land, currently used for overflow parking.

The Ararat Home sits on approximately 10.5 acres in the Mission Hills neighborhood of the San Fernando Valley and is comprised of two parts. The first part, at 15101 Mission Hills Road, consists of the Sheen Memorial Chapel, the Eskijian Museum, the George Deukmejian Grand

Ballroom, and the administrative offices in addition to 114 AL units. The second part, at 15099 Mission Hills Road, is a 254-bed skilled nursing facility.

The Eagle Rock SNF, also known as the Ararat Convalescent Hospital, is located at 2373 Colorado Boulevard, Los Angeles, CA 90041. It was purchased in 1980 and is licensed as a 42-bed SNF.

In 2018 and 2019, the Corporation purchased approximately 14-acres of vacant parcels adjacent to the Ararat Home intended for future development of an entrance fee based CCRC within the next two to five years.

Financing History with HCAI:

The relationship between the Department of Health Care Access and Information (HCAI) and the Corporation dates back over 32 years. In 1991, HCAI insured a \$6.50 million Certificate of Participation (COP) for a 97-bed expansion of the Corporation's SNF. The COP was refinanced in April 1998 with a \$6.46 million bond series (1998 Bonds) that was insured by HCAI. The 1998 Bonds were refinanced in November 2012 (2012 Bonds) with a \$2.99 million bond series that was insured by HCAI. The 2012 Bonds were paid off on June 1, 2021.

Corporation Background:

The Corporation was founded in 1949 by a group of Armenian-Americans who recognized the need for a facility to care for elderly Armenians in Los Angeles. Upon the purchase of a large, two-story house at 3730 West 27th Street in the West Adams district of Los Angeles in 1951, the Corporation welcomed its first seven residents. The growing demands of an aging population in the following four decades prompted the Corporation to acquire the current site of Ararat Home in 1981 and gradually turn it into a CCRC in the next two decades.

Executive Management:

Chief Executive Officer (CEO): Derik Ghookasian joined the Corporation in November 2006 as Controller. From 2013, Mr. Ghookasian became the Corporation's Chief Operating Officer (COO) for 10 years. Mr. Ghookasian was promoted as the Corporation's CEO in May 2023. During his time being the COO of the Corporation, Mr. Ghookasian also picked up the duties of CEO and Chief Financial Officer as the Board of Trustees chose not to hire those positions and kept a lean top management structure. There are four Executive Directors/Administrators working under the CEO, with each of them in charge of one AL/SNF facility. Mr. Ghookasian holds a bachelor's degree in accounting and a master's degree in business administration at Woodbury University, Burbank.

Medical Directors (MD):

Ararat Gardens – Meri Antossyan joined Ararat Gardens as Associate Medical Director in December 2019 and became the MD of Ararat Gardens SNF since June 2020. In addition to Ararat Gardens, Dr. Antossyan is also the MD of Outpatient Clinic at the Vitivity Family Medicine Center of Adventist Health Glendale Family Medicine Residency Program. Dr. Antossyan holds a doctorate degree in osteopathic medicine at Western University of Health Sciences.

Ararat Home – Shovek Boyadjian joined Ararat Home as Medical Director in 2019.

Dr. Boyadjian is a primary care physician in Los Angeles and the MD of another SNF, Grand Valley Skilled Nursing Facility. Dr. Boyadjian holds a doctorate degree in medicine at Yerevan State Medical Institute and had residences at Jewish Hospital, Cincinnati, Ohio.

Eagle Rock SNF – Samvel Hmayakyan has become the Medical Director of Eagle Rock SNF this year. Dr. Hmayakyan has also been the MD of Glenoaks Convalescent Hospital, Glendale Postacute Care Center, and Alameda Care Center. Dr. Hmayakyan specializes in family practice and licensed at California Medical Board since 1998.

Board of Trustees:

According to the Corporation’s bylaws, the Board of Trustees (Board) consists of 24 member trustees, who are members of the Corporation. Eight additional trustees may be appointed from time to time by a two-thirds vote of the Board. Each trustee holds office for a period of three years. The election of trustees is staggered so as to elect no more than one-third of the trustees at one time. The Board currently has 24 members as shown below.

Name	Background	Term
Sinan Sinanian (<i>Chair</i>)	Real Estate Developer	2025
Joseph Kanimian, Esq. (<i>1st Vice Chair</i>)	Attorney	2025
Richard Jebejian (<i>2nd Vice Chair</i>)	Retired	2024
Onik Tajirian (<i>Resident Rep.</i>)	Retired	2024
Vahe Vartanian (<i>Treasurer</i>)	Real Estate Management	2026
Aram Youssoufian, M.D. (<i>Asst. Treas.</i>)	Retired	2025
Peter Darakjian (<i>Secretary</i>)	Real Estate Consultant	2024
Deborah Avedian (<i>Asst. Secretary</i>)	Retired	2026
Takoohi Josephian (<i>Resident Rep.</i>)	Retired	2024
Nazar Ashjian, CPA	Accountant	2024
Harout Raffi Balian, M.D.	Physician	2024
Vatche Bardakjian, M.D.	Physician	2025
Shahe Boyadjian	Retired	2026
Alexis Gevorgian	Real Estate Developer	2025
Marguerite Goschin	Retired	2026
Gary Kaloostian	Retired	2025
Rafi Mardirosian	Facility Manager	2024
Haroutioun Mesrobian, M.D.	Physician	2024
Ron Nazeley	Retired	2026
Joseph G. Ouzounian, M.D.	Physician	2026
Kohar Mardirossian Pelter, RN	Retired	2026
Burj Shahbazian	Mortgage Banker	2024
Michael Surmeian	Marketing Consultant	2025
Robert Taylor	Retired	2024

Succession Plan:

There are no anticipated changes in the senior management team. According to the Corporation’s Succession Plan, the four Executive Directors/Administrators, along with the Corporation’s management staff will continue to run the day-to-day operations in the event the CEO’s position becoming vacant, until the Board identifies a suitable candidate to fill the role.

Credit Rating and Premium:

The Corporation will not obtain independent credit rating for the proposed 2023 Bonds. The premium for insuring the 2023 Bonds is 3.0 percent. The Certification and Inspection Fee is 0.4 percent. The total premium and fee are approximately \$542k.

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 Corporation is eligible for 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 three SNFs (Mission Hills, Eagle Rock, and Glendale) by the California Department of Public Health (CDPH) and is licensed with the California Department of Social Services (CDSS) as a RCFE at Mission Hills (Ararat Home) and CCRC at Glendale (Ararat Gardens).

According to the CDSS website, there were no citations against Ararat Home in the last four years. There were only two years of record with Ararat Gardens on the website. No citations were found.

According to CDPH's website, there were one Type A citationⁱ against Ararat Home, one Type B citation each against Eagle Rock SNF and Ararat Gardens (before the acquisition), in the first quarter of 2023. Plans of correction have been submitted for all the above incidents.

An inquiry was also sent on July 31, 2023, to the California Department of Health Care Services who replied that there were no Medi-Cal audit findings with the Corporation.

The Centers for Medicare & Medicaid Services (CMS) provides information and ratings for consumers about nursing homes. The ratings range from one to five stars, combines results and data from health inspections, staffing, and quality measures. A star rating is calculated for each of these three sources, along with an overall rating. A three-star rating is considered as average while a four-star rating is considered as above average. All of Ararat Home, Eagle Rock SNF, and Ararat Gardens obtained four-star overall ratings as of July 2023.

Services and Fee Structure:

Ararat Home/Eagle Rock SNF

There are two residence agreements to choose from at Ararat Home: a Residential Admission Agreement or Care and Residence Agreement. The former one is used for prospects wanting an AL unit rental option whilst the latter one offers continuing care (AL unit and SNF bed) to residents. There are one-bedroom and two-bedroom choices of AL units and neither choice comes with an individual kitchen. With monthly fees ranging from \$3,800 to \$7,200, residents receive standard services that include three meals per day, housekeeping, air conditioning, gardening, utilities supply, television and internet services, and transportation to nearby medical and dental appointments. Ararat Home does not charge entrance fees for new residents, except a one-time community fee of \$4,000.

ⁱ Type A Citation is defined as an incident that causes imminent danger of death or serious harm to patients, or a substantial probability of death or serious physical harm to patients. Type B Citation is defined as an incident that causes a direct or immediate relationship to patient health, safety, or security. The impact can include emotional and financial elements.

The Corporation will evaluate resident’s care needs by their functional capabilities, physical status, mental condition, and social factors. If a resident is assessed and needs a higher level of care they will be transferred to a SNF (at Ararat Home or Eagle Rock SNF). At that time the resident will sign a SNF Admission Agreement. Residents in SNF receive the same standard services as those for AL residents, in addition to 24/7 nursing care. The Ararat Home SNF offers private room and semi-private room for residents for daily rate of \$360 and \$340, respectively. The Eagle Rock SNF has various choices of room type for residents, from private room to six-bed room, for daily rate ranges between \$250 and \$300. Based on the Financial and Utilization Reports (HCAI Reports) submitted to HCAI by the Corporation, the payor mix of SNF census and revenue of Ararat Home and Eagle Rock SNF is shown in the following table.

Payor (SNF)	Patient Days			Net Patient Revenue		
	2022	2021	2020	2022	2021	2020
HMO/Managed Care*	72.3%	70.2%	76.2%	60.5%	57.3%	69.5%
Medicare	16.8%	19.7%	10.9%	30.1%	34.2%	16.2%
Medi-Cal	7.7%	7.5%	10.8%	5.8%	5.8%	10.3%
Private	3.2%	2.6%	2.1%	3.6%	2.6%	4.0%
Occupancy	91.2%	83.1%	84.1%			
*Most HMO/Managed Care payments are Medi-Cal Managed Care.						

Ararat Gardens

There are two Care and Residence Agreements at Ararat Gardens: one for an entrance fee model and the other one for rental basis. Both agreements offer continuing care option to residents. There are seven room types for IL units, from studio to cottage. Monthly fees range from \$5,160 to \$10,640. An additional monthly fee of \$1,850 will be charged to the second person sharing the same room. For AL units, the facility provides three room types, which are studio, suite, and one-bedroom units. Monthly base rates for AL units range from \$6,730 to \$10,260, with an additional \$1,000 for each level of care, starting from level one to level four. A second person pays the same second fee amount as the IL unit. Residents in IL and AL units will be provided standard services that are similar to those at Ararat Home. A community Fee of \$4,000 will be charged to new residents.

Residents will be required to sign a Health Facility Resident Admission Agreement when they are transferred to the SNF for 24/7 nursing care. Daily rates are \$600 for a private room and \$430 for a semi-private room. Supportive health care and rehabilitative services are available for extra charges. Based on the financial data report submitted to HCAI by the Corporation, the payor mix of SNF census and revenue of Ararat Gardens is shown in the following table:

Payor (SNF)	Patient Days			Net Patient Revenue		
	2022	2021	2020	2022	2021	2020
HMO/Managed Care*	40.0%	31.4%	23.0%	42.2%	32.7%	25.2%
Medicare	27.6%	20.1%	14.8%	28.7%	26.3%	21.5%
Medi-Cal	4.7%	11.9%	19.2%	4.3%	9.7%	18.4%
Private	27.8%	36.6%	43.0%	24.8%	31.4%	35.0%
Occupancy	68.4%	75.6%	79.7%			
*Most HMO/Managed Care payments are Medi-Cal Managed Care.						

Sources and Uses of Funds:

The sources and uses of funds of the 2023 Bonds are summarized as follows:

Sources:		Amount
Par Amount		10,485,000.00
Premium		703,340.45
		<u>11,188,340.45</u>
Other Sources of Funds:		
Ararat Equity		4,500,000.00
Equity for COI		286,325.70
		<u>4,786,325.70</u>
Total Sources of Fund		<u>15,974,666.15</u>
Uses:		
Project Fund Deposits: Reimbursed		
AG Purchase		10,000,000.00
Non-Reimbursed AG Purchase		4,500,000.00
		<u>14,500,000.00</u>
Other Fund Deposits:		
Debt Service Reserve Fund		418,000.00
Delivery Date Expenses:		
Cost of Issuance		510,092.50
Cal-Mortgage Insurance Premium (3.0%)		500,193.75
Cal-Mortgage Certification & Inspection Fee		41,940.00
		<u>1,052,226.25</u>
Other Uses of Funds:		
Additional Proceeds		4,439.90
Total Uses of Fund		<u>15,974,666.15</u>

Financing:

The 2023 Bonds are projected to have total proceeds of \$11,188,340.45, from a par amount of \$10,485,000 and premium of \$703,340.45. They will be financed through tax-exempt (revenue) bonds issued by the California Municipal Finance Authority and insured by HCAI with the following terms:

1. The bond series will have a 20-year term and mature in 2043.
2. All bonds are to be issued at fixed rates. Average coupon rate is 5.0 percent with a true interest cost of 4.2 percent.
3. Average annual debt service is \$850,187.68 and the Maximum Annual Debt Service (MADS) is \$836,000.00.
4. The Debt Service Reserve Fund is \$418,000, which is 50 percent of the MADS.

Financing Team:

Role	Entity
Auditor	Wipfli, LLP
Bond Counsel	Orrick Herrington & Sutcliffe, LLP
Underwriter	B.C. Ziegler and Company
Borrower Counsel	Hanson Bridgett, LLP
Issuer	California Municipal Finance Authority
Trustee and Escrow Agent	U.S. Bank Trust Company, NA
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 following table:

Facility	Address	APN
Ararat Gardens	802, 810, 814 South Chevy Chase Drive, Glendale, CA 91205	5679-032-001
	1219 East Garfield Avenue, Glendale, CA 91205	5679-032-004
	1230 East Windsor Road, Glendale, CA 91205	5679-032-005
		5679-032-008
		5679-032-016

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.

In view of the insured loan amount, loan-to-value ratio, and purpose of the 2023 Bonds, the real property and personal property of Ararat Home and Eagle Rock SNF will not be pledged to the 2023 Bonds as collateral.

Appraisals and Loan-to-Value Ratio:

James Graber, MAI, of CBRE, Inc., prepared the appraisal report dated March 10, 2022 (Appraisal Report) for Ararat Gardens. Based on the income capitalization approach, the "as-is going concern" market value of Ararat Gardens was \$16,800,000, plus \$1,050,000 excess land value. The remaining economic life is 35 years.

Based on the approval loan amount of \$10,485,000, the loan-to-value ratio of the 2023 Bonds is 58.7 percent. When the Corporation is ready to do it's larger expansion project on the vacant

parcels of land at Ararat Home, HCAI will consider taking all remaining real estate collateral for that financing.

Market Analysis:

The following market analysis, which is based on the Appraisal Report, focuses on Ararat Gardens and the city of Glendale.

Neighborhood Description

Ararat Gardens is in Glendale which is considered a suburban location. The community is primarily surrounded by residential properties and contains several recreational areas including Griffith Observatory, golf courses, parks, and conservation areas. The area also includes many notable retailers, restaurants, barbers, banks, salons, and dentists.

In general, the neighborhood is supportive to seniors living communities. The neighborhood contains healthcare providers, access to area highways, employment centers, and convenient amenities. There are also redevelopments of older structures and are considered to benefit Ararat Gardens.

Market Competition

The Appraisal Report defined a Primary Market Area (PMA) as an area within 5 miles of radius from Ararat Gardens. There are 29 senior living facilities within the PMA, totally providing 288 IL units, 817 AL units, and 1,650 SNF beds. In addition, there are nine senior living facilities that offer comparable services and direct competitors identified within the PMA and its surrounding area, providing 344 IL units, 399 AL units, and 536 SNF beds.

Penetration Analysis

Based on the senior population, household income distribution, the Appraisal Report determined the numbers of qualified households in the PMA. Together with the supply from the above 29 nearby facilities, the penetration rates of the PMA for IL, AL, and SNF are 1.13 percent, 3.20 percent, and 6.45 percent, respectively. Considering the average occupancies (IL-82.2 percent, AL-74.6 percent, SNF-88.9 percent) of the above nine direct competitors, it is concluded that the PMA is a “Low Penetration/High Occupancy” market. The high occupancy indicates that the local population is accepting the senior living facility with significant room for expansion. This market also suggests a higher than typical ratio of residents emanating from outside the defined PMA, or above market net in-migration. This market suggests strong occupancy, stable rent growth, and healthy absorption for proposed properties.

Environmental:

Ecobility Corporation has performed a Phase I Environmental Site Assessment at Ararat Gardens and prepared a report (Phase 1 Report) on July 28, 2023. The Phase I Report was submitted to the Department of Toxic Substances Control for review.

Outstanding Litigation:

The Corporation is not currently involved in any litigation.

Financial Performance Analysis:

The following table summarizes the Corporation's audited financial performance from the fiscal year ended December 31, 2019, to June 30, 2023:

Dollars in Thousands (except the ratios)	Fiscal Year Ended December 31,				6-month Internal
	2019	2020	2021	2022	6.30.23
Cash & Cash Equivalents	12,927.7	17,085.8	18,750.7	19,666.6	5,316.5
Current Assets	17,103.1	22,202.3	24,852.7	25,182.1	11,050.5
Total Assets	79,679.2	85,608.1	89,509.3	85,270.3	87,066.3
Current Liabilities	2,578.9	3,794.7	2,827.5	3,215.5	3,060.7
Total Liabilities	2,991.4	3,794.7	2,827.5	3,215.5	3,392.9
Net Worth	76,687.8	81,813.4	86,681.9	82,054.7	83,673.4
Operating Revenue ¹	33,957.5	34,722.6	36,221.6	38,703.4	23,588.5
Operating Expenses	31,383.8	33,498.3	34,783.1	39,276.6	23,402.8
Operating Income	2,573.7	1,224.3	1,438.5	(573.2)	185.8
Net Income	8,214.9	5,125.6	4,868.5	(4,627.1)	1,743.7
Operating Margin	7.58%	3.53%	3.97%	-1.48%	0.79%
Debt Service Coverage Ratio	16.65	16.59	n/a	n/a	6.81*
Days Cash on Hand	330.23	375.61	404.75	335.48	179.88
Current Ratio	6.63	5.85	8.79	7.83	3.61
*The Debt Service Coverage Ratio (DSCR) in June 2023 was estimated based on the MADS of 2023 Bonds.					
¹ The Operating Revenue includes patient revenue, donations, and net assets released from restrictions, but excludes interest incomes and other incomes. Figures are different from audited financial statements.					

The Corporation has spent \$14.5 million cash to acquire Ararat Gardens in 2023. That explains the drop of cash in this year. The Corporation has maintained very low debt level over years and has not had any long-term debts since the fiscal year 2021 when the 2012 Bonds fully matured. The Corporation has a \$400k line of credit with Citibank, with no outstanding balances in the last two fiscal years end.

In terms of operation performance, the Corporation recorded positive net income until the fiscal year 2022. The -\$4.6 million net loss was largely from an ~\$4 million unrealized investment loss. The personnel expense, which increased by \$2.8 million in the fiscal year 2022, an approximate 12 percent jump year-over-year, is another reason for the operating loss last fiscal year.

Since the acquisition of Ararat Gardens took place in March 2023, the internally prepared financial statements as of June 2023 (four months) have not completely reflected the impact to the Corporation's operation and financial performance from the acquisition. Strategically speaking, the Corporation had been considering options for expansion of services over the past 10 years and they purchased the vacant lots on Mission Hills Road, right next to the campus of Ararat Home, a few years ago, with the intention of constructing a CCRC. The Corporation expects the acquisition of Ararat Gardens will provide valuable experience in running IL facility that could help operating the new community to be built in Mission Hills.

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 rental basis multilevel facilities in the Cal-Mortgage portfolio having operating revenues between \$14 million and \$35 million for the fiscal year 2022. The financial statistics used are from the most recently completed audits for each facility.

Rental Basis Multilevel Senior Living Facility Comparisons in Cal-Mortgage Portfolio				
Project	Area	CR	DSCR	DCOH
<i>The Corporation</i>	<i>Mission Hills</i>	3.90	5.48	111
Inland Christian Home	Ontario	5.70	3.37	161
Town and Country	Santa Ana	5.87	0.79	237
California Armenian Home	Fresno	3.01	2.34	87
The Redwoods	Mill Valley	1.70	3.33	119
	Average	4.04	3.06	143
	Median	3.90	3.33	119

When comparing the Corporation’s performance to the overall average in its peer group, its liquidity ratios rank close to the median and average, while its debt service coverage ranks better than the average.

Community Needs/Benefit:

The Corporation considers the unique needs and identities of their residents, regardless of their cultures, languages, values, family histories, abilities or disabilities, or other factors. Several members of Ararat's staff speak Armenian, Spanish, Tagalog, or Russian, enriching the experience of non-native English-speaking residents. The Corporation assures that their staff are trained in culturally competent care, and it recruits staff from diverse backgrounds to help create a safe, trusting environment for residents.

The Corporation also meets the alternative criteria under Section 129085 as it subsidizes the costs of residents' care as needed. The Corporation subsidizes residents who encounter financial hardship at all levels of care based on need, provided they did not divest their assets or otherwise engage in conduct to accelerate their qualification for a subsidy. The Corporation also accepts residents insured by Medi-Cal in their SNFs.

Feasibility Analysis

Feasibility Study Summary:

A Financial Feasibility Report dated July 20, 2023 (Feasibility Study), was prepared by Bill Hendrickson from Hendrickson Consulting for the proposed 2023 Bonds. The Feasibility Study assumes:

1. A \$11.19 million bond issuance will be used to reimburse the Corporation for the purchase of Ararat Gardens in 2023.
2. The forecasts are based on the historical financial information and occupancy data.
3. The forecasts are based on a maximum coupon rate of 5.0 percent and a 20-year term. Semi-annual interest and principal payments to bondholders will begin on May 15, 2024.

The Feasibility Study forecasts financial statements for the period of FY 2023 to FY 2028 and concludes that:

1. The DSCR is expected to exceed 3.0x MADS.
2. Cash to long-term debt ratio is expected to be at 170 percent or above.
3. The DCOH is expected to exceed 225.

Occupancy Assumptions:

IL/AL

The occupancy assumptions were based on historical figures: the past two and a half years as of June 2023 for Ararat Home/Eagle Rock SNF, and three months since acquisition (April to June 2023) for Ararat Gardens. The projected occupancy for Ararat Home's AL will gradually improve from 72.8 percent in 2023 to 78.9 percent in 2025 and after. The projected occupancies for Ararat Gardens' IL and AL are 90.4 percent and 89.7 percent, respectively.

According to the Feasibility Study consultant, the Ararat Home's AL census was at approximately 90 percent before the Covid-19 pandemic. It dropped to 70 percent in 2021 and climbed back up to 73 percent as of June 2023. The Corporation expects that the AL occupancy will gradually improve in the next few years. As to the census of Ararat Gardens' IL/AL, the occupancy maintained at 75 percent to 80 percent between 2020 and 2022 and surged to 87 percent for IL and 85 percent for AL as of June 2023.

The occupancy projection assumptions are based on current levels and reflect a 3-5 percent increase over the projection before stabilizing at approximately 90 percent for each level of care. Given the surging trend of occupancy and the Corporation's experience managing occupancy levels over the last several decades, this assumption seems reasonable. In addition, it should be noted the overall revenue generated from Ararat Gardens' IL and AL will be approximately only 11.6 percent of the Corporation's total revenue in 2023, therefore, a lower-than-expected occupancy growth will cause only a mild financial impact to the Corporation (see Sensitivity 1 for details).

SNF

The consolidated SNF's occupancy of Ararat Home and Eagle Rock is currently at 91.2 percent and the projection will be approximately 1 percent better than the current level at 92.6 percent. The Ararat Gardens SNF's census is projected to increase to 85.7 percent from the current occupancy level at 82.1 percent between March and June 2023.

According to the HCAI Reports, the consolidated SNF's occupancy of Ararat Home and Eagle Rock was above 98 percent in 2018 and 2019, then dropped to mid-80 percent during the pandemic but climbed back up to 91.2 percent in 2022. The Ararat Gardens SNF's occupancy was 81.9 percent in 2018, kept at 75 percent to 79 percent between 2019 and 2021, and dropped to 68.4 percent in 2022. While the projection of Ararat Gardens' SNF is above the track record, the combined occupancy projection of all three SNFs is 90.1 percent, which is 0.9 percent higher than that in 2022 and 6-7 percent lower than those in 2018 and 2019. The SNF occupancy assumption is considered reasonable.

Monthly Fees Assumptions:

IL/AL

Monthly fees for both Ararat Home's AL and Ararat Gardens' IL/AL are assumed to be increased at 4.5 percent annually. Average monthly fees for Ararat Home's AL will be increased from \$3,100 in 2023 to \$3,863 in 2028. Ararat Gardens' average monthly fees will be increased from \$4,688 to \$5,841 for IL and from \$7,576 to \$9,441 for AL, respectively.

Per the Feasibility Study, the average monthly rate of Ararat Home's AL increased at 12 percent in 2022 while the operating expenses increased at 12.5 percent at the same time. The Corporation has profound experience in operating a RCFE and it is reasonable to believe that the Corporation will adjust monthly fee based on their fiscal budget and market pricing levels.

SNF

Daily rates of SNFs for Ararat Home, Eagle Rock SNF, and Ararat Gardens are assumed to be increased between 3.1 percent and 3.4 percent annually in the projection. The average SNF daily rates of Ararat Home/Eagle Rock SNF will be increased from \$300 in 2023 to \$352 in 2028 for Medi-Cal/Medi-Cal Managed Care, and from \$640 in 2023 to \$750 in 2028 for Medicare. Ararat Gardens' SNF will expect an average daily rate increase from \$363 in 2023 to \$426 in 2028 for Medi-Cal/Medi-Cal Managed Care, and from \$545 in 2023 to \$638 in 2028 for Medicare.

Based on the data of HCAI Reports between 2008 and 2022, the average SNF daily rate (SNF Revenue / Patient Days, excluding ancillary services) increased at 7.6 percent per annum amongst all payors at Ararat Home/Eagle Rock SNF and at 4.2 percent per annum at Ararat Gardens' SNF. The SNF daily rate assumptions are reasonable.

Investment Income, Contributions, and Other Income:

Contribution income, including assets released from restrictions, was projected to increase at 3.5 percent per year between 2024 and 2028, starting from \$1.3 million in 2024 to \$1.5 million in 2028. The actual contribution received by the Corporation between the fiscal year 2018 and 2022 in average was \$1.4 million per year. While there were not any increasing trends of contributions received by the Corporation over the last few years, the contribution assumption is within 10 percent of the historical average, which is considered reasonable.

Investment earnings are estimated at 3.5 percent of cash and investment balances and 3.0 percent of the Debt Service Reserve Fund balance as of the previous fiscal year end, with an annual average of \$1.2 million between 2024 and 2028. The Corporation had made \$2.4 million to \$2.9 million interest and investment income annually since the fiscal year 2019, until the fiscal year 2022 when they recorded -\$3.6 million loss (-\$4.1 million unrealized investment loss, -\$0.3 million realized investment loss, \$0.8 million interest and dividend income). An average annual return of \$1.2 million was made in the last four years, therefore investment income assumption seems reasonable.

Expense Assumptions:

The Feasibility Study assumed that the Corporation's operating expenses will be increased by 3.5 percent annually between 2024 and 2028. Based on the audited financial statements between fiscal years 2018 and 2022, the personnel expenses increased from 3.9 percent to 11.9 percent annually, with an average of 7.1 percent. The total operating expenses increased from 3.3 percent to 13.6 percent annually, with an average of 6.8 percent. The substantial increase of operating expenses happened in the fiscal year 2020, when the pandemic hit the

country, and the fiscal year 2022, when the labor market was severely constrained and material inflation was at the highest level over the last three decades (by US Consumer Price Index). Without considering 2020 and 2022 figures, the Corporation’s operating expenses increased at 3.6 percent annually in average. While the inflation and labor market will still be challenging in 2023, the expense assumption of 3.5 percent is considered appropriate from a 5-year projection perspective.

Financial Projections:

Fiscal Year End	Actual		Projection					
	2021	2022	2023	2024	2025	2026	2027	2028
DSCR	N/A	N/A	3.86	3.68	4.04	4.16	4.29	4.42
DCOH	407	341	250	233	231	229	227	226
Cash for DS ('000)	\$5,642	\$2,164	\$3,227	\$3,074	\$3,371	\$3,472	\$3,580	\$3,694
Cash to LT Debt	N/A	N/A	179%	185%	194%	205%	219%	236%

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 three sensitivity scenarios covered in the Feasibility Study. The resulting financial covenants projection at fiscal years end 2024 to 2028 for the base case and each of the sensitivity scenario are summarized as follows:

Financial Ratios Projection					
Fiscal Year End	2024	2025	2026	2027	2028
Base Case					
DSCR	3.68	4.04	4.16	4.29	4.42
DCOH	233	231	229	227	226
S1 – Lower Occupancy					
DSCR	3.07	3.12	3.17	3.22	3.28
DCOH	230	223	216	210	204
S2 – Higher Expenses					
DSCR	3.12	2.92	2.41	1.85	1.25
DCOH	228	218	206	191	173
S3 – Higher Interest Rate					
DSCR	3.24	3.57	3.68	3.29	3.92
DCOH	232	230	227	225	224

Sensitivity 1: Occupancies at all facilities remain unchanged, no occupancy growth in the projection.

Sensitivity 2: Operating expenses increased from 3.5 percent per year to 4.4 percent per year.

Sensitivity 3: Interest rates of the 2023 Bonds increase by 1 percent, causing an extra \$100,000 interest expense per year.

Staff Comment:

All the above sensitivity scenarios are possible, particularly the scenario 1 and 2, and maybe even a combination of both. While the Corporation has been performing well financially and has ample liquidity for debt services and operations, the continuous surge of operating expenses has the biggest financial impact to the Corporation. According to the Feasibility Study, there are approximately 370 Full-time Equivalent employees (FTEs) at the Ararat Home, 50 FTEs at the Eagle Rock SNF, and 110 FTEs at Ararat Gardens. The acquisition of Ararat Gardens and a development plan for constructing a new CCRC at Mission Hills will significantly change staffing needs and operations of the Corporation. There is also an opportunity of business integration of Eagle Rock SNF and Ararat Gardens, to bring back benefits from economy of scale.

In summary, the assumptions and financial projection of the Feasibility Study are considered reasonable.

Strengths:

1. **Liquidity:** The Corporation has maintained close to \$20 million cash and cash equivalents since the fiscal year 2016. The cash level dipped in 2018 when they purchased the \$11 million land at Mission Hills with cash but bounced back in the following years. The DCOH was kept at above 150 in the past years.
2. **Profitability:** The Corporation has recorded an average of \$1.7 million operating income since the fiscal year 2018. Although there was an approx. half million loss from operation in the last fiscal year, the operation has been breaking even in the first five months of this year.
3. **Experience:** The Corporation has been serving the elderly in Orange County since 1949. A long history and experience serving local community enhance 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. The Corporation's revenue largely came from their SNFs' patient revenue, which shared in average 88.3 percent of the operating revenue in the last five fiscal years. In addition, over 85 percent of residents in SNFs are using Medi-Cal/Medi-Cal Managed Care. The high concentration of revenue source and payor mix may cause a stability concern to the Corporation's financial performance, which will subject to policy risk.
Mitigation: The acquisition of Ararat Gardens, which is a CCRC with 112 residential units and 28 SNF beds, helps the Corporation to diversify their operations. In addition to SNF integration with Eagle Rock SNF, the Ararat Gardens also provides an option for the Corporation to expand their IL/AL capacity as a near-term development plan while preparing for the CCRC project at Mission Hills.
2. Like many CCRCs, the salary and wage expenses shared a significant part of the operating expenses. The health care workforce is short supply in California and the situation does not seem to be relieved anytime soon. The Corporation would require hiring contract staff with higher rates, which causes challenges to cost control. On the other hand, inadequate staff may lead to service quality downgrade.
Mitigation: The Corporation is a training site for a Certified Nursing Assistant school and have groups of 12-30 students come through every two weeks. The Corporation advertises open positions to the students when they complete training. It helps the Corporation to solicit stable source of health care staff. In addition, the Corporation conducted market analysis

annually to make sure their compensation package is competitive. The Corporation manages material inflation by adjusting rates to keep in line with rising costs while monitoring operating cost through monthly departmental budget spenddown.

Recommendation:

I recommend that HCAI issue a commitment for six months to insure a loan to the Corporation, not to exceed \$12 million, for the previously described financing with the following conditions:

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

1. 802, 810, 814 South Chevy Chase Drive, Glendale, CA 91205
2. 1219 East Garfield Avenue, Glendale, CA 91205
3. 1230 East Windsor Road, Glendale, CA 91205

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 July 20, 2023, 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, 2024. 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) 2024 and thereafter, as determined by the annual audited financial statements.
- A debt service coverage ratio of at least 1.25 to 1, beginning FYE 2024 and thereafter, as determined by the annual audited financial statements.
- A non-restricted cash balance of at least 60 days cash, beginning FYE 2024 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 Phase I assessment and Environmental Review Report completed by California Department of Toxic Substance Control for the Property.
 7. A satisfactory copy of a Deposit Account Control Agreement ready for signatures.
 8. A satisfactory copy of a Securities Account Control Agreement ready for signatures.
 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: 9/7/2023

I approve the above recommendation.



Dean O'Brien, Supervisor

Date: 9/7/2023

I approve the above recommendation.



Jeremy P. Marion, Deputy Director

Date: September 8, 2023

* * * * *

Copy of the foregoing approved Project Summary & Feasibility Analysis (PS&FA) mailed/mailed on September 5, 2023, to the Applicant, and a copy delivered to the Supervisor, the Deputy Director, and HCAI's Attorney.

Dennis Lo

Account Manager

* * * * *

On September 8, 2023, the Account Manager contacted Mr. Derik Ghookasian, 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

Account Manager

* * * * *

Advisory Loan Insurance Committee Action:

Date of meeting: September 21, 2023

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

Ararat Home of Los Angeles, Inc.

Statement for Ararat Home of

Los Angeles, Inc. with currency

of USD

General/ Middle Market

Statement in Actual (U.S. Dollar)

August 9, 2023 4:52 PM

CalMortgage (GEN)

	12/31/2019	12/31/2020	12/31/2021	12/31/2022	6/30/2023
	Historical	Historical	Historical	Historical	Historical
	12M	12M	12M	12M	6M
	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Debt Service Coverage	16.65	12.29	400.98		6.81
Days Cash on Hand	158.51	196.54	207.64	191.84	43.51
Current Ratio	6.63	5.85	8.79	7.83	3.61
Quick Ratio	6.63	5.85	8.79	7.83	3.60
Working Capital	14,524,206.00	18,407,532.00	22,025,188.00	21,966,509.00	7,989,752.00
Actual Payables in Days	10.50	6.82	9.27	12.22	10.92
Actual Receivables in Days	33.84	31.61	54.58	38.96	32.06
Pre-Tax (Operating) Profit Margin	24.19	9.23	10.38	(11.96)	7.39
Net Profit Margin	24.19	14.76	13.44	(11.96)	7.39
EBITDA	9,917,789.00	6,962,491.00	6,721,688.00	(2,768,900.00)	2,847,541.00
Debt/Tangible Net Worth	0.04	0.05	0.03	0.04	0.04

Ararat Home of Los Angeles, Inc.
Statement for Ararat Home of Los Angeles, Inc.
with currency of USD
General/ Middle Market
Statement in Actual (U.S. Dollar)
August 9, 2023 4:52 PM

	12/31/2019 Historical 12M Unqualified		12/31/2020 Historical 12M Unqualified		12/31/2021 Historical 12M Unqualified		12/31/2022 Historical 12M Unqualified		6/30/2023 Historical 6M Unqualified	
	USD	%	USD	%	USD	%	USD	%	USD	%
Assets Common Size										
Cash and Cash Equivalents	12,927,727	16.2	17,085,755	20.0	18,750,653	20.9	19,666,619	23.1	5,316,450	6.1
Assets Limited To Use	235,588	0.3	278,348	0.3	0	0.0	0	0.0	0	0.0
Accounts Receivable	3,148,075	4.0	3,007,542	3.5	5,416,208	6.1	4,131,165	4.8	4,143,832	4.8
Supplies	0	0.0	0	0.0	0	0.0	0	0.0	41,959	0.0
Prepaid Expenses and Deferreds	791,753	1.0	1,830,634	2.1	685,819	0.8	1,384,271	1.6	528,034	0.6
Petty Cash/Undpstd Funds	0	0.0	0	0.0	0	0.0	0	0.0	1,020,185	1.2
Total Current Assets	17,103,143	21.5	22,202,279	25.9	24,852,680	27.8	25,182,055	29.5	11,050,460	12.7
Asset Limited to Use	15,767,868	19.8	17,935,071	21.0	20,066,880	22.4	16,683,467	19.6	18,197,566	20.9
Land and Improvements	13,774,643	17.3	13,774,643	16.1	13,774,643	15.4	13,774,893	16.2	16,285,605	18.7
Buildings and Improvements	51,670,060	64.8	51,783,298	60.5	52,419,576	58.6	52,620,178	61.7	64,829,792	74.5
Machinery & Equipment	4,844,163	6.1	4,956,372	5.8	5,135,815	5.7	5,501,432	6.5	7,510,770	8.6
Transportation Equipment	0	0.0	0	0.0	0	0.0	0	0.0	476,318	0.5
Construction in Progress	1,370,066	1.7	1,856,009	2.2	1,983,409	2.2	2,086,452	2.4	332,189	0.4
Gross Fixed Assets	71,658,932	89.9	72,370,322	84.5	73,313,443	81.9	73,982,955	86.8	89,434,674	102.7
Accumulated Depreciation (-)	(25,095,458)	(31.5)	(26,899,567)	(31.4)	(28,723,657)	(32.1)	(30,578,182)	(35.9)	(31,680,262)	(36.4)
Net Fixed Assets	46,563,474	58.4	45,470,755	53.1	44,589,786	49.8	43,404,773	50.9	57,754,412	66.3
Investments	244,729	0.3	0	0.0	0	0.0	0	0.0	0	0.0
Other Assets	0	0.0	0	0.0	0	0.0	0	0.0	63,881	0.1
TOTAL ASSETS	79,679,214	100.0	85,608,105	100.0	89,509,346	100.0	85,270,295	100.0	87,066,319	100.0
Liabilities Common Size										
Current Portion Long Term Debt Bank/Bonds	386,711	0.5	412,498	0.5	0	0.0	0	0.0	0	0.0
Trade Accounts Payable	854,763	1.1	591,904	0.7	836,848	0.9	1,252,385	1.5	1,333,953	1.5
Accrued Wages/Salaries	1,337,463	1.7	1,681,033	2.0	1,990,644	2.2	1,963,161	2.3	460,654	0.5
Accrued Payroll Taxes	0	0.0	0	0.0	0	0.0	0	0.0	(2,731)	0.0
Interest Payable	0	0.0	0	0.0	0	0.0	0	0.0	14,628	0.0
Deferred Revenue	0	0.0	0	0.0	0	0.0	0	0.0	13,600	0.0
Vacation Payable	0	0.0	0	0.0	0	0.0	0	0.0	1,276,733	1.5
Other Accruals	0	0.0	0	0.0	0	0.0	0	0.0	(39,129)	0.0
Total Accruals	1,337,463	1.7	1,681,033	2.0	1,990,644	2.2	1,963,161	2.3	1,723,755	2.0
Other Current Liabilities	0	0.0	1,109,312	1.3	0	0.0	0	0.0	3,000	0.0
Total Current Liabilities	2,578,937	3.2	3,794,747	4.4	2,827,492	3.2	3,215,546	3.8	3,060,708	3.5
Long Term Debt Bank/Bond	412,498	0.5	0	0.0	0	0.0	0	0.0	0	0.0
Deferred Revenue from Entrance Fees	0	0.0	0	0.0	0	0.0	0	0.0	332,189	0.4
Refundable Deposits/Entrance Fees(CCRC)	0	0.0	0	0.0	0	0.0	0	0.0	(1)	0.0
Total Liabilities	2,991,435	3.8	3,794,747	4.4	2,827,492	3.2	3,215,546	3.8	3,392,896	3.9
Net Worth Common Size										
Net Assets	76,687,779	96.2	81,813,358	95.6	86,681,854	96.8	82,054,749	96.2	83,673,423	96.1
TOTAL LIABILITIES & NET WORTH	79,679,214	100.0	85,608,105	100.0	89,509,346	100.0	85,270,295	100.0	87,066,319	100.0

Ararat Home of Los Angeles, Inc.
Statement for Ararat Home of Los Angeles, Inc.
with currency of USD
General/ Middle Market
Statement in Actual (U.S. Dollar)
August 9, 2023 4:52 PM

	12/31/2019		12/31/2020		12/31/2021		12/31/2022		6/30/2023	
	Historical		Historical		Historical		Historical		Historical	
	12M		12M		12M		12M		6M	
	Unqualified		Unqualified		Unqualified		Unqualified		Unqualified	
Revenue Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Resident Revenue	32,573,500	95.9	32,495,025	93.6	35,132,593	97.0	37,453,354	96.8	23,037,196	97.7
Unrestricted Donations/Contributions	865,104	2.5	1,669,104	4.8	358,938	1.0	399,931	1.0	551,335	2.3
Other Revenue	518,889	1.5	558,489	1.6	730,055	2.0	850,095	2.2	0	0.0
Total Operating Revenue	33,957,493	100.0	34,722,618	100.0	36,221,586	100.0	38,703,380	100.0	23,588,531	100.0
Operating Expenses Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Personnel Expense	20,221,361	59.5	21,983,431	63.3	22,837,069	63.0	25,565,522	66.1	9,435,169	40.0
Purchased Services	0	0.0	1,449,198	4.2	1,504,178	4.2	2,028,653	5.2	0	0.0
Officers' Salaries and Compensation	0	0.0	0	0.0	0	0.0	0	0.0	5,259,207	22.3
Fundraising	0	0.0	69,690	0.2	25,668	0.1	50,848	0.1	0	0.0
Medical Supplies	3,952,358	11.6	4,102,195	11.8	4,473,263	12.3	4,823,011	12.5	0	0.0
Dining Expense	0	0.0	0	0.0	0	0.0	0	0.0	2,308,363	9.8
Operating Expenses	5,551,333	16.3	4,091,287	11.8	4,105,297	11.3	4,723,338	12.2	3,749,162	15.9
Other Operating Expenses	0	0.0	0	0.0	0	0.0	227,016	0.6	1,547,026	6.6
Depreciation	1,658,743	4.9	1,802,515	5.2	1,837,647	5.1	1,858,205	4.8	1,103,854	4.7
Total Operating Expenses	31,383,795	92.4	33,498,316	96.5	34,783,122	96.0	39,276,593	101.5	23,402,781	99.2
Operating Profit	2,573,698	7.6	1,224,302	3.5	1,438,464	4.0	(573,213)	(1.5)	185,750	0.8
Other R. & E. (Net Income) Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Interest Income	870,533	2.6	752,074	2.2	1,225,053	3.4	845,202	2.2	311,687	1.3
Endwmnt/Invstmt Funds	2,072,042	6.1	1,712,927	4.9	1,699,799	4.7	(4,399,229)	(11.4)	1,246,250	5.3
Restricted Grants and Donations	3,317,000	9.8	0	0.0	0	0.0	125,000	0.3	0	0.0
Other Income	0	0.0	0	0.0	32,339	0.1	33,956	0.1	0	0.0
Net Assets Released from Restrictions	(574,227)	(1.7)	(450,806)	(1.3)	(620,926)	(1.7)	(658,821)	(1.7)	0	0.0
Total Other Income	5,685,348	16.7	2,014,195	5.8	2,336,265	6.4	(4,053,892)	(10.5)	1,557,937	6.6
Interest Expense	44,154	0.1	34,397	0.1	15,545	0.0	0	0.0	0	0.0
Profit Before Tax	8,214,892	24.2	3,204,100	9.2	3,759,184	10.4	(4,627,105)	(12.0)	1,743,687	7.4
Extraordinary Gain/(Loss) (excluded from NIADS)	0	0.0	1,921,479	5.5	1,109,312	3.1	0	0.0	0	0.0
NET INCOME	8,214,892	24.2	5,125,579	14.8	4,868,496	13.4	(4,627,105)	(12.0)	1,743,687	7.4

Ararat Home of Los Angeles, Inc.
Statement for Ararat Home of Los Angeles, Inc.
with currency of USD
General/ Middle Market
Statement in Actual (U.S. Dollar)
August 9, 2023 4:52 PM

	12/31/2019		12/31/2020		12/31/2021		12/31/2022		6/30/2023	
	Historical		Historical		Historical		Historical		Historical	
	12M		12M		12M		12M		6M	
	Unqualified		Unqualified		Unqualified		Unqualified		Unqualified	
Changes in Retained Earnings Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Beginning Net Worth	68,472,887	89.3	76,687,779	93.7	81,813,358	94.4	86,681,854	105.6	82,054,749	98.1
Changes in Retained Earnings:										
Net Income (Loss)	8,214,892	10.7	5,125,579	6.3	4,868,496	5.6	(4,627,105)	(5.6)	1,743,687	2.1
Prior Period Adjustment	0	0.0	0	0.0	0	0.0	0	0.0	(125,013)	(0.1)
Total Change in RE	8,214,892	10.7	5,125,579	6.3	4,868,496	5.6	(4,627,105)	(5.6)	1,618,674	1.9
Changes in Net Worth Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Changes in Other NW										
Change in Net Worth	8,214,892	10.7	5,125,579	6.3	4,868,496	5.6	(4,627,105)	(5.6)	1,618,674	1.9
Ending Total Net Worth	76,687,779	100.0	81,813,358	100.0	86,681,854	100.0	82,054,749	100.0	83,673,423	100.0
Other Lines Common Size	USD	%	USD	%	USD	%	USD	%	USD	%
Principal Payments on ST and LTD	386,711	0.0	412,498	0.0	0	0.0	0	0.0	836,000	0.0
Number of Months	12	0.0	12	0.0	12	0.0	12	0.0	6	0.0

Exhibit II
Proposed Bond Model

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[Issuer]
Revenue Bonds, Series 2023
(Ararat Home Project)

=====

On Market Rates 6/28/2023 | \$10 Million Project | +25 bps

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Bond Summary Statistics	3
Bond Debt Service	4
Yield to Maturity	5

SOURCES AND USES OF FUNDS

[Issuer]
Revenue Bonds, Series 2023
(Ararat Home Project)

=====

On Market Rates 6/28/2023 | \$10 Million Project | +25 bps

Dated Date 10/05/2023
Delivery Date 10/05/2023

Sources:

Bond Proceeds:

Par Amount	10,485,000.00
Premium	703,340.45
	<hr/>
	11,188,340.45

Other Sources of Funds:

Ararat Equity	4,500,000.00
Equity for COI	286,325.70
	<hr/>
	4,786,325.70

15,974,666.15

Uses:

Project Fund Deposits:

Reimbursed AG Purchase	10,000,000.00
Non-Reimbursed AG Purchase	4,500,000.00
	<hr/>
	14,500,000.00

Other Fund Deposits:

Debt Service Reserve Fund	418,000.00
---------------------------	------------

Delivery Date Expenses:

Cost of Issuance	510,092.50
Cal-Mortgage Insurance Premium (3.0%)	500,193.75
Cal-Mortgage Inspection Fee	41,940.00
	<hr/>
	1,052,226.25

Other Uses of Funds:

Additional Proceeds	4,439.90
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15,974,666.15

BOND PRICING

[Issuer]
 Revenue Bonds, Series 2023
 (Ararat Home Project)

=====

On Market Rates 6/28/2023 | \$10 Million Project | +25 bps

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Yield to Maturity	Call Date	Call Price	Call Date for Arb Yield	Call Price for Arb Yield	Premium (-Discount)
Serial Bonds:											
	05/15/2024	260,000	5.000%	3.550%	100.865	-	-	-	-	-	2,249.00
	05/15/2025	330,000	5.000%	3.460%	102.389	-	-	-	-	-	7,883.70
	05/15/2026	345,000	5.000%	3.350%	104.088	-	-	-	-	-	14,103.60
	05/15/2027	365,000	5.000%	3.230%	105.984	-	-	-	-	-	21,841.60
	05/15/2028	385,000	5.000%	3.200%	107.656	-	-	-	-	-	29,475.60
	05/15/2029	405,000	5.000%	3.220%	109.067	-	-	-	-	-	36,721.35
	05/15/2030	425,000	5.000%	3.170%	110.834	-	-	-	-	-	46,044.50
	05/15/2031	445,000	5.000%	3.160%	112.358	-	-	-	-	-	54,993.10
		<u>2,960,000</u>									<u>213,312.45</u>
Term 2043:											
	05/15/2043	7,525,000	5.000%	4.170%	106.512 C	4.496%	05/15/2033	100.000	05/15/2033	100.000	490,028.00
		<u>10,485,000</u>									<u>703,340.45</u>

Dated Date	10/05/2023	
Delivery Date	10/05/2023	
First Coupon	05/15/2024	
Par Amount	10,485,000.00	
Premium	703,340.45	
Production	11,188,340.45	106.708063%
Underwriter's Discount	-	-
Purchase Price	11,188,340.45	106.708063%
Accrued Interest	-	-
Net Proceeds	11,188,340.45	

BOND SUMMARY STATISTICS

[Issuer]
 Revenue Bonds, Series 2023
 (Ararat Home Project)

=====

On Market Rates 6/28/2023 | \$10 Million Project | +25 bps

Dated Date	10/05/2023
Delivery Date	10/05/2023
First Coupon	05/15/2024
Last Maturity	05/15/2043
Arbitrage Yield	4.763931%
True Interest Cost (TIC)	4.237374%
Net Interest Cost (NIC)	4.431701%
All-In TIC	5.405472%
Average Coupon	5.000000%
Average Life (years)	11.804
Weighted Average Maturity (years)	11.812
Duration of Issue (years)	8.839
Par Amount	10,485,000.00
Bond Proceeds	11,188,340.45
Total Interest	6,188,125.00
Net Interest	5,484,784.55
Bond Years from Dated Date	123,762,500.00
Bond Years from Delivery Date	123,762,500.00
Total Debt Service	16,673,125.00
Maximum Annual Debt Service	836,000.00
Average Annual Debt Service	850,187.68
Underwriter's Fees (per \$1000)	
Average Takedown	-
Other Fee	-
Total Underwriter's Discount	-
Bid Price	106.708063

Bond Component	Par Value	Price	Average Coupon	Average Life	PV of 1 bp change
Serial Bonds	2,960,000.00	107.207	5.000%	4.444	1,258.65
Term 2043	7,525,000.00	106.512	5.000%	14.699	6,095.25
	10,485,000.00			11.804	7,353.90

	TIC	All-In TIC	Arbitrage Yield
Par Value	10,485,000.00	10,485,000.00	10,485,000.00
+ Accrued Interest	-	-	-
+ Premium (Discount)	703,340.45	703,340.45	703,340.45
- Underwriter's Discount	-	-	-
- Cost of Issuance Expense	-	(510,092.50)	-
- Other Amounts	-	(542,133.75)	(542,133.75)
Target Value	11,188,340.45	10,136,114.20	10,646,206.70
Target Date	10/05/2023	10/05/2023	10/05/2023
Yield	4.237374%	5.405472%	4.763931%

BOND DEBT SERVICE

[Issuer]
 Revenue Bonds, Series 2023
 (Ararat Home Project)

=====

On Market Rates 6/28/2023 | \$10 Million Project | +25 bps

Period Ending	Principal	Coupon	Interest	Debt Service	Bond Balance	Total Bond Value
12/31/2023	-	-	-	-	10,485,000	10,485,000
12/31/2024	260,000	5.000%	576,000	836,000	10,225,000	10,225,000
12/31/2025	330,000	5.000%	503,000	833,000	9,895,000	9,895,000
12/31/2026	345,000	5.000%	486,125	831,125	9,550,000	9,550,000
12/31/2027	365,000	5.000%	468,375	833,375	9,185,000	9,185,000
12/31/2028	385,000	5.000%	449,625	834,625	8,800,000	8,800,000
12/31/2029	405,000	5.000%	429,875	834,875	8,395,000	8,395,000
12/31/2030	425,000	5.000%	409,125	834,125	7,970,000	7,970,000
12/31/2031	445,000	5.000%	387,375	832,375	7,525,000	7,525,000
12/31/2032	470,000	5.000%	364,500	834,500	7,055,000	7,055,000
12/31/2033	495,000	5.000%	340,375	835,375	6,560,000	6,560,000
12/31/2034	520,000	5.000%	315,000	835,000	6,040,000	6,040,000
12/31/2035	545,000	5.000%	288,375	833,375	5,495,000	5,495,000
12/31/2036	575,000	5.000%	260,375	835,375	4,920,000	4,920,000
12/31/2037	600,000	5.000%	231,000	831,000	4,320,000	4,320,000
12/31/2038	635,000	5.000%	200,125	835,125	3,685,000	3,685,000
12/31/2039	665,000	5.000%	167,625	832,625	3,020,000	3,020,000
12/31/2040	700,000	5.000%	133,500	833,500	2,320,000	2,320,000
12/31/2041	735,000	5.000%	97,625	832,625	1,585,000	1,585,000
12/31/2042	775,000	5.000%	59,875	834,875	810,000	810,000
12/31/2043	810,000	5.000%	20,250	830,250	-	-
	10,485,000		6,188,125	16,673,125		

YIELD TO MATURITY

[Issuer]
Revenue Bonds, Series 2023
(Ararat Home Project)

=====

On Market Rates 6/28/2023 | \$10 Million Project | +25 bps

YTM

YTM 4.2374%

Exhibit III
Audited Financial Statements
FYE 2018 – 2022

**Ararat Home of Los Angeles, Inc.
Financial Statements and
Independent Auditor's Report
December 31, 2019 and 2018**

Ararat Home of Los Angeles, Inc.
Financial Statements
December 31, 2019 and 2018

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DIEM CPA, INC.

CERTIFIED PUBLIC ACCOUNTANT

2828 Cochran Street, #367, Simi Valley, CA 93065 (805)522-8827

Independent Auditor's Report

To the Board of Trustees
Ararat Home of Los Angeles, Inc.
Mission Hills, California

Report on the Financial Statements

I have audited the accompanying financial statements of Ararat Home of Los Angeles, Inc., which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ararat Home of Los Angeles, Inc. as of December 31, 2019 and 2018, 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.



Simi Valley, California
March 16, 2020

Ararat Home of Los Angeles, Inc.
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 8,199,126	\$ 4,859,480
Accounts receivable, net	3,148,075	2,813,259
Investments	4,728,601	4,980,047
Prepaid expenses and other current assets	791,753	470,930
Current portion of assets limited as to use	235,588	262,984
Total Current Assets	17,103,143	13,386,700
Endowment fund investments	15,466,269	12,747,548
Capital replacement fund investments	244,729	238,663
Assets limited as to use, net of current portion	301,599	300,839
Property and equipment, net	46,563,474	45,129,962
Total Assets	\$ 79,679,214	\$ 71,803,712
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 854,763	\$ 784,239
Current maturities of long-term debt, net of discount	386,711	376,711
Accrued expenses	1,337,463	1,370,666
Total Current Liabilities	2,578,937	2,531,616
Long-term debt, net of current portion and discount	412,498	799,209
Total Liabilities	2,991,435	3,330,825
Contingencies		
Net Assets		
Without donor restrictions:		
Board-designated	15,710,998	12,986,211
Undesignated	57,967,008	55,219,676
Total net assets without donor restrictions	73,678,006	68,205,887
With donor restrictions	3,009,773	267,000
Total Net Assets	76,687,779	68,472,887
Total Liabilities and Net Assets	\$ 79,679,214	\$ 71,803,712

Ararat Home of Los Angeles, Inc.
Statements of Activities
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in Net Assets Without Donor Restrictions		
Revenues and other support without donor restrictions		
Net patient care and resident revenue	\$ 32,573,500	\$ 30,953,072
Donations	815,104	503,687
Donations - quasi-endowment fund	50,000	38,155
Special events, net of expenses of \$88,413 and \$143,654 for 2019 and 2018, respectively	(55,338)	11,361
Net assets released from restrictions:		
Satisfaction of program restrictions	574,227	566,323
Total revenues and other support without donor restrictions	<u>33,957,493</u>	<u>32,072,598</u>
Program expenses		
Skilled nursing	26,697,357	26,343,001
Assisted living	3,940,953	3,282,249
Total program expenses	<u>30,638,310</u>	<u>29,625,250</u>
Management and general expenses	370,028	307,306
Fundraising expenses	375,457	335,518
Total expenses	<u>31,383,795</u>	<u>30,268,074</u>
Operating income	<u>2,573,698</u>	<u>1,804,524</u>
Other income (expense)		
Net realized and unrealized gains (losses) on investments	2,072,042	(1,708,978)
Interest expense	(44,154)	(55,729)
Interest income	161,398	174,710
Interest and dividends - endowment fund	709,135	766,570
Net other income (expense)	<u>2,898,421</u>	<u>(823,427)</u>
Change in Net Assets Without Donor Restrictions	<u>5,472,119</u>	<u>981,097</u>
Changes in Net Assets With Donor Restrictions		
Contributions	3,317,000	543,323
Net assets released from restrictions	(574,227)	(566,323)
Changes in Net Assets With Donor Restrictions	<u>2,742,773</u>	<u>(23,000)</u>
Changes in Total Net Assets	<u>8,214,892</u>	<u>958,097</u>
Net Assets, Beginning of Year	<u>68,472,887</u>	<u>67,514,790</u>
Net Assets, End of Year	<u>\$ 76,687,779</u>	<u>\$ 68,472,887</u>

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program Expenses			Supporting Services		Total
	Skilled Nursing - Mission Hills	Skilled Nursing - Eagle Rock	Assisted Living	Management and General	Fundraising	
Salaries and benefits	\$ 15,423,453	\$ 2,753,500	\$ 1,778,635	\$ 204,441	\$ 61,332	\$ 20,221,361
Supplies and ancillary services	3,280,510	327,552	309,866	24,101	10,329	3,952,358
Taxes and licenses	1,690,553	269,766	11,504	1,322	397	1,973,542
Depreciation and amortization	772,847	46,119	755,800	58,784	25,193	1,658,743
Utilities	732,814	51,377	151,905	11,815	5,063	952,974
Purchased services	685,913	130,107	220,594	9,288	2,322	1,048,224
Insurance	125,663	20,269	435,208	43,521	4,836	629,497
Administration	117,512	27,461	86,567	1,803	1,803	235,146
Events	-	-	-	-	261,175	261,175
Property costs	88,072	10,242	135,325	12,029	3,007	248,675
Professional fees	143,465	162	55,549	2,924	-	202,100
Total	\$ 23,060,802	\$ 3,636,555	\$ 3,940,953	\$ 370,028	\$ 375,457	\$ 31,383,795

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Expenses			Supporting Services		Total
	Skilled Nursing - Mission Hills	Skilled Nursing - Eagle Rock	Assisted Living	Management and general	Fundraising	
Salaries and benefits	\$ 15,048,748	\$ 2,707,571	\$ 1,436,852	\$ 165,156	\$ 49,547	\$ 19,407,874
Supplies and ancillary services	3,423,902	377,499	283,890	22,080	9,463	4,116,834
Taxes and licenses	1,599,901	255,635	9,618	1,106	332	1,866,592
Depreciation and amortization	788,692	48,004	586,972	45,653	19,566	1,488,887
Utilities	657,611	36,422	135,576	10,545	4,519	844,673
Purchased services	703,330	114,710	206,416	8,691	2,173	1,035,320
Insurance	118,539	19,213	421,151	42,115	4,679	605,697
Administration	122,103	30,180	80,355	1,674	1,674	235,986
Events	-	-	-	-	241,177	241,177
Property costs	108,179	13,463	107,439	9,550	2,388	241,019
Professional fees	169,299	-	13,980	736	-	184,015
Total	\$ 22,740,304	\$ 3,602,697	\$ 3,282,249	\$ 307,306	\$ 335,518	\$ 30,268,074

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 8,214,892	\$ 958,097
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	1,658,743	1,488,887
Amortization of discount on debt	13,289	13,289
Net realized and unrealized (gains) losses on investments	(2,072,042)	1,708,978
Allowance for doubtful accounts	7,594	(4,565)
Changes in assets and liabilities:		
Accounts receivable	(342,411)	337,470
Prepaid expenses and other current assets	(320,823)	191,184
Accounts payable	70,524	(545,432)
Accrued expenses	(33,203)	1,054
Net Cash Provided by Operating Activities	<u>7,196,563</u>	<u>4,148,962</u>
Cash Flow from Investing Activities		
Net (purchase) sale of investments	(401,299)	1,009,920
Purchase of property and equipment	(3,092,254)	(13,845,801)
Net change in assets limited as to use	26,636	(2,215)
Net Cash Used by Investing Activities	<u>(3,466,917)</u>	<u>(12,838,096)</u>
Cash Used by Financing Activities		
Principal payments on long-term debt	(390,000)	(380,000)
Net Increase (Decrease) in Cash and Cash Equivalents	3,339,646	(9,069,134)
Cash and Cash Equivalents, Beginning of Year	<u>4,859,480</u>	<u>13,928,614</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,199,126</u>	<u>\$ 4,859,480</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 30,865</u>	<u>\$ 42,440</u>

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

Ararat Home of Los Angeles, Inc. (the "Home") is a non-profit and non-denominational organization founded in 1949 to care for elderly Armenians in Southern California. Since its early inception, the Home has expanded in both size and scope. Today, the Home exists to provide assisted living, skilled nursing and convalescent care facilities, primarily for the Armenian community, and to promote Armenian heritage and culture in America. The Board of Trustees oversees the management of the Home.

Standards of Accounting and Financial Reporting

The Home follows the accounting guidance in the audit and accounting guide, *Health Care Entities*, which is in conformity with the recommendations of the American Institute of Certified Public Accountants. The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its *Accounting Standards Codification (ASU) Topic 958, Not-for-Profit Entities, Accounting Standards Update ASU 2016-14*. ASU 2016-14 was adopted by the Home during the year ended December 31, 2018 without any impact on total net assets or changes to net assets.

Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restrictions are the amounts designated by the board to be held for specific purposes. Net assets with donor restrictions are resources that are restricted by a donor for the use for a particular purpose or in a particular future period.

These financial statements were approved by management and were available for issuance on March 16, 2020. Subsequent events have been evaluated through this date.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, supplies and ancillary services, utilities and depreciation which are allocated on the basis of estimates of time, effort and usage.

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting services, are allocated based on the best estimates of management.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates and assumptions made by management are used for, but not limited to, the estimated useful lives of long-lived assets, the allowance for doubtful accounts and the functional allocation of expenses. Actual results could differ from those estimates.

Net Patient Care and Resident Revenue

The Home provides a comprehensive range of health care services to residents. Patient care revenue consists of the following categories:

Skilled Nursing: The most significant portion of the Home's operations is the operation of the skilled nursing facilities at the Mission Hills and Eagle Rock campuses. Caregivers provide residents with comprehensive, individualized care 24 hours a day. In addition, the facilities provide licensed therapy services, quality nutrition services, social services, activities, and housekeeping and laundry services.

Assisted Living: The Home's assisted living facility provides personal care services and assistance with general activities of daily living such as dressing, bathing, meal preparation and medication management. Resident assessments are performed to determine what services are desired or required and residents are encouraged to participate in a range of activities.

During the years ended December 31, 2019 and 2018, net patient care and resident revenue consisted of the following:

	<u>2019</u>	<u>2018</u>
Skilled nursing revenues	\$ 29,682,559	\$ 28,589,570
Assisted living revenues	2,843,689	2,302,469
Ancillary revenues	47,252	61,033
	<u>32,573,500</u>	<u>30,953,072</u>

The Home recognizes revenue as its performance obligations are completed. The performance obligations are satisfied over time as the resident simultaneously receives and consumes the benefits of the healthcare services provided. Additionally, there may be ancillary services which are not included in the daily rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time when those services are rendered.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Net Patient Care and Resident Revenue (continued)

Skilled nursing and assisted living revenues are based on services rendered at amounts equal to established rates. Amounts paid for residents under the Medi-Cal, HMO, Medicare and Medicaid programs are generally based on fixed rates per patient day, adjusted prospectively. All amounts earned under these and other governmental programs are subject to review by the third-party payers. Any differences between estimated settlements and final determination are reflected in operations in the year finalized.

During the years ended December 31, 2019 and 2018, the Home received the 90% and 94% of its skilled nursing and assisted living revenues from federal and state sponsored programs, respectively, and 10% and 6% from private pay sources, respectively.

Donations

Donations are recognized at fair value when the donor makes an unconditional promise to give and are reported as donor support without restrictions unless they are received with donor stipulations that limit the use of the donated assets. Donations received with donor stipulations are reported as donor support with restrictions. When donor restrictions are satisfied, net assets are released and reported as an increase in net assets without donor restrictions.

Donated goods are recognized at their fair values at the dates of donation. Contributed services are also recognized at fair value when they are received, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.

The Home receives substantial contributed services from constituents, the general public and the members of the Board of Trustees who give their time and expertise to the Home in a wide variety of areas. These contributions, despite their considerable value to the mission of the Home, are not recorded in the accompanying financial statements unless the services meet the requirements for recognition.

Fair Value of Financial Instruments

The accompanying statements of financial position included the following financial instruments as of December 31, 2019: accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses. The Home expects to realize the current assets, and to pay the current liabilities, within a short period of time. Therefore, the carrying amounts of these financial instruments approximate fair value.

Cash and Cash Equivalents

The Home considers all highly liquid investments purchased with maturities of three months or less at the time of purchase to be cash equivalents. The Home maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Home has not experienced any losses, and does not believe it is exposed to any significant risk of loss, on cash and cash equivalents.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Accounts Receivable

The Home reports accounts receivable for services rendered at net realizable amounts from third-party payers, residents and others. An allowance for doubtful accounts is provided based upon a review of outstanding receivables, historical collection information and existing economic conditions. The allowance for doubtful accounts was \$38,029 and \$30,435 at December 31, 2019 and 2018, respectively. Account balances are charged against the allowance after reasonable collection efforts have been exhausted and the potential for recovery is considered remote. Interest is not charged on past due amounts.

Assets Limited as to Use

Assets limited as to use include assets held by a bank pursuant to the Home's insured refunding revenue bonds, discussed in Note 3. Amounts required to meet current liabilities of the Home are included in current assets.

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method of depreciation. The Home estimates the useful lives of the respective classes of property and equipment as follows:

Buildings and improvements	10 – 40 years
Furniture and equipment	5 – 20 years
Transportation equipment	5 – 15 years

Expenditures for maintenance and repairs are charged to operations when incurred.

Impairment

The Home reviews its long-lived assets whenever events or circumstances indicate that the carrying amounts of such assets may not be recoverable. Impairment is evaluated by comparing the carrying value of the assets with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Home would recognize an impairment loss at that date for the amount by which the carrying amount of the asset exceeds its fair value. Management has determined that no such impairment currently exists.

Investments and Investment Income

The Home's investment portfolio consists primarily of money market mutual funds and marketable debt and equity securities that are measured at fair value in the statement of net assets. Investment income or losses, including net realized and unrealized gains and losses, are included in the statements of activities.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Fair Value Measurements

The Home has adopted the guidance of Accounting Standards Codification Topic 820, *Fair Value Measurement and Disclosures* (“ASC Topic 820”), which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

- Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.
- Level 2: Observable inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The assets or liabilities fair value measurement level, within the fair value hierarchy, is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Discount on Debt

The Home has adopted the provisions of Accounting Standards Update (“ASU”) No. 2015-03, “*Simplifying the Presentation of Debt Issuance Costs*”, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, and amortized as interest expense over the term of the related debt. Unamortized debt issuance costs at December 31, 2019 and 2018 were \$15,791 and \$29,080, respectively. Amortization expense, recorded as interest expense, during the years ended December 31, 2019 and 2018 was \$13,289 and \$13,289, respectively.

Income Taxes

The Home is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Home is subject to federal income tax on any unrelated business taxable income. The Home applies the income tax standard for uncertain tax positions. This standard prescribes recognition and measurement of tax positions taken, or expected to be taken, on a tax return that are not certain to be realized. The application of this standard had no impact on the Home’s financial statements for the years ended December 31, 2019 or 2018.

The Home’s income tax returns are subject to review and examination by federal, state and local authorities. The Home is not aware of any activities that would jeopardize its tax-exempt status. The Home is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes. The home is subject to routine audits by taxing and other jurisdictions, however, there are no such audits currently in process.

Ararat Home of Los Angeles, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 2 – Availability of Financial Assets

The following table reflects the Home's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use because of donor-imposed restrictions within one-year. Amounts not available include amounts set aside for long-term investing in the endowment and capital replacement fund that could be drawn upon if the board of trustees approves that action.

	<u>2019</u>	<u>2018</u>
Financial assets, as of December 31	\$ 33,115,740	\$ 26,673,750
Less net assets subject to satisfaction of donor restrictions	(3,009,773)	(267,000)
Board designations:		
Endowment fund, primarily for long-term investing	(15,466,269)	(12,747,548)
Capital replacement fund	(244,729)	(238,663)
Assets limited as to use	<u>(537,187)</u>	<u>(563,823)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 13,857,782</u>	<u>\$ 12,856,716</u>

As part of the Home's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Home invests cash in excess of immediate requirements in interest-bearing savings and investment accounts.

Note 3 – Assets Limited as to Use

Pursuant to insured refunding revenue bonds, the Home is required to hold certain funds in trust that are restricted by the terms of the indenture agreement. As of December 31, 2019 and 2018, assets limited as to use were composed of cash and cash equivalents contained in the following funds:

	<u>2019</u>	<u>2018</u>
Interest fund	\$ 2,162	\$ 5,389
Principal fund	233,427	257,596
Debt service reserve fund	<u>301,598</u>	<u>300,838</u>
Total assets limited as to use	537,187	563,823
Less: current portion	<u>(235,588)</u>	<u>(262,984)</u>
Long-term portion	<u>\$ 301,599</u>	<u>\$ 300,839</u>

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 4 – Fair Value Measurements

As of December 31, 2019 and 2018, all of the Home's investments, including fixed income securities, mutual funds and stocks, were all measured using level 1 inputs. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Home believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different fair value measurement at December 31, 2019 and 2018.

At December 31, 2019 and 2018, the Home's investments consisted of the following:

	<u>2019</u>	<u>2018</u>
Endowment Fund		
Short-term cash funds	\$ 253,990	\$ 247,820
Domestic corporate bonds	75,024	876,353
Common stocks	-	111,032
Foreign corporate bonds	-	49,555
Real estate investment trusts	234,183	135,829
Exchange traded funds	233,203	155,237
Municipal bonds	10,337	10,570
US Government backed securities	2,837	43,051
Mutual funds		
Large-cap funds	6,791,650	5,345,495
Income funds	4,352,175	3,075,391
Mid-cap funds	2,326,509	1,666,025
Small-cap funds	921,872	816,137
Other funds	264,489	215,053
	<u>15,466,269</u>	<u>12,747,548</u>
Capital Investment Fund		
Short-term cash funds	243,818	87,652
Domestic corporate bonds	-	99,986
US Government backed securities	911	51,025
	<u>244,729</u>	<u>238,663</u>
Investments		
Short-term cash funds	4,020,341	36,191
Domestic corporate bonds	608,262	3,559,064
Large-cap mutual funds	20,006	483,562
US Government backed securities	79,992	652,080
Foreign corporate bonds	-	249,150
	<u>4,728,601</u>	<u>4,980,047</u>
	<u>\$ 20,439,599</u>	<u>\$ 17,966,258</u>

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 – Endowment and Capital Replacement Funds

The Home maintains investments in two funds set aside for specific purposes. The Home relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Pursuant to these objectives, the Home has adopted a policy for their investment funds that attempts to provide a balance of maintenance of adequate cash reserves and the preservation of principal and growth within reasonable and prudent levels of risk.

Endowment Fund

The endowment fund investments consist of assets designated by the Board of Trustees to be invested in perpetuity for the purpose of generating income to support the Home's operations. Although the designated assets of the endowment fund are intended to be invested in perpetuity, the Board retains the discretion to utilize the endowment fund to support the Home's operations should the need arise. Since the board retains this discretion, the endowment fund is, therefore, more properly described as a "quasi-endowment fund".

Interpretation of Relevant Law

The Board of Trustees, in concurrence with the advice of legal counsel, has interpreted the California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the fair value of the endowment fund. In accordance with California UPMIFA, the organization considers the following factors in deciding to appropriate or invest endowment funds:

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

Endowment Investment and Spending Policies

The Home has adopted investment and spending policies for endowment assets that attempt to maintain the long-term purchasing power of the endowment assets. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diversified portfolio utilizing various asset classes with a goal of reducing portfolio volatility and risk.

The Home uses a total investment return methodology for determining its spending policy each year. The portfolio's total returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The spending policy calculates the cumulative amount of money available for distribution from the endowment to support operations. The spending policy is reviewed annually in light of changing market assumptions, investment returns and the rate of inflation. Accordingly, over the long term, the Home expects current spending policy to allow its endowment assets to grow.

Ararat Home of Los Angeles, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 5 – Endowment and Capital Replacement Funds (continued)

Changes in endowment net assets for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Endowment, beginning of year	\$ 12,747,548	\$ 13,546,708
Contributions	50,000	38,155
Total investment income (loss)	2,668,721	(837,315)
Appropriation for expenditure	-	-
Endowment, end of year	<u>\$ 15,466,269</u>	<u>\$ 12,747,548</u>

Capital Replacement Fund

The Capital Replacement fund is composed of Board-designated investments for the acquisition of new or the replacement of obsolete or worn out equipment, the performance of major repairs and construction of additions to, or improvements of, the Home's facilities.

Note 6 – Property and Equipment

Property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 13,774,643	\$ 12,423,850
Buildings and building improvements	51,670,060	51,670,451
Furniture, equipment and vehicles	<u>4,844,163</u>	<u>4,100,170</u>
	70,288,866	68,194,471
Less: accumulated depreciation	<u>(25,095,458)</u>	<u>(23,436,716)</u>
	45,193,408	44,757,755
Construction in progress	<u>1,370,066</u>	<u>372,207</u>
Net property and equipment	<u>\$ 46,563,474</u>	<u>\$ 45,129,962</u>

As of December 31, 2019, construction in progress of \$1,370,066 relates to the preparation of raw land acquired adjacent to the Home's Assisted Living Facility in Mission Hills, California during the year ended December 31, 2018.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 7 – Long-Term Debt

In April 1998, the Home entered into an agreement with the California Statewide Communities Development Authority pursuant to which the insured refunding revenue bonds (the “Bonds”) were issued. On November 27, 2012, the Home refinanced the 1998 bonds with new bonds. The refinanced Bonds are due in annual principal payments and semi-annual payments of interest rates ranging from 2.00% to 3.00%. Principal payments are made annually and continue through June 1, 2021. The Bonds are collateralized by a pledge and assignment agreement of the Home’s revenues and a security interest in substantially all of the Home’s assets. The Bonds are redeemable at the option of the Home. The Bond agreement requires the Home to comply with certain covenants including the maintenance of certain financial ratios, restrictions on capital expenditures and disposals and restrictions on additional indebtedness.

Future minimum principal installments, net of discount on debt, for the years ended December 31 are as follows:

	<u>Principal</u>	<u>Discount</u>	<u>Net</u>
2020	\$ 400,000	\$ (13,289)	\$ 386,711
2021	415,000	(2,502)	412,498
	<u>\$ 815,000</u>	<u>\$ (15,791)</u>	<u>\$ 799,209</u>

Note 8 – Contingencies

Laws and Regulations

The health care industry is subject to numerous laws and regulations of Federal, State and Local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program participation requirements, reimbursement for patient services and Medi-Cal, Medicare and Medicaid fraud and abuse rules. Violations of these laws and regulations could result in expulsion from governmental health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Home is in compliance with all applicable laws and regulations.

Litigation

From time to time, in the ordinary course of business, the Home is named in various legal proceedings. In management’s opinion, all such matters are adequately provided for, covered by insurance or, if not so covered or provided for, are without merit.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 8 – Contingencies (continued)

General Uninsured Losses

The Home carries comprehensive liability, fire, flood, environmental, and other insurance with policy specifications, limits, and deductibles that management believes are adequate and appropriate under the circumstances given the relative risk of loss, the cost of such coverage, and industry practice. There are certain types of losses that may be either uninsurable or not economically insurable. Should an uninsured loss occur, the Home could lose assets, anticipated profits and cash flows from its operations.

Note 9 – Net Assets with Donor Restrictions and Donations with Donor Restrictions

Net assets with donor restrictions consist of cash and artwork donated to the Home having an aggregate fair value of \$290,000. As a condition of receiving these donations, the Home agreed to promote and exhibit the artwork and provide art scholarships. Costs incurred to fulfill this obligation during the years ended December 31, 2019 and 2018 was \$18,000 and \$23,000, respectively.

During the years ended December 31, 2019 and 2018, the Home received donations of \$3,317,000 and \$543,323, respectively, to a building fund to be used to acquire, construct and repair land and facilities. Costs incurred to fulfill this obligation during the years ended December 31, 2019 and 2018 was \$556,227 and \$543,323, respectively.

Note 10 – Pension Plan

The Home has a 403(b) defined contribution plan covering substantially all employees who are age 21 and older. The plan requires that an employee provide at least 1,000 hours of service in any twelve consecutive month period to be eligible for participation. The Home matches 100% of participant contributions up to 3% of employee compensation, as defined. During the years ended December 31, 2019 and 2018, the Home made matching contributions of \$115,396 and \$93,740, respectively.

Note 11 – Subsequent Events

ASC Topic 855, “*Subsequent Events*”, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued. Accordingly, management has evaluated events occurring subsequent to December 31, 2019 through the date these financial statements were approved by management and available for issuance.



Ararat Home of Los Angeles, Inc.

**Financial Statements and
Independent Auditors' Report**

December 31, 2021 and 2020

Ararat Home of Los Angeles, Inc.
Financial Statements
December 31, 2021 and 2020

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Independent Auditors' Report

To the Board of Trustees
Ararat Home of Los Angeles, Inc.
Mission Hills, California

We have audited the accompanying financial statements of Ararat Home of Los Angeles, Inc. (the "Organization" or the "Home"), which comprise the statement of financial position as of December 31, 2021, the related statements of activities, functional expenses, and cash flows for the year 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 Ararat Home of Los Angeles, Inc., and the changes in its net assets 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. 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 Ararat Home of Los Angeles, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of Ararat Home of Los Angeles, Inc. for the year ended December 31, 2020 were audited by Martini Akpovi Partners, LLC, who joined with WithumSmith+Brown, PC on February 1, 2022 and expressed an unmodified opinion on those statements dated June 14, 2021.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 generally accepted auditing standards 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, including omissions, 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.

Independent Auditors' Report (continued)

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

WithumSmith+Brown, PC

Los Angeles, California
March 21, 2022

Ararat Home of Los Angeles, Inc.
Statements of Financial Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 12,993,273	\$ 11,812,211
Accounts receivable	5,416,208	3,007,542
Investments	5,757,380	5,273,544
Prepaid expenses and other current assets	685,819	1,830,634
Current portion of assets limited as to use	-	278,348
Total Current Assets	<u>24,852,680</u>	<u>22,202,279</u>
Endowment fund investments	19,820,208	17,386,704
Capital replacement fund investments	246,672	246,632
Assets limited as to use, net of current portion	-	301,735
Property and equipment, net	<u>44,589,786</u>	<u>45,470,755</u>
Total Assets	<u><u>\$ 89,509,346</u></u>	<u><u>\$ 85,608,105</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 836,848	\$ 591,904
Current maturities of long-term debt, net of discount	-	412,498
Accrued expenses	1,990,644	1,681,033
Paycheck Protection Program loan	-	1,109,312
Total Liabilities	<u>2,827,492</u>	<u>3,794,747</u>
Contingencies		
Net Assets		
Without donor restrictions:		
Board-designated	20,066,880	17,633,336
Undesignated	<u>64,676,933</u>	<u>61,621,055</u>
Total net assets without donor restrictions	84,743,813	79,254,391
With donor restrictions	<u>1,938,041</u>	<u>2,558,967</u>
Total Net Assets	<u>86,681,854</u>	<u>81,813,358</u>
Total Liabilities and Net Assets	<u><u>\$ 89,509,346</u></u>	<u><u>\$ 85,608,105</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statements of Activities
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Changes in Net Assets Without Donor Restrictions		
Revenues and other support without donor restrictions		
Patient care and resident revenue	\$ 35,132,593	\$ 32,495,025
Donations	358,369	1,668,070
Donations - quasi-endowment fund	569	1,034
Special events, net of expenses of \$10,182 and \$41,779 for 2021 and 2020, respectively	109,129	107,683
Provider relief fund contributions	-	1,921,479
Net assets released from restrictions:		
Satisfaction of program restrictions	620,926	450,806
Total revenues and other support without donor restrictions	<u>36,221,586</u>	<u>36,644,097</u>
Program expenses		
Skilled nursing	29,461,912	28,352,512
Assisted living	4,723,264	4,527,768
Total program expenses	<u>34,185,176</u>	<u>32,880,280</u>
Management and general expenses	480,988	460,437
Fundraising expenses	116,958	157,599
Total expenses	<u>34,783,122</u>	<u>33,498,316</u>
Operating income	<u>1,438,464</u>	<u>3,145,781</u>
Other income (expense)		
Net realized and unrealized gains on investments	1,699,799	1,712,927
Interest expense	(15,545)	(34,397)
Interest income	119,704	101,579
Gain on extinguishment of Paycheck Protection Program Loan	1,109,312	-
Interest and dividends - endowment fund	1,105,349	650,495
Other income	32,339	-
Net other income	<u>4,050,958</u>	<u>2,430,604</u>
Change in Net Assets Without Donor Restrictions	<u>5,489,422</u>	<u>5,576,385</u>
Changes in Net Assets With Donor Restrictions		
Net assets released from restrictions	<u>(620,926)</u>	<u>(450,806)</u>
Changes in Total Net Assets	4,868,496	5,125,579
Net Assets, Beginning of Year	81,813,358	76,687,779
Net Assets, End of Year	<u>\$ 86,681,854</u>	<u>\$ 81,813,358</u>

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program Expenses			Supporting Services		Total
	Skilled Nursing - Mission Hills	Skilled Nursing - Eagle Rock	Assisted Living	Management and General	Fundraising	
Salaries and benefits	\$ 17,743,571	\$ 2,859,967	\$ 1,943,172	\$ 245,688	\$ 44,671	\$22,837,069
Supplies and ancillary services	3,652,941	374,057	401,639	35,701	8,925	4,473,263
Taxes and licenses	1,351,725	175,883	8,456	972	292	1,537,328
Depreciation and amortization	769,835	53,974	912,454	81,107	20,277	1,837,647
Utilities	775,712	4,839	179,645	19,961	-	980,157
Purchased services	869,534	170,436	319,859	13,468	3,367	1,376,664
Insurance	335,347	55,005	551,009	55,101	6,122	1,002,584
Administration	108,181	12,671	74,337	1,549	1,549	198,287
Events	-	-	-	-	25,668	25,668
Property costs	72,160	10,452	273,896	24,346	6,087	386,941
Professional fees	34,158	31,464	58,797	3,095	-	127,514
Total	\$ 25,713,164	\$ 3,748,748	\$ 4,723,264	\$ 480,988	\$ 116,958	\$34,783,122

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program Expenses			Supporting Services		Total
	Skilled Nursing - Mission Hills	Skilled Nursing - Eagle Rock	Assisted Living	Management and general	Fundraising	
Salaries and benefits	\$ 16,889,032	\$ 2,923,784	\$ 1,888,435	\$ 238,768	\$ 43,412	\$21,983,431
Supplies and ancillary services	3,381,466	279,176	397,398	35,324	8,831	4,102,195
Taxes and licenses	1,468,628	208,481	8,554	983	295	1,686,941
Depreciation and amortization	767,382	60,371	877,286	77,981	19,495	1,802,515
Utilities	784,617	65,865	170,277	18,920	-	1,039,679
Purchased services	773,659	218,629	309,319	13,024	3,256	1,317,887
Insurance	195,007	23,488	457,457	45,746	5,083	726,781
Administration	125,916	38,852	70,868	1,476	1,476	238,588
Events	-	-	-	-	69,690	69,690
Property costs	86,894	9,331	272,766	24,246	6,061	399,298
Professional fees	24,549	27,385	75,408	3,969	-	131,311
Total	\$ 24,497,150	\$ 3,855,362	\$ 4,527,768	\$ 460,437	\$ 157,599	\$33,498,316

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 4,868,496	\$ 5,125,579
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,837,647	1,802,515
Amortization of discount on debt	2,502	13,289
Net realized and unrealized gains on investments	(1,699,799)	(1,712,927)
Allowance for doubtful accounts	(52,952)	70,000
Gain on extinguishment of Paycheck Protection Program Loan	(1,109,312)	-
Changes in assets and liabilities:		
Accounts receivable	(2,355,714)	70,533
Prepaid expenses and other current assets	1,144,815	(1,038,881)
Accounts payable	244,944	(262,859)
Accrued expenses	309,611	343,570
Net Cash Provided by Operating Activities	<u>3,190,238</u>	<u>4,410,819</u>
Cash Flows from Investing Activities		
Net purchase of investments	(1,217,582)	(752,760)
Purchase of property and equipment	(956,677)	(711,390)
Net change in assets limited as to use	580,083	(42,896)
Net Cash Used by Investing Activities	<u>(1,594,176)</u>	<u>(1,507,046)</u>
Cash Flow from Financing Activities		
Principal payments on long-term debt	(415,000)	(400,000)
Proceeds from Paycheck Protection Program Loan	-	1,109,312
Net Cash Provided (Used) by Financing Activities	<u>(415,000)</u>	<u>709,312</u>
Net Increase in Cash and Cash Equivalents	1,181,062	3,613,085
Cash and Cash Equivalents, Beginning of Year	11,812,211	8,199,126
Cash and Cash Equivalents, End of Year	<u>\$ 12,993,273</u>	<u>\$ 11,812,211</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 10,209</u>	<u>\$ 21,108</u>

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

Ararat Home of Los Angeles, Inc. (the "Organization or the "Home") is a non-profit and non-denominational organization founded in 1949 to care for elderly Armenians in Southern California. Since its early inception, the Home has expanded in both size and scope. Today, the Home exists to provide assisted living, skilled nursing and convalescent care facilities, primarily for the Armenian community, and to promote Armenian heritage and culture in America. The Board of Trustees oversees the management of the Home.

Standards of Accounting and Financial Reporting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). According to U.S. GAAP, the Home is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restrictions are the amounts designated by the board to be held for specific purposes. Net assets with donor restrictions are resources that are restricted by a donor for the use for a particular purpose or in a particular future period.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, supplies and ancillary services, utilities and depreciation which are allocated on the basis of estimates of time, effort and usage.

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting services, are allocated based on the best estimates of management.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates and assumptions made by management are used for, but not limited to, the estimated useful lives of long-lived assets, the allowance for doubtful accounts and the functional allocation of expenses. Actual results could differ from those estimates.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Operating Indicator

The Home’s operating income (operating indicator) includes all revenue and expenses for the reporting period, except for any gain on forgiveness of debt, investment income, interest income and interest expense. These amounts are added to operating income to arrive at change in net assets in the accompanying statements of activities.

Patient Care and Resident Revenue

The Home provides a comprehensive range of health care services to residents. Patient care revenue consists of the following categories:

Skilled Nursing:

The most significant portion of the home’s operations is the operation of the skilled nursing facilities at the Mission Hills and Eagle Rock campuses. Caregivers provide residents with comprehensive, individualized care 24 hours a day. In addition, the facilities provide licensed therapy services, quality nutrition services, social services, activities, and housekeeping and laundry services.

Assisted Living:

The Home’s assisted living facility provides personal care services and assistance with general activities of daily living such as dressing, bathing, meal preparation and medication management. Resident assessments are performed to determine what services are desired or required and residents are encouraged to participate in a range of activities.

During the years ended December 31, 2021 and 2020 patient care and resident revenue consisted of the following:

	<u>2021</u>	<u>2020</u>
Skilled nursing revenues	\$ 32,643,520	\$ 29,724,723
Assisted living revenues	2,433,622	2,724,857
Ancillary revenues	55,451	45,445
	<u>\$ 35,132,593</u>	<u>\$ 32,495,025</u>

The Home recognizes revenue as its performance obligations are completed. The performance obligations are satisfied over time as the resident simultaneously receives and consumes the benefits of the healthcare services provided. Additionally, there may be ancillary services which are not included in the daily rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time when those services are rendered.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Patient Care and Resident Revenue (continued)

Skilled nursing and assisted living revenues are based on services rendered at amounts equal to established rates. Amounts paid for residents under the Medi-Cal, HMO, Medicare and Medicaid programs are generally based on fixed rates per patient day, adjusted prospectively. All amounts earned under these, and other governmental programs are subject to review by the third-party payers. Any differences between estimated settlements and final determination are reflected in operations in the year finalized.

During the years ended December 31, 2021 and 2020, the Home received approximately 90% of its skilled nursing and assisted living revenues from federal and state sponsored programs, and approximately 10% from private pay sources.

Donations

Donations are recognized at fair value when the donor makes an unconditional promise to give and are reported as donor support without restrictions unless they are received with donor stipulations that limit the use of the donated assets. Donations received with donor stipulations are reported as donor support with restrictions. When donor restrictions are satisfied, net assets are released and reported as an increase in net assets without donor restrictions.

Donated goods are recognized at their fair values at the dates of donation. Contributed services are also recognized at fair value when they are received, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. The Home receives substantial contributed services from constituents, the general public and the members of the Board of Trustees who give their time and expertise to the Home in a wide variety of areas. These contributions, despite their considerable value to the mission of the Home, are not recorded in the accompanying financial statements unless the services meet the requirements for recognition.

Fair Value of Financial Instruments

The accompanying statements of financial position included the following financial instruments as of December 31, 2021 and 2020: accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses. The Home expects to realize the current assets, and to pay the current liabilities, within a short period of time. Therefore, the carrying amounts of these financial instruments approximate fair value.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Home considers all highly liquid investments purchased with maturities of three months or less at the time of purchase to be cash equivalents. The Home maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Home has not experienced any losses and does not believe it is exposed to any significant risk of loss on cash and cash equivalents.

Accounts Receivable

Substantially all of the Home's accounts receivable are related to providing assisted living, skilled nursing and convalescent care to patients. The accounts receivable is reduced by an estimated implicit price concessions by each major payor type based on historical experience of collections and contractual write downs. Management regularly reviews data about these major payors in evaluating the sufficiency of the estimate for price concession. For receivables associated with services provided to patients with third-party coverage, the Home analyzes contractually due amounts and provides an allowance, if necessary (for example, for payors who are known to be having financial difficulties that make the collection of receivables unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Home estimates uncollectible amounts based on its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. These amounts are considered implicit price concessions and are recorded as a reduction to revenue.

As of December 31, 2021 and 2020, the allowance for price concession was \$55,077 and \$108,029, respectively. Account balances are charged against the allowance after reasonable collection efforts have been exhausted and the potential for recovery is considered remote. Interest is not charged on past due amounts. Beginning balances of accounts receivable at January 1, 2020 was \$8,199,126.

Assets Limited as to Use

Assets limited as to use at December 31, 2020 included assets held by a bank pursuant to the Home's insured refunding revenue bonds, discussed in Note 3. Amounts required to meet current liabilities of the Home were included in current assets.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method of depreciation. The Home estimates the useful lives of the respective classes of property and equipment as follows:

Buildings and improvements	10 – 40 years
Furniture and equipment	5 – 20 years
Transportation equipment	5 – 15 years

Expenditures for maintenance and repairs are charged to operations when incurred.

Impairment

The Home reviews its long-lived assets whenever events or circumstances indicate that the carrying amounts of such assets may not be recoverable. Impairment is evaluated by comparing the carrying value of the assets with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Home would recognize an impairment loss at that date for the amount by which the carrying amount of the asset exceeds its fair value. Management has determined that no such impairment currently exists.

Investments and Investment Income

The Home's investment portfolio consists primarily of money market mutual funds and marketable debt and equity securities that are measured at fair value in the statements of financial position. Investment income or losses, including net realized and unrealized gains and losses, are included in the statements of activities.

Fair Value Measurements

Certain assets are measured at fair value per Accounting Standards Codification Topic 820, *Fair Value Measurement and Disclosures* ("ASC Topic 820"), which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

- Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.
- Level 2: Observable inputs or unobservable inputs that are corroborated by market data.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

Level 3: Unobservable inputs that are not corroborated by market data.

The assets or liabilities fair value measurement level, within the fair value hierarchy, is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Discount on Debt

Debt issuance costs are presented in the statements of financial position as a direct deduction from the carrying value of the associated debt liability and amortized as interest expense over the term of the related debt. Unamortized debt issuance costs at December 31, 2021 and 2020 were \$0 and \$2,502, respectively. Amortization expense, recorded as interest expense, during the years ended December 31, 2021 and 2020 were \$5,336 and \$13,289 respectively.

Income Taxes

The Home is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Home is subject to federal income tax on any unrelated business taxable income. The Home applies the income tax standard for uncertain tax positions. This standard prescribes recognition and measurement of tax positions taken, or expected to be taken, on a tax return that are not certain to be realized.

The Home's income tax returns are subject to review and examination by federal, state and local authorities. The Home is not aware of any activities that would jeopardize its tax-exempt status. The Home is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes. The home is subject to routine audits by taxing and other jurisdictions, however, there are no such audits currently in progress.

Subsequent Events

The Home has considered subsequent events through March 21, 2022, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.

Note 2 – Availability of Financial Assets

The following table reflects the Home's financial assets as of December 31, 2021 and 2020, reduced by amounts not available for general use because of donor-imposed restrictions within one-year. Amounts not available include amounts set aside for long-term investing in the endowment and capital replacement fund that could be drawn upon if the board of trustees approves that action.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 2 – Availability of Financial Assets (continued)

	<u>2021</u>	<u>2020</u>
Financial assets, as of December 31	\$ 44,233,741	\$ 38,306,716
Less: net assets subject to satisfaction of donor restrictions	(1,938,041)	(2,558,967)
Board designations:		
Endowment fund, primarily for long-term investing	(19,820,208)	(17,386,704)
Capital replacement fund	(246,672)	(246,632)
Assets limited as to use	-	(580,083)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 22,228,820</u>	<u>\$ 17,534,330</u>

As part of the Home's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Home invests cash in excess of immediate requirements in interest-bearing checking, mutual funds, money market and investment accounts.

Note 3 – Assets Limited as to Use

Pursuant to insured refunding revenue bonds (see note 7), the Home is required to hold certain funds in trust that are restricted by the terms of the indenture agreement. As of December 31, 2021 and 2020, assets limited as to use were comprised of cash and cash equivalents contained in the following funds:

	<u>2021</u>	<u>2020</u>
Interest fund	\$ -	\$ 2,832
Principal fund	-	275,516
Debt service reserve fund	-	301,735
Total assets limited as to use	-	580,083
Less: current portion	-	(278,348)
Long term portion	<u>\$ -</u>	<u>\$ 301,735</u>

Note 4 – Fair Value Measurements

As of December 31, 2021 and 2020, all of the Home's investments, including fixed income securities, mutual funds and stocks, were all measured using level 1 inputs. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Home believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different fair value measurement at December 31, 2021 and 2020.

Ararat Home of Los Angeles, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

Note 4 – Fair Value Measurements (continued)

At December 31, 2021 and 2020, the Home's investments consisted of the following:

	<u>2021</u>	<u>2020</u>
Quasi-Endowment Fund		
Short-term cash funds	\$ 186,698	\$ 817,826
Domestic corporate bonds	-	338,028
Common stocks	191,332	72,120
Real estate investment trusts	313,226	143,893
Exchange traded funds	-	265,907
US Government backed securities	1,655	102,067
Mutual funds		
Large-cap funds	8,030,954	7,227,287
Income funds	4,734,602	3,645,957
Mid-cap funds	4,721,695	3,326,469
Small-cap funds	1,312,982	1,226,251
Other funds	327,064	220,899
	<u>19,820,208</u>	<u>17,386,704</u>
Capital Investment Fund		
Short-term cash funds	725	246,082
US Government backed securities	245,947	550
	<u>246,672</u>	<u>246,632</u>
Investments		
Short-term cash funds	572,586	2,908,824
Mutual funds	4,207,705	1,527,653
Domestic Corporate Common Stocks	977,089	837,067
	<u>5,757,380</u>	<u>5,273,544</u>
Total	<u>\$ 25,824,260</u>	<u>\$ 22,906,880</u>

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 5 – Endowment and Capital Replacement Funds

The Home maintains investments in two funds set aside for specific purposes. The Home relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Pursuant to these objectives, the Home has adopted a policy for their investment funds that attempts to provide a balance of maintenance of adequate cash reserves and the preservation of principal and growth within reasonable and prudent levels of risk.

Endowment Fund

The endowment fund investments consist of assets designated by the Board of Trustees to be invested in perpetuity for the purpose of generating income to support the Home's operations. Although the designated assets of the endowment fund are intended to be invested in perpetuity, the Board retains the discretion to utilize the endowment fund to support the Home's operations should the need arise. Since the board retains this discretion, the endowment fund is, therefore, more properly described as a "quasi-endowment fund".

Interpretation of Relevant Law

The Board of Trustees, in concurrence with the advice of legal counsel, has interpreted the California adopted Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring a long-term investment strategy designed to preserve the fair value of the endowment fund. In accordance with California UPMIFA, the organization considers the following factors in deciding to appropriate or invest endowment funds:

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

Endowment Investment and Spending Policies

The Home has adopted investment and spending policies for endowment assets that attempt to maintain the long-term purchasing power of the endowment assets. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diversified portfolio utilizing various asset classes with a goal of reducing portfolio volatility and risk.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 5 – Endowment and Capital Replacement Funds (continued)

The Home uses a total investment return methodology for determining its spending policy each year. The portfolio's total returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The spending policy calculates the cumulative amount of money available for distribution from the endowment to support operations.

The spending policy is reviewed annually in light of changing market assumptions, investment returns and the rate of inflation. Accordingly, over the long term, the Home expects current spending policy to allow its endowment assets to grow.

Changes in endowment net assets for the years ended December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Endowment, beginning of year	\$ 17,386,704	\$ 15,466,269
Contributions	569	1,034
Total investment income	<u>2,432,935</u>	<u>1,919,401</u>
Endowment, end of year	<u>\$ 19,820,208</u>	<u>\$ 17,386,704</u>

Capital Replacement Fund

The Capital Replacement fund is composed of Board-designated investments for the acquisition of new or the replacement of obsolete or worn-out equipment, the performance of major repairs and construction of additions to, or improvements of, the Home's facilities.

Note 6 – Property and Equipment

Property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 13,774,643	\$ 13,774,643
Building and building improvements	52,419,576	51,783,298
Furniture, equipment and vehicles	<u>5,135,815</u>	<u>4,956,372</u>
	71,330,034	70,514,313
Less: accumulated depreciation	<u>(28,723,657)</u>	<u>(26,899,567)</u>
	42,606,377	43,614,746
Construction in progress	<u>1,983,409</u>	<u>1,856,009</u>
	<u>\$ 44,589,786</u>	<u>\$ 45,470,755</u>

As of December 31, 2021 and 2020, construction in progress of \$1,983,409 and \$1,856,009, respectively, relates to the preparation of raw land acquired adjacent to the Home's Assisted Living Facility in Mission Hills, California.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 7 – Long-Term Debt

In April 1998, the Home entered into an agreement with the California Statewide Communities Development Authority pursuant to which the insured refunding revenue bonds (the “Bonds”) were issued. On November 27, 2012, the Home refinanced the 1998 Bonds with new Bonds. The refinanced Bonds are due in annual principal payments and semi-annual payments of interest rates ranging from 2.00% to 3.00%. Principal payments are made annually and continued through June 1, 2021. The Bonds are collateralized by a pledge and assignment agreement of the Home’s revenues and a security interest in substantially all of the Home’s assets. The Bonds are redeemable at the option of the Home. The Bond agreement requires the Home to comply with certain covenants including the maintenance of certain financial ratios, restrictions on capital expenditures and disposals and restrictions on additional indebtedness. During May 2021, the Organization paid off its remaining Bond balance and has not entered into any new Bond agreements.

Note 8 – Contingencies

Laws and Regulations

The health care industry is subject to numerous laws and regulations of Federal, State and Local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program participation requirements, reimbursement for patient services and Medi-Cal, Medicare and Medicaid fraud and abuse rules. Violations of these laws and regulations could result in expulsion from governmental health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Home is in compliance with all applicable laws and regulations.

Litigation

From time to time, in the ordinary course of business, the Home is named in various legal proceedings. In management’s opinion, all such matters are adequately provided for, covered by insurance or, if not so covered or provided for, are without merit.

General Uninsured Losses

The Home carries comprehensive liability, fire, flood, environmental, and other insurance with policy specifications, limits, and deductibles that management believes are adequate and appropriate under the circumstances given the relative risk of loss, the cost of such coverage, and industry practice. There are certain types of losses that may be either uninsurable or not economically insurable. Should an uninsured loss occur, the Home could lose assets, anticipated profits and cash flows from its operations.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 8 – Contingencies (continued)

Insurance

The Organization bears insurance risk as a member of a group captive insurance entity for certain workers' compensation insurance programs. The Organization records estimated liabilities for its insurance programs based on information provided by the third-party plan administrators, historical claims experience, expected costs of claims incurred but not paid and expected costs to settle unpaid claims. The Organization monitors its estimated insurance related liabilities on a regular basis. As facts change, it may become necessary to make adjustments that could be material to the Organization's results of operations and financial condition. Through issuance date of these financial statements, no material claim has been made against the Home and management is not aware of any event that would result to a future material claim. The Home has a medical malpractice insurance policy in the amount of \$4,000,000. The Organization believes that its present insurance coverage is adequate.

Note 9 – Net Assets with Donor Restrictions and Donations with Donor Restrictions

Net assets with donor restrictions consist of cash and artwork donated to the Home having an aggregate fair value of \$290,000. As a condition of receiving these donations, the Home agreed to promote and exhibit the artwork and provide art scholarships. Costs incurred to fulfill this obligation during the years ended December 31, 2021 and 2020 were \$10,000 and \$7,500, respectively.

In 2019, the Home received donations of \$3,180,000 to a building fund to be used to acquire, construct and repair land and facilities. Costs incurred to fulfill this obligation during the years ended December 31, 2021 and 2020 were \$610,926 and \$443,306, respectively.

Note 10 – Pension Plan

The Home has a 403(b) defined contribution plan covering substantially all employees who are age 21 and older. The plan requires that an employee provide at least 1,000 hours of service in any twelve consecutive month period to be eligible for participation. The Home matches 100% of participant contributions up to 3% of employee compensation, as defined. During the years ended December 31, 2021 and 2020, the Home made matching contributions of \$150,872 and \$167,731, respectively.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Note 11 – Coronavirus

In December 2019, a novel strain of coronavirus (“COVID-19”) surfaced. The spread of COVID-19 around the world has caused significant volatility in the U.S. and the international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. As of the date of the issuance of these financial statements, the Organization continues to assess and respond, wherever they may deem necessary, to the impact of COVID-19 to its operations.

In May 2020, the Organization entered into a Paycheck Protection Program Loan (“PPP Loan”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) and applicable regulations CARES Act. Under the PPP Loan, the Organization borrowed \$1,109,312. The outstanding balance on the PPP Loan at December 31, 2020 was \$1,109,312. In October 2021, the Organization received confirmation from the Small Business Administration (“SBA”) that the full amount of the PPP Loan has been approved for forgiveness. Accordingly, the Company has recorded a gain on extinguishment of Paycheck Protection Program Loan in the accompanying statement of activities for the year ended December 31, 2021.

In 2020, the Organization received \$1,921,479 of Provider Relief Fund under the CARES Act. Provider Relief Fund proceeds are to be used for economic support of health care entities in connection with health care-related expenses or lost revenues attributable to COVID-19 and treatment of uninsured COVID-19 patients. During the year ended December 31, 2020, the Organization utilized all of the Provider Relief Fund to pay for qualified expenses in full satisfaction of the conditions for the contribution. Accordingly, Provider Relief Fund Contribution in the amount of \$1,921,479 were included in the Organization’s total revenues and other support without donor restrictions for the year ended December 31, 2020.

Ararat Home of Los Angeles, Inc.

Financial Statements

Years Ended December 31, 2022 and 2021



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Ararat Home of Los Angeles, Inc.
Years Ended December 31, 2022 and 2021

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Independent Auditor's Report

To the Board of Trustees
Ararat Home of Los Angeles, Inc.
Mission Hills, California

Opinion

We have audited the accompanying financial statements of Ararat Home of Los Angeles, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year 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 Ararat Home of Los Angeles, Inc. as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States ("GAAP").

Basis for Opinion

We conducted our audit 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 Audit of the Financial Statements section of our report. We are required to be independent of Ararat Home of Los Angeles, Inc. 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.

Prior Period Financial Statements

The financial statements of Ararat Home of Los Angeles, Inc. as of and for the year ended December 31, 2021 were audited by other auditors whose report dated March 21, 2022 expressed an unmodified opinion on those statements.

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 Ararat Home of Los Angeles, Inc.'s ability to continue as a going concern within one year after the date the financial statements are available to be 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 Ararat Home of Los Angeles, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ararat Home of Los Angeles, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Wipfli LLP

Wipfli LLP

May 12, 2023

Irvine, California

Ararat Home of Los Angeles, Inc.

Statements of Financial Position

<i>As of December 31,</i>	2022	2021
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 14,184,006	\$ 12,993,273
Accounts receivable, net	4,131,165	5,416,208
Short-term investments	5,482,613	5,757,380
Prepaid expenses and other current assets	1,384,271	685,819
Total current assets	25,182,055	24,852,680
Other assets:		
Endowment fund	16,433,468	19,820,208
Capital replacement fund	249,999	246,672
Property and equipment, net	43,404,773	44,589,786
Total other assets	60,088,240	64,656,666
Total assets	\$ 85,270,295	\$ 89,509,346
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 1,252,385	\$ 836,848
Accrued payroll and benefits	1,963,161	1,990,644
Total current liabilities	3,215,546	2,827,492
Net assets:		
Without donor restrictions:		
Board-designated	16,683,467	20,066,880
Undesignated	63,967,062	64,676,933
Total net assets without donor restrictions	80,650,529	84,743,813
With donor restrictions	1,404,220	1,938,041
Total net assets	82,054,749	86,681,854
Total liabilities and net assets	\$ 85,270,295	\$ 89,509,346

See accompanying notes to financial statements.

Ararat Home of Los Angeles, Inc.

Statements of Activities

<i>Years Ended December 31,</i>	2022	2021
Revenues, gains, and other support:		
Patient care and resident revenue	\$ 37,453,354	\$ 35,202,593
Donations	388,800	358,369
Donations - endowment fund	11,131	569
Special events	191,274	156,882
Interest income	115,222	119,704
Gain on forgiveness of Paycheck Protection Program Loan	-	1,109,312
Interest and dividend income - endowment fund	729,980	1,105,349
Other income	33,956	32,339
Net assets released from restrictions	658,821	620,926
<hr/>		
Operating revenues	39,582,538	38,706,043
<hr/>		
Operating expenses:		
Program expenses:		
Skilled nursing	33,547,651	29,531,912
Assisted living	4,838,359	4,723,264
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Total program expenses	38,386,010	34,255,176
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Management and general expenses	724,494	496,533
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Fundraising expenses	166,089	164,711
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Total expenses	39,276,593	34,916,420
<hr/>		
Income before nonoperating gain (loss)	305,945	3,789,623
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Nonoperating gain (loss)		
Net realized and unrealized gain (loss) on investments	(4,399,229)	1,699,799
<hr/>		
Change in net assets without donor restrictions		
Net income (loss)	(4,093,284)	5,489,422
<hr/>		
Net assets with donor restrictions:		
Restricted donations	125,000	-
Net assets released from restrictions	(658,821)	(620,926)
<hr/>		
Change in net assets	(4,627,105)	4,868,496
<hr/>		
Net assets - Beginning of year	86,681,854	81,813,358
<hr/>		
Net assets - End of year	\$ 82,054,749	\$ 86,681,854

See accompanying notes to financial statements.

Ararat Home of Los Angeles, Inc.

Statements of Functional Expenses

<i>Year Ended December 31, 2022</i>	Program Expenses			Supporting Services		
	Skilled Nursing - Mission Hills	Skilled Nursing - Eagle Rock	Assisted Living	Management and General	Fundraising	Total
	Salaries and benefits	\$ 19,887,688	\$ 3,212,173	\$ 2,145,125	\$ 271,223	\$ 49,313
Supplies and ancillary services	3,824,273	588,872	368,880	32,789	8,197	4,823,011
Taxes and licenses	1,736,762	236,958	9,169	1,054	316	1,984,259
Depreciation	793,579	52,919	910,536	80,937	20,234	1,858,205
Utilities	844,630	51,132	203,103	22,567	-	1,121,432
Purchased services	1,157,607	188,019	345,550	14,549	3,637	1,709,362
Insurance	380,959	62,705	527,863	52,786	5,865	1,030,178
Administration	134,337	29,544	77,303	1,610	1,610	244,404
Events	-	-	-	-	21,925	21,925
Property costs	102,430	11,515	186,475	16,576	4,144	321,140
Professional fees	110,860	140,689	64,355	3,387	-	319,291
Special events	-	-	-	-	50,848	50,848
Transaction costs	-	-	-	227,016	-	227,016
Total expenses	\$ 28,973,125	\$ 4,574,526	\$ 4,838,359	\$ 724,494	\$ 166,089	\$ 39,276,593

<i>Year Ended December 31, 2021</i>	Program Expenses			Supporting Services		
	Skilled Nursing - Mission Hills	Skilled Nursing - Eagle Rock	Assisted Living	Management and general	Fundraising	Total
	Salaries and benefits	\$ 17,743,571	\$ 2,859,967	\$ 1,943,172	\$ 245,688	\$ 44,671
Supplies and ancillary services	3,722,941	374,057	401,639	35,701	8,925	4,543,263
Taxes and licenses	1,351,725	175,883	8,456	972	292	1,537,328
Depreciation	769,835	53,974	912,454	81,107	20,277	1,837,647
Utilities	775,712	4,839	179,645	19,961	-	980,157
Purchased services	869,534	170,436	319,859	13,468	3,367	1,376,664
Insurance	335,347	55,005	551,009	55,101	6,122	1,002,584
Administration	108,181	12,671	74,337	1,549	1,549	198,287
Events	-	-	-	-	25,668	25,668
Property costs	72,160	10,452	273,896	24,346	6,087	386,941
Professional fees	34,158	31,464	58,797	3,095	-	127,514
Special events	-	-	-	-	47,753	47,753
Interest expense	-	-	-	15,545	-	15,545
Total expenses	\$ 25,783,164	\$ 3,748,748	\$ 4,723,264	\$ 496,533	\$ 164,711	\$ 34,916,420

See accompanying notes to financial statements.

Ararat Home of Los Angeles, Inc.

Statements of Cash Flows

Years Ended December 31,	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (4,627,105)	\$ 4,868,496
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,858,205	1,837,647
Amortization of discount on debt	-	2,502
Net realized and unrealized (gains) losses on investments	3,591,672	(2,464,132)
Provision for implicit price concessions	445,797	(70,000)
Gain on forgiveness of debt from Paycheck Protection Program	-	(1,109,312)
Changes in operating assets and liabilities:		
Accounts receivable	839,246	(2,338,666)
Prepaid expenses and other current assets	(698,452)	1,144,815
Accounts payable	415,537	244,944
Accrued expenses	(27,483)	309,611
Net cash from operating activities	1,797,417	2,425,905
Cash flows from investing activities:		
Net purchase of investments	-	(1,217,582)
Proceeds from the sale of investment	100,914	-
Purchase of property and equipment	(673,192)	(956,677)
Change in assets limited as to use	-	580,083
Net cash from investing activities	(572,278)	(1,594,176)
Cash flows from financing activities:		
Principal payments on long-term debt	-	(415,000)
Net cash from financing activities	-	(415,000)
Net change in cash and cash equivalents	1,225,139	416,729
Cash and cash equivalents - Beginning of year	16,630,710	16,213,981
Cash and cash equivalents - End of year	\$ 17,855,849	\$ 16,630,710
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ -	\$ 10,209

See accompanying notes to financial statements.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 1: Organization

Nature of Operations

Ararat Home of Los Angeles, Inc. (the "Home") is a nonprofit and nondenominational organization founded in 1949 to care for elderly Armenians in Southern California. Since its early inception, the Home has expanded in both size and scope. Today, the Home exists to provide assisted living, skilled nursing and convalescent care facilities, primarily for the Armenian community, and to promote Armenian heritage and culture in America. The Board of Trustees oversees the management of the Home.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Home have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP).

Net Asset Classifications

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. Included within net assets without donor restrictions are board-designated funds, named the Endowment and Capital Replacement Funds. The Board of Trustees 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 the Home. Board designated funds at December 31, 2022 and 2021, respectively, consisted of the following:

	2022	2021
Endowment Fund	\$ 16,433,468	\$ 19,820,208
Capital Replacement Fund	249,999	246,672
Total	\$ 16,683,467	\$ 20,066,880

With Donor Restrictions – Represents unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. This category also includes net assets subject to donor-imposed stipulations that are to be maintained by the Home in perpetuity. The Home had no net assets required to be maintained in perpetuity as of December 31, 2022 or 2021. Contribution revenue is recognized in the appropriate net asset classification when the gift is unconditionally promised.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Performance Indicator

"Net Income (Loss)" as reflected in the accompanying statements of activities is the performance indicator. The performance indicator reflects the Home's operational performance excluding net realized and unrealized gain (loss) on investments and receipt of restricted donations.

Use of Estimates

The preparation of financial statements in accordance 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 revenue and expenses during the reporting period. Actual results could differ from estimated amounts.

Cash and Cash Equivalents

The Home considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. The Home maintains cash in bank deposit accounts which, at times, may exceed federally insured limits.

Accounts Receivable

Substantially all of the Home's accounts receivable are related to providing assisted living, skilled nursing and convalescent care to patients. Accounts receivable are reduced by contractual adjustments and estimated implicit price concessions by each major payor type based on historical experience of collections and contractual write downs. Management regularly reviews data about these major payors in evaluating the sufficiency of the estimate for implicit price concession. For receivables associated with services provided to patients with third-party coverage, the Home analyzes contractually due amounts and provides an allowance, if necessary (for example, for payors who are known to be having financial difficulties that make the collection of receivables unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Home estimates uncollectible amounts based on its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. These amounts are considered implicit price concessions and are recorded as a reduction to revenue.

At both December 31, 2022 and 2021, the allowance for implicit price concessions was \$38,029. Account balances are charged against the allowance after reasonable collection efforts have been exhausted and the potential for recovery is considered remote. Interest is not charged on past due amounts. Accounts receivable, net of contractual adjustments and an allowance for implicit price concessions of \$108,029, totaled \$3,007,542 as of January 1, 2021.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

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. The Home'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 5 for fair value hierarchy disclosures of investments.

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 earnings or loss and realized and unrealized gains or losses are included in the statements of activities 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 as the ex-dividend date.

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method of depreciation. The Home estimates the useful lives of the respective classes of property and equipment as follows:

Building and improvements	10-40 Years
Furniture and equipment	5-20 years
Transportation equipment	5-15 years

Expenditures for maintenance and repairs are charged to operations when incurred.

Impairment of Long-Lived Assets

The Home reviews its long-lived assets whenever events or circumstances indicate that the carrying amounts of such assets may not be recoverable. Impairment is evaluated by comparing the carrying value of the assets with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Home would recognize an impairment loss at that date for the amount by which the carrying amount of the asset exceeds its fair value. Management determined that no such impairment currently exists for the years ended December 31, 2022 and 2021.

Capital Replacement Fund

The Capital Replacement Fund is composed of Board-designated investments for the acquisition of new or the replacement of obsolete or worn-out equipment, the performance of major repairs, and construction of additions to, or improvements of, the Home's facilities.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Patient Care and Resident Revenue

Patient care and resident revenue is reported at the amount that reflects the consideration to which the Home expects to be entitled in exchange for providing services. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Home bills the residents and third-party payors several days after the services are performed or the resident no longer needs care. Revenue is recognized as performance obligations are satisfied.

The Home determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors. The Home determines its estimates of contractual adjustments and discounts based on contractual agreements and historical experience.

Performance obligations are determined based on the nature of the services provided by the Home. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Home believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time are related to residents in the Home's facilities receiving in-resident post-acute and convalescent care services or residents receiving services in their homes (assisted living). The Home measures the performance obligation from the effective date on the Residence Agreement contract to the point when it is no longer required to provide services to that resident, which is generally at the time the resident elects to move from the facility or passes away. Revenue for performance obligations satisfied at a point in time is generally recognized when ancillary and other services are provided to the Home's residents.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare: Payments for skilled nursing facility services rendered to Medicare program beneficiaries are based on prospectively determined daily rates, which vary according to a patient diagnostic classification system. The Home is paid for certain reimbursable services at the approved rate with final settlement determined after submission of the annual cost report and audit thereof by the Medicare fiscal intermediary. Annual cost reports are submitted to the designated intermediary; however, they will not contain a cost settlement.

Medi-Cal: Payments for skilled nursing facility services rendered to Medi-Cal program beneficiaries are based on an annually established daily reimbursement rate for eligible stays. The rate is adjusted annually on August 1. The final settlement is determined after submission of an annual cost report and audits thereof by Medi-Cal.

Other: Payments for services rendered to health maintenance organizations (HMO), private pay, and other patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations, and preferred provider organizations, which provide for various discounts from the established rates.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Patient Care and Resident Revenue (Continued)

Laws and regulations concerning government programs, including Medicare and Medi-Cal, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Home's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon the Home. In addition, the contracts the Home has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing resident services. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Home's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for the years ended December 31, 2022 and 2021.

The composition of patient care and resident revenue by primary payors for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
HMO	\$ 22,602,074	\$ 20,466,212
Medicare	10,371,585	11,057,089
Rent-Assisted Living	2,878,583	2,433,606
Private	1,255,533	888,175
Medi-Cal	192,676	136,440
Other	105,416	165,693
Ancillary	47,487	55,378
Total	\$ 37,453,354	\$ 35,202,593

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Patient Care and Resident Revenue (Continued)

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Home estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care and resident revenue in the period of the change.

The Home does not charge an entrance fee to new residents.

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

The Home provides a comprehensive range of health care services to patients and residents. Patient care and resident revenue consists of the following categories:

Skilled Nursing:

The most significant portion of the operations is the Home's operation of the skilled nursing facilities at the Mission Hills and Eagle Rock campuses. Caregivers provide residents with comprehensive, individualized care 24 hours a day. In addition, the facilities provide licensed therapy services, quality nutrition services, social services, activities, and housekeeping and laundry services.

Assisted Living:

The Home's assisted living facility provides personal care services and assistance with general activities of daily living such as dressing, bathing, meal preparation, and medication management. Resident assessments are performed to determine what services are desired or required and residents are encouraged to participate in a range of activities.

During the years ended December 31, 2021 and 2020, patient care and resident revenue consisted of the following:

	2022	2021
Skilled nursing and convalescent care revenues	\$ 34,527,284	\$ 32,713,609
Assisted living revenues	2,878,583	2,433,606
Ancillary revenues	47,487	55,378
Total	\$ 37,453,354	\$ 35,202,593

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Donations

Donations are recognized at fair value when the donor makes an unconditional promise to give and are reported as donor support without restrictions unless they are received with donor stipulations that limit the use of the donated assets. Donations received with donor stipulations are reported as donor support with restrictions. When donor restrictions are satisfied, net assets are released and reported as an increase in net assets without donor restrictions.

Donated goods are recognized at their fair values at the dates of donation. Contributed services are also recognized at fair value when they are received, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. The Home receives substantial contributed services from constituents, the general public and the members of the Board of Trustees who give their time and expertise to the Home in a wide variety of areas. These contributions, despite their considerable value to the mission of the Home, are not recorded in the accompanying financial statements unless the services meet the requirements for recognition.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied.

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses which are not directly identifiable by program or supporting services, are allocated based on the best estimates of management.

Income Taxes

The Home is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and by the California Franchise Tax Board pursuant to Section 23701(d) of the Revenue and Taxation Code.

The Home follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes – Overall*. Under that guidance, the Home may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Home and positions related to the potential sources of unrelated business taxable income (UBTI). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Home has assessed its federal and state tax positions and determined that there were no UBTI and no uncertainties or possible related effects that need to be recorded as of or for the year ended December 31, 2022.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Adoption of Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases: Amendments to the FASB Accounting Standards Codification (Topic 842)*, which amends the existing guidance on accounting for leases. This ASU requires the recognition of lease assets and liabilities on the statement of financial position and the disclosure of key information about leasing arrangements. Early adoption is permitted and modified retrospective application is required for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*. Prior to ASU No. 2020-05, the amendments to Topic 842 would be effective for periods beginning after December 15, 2020 for entities other than public business entities. ASU 2020-05 defers the effective date of the amendments to Topic 842 to periods beginning after December 15, 2021 for entities other than public business entities. The guidance in ASU No. 2016-02 was adopted by the Home for the year ended December 31, 2022, however there was no impact to the Home's financial statements.

In September 2020, the FASB issued 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. The guidance in this ASU was adopted by the Home for the year ended December 31, 2022, however there was no impact to the Home's financial statements.

Recent Accounting Pronouncement - Not Yet adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 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 Home's financial statements and related disclosures.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Subsequent Events

Effective March 1, 2023, the Home acquired the real property, the facility, and the business operations of "Windsor Manor" under a Purchase and Sale agreement for total monetary consideration of \$14,500,000. The total purchase price was allocated to \$14,870,000 to land and buildings, \$740,000 to furniture fixtures and equipment, and \$123,000 to other assets. As part of the acquisition, the Home also assumed \$1,650,000 in resident contract liabilities. The Home paid a \$500,000 deposit which is included in prepaid expenses on the statement of financial position as of December 31, 2022. The Home incurred \$227,016 in related transaction expenses as disclosed on the statement of functional expenses for the year ended December 31, 2022.

Subsequent events have been evaluated through the date of the independent auditor's report, the date the financial statements were available to be issued.

Note 3: Liquidity and Availability

The following table reflects the Home's financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general use because of donor-imposed and board-designated restrictions, that are available to meet cash needs for general expenditures within one year. Amounts not available include amounts set aside for long-term investing in the endowment and capital replacement fund that could be drawn upon if the Board of Trustees approves that action.

	2022	2021
Cash and cash equivalents	\$ 14,184,006	12,993,273
Accounts receivable, net	4,131,165	5,416,208
Short-term investments	5,482,613	5,757,380
Endowment fund	16,433,468	19,820,208
Capital replacement fund	249,999	246,672
Financial assets, as of December 31	40,481,251	44,233,741
Less: Net assets subject to satisfaction of donor restrictions	(1,404,220)	(1,938,041)
Less: Board Designations		
Endowment fund, primarily for long-term investing	(16,433,468)	(19,820,208)
Capital replacement fund	(249,999)	(246,672)
Financial assets available to meet cash needs for general expenditure within one year	\$ 22,393,564	22,228,820

As part of the Home's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Home invests cash in excess of immediate requirements in interest-bearing checking accounts, mutual funds, money market and investment accounts. The Home also has access to a \$400,000 line of credit, see Note 8.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 4: Investments

At December 31, 2022 and 2021, the Home's investments consisted of the following:

	2022	2021
Quasi-endowment fund:		
Interest-bearing cash	\$ 215,595	\$ 186,698
Common stock	365,797	191,332
Real estate investments trusts	105,049	313,226
U.S. Government securities	380,765	1,655
Mutual funds:		
Large-Cap funds	11,805,789	8,030,954
Income funds	1,212,238	4,734,602
Mid-cap funds	1,452,467	4,721,695
Small-cap funds	895,768	1,312,982
Other funds	-	327,064
Total endowment fund	16,433,468	19,820,208
Capital replacement fund:		
Interest-bearing cash	965	725
Mutual funds	248,893	-
U.S. Government securities	141	245,947
Total capital replacement fund	249,999	246,672
Short-term investments:		
Interest-bearing cash	538,780	572,586
Mutual funds	3,814,681	4,207,705
Common stock	1,129,152	977,089
Total short-term investments	5,482,613	5,757,380
Totals	\$ 22,166,080	\$ 25,824,260

Investment income (loss) reported in the statements of activities consisted of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Interest income and dividends	\$ 845,202	\$ 1,225,053
Realized and unrealized gains (losses) - Net	(4,399,229)	1,699,799
Totals	\$ (3,554,027)	\$ 2,924,852

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

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:

Mutual Funds and Real Estate Investment Trusts ("REITs"): Mutual funds and REITs are valued at the daily closing price as reported by the fund and REIT. Mutual funds held by the Home are open-end mutual funds and both the mutual funds and REITs are registered with the U.S. Securities and Exchange Commission. These funds and REITs are required to publish their daily NAV and to transact at that price. The mutual funds and REITs held by the Home 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.

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

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

Ararat Home of Los Angeles, Inc.

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 December 31, 2022 and 2021.

December 31, 2022:

	Fair Value	Level 1	Level II	Level III
Interest-bearing cash	\$ 755,340	\$ 755,340	\$ -	\$ -
Common stock	1,494,949	1,494,949	-	-
Mutual funds	19,429,836	19,429,836	-	-
Real estate investment trusts	105,049	105,049	-	-
U.S. Government securities	380,906	-	380,906	-
Total	\$ 22,166,080	\$ 21,785,174	\$ 380,906	\$ -

December 31, 2021:

	Fair Value	Level 1	Level 2	Level III
Interest-bearing cash	\$ 760,009	\$ 760,009	\$ -	\$ -
Common stock	1,168,421	1,168,421	-	-
Mutual funds	23,335,002	23,335,002	-	-
Real estate investment trusts	313,226	313,226	-	-
U.S. Government securities	247,602	-	247,602	-
Total	\$ 25,824,260	\$ 25,576,658	\$ 247,602	\$ -

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 the Home 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 December 31, 2022 and 2021. Current estimates of fair value may differ significantly from the amounts presented.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 6: Endowment Fund

The Home maintains investments set aside for specific board-restricted purposes. Pursuant to these objectives, the Home has adopted a policy for these investment funds that attempts to provide a balance of maintenance of adequate cash reserves and the preservation of principal and growth within reasonable and prudent levels of risk.

Endowment Fund

The endowment fund investments consist of assets designated by the Board of Trustees to be invested in perpetuity for the purpose of generating income to support the Home's operations. Although the designated assets of the endowment fund are intended to be invested in perpetuity, the Board retains the discretion to utilize the endowment fund to support the Home's operations should the need arise. Since the board retains this discretion, the endowment fund is, therefore, more properly described as a "quasi-endowment fund".

Interpretation of Relevant Law

The Board of Trustees, in concurrence with the advice of legal counsel, has interpreted the California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the fair value of the endowment fund. In accordance with California UPMIFA, the organization considers the following factors in deciding to appropriate or invest endowment funds:

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

Endowment Investment and Spending Policies

The Home has adopted investment and spending policies for endowment assets that attempt to maintain the long-term purchasing power of the endowment assets. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diversified portfolio utilizing various asset classes with a goal of reducing portfolio volatility and risk.

The Home uses a total investment return methodology for determining its spending policy each year. The portfolio's total returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The spending policy calculates the cumulative amount available for distribution from the endowment to support operations.

The spending policy is reviewed annually in light of changing market assumptions, investment returns and the rate of inflation. Accordingly, over the long term, the Home expects its current spending policy to allow its endowment assets to grow.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 6: Endowment Fund (Continued)

Changes in endowment net assets for the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Endowment, beginning of year	\$ 19,820,208	\$ 17,386,704
Contributions	1,130	569
Investment income (loss)	(3,387,870)	2,432,935
Endowment, end of year	\$ 16,433,468	\$ 19,820,208

Note 7: Property and Equipment

Property and equipment consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Land and land improvements	\$ 13,774,893	\$ 13,774,643
Buildings and building improvements	52,620,178	52,419,576
Furniture and office equipment	5,501,432	5,135,815
	71,896,503	71,330,034
Less: accumulated depreciation	(30,578,182)	(28,723,657)
Construction in progress	41,318,321	42,606,377
	2,086,452	1,983,409
Total	\$ 43,404,773	\$ 44,589,786

As of December 31, 2022 and 2021, construction in progress of \$2,086,452 and \$1,983,409, respectively, relates to the preparation of raw land acquired in Mission Hills, California. Depreciation expense totaled \$1,858,205 and \$1,837,647 for the years ended December 31, 2022 and 2021.

Note 8: Line of Credit

The Home has a \$400,000 line-of-credit agreement dated November 2, 2006 with Citibank. The agreement requires monthly interest payments and also requires the Home to pay the line-of-credit in full at least once annually and not draw on the line for 30 consecutive days following the repayment. Principal borrowings under the line-of-credit are payable in forty-eight equal consecutive monthly installments of principal, together with accrued monthly interest and any other charges beginning the first calendar month after the "cancellation date," which is the date upon which Citibank cancels the right to obtain advances. The interest rate on the line-of-credit is equal to the Prime Rate less 0.25%, which was 7.25% at December 31, 2022. The line-of-credit contains certain financial and operational covenants and is secured by all assets of the Home. At December 31, 2022 and 2021, the Home had no borrowings under this agreement.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 9: Commitments and Contingencies

Laws and Regulations

The health care industry is subject to numerous laws and regulations of Federal, State and Local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program participation requirements, reimbursement for patient services, and Medi-Cal and Medicare fraud and abuse rules. Violations of these laws and regulations could result in expulsion from governmental health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Home is in compliance with all applicable laws and regulations.

Litigation

From time to time, in the ordinary course of business, the Home is named in various legal proceedings. In management's opinion, the ultimate disposition of these matters will not have a material adverse effect on the Home's financial position, results of operations, or liquidity.

Insurance

The Home bears insurance risk as a member of a group captive insurance entity for certain worker's compensation insurance programs. The Home records estimated liabilities for its insurance programs based on information provided by the third-party plan administrators, historical claims experience, expected costs of claims incurred but not paid and expected costs to settle unpaid claims. The Home monitors its estimated insurance related liabilities on a regular basis. As facts change, it may become necessary to make adjustments that could be material to the Home's results of operations and financial condition. Through issuance date of these financial statements, no material claim has been made against the Home and management is not aware of any event that would result in a future material claim. The Home has a medical malpractice insurance policy in the amount of \$4,000,000. The Home believes that its present insurance coverage is adequate.

Note 10: Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2022 and 2021, are available for the following purposes:

	2022	2021
Bahador	\$ 231,500	\$ 231,500
Dream Fund	1,172,720	1,706,541
Total	\$ 1,404,220	\$ 1,938,041

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

Note 11: Pension Plan

The Home has a 403(b) defined contribution plan covering substantially all employees who are age 21 and older. The plan requires that an employee provide at least 1,000 hours of service in any twelve consecutive month period to be eligible for participation. The Home matches 100% of participant contributions up to 3% of employee compensation, as defined. During the years ended December 31, 2022 and 2021, the Home made matching contributions of \$142,851 and \$150,872, respectively.

Note 12: Statements of Cash Flows

The following table provides a reconciliation of cash and 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 December 31, 2022 and 2021:

	2022	2021
Cash and cash equivalents	\$ 14,184,006	\$ 12,993,273
Short-term investments	2,829,158	2,832,278
Endowment fund investments	592,827	558,876
Capital replacement fund investments	249,858	246,283
Total cash and cash equivalents shown on the statements of cash flows	\$ 17,855,849	\$ 16,630,710

Note 13: Concentrations

During the years ended December 31, 2022 and 2021, the Home received approximately 60% and 58%, respectively, of its patient care and resident revenues from HMOs; approximately 27% and 31%, respectively, from Medicare programs; and approximately 11% and 9%, respectively, from private pay sources.

The largest payor classes noted above including HMOs, Medicare, and private pay represent approximately 57%, 36%, and 6% of the Home's gross accounts receivable at December 31, 2022, and approximately 76%, 21%, and 2% of the Home's gross accounts receivable at December 31, 2021, respectively.

Note 14: Risks and Uncertainties

The Home invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Home's investment accounts and the amounts reported in the statements of financial position.

Note 15: Reclassification

Certain reclassifications have been made to the prior year financial statements to conform with the current year presentation. Changes in net assets were not affected.

Exhibit IV
Interim Financial Statements
YTD June 30, 2023

ARARAT HOME OF LOS ANGELES, INC.
COMBINED BALANCE SHEET
June, 2023

	B&C, Corp. & Comm. Ctr.	Eagle Rock	Mission Hills	Ararat Gardens	Total
CURRENT ASSETS					
CHECKING/SAVINGS					
CASH IN BANK					
OPERATING FUNDS	286,106	833,243	2,214,984	1,982,117	5,316,450
BUILDING FUND	0				0
OTHER					0
TOTAL CASH IN BANK	286,106	833,243	2,214,984	1,982,117	5,316,450
TOTAL CHECKING/SAVINGS	286,106	833,243	2,214,984	1,982,117	5,316,450
ACCOUNTS RECEIVABLE					
ACCTS REC-HMO		346,929	1,350,601	77,621	1,775,151
ACCTS REC-MEDICARE A		218,792	920,648	399,432	1,538,872
ACCTS REC-MEDICARE B		39,118	81,944	23,043	144,106
ACCTS REC-MEDI-CAL		0	268	279,366	279,635
ACCTS REC-PVT	262,093	992	31,521	149,491	444,097
ACC REC- DUE FROM STATE-MED-CAL					0
ACCOUNTS RECEIVABLE - OTHER	0				0
ALLOWANCE FOR DOUBTFUL ACCTS	(8,029)		(30,000)		(38,029)
TOTAL ACCOUNTS RECEIVABLE	254,064	605,831	2,354,983	928,953	4,143,832
OTHER CURRENT ASSETS					
PETTY CASH	217	1,600	2,043		3,860
INVENTORY	0	3,500	38,459		41,959
PREPAID PROPERTY INSURANCE	0				0
PREPAID GEN/PROF LIABILITY INS	41,958				41,958
PREPAID W/C INSURANCE	295,786				295,786
PREPAID D & O INS	4,482				4,482
PREPAID TAXES	83,993		0		83,993
PREPAID LICENSE	1,926	18,533	45,989		66,448
PREPAID - OTHER	19,996	1,416	12,147	1,810	35,368
OTHER CURRENT ASSET - RC	0				0
UNDEPOSITED FUNDS	1,767	76,359	938,199		1,016,325
UNAMORTIZED BOND ISSUANCE COST			0		0
TOTAL OTHER CURRENT ASSETS	450,124	101,407	1,036,837	1,810	1,590,178
TOTAL CURRENT ASSETS	990,294	1,540,482	5,606,804	2,912,880	11,050,460
FIXED ASSETS					
LAND					
Land 15105-15099 Mission Hills	11,126,678	44,825	434,273	395,172	12,000,948
Land -15155 Mission Hills	839,515				839,515
New Property - MH 15151	1,329,602				1,329,602
New Property - MH 15151	2,064,957				2,064,957
New Property - MH 15155	50,582				50,582
BUILDINGS & IMPROVEMENTS	28,046,831	735,247	23,982,004	12,065,709	64,829,792
FURNITURE & EQUIPMENT	2,439,545	660,261	2,217,245	2,193,719	7,510,770
AUTOMOBILES	209,724		46,648	219,946	476,318
NEW CONSTRUCTION BC	0				0
125000 - Acquisition Costs				332,189	
ACCUM DEPREC-BLDG & IMP	(16,078,142)	(569,165)	(10,751,880)	(102,718)	(27,501,905)
ACCUM DEPREC-FURN & EQUIP	(1,733,747)	(535,973)	(1,595,571)	(58,376)	(3,923,667)
ACCUM DEPREC-AUTOMOBILES	(201,963)		(46,648)	(6,079)	(254,690)
TOTAL FIXED ASSETS	28,093,582	335,195	14,286,071	15,039,563	57,422,223
OTHER ASSETS					
INTERCOMPANY LOANS					
MUSEUM CLEARING ACCT	7,479,505	(1,527,457)	11,035,238	(16,987,286)	0
FUNDS HELD IN TRUST	63,881				63,881
CAPITAL REPLACEMENT FUND	0		0		0
BUILDING FUND	255,673				255,673
ENDOWMENT FUND	0				0
DEPOSIT - ESCROW	17,941,893				17,941,893
TOTAL OTHER ASSETS	25,740,953	(1,527,457)	11,035,238	(16,987,286)	18,261,447
TOTAL ASSETS	54,824,829	348,220	30,928,113	965,157	87,066,319

ARARAT HOME OF LOS ANGELES, INC.
 COMBINED BALANCE SHEET
 June, 2023

	B&C, Corp. & Comm. Ctr.	Eagle Rock	Mission Hills	Ararat Gardens	Total
LIABILITIES & EQUITY					
LIABILITIES					
CURRENT LIABILITIES					
ACCOUNTS PAYABLE					
ACCOUNTS PAYABLE	137,802	58,221	897,967	239,963	1,333,953
TOTAL ACCOUNTS PAYABLE	137,802	58,221	897,967	239,963	1,333,953
OTHER CURRENT LIABILITIES					
Deferred Revenue-Community Fee				13,600	13,600
ACCRUED DUE TO STATE-MEDICAL		0			0
ACCRUED PAYROLL	35,181	162,860	219,215	43,398	460,654
ACCRUED PTO	167,487	137,558	909,826	61,861	1,276,733
ACCRUED PAYROLL TAXES	(7,936)	(8,190)	(2,254)	15,648	(2,731)
ACCRUED GARNISHMENTS	6,728				6,728
ACCRUED INSURANCE		0	0		0
ACCRUED OTHER BENEFITS	(4,131)	0	4,780		649
ACCRUED EXPENSES - OTHER	(46,506)	0	0		(46,506)
ACCRUED INTEREST & INSURANCE	0		14,628		14,628
ARARAT GARDENS & POST ACCUTE	0				0
CCRC Customer Deposits	3,000				3,000
SECURITY DEPOSITS CC RENTALS	0				0
TOTAL OTHER CURRENT LIABILITIES	153,823	292,228	1,146,196	134,508	1,726,755
TOTAL CURRENT LIABILITIES	291,625	350,449	2,044,162	374,471	3,060,708
LONG TERM LIABILITIES					
BOND PAYABLE			0	332,189	332,189
TOTAL LONG TERM LIABILITIES	0	0	0	332,189	332,189
TOTAL LIABILITIES	291,625	350,449	2,044,162	706,660	3,392,897
EQUITY					
RETAINED EARNINGS	52,395,068	113,483	28,016,965		80,525,516
RESTRICTED FOR ENDOWMENT	0				0
Temp. Restricted	1,404,220				1,404,220
NET INCOME (LOSS)	733,916	(115,713)	866,986	258,497	1,743,687
TOTAL EQUITY	54,533,204	(2,230)	28,883,951	258,497	83,673,422
TOTAL LIABILITIES & EQUITY	54,824,829	348,220	30,928,113	965,157	87,066,319
CHECK	0.00	0.00	0.00	0.00	0.00

ARARAT HOME OF LOS ANGELES, INC.
COMBINED STATEMENT OF INCOME YEAR-TO-DATE

June, 2023

	Board & Care	Community Center	Corporate	Eagle Rock	Mission Hills	Ararat Gardens	Total
Ordinary Income/Expense							
Income							
Board & Care	1,562,597						1,562,597
Community Center		0					0
Skilled Nursing				2,067,835	15,846,094	3,560,670	21,474,599
Total Income	1,562,597	0	0	2,067,835	15,846,094	3,560,670	23,037,196
Expense							
Operating Expense	1,744,072	21,496	618,399	2,197,477	14,581,437	3,136,046	22,298,927
Net Ordinary Income	(181,475)	(21,496)	(618,399)	(129,642)	1,264,657	424,623	738,269
Debt Services Expense					0		0
Operating Income	(181,475)	(21,496)	(618,399)	(129,642)	1,264,657	424,623	738,269
Donation Income							
Fundraising			0				0
Annual Fund			0				0
Other Corp Rev.			17,392				17,392
Annual Banquet			0				0
Christmas			17,552				17,552
Dues			225				225
Building Fund			0				0
Heritage Court			400				400
Hokejas			1,000				1,000
Ladies Aux of Los Angeles			67,000				67,000
Gift Shop			0				0
Memorials			22,001				22,001
Other Income			0	41,706	18	0	41,724
Miscellaneous Donations			383,592	450		0	384,042
Total Donation Income	0	0	509,162	42,156	18	0	551,335
Other Income							
Annual Picnic, Net of Expenses			0				0
Casino Night, Net of Expenses			0				0
Intrest Income			0	0	1	1,047	1
Total Other Income	0	0	0	0	1	1,047	1
Net Income (loss) Before Depreciation	(181,475)	(21,496)	(109,238)	(87,486)	1,264,676	425,670	1,289,606
Depreciation	373,550.6	120,674.7	16,539.3	28,227	397,690	167,173	1,103,854
Bad Debt Expense				0			0
OPERATIONS, NET INCOME (LOSS)	(555,025)	(142,170)	(125,777)	(115,713)	866,986	258,497	186,798
Net Income	(555,025)	(142,170)	(125,777)	(115,713)	866,986	258,497	186,798
Endowment Fund Dividend & Interest			310,639				310,639
Endowment Fund Donations			0				0
Endowment Fund Change in Value			1,246,250				1,246,250
Endowment Fund Summery			1,556,889				1,556,889
Net Income (loss) after Endowment Fund	(555,025)	(142,170)	1,431,112	(115,713)	866,986	258,497	1,743,687

Exhibit V
Financial Feasibility Report

HENDRICKSON CONSULTING

6 Beach Road, #494 – Tiburon, CA 94920 – (415) 889-5035 – Bill1Hendrickson@gmail.com

July 20, 2023

Derik Ghookasian
Chief Executive Officer
Ararat Home of Los Angeles
15105 Mission Hills Road
Mission Hills, CA 91345

Dear Mr. Ghookasian:

The following is the financial feasibility report for the proposed Ararat Home of Los Angeles, Inc. (AH) \$11.19 million par/premium 2023 Bond issue. The 2023 Bond proceeds are to be used to reimburse AH for \$10.0 million of the \$14.5 million spent to purchase the Windsor Manor (WM) facility in Glendale from Human Good (HG), a non-profit operator of senior communities. The facility was acquired on March 1, 2023, and re-named Ararat Gardens (AG). A key purpose of the WM acquisition is to expand AH's services to the Glendale Armenian community.

Both AH and AG are licensed by the State's Department of Social Services (DSS) as Continuing Care Retirement Communities (CCRCs), and the purchase was approved by DSS. AH's main campus is located in Mission Hills in the San Fernando Valley and consists of 114 assisted living (AL) and 252 skilled nursing facility (SNF) beds. AH also owns a 44-bed SNF in the Eagle Rock area, approximately 20 miles from AG. AG consists of 73 independent living (IL), 39 AL, and 28 SNF units/beds. Although licensed as CCRCs, neither AH nor AG currently accept entrance fee contracts. WM formerly accepted entrance fee residents and approximately 30 of these residents remain. AH does not intend to accept entrance fees at AG or any of its facilities at this time, although a potential entrance fee project adjacent to the Mission Hills campus may be developed in the future.

The attached forecasts include **Tables 1-3**, which show key assumptions, **Tables 4-6**, which show financial statement forecasts, and key ratios in **Table 7**. **Table 8** shows a summary of sensitivity scenarios. Hendrickson Consulting (HC) has included historical occupancy, sales, and financial information for the past two fiscal years (FY) ending December 31, 2021 and 2022. The following is a summary of the key assumptions for each table.

Key Assumptions

Table 1 shows sources and uses of funds and debt schedule for the 2023 Bonds. These have been provided by Ziegler, AH's investment banker. The average interest rate is estimated at 5.0% and the bond term is through 2043. The annual debt during the forecast period is estimated at \$835,000.

TABLE 1
ARARAT HOME OF LOS ANGELES, INC.
SOURCES/USES OF FUNDS
(\$000s)

<u>SOURCES</u>	
Bonds	\$10,485
Premium	703
Cash Equity	4,786
TOTAL SOURCES	\$15,974
<u>USES</u>	
Purchase - Reimbursed	\$10,000
Purchase - Unreimbursed	\$4,500
Debt Reserve	418
Cal Mortgage Fees	542
Issuance Costs	514
TOTAL USES	\$15,974
BALANCE	\$0

ANNUAL DEBT PAYMENTS
(\$000s)

Fiscal Year Ending 12/31	2023	2024	2025	2026	2027	2028
Interest	\$0	\$576	\$503	\$486	\$468	\$450
Principal	<u>\$0</u>	<u>\$260</u>	<u>\$330</u>	<u>\$345</u>	<u>\$365</u>	<u>\$385</u>
Annual Debt	\$0	\$836	\$833	\$831	\$833	\$835
Balance - Par	\$10,485	\$10,225	\$9,895	\$9,550	\$9,185	\$8,800

Tables 2 and 3 show occupancy, monthly fee and other revenue forecasts for AH's Mission Hills/Eagle Rock facilities and post-acquisition AG respectively. FY 2021 and 2022 totals for Mission Hills/Eagle Rock are from AH's audits and internal records. FY 2023 totals represent a combination of historical records through June, and forecasts thereafter. AG forecasts are based on AH's internal financials from March to June 2023, and HG audited totals for the FY ending December 31, 2022. AH has provided post-March 1 occupancy information by level of care.

In general, rates are increased by 3.25% per year for SNF (nearly all Medi-Cal, Medi-Cal HMO, and Medicare) and 4.5% per year for IL/AL, the combination of which is comparable to the weighted average 3.5% operating expense inflation increase. Monthly fees were last increased by 4.0% at AH's Mission Hills campus and 8.0% for WM, both effective January 1, 2023.

Occupancy at the Mission Hills campus has averaged 241 SNF and 83 AL in 2023. The payor mix at the Mission Hills SNF has averaged 80% Medi-Cal/Related, 17% Medicare, and 3% private/other. The SNF is expected to remain at the current census and payor mix average during the forecast period. The AL is still recovering from the impacts of Covid-19, during which it saw its census decline from an average of over 100 in 2019 to a low of less than 80 in 2021. AH management expects the AL census to reach 90 residents by the end of 2024 and, at a minimum, remain at this level thereafter. The Eagle Rock SNF has averaged 30 residents in 2023 with an 85% Medi-Cal, 14% Medicare, and 1% private/other mix. This census and mix are forecast to remain at these levels.

Although not shown, WM averages for 2022 were approximately 56 IL (77%), 31 AL (80%), and 19 SNF (68%). During the four months (March-June) that AH has owned AG, the census has averaged 64 IL, 33 AL, and 23 SNF. The SNF payor mix currently averages 40% Medi-Cal, 25% Medicare, and 35% private/managed care. AH management expects the IL and AL census to improve with its ties to the Glendale Armenian community, and a gradual census increase is reflected in **Table 3**. A more conservative census assumption is included in **Table 8**.

TABLE 2
ARARAT HOME OF LOS ANGELES
OPERATING REVENUE FORECASTS - MISSION HILLS/EAGLE ROCK
(\$000s)

Fiscal Year Ending 12/31	2021	2022	2023	2024	2025	2026	2027	2028
<u>MISSION HILLS - ASSISTED LIVING</u>								
Available Units/Beds	114.0	114.0	114.0	114.0	114.0	114.0	114.0	114.0
Average Occupancy	79.3	82.6	83.0	87.0	90.0	90.0	90.0	90.0
% Occupancy	69.5%	72.5%	72.8%	76.3%	78.9%	78.9%	78.9%	78.9%
Average Mo. Revenue/Unit	\$2,593	\$2,905	\$3,100	\$3,240	\$3,385	\$3,538	\$3,697	\$3,863
Annual Revenues (000s)	\$2,466	\$2,879	\$3,088	\$3,382	\$3,656	\$3,821	\$3,993	\$4,172
<u>MISSION HILLS/EAGLE ROCK - SKILLED NURSING</u>								
Available Beds	296.0	296.0	296.0	296.0	296.0	296.0	296.0	296.0
Average Occ. - Medi-Cal/Other	202.9	224.6	227.0	228.0	228.0	228.0	228.0	228.0
Average Occ. - Medicare	45.6	45.4	46.0	46.0	46.0	46.0	46.0	46.0
Average Occupancy - Total	248.6	269.9	273.0	274.0	274.0	274.0	274.0	274.0
% Occupancy	84.0%	91.2%	92.2%	92.6%	92.6%	92.6%	92.6%	92.6%
Daily Rev./Bed - Medi-Cal/Other	\$293	\$296	\$300	\$310	\$320	\$330	\$341	\$352
Daily Revenue/Bed - Medicare	\$664	\$626	\$640	\$661	\$682	\$704	\$727	\$750
Annual Revenues - Medi-Cal/Other	\$21,712	\$24,236	\$24,857	\$25,772	\$26,605	\$27,464	\$28,351	\$29,267
Annual Revenues - Medicare	\$11,057	\$10,372	\$10,746	\$11,093	\$11,451	\$11,821	\$12,203	\$12,597
Annual Revenues (000s)	\$32,769	\$34,608	\$35,602	\$36,865	\$38,056	\$39,285	\$40,554	\$41,864

TABLE 3
ARARAT HOME OF LOS ANGELES
OPERATING REVENUE FORECASTS - ARARAT GARDENS (1)
(\$000s)

Fiscal Year Ending 12/31	2021	2022	2023	2024	2025	2026	2027	2028
<u>INDEPENDENT LIVING</u>								
Available Units			73.0	73.0	73.0	73.0	73.0	73.0
Average Occupancy			64.0	66.0	66.0	66.0	66.0	66.0
% Occupancy			87.7%	90.4%	90.4%	90.4%	90.4%	90.4%
Average Mo. Revenue/Unit			\$4,688	\$4,898	\$5,119	\$5,349	\$5,590	\$5,841
Annual Revenues (000s)			\$3,000	\$3,880	\$4,054	\$4,237	\$4,427	\$4,626
<u>ASSISTED LIVING</u>								
Available Units			39.0	39.0	39.0	39.0	39.0	39.0
Average Occupancy			33.0	34.0	35.0	35.0	35.0	35.0
% Occupancy			84.6%	87.2%	89.7%	89.7%	89.7%	89.7%
Average Mo. Revenue/Unit			\$7,576	\$7,917	\$8,273	\$8,645	\$9,034	\$9,441
Annual Revenues (000s)			\$2,500	\$3,230	\$3,475	\$3,631	\$3,794	\$3,965
<u>SKILLED NURSING</u>								
Available Beds			28.0	28.0	28.0	28.0	28.0	28.0
Average Occ. - Medi-Cal/Other			18.0	18.0	18.0	18.0	18.0	18.0
Average Occ. - Medicare			6.0	6.0	6.0	6.0	6.0	6.0
Average Occupancy - Total			24.0	24.0	24.0	24.0	24.0	24.0
% Occupancy			85.7%	85.7%	85.7%	85.7%	85.7%	85.7%
Daily Rev./Bed - Medi-Cal/Other			\$363	\$375	\$387	\$399	\$412	\$426
Daily Revenue/Bed - Medicare			\$545	\$562	\$580	\$599	\$619	\$638
Annual Revenues - Medi-Cal/Other			\$2,000	\$2,463	\$2,542	\$2,624	\$2,709	\$2,797
Annual Revenues - Medicare			\$1,000	\$1,231	\$1,271	\$1,312	\$1,355	\$1,398
Annual Revenues (000s)			\$3,000	\$3,694	\$3,813	\$3,937	\$4,064	\$4,195
Other Revenues			\$100	\$124	\$128	\$132	\$136	\$141
TOTAL REVENUES			\$8,600	\$10,927	\$11,470	\$11,936	\$12,422	\$12,927

(1) 2023 totals are for 10 months from March 1 acquisition date

Financial Statement Forecasts

Tables 4-6 show historical and forecast financial statements through FY 2028. These reflect revenue assumptions shown in **Tables 2-3** plus additional assumptions regarding operating expenses, investment earnings, and contributions (Statement of Activities - **Table 4**), balance sheet assumptions (**Table 5**), and capital ongoing capital expenditures (**Table 6**). Operating expenses forecasts are based on actual 2023 expenses and inflated by 3.5% per year. There are approximately 370 full-time equivalent (FTE) employees at the Mission Hills campus, 50 FTEs at the Eagle Rock SNF, and 110 FTEs at AG.

Non-Covid-19 related donations (including released from donor restrictions) and special event receipts have averaged over \$1.0 million per year and are projected to increase by 3.5% per year after 2024 (2023 totals include \$430,000 of Covid-related receipts). Investment earnings are estimated at 3.5% of prior year balances with the 2023 Bonds reserve earnings 3.0%. Key balance sheet assumptions include accounts receivable at 35 days of cash operating revenues (exclude contributions and investment earnings) and accounts payable at 28 days of cash operating expenses. **Table 6** shows an average of \$1.0 million per year in ongoing capital expenses.

TABLE 4
ARARAT HOME OF LOS ANGELES, INC.
STATEMENTS OF CHANGES IN NET ASSETS
(\$000s)

Fiscal Year Ending 12/31	2021	2022	2023	2024	2025	2026	2027	2028
REVENUE								
Ararat Home - Skilled Nursing	\$32,769	\$34,608	\$35,602	\$36,865	\$38,056	\$39,285	\$40,554	\$41,864
Ararat Home - Assisted Living	\$2,466	\$2,879	\$3,088	\$3,382	\$3,656	\$3,821	\$3,993	\$4,172
Ararat Gardens	0	0	8,600	10,927	11,470	11,936	12,422	12,927
Amortized Entrance Fees	0	0	150	140	130	120	110	100
Donations/Events/Grants	1,625	591	1,000	600	621	643	665	689
Net Assets Released Restriction	621	659	680	704	728	754	780	808
Investment Earnings	2,925	(3,554)	1,359	1,192	1,207	1,233	1,263	1,295
Total Revenue	\$40,406	\$35,183	\$50,478	\$53,810	\$55,868	\$57,791	\$59,786	\$61,855
EXPENSES								
Ararat Home - Skilled Nursing	\$28,708	\$32,702	\$33,300	\$34,466	\$35,672	\$36,920	\$38,213	\$39,550
Ararat Home - Assisted Living	3,811	3,927	4,064	4,207	4,354	4,506	4,664	4,827
Ararat Home - Administration	545	789	817	845	875	905	937	970
Ararat Gardens	0	0	8,920	11,079	11,466	11,868	12,283	12,713
Depreciation/Amortization	1,837	1,858	2,567	2,533	2,505	2,481	2,462	2,448
Net Interest/Fees	16	0	0	576	503	486	468	450
Total Expenses	\$34,917	\$39,276	\$49,668	\$53,705	\$55,375	\$57,167	\$59,027	\$60,958
Change Net Assets w/o D.Res.	\$5,489	(\$4,093)	\$811	\$105	\$493	\$624	\$759	\$897
Change w/D.Restr.	(\$621)	(\$534)	(\$680)	(\$704)	(\$728)	(\$754)	(\$780)	(\$808)
CHANGE IN NET ASSETS	\$4,868	(\$4,627)	\$131	(\$599)	(\$235)	(\$130)	(\$21)	\$89
BALANCE (DEFICIT)	\$86,682	\$82,055	\$82,186	\$81,586	\$81,351	\$81,221	\$81,200	\$81,290

TABLE 5
ARARAT HOME OF LOS ANGELES, INC.
STATEMENTS OF FINANCIAL POSITION
(\$000s)

Fiscal Year Ending 12/31	2021	2022	2023	2024	2025	2026	2027	2028
<u>ASSETS</u>								
Cash & Investments	\$18,751	\$19,667	\$16,505	\$16,435	\$16,688	\$17,037	\$17,464	\$17,975
Accounts Receivable	5,416	4,131	4,535	4,907	5,100	5,278	5,463	5,654
Other Current Assets	685	1,384	1,384	1,384	1,384	1,384	1,384	1,384
Total Current Assets	\$24,852	\$25,182	\$22,424	\$22,726	\$23,171	\$23,699	\$24,310	\$25,013
Endowment - Board Designated	\$18,129	\$15,279	\$15,779	\$16,279	\$16,779	\$17,279	\$17,779	\$18,279
Endowment - Donor Restricted	1,938	1,404	1,404	1,404	1,404	1,404	1,404	1,404
Net Property, Plant, Equip.	44,590	43,405	57,109	55,576	54,071	52,590	51,127	49,680
Bond Funds	0	0	418	418	418	418	418	418
TOTAL ASSETS	\$89,509	\$85,270	\$97,134	\$96,403	\$95,843	\$95,389	\$95,039	\$94,793
<u>LIABILITIES</u>								
Accts. Payable/Accr. Exp.	\$2,827	\$3,215	\$3,613	\$3,881	\$4,017	\$4,158	\$4,303	\$4,454
Current Debt	0	0	260	330	345	365	385	405
Total Current Liabilities	\$2,827	\$3,215	\$3,873	\$4,211	\$4,362	\$4,523	\$4,688	\$4,859
Unamortized Entrance Fees	\$0	\$0	\$850	\$710	\$580	\$460	\$350	\$250
Long-Term Debt	0	0	10,225	9,895	9,550	9,185	8,800	8,395
TOTAL LIABILITIES	\$2,827	\$3,215	\$14,948	\$14,816	\$14,492	\$14,168	\$13,838	\$13,504
NET ASSETS	\$86,682	\$82,055	\$82,186	\$81,586	\$81,351	\$81,221	\$81,200	\$81,290
TOTAL NET ASSETS/LIAB.	\$89,509	\$85,270	\$97,134	\$96,403	\$95,843	\$95,389	\$95,039	\$94,793

TABLE 6
ARARAT HOME OF LOS ANGELES, INC.
STATEMENTS OF CASH FLOWS
(\$000s)

Fiscal Year Ending 12/31	2021	2022	2023	2024	2025	2026	2027	2028
<u>OPERATING ACTIVITIES</u>								
Change in Net Assets	\$4,868	(\$4,627)	\$131	(\$599)	(\$235)	(\$130)	(\$21)	\$89
Depreciation and Amortization	1,837	1,858	2,567	2,533	2,505	2,481	2,462	2,448
Amortized Entrance Fees	0	0	850	(140)	(130)	(120)	(110)	(100)
Other	(67)	446	0	0	0	0	0	0
Changes in Assets/Liabilities	(1,748)	529	(423)	(104)	(57)	(38)	(39)	(41)
Cash From Operating Act.	\$4,890	(\$1,794)	\$3,124	\$1,690	\$2,083	\$2,194	\$2,292	\$2,396
<u>INVESTING ACTIVITIES</u>								
Windsor Manor Purchase	\$0	\$0	(\$14,500)	\$0	\$0	\$0	\$0	\$0
Capital Expenditures	(957)	(673)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Cash From Investing Act.	(\$957)	(\$673)	(\$15,500)	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)
<u>FINANCING ACTIVITIES</u>								
2023 Bonds Par/Premium	\$0	\$0	\$11,188	\$0	\$0	\$0	\$0	\$0
Issuance Expenses	0	0	(1,056)	0	0	0	0	0
Debt Service Reserve	0	0	(418)	0	0	0	0	0
Principal Payments	(415)	0	0	(260)	(330)	(345)	(365)	(385)
Cash From Financing Act.	(\$415)	\$0	\$9,714	(\$260)	(\$330)	(\$345)	(\$365)	(\$385)
Net Change in Cash/Equiv.	\$3,518	(\$2,467)	(\$2,662)	\$430	\$753	\$849	\$927	\$1,011
Unrestricted Cash & Investments	\$36,880	\$34,946	\$32,284	\$32,714	\$33,467	\$34,316	\$35,243	\$36,254

Key Ratios

Table 7 shows a summary of debt service coverage ratio (DSCR) and days cash on hand (DCOH) historical and forecast ratios. As shown, the historical net income for debt service has exceeded 2023 Bonds debt payments by more than 2.0x DSCR and is expected to do exceed by more than 4.0x during the forecast period. DCOH is projected to exceed 200 days. Both ratios show a strong ability to meet debt payments, operating expenses, and capital needs.

TABLE 7
ARARAT HOME OF LOS ANGELES, INC.
DEBT COVERAGE AND OTHER KEY RATIOS
(\$000s)

Fiscal Year Ending 12/31	2021	2022	2023	2024	2025	2026	2027	2028
<u>CASH AVAILABLE FOR DEBT SERVICE</u>								
Change Net Assets w/o Donor R.	\$5,489	(\$4,093)	\$811	\$105	\$493	\$624	\$759	\$897
Unrealized Losses (Gains)	(1,700)	4,399	0	0	0	0	0	0
Depreciation and Amortization	1,837	1,858	2,567	2,533	2,505	2,481	2,462	2,448
Amortized Entrance Fees	0	0	(150)	(140)	(130)	(120)	(110)	(100)
Interest	16	0	0	576	503	486	468	450
Net Cash for Debt Service	\$5,642	\$2,164	\$3,227	\$3,074	\$3,371	\$3,472	\$3,580	\$3,694
<u>DEBT SERVICE</u>								
Interest	\$16	\$0	\$0	\$576	\$503	\$486	\$468	\$450
Principal	415	0	0	260	330	345	365	385
Total	\$431	\$0	\$0	\$836	\$833	\$831	\$833	\$835
<u>OTHER</u>								
MADS	\$415	\$0	\$836	\$836	\$835	\$835	\$835	\$835
Unrestr. Cash/Investments	\$36,880	\$34,946	\$32,284	\$32,714	\$33,467	\$34,316	\$35,243	\$36,254
Operating Expenses	\$33,080	\$37,418	\$47,101	\$51,172	\$52,870	\$54,686	\$56,565	\$58,510
Long-term Debt	\$0	\$0	\$10,225	\$9,895	\$9,550	\$9,185	\$8,800	\$8,395
<u>KEY RATIOS</u>								
Debt Coverage - MADS	NA	NA	3.86	3.68	4.04	4.16	4.29	4.42
Days Cash on Hand	407	341	250	233	231	229	227	226
Cash/DSR to Long-term Debt	NA	NA	179%	185%	194%	205%	219%	236%

Sensitivity Scenarios

Table 8 shows the DSCR and DCOH of three sensitivity scenarios.

In **Scenario 1**, occupancy is maintained at current levels at all of AH's facilities, including AG.

In **Scenario 2**, operating expenses are increased by 4.4% per year, 0.9% over the weighted average base case expense increase.

In **Scenario 3**, interest rates are increased by 1.0%, from the base of 5.0% to 6.0%. This would add approximately \$100,000 annually to the base \$835,000 estimated debt payments.

TABLE 8
ARARAT HOME OF LOS ANGELES, INC.
SENSITIVITY ANALYSIS

Fiscal Year Ending 12/31	2024	2025	2026	2027	2028
<u>Base Case</u>					
Debt Coverage Ratio	3.68	4.04	4.16	4.29	4.42
Days Cash on Hand	233	231	229	227	226
<u>Sensitivity 1 - Lower Occupancy</u>					
Debt Coverage Ratio	3.07	3.12	3.17	3.22	3.28
Days Cash on Hand	230	223	216	210	204
<u>Sensitivity 2 - Higher Expense Inflation</u>					
Debt Coverage Ratio	3.12	2.92	2.41	1.85	1.25
Days Cash on Hand	228	218	206	191	173
<u>Sensitivity 3 - Higher Interest Rates</u>					
Debt Coverage Ratio	3.24	3.57	3.68	3.29	3.92
Days Cash on Hand	232	230	227	225	224

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

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

As of September 5, 2023

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

Survey Date:	Aug 1, 2022	Nov 1, 2022	Mar 1, 2023	Apr 27, 2023	Jun 29, 2023	Sep 5, 2023
Current	56	45	50	42	50	50
Behind 1 quarter	5	16	6	13	2	2
Behind 2 quarters	0	0	2	0	2	2
Behind 3 quarters	2	2	2	2	3	3
Total:	63	63	60	57	57	57

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

Survey Date:	Aug 1, 2022	Nov 1, 2022	Mar 1, 2023	Apr 27, 2023	Jun 29, 2023	Sep 5, 2023
DSCR at or greater than required:	47	42	40	41	46	44
DSCR less than required:	15	20	19	16	11	12
Problem Project:	1	1	1	0	0	1
Total:	63	63	60	57	57	57

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

Survey Date:	Aug 1, 2022	Nov 1, 2022	Mar 1, 2023	Apr 27, 2023	Jun 29, 2023	Sep 5, 2023
Current:	9	2	4	11	8	11
Past Due:	54	61	56	46	49	46
Total:	63	63	60	57	57	57

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

Department of Health Care Access and Information (HCAI)
Cal-Mortgage Loan Insurance Division
As of September 1, 2023

Projects Insured - Fiscal 2023-2024

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Loan Amount</u>	<u>Loan Type</u>	<u>Rating</u>
Odd Fellows Home of California	Stockton	Multi- CCRC	<u>\$67,065,000</u> \$67,065,000	Refinance Plus	BBB

Projects Insured - Fiscal 2022-2023

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Loan Amount</u>	<u>Loan Type</u>	<u>Rating</u>
St. Rose Hospital	Hayward	Hosp	\$24,500,000	Refinance	--
Carmel Valley Manor	Carmel	Multi-Others	\$36,035,000	New	BB+
O'Connor Woods	Stockton	Multi-Others	\$35,595,000	Refinance	BB+
Bethany Home Society of San Joaquin County	Ripon	Multi-Others	\$49,560,000	New	--
Community Medical Centers, Inc.	Lodi	Clinic- PC	\$26,040,000	New	BB-
Aldersly	San Rafael	Multi- CCRC	<u>\$61,030,000</u> \$232,760,000	New	--

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>
No Letters of Commitment Outstanding					

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>
Ararat Home of Los Angeles	Mission Hills	Multi- CCRC	<u>\$10,485,000</u> \$10,485,000	New	

Pending Applications

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
La Maestra Community Health Centers	San Diego	Clinic-PC	\$19,300,000	New	
Alexander Valley Healthcare	Cloverdale	Clinic-PC	<u>\$42,000,000</u> \$61,300,000	New	

Pre - Applications

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
No Applicants in Pre-Application Phase					

Discussions

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
St. John's Well Child and Family Center	Los Angeles	Clinic-PC	\$7,000,000	New/Bank Loan	
Mercy ECA	Alameda	Multi-CCRC	\$25,000,000	New	--
SAC Health	San Bernardino	Clinic-PC	\$45,000,000	New	--
OLE Health		Clinic-PC	<u>\$1,500,000</u> \$78,500,000		

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 6 – Cal-Mortgage Reports
Problem Project Report**

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

Problem Projects Report

August 2023

Distribution: Elizabeth A. Landsberg, Director
Scott Christman, Chief Deputy Director
J. P. Marion, Deputy Director, Cal-Mortgage
Advisory Loan Insurance Committee Members

Problem Projects Report - Update for August 2023

Facility Name	Location	Type	Risk Rating as of 8/1/23	Current Obligation (Millions)	Percent In Debt Reserve Fund ¹	Payment Status?	Technical Default? (or other issues)	HFCLIF ² Payment Likelihood? ³	Change Since Last Report	Page
I. <u>HFCLIF Payments Expected</u>										
II. <u>Ongoing HFCLIF Payments</u>										
None										
III. <u>Financial Performance Problems</u>										
San Benito Health Care District	Hollister	Hosp - District	C	\$ 9.8	100% (6-Month)	Current	Liquidity, Ratio Default	Low - March '24	July YTD (1 mo.) profit of \$334,716 and 43 DCOH. The District filed for Chapter 9 on May 23, 2023. Letter of Intent w/AAM	1
Hill Country Community Clinic	Round Mountain /Redding	FQHC	B	\$ 3.2	100% (6-Month)	Current	Liquidity, Ratio Default	Low - March '24	The Corporation is struggling with liquidity issues and recent sudden leadership changes. Site visit scheduled on 8.18.23.	3
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 1, 2023. Current balance is \$3,915,191.54.	5
Lake Merrit - Cal-Nevada/Pacifica	Oakland	CCRC							Last payment received on August 17, 2023. Current balance is \$14,631,268.57	6

¹ The insured project's Debt Service Reserve Fund (DSRF)

² Health Facility Construction Loan Insurance Fund

³ Likelihood means probability or possibility of using HFCLIF for next payment.

Department of Health Care Access and Information
Cal-Mortgage Loan Insurance Division
Problem Project Monthly Report – August 2023

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 \$9.81M 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 Centers for Medicare and Medicaid Services (CMS) approved its application. The District became a CAH 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 the Fiscal Year End (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 contracted with Eide Bailly, LLC to review the cost reports for FYE 2021 and 2022 and determine whether the reductions are warranted. The District was able to negotiate the one-year CMS repayment plan to 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 that covers the 2023 calendar year; the outstanding Anthem Medi-Cal receivables were 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 while it collects 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 has worked with various agencies to receive its supplemental payments in advance, thus improving its liquidity.

Current Situation: (As of August 17, 2023)

Risk Rating: C

On May 22, 2023, the District's Board of Directors authorized the filing of a Chapter 9 petition and adopting a pendency plan outlining a strategy to proceed forward. The District officially filed for Chapter 9 on May 23, 2023. The District determined Chapter 9 will improve its financial condition by allowing it to negotiate certain contracts. HCAI has engaged the Attorney General's Office for representation in the Chapter 9 case and has initiated discussions on needed actions.

The District indicated a strategic partner is necessary for its long-term viability; the District engaged B Riley Advisory Services to begin the search for a strategic partner. The District has received interest from several potential partners or buyers and the District has provided tours and access to its data room to the potential partners or buyers. On August 3, 2023, the District received a letter of intent with American Advanced Management, Inc. (AAM) proposing a lease to own structure. The District has begun working on the proposed transaction with AAM.

The following table shows historical results for a number of key financial statistics:

Statement Date (6/30 FYE)	7/31/2023	6/30/2023	6/30/2022	6/30/2021	6/30/2020
Months Covered	1	12	12	12	12
Audit Method	Internal	Internal	Unqualified	Unqualified	Unqualified
Cash & Investments	\$14,680,914	\$14,441,825	\$14,442,002	\$18,508,626	\$21,900,654
Net Worth	\$25,507,592	\$25,250,228	\$23,197,870	\$20,527,771	\$20,233,144
Net Revenue	\$11,018,723	\$157,034,416	\$149,021,950	\$140,543,291	\$119,478,898
EBITDA	\$702,811	\$6,444,769	\$6,928,468	\$4,988,398	\$301,838
Net Income	\$334,716	\$2,038,063	\$2,670,099	\$294,627	(\$4,652,596)
Debt Service Coverage Ratio	3.90	2.88	3.09	2.11	(0.27)
Current Ratio	1.54	1.56	1.50	1.75	2.02
Days Cash on Hand	43	35	37	49	65

For the 1-month period ended July 31, 2023, the District had a net income of \$334,716 compared to a budgeted net income of \$485,338. This resulted in a debt service coverage ratio of positive 3.90. The District had \$14.7M in cash, equal to 43 days cash on hand.

Assessment:

Profitability:	7/31/2023 (11 mo.): \$334,716
Liquidity:	Days Cash on Hand: 43
Debt Service Reserve Fund:	100% funded: \$936,400
Debt Service Payments:	Current
HFCLIF:	3/1/2024 (P&I): low probability
CEO:	Mary Casillas, Interim
CFO:	Mark Robinson

Account Manager: Lauren Hadley

Supervisor: Dean O'Brien

Department of Health Care Access and Information
Cal-Mortgage Loan Insurance Division
Problem Project Monthly Report – August 2023

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, 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) with the Department. The outstanding balance of the 2016 Bonds is \$3,235,000.

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 transaction that would finance a construction project, namely Center of Hope, which includes a clinic and a supportive housing for transitional aged youth in Redding. Construction of the Center of Hope was completed in July 2021. Commencing December 15, 2021, quarterly principal and interest payments of \$194,325 are payable on the 15th day of March, June, September, and December with all unpaid principal and interest due in December 2026.

Background:

The Corporation's operating income started dropping since the COVID-19 pandemic in 2020. In 2022, the Corporation's financial performance got worse and recorded \$1.5 million net loss. The Corporation's cash depleted quickly from \$1.7 million in 2021 to less than \$500k in 2022 as a result of poor operating results and construction of the Center of Hope. Based on the past 24-month 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 Center of Hope project, and the impact of the COVID-19 pandemic raises substantial doubt about the Organization's ability to continue as a going concern.

Current Situation: (As of August 15, 2023)

Risk Rating: B

In a recent discussion with the Corporation's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), the Corporation is facing serious liquidity problem partly because the weekly Medi-Cal payments have been withheld by the State during fiscal year end. The Corporation recently hired two external contract consultants to work on their financial reporting, which has been delayed significantly due to shortness of staff. The first quarter internal financial (3/31) is still being prepared. Without any updated financials, the Corporation's executive team indicated that the Days Cash on Hand is in the single digit range for the last few months. The Corporation is also being required by their auditor to put up \$100k to settle the service fee for audit filing of fiscal year 2020 and as a retainer for ongoing service for audit filing of fiscal year 2021 and 2022.

A site visit that was originally scheduled on July 20, 2023, was postponed due to the CFO's health condition. Cal-Mortgage will meet with the Corporation's executive team in person on August 18, 2023.

The following table shows key financial statistics of the Corporation.

Dollars in Thousand	Audited (Fiscal Year Ending December 31)			Internal	
	2018	2019	2020	2021	2022
Cash & Equivalents	2,180	1,398	1,864	1,765	486
Total Assets	11,550	45,091	51,592	49,514	48,370
Total Liabilities	6,937	38,409	44,139	39,643	42,483
Net Worth	4,613	6,682	7,453	9,871	5,887
Net Income	1,895	2,069	1,186	820	(1,509)
Debt Service Coverage Ratio	2.53	1.28	2.66	1.90	0.88
Days Cash on Hand	64.34	37.31	41.91	34.66	8.47
Current Ratio	1.92	1.08	0.86	1.37	0.91

Assessment:

Profitability:	12/31/2022 (12 mo.): -\$1,509,340
Liquidity:	Days Cash on Hand: 8.47
Debt Service Reserve Fund:	100% funded: \$143,017.56
Debt Service Payments:	Current
CEO:	Jo Campbell
CFO:	Julie Schwab

Account Manager: Dennis Lo

Supervisor: Dean O'Brien

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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 1, 2023)

Risk Rating: None

The August 2023 amortized payment of \$21,080.20 was made on August 1, 2023. The current outstanding balance is \$3,915,191.54. The 2022 audited financial statements were received on March 14, 2023.

Assessment:

Profitability: (DiDi Hirsch)	\$1,070,602 (6/30/22 Audit)
Liquidity: (DiDi Hirsch)	\$3,293,746 cash (6/30/22 Audit)
DSCR: (DiDi Hirsch)	1.42 (6/30/22 Audit)
Loan Balance:	\$3,915,191.54
Payments:	Current (8/1/2023)
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: Dean O'Brien

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II. Financial Performance Problems

Project: California Nevada Methodist Homes

Numbers: 1018, 1053

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.

Current Situation: (as of August 25, 2023)

Risk Rating: N/A

There are some unresolved disputes over administrative expense claims still to be resolved, but it is anticipated that expenses will be less than the \$750,000 being held in the reserve account. Any money left after all expenses have been paid will be returned to the Department.

SEIU National Industry Pension Fund (SEIU) filed a motion for leave to file late proof of claim and for allowance of administrative expense. The Corporation's attorney along with the Department filed oppositions to SEIU's motion. On March 27, 2023, the Judge filed an order denying motion for leave to file late proof of claim. On April 11, 2023, the Judge granted SEIU's claim for administrative expenses. On May 25, 2023, the Corporation's attorney filed an objection to the amount of the Pension Fund's administrative expenses. On June 16, 2023, SEIU filed its response objecting to the Corporation's objection. The SEIU objection was discussed during the June 30, 2023, hearing but not resolved. A

continued hearing on the matter was set for November 17, 2023.

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 monthly payment of \$83,189.64 from January 2023 to August 2023. The current outstanding balance is \$14,631,268.57.

Assessment:

Pacifica CEO:	Deepak Israni
Pacifica Counsel:	Thomas P. Sayer

Health Facility Construction Financing Officer: Consuelo Hernandez