ADVISORY LOAN INSURANCE COMMITTEE

August 14, 2025

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

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

HCAI Department of Health Care Access and Information
2020 West El Camino Avenue, Suite 800
Sacramento, CA 95833
hcai.ca.gov

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

AGENDA
Thursday, August 14, 2025
10:30 a.m.

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

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

Microsoft Teams Link: **Click here to join the meeting**
Call-in audio only: (916) 535-0978, Conference ID: 309 589 823#

Item No. 1 Call to Order and Welcome
Jay Harris, Committee Chair (or designee)
- Roll call of ALIC members

Item No. 2 Public Comment Regarding Action Items on Today's Agenda
Jay Harris, Committee Chair (or designee)

Item No. 3 ALIC Chair and HCAI Executive Staff Remarks
- Jay Harris, Chair, ALIC Committee
- Elizabeth Landsberg, HCAI Director
- Scott Christman, HCAI Chief Deputy Director
- Dean O' Brien, Cal-Mortgage Deputy Director

Item No. 4 Approval of the Minutes of the June 12, 2025, Meeting – Action Item
Jay Harris, Committee Chair (or designee)

Item No. 5 Loan Insurance Application Review: Gateways Hospital and Mental Health Center (Applicant) – Action Item
Arne Bracchi, Account Manager

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

Item No. 6 Cal-Mortgage Reports – Informational Item

A. Project Monitoring
Consuelo Hernandez, Cal-Mortgage Supervisor

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

B. Pending Projects
Consuelo Hernandez, Cal-Mortgage Supervisor

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

C. Problem Project Report
Dean O' Brien, Cal-Mortgage Deputy Director

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

D. Distressed Hospital Loan Program and Small and Rural Hospital Relief Program
Dean O' Brien, Cal-Mortgage Deputy Director

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

Item No. 7 Federal and State Budgets Discussion
Jay Harris, Committee Chair (or designee)
Dean O' Brien, Cal-Mortgage Deputy Director

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

Item No. 8 Future Agenda Items/Announcements from Committee Members
Jay Harris, Committee Chair (or designee)

Item No. 9 General Public Comment
Jay Harris, Committee Chair (or designee)

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

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

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

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

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

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

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

This meeting is accessible to persons with a disability. A person who needs a disability-related accommodation or modification in order to participate in the meeting may make a request by contacting Joanna Luce at (916) 319-8828 or Joanna.Luce@hcai.ca.gov, or sending a written request to that person at 2020 West El Camino Avenue, Sacramento, CA 95833. Providing your request at least seven (7) business days before the meeting will help ensure availability of the requested accommodation.

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

Spanish/ Español

Si necesita ayuda para comprender o traducir a otro idioma, o si necesita servicios de lenguaje de señas, póngase en contacto con Joanna Luce at (916) 319-8828 or Joanna.Luce@hcai.ca.gov. Avísenos al menos siete días antes de la reunión a fin de que podamos programar los servicios que necesita.

Korean/ 한국어

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

Chinese Simplified/簡體中文

如果您需要帮助理解或其他语言的翻译服务，或需要手语服务，请联系 Joanna Luce at (916) 319-8828 or Joanna.Luce@hcai.ca.gov.请至少在会议前七天通知我们，以便我们安排您所需的服务。

Tagalog/Tagalog

Kung kailangan mo ng tulong sa pag-unawa o pagsasalin sa ibang wika, o kung kailangan mo ng mga serbisyo ng sign language, mangyaring makipag-ugnayan sa Joanna Luce at (916) 319-8828 or Joanna.Luce@hcai.ca.gov. Ipaalam sa amin nang hindi bababa sa pitong araw bago ang pagpupulong upang mai-set up namin ang kailangan mong mga serbisyo.

Vietnamese/Tiếng Việt

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

Chinese Cantonese(Traditional)/中文 粵語

如果您需要幫助理解或其他語言的翻譯服務，或需要手語服務，請聯絡 Joanna Luce at (916) 319-8828 or Joanna.Luce@hcai.ca.gov**.** 至少在會議前七天通知我們，以便我們安排您所需的服務。

Agenda Item 4: Draft Minutes of the June 12, 2025 ALIC Meeting

HCAI Department of Health Care Access and Information
2020 West El Camino Avenue, Suite 800
Sacramento, CA 95833
hcai.ca.gov

ADVISORY LOAN INSURANCE COMMITTEE MINUTES

June 12, 2025

1. **CALL TO ORDER**

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

Before Mr. Harris performed a voice roll call of Committee members, Mr. Harris acknowledged today's applicant is ready to present their project to the Committee and they will be moved to the front of the agenda after the Committee roll call. Mr. Harris asked the Committee members to state their name and acknowledge they are present at today's meeting when their name is called.

COMMITTEE MEMBERS' PRESENT
Jay Harris, Chair, via teleconference
Derik Ghookasian, Vice Chair, via teleconference
John Woodward, Member, via teleconference
Jonathon Andrus, Member, via teleconference
Richard Tannahill, Member, via teleconference
Scott Coffin, Member, via teleconference
Mary Connick, Member, via teleconference

COMMITTEE MEMBERS ABSENT
Soyla Reyna-Griffin, Member

ADDITIONAL ATTENDEES
Elizabeth Landsberg, HCAI, Director
Scott Christman, HCAI, Chief Deputy Director
Dean O'Brien, HCAI, Cal-Mortgage, Deputy Director
Consuelo Hernandez, HCAI, Cal-Mortgage, Supervisor
Elizabeth Ballart, HCAI, Staff Attorney
Lauren Hadley, HCAI, Cal-Mortgage, Senior Account Manager
Arne Bracchi, HCAI, Cal-Mortgage, Account Manager
Tom Wenas, HCAI, Cal-Mortgage, Account Manager
Frank Perry, HCAI, Cal-Mortgage, Reports and Data Manager
Joanna Luce, HCAI, Cal-Mortgage, Executive Secretary
Michael Scannell, HCAI, Cal-Mortgage, Office Technician

Sara McVey, Chief Executive Officer, Sequoia Living, Inc., formally Northern California Presbyterian Homes and Services, Inc. (Sequoia Living, Inc.)
Charlie Shoemake, Chief Financial Officer, Sequoia Living, Inc.
March Shores, Vice President Operations and Finance , Sequoia Living, Inc.
Sarkis Garabedian, Managing Director, Ziegler
Hayden Girard, Associate, Ziegler

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

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

3. ALIC CHAIR AND HCAI EXECUTIVE STAFF REMARKS

- **ALIC Chair**

  Mr. Harris did not make any opening remarks, and then he turned over the meeting to Ms. Elizabeth Landsberg, HCAI, Director, for her opening remarks.

- **HCAI Director**

  Ms. Landsberg began her remarks by welcoming everyone to today's meeting and stated that she always appreciates the project presentations and the good questions the Committee asks the applicants. She always learns something with these conversations.

  Ms. Landsberg than gave the Committee highlights of the State Budget (Budget) proposal. At the April Committee meeting Ms. Landsberg discussed the Governor's January 10, 2025, Budget Proposal. Since then, much has changed, in the Budget. The Governor's May Revised Budget was released on May 14, 2025. California is projecting a $12.0 billion deficit due to changes in the national economy that in turn impact projected revenues, rebounding from the Los Angeles fires, and growth in state expenditures are some of the reasons for the changes in fiscal forecast for the State.

  Pertaining to the work of HCAI, there is a new proposal in the May Revised Budget that would have HCAI collect data from pharmacy benefit managers (PBM). With the states and federal government grappling with the high cost of prescription drugs in the United States there has been a lot of scrutiny placed on the PBMs and the need to understand more of their cost and profit structures. Under this proposal PBMs in California would be required to be licensed under the Department of Managed Healthcare, and they would be required to submit pretty granular data to HCAI's All-Claims Payer Database in California, our Healthcare Payment Data Program (HPD). As of this point in time this proposal has been accepted by the Legislature.

  The May Revision Budget Proposal to deal with the $12.0 billion deficit has a combination of solutions including additional reliance on the State's Rainy-Day

Fund and other reserves as well as significant cuts proposed for the Budget including cuts to the Medi-Cal program. Ms. Landsberg also noted the State Budget would be significantly impacted if the HR-1 Bill passed by the US House of Representatives and is currently before the US Senate. Or anything like the HR-1 Bill passed with substantial Medicaid cuts were to go into effect, it would likely necessitate the State Legislature and Governor's Office having to come back to the table for additional budget solutions. The May Revised Budget does not include federal changes because the exact changes to the Federal Budget are still unknown.

Ms. Lansberg then reported that the State Legislature released their two-party deal on June 9, 2025. This deal is the agreed legislative framework that the Assembly and California Senate have agreed upon (Agreement). The Agreement adopts all of HCAI's significant budget components in terms of our BH Connect behavioral health workforce components and the budget change proposals that would fund positions to do the work that was passed by the Legislature including some changes to the seismic timelines for small rural and small rural critical access hospitals. The legislature did reject a number of the Governor's proposed Medicare cuts. This Agreement is best described as a counter proposal to the Governor's Budget. The Legislature will vote on their package by June 15th, then by July 1st when the new fiscal year starts, negotiations between the Governor and the Legislature will continue to finalize the Budget. HCAI is monitoring all of this activity and is engaged in discussions about particular policy pieces.

Ms. Landsberg then reported on the Office of Health Care Affordability's (OHCA) release of their first baseline report. This report has total healthcare expenditure data from 2022 and 2023. This data was submitted by the health plans in California on the Commercial and Medicare Advantage side and data that was submitted by the Department of Health Care Services on the Medi-Cal side. One of the key strategies of OCHA is data transparency. The report has data analysis broken down by line of business. Accounting expenditures are separate for Medicare, Medi-Cal, and commercial coverage; by types of services; and geographic analysis.

At the conclusion of Ms. Landsberg's report Mr. Harris stated he really appreciates Ms. Landsberg's updates and from the meeting minutes of the last Committee meeting all of his follow-up questions have been answered. The Committee did not have any additional questions for Ms. Landsberg. Mr. Harris then turned the meeting over to Mr. Scott Christman, HCAI, Chief Deputy Director, for his opening remarks.

- **HCAI Chief Deputy Director**
  Mr. Christman did not make any opening remarks. Mr. Harris then asked Mr. O'Brien for his opening remarks.

- **Cal-Mortgage Deputy Director**
  Mr. O'Brien stated he will save his opening remarks for when he does the Cal-Mortgage reports.

  Mr. Harris then asked for public comment on this agenda item. Hearing no public comments, Mr. Harris moved to Agenda Item No. 4, Approval of the Minutes of the April 10, 2025, Meeting.

4. APPROVAL OF THE MINUTES OF THE APRIL 10, 2025, MEETING

Mr. Harris requested one correction to the previous Committee meeting's minutes. At the bottom of page 6, in the last paragraph, change "Hazal" to "Hazel".

With no other corrections requested for the meeting minutes, a motion to approve the minutes with a correction was made by Mr. Richard Tannehill, ALIC member. Mr. Derik Ghookasian, ALIC Vice Chair, seconded the motion. Before the Committee voted on this agenda item, Mr. Harris called for public comments. Hearing none, Mr. Harris preformed a voice roll-call vote. The motion passed, 5-0. Mr. Jonathon Andrus, ALIC member, abstained from the vote. Mr. John Woodward, ALIC member, and Ms. Soyla Reyna-Griffin, ALIC member, were absent from the meeting during this vote.

After the vote on this agenda item, Mr. Harris moved to Agenda Item No. 6, Cal-Mortgage Reports.

5. LOAN INSURANCE APPLICATION REVIEW: SEQUOIA LIVING, INC. FORMALLY NORTHERN CALIFORNIA PRESBYTERIAN HOMES AND SERVICES, INC. (APPLICANT)

Lauren Hadley, Senior Account Manager

The Corporation was founded in 1958 as a California nonprofit public benefit corporation headquartered in San Francisco, California. It provides services at four continuing care retirement communities (CCRC) and three affordable housing communities in the Bay Area. The purpose of the proposed insured loan of $156 million (2025 Bonds) is to: (i) refinance the outstanding $49.7 million of the 2015 Bonds currently insured by HCAI, (ii) fund $100 million of capital improvements at its four CCRCs, (iii) fund a debt service reserve, (iv) fund the HCAI insurance premium, and (v) fund the costs of issuance. The 2025 Bonds will have a 30-year term and mature on July 1, 2055.

Mr. O'Brien made brief remarks about his background with today's Applicant and then asked Ms. Lauren Hadley, Cal-Mortgage Senior Account Manager, to introduce today's Applicant to the Committee.

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Ms. Hadley introduced the following representatives present on behalf of the Applicant:

Sara McVey, Chief Executive Officer, Sequoia Living, Inc.
Charlie Shoemake, Chief Financial Officer, Sequoia Living, Inc.
March Shores, Vice President Operations and Finance , Sequoia Living, Inc.
Sarkis Garabedian, Managing Director, Ziegler
Hayden Girard, Associate, Ziegler

Ms. Hadley provided the Committee with a summary background of the Applicant and the scope of their project with her recommendation to approve the request for loan insurance. Ms. Hadley then called on Ms. Sara Mc Vey, Chief Executive Officer, Sequoia Living, Inc., to present her opening remarks before the Committee asked their questions.

Ms. Mc Vey made brief opening remarks stating that they went through a very thorough future planning process in 2024. The results of the study showed that work needed to be done to three of their founding flagship CCRCs to continue being an outstanding operator in Northern California. With that information an investment is needed to make sure the CCRCs remain a place where people want to live and work. Ms. McVey then thanked everyone for their time today.

Following Ms. McVey's opening remarks, a discussion of the loan application with the Committee and the Applicant occurred. Before Mr. John Woodward, ALIC member, asked his questions of the Applicant, Mr. Woodward made a statement that he previously had a client relationship with the Applicant; and that he has not discussed this application with the Applicant directly or outside of today's Committee meeting.

The following subjects related to the Applicant's project were discussed: the Applicant's history with Cal-Mortgage; managing a 5-star facility in the Bay Area; capital improvements to the existing facilities; assisted living, skilled nursing, and memory care capacity and expansion; labor costs, labor shortages, and staff retention programs; cost of care; potential impacts of the President's Federal budget and tariffs to funding services; reliance on the Applicant's Foundation to assist with the Applicant's programs; cash flows and reserves; fundraising; refinancing the loan only if a 4% Present Value Savings or greater is achieved; project construction costs and cost escalation; and financial feasibility of the project.

At the conclusion of this discussion and all questions were answered to the Committee's satisfaction Mr. Harris opened the discussion to the public for comment. No public comments were offered on the Applicant's loan application. Mr. Harris then called for a motion to vote on the loan application project. Mr. Derik Ghookasian, ALIC Vice Chair, made a motion to approve the application for loan insurance. Mr. Scott Coffin, ALIC member, seconded the motion. Mr. Harris then called for

public comments on the motion to approve the application for loan insurance. No public comments were made. Mr. Harris then preformed a voice roll-call vote. The Committee voted to approve the application. The motion passed, 7-0.
Ms. Soyla Reyna-Griffin, ALIC member, was not at today's meeting.

After the vote on this agenda item, Mr. Harris then moved the meeting to Agenda Item 2, Public Comment Regarding Action Items on Today's Agenda.

6. DEPUTY DIRECTOR'S REPORTS

- **Project Monitoring – Consuelo Hernandez, Supervisor**
  Mr. Harris asked Mr. O'Brien to preside over the Cal-Mortgage Reports.
  Mr. O'Brien said that Consuelo Hernandez, HCAI, Cal-Mortgage Supervisor would present the Project Monitoring Report and Pending Project Report.

  Ms. Hernandez told the Committee there is a decrease in the number of current financial statements submitted to us by our borrowers. The reason for the decline is due to the timing of when the March 31 financial statements were due. It is expected that by mid-July the financial reporting should be back to normal. Our account managers will continue to reach out to our borrowers to make sure we get their current financial statements. Ms. Hernandez said the borrowers that have missed their debt service coverage ratios are mostly borrowers listed on our internal Watch List and Problem Projects Reports, and that we continue to keep a close watch on these borrowers. Ms. Hernandez also reported account managers are being encouraged to visit their borrowers as they have time available with their current workload.

  At the conclusion of Ms. Hernandez's report, there was a brief discussion between the Committee and HCAI staff about this report. At the conclusion of this discussion Ms. Hernandez then moved on to present the Pending Projects Report.

- **Pending Projects – Consuelo Hernandez**
  Ms. Hernandez informed the Committee that the next project expected to come before the Committee with an application is Gateways Hospital. They are a mental health center in Los Angeles. Ms. Hernandez gave a brief description of the Corporation and their project and said we are working diligently with the Corporation to bring their application for loan insurance to a future Committee meeting.

  Ms. Hernandez next advised that a new application was received from Channing House since the Pending Projects Report was printed. Channing House is a CCRC in Palo Alto. Ms. Hernandez gave the Committee a brief overview of the new project and said Channing House is an existing borrower with HCAI; and noted they are in the very early stages of submitting a full application.

Ms. Hernandez then informed the Committee that Oroville Hospital and their financial advisor have put a pause on their project until later this year. They are waiting for the 2024 audited financial statements to be finalized and released before presenting their loan insurance application to the Committee.

Ms. Hernandez then stated we have a number of other projects in various discussion phases looking to come to Cal-Mortgage for loan insurance for their projects.

At the conclusion of Ms. Hernandez's report, there was a brief discussion with the Committee and HCAI staff about this report. At the conclusion of this conversation Mr. O'Brien began his Problem Projects Report.

- **Problem Project Report – Dean O'Brien, Cal-Mortgage Deputy Director**
  Mr. O'Brien said there are no new additions to the current five projects on the Problem Projects Report and then discussed the borrowers that are experiencing financial difficulties, and the action plan devised to address each borrower and their financial struggles. Mr. O'Brien then provided the Committee with additional updates on the following borrowers:

  St. Rose Hospital (St. Rose): Mr. O'Brien started this update with thanking Mr. Arne Bracchi, Account Manager and Ms. Hernandezs' work on managing this complex transaction. Triweekly meetings are held with Alameda Health System (AHS) and St. Rose management teams. Recently news was received that St. Rose received $30.3 million in Intergovernmental Transfers (IGT) funding. This money should get them through the summer and help pay down the Line of Credit they have with AHS. Mr. O'Brien said the focus continues to be on stabilization in their turnaround plan (Plan) and briefly outlined the areas of focus in their Plan. Cal-Mortgage is optimistic with seeing traction and signs the Debt Relief Agreement is working.

  San Benito Health Care District (San Benito): Mr. O'Brien said he did not have a lot of updates for San Benito. They do have both a Cal-Mortgage loan and a Distressed Hospital loan. Overall, good news for San Benito. They are still in the process of negotiating a 5-year lease-to-own option with Insight Health. There was a vote by the community, and it passed with a small margin. They are doing very well financially after years of aggressive cost containment. They have exited bankruptcy and are undergoing new Union contract negotiations that will replace the Union contracts negotiated under bankruptcy. They do have liquidity support if they need to draw on that for the new contracts until the outcome of the negotiations with Insight Heath is decided.

  There was a brief discussion with the Committee and Mr. O'Brien about San Benito.

Hill Country Community Clinic (Hill Country): Mr. O'Brien told the Committee Hill Country will be coming off of the Problem Projects Report soon. They have made strides since selling the Center For Hope in Redding and moving operations back to Round Mountain. They are working on getting caught up on their overdue audited financial statements.

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

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

Mr. O'Brien told the Committee he is really proud of the work the Cal-Mortgage team (Team) has done standing up and administering the DHLP in record time.

Mr. O'Brien said since the last meeting we have been working through the loan modification process for some of the DHLP loans. More hospitals are moving toward the red or low performing status compared to the last report. The March 31 financial statements are just coming in and they are being processed. Mr. O'Brien then explained the metrics used for being in the red or low performing status. Mr. O'Brien then said that after seeing some stabilization for the hospitals now they are backsliding. It is expected this trend will continue especially if the federal and state budget cuts come to fruition. The Team is processing Step 1 of the loan modification process for some of the hospitals. All of the DHLP hospitals will qualify for a Step 1 loan modification. Mr. O'Brien told the Committee what metrics the DHLP hospitals will need to meet to receive a loan modification.

Mr. O'Brien gave brief specific updates for Madera Community Hospital, Hazel Hawkins Memorial Hospital, Ridgecrest Regional Hospital, Kaweah Delta Health Care District, Pioneers Hospital, Chinese Hospital, John C. Fremont Hospital, TriCity Medical Center, St. Rose Hospital, El Centro Regional Medical Center, Watsonville Community Hospital, and Dameron Hospital.

At the conclusion of his report, Mr. O'Brien and HCAI staff then had a discussion with the Committee about the DHLP's hospitals. At the conclusion of this discussion Mr. O'Brien then reported on the SRHRP program.

Mr. O'Brien thanked Tom Wenas, HCAI, Account Manager, who has been leading behind the scenes to process the SRHRP grant awards and recognized HCAI's seismic compliance team and the relationship between our two teams to implement this program.

Mr. O'Brien said currently there is about $53.7 million in grant funds available. To date fourteen grants have been awarded totally $7.2 million. In addition, there are four applications currently being processed. Mr. O'Brien said Mr. Wenas just informed him that an award letter for $600K has been sent out to Colorado River Hospital earlier this week. This grant was one of the four applications in the pipeline. Mr. O'Brien said our Team is continuing to provide technical assistance working directly with eligible hospitals. Cal-Mortgage is focused on increasing SRHRP awareness with cross promotion across the DHLP program, Cal-Mortgage borrowers, webinars with industry stakeholders, updates to the SRHRP website, and consultants that really know the Cal-Mortgage programs to help promote and grow the SRHRP program.

At the conclusion of Mr. O'Brien's report on this agenda item the Committee had no questions.

7. **FEDERAL AND STATE BUDGETS DISCUSSION**

Mr. O'Brien began this discussion with stating at the last ALIC meeting this topic was requested by the Committee as a standing agenda item. Mr. O'Brien said he did not have any specific content to discuss for this topic; however, this conversation is important, and he wanted to have a conversation with Ms. Landsberg and the Committee about the impacts the federal and state budgets will have on our projects.

A lengthy discussion occurred with Mr. O'Brien, HCAI staff, and the Committee. The discussion covered the following subjects: the likelihood of major cuts coming in the federal and state budgets to Medi-Care and Medicade; talks with stakeholders at industry conferences about the pending budget cuts; acknowledgment of the current unprecedented level of uncertainty in healthcare and the amount of change to come for healthcare management and delivery; the uncertainty of the size of the budget cuts and how they will affect our current projects as well as future projects in the Cal-Mortgage portfolio; and what the Committee will look for in their evaluation of the Feasibility Study in new Cal-Mortgage applications for loan insurance.

At the conclusion of this discussion Mr. Harris called for public comment on this agenda item. No public comments were made. Mr. Harris said this is a discussion that everyone can learn from and should be revisited as a future agenda item.

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

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

9. **GENERAL PUBLIC COMMENT**

No public comments were made.

10. **ADJOURN**

Mr. Ghookasian made a motion to adjourn the meeting, and Mr. Jonathon Andrus, Committee member, second the motion. The meeting was adjourned at 12:06 p.m.

The Minutes of the above meeting were approved during the meeting of the Committee held on August 14, 2025.

Jay Harris, Chair	Joanna Luce, Executive Secretary

Agenda Item 5: Loan Insurance Application Review:

Gateways Hospital and Mental Health Clinic

Cal-Mortgage Application

Advisory Loan Insurance Committee

August 14, 2025

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER

Gateways Hospital and Mental Health Center, Inc.
1891 Effie Street, Los Angeles, California 90026

CONTENTS:

PROJECT SUMMARY & FEASIBILITY ANALYSIS

For August 14, 2025, Meeting of the Advisory Loan Insurance Committee

Project Summary

Applicant: Gateways Hospital and Mental Health Center (Corporation)
1891 Effie Street
Los Angeles, California 90026

Loan No.: 1097

Account Manager: Arne Bracchi

Executive Summary:
The Corporation was founded in 1953 as a California nonprofit public benefit corporation. It provides mental health services to adults and adolescents throughout Los Angeles County.

The proposed updated insured bonds of $55.77 million (2025 Bonds) will be used to:

- Partially finance the construction of a 37-bed behavioral health facility for adolescents on the Corporation's main campus located at 1891 Effie Street in Los Angeles. The two-story 27,000 square foot facility will replace the current adolescent facility. The total construction cost will be $43,000,000. The Corporation has received a $19 million grant from the California Department of Health Care Services (DHCS) which will pay for some of the construction cost. The Department of Health Care Access and Information (Department) will finance approximately $29,600,000.
- Refinance a loan of $21,000,000 with the Banc of California that was used for the acquisition of multiple properties in October 2024. The loan financed the purchase of the following:
    - A 20,000 square foot building that housed a former law school located at 220 North Glendale Avenue in Glendale. The main law building will be used for the forensic conditional release outpatient program and office space for the Corporation's administration.
    - Four residential cottages located at 215 and 217 North Everett Street, 223 and 225 North Everett Street, 231 and 231A North Everett Street, and 233 and 235 North Everett Street in Glendale, all to be used as Statewide Transitional Residential Program Services facilities.
    - A retail building consisting of two spaces located at 234 and 236 North Glendale Avenue in Glendale, California.
- Reimburse the Corporation for the acquisition in December 2024 of two cottages ($4,000,000) located at 219 and 221 North Everett Street and 227 North Everett Street in Glendale, also to be used as Statewide Transitional Residential Program Services facilities.

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Insured Total:
The 2025 Bonds shall not exceed a par amount of $55.77 million with a net premium of $1.43 million, which will be insured by the Department (Bonds). The revised total cost of the Project is $77.02 million. The amount of the Bonds represents 71% of the total cost.

Credit Rating and Insurance Premium:
The Corporation applied for an independent private credit rating from Fitch Ratings and received an independent credit rating of BBB- which would lower the Department insurance premium for the new money portion to 1.85% of the total principal and interest. In addition, a certification and inspection fee of 0.4% of the principal is required of the financing. The Department insurance premium and fee is estimated at $2.3 million.

Legal Status and Eligibility:
The Corporation is a California non-profit, public benefit corporation under Section 501(c)(3) of the Internal Revenue Service Code. The Corporation is eligible as an acute psychiatric hospital licensed by the California Department of Public Health. Eligibility is further achieved by means of the Corporation being the licensee of two adult residential facilities (ARF) as licensed by the California Department of Social Services (CDSS).

The acute hospital received no citations for 2025 to date; two citations in 2024; and nine citations in 2023. All of the citations related to quality of care and treatment were unsubstantiated and no further action is needed.

The Normandie Village ARF, annual facility inspections listed on the CDSS website show no citations of Type A or Type B were issued during inspections from 2022 through 2025. Percy Street received three Type A citations and three Type B citations. Corrective action plans were submitted and approved by CDSS.

Cal-Mortgage Priority:
The Corporation serves the needs of mentally ill, emotionally disturbed and maladjusted adults and adolescent patients some of which are mandated for treatment by a criminal or civil court judge a large uninsured and underinsured population. It accepts Medi-Cal and Medicare. This project is consistent with the Cal-Mortgage State Plan.

Senate Bill 1953:
As an acute psychiatric hospital, the Corporation is not required to comply with requirements for general acute care hospitals under SB1953.

Corporation Background & Facilities:
The Corporation was established in 1953 as an independent non-profit, non-sectarian institution affiliated with the Jewish Federation Council of Los Angeles and has been a provider of acute behavioral health services in the communities of Silver Lake, Echo Park, and Boyle Heights since 1953. Since then, they have grown to include a variety of psychiatric, mental health, and residential services to assist some of society's most challenged individuals and their families. In 1961 they moved into their main hospital facility on 1891 Effie Street, located in the Echo Park-Silver Lake community of Los Angeles. In 2002, the Corporation opened a homeless shelter, to assist adults with

mental illness who are homeless or at risk of homelessness. The Corporation provides services at twenty facilities in the Los Angeles area. A list of the properties and the services provided are described in the following table:

PROPERTY ADDRESS	SERVICE PROVIDED
1891 Effie Street (Hospital)	Adult and Adolescent Behavioral Hospital
3455 Percy Street	Percy Village Adult Residential Facility
1355 S Hill Street	Normandy Village East Adult Residential Facility
220 North Glendale Avenue	Forensic Conditional Release Outpatient
215 and 217 North Everett Street	Statewide Transitional Residential Program
223 and 225 North Everett Street	Statewide Transitional Residential Program
231 and 231 North Everett Street	Statewide Transitional Residential Program
233 and 235 North Everett Street	Statewide Transitional Residential Program
234 and 236 North Glendale Avenue	Tenant Occupied/No health care services provided
421 N Hoover Street	Adult Crisis Residential Services
433 N Hoover Street	Wellness Outpatient Services
437 N Hoover Street	Statewide Transitional Residential Services
440 N Hoover Street	Statewide Transitional Residential Services
436 N Commonwealth Avenue	Statewide Transitional Residential Services
440 N Commonwealth Avenue	Statewide Transitional Residential Services
1801 - 1843 Lakeshore Avenue	Residential Re-entry Centers
1829 - 1865 Effie Street	Residential Re-entry Centers
621 Virgil Avenue – Leased	Forensic Community Treatment Program
219 and 221 Everett Street	Statewide Transitional Residential Program
227 North Everett Street	Statewide Transitional Residential Program

Out of the above facilities, the Corporation owns nineteen and leases one. The Department will be receiving liens on the Effie Street hospital, Percy Street, Hill Street, acquired Glendale/Everett Properties, and two Everett Street cottages.

Glendale/Everett Properties:
In October 2024, with the Banc of California loan the Corporation purchased six contiguous parcels on approximately 1.4 acres of land. The Corporation intends to utilize the former law school building as the forensic conditional release outpatient program and their administrative headquarters; utilize the residential duplexes for patient housing; and continue to lease out the retail building to the current tenants.

<u>Services:</u>
The majority of the Corporation's patients are low income and homeless with mental health conditions. The hospital is an acute psychiatric facility that has both involuntary patients and outpatient programs and is staffed with psychiatrists, internists, registered nurses, licensed vocational nurses, psychologists, social workers, and mental health workers as well as a range of support personnel. Programs offered are delivered through inpatient care, residential services, and outpatient clinics. A significant percentage of the patient population is involved in the legal/justice system.

The Corporation offers a wide breadth of comprehensive mental health services:

- Hospital Inpatient Acute Services: The hospital is accredited and licensed to provide an intensive therapy program for adolescents and adults in need of acute psychiatric evaluation, diagnosis, stabilization, and treatment. The delivery of these services is through its 55-bed psychiatric hospital which is located on its main campus.
- Child and Adolescent Outpatient Program: This program integrates psychological, medical, social, and educational services to meet the mental health needs of severely disturbed children and adolescents. The Department of Children and Family Services, probation, schools and the community refer youth and their families to the Corporation.
- Adult Outpatient Program: This program provides mental health services for adults aged 18 to 59 who are diagnosed with chronic and severe mental illnesses. These programs were developed in conjunction with the Los Angeles County Department of Mental Health (LACDMH) to serve individuals in need of ongoing psychiatric services who have been discharged or are ready to be discharged from jails or state hospitals.
- Residential Programs: These programs provide mental health services and housing for adults aged 18 to 59 that continue to need a level of treatment in a step-down living environment which offers limited supported living services after their discharge from an inpatient stay such as Acute Psychiatric Inpatient Units or Crisis Residential Facilities. These services are provided at two adult residential facilities in Los Angeles, Normandie Village, and Percy Village.
- Forensic Programs: The Community Treatment Program provides outpatient services, and the Conditional Release Program evaluates state hospital patients, provides residential, day-care, and outpatient treatment; and supervises individuals released by the courts back into the community who are in the legal system for reasons of not guilty by reason of insanity, incompetent to stand trial, mentally-disordered sex offender, and mentally-disordered offender.
- Homeless Services: The Corporation provides an integrated, comprehensive continuum services addressing the need of mentally ill adults who are homeless, or at risk of becoming homeless. Upon referral, the Corporation’s homeless services offer needs assessments; individual and group counseling; case management; psychiatric evaluation and medication support; and other resources at the Corporation’s apartment building in Los Angeles.
- Wellness Center: The Corporation’s wellness center assists mentally ill clients who are in their final stages of the recovery process. Adult Residential Facilities (ARFs): the Corporation has two facilities that provide mental health services and housing for adults: Normandie Village (licensed for 48 adults) and Percy Village (licensed for 136 adults). These ARFs provide residential service programs, clinical services, daily living skills, independent living skills, and direct providers.

<u>Executive Management:</u>

Dr. Philip Wong is the Chief Executive Officer (CEO). Dr. Wong has over 23 years of experience working with the Corporation, and most recently served as their Chief Operating Officer. As CEO, Dr. Wong is responsible for the complete operating and financial administration of the agency. Dr. Wong is also an adjunct professor at Argosy

University, where he teaches forensic psychology. He gained his Doctor of Psychology degree from John F. Kennedy University in Orinda, California.

Fay Ji, Chief Financial Officer (CFO), has been with the Corporation for five years. Prior to joining the Corporation, she served as consultant, controller, and CFO positions for several non-profit, government, and healthcare organizations. As CFO, she is responsible for providing leadership, direction, and management of the accounting, business, and revenue management departments within the Corporation. She received her Master of Science in Accountancy from California State University, Los Angeles.

Imani Walker, D.O. became Chief Medical Officer in June 2015. Prior to joining the Corporation, Dr. Walker served in roles as a medical director of alcohol and substance abuse programs and as a practicing psychiatrist in California. She completed her Doctor of Osteopathic Medicine degree from the New York College of Osteopathic Medicine in 2004 and her residency/fellowship in psychiatry/forensic psychiatry from the University of California Los Angeles in 2010.

Succession Planning:
The Corporation's succession plan applies to a permanent departure and unexpected scenarios. A subcommittee of the board of directors and the Corporation's human resource, legal and senior leadership are tasked with execution of the plan. In the event of a permanent departure, the plan may involve an executive search firm or consideration of internal and external candidates. In the event of an unexpected leave, the Board will appoint an interim CEO from senior leadership.

Board of Directors:
The Board of Directors is responsible for governance of the organization, setting general organization policy, and fiscal oversight. The Board is made up of no less than five but no more than twenty members. In addition to being a board member, each member is expected to participate in various board committees. As of February 2025, the board members are:

Board of Directors	Profession
John Calderone, President	Previous Chief Executive Officer
Geoffrey Moore, Vice President	Petroleum Company Owner
David Sturman, Secretary	Attorney at Law – Immigration
Craig Morris, CPA, Treasurer	Partner, Accounting Firm
Chelby Crawford	Real Estate
Joe Wegener	Chief Human Resources Officer
Joy Musry	Attorney at Law
Rojean Kashanchi	Director, Corporate Strategy
Dr. Philip Wong	Chief Executive Officer, Gateways Hospital

In 2024, the Corporation rewrote its Bylaws with three-year terms for board members, and a maximum of three terms may be served unless the limit is waived by the board. As such the new term dates have all current members terms expiring on December 31, 2027.

Project Description:
The proceeds of the proposed 2025 Bonds are anticipated to: (i) partially finance the construction of a 37-bed behavioral health facility, (ii) refinance a Banc of California loan, (iii) reimburse the Corporation for the acquisition of two cottages (iv) fund a debt service reserve, (v) fund the Department's insurance premium, and (vi) fund the cost of issuance.

Effie Street: The hospital consists of two buildings, one for the adult inpatient mental health services, and the other for adolescent inpatient mental health services. The adult wing will remain in place. Bond financing will be going toward building a new adolescent facility. Demolition of the old adolescent facility was done in December 2024. The new adolescent inpatient 37-beds will allow patients who are experiencing mental health challenges to access multi-faceted treatment modalities including drug and alcohol counseling, group counseling and peer support, medical monitoring, and support from dieticians for patients with eating disorders alongside traditional mental health care. The facility will be 27,840 square feet and operate under the Corporation's existing license.

Banc of California Refinance: The Banc of California financing was done in October 2024 to finance the acquisition of the Glendale/Everrett properties. The four purchased cottages (215 N Everett, 220 N Everett, 223 N Everett, 231-233 N Everett) will be utilized to house clients who are enrolled in the Statewide Transitional Residential Services program which is currently located on Hoover Street and Commonwealth Avenue. The Corporation had an opportunity to quickly purchase the properties and looked for a bank loan to speed up the sale process. The Corporation's intent was to refinance the Banc of California loan with Department insured bonds at a future date. Terms of the loan include an interest rate of 6.95% for the first three years and a balloon payment of $19.2 million due on October 15, 2029.

Cottage Reimbursement: The two additional cottages were purchased in December 2024 with Corporate cash reserves, (219-221 N Everett and 227 N Everett). The 2025 Bonds will be used to reimburse the Corporation for the acquisition of the two cottages. The cottages will be utilized to house clients who are enrolled in the Statewide Transitional Residential Services program.

Project Readiness:
The following schedule represents a tentative timeline for the Project:

Event	Date
Demolition began Effie Street	December 2024
Issuance of Permit – Increment 1	April 2025
GMP finalized	April 2025
Issuance of Permit – Increment 2	August 2025
Advisory Loan Insurance Committee	August 14, 2025
Pricing of Bonds	September 2025
Bond Closing	September 2025
Construction to be Completed	July 2027
Stabilized occupancy of facility	June 2029

Project Approval:
The Corporation has submitted plans and specifications to the Office of Statewide Hospital Planning and Development for the Effie Street facility for review and issuance for Increment 1 which involves the building's foundation, structure, and utilities plans. The plans were approved, and the building permit was issued on April 15, 2025. Increment 2 consists of the building's exterior and the interior systems of mechanical, electrical, plumbing, and fire protection. The expected approval date is August 13, 2025.

Financing Team:

Role	Organization
Bond Counsel	Stradling Yocca Carlson & Rauth LLP
Bond Trustee	US Bank Trust Company, NA
Borrower Counsel	Wilson Law Group, PC
Feasibility Consultant	Wipfli LLP
Financial Advisor	HG Wilson Municipal Finance Inc.
Issuer	California Municipal Finance Authority
Title Company	Fidelity National Title
Underwriter Senior Manager	Hilltop Securities
Underwriter Co-Manager	DA Davidson & Company
Underwriter Counsel	McDougal, Love, Boehmer, Foley, Lyon & Canlas

Contractor:
The Corporation has selected Clayco as its general contractor for the new adolescent behavioral health facility portion of the project. Clayco is a full-service, turnkey real estate, architecture, engineering, design-build, and construction firm founded in 1984. Their prior hospital projects included Kaiser Permanente in San Marcos, California and Bricks Behavioral Health Foundation in Arcadia, California. A guaranteed maximum price (GMP) construction contract was provided to the Department on April 25, 2025. The GMP shows a total construction cost of $43,596,496. This two-story, 27,000 square foot facility will replace the current Adolescent Outpatient Building. The abatement, demolition, and site ready work began in December 2024, and the project will be completed in June 2027.

Project Manager:
Gardiner & Theobald of Los Angeles, California, is the project manager for construction of the new adolescent behavioral health facility. They have experience as project managers for Bricks Behavioral Health Foundation. The project manager will manage the design and renovation in accordance with the Corporation's needs and budget, including representing and advocating for the Corporation while interfacing with and supervising the contractor and the architect.

Architect:
The Corporation has chosen HMC Architects of Los Angeles as the architect for the project. They have 85 years of experience working as an architect firm. HMC specializes in education, healthcare, and civic projects. Prior healthcare projects include Harbor-UCLA Medical Center and Torrance Memorial Medical Center. They were recognized in 2024 as one of Fast Company's Most Innovative Companies. They will

provide professional services required for the design, entitlements, construction documents, and construction administration required to complete the project.

Outstanding Litigation:
The Corporation does not currently have any liability claims or lawsuits for compensatory damages.

Financing History with the Department:
In 2011 the Department insured a $8.085 million bond issue to purchase an existing leased building located at 3455 Percy Street, refinance debt, and make renovations on the Hill Street building for the Corporation (2011 Bonds). The 2011 Bonds were paid in full in October 2024.

Source and Use of Funds:

Sources of Funds	Construction Project	Non-Construction Components	Total	Percentage
Bond Proceeds:				
Par Amount	$29,395,000	$26,375,000	$55,770,000	72.41%
Premium	$443,078	$991,515	$1,434,594	1.86%
Grant Funding	$19,256,659		$19,256,659	25.00%
Total Source of Funds	**$49,094,737**	**$27,366,515**	**$76,461,253**	**100.00%**

Uses of Funds	Construction Project	Non-Construction Components	Total	Percentage
Construction	$42,630,000		$42,630,000	55.75%
Furnishing, fixtures and equipment	$370,000		$370,000	0.48%
Construction	$43,596,496		$43,596,496	
Two Cottages in escrow		$4,100,000	$4,100,000	5.36%
Refinance Banc of California debt		$21,000,000	$21,000,000	27.46%
Capitalized interest	$2,972,161		$2,972,161	3.89%
Debt service reserve fund	$973,706	$873,669	$1,847,375	2.42%
Cost of issuance	$247,725	$222,275	$470,000	0.61%
Underwriter's Discount	$87,009	$78,070	$165,079	0.22%
Bond Insurance	$1,098,984	$986,076	$2,085,059	2.73%
Certification and Inspection Fee (0.4%)	$117,580	$105,500	$223,080	0.29%
Additional Proceeds	$1,076	$926	$2,002	0.00%
Total Uses of Funds	**$49,094,737**	**$27,366,515**	**$76,461,253**	**100.00%**

Financing:
The proposed 2025 Bonds will be tax-exempt revenue bonds in an amount not to exceed $55.77 million with a premium of $2.91 million. The Bonds will be issued through the California Municipal Finance Authority (CMFA).

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Bond terms are as follows:

1. The 2025 Bonds will have a term of 30 years maturing on June 1, 2055.
2. All bonds are to be issued at a fixed rate. The Average Coupon Rate of the Bonds is projected to be 4.80%. with an all-in-true interest cost of 5.08%.
3. The first principal payment to bondholders is scheduled to be paid June 1, 2026. Principal payments run through June 1, 2055.
4. The maximum annual debt service will be approximately $3,694,750 with an average annual debt service of $3,657,999.
5. Interest payments are semiannual every June and December beginning December 1, 2025.
6. The Underwriter's discount is 2.96% per $1,000 of the Loan Amount.

The proposed bond model, dated March 14, 2025, is available to review under Exhibit A.

<u>Security</u>:

The Department shall receive a security interest on the following real and personal property of the Corporation, secured by fixture filings, first deeds of trust, UCC1s, and a gross revenue pledge with a Deposit Account Control Agreement and a Securities Account Control Agreement covering said property of the Corporation. Such real property shall include the following:

1. Behavioral Hospital Main Campus, 1891 Effie St., Los Angeles, CA 90026;
2. Percy Village ARF, 3455 Percy St., Los Angeles, CA 90023;
3. Normandie Village ARF, 1355 S. Hill St, Los Angeles, CA 90015;
4. Former law school, 220 N. Glendale Ave, Glendale, CA. 91206;
5. Retail building, 234 N. Glendale Ave, Glendale, 91206;

<u>Appraisals and Loan-to-Value (LTV):</u>

The Department will receive first Deeds of Trust on the following properties appraised:

The Corporation received an "As-Is" appraisal on the hospital property 1891 Effie Street, Los Angeles CA 90026, Assessor Parcel Number (APN) 188-004-01 from Joseph J. Blake and Associates. Peter Meyers, MAI, MRICS prepared a commercial property appraisal dated October 23, 2024. The property of the expansion project consists of approximately 68,462 square feet or 1.57 acres. The 'as if complete' market value of the property is **$50,000,000** and specifically assumes the 37-bed expansion has been built and stabilized.

The appraisal dated October 3, 2024, for the Glendale/Everett properties, (APN #s 5645-020-025; 5645-020-006; 5645-020-012; 5645-020-014; 5645-020-008; 5645-020-007) was prepared by Vince Cardenas, MAI, AI-GRS of CBRE Valuation & Advisory Services. The property consists of approximately 60,819 square feet or 1.40 acres. The 'As-Is' value of the property is **$15,800,000**.

The appraisal for Percy Village Residential Facility located at 3433 and 3441 Percy Street, Los Angeles, CA 90023, APN 5188-004-018 and 5188-004-053 was from CBRE Valuation & Advisory Services dated September 20, 2024. The property consists of approximately 35,356 square feet or 1.027 acres. The 'As-Is' value of the property is **$7,300,000.**

The appraisal for the Normandie Village East Residential Facility located at 1355 South Hill Street, Los Angeles, CA 90023, APN 5134-025-020 and 5188-004-053 was from CBRE Valuation & Advisory Services also dated September 20, 2024. The property consists of approximately 15,024 square feet or 0.147 acres. The 'As-Is' value of the property is **$3,300,000**.

An additional appraisal dated May 5, 2025, for the recently purchased single-family home located at 227 N Everett was prepared by Vince Cardenas, MAI, AI-GRS of Appraisal Pacific. The property consists of approximately 5,039 square feet or 0.12 acres. The 'As-Is' value of the property is **$1,600,000**.

The appraisal for 219-221 N Everett was prepared by Vince Cardenas, MAI, AI-GRS of CBRE Valuation & Advisory Services dated April 24, 2025. The property consists of approximately 6,310 square feet or 0.15 acres. The 'As-Is' value of the property is **$2,000,000**.

The total collateral value and Loan to Value (LTV) are presented in the table below.

LOAN TO VALUE	
1891 Effie Street (Hospital) – As -Complete	$50,000,000
Glendale properties (Law School + 4 cottages)	$15,800,000
227 N. Everett	$1,600,000
219-221 N. Everett	$2,000,000
3455 Percy Street (Percy Village ARF)	$7,300,000
1355 S Hill Street (Normandy Village East ARF)	$3,300,000
TOTAL PROPERTY VALUATION	**$80,000,000**
PAR VALUE OF 2025 BONDS	$55,770,000
LTV	**69.7%**

<u>Environmental:</u>
On March 26, 2025, the California Department of Toxic Substances Control (DTSC) completed its Environmental Review of the Phase I Environmental Assessment on the Corporation's real properties. The Department has received both reports, and they are under review.

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Financial Performance:
The following table summarizes the historical results for several key ratios and financial statistics from the Corporation's audited financial statements for the Fiscal Year Ended (FYE) 2021 to 2024, and the internally prepared financial statements for the year-to-date (YTD) nine-month period ended March 31, 2025. It should be noted that the table may include categorical variances compared to the actual financial statements and the Financial Feasibility Study due to the financial spread software utilized by the Account Manager. The detailed financial spread, the audited financial statement, and the internally prepared financial statement are provided under Exhibits B, C, and D, respectively.
Key statistics demonstrating the Corporation's financial performance are presented below.

Gateways Hospital and Mental Centers	6/30/2021 Historical 12M Unqualified	6/30/2022 Historical 12M Unqualified	6/30/2023 Historical 12M Unqualified	6/30/2024 Historical 12M Unqualified	3/31/2025 Historical 9M Unaudited
Cash and Cash Equivalents	12,838,860	13,515,681	12,653,034	14,989,909	19,465,186
Net Assets	18,849,007	18,955,337	19,968,155	30,942,386	41,794,735
Operating Revenue	35,300,221	37,019,793	41,768,330	57,448,954	52,288,298
Operating Expenses	34,443,669	35,609,113	40,972,214	46,947,874	41,014,424
Operating Profit	856,552	1,410,680	796,116	10,501,080	11,273,874
Non-Operating Income	431,484	(1,304,350)	216,702	473,151	(421,526)
NET INCOME	1,288,036	106,330	1,012,818	10,974,231	10,852,348
EBITDA	2,428,068	1,267,083	2,144,575	11,931,684	12,373,507
Debt Service Coverage	4.00	1.88	3.17	13.92	7.36
Days Cash on Hand	138.05	140.49	114.09	117.32	129.93
Current Ratio	5.16	5.27	4.73	5.75	3.94

Between FYE June 31, 2021, and YTD March 31, 2025, the Corporation would have met the DSCR, CR and DCOH Department's covenant requirement of 1.25, 1.50 and 30 respectively. The Corporation's only long-term debt is the Banc of California loan whose proceeds were used to purchase the Glendale properties. As of March 31, 2025, the balance of the loan was $22.3M, and the monthly payment is $149K. A balloon payment of $19.2 million is due in October 2029. Since FYE 2021 Cash and Cash Equivalents has increased from $12.8 million to $19.5 million due to the Corporation having a continuous positive net income. The corresponding trend in higher DCOH was relatively steady from a low of 114 Days to a high of 141 Days.

From FYE 2021 to FYE 2024, operating revenue increased from $35 million to $57 million mainly due to increases in both inpatient and outpatient psychiatric acute services to both adults and child/adolescents. The primary diver of the revenue increases dates back to July 1, 2023, when the Corporation changed from a cost-based reimbursement payment system to a fee-for service payment system, which pays more favorably. This is discussed more in the following Revenue Assumptions section. Positive net income has resulted in Net Assets growing from $18.8 million in FYE 2021 to $41.8 million in the current fiscal year, and producing a DSCR that far exceeded the required value of 1.25. The FYE 2022 net income was relatively low at $106,330 but was affected by the Corporation experiencing a non-operating $971,154 loss in investment income.

Portfolio Comparison:
The Corporation's financial covenant ratios were compared to the other general acute care hospitals within the Department loan portfolio since there are no psychiatric hospitals in the portfolio. The comparison includes facilities with the most recent audited annual revenue in the range of $57.4 million to $339.8 million of which the Corporation had the lowest of the sample. The Corporation's DSCR, DCOH, and CR all rank above the compared hospitals. The following table summarizes the historical results for several key ratios and financial statistics from the Corporation's audited financial statements for the Fiscal Year Ended 2024.

HOSPITAL NAME	CITY	ANNUAL REVENUE	DSCR	DCOH	CR
Gateways Hospital	***Los Angeles***	***$57,448,954***	***17.35***	***117.32***	***5.75***
Lompoc Valley Medical Center	Lompoc	$133,878,980	9.84	54.58	3.60
Marshall Medical Center	Placerville	$339,857,957	3.50	68.91	2.92
Mendocino Coast Health Care District	Fort Bragg	$59,752,256	2.99	72.87	1.86
San Benito Health Care District	San Benito	$157,417,452	9.33	92.62	2.00
St. Rose Hospital	Hayward	$137,482,578	0.02	23.66	0.94
	Median	**$135,680,779**	**6.42**	**70.89**	**2.46**
	Average	**$147,639,696**	**7.17**	**71.66**	**2.85**

Community Needs/Benefits Assessment:
The Corporation operates a Mental Health Hospital, and several different types of service based residential facilities. They served 15,225 patient days during Fiscal Year 2024. Services are offered in Spanish to their patients who require translation services.

Market Analysis:
The Corporation defines its market as its primary service area (PSA) based on where its inpatient discharges originate, as well as consideration of the programs it offers at each of its various facilities. Using this criteria, the Corporation's PSA generally aligns with the geographic boundaries of Service Planning Area (SPA) 4, a term utilized by the Los Angeles County Department of Public Health to describe the geographic area that spans from downtown Los Angeles to West Hollywood. Most patients served by the Corporation originate from SPA 4. The Corporation's PSA is estimated to include approximately 1.1 million individuals of the nearly 9.8 million individuals residing in Los Angeles County. Although the population residing in the Corporation's PSA is generally expected to increase slightly, the population of adolescents in the PSA is expected to decline by 1.3% over the five-year period of 2024 through 2029. While the adolescent population is slightly decreasing, the market analysis shows a significant increase in need for adolescent inpatient beds in Los Angeles County. The most recent public report indicates that the number of public adolescent inpatient beds needed for the

city of Los Angeles is 80 beds, while the current available is 27 beds. Based on these findings, the Corporations need to build its new 37-inpatient adolescent beds is justified. It should also be noted that the overall utilization of the Corporation's services depends more significantly on patients that are referred to it from the LACDMH and the Los Angeles County criminal justice system, which is not directly impacted by overall trends in adolescence population trends. The Corporation's management believes the overall adolescent population in LA County is underserved, and a bed shortage currently exists.

The following table summarizes information for the Corporation as compared to various competing healthcare organizations located in Los Angeles County who also receive inpatient referrals through a contract with the LA DMH and are within 30 miles driving distance from the Corporation's main Effie Street campus in Echo Park, California.

Hospital Name	Licensed Beds	Staffed Beds	2023 Discharges	2023 Patient Days	2023 Average Daily Census	Total Staff FTEs
Gateways Hospital and Mental Health Center	55	55	310	14,798	40.5	256
Aurora Charter Oak	146	146	6,798	52,422	143.6	285
BHC Alhambra Hospital	97	97	4,696	32,917	90.2	181
Aurora Las Encinas Hospital	118	118	2,975	36,977	101.3	213
Del Amo Behavioral Health System	166	140	7,158	51,002	139.7	248
Resnick Neuropsychiatric Hospital at UCLA	74	67	1,808	24,383	66.8	296
Tarzana Treatment Center	60	60	3,204	15,474	42.4	953
College Hospital	187	177	3,249	64,209	175.9	422

The Corporation serves those patients who tend to have more severe and chronic mental health conditions which result in longer hospitalizations and lower number of discharges and patient days compared to other service providers. These patients also have more significant barriers to being discharged to a safe place such as a lack of suitable housing, continuous legal issues, and the need for additional support.

FEASIBILITY ANALYSIS

Executive Summary:
The Account Manager has reviewed the Financial Feasibility Study dated April 8, 2025, which was prepared by Wipfli LLP (Feasibility Study) and is provided under Exhibit E. The Feasibility Study assumes a borrowing of $54,855,000 with a 30-year repayment schedule.

The Feasibility Study concludes the following for the fiscal years ending June 30, 2025 to 2029.

1. Projected revenues for the fiscal years ending June 30, 2025 to 2029 will exceed expenses, working capital, and other capital requirements during the period.
2. Unrestricted Cash and Cash Equivalents is estimated to be 177 Days Cash at the end of FY 2025 and are projected to steadily increase over the forecasted period.
3. The Debt Service Coverage Ratio is expected to be sufficient to equal or exceed 1.25:1.0 actual annual debt service throughout the projected period.

The financial projections concluded that the Corporation would continue to meet its on-going operating expenses and debt requirements with the $54,855,000 bond issue.

Client Utilization:
The table below shows a summary of average inpatient census and outpatient visits by program.

Inpatient Utilization Statistics								
Fiscal Years Ended	Historical			Forecasted				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Discharges								
Psychiatric Acute - Adult	165	119	169	182	194	196	198	200
Psychiatric Acute - Adolescent	251	191	167	169	171	1,141	1,624	2,107
Total acute discharges	416	310	336	351	365	1,337	1,822	2,307
Patient Days								
Psychiatric Acute - Adult	11,534	13,302	14,166	15,254	16,224	16,392	16,559	16,727
Psychiatric Acute - Adolescent	1,718	1,496	1,059	1,065	1,077	7,186	10,234	13,276
Total patient days	13,252	14,798	15,225	16,319	17,301	23,578	26,793	30,003
Average Length of Stay								
Psychiatric Acute - Adult	69.9	111.8	83.8	83.8	83.6	83.6	83.6	83.6
Psychiatric Acute - Adolescent	6.8	7.8	6.3	6.3	6.3	6.3	6.3	6.3
Total acute average length of stay	31.9	47.7	45.3	46.5	47.4	17.6	14.7	13.0
Average Daily Census								
Psychiatric Acute - Adult	31.6	36.4	38.7	41.8	44.4	44.9	45.2	45.8
Psychiatric Acute - Adolescent	4.7	4.1	2.9	2.9	3.0	19.7	28	36.4
Total acute average daily census	36.3	40.5	41.6	44.7	47.4	64.6	73.2	82.2
Occupancy Percentage								
Total acute occupancy	66.0%	73.6%	75.6%	81.3%	86.2%	70.2%	79.6%	89.3%

Discharges and Patient Days are projected to grow throughout the forecast period due to increased treatment capacity and increased referrals from LACDMH programs. Management assumes that the new child/adolescent inpatient beds, which will become operational on July 1, 2027, will ramp-up in occupancy over a three-year period: 50% of the new beds occupied by FYE 2027; 75% by FYE 2028; and 90% by FYE 2029.

Management conservatively assumes the new beds will achieve no greater than 90% occupancy. Additionally, management projects that adult census will increase beginning in FY 2025 due to a new contract with the Los Angeles County Office of Diversion and Reentry to provide inpatient treatment services to patients being diverted from correctional facilities that require mental health treatment. These assumptions collectively result in an increase in discharges and patient days throughout the forecast period, largely due to the increase in treatment capacity created by the new 37-bed patient wing. This growth is estimated to result in a total occupancy rate of 89.3% by the end of the forecast period.

As shown above, the Hospital has averaged 39.5 inpatients over the last three years. This is approximately 72% of its total capacity of 55 beds. One reason for the relatively low historical occupancy percentage was that during the COVID-19 pandemic, a greater share of their patients was seen in the emergency department. In addition, they are expecting an increase in the number of referrals from a new program called “Home Team” focused on the homeless population. Lastly, the Corporation is trying to serve the adolescent population before they enter adulthood. The Corporation expects the census to grow and eventually reach 89% in FY 2029 with the addition of the 37 beds. In conclusion, these additional outreaches and contracts, combined with greater demand, support a forecast of 89% by FY29; hence, this projection is reasonable.

The Corporation’s management projects that ancillary service utilization will generally increase throughout the forecast period due to growth of the service area population base, expansion of services and treatment capacity at the hospital, and increase referrals from inpatient programs.

<u>Revenue Assumptions:</u>
The Corporation’s two main revenue sources are LACDMH and DSH which represent 90% of FY2025 total revenue.

The Corporation is currently under contract with LACDMH to provide inpatient, residential, and outpatient services. The current LACDMH contracts represent roughly 71% of the Corporation’s total revenue and run until June 2027 and thereafter renews every 3 years. The Corporations partnership with LACDMH is over 30 years and since then the LACDMH contract has always been renewed and funding has only increased.

LACDMH is funded from different sources which will be discussed further below:

The LACDMH funding consists of Los Angeles County General and Realignment Funds, and these funds come from property tax, sales tax, tobacco tax and other general sources of revenue. Realignment funds are state funds that were reassigned, most recently in 2011, to individual counties to fund county services including mental health. Portions of Los Angeles County general and realignment funds consist of monies received in the form of Medi-Cal reimbursements. These funds are not significantly affected by federal or state cuts to Medi-Cal as they are dependent on property values and overall commercial activity in LA County. Property tax income is resilient to changes in property values due to Proposition 13, which limits property value changes.

A second component of the LACDMH funds comes from Proposition 63 also known as The Los Angeles County Mental Health Services Act (MHSA). These funds arise from an income tax of 1% of personal incomes in excess of one million dollars. These funds can only be used for mental health services and may not be used for other LA County services. As such, LA County has the incentive to use these funds for mental health services, or they go unused.

The third component of these funds is in the form of Medi-Cal matching. The Corporation is anticipating that it will receive $1.5M in Medi-Cal funding from LA County general and realignment fund and $3.82M from its MHSA funds. This funding is at risk of potentially being reduced or cut but is mitigated by the fact that this revenue stream only represents 7.3% of the Corporation's total annual revenue. If the potential funding cut is enacted, the Corporation anticipates this funding will be replaced by funds from LA County General or Realignment Funds because the Corporation is a critical provider of services to this high-risk population. This is what occurred during the Great Recession in 2009 through 2013. Despite the overall LA County budget being reduced, the Corporation did not see a significant reduction in revenues. The Department asked that the Feasibility Study include a scenario where the Corporation would experience elimination of in Medi-Cal funding described above. Under this scenario, the Corporation would experience a 7.3% cut in total revenue combined with a 3.0% increase in total expenses resulting in a lower DSCR; however, no single year drops below financial covenant. While possible, this scenario is highly unlikely.

The fourth component of LA County funding comes from categorical funds. These funds are paid under the general and realignment funds or MHSA funds and are earmarked money specifically for certain services. They will receive approximately $1.1M in categorical funds from general and realignment and $0.26M from MHSA funds. None of these funds are affected by Medi-Cal funding cuts.

As stated above, the second major source of the Corporation’s funding comes from DSH for the provision of forensic services in the Conditional Release Program. Patients in this program are treated under mandate by a judge in criminal or civil court. The Corporation expects to receive $14M for the fiscal year 2026 and is not anticipating any budget cuts since the DSH monies is a special line item in the California State Budget, and none of this funding is from Medi-Cal or federal sources.

Total revenue is projected to increase from $63.7 million in FYE 2025 to $92.5 million in FYE 2029. LACDMH is the Corporation’s main revenue source and provides 79% of their total revenue. DSH is their second main revenue source and provides 10% of their total revenue. The remaining 10% of total revenue consists of payments by private pay clients, contributions, and grants.

The majority of the Corporation’s net revenue is generated through four main services which include hospital inpatient (51%), outpatient (15%), residential (14%) and forensic programs (20%).

Hospital inpatient services are provided to adolescents and adults and are reimbursed for two service components including a daily bed rate, based on bed type, and a fee for professional services based on provider type. The Corporation has 42 daily beds, 8 murphy beds, and 5 beds for the Office of Diversion and Reentry and are reimbursed based on published rates issued by LACDMH. Professional fees for all patients are reimbursed based on the number of hours provided by each provider type. A 3% increase is forecasted for all inpatient services beginning in 2028 and will remain at that rate for the remainder of the forecasted period. Inpatient service revenue is projected to increase from $31.4 million in 2025 to $56.2 million in 2029 due to the additional 37 adolescent inpatient beds.

Since July 1, 2023, DHCS implemented the California Advancing and Innovation Medi-Cal (CalAIM) Behavioral Health Payment Reform initiative which changed the reimbursement methodology for hospital inpatient services from a cost-based system to a fee-for-service system. As mandated by the Centers for Medicare & Medicaid Services (CMS), service providers, including the Corporation, use a payment structure pursuant to a contract. While possible to go back to a cost-based system it is very unlikely and would be a lengthy and costly process as it would require California legislation to repeal the CalAIM Reform bill. Furthermore, any repeals and amendments would have to be approved by the Governor. The Corporation does not anticipate a reversal to the prior payment system.

Outpatient services for patients are reimbursed from a fee schedule based on the number of visits provided by type. The main funding source is LACDMH. Rates are forecasted to increase 1% annually beginning in 2026. Outpatient service revenue is projected to increase from $9.6 million in 2025 to $10.6 million in 2029.

Residential services are provided at three of the Corporations' locations and are funded by LACDMH. Rates are forecasted to increase 1% annually beginning in 2026. Residential service revenue is projected to increase from $8.8 million in 2025 to $9.7 million in 2029.

Forensic services are provided to individuals in the criminal justice system. The Corporation has contracts with San Diego and Los Angeles Counties and negotiated annually. During the forecast period, the San Diego contracted is forecasted to increase 2.7% annually beginning in 2027, the Los Angeles contract is forecasted to increase 2.5% annually beginning in 2027. Forensic service revenue is projected to increase from $12.4 million in 2025 to $13.8 million in 2029.

Potential Federal and State Funding Changes:

Portions of the MHSA funding allocation consists of monies received as Medi-Cal reimbursement which may be impacted by Medi-Cal cuts or the One Big Beautiful Bill Act (OBBBA). The Corporation does not anticipate any revenue cuts to the LACDMH funding, and even if cuts were made to the MHSA monies, the Corporation's focus on individuals with serious mental illness would trigger protections enacted in 2024 under Proposition 1 which prioritizes services and support to persons who suffer from serious mental health behaviors.

The current enactment of the OBBBA on July 4, 2025, may impact healthcare providers, but these proposed initiatives are in the early stages of implementation. As mentioned previously, the Corporation derives only 7.3% of its total revenue from Medi-Cal matching, which would be the most likely to be cut under OBBBA. The Corporation would suffer minimal reduction in revenue if the full OBBBA cuts were implemented for Medi-Cal matching. The other funding provided by LACDMH cannot be cut as they are earmarked for mental and behavioral health and not affected by OBBBA cuts. Proposed changes to these payment methodologies are not always available; however, the Corporation has been a committed partner of LACDMH since the early 1990s and has served as a key mental health provider in Service Area 4 of Los Angeles. While the Corporation remains a strong and reliable service partner, there is no guarantee that fee rates will remain unchanged indefinitely. As mentioned above, reverting to the prior cost reimbursement methodology is highly unlikely as it would require full California State Authority. Compliance with such laws and regulations will be subject to future governmental review and interpretation as well as significant regulatory action including fines and penalties.

Revenue contracts are negotiated at regular intervals with the applicable state or county organization, with only the Corporation's contract with the DSH requiring annual renewals. In all cases, the Corporation believes that all such contracts will be renewed without any material changes or delays as they become subject to renewal. The Corporation does not derive any direct revenue from either Medicare or Medicaid. However, pursuant to certain contracts, the Corporation must maintain an active Medicare/Medi-Cal provider number. Accordingly, the Corporation is subject to inspections and audits from time-to-time by Medicare and/or Medi-Cal to maintain its active provider status. The Corporation believes that it will continue to pass any such audits and/or inspections without incident.

Expense Assumptions:
Total operating expenses are forecast to increase from $55.6 million in FYE 2025 to $84.2 million in FYE 2029, which represents an average annual increase of 13%. Total expenses consist of operational expenses at the hospital and ARFs, and mainly consist of salaries, employee benefits, professional fees, purchased services, and supplies. The operating expense assumption is lower than the historical 14 - 15% increases experienced by the Corporation, and based on this analysis, the 13% annual increase over the four years as operations continue to ramp up is considered reasonable. The Corporation has forecasted operating expenses based on certain inflationary increases and staffing levels. If the inflationary increases are higher than is forecasted or if staffing levels increase, operating expenses will be affected.

Financial Covenant Ratio:
The following summarizes the financial covenant ratio projection included in the Feasibility Study. The DSCR will be greater than 3.0x and the DCOH will be at greater than 177 days throughout the projection period.

Base Case - Financial Covenant Ratio Projection **Fiscal Year Ending June 30**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt Service Coverage Ratio	7.53	3.47	4.41	3.74	4.11
Days Cash on Hand	177	215	240	256	284

Sensitivity Analysis:
The Feasibility Study included four sensitivity scenarios to stress test the projected financial performance between FYE 2025 and 2029.

Scenario 1 – Reduction in patient days at the new adolescent center to 60% occupancy rate by 2029.
Under this scenario, the Corporations occupany rate at the new adolescent center would reach 60% versus the 90% projected by 2029. The lower occupany would cause a reduction in revenue from adolescent behavior programs beginning in FYE 2027 through FYE 2029 by 24%, 35% and 42% respectively. There is slight changes to revenue and expense assumptions which will have minor affects on DSCR and DCOH.

Scenario 1 - Lower Occupancy (60%) **Fiscal Year Ending June 30**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt Service Coverage Ratio	7.53	3.47	3.77	3.06	3.14
Days Cash on Hand	177	215	237	248	264

Scenario 2 – Maintain Current Rates for Forensic Services
Under this scenario, revenue from forensic services is not increased as negotiated. This has the slight effect of lowering DSCR by varying percentages up to 8% by 2029. DCOH is not materially relevant.

Scenario 2 - Maintain Current Rates - Forensic Services **Fiscal Year Ending June 30**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt Service Coverage Ratio	7.50	3.42	4.27	3.53	3.80
Days Cash on Hand	177	214	237	250	273

Scenario 3 – Higher Interest Rates of 1%
Similar to Scenario 3, this increase in interest rate has the effect of lowering the DSCR and DCOH more significantly. The resulting ratio values is lower by 15% and DCOH is lower by an average of 4% over the projected years.

Scenario 3 - Higher Interest Rates of 1% **Fiscal Year Ending June 30**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt Service Coverage Ratio	7.53	2.99	3.73	3.19	3.51
Days Cash on Hand	177	210	232	245	271

Scenario 4 – A Reduction of 7.3% in net patient service revenue combined with a 3.0% increase in operating expenses excluding depreciation and interest expense
Similar to Scenario 3, this scenario has the effect of lowering the DSCR and DCOH more significantly. The resulting ratio values are significantly lower yet the covenant values remain met over the projected years.

Scenario 4 – Lower Net Patient Service Revenue and Higher Operating Expense **Fiscal Year Ending June 30**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt Service Coverage Ratio	3.30	1.34	2.06	1.41	1.55
Days Cash on Hand	138	137	131	118	113

Staff Analysis:
As identified in the Feasibility Study, the base case DSCR and DCOH are forecast to exceed the 1.25x DSCR and the 30 DCOH covenant requirements. The revenue assumptions are more conservative than historical increases or amounts, unless otherwise noted, and seem reasonable.

In the opinion of this account manager, this project is financially feasible based on the historical, current financial performance, combined with growth assumptions used in the economic forecast, which demonstrates the capacity for the debt, and the current and future community benefits of the Corporation. Until October 2024, the Corporation was in the Department's portfolio of borrowers and demonstrated a history of timely debt payments and consistent financial reporting. The Corporation operated at a profit for every year except for 2019 and 2020.

Strengths and Weaknesses:

Strengths:
1. Experienced Management: The CEO has been with the Corporation since 1992, and the CFO joined the Corporation in 2018. Both are highly knowledgeable in finance and governmental reimbursements.

2. Financial Performance: The Corporation has historically been strong financially. In the last four years they have far exceeded the financial covenants. In addition, the feasibility study forecasts that the Corporation will be able to meet debt service and days cash on hand covenants.

3. Reputation: The Corporation is well respected in the greater Los Angeles area and has been providing mental health services for over 70 years.

4. Equity Contribution: The Corporation will invest over $19M million in pre-development and development costs leveraging a Behavioral Health Continuum Program (BHCIP) grant and will not request any reimbursement, which demonstrates its vested interest in the success of the Project.

Weaknesses:
1. Government Revenues: Approximately 80% of the Corporation's revenue is received from the government. Changes in legislation or reduced mental health funding would negatively impact the Corporation. If this were to happen the Corporation would be forced to reduce services that were not covered by the government.

   Mitigation: The Corporation has been operating in the community for over seventy years and has strong relationships with hospitals and mental health clinics in the local community. There are still great unmet needs for mental health services in the communities where the Corporation operates. The Corporation has said potential funding cuts would be replaced with additional grant funding opportunities under the BHCIP Program, Proposition 1 funding, LA County general and realignment funds or MHSA program funds. The debt service coverage ratio is projected to be over 2.5x throughout the forecast period, and it provides a safety cushion to meet debt service if revenue from governmental sources is reduced.

2. Healthcare Reform: Future unknown changes could negatively affect the Corporation, and state and federal budgets are presenting uncertainties.

   Mitigation: The Corporation has proven to be a financially viable organization with a long-track record of stable financial performance.

Recommendation:
I recommend that the Department issue a commitment for six months to insure a loan to the Corporation not to exceed $57,000,000 in fixed-rate bonds, for the above-described project with the following conditions:

A. The Department shall receive a security interest in the Corporation's real and personal property, secured through by fixture filings, first deeds of trust, UCC-1s, and a gross revenue pledge including Deposit Account Control Agreement and Securities Account Control Agreement covering said property of the Corporation.

B. The Department shall 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 the Department.

C. The proposed services to be provided as a part of this project and the structure of the transaction shall not differ from those set forth in the Feasibility Study dated April 8, 2025, the Application for Loan Insurance, the project description and scope except as agreed by the Department.

D. The loan shall have a term not to exceed 30 years from the date of the loan or 75% of the estimated economic useful life of the Corporation's real property. Principal amortization of the loan shall begin on June 1, 2026. The no-call period, if any, shall not extend beyond the first eight years of the loan; whereafter, 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 the Department.

E. Within 90 days from the date of the Department'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 the Department's latest form of each with such changes as may be required by the Department.

G. The Regulatory Agreement shall contain provisions that the Corporation shall maintain the following:
   1. A current ratio of at least 1.5 to 1.0, beginning in Fiscal Year (FYE) 2026 and thereafter, as determined by the annual audited financial statements.

2. A non-restricted cash balance equal to at least 30 Days Cash on Hand beginning in FYE 2026 and thereafter, as determined by the annual audited financial statements.
3. A debt service coverage ratio of at least 1.25 to 1.00, beginning in FYE 2026 and thereafter, as determined by the annual audited financial statements.

H. Prior to the sale or pricing of the Bonds, the Department 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 the Department.

3. Proforma title report for issuance of ALTA Lender's title policy (6-17-06), or other form acceptable to the Department, with exceptions to title acceptable to the Department and with the Department designated as a beneficiary and in an amount equal to the bond par amount, with the following endorsements:
   1. CLTA 100.2-06, or ALTA 9-06 (Restrictions, Encroachments, Minerals)
   2. CLTA 103.1-06/103.2-06/103.3-06/103.4-06, or ALTA 28-06 (Easement)
   3. CLTA 103.11-06/103.12-06, or ALTA 17-06/17.1-06 (Access and Entry)
   4. CLTA 116.02-06, or ALTA 22.1-06 (Location and Map)
   5. CLTA 116.4.1-06, or ALTA 19-06 (Contiguity – Multiple Parcels)
   6. CLTA 123.1-06/123.2-06, or ALTA 3-06/3.1-06 (Zoning)
   7. ALTA Endorsement 33.06 and 32.2-06 (Construction)

   The Department may require additional endorsements and forms.

4. Evidence that the Corporation's insurance coverage is in effect for work in progress or work to be performed, or of a commitment to provide such insurance coverage before improvement work begins:
   a. Statutory worker's compensation and employer's liability.
   b. Bodily injury and property damage liability.
   c. Builder's Risk.
   d. Such other insurance as is required in the Regulatory Agreement.

5. As construction is part of this project:
   a. A certification from the architect that (1) the final set of the architectural plans and (2) the construction materials outline specifications for the entire project are complete and available to the Department upon request.
   b. A Copy of the construction contract to be executed, based upon final approved architectural plans, with a fixed limit of construction cost (not-to-exceed price or guaranteed maximum price) for the entire project.

c. Copies of all building permits and governmental agency approvals required for the project.

6. Updates, if any, to the Financial Feasibility Study, which must be acceptable to the Department.

7. A satisfactory copy of the Deposit Account Control Agreement ready for signatures.

8. Documents indicating that any other conditions required by the Advisory Loan Insurance Committee and the Director of the Department have been satisfied.

I. Prior to the sale or pricing of the Bonds there shall be 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, salaries, 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.

J. Prior to closing of the loan insured by the Department, the Department shall receive copies of the following:

1. Copies of the final (a) Sources and Uses of Funds and (b) Debt Service Schedule after the Bonds have been priced.

2. As construction is a part of this project:
   a. Copy of the executed construction contract, including all amendments or additions thereto, and all correspondence between the contractor and the Corporation.
   b. Evidence of the Corporation's fire and extended coverage for all work performed under contract and other improvements on the site against loss or damage to the extent of replacement value covered by the standard extended coverage insurance endorsement. The policies shall include a standard mortgage clause making any loss payable to the mortgagee and the Department as their interest may appear.
   c. Evidence of payment, performance, and material man's bonds in the amount of the construction contract for all contractors and subcontractors.

K. At the loan closing, the Department shall receive an ALTA Loan Title Policy (6-17-06), (or other Form acceptable to the Office), with the Department designated as a beneficiary in an amount equal to the Bonds with the endorsements described above or others as may be required by the Department.

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Arne Bracchi

Arne Bracchi, Account Manager

Date: August 5, 2025

I approve the above recommendation.

Consuelo Hernandez

Consuelo Hernandez,
Supervisor

Date: August 5, 2025

I approve the above recommendation

Dean O'Brien

Dean O'Brien, Deputy Director

Date: August 5, 2025

* *

On this, August 5, 2025, the Account Manager emailed a copy of the foregoing approved Project Summary & Feasibility Analysis (PSFA) to the Applicant, Supervisor, Deputy Director, and the Department's Attorney.

Arne Bracchi

Arne Bracchi, Account Manager

* *

On this, August 5, 2025, the Account Manager contacted Phil Wong, CEO, Gateways Hospital and Mental Health Center, who stated to the Account Manager that the Corporation (1) except for minor corrections, acknowledged all the facts as presented in this PSFA; (2) agreed to all the representations in this PSFA; and (3) agreed to all of the conditions contained in this PSFA.

Arne Bracchi

Arne Bracchi, Account Manager

* *

<u>Advisory Loan Insurance Committee Action</u>:

Date of meeting: August 14, 2025

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

The Motion was <u>approved</u> with all in favor and zero opposed. Committee Member(s) ________________ were absent from the meeting.

Exhibit A: Proposed Bond Model

Sources and Uses of Funds

Gateways Hospital and Mental Health Centers

2025 Insured Revenue Bonds

Dated Date	8/23/2025
Delivery Date	8/23/2025

Sources:		Construction Proceeds	Non-Construction Proceeds	Total
Bond Proceeds:				
	Par Amount	29,395,000.00	26,375,000.00	55,770,000.00
	Net Premium/OID	443,078.15	991,515.40	1,434,593.55
		29,838,078.15	27,366,515.40	57,204,593.55
Other Sources of Funds:				
	Grant Funding	19,256,659.00		19,256,659.00
		49,094,737.15	27,366,515.40	76,461,252.55

Uses:		Construction Proceeds	Non-Construction Proceeds	Total
Project Fund Deposits:				
	Construction	43,596,496.00		43,596,496.00
	2 Cottages in Escrow		4,100,000.00	4,100,000.00
	Refinance Bank of California		21,000,000.00	21,000,000.00
		43,596,496.00	25,100,000.00	68,696,496.00
Other Fund Deposits:				
	Capitalized Interest Fund	2,972,161.11		2,972,161.11
	Debt Service Reserve Fund	973,706.08	873,668.92	1,847,375.00
		3,945,867.19	873,668.92	4,819,536.11
Delivery Date Expenses:				
	Cost of Issuance	247,725.48	222,274.52	470,000.00
	Underwriter's Discount	87,009.20	78,070.00	165,079.20
	Bond Insurance (1.9%)	1,098,983.69	986,075.68	2,085,059.37
	Certificate and Inspection Fee (0.4%)	117,580.00	105,500.00	223,080.00
		1,551,298.37	1,391,920.20	2,943,218.57
Other Uses of Funds:				
	Additional Proceeds	1,075.59	926.28	2,001.87
		49,094,737.15	27,366,515.40	76,461,252.55

Bond Summary Statistics
Gateways Hospital and Mental Health Centers
2025 Insured Revenue Bonds

Dated Date	8/23/2025
Delivery Date	8/23/2025
First Coupon	3/1/2026
Last Maturity	9/1/2055
Arbitrage Yield	5.106452%
True Interest Cost (TIC)	5.126695%
Net Interest Cost (NIC)	4.882387%
All-In TIC	5.236734%
Average Coupon	5.000000%
Average Life (years)	19.354
Weighted Average Maturity (years)	19.137
Duration of Issue (years)	11.869
Par Amount	55,770,000.00
Bond Proceeds	57,204,593.55
Total Interest	53,969,966.67
Net Interest	52,700,452.32
Bond Years from Dated Date	1,079,399,333.33
Bond Years from Delivery Date	1,079,399,333.33
Total Debt Service	109,739,966.67
Maximum Annual Debt Service	3,694,750.00
Average Annual Debt Service	3,655,291.27
Underwriter's Fees (per $1000)	
Average Takedown	
Other Fee	2.960000

Total Underwriter's Discount	2.960000
Bid Price	102.276339

Bond Component	Par Value	Price	Average Coupon	Average Life	Average Maturity Date	Duration	PV of 1 bp change
Serial Bond	22,455,000.00	106.932	5.000%	12.424	1/24/2038	9.484	16,649.65
Grant Term Bond	10,000,000.00	97.123	5.000%	19.599	3/29/2045	11.936	14,700.00
Term Bond 50	10,235,000.00	101.020	5.000%	23.119	10/5/2048	13.989	8,085.65
Term Bond 55	13,080,000.00	100.468	5.000%	28.119	10/5/2053	15.405	10,202.40
	55,770,000.00			19.354			49,637.70

	TIC	All-In TIC	Arbitrage Yield
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Par Value	55,770,000.00	55,770,000.00	55,770,000.00
+ Accrued Interest			
+ Premium (Discount)	1,434,593.55	1,434,593.55	1,434,593.55
- Underwriter's Discount	-165,079.20	-165,079.20	
- Cost of Issuance Expense		-470,000.00	
- Other Amounts	-2,085,059.37	-2,308,139.37	-2,085,059.37

Bond Summary Statistics
Gateways Hospital and Mental Health Centers
2025 Insured Revenue Bonds

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Target Value	54,954,454.98	54,261,374.98	55,119,534.18
Target Date	8/23/2025	8/23/2025	8/23/2025
Yield	5.126695%	5.236734%	5.106452%

Bond Pricing

Gateways Hospital and Mental Health Centers

2025 Insured Revenue Bonds

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Yield to Maturity	Call Date	Call Price	Premium (-Discount)
Serial Bond:									
	9/1/2026	370,000	5.000%	2.740%	102.262				8,369.40
	9/1/2027	415,000	5.000%	2.780%	104.335				17,990.25
	9/1/2028	775,000	5.000%	2.820%	106.272				48,608.00
	9/1/2029	810,000	5.000%	2.860%	108.075				65,407.50
	9/1/2030	850,000	5.000%	2.960%	109.454				80,359.00
	9/1/2031	890,000	5.000%	3.090%	110.421				92,746.90
	9/1/2032	935,000	5.000%	3.230%	111.040				103,224.00
	9/1/2033	980,000	5.000%	3.320%	111.746				115,110.80
	9/1/2034	1,030,000	5.000%	3.490%	111.600				119,480.00
	9/1/2035	1,085,000	5.000%	3.660%	111.156				121,042.60
	9/1/2036	1,140,000	5.000%	3.810%	109.835 C	3.894%	9/1/2035	100.000	112,119.00
	9/1/2037	1,195,000	5.000%	3.910%	108.965 C	4.051%	9/1/2035	100.000	107,131.75
	9/1/2038	1,255,000	5.000%	4.020%	108.017 C	4.195%	9/1/2035	100.000	100,613.35
	9/1/2039	1,315,000	5.000%	4.120%	107.164 C	4.314%	9/1/2035	100.000	94,206.60
	9/1/2040	1,385,000	5.000%	4.230%	106.236 C	4.427%	9/1/2035	100.000	86,368.60
	9/1/2041	1,450,000	5.000%	4.340%	105.316 C	4.530%	9/1/2035	100.000	77,082.00
	9/1/2042	1,525,000	5.000%	4.460%	104.324 C	4.630%	9/1/2035	100.000	65,941.00
	9/1/2043	1,600,000	5.000%	4.590%	103.263 C	4.729%	9/1/2035	100.000	52,208.00
	9/1/2044	1,680,000	5.000%	4.650%	102.777 C	4.776%	9/1/2035	100.000	46,653.60
	9/1/2045	1,770,000	5.000%	4.700%	102.374 C	4.814%	9/1/2035	100.000	42,019.80
		22,455,000							1,556,682.15
Term Bond 50:									
	9/1/2046	1,855,000	5.000%	4.870%	101.020 C	4.929%	9/1/2035	100.000	18,921.00
	9/1/2047	1,945,000	5.000%	4.870%	101.020 C	4.929%	9/1/2035	100.000	19,839.00
	9/1/2048	2,040,000	5.000%	4.870%	101.020 C	4.929%	9/1/2035	100.000	20,808.00
	9/1/2049	2,145,000	5.000%	4.870%	101.020 C	4.929%	9/1/2035	100.000	21,879.00
	9/1/2050	2,250,000	5.000%	4.870%	101.020 C	4.929%	9/1/2035	100.000	22,950.00
		10,235,000							104,397.00
Term Bond 55:									
	9/1/2051	2,365,000	5.000%	4.940%	100.468 C	4.970%	9/1/2035	100.000	11,068.20
	9/1/2052	2,490,000	5.000%	4.940%	100.468 C	4.970%	9/1/2035	100.000	11,653.20
	9/1/2053	2,610,000	5.000%	4.940%	100.468 C	4.970%	9/1/2035	100.000	12,214.80
	9/1/2054	2,740,000	5.000%	4.940%	100.468 C	4.970%	9/1/2035	100.000	12,823.20
	9/1/2055	2,875,000	5.000%	4.940%	100.468 C	4.970%	9/1/2035	100.000	13,455.00
		13,080,000							61,214.40
Grant Term Bond:									
	9/1/2028	170,000	5.000%	5.190%	97.123				-4,890.90
	9/1/2029	180,000	5.000%	5.190%	97.123				-5,178.60
	9/1/2030	190,000	5.000%	5.190%	97.123				-5,466.30
	9/1/2031	200,000	5.000%	5.190%	97.123				-5,754.00
	9/1/2032	210,000	5.000%	5.190%	97.123				-6,041.70
	9/1/2033	220,000	5.000%	5.190%	97.123				-6,329.40
	9/1/2034	230,000	5.000%	5.190%	97.123				-6,617.10
	9/1/2035	240,000	5.000%	5.190%	97.123				-6,904.80
	9/1/2036	255,000	5.000%	5.190%	97.123				-7,336.35
	9/1/2037	265,000	5.000%	5.190%	97.123				-7,624.05

Bond Pricing
Gateways Hospital and Mental Health Centers
2025 Insured Revenue Bonds

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Yield to Maturity	Call Date	Call Price	Premium (-Discount)
	9/1/2038	280,000	5.000%	5.190%	97.123				-8,055.60
	9/1/2039	295,000	5.000%	5.190%	97.123				-8,487.15
	9/1/2040	305,000	5.000%	5.190%	97.123				-8,774.85
	9/1/2041	325,000	5.000%	5.190%	97.123				-9,350.25
	9/1/2042	340,000	5.000%	5.190%	97.123				-9,781.80
	9/1/2043	355,000	5.000%	5.190%	97.123				-10,213.35
	9/1/2044	375,000	5.000%	5.190%	97.123				-10,788.75
	9/1/2045	390,000	5.000%	5.190%	97.123				-11,220.30
	9/1/2046	410,000	5.000%	5.190%	97.123				-11,795.70
	9/1/2047	430,000	5.000%	5.190%	97.123				-12,371.10
	9/1/2048	455,000	5.000%	5.190%	97.123				-13,090.35
	9/1/2049	475,000	5.000%	5.190%	97.123				-13,665.75
	9/1/2050	500,000	5.000%	5.190%	97.123				-14,385.00
	9/1/2051	525,000	5.000%	5.190%	97.123				-15,104.25
	9/1/2052	550,000	5.000%	5.190%	97.123				-15,823.50
	9/1/2053	580,000	5.000%	5.190%	97.123				-16,686.60
	9/1/2054	610,000	5.000%	5.190%	97.123				-17,549.70
	9/1/2055	640,000	5.000%	5.190%	97.123				-18,412.80
		10,000,000							-287,700.00
		55,770,000							1,434,593.55

Dated Date	8/23/2025	
Delivery Date	8/23/2025	
First Coupon	3/1/2026	
Par Amount	55,770,000.00	
Premium	1,434,593.55	

Production	57,204,593.55	102.572339%
Underwriter's Discount	-165,079.20	-0.296000%

Purchase Price	57,039,514.35	102.276339%
Accrued Interest		

Net Proceeds	57,039,514.35	

Bond Debt Service

Gateways Hospital and Mental Health Centers

2025 Insured Revenue Bonds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
3/1/2026			1,456,216.67	1,456,216.67	
9/1/2026	370,000	5.000%	1,394,250.00	1,764,250.00	3,220,466.67
3/1/2027			1,385,000.00	1,385,000.00	
9/1/2027	415,000	5.000%	1,385,000.00	1,800,000.00	3,185,000.00
3/1/2028			1,374,625.00	1,374,625.00	
9/1/2028	945,000	5.000%	1,374,625.00	2,319,625.00	3,694,250.00
3/1/2029			1,351,000.00	1,351,000.00	
9/1/2029	990,000	5.000%	1,351,000.00	2,341,000.00	3,692,000.00
3/1/2030			1,326,250.00	1,326,250.00	
9/1/2030	1,040,000	5.000%	1,326,250.00	2,366,250.00	3,692,500.00
3/1/2031			1,300,250.00	1,300,250.00	
9/1/2031	1,090,000	5.000%	1,300,250.00	2,390,250.00	3,690,500.00
3/1/2032			1,273,000.00	1,273,000.00	
9/1/2032	1,145,000	5.000%	1,273,000.00	2,418,000.00	3,691,000.00
3/1/2033			1,244,375.00	1,244,375.00	
9/1/2033	1,200,000	5.000%	1,244,375.00	2,444,375.00	3,688,750.00
3/1/2034			1,214,375.00	1,214,375.00	
9/1/2034	1,260,000	5.000%	1,214,375.00	2,474,375.00	3,688,750.00
3/1/2035			1,182,875.00	1,182,875.00	
9/1/2035	1,325,000	5.000%	1,182,875.00	2,507,875.00	3,690,750.00
3/1/2036			1,149,750.00	1,149,750.00	
9/1/2036	1,395,000	5.000%	1,149,750.00	2,544,750.00	3,694,500.00
3/1/2037			1,114,875.00	1,114,875.00	
9/1/2037	1,460,000	5.000%	1,114,875.00	2,574,875.00	3,689,750.00
3/1/2038			1,078,375.00	1,078,375.00	
9/1/2038	1,535,000	5.000%	1,078,375.00	2,613,375.00	3,691,750.00
3/1/2039			1,040,000.00	1,040,000.00	
9/1/2039	1,610,000	5.000%	1,040,000.00	2,650,000.00	3,690,000.00
3/1/2040			999,750.00	999,750.00	
9/1/2040	1,690,000	5.000%	999,750.00	2,689,750.00	3,689,500.00
3/1/2041			957,500.00	957,500.00	
9/1/2041	1,775,000	5.000%	957,500.00	2,732,500.00	3,690,000.00
3/1/2042			913,125.00	913,125.00	
9/1/2042	1,865,000	5.000%	913,125.00	2,778,125.00	3,691,250.00
3/1/2043			866,500.00	866,500.00	
9/1/2043	1,955,000	5.000%	866,500.00	2,821,500.00	3,688,000.00
3/1/2044			817,625.00	817,625.00	
9/1/2044	2,055,000	5.000%	817,625.00	2,872,625.00	3,690,250.00
3/1/2045			766,250.00	766,250.00	
9/1/2045	2,160,000	5.000%	766,250.00	2,926,250.00	3,692,500.00
3/1/2046			712,250.00	712,250.00	
9/1/2046	2,265,000	5.000%	712,250.00	2,977,250.00	3,689,500.00
3/1/2047			655,625.00	655,625.00	
9/1/2047	2,375,000	5.000%	655,625.00	3,030,625.00	3,686,250.00
3/1/2048			596,250.00	596,250.00	
9/1/2048	2,495,000	5.000%	596,250.00	3,091,250.00	3,687,500.00

3/1/2049			533,875.00	533,875.00	
9/1/2049	2,620,000	5.000%	533,875.00	3,153,875.00	3,687,750.00
3/1/2050			468,375.00	468,375.00	
9/1/2050	2,750,000	5.000%	468,375.00	3,218,375.00	3,686,750.00

Bond Debt Service

Gateways Hospital and Mental Health Centers

2025 Insured Revenue Bonds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
3/1/2051			399,625.00	399,625.00	
9/1/2051	2,890,000	5.000%	399,625.00	3,289,625.00	3,689,250.00
3/1/2052			327,375.00	327,375.00	
9/1/2052	3,040,000	5.000%	327,375.00	3,367,375.00	3,694,750.00
3/1/2053			251,375.00	251,375.00	
9/1/2053	3,190,000	5.000%	251,375.00	3,441,375.00	3,692,750.00
3/1/2054			171,625.00	171,625.00	
9/1/2054	3,350,000	5.000%	171,625.00	3,521,625.00	3,693,250.00
3/1/2055			87,875.00	87,875.00	
9/1/2055	3,515,000	5.000%	87,875.00	3,602,875.00	3,690,750.00
	55,770,000		53,969,966.67	109,739,966.67	109,739,966.67

Net Debt Service
Gateways Hospital and Mental Health Centers
2025 Insured Revenue Bonds

Date	Principal	Coupon	Interest	Total Debt Service	Capitalized Interest Fund	Debt Service Reserve Fund	Net Debt Service	Annual Net D/S
3/1/2026			1,456,216.67	1,456,216.67	767,536.11		688,680.56	
9/1/2026	370,000	5.000%	1,394,250.00	1,764,250.00	734,875.00		1,029,375.00	1,718,055.56
3/1/2027			1,385,000.00	1,385,000.00	734,875.00		650,125.00	
9/1/2027	415,000	5.000%	1,385,000.00	1,800,000.00	734,875.00		1,065,125.00	1,715,250.00
3/1/2028			1,374,625.00	1,374,625.00			1,374,625.00	
9/1/2028	945,000	5.000%	1,374,625.00	2,319,625.00			2,319,625.00	3,694,250.00
3/1/2029			1,351,000.00	1,351,000.00			1,351,000.00	
9/1/2029	990,000	5.000%	1,351,000.00	2,341,000.00			2,341,000.00	3,692,000.00
3/1/2030			1,326,250.00	1,326,250.00			1,326,250.00	
9/1/2030	1,040,000	5.000%	1,326,250.00	2,366,250.00			2,366,250.00	3,692,500.00
3/1/2031			1,300,250.00	1,300,250.00			1,300,250.00	
9/1/2031	1,090,000	5.000%	1,300,250.00	2,390,250.00			2,390,250.00	3,690,500.00
3/1/2032			1,273,000.00	1,273,000.00			1,273,000.00	
9/1/2032	1,145,000	5.000%	1,273,000.00	2,418,000.00			2,418,000.00	3,691,000.00
3/1/2033			1,244,375.00	1,244,375.00			1,244,375.00	
9/1/2033	1,200,000	5.000%	1,244,375.00	2,444,375.00			2,444,375.00	3,688,750.00
3/1/2034			1,214,375.00	1,214,375.00			1,214,375.00	
9/1/2034	1,260,000	5.000%	1,214,375.00	2,474,375.00			2,474,375.00	3,688,750.00
3/1/2035			1,182,875.00	1,182,875.00			1,182,875.00	
9/1/2035	1,325,000	5.000%	1,182,875.00	2,507,875.00			2,507,875.00	3,690,750.00
3/1/2036			1,149,750.00	1,149,750.00			1,149,750.00	
9/1/2036	1,395,000	5.000%	1,149,750.00	2,544,750.00			2,544,750.00	3,694,500.00
3/1/2037			1,114,875.00	1,114,875.00			1,114,875.00	
9/1/2037	1,460,000	5.000%	1,114,875.00	2,574,875.00			2,574,875.00	3,689,750.00
3/1/2038			1,078,375.00	1,078,375.00			1,078,375.00	
9/1/2038	1,535,000	5.000%	1,078,375.00	2,613,375.00			2,613,375.00	3,691,750.00
3/1/2039			1,040,000.00	1,040,000.00			1,040,000.00	
9/1/2039	1,610,000	5.000%	1,040,000.00	2,650,000.00			2,650,000.00	3,690,000.00
3/1/2040			999,750.00	999,750.00			999,750.00	
9/1/2040	1,690,000	5.000%	999,750.00	2,689,750.00			2,689,750.00	3,689,500.00
3/1/2041			957,500.00	957,500.00			957,500.00	
9/1/2041	1,775,000	5.000%	957,500.00	2,732,500.00			2,732,500.00	3,690,000.00
3/1/2042			913,125.00	913,125.00			913,125.00	
9/1/2042	1,865,000	5.000%	913,125.00	2,778,125.00			2,778,125.00	3,691,250.00
3/1/2043			866,500.00	866,500.00			866,500.00	
9/1/2043	1,955,000	5.000%	866,500.00	2,821,500.00			2,821,500.00	3,688,000.00
3/1/2044			817,625.00	817,625.00			817,625.00	
9/1/2044	2,055,000	5.000%	817,625.00	2,872,625.00			2,872,625.00	3,690,250.00
3/1/2045			766,250.00	766,250.00			766,250.00	
9/1/2045	2,160,000	5.000%	766,250.00	2,926,250.00			2,926,250.00	3,692,500.00
3/1/2046			712,250.00	712,250.00			712,250.00	
9/1/2046	2,265,000	5.000%	712,250.00	2,977,250.00			2,977,250.00	3,689,500.00
3/1/2047			655,625.00	655,625.00			655,625.00	
9/1/2047	2,375,000	5.000%	655,625.00	3,030,625.00			3,030,625.00	3,686,250.00
3/1/2048			596,250.00	596,250.00			596,250.00	

9/1/2048	2,495,000	5.000%	596,250.00	3,091,250.00		3,091,250.00	3,687,500.00
3/1/2049			533,875.00	533,875.00		533,875.00	
9/1/2049	2,620,000	5.000%	533,875.00	3,153,875.00		3,153,875.00	3,687,750.00
3/1/2050			468,375.00	468,375.00		468,375.00	
9/1/2050	2,750,000	5.000%	468,375.00	3,218,375.00		3,218,375.00	3,686,750.00

Net Debt Service

Gateways Hospital and Mental Health Centers

2025 Insured Revenue Bonds

Date	Principal	Coupon	Interest	Total Debt Service	Capitalized Interest Fund	Debt Service Reserve Fund	Net Debt Service	Annual Net D/S
3/1/2051			399,625.00	399,625.00			399,625.00	
9/1/2051	2,890,000	5.000%	399,625.00	3,289,625.00			3,289,625.00	3,689,250.00
3/1/2052			327,375.00	327,375.00			327,375.00	
9/1/2052	3,040,000	5.000%	327,375.00	3,367,375.00			3,367,375.00	3,694,750.00
3/1/2053			251,375.00	251,375.00			251,375.00	
9/1/2053	3,190,000	5.000%	251,375.00	3,441,375.00			3,441,375.00	3,692,750.00
3/1/2054			171,625.00	171,625.00			171,625.00	
9/1/2054	3,350,000	5.000%	171,625.00	3,521,625.00			3,521,625.00	3,693,250.00
3/1/2055			87,875.00	87,875.00			87,875.00	
9/1/2055	3,515,000	5.000%	87,875.00	3,602,875.00		1,847,375	1,755,500.00	1,843,375.00
	55,770,000		53,969,966.67	109,739,966.67	2,972,161.11	1,847,375	104,920,430.56	104,920,430.56

Capitalized Interest Fund
Gateways Hospital and Mental Health Centers
2025 Insured Revenue Bonds

Date	Deposit	Interest	Principal	Scheduled Draws	Balance
8/23/2025	2,972,161.11				2,972,161.11
3/1/2026			767,536.11	767,536.11	2,204,625.00
9/1/2026			734,875.00	734,875.00	1,469,750.00
3/1/2027			734,875.00	734,875.00	734,875.00
9/1/2027			734,875.00	734,875.00	
	2,972,161.11		2,972,161.11	2,972,161.11	

Average Life (years):	1.2640
Arbitrage Yield:	5.1064521%
Value of Negative Arbitrage:	182,401.11

Debt Service Reserve Fund

Gateways Hospital and Mental Health Centers

2025 Insured Revenue Bonds

Date	Deposit	Interest	Principal	Debt Service	Balance
8/23/2025	1,847,375				1,847,375
9/1/2055			1,847,375	-1,847,375	
	1,847,375		1,847,375	-1,847,375	

Average Life (years):	30.0222
Arbitrage Yield:	5.1064521%
Value of Negative Arbitrage:	1,440,829.81

Bond Debt Service

Gateways Hospital and Mental Health Centers

Construction Proceeds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
3/1/2026			767,536.11	767,536.11	
9/1/2026			734,875.00	734,875.00	1,502,411.11
3/1/2027			734,875.00	734,875.00	
9/1/2027			734,875.00	734,875.00	1,469,750.00
3/1/2028			734,875.00	734,875.00	
9/1/2028	505,000	5.000%	734,875.00	1,239,875.00	1,974,750.00
3/1/2029			722,250.00	722,250.00	
9/1/2029	530,000	5.000%	722,250.00	1,252,250.00	1,974,500.00
3/1/2030			709,000.00	709,000.00	
9/1/2030	555,000	5.000%	709,000.00	1,264,000.00	1,973,000.00
3/1/2031			695,125.00	695,125.00	
9/1/2031	585,000	5.000%	695,125.00	1,280,125.00	1,975,250.00
3/1/2032			680,500.00	680,500.00	
9/1/2032	610,000	5.000%	680,500.00	1,290,500.00	1,971,000.00
3/1/2033			665,250.00	665,250.00	
9/1/2033	640,000	5.000%	665,250.00	1,305,250.00	1,970,500.00
3/1/2034			649,250.00	649,250.00	
9/1/2034	675,000	5.000%	649,250.00	1,324,250.00	1,973,500.00
3/1/2035			632,375.00	632,375.00	
9/1/2035	710,000	5.000%	632,375.00	1,342,375.00	1,974,750.00
3/1/2036			614,625.00	614,625.00	
9/1/2036	745,000	5.000%	614,625.00	1,359,625.00	1,974,250.00
3/1/2037			596,000.00	596,000.00	
9/1/2037	780,000	5.000%	596,000.00	1,376,000.00	1,972,000.00
3/1/2038			576,500.00	576,500.00	
9/1/2038	820,000	5.000%	576,500.00	1,396,500.00	1,973,000.00
3/1/2039			556,000.00	556,000.00	
9/1/2039	860,000	5.000%	556,000.00	1,416,000.00	1,972,000.00
3/1/2040			534,500.00	534,500.00	
9/1/2040	905,000	5.000%	534,500.00	1,439,500.00	1,974,000.00
3/1/2041			511,875.00	511,875.00	
9/1/2041	950,000	5.000%	511,875.00	1,461,875.00	1,973,750.00
3/1/2042			488,125.00	488,125.00	
9/1/2042	995,000	5.000%	488,125.00	1,483,125.00	1,971,250.00
3/1/2043			463,250.00	463,250.00	
9/1/2043	1,045,000	5.000%	463,250.00	1,508,250.00	1,971,500.00
3/1/2044			437,125.00	437,125.00	
9/1/2044	1,100,000	5.000%	437,125.00	1,537,125.00	1,974,250.00
3/1/2045			409,625.00	409,625.00	
9/1/2045	1,155,000	5.000%	409,625.00	1,564,625.00	1,974,250.00
3/1/2046			380,750.00	380,750.00	
9/1/2046	1,210,000	5.000%	380,750.00	1,590,750.00	1,971,500.00
3/1/2047			350,500.00	350,500.00	
9/1/2047	1,270,000	5.000%	350,500.00	1,620,500.00	1,971,000.00
3/1/2048			318,750.00	318,750.00	
9/1/2048	1,335,000	5.000%	318,750.00	1,653,750.00	1,972,500.00

3/1/2049			285,375.00	285,375.00	
9/1/2049	1,400,000	5.000%	285,375.00	1,685,375.00	1,970,750.00
3/1/2050			250,375.00	250,375.00	
9/1/2050	1,470,000	5.000%	250,375.00	1,720,375.00	1,970,750.00

Bond Debt Service

Gateways Hospital and Mental Health Centers

Construction Proceeds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
3/1/2051			213,625.00	213,625.00	
9/1/2051	1,545,000	5.000%	213,625.00	1,758,625.00	1,972,250.00
3/1/2052			175,000.00	175,000.00	
9/1/2052	1,625,000	5.000%	175,000.00	1,800,000.00	1,975,000.00
3/1/2053			134,375.00	134,375.00	
9/1/2053	1,705,000	5.000%	134,375.00	1,839,375.00	1,973,750.00
3/1/2054			91,750.00	91,750.00	
9/1/2054	1,790,000	5.000%	91,750.00	1,881,750.00	1,973,500.00
3/1/2055			47,000.00	47,000.00	
9/1/2055	1,880,000	5.000%	47,000.00	1,927,000.00	1,974,000.00
	29,395,000		28,819,661.11	58,214,661.11	58,214,661.11

Bond Pricing

Gateways Hospital and Mental Health Centers

Construction Proceeds

Bond Component	Maturity Date	Amount	Rate	Yield	Price		Yield to Maturity	Call Date	Call Price	Premium (-Discount)
Serial Bond:										
	9/1/2028	335,000	5.000%	2.820%	106.272					21,011.20
	9/1/2029	350,000	5.000%	2.860%	108.075					28,262.50
	9/1/2030	365,000	5.000%	2.960%	109.454					34,507.10
	9/1/2031	385,000	5.000%	3.090%	110.421					40,120.85
	9/1/2032	400,000	5.000%	3.230%	111.040					44,160.00
	9/1/2033	420,000	5.000%	3.320%	111.746					49,333.20
	9/1/2034	445,000	5.000%	3.490%	111.600					51,620.00
	9/1/2035	470,000	5.000%	3.660%	111.156					52,433.20
	9/1/2036	490,000	5.000%	3.810%	109.835	C	3.894%	9/1/2035	100.000	48,191.50
	9/1/2037	515,000	5.000%	3.910%	108.965	C	4.051%	9/1/2035	100.000	46,169.75
	9/1/2038	540,000	5.000%	4.020%	108.017	C	4.195%	9/1/2035	100.000	43,291.80
	9/1/2039	565,000	5.000%	4.120%	107.164	C	4.314%	9/1/2035	100.000	40,476.60
	9/1/2040	600,000	5.000%	4.230%	106.236	C	4.427%	9/1/2035	100.000	37,416.00
	9/1/2041	625,000	5.000%	4.340%	105.316	C	4.530%	9/1/2035	100.000	33,225.00
	9/1/2042	655,000	5.000%	4.460%	104.324	C	4.630%	9/1/2035	100.000	28,322.20
	9/1/2043	690,000	5.000%	4.590%	103.263	C	4.729%	9/1/2035	100.000	22,514.70
	9/1/2044	725,000	5.000%	4.650%	102.777	C	4.776%	9/1/2035	100.000	20,133.25
	9/1/2045	765,000	5.000%	4.700%	102.374	C	4.814%	9/1/2035	100.000	18,161.10
		9,340,000								659,349.95
Term Bond 50:										
	9/1/2046	800,000	5.000%	4.870%	101.020	C	4.929%	9/1/2035	100.000	8,160.00
	9/1/2047	840,000	5.000%	4.870%	101.020	C	4.929%	9/1/2035	100.000	8,568.00
	9/1/2048	880,000	5.000%	4.870%	101.020	C	4.929%	9/1/2035	100.000	8,976.00
	9/1/2049	925,000	5.000%	4.870%	101.020	C	4.929%	9/1/2035	100.000	9,435.00
	9/1/2050	970,000	5.000%	4.870%	101.020	C	4.929%	9/1/2035	100.000	9,894.00
		4,415,000								45,033.00
Term Bond 55:										
	9/1/2051	1,020,000	5.000%	4.940%	100.468	C	4.970%	9/1/2035	100.000	4,773.60
	9/1/2052	1,075,000	5.000%	4.940%	100.468	C	4.970%	9/1/2035	100.000	5,031.00
	9/1/2053	1,125,000	5.000%	4.940%	100.468	C	4.970%	9/1/2035	100.000	5,265.00
	9/1/2054	1,180,000	5.000%	4.940%	100.468	C	4.970%	9/1/2035	100.000	5,522.40
	9/1/2055	1,240,000	5.000%	4.940%	100.468	C	4.970%	9/1/2035	100.000	5,803.20
		5,640,000								26,395.20
Grant Term Bond:										
	9/1/2028	170,000	5.000%	5.190%	97.123					-4,890.90
	9/1/2029	180,000	5.000%	5.190%	97.123					-5,178.60
	9/1/2030	190,000	5.000%	5.190%	97.123					-5,466.30
	9/1/2031	200,000	5.000%	5.190%	97.123					-5,754.00
	9/1/2032	210,000	5.000%	5.190%	97.123					-6,041.70
	9/1/2033	220,000	5.000%	5.190%	97.123					-6,329.40
	9/1/2034	230,000	5.000%	5.190%	97.123					-6,617.10
	9/1/2035	240,000	5.000%	5.190%	97.123					-6,904.80
	9/1/2036	255,000	5.000%	5.190%	97.123					-7,336.35
	9/1/2037	265,000	5.000%	5.190%	97.123					-7,624.05
	9/1/2038	280,000	5.000%	5.190%	97.123					-8,055.60
	9/1/2039	295,000	5.000%	5.190%	97.123					-8,487.15

Bond Pricing
Gateways Hospital and Mental Health Centers
Construction Proceeds

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Yield to Maturity	Call Date	Call Price	Premium (-Discount)
	9/1/2040	305,000	5.000%	5.190%	97.123				-8,774.85
	9/1/2041	325,000	5.000%	5.190%	97.123				-9,350.25
	9/1/2042	340,000	5.000%	5.190%	97.123				-9,781.80
	9/1/2043	355,000	5.000%	5.190%	97.123				-10,213.35
	9/1/2044	375,000	5.000%	5.190%	97.123				-10,788.75
	9/1/2045	390,000	5.000%	5.190%	97.123				-11,220.30
	9/1/2046	410,000	5.000%	5.190%	97.123				-11,795.70
	9/1/2047	430,000	5.000%	5.190%	97.123				-12,371.10
	9/1/2048	455,000	5.000%	5.190%	97.123				-13,090.35
	9/1/2049	475,000	5.000%	5.190%	97.123				-13,665.75
	9/1/2050	500,000	5.000%	5.190%	97.123				-14,385.00
	9/1/2051	525,000	5.000%	5.190%	97.123				-15,104.25
	9/1/2052	550,000	5.000%	5.190%	97.123				-15,823.50
	9/1/2053	580,000	5.000%	5.190%	97.123				-16,686.60
	9/1/2054	610,000	5.000%	5.190%	97.123				-17,549.70
	9/1/2055	640,000	5.000%	5.190%	97.123				-18,412.80
		10,000,000							-287,700.00
		29,395,000							443,078.15

Dated Date	8/23/2025	
Delivery Date	8/23/2025	
First Coupon	3/1/2026	
Par Amount	29,395,000.00	
Premium	443,078.15	

Production	29,838,078.15	101.507325%
Underwriter's Discount	-87,009.20	-0.296000%

Purchase Price	29,751,068.95	101.211325%
Accrued Interest		

Net Proceeds	29,751,068.95	

Bond Debt Service
Gateways Hospital and Mental Health Centers
Non-Construction Proceeds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
3/1/2026			688,680.56	688,680.56	
9/1/2026	370,000	5.000%	659,375.00	1,029,375.00	1,718,055.56
3/1/2027			650,125.00	650,125.00	
9/1/2027	415,000	5.000%	650,125.00	1,065,125.00	1,715,250.00
3/1/2028			639,750.00	639,750.00	
9/1/2028	440,000	5.000%	639,750.00	1,079,750.00	1,719,500.00
3/1/2029			628,750.00	628,750.00	
9/1/2029	460,000	5.000%	628,750.00	1,088,750.00	1,717,500.00
3/1/2030			617,250.00	617,250.00	
9/1/2030	485,000	5.000%	617,250.00	1,102,250.00	1,719,500.00
3/1/2031			605,125.00	605,125.00	
9/1/2031	505,000	5.000%	605,125.00	1,110,125.00	1,715,250.00
3/1/2032			592,500.00	592,500.00	
9/1/2032	535,000	5.000%	592,500.00	1,127,500.00	1,720,000.00
3/1/2033			579,125.00	579,125.00	
9/1/2033	560,000	5.000%	579,125.00	1,139,125.00	1,718,250.00
3/1/2034			565,125.00	565,125.00	
9/1/2034	585,000	5.000%	565,125.00	1,150,125.00	1,715,250.00
3/1/2035			550,500.00	550,500.00	
9/1/2035	615,000	5.000%	550,500.00	1,165,500.00	1,716,000.00
3/1/2036			535,125.00	535,125.00	
9/1/2036	650,000	5.000%	535,125.00	1,185,125.00	1,720,250.00
3/1/2037			518,875.00	518,875.00	
9/1/2037	680,000	5.000%	518,875.00	1,198,875.00	1,717,750.00
3/1/2038			501,875.00	501,875.00	
9/1/2038	715,000	5.000%	501,875.00	1,216,875.00	1,718,750.00
3/1/2039			484,000.00	484,000.00	
9/1/2039	750,000	5.000%	484,000.00	1,234,000.00	1,718,000.00
3/1/2040			465,250.00	465,250.00	
9/1/2040	785,000	5.000%	465,250.00	1,250,250.00	1,715,500.00
3/1/2041			445,625.00	445,625.00	
9/1/2041	825,000	5.000%	445,625.00	1,270,625.00	1,716,250.00
3/1/2042			425,000.00	425,000.00	
9/1/2042	870,000	5.000%	425,000.00	1,295,000.00	1,720,000.00
3/1/2043			403,250.00	403,250.00	
9/1/2043	910,000	5.000%	403,250.00	1,313,250.00	1,716,500.00
3/1/2044			380,500.00	380,500.00	
9/1/2044	955,000	5.000%	380,500.00	1,335,500.00	1,716,000.00
3/1/2045			356,625.00	356,625.00	
9/1/2045	1,005,000	5.000%	356,625.00	1,361,625.00	1,718,250.00
3/1/2046			331,500.00	331,500.00	
9/1/2046	1,055,000	5.000%	331,500.00	1,386,500.00	1,718,000.00
3/1/2047			305,125.00	305,125.00	
9/1/2047	1,105,000	5.000%	305,125.00	1,410,125.00	1,715,250.00
3/1/2048			277,500.00	277,500.00	
9/1/2048	1,160,000	5.000%	277,500.00	1,437,500.00	1,715,000.00

3/1/2049			248,500.00	248,500.00	
9/1/2049	1,220,000	5.000%	248,500.00	1,468,500.00	1,717,000.00
3/1/2050			218,000.00	218,000.00	
9/1/2050	1,280,000	5.000%	218,000.00	1,498,000.00	1,716,000.00

Bond Debt Service

Gateways Hospital and Mental Health Centers

Non-Construction Proceeds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
3/1/2051			186,000.00	186,000.00	
9/1/2051	1,345,000	5.000%	186,000.00	1,531,000.00	1,717,000.00
3/1/2052			152,375.00	152,375.00	
9/1/2052	1,415,000	5.000%	152,375.00	1,567,375.00	1,719,750.00
3/1/2053			117,000.00	117,000.00	
9/1/2053	1,485,000	5.000%	117,000.00	1,602,000.00	1,719,000.00
3/1/2054			79,875.00	79,875.00	
9/1/2054	1,560,000	5.000%	79,875.00	1,639,875.00	1,719,750.00
3/1/2055			40,875.00	40,875.00	
9/1/2055	1,635,000	5.000%	40,875.00	1,675,875.00	1,716,750.00
	26,375,000		25,150,305.56	51,525,305.56	51,525,305.56

Bond Pricing
Gateways Hospital and Mental Health Centers
Non-Construction Proceeds

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Yield to Maturity	Call Date	Call Price	Premium (-Discount)
Serial Bond:									
	9/1/2026	370,000	5.000%	2.740%	102.262				8,369.40
	9/1/2027	415,000	5.000%	2.780%	104.335				17,990.25
	9/1/2028	440,000	5.000%	2.820%	106.272				27,596.80
	9/1/2029	460,000	5.000%	2.860%	108.075				37,145.00
	9/1/2030	485,000	5.000%	2.960%	109.454				45,851.90
	9/1/2031	505,000	5.000%	3.090%	110.421				52,626.05
	9/1/2032	535,000	5.000%	3.230%	111.040				59,064.00
	9/1/2033	560,000	5.000%	3.320%	111.746				65,777.60
	9/1/2034	585,000	5.000%	3.490%	111.600				67,860.00
	9/1/2035	615,000	5.000%	3.660%	111.156				68,609.40
	9/1/2036	650,000	5.000%	3.810%	109.835 C	3.894%	9/1/2035	100.000	63,927.50
	9/1/2037	680,000	5.000%	3.910%	108.965 C	4.051%	9/1/2035	100.000	60,962.00
	9/1/2038	715,000	5.000%	4.020%	108.017 C	4.195%	9/1/2035	100.000	57,321.55
	9/1/2039	750,000	5.000%	4.120%	107.164 C	4.314%	9/1/2035	100.000	53,730.00
	9/1/2040	785,000	5.000%	4.230%	106.236 C	4.427%	9/1/2035	100.000	48,952.60
	9/1/2041	825,000	5.000%	4.340%	105.316 C	4.530%	9/1/2035	100.000	43,857.00
	9/1/2042	870,000	5.000%	4.460%	104.324 C	4.630%	9/1/2035	100.000	37,618.80
	9/1/2043	910,000	5.000%	4.590%	103.263 C	4.729%	9/1/2035	100.000	29,693.30
	9/1/2044	955,000	5.000%	4.650%	102.777 C	4.776%	9/1/2035	100.000	26,520.35
	9/1/2045	1,005,000	5.000%	4.700%	102.374 C	4.814%	9/1/2035	100.000	23,858.70
		13,115,000							897,332.20
Term Bond 50:									
	9/1/2046	1,055,000	5.000%	4.870%	101.020 C	4.929%	9/1/2035	100.000	10,761.00
	9/1/2047	1,105,000	5.000%	4.870%	101.020 C	4.929%	9/1/2035	100.000	11,271.00
	9/1/2048	1,160,000	5.000%	4.870%	101.020 C	4.929%	9/1/2035	100.000	11,832.00
	9/1/2049	1,220,000	5.000%	4.870%	101.020 C	4.929%	9/1/2035	100.000	12,444.00
	9/1/2050	1,280,000	5.000%	4.870%	101.020 C	4.929%	9/1/2035	100.000	13,056.00
		5,820,000							59,364.00
Term Bond 55:									
	9/1/2051	1,345,000	5.000%	4.940%	100.468 C	4.970%	9/1/2035	100.000	6,294.60
	9/1/2052	1,415,000	5.000%	4.940%	100.468 C	4.970%	9/1/2035	100.000	6,622.20
	9/1/2053	1,485,000	5.000%	4.940%	100.468 C	4.970%	9/1/2035	100.000	6,949.80
	9/1/2054	1,560,000	5.000%	4.940%	100.468 C	4.970%	9/1/2035	100.000	7,300.80
	9/1/2055	1,635,000	5.000%	4.940%	100.468 C	4.970%	9/1/2035	100.000	7,651.80
		7,440,000							34,819.20
		26,375,000							991,515.40

Dated Date	8/23/2025	
Delivery Date	8/23/2025	
First Coupon	3/1/2026	
Par Amount	26,375,000.00	
Premium	991,515.40	

Production	27,366,515.40	103.759300%
Underwriter's Discount	-78,070.00	-0.296000%

Bond Pricing
Gateways Hospital and Mental Health Centers
Non-Construction Proceeds

Purchase Price	27,288,445.40	103.463300%

Accrued Interest	

Net Proceeds	27,288,445.40

Exhibit B: Detailed Financial Spread

Gateways Hospital and Mental Centers
Statement for Gateways Hospital and Mental Centers with currency of USD
General/ Middle Market
Statement in Actual (U.S. Dollar)
July 31, 2025 9:51 AM

	6/30/2022 Historical 12M Unqualified		6/30/2023 Historical 12M Unqualified		6/30/2024 Historical 12M Unqualified		3/31/2025 Historical 9M Company Prepared	
Assets Common Size	USD	%	USD	%	USD	%	USD	%
Cash and Cash Equivalents	13,515,681	46.7	12,653,034	40.9	14,989,909	35.2	19,465,186	26.0
Patient Accounts Receivable	2,524,307	8.7	4,135,577	13.4	14,565,925	34.2	22,079,224	29.5
Est Due From Third Party Payors	951,200	3.3	1,504,218	4.9	591,645	1.4	0	0.0
Contributions and Other A/R	209,654	0.7	603,570	1.9	208,647	0.5	147,196	0.2
Net A/R	3,685,161	12.7	6,243,365	20.2	15,366,217	36.1	22,226,420	29.7
Notes Receivable	106,000	0.4	472,667	1.5	33,333	0.1	12,500	0.0
Prepaid Expenses and Deferreds	1,018,916	3.5	759,133	2.5	821,230	1.9	0	0.0
Other Current Assets	0	0.0	0	0.0	0	0.0	679,252	0.9
Total Current Assets	**18,325,758**	**63.3**	**20,128,199**	**65.0**	**31,210,689**	**73.3**	**42,383,358**	**56.6**
Land and Improvements	2,674,845	9.2	2,674,845	8.6	2,674,845	6.3	0	0.0
Buildings and Improvements	18,180,893	62.8	18,208,893	58.8	18,015,281	42.3	31,569,933	42.2
Machinery & Equipment	3,258,914	11.2	3,101,555	10.0	2,888,923	6.8	0	0.0
Construction in Progress	0	0.0	91,120	0.3	1,435,314	3.4	0	0.0
Gross Fixed Assets	24,114,652	83.2	24,076,413	77.8	25,014,363	58.7	31,569,933	42.2
Accumulated Depreciation (-)	(14,392,942)	(49.7)	(14,923,176)	(48.2)	(15,079,335)	(35.4)	0	0.0
Net Fixed Assets	9,721,710	33.6	9,153,237	29.6	9,935,028	23.3	31,569,933	42.2
Investments	925,000	3.2	925,000	3.0	925,000	2.2	925,000	1.2
Operating lease right of use asset	0	0.0	754,985	2.4	524,625	1.2	0	0.0
TOTAL ASSETS	**28,972,468**	**100.0**	**30,961,421**	**100.0**	**42,595,342**	**100.0**	**74,878,291**	**100.0**
Liabilities Common Size	USD	%	USD	%	USD	%	USD	%
Current Portion Long Term Debt Bank/Bonds	339,577	1.2	354,999	1.1	365,387	0.9	270,472	0.4
Short Term Debt LOC	0	0.0	0	0.0	1,002,153	2.4	0	0.0

Gateways Hospital and Mental Centers Statement for Gateways Hospital and Mental Centers with currency of USD General/ Middle Market Statement in Actual (U.S. Dollar) July 31, 2025 9:51 AM	6/30/2022 Historical 12M Unqualified		6/30/2023 Historical 12M Unqualified		6/30/2024 Historical 12M Unqualified		3/31/2025 Historical 9M Company Prepared	
Current Portion - Capital Lease Obligations	0	0.0	245,582	0.8	184,960	0.4	0	0.0
Total Short Term Debt	339,577	1.2	600,581	1.9	1,552,500	3.6	270,472	0.4
Trade Accounts Payable	1,420,644	4.9	1,243,705	4.0	1,311,662	3.1	1,311,770	1.8
Accrued Wages/Salaries	1,699,364	5.9	2,391,993	7.7	2,502,744	5.9	2,625,338	3.5
Deferred Revenue	14,860	0.1	15,749	0.1	56,984	0.1	7,135,393	9.5
Total Accruals	1,714,224	5.9	2,407,742	7.8	2,559,728	6.0	9,760,731	13.0
Estimated Third Party Payors	0	0.0	0	0.0	0	0.0	(591,645)	(0.8)
Total Current Liabilities	**3,474,445**	**12.0**	**4,252,028**	**13.7**	**5,423,890**	**12.7**	**10,751,328**	**14.4**
Long Term Debt Bank/Bonds	6,542,686	22.6	6,215,476	20.1	5,876,369	13.8	22,332,228	29.8
Other Liabilities	0	0.0	525,762	1.7	352,697	0.8	0	0.0
Total Liabilities	**10,017,131**	**34.6**	**10,993,266**	**35.5**	**11,652,956**	**27.4**	**33,083,556**	**44.2**
Net Worth Common Size	USD	%	USD	%	USD	%	USD	%
Net Assets	18,955,337	65.4	19,968,155	64.5	30,942,386	72.6	41,794,735	55.8
TOTAL LIABILITIES & NET WORTH	**28,972,468**	**100.0**	**30,961,421**	**100.0**	**42,595,342**	**100.0**	**74,878,291**	**100.0**

Gateways Hospital and Mental Centers Statement for Gateways Hospital and Mental Centers with currency of USD General/ Middle Market Statement in Actual (U.S. Dollar) July 31, 2025 9:51 AM	6/30/2022 Historical 12M Unqualified		6/30/2023 Historical 12M Unqualified		6/30/2024 Historical 12M Unqualified		3/31/2025 Historical 9M Company Prepared	
Revenue Common Size	USD	%	USD	%	USD	%	USD	%
Patient Revenue	35,523,245	96.0	39,861,801	95.4	53,912,132	93.8	50,352,179	96.3
Government Revenues	1,416,919	3.8	1,732,173	4.1	3,439,929	6.0	1,936,119	3.7
Other Operating Revenue	79,629	0.2	174,356	0.4	96,893	0.2	0	0.0
Total Sales	37,019,793	100.0	41,768,330	100.0	57,448,954	100.0	52,288,298	100.0
Operating Expenses Common Size	USD	%	USD	%	USD	%	USD	%
Personnel Expense	23,871,479	64.5	26,804,799	64.2	31,040,498	54.0	28,010,139	53.6
Purchased Services	5,531,259	14.9	6,386,286	15.3	7,597,965	13.2	6,892,365	13.2
Lease/Rent Expense	653,271	1.8	0	0.0	0	0.0	0	0.0
Medical Supplies	1,772,012	4.8	2,082,185	5.0	2,240,462	3.9	1,771,128	3.4
Other Operating Expenses	2,953,535	8.0	4,887,817	11.7	5,102,365	8.9	3,577,898	6.8
Depreciation	827,557	2.2	811,127	1.9	635,025	1.1	762,894	1.5
Bad Debt Expense	0	0.0	0	0.0	331,559	0.6	0	0.0
Total Operating Expenses	35,609,113	96.2	40,972,214	98.1	46,947,874	81.7	41,014,424	78.4
Operating Profit	1,410,680	3.8	796,116	1.9	10,501,080	18.3	11,273,874	21.6
Other R. & E. (Net Income) Common Size	USD	%	USD	%	USD	%	USD	%
Investment Income	(971,154)	(2.6)	537,332	1.3	795,579	1.4	417,640	0.8
Mgmt Services	0	0.0	0	0.0	0	0.0	26,712	0.1
Total Other Income	(971,154)	(2.6)	537,332	1.3	795,579	1.4	444,352	0.8
Interest Expense	333,196	0.9	320,630	0.8	322,428	0.6	758,265	1.5
Other Expense	0	0.0	0	0.0	0	0.0	107,613	0.2
Total Other Expenses	333,196	0.9	320,630	0.8	322,428	0.6	865,878	1.7
Profit Before Tax	106,330	0.3	1,012,818	2.4	10,974,231	19.1	10,852,348	20.8
NET INCOME	**106,330**	**0.3**	**1,012,818**	**2.4**	**10,974,231**	**19.1**	**10,852,348**	**20.8**

Gateways Hospital and Mental Centers Statement for Gateways Hospital and Mental Centers with currency of USD General/ Middle Market Statement in Actual (U.S. Dollar) July 31, 2025 9:51 AM	6/30/2022 Historical 12M Unqualified		6/30/2023 Historical 12M Unqualified		6/30/2024 Historical 12M Unqualified		3/31/2025 Historical 9M Company Prepared	
Changes in Retained Earnings Common Size	USD	%	USD	%	USD	%	USD	%
Beginning Net Worth	18,849,007	99.4	18,955,337	94.9	19,968,155	64.5	30,942,387	74.0
Changes in Retained Earnings:								
Net Income (Loss)	106,330	0.6	1,012,818	5.1	10,974,231	35.5	10,852,348	26.0
Changes in Net Worth Common Size	USD	%	USD	%	USD	%	USD	%
Changes in Other NW								
Change in Net Worth	**106,330**	**0.6**	**1,012,818**	**5.1**	**10,974,231**	**35.5**	**10,852,348**	**26.0**
Ending Total Net Worth	**18,955,337**	**100.0**	**19,968,155**	**100.0**	**30,942,386**	**100.0**	**41,794,735**	**100.0**
Other Lines Common Size	USD	%	USD	%	USD	%	USD	%
Principal Payments on ST & LTD	339,577	0.0	354,999	0.0	534,880	0.0	1,226,051	0.0
Number of Months	12	0.0	12	0.0	12	0.0	9	0.0

Exhibit C: Audited Financial Statements 2022

Gateways Hospital and Mental Health Center

Financial Statements
June 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Gateways Hospital and Mental Health Center

Opinion

We have audited the accompanying financial statements of Gateways Hospital and Mental Health Center (the Center) (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities 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 Gateways Hospital and Mental Health Center as of June 30, 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 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with 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.

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 Center'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 Center'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.

Report on Summarized Comparative Information

We have previously audited the Center's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 11, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Windes, Inc.

Long Beach, California
November 9, 2022

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

ASSETS

	June 30, 2022	June 30, 2021
CURRENT ASSETS		
Cash and cash equivalents	$ 5,237,190	$ 6,292,387
Investments	7,475,236	5,748,157
Assets limited as to use	803,255	798,316
Net patient receivables	2,524,307	2,582,053
Due from third-party payors	951,200	1,410,062
Contribution and other receivables	209,654	129,073
Notes receivable	106,000	106,000
Prepaid expenses and other current assets	1,018,916	673,427
	18,325,758	17,739,475
NONCURRENT ASSETS		
Property and equipment, net	9,721,710	10,518,151
Investment in partnership	925,000	925,000
	10,646,710	11,443,151
TOTAL ASSETS	$ 28,972,468	$ 29,182,626

LIABILITIES AND NET ASSETS

	2022	2021
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,420,644	$ 1,505,088
Accrued salaries and employee benefits	1,699,364	1,624,405
Long-term debt, current	339,577	285,827
Deferred revenue	14,860	21,460
	3,474,445	3,436,780
NONCURRENT LIABILITIES		
Long-term debt, net of current portion and unamortized financing costs	6,542,686	6,896,839
COMMITMENTS AND CONTINGENCIES (Note 14)		
NET ASSETS		
With donor restrictions	224,128	-
Without donor restrictions	18,731,209	18,849,007
	18,955,337	18,849,007
TOTAL LIABILITIES AND NET ASSETS	$ 28,972,468	$ 29,182,626

The accompanying notes are an integral part of these financial statements.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Total 2021
REVENUE AND SUPPORT				
Net patient service revenue	$ 34,359,748	$ -	$ 34,359,748	$ 32,878,923
Grants and contributions	909,919	507,000	1,416,919	1,219,286
Rental income	1,163,497	-	1,163,497	1,116,965
Other revenues	79,629	-	79,629	85,047
Net assets released from restriction	282,872	(282,872)	-	-
Total revenue and support	36,795,665	224,128	37,019,793	35,300,221
OPERATING EXPENSES				
Salaries and benefits	23,871,479	-	23,871,479	22,740,115
Insurance	570,070	-	570,070	589,136
License and taxes	219,709		219,709	164,979
Professional fees	2,812,187	-	2,812,187	2,572,831
Purchased services	2,719,072	-	2,719,072	2,363,923
Rents and leases	653,271	-	653,271	677,636
Repair and maintenance	331,920	-	331,920	298,537
Supplies	1,772,012	-	1,772,012	1,632,234
Telephone	356,254	-	356,254	451,962
Utilities	837,157	-	837,157	832,784
Depreciation and amortization	827,557	-	827,557	818,573
Interest	333,196	-	333,196	321,459
Legal settlement	-		-	700,000
Other expenses	638,425	-	638,425	600,959
Total operating expenses	35,942,309	-	35,942,309	34,765,128
CHANGE IN NET ASSETS FROM OPERATIONS	853,356	224,128	1,077,484	535,093
OTHER INCOME (LOSS)				
Investment income (loss), net	(971,154)	-	(971,154)	752,943
CHANGE IN NET ASSETS	(117,798)	224,128	106,330	1,288,036
NET ASSETS BEGINNING OF YEAR	18,849,007	-	18,849,007	17,560,971
NET ASSETS END OF YEAR	$ 18,731,209	$ 224,128	$ 18,955,337	$ 18,849,007

The accompanying notes are an integral part of these financial statements.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

	June 30, 2022	June 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 106,330	$ 1,288,036
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	827,556	818,573
Contribution from forgivable loans	(27,350)	(27,350)
PPP loan forgiveness	-	(250,000)
Net realized and unrealized (gains) losses on investments	1,086,234	(678,461)
Changes in current assets and liabilities:		
Patient receivables	57,746	715,891
Due from third party payors	458,862	(994,010)
Contributions and other receivables	(80,581)	(27,146)
Prepaid expenses and other current assets	(345,489)	(191,210)
Accounts payable and accrued liabilities	(84,444)	(392,339)
Accrued salaries and employee benefits	74,959	383,315
Deferred revenue	(6,600)	6,600
Net Cash Provided By Operating Activities	2,067,223	651,899
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,447,911)	(69,529)
Proceeds from sale of investments	634,598	-
Purchases of property and equipment	-	(92,813)
Net Cash Used In Investing Activities	(2,813,313)	(162,342)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(304,168)	(268,335)
Net Cash Used In Financing Activities	(304,168)	(268,335)
CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(1,050,258)	221,222
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	7,090,703	6,869,481
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	$ 6,040,445	$ 7,090,703
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and cash equivalents in current assets	$ 5,237,190	$ 6,292,387
Restricted cash and cash equivalents in assets limited to use	803,255	798,316
	$ 6,040,445	$ 7,090,703
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 334,063	$ 295,632

The accompanying notes are an integral part of these financial statements.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

NOTE 1 – Organization

Gateways Hospital and Mental Health Center (the Center) is a California nonprofit corporation, incorporated for the purpose of providing mental health services in the greater Los Angeles area. The Center provides Acute Inpatient Services for both adolescent and adult patients, Community Based Outpatient Services for children, adolescents and adults, Forensic Services for adults, and Homeless and Wellness programs for adults. The majority the Center's funding is from the Los Angeles County - Department of Mental Health (DMH) and the Department of State Hospitals for Forensic Residential Programs. Support also comes from private donors, Medi-Cal, and general community contributions.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Center are prepared in accordance with Financial Accounting Standards Board (FASB) ASC 958 and ASC 954. Net assets, revenue, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> ***Without Donor Restrictions*** – Net assets are comprised of assets that are for operating purposes or assets that are not subject to donor-imposed restrictions and are general in nature.
>
> ***Donor Restrictions*** – Net assets whose use by the Center is subject to donor-imposed restrictions that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. Other donor restrictions may be perpetual in nature, where the donors of these assets permit the Center to use all or part of the investment return on these assets for unrestricted purposes. As of June 30, 2022, the Center had no net assets with donor restrictions that were perpetual in nature.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Prior-Period Information

The financial statements include certain prior-period summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2021 financial statement presentation to correspond to the current year's format.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount 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 those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly-liquid investments with an original maturity of three months or less, excluding assets limited as to use. For purposes of the statement of cash flows, cash and cash equivalents include restricted cash and cash equivalents.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Investments and Investment Income

The Center accounts for its investments in accordance with FASB ASC 958-320-50. In accordance with ASC 958-320-50, investments in certificates of deposit with maturities longer than three months, equity securities with readily determinable fair values, and all investments in debt securities are reported at their fair values in the statement of financial position. The fair values are based on quoted market prices. Donated investments are recorded at the market value on the date of donation. Realized and unrealized gains and losses are included as net gains (losses) on the accompanying statement of activities and attributed to net assets with donor restrictions where stipulated by donor designations. Investment income (loss) is reported net of related investment expenses.

Assets Limited as to Use

Assets limited as to use include assets set aside and held by trustees under bond indenture agreements. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

Patient Receivables and Due from Third-Party Payors

Patient receivables and due from third-party payors consist of uncollateralized patient, resident, and third-party payor obligations related to services rendered by the Center under various contract or grant agreements. The Center does not charge interest on unpaid patient receivables. Payments of receivables are allocated to the specific claims identified in the claim or, if unspecified, are applied to the earliest unpaid claim.

Receivables are reduced by any discounts and implicit price concessions based on historical collection experience or terms of agreements with third-party payors and grantors. In evaluating the collectability of receivables, the Center analyzes accounts for adverse changes in the patient's or payor's ability to pay that may have occurred subsequent to recognition. Management regularly reviews specific data about receivable balances and its past history with similar cases to appropriately value patient receivables.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Patient Receivables and Due from Third-Party Payors (Continued)

The Center has elected to not adjust the promised amount of consideration from patients, residents, third-party payors, or grantors for the effects of a significant financial component due to the Center's expectation that the period between the time the service is provided to a patient or resident and the time that the patient or payor pays for that service will be one year or less.

Contributions and Other Receivables

Unconditional promises to give are recorded at estimated fair value when the promise is received. All grants and contributions receivable are expected to be received within the next twelve months. Management believes that the remaining outstanding promises to give as of June 30, 2022 are collectible in full and, accordingly, no allowance for uncollectible grants or contributions receivable has been provided.

Property and Equipment

Property and equipment acquisitions in excess of $500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asst and is computed using the straight-line method. The estimated useful lives of property and equipment are as follows:

Buildings and improvements	10 to 40 years
Major movable equipment and software	5 to 10 years

Investment in Partnership

Investments in entities in which the Center has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize the Center's share of earnings and losses of those entities, net of any additional investments or distributions. The Center's share of net earnings or losses of the entity have been insignificant and management has elected not to adjust the initial investment balance.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Center determines the fair market values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standards FASB ASC 820-10, *Fair Value Measurements and Disclosures*, 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. The Center used the market approach to estimate fair value for all investment assets. The following provides a summary of the hierarchical levels, as defined by FASB ASC 820-10, used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability where fair value is estimated by management or outside investment managers.

Deferred Financing Costs

Debt issuance costs are recorded as a direct reduction of the carrying value of the debt and are amortized to interest expense over the term of the debt.

Net Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Center expects to be entitled in exchange for providing patient and resident care. These amounts are due from patients (or residents), third-party payors (including health insurers and governmental programs), and others, and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Center bills the patients, residents, and third-party payors several days after the services are performed and/or the patient or resident is discharged from the facility. Revenue is recognized as the performance obligations are satisfied.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Performance obligations are determined based on the nature of the services provided by the Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Center 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 relate to patients in the Center receiving inpatient services and residents receiving skilled services. The Center measures the performance obligation associated with inpatient services from admission to the Center to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. The Center measures the performance obligation associated with residents receiving skilled services from the beginning of the performance period, generally admission, to the sooner of completion of services to that resident, discharge, or the end of the month. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Center does not believe it is required to provide additional goods or services to the patient or resident.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Center has elected to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient services or skilled services to residents at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, or for residents, the sooner of completion of services, discharge or end of the month, which generally occurs within days or weeks of the end of the reporting period.

The Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and residents in accordance with the Center's policy, and any implicit price concessions provided to uninsured patients and residents. The Center determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Center determines its estimate of implicit price concessions based on its historical collection experience with the class of patients and residents.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

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 patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in 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.

Charity Care

Consistent with the Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Center has determined it has provided implicit price concessions to uninsured patients and residents and patients and residents with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and residents, and the amounts the Center expects to collect based on its collection history with those patients and residents.

The Center provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Since the Center does not pursue collection for services determined to qualify as charity care, no revenue is reported for charity care. The Center provides government-sponsored health insurance applications, payment discounting, or payment waiving for services provided to patients with family incomes less than 350% of the federal poverty levels in compliance with the State of California Assembly Bill 774 and with the Department of Health and Human Services poverty guidelines. The costs of caring for charity care clients for the years ended June 30, 2022 were not significant.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Grants and Contributions

The Center recognizes unconditional contributions when received or promised to give. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

The Center records contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions, or both. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is the Center's policy to record donor-restricted contributions received and expended in the same accounting period as contributions without donor restrictions.

Malpractice Insurance

The Center purchases commercial malpractice liability insurance on an occurrence basis with nominal deductibles.

Income Taxes

The Center is an organization described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state taxes under Section 501(a) of the Code and corresponding sections of the California Revenue and Taxation Code. As such, no provision for income taxes is reflected in the financial statements. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

The Center has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and investments with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Center has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the Center.

Functional Allocation of Expenses

The cost of program and supporting services activities have been summarized on a functional basis in Note 15, which presents the natural classification detail of expenses by function. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses are allocated on a reasonable basis that is consistently applied, such as units-of-service basis or revenue. Costs not directly attributable to a function, such as depreciation and amortization, interest and other occupancy costs, are allocated to a function based on estimates size or usage.

Recently Issued Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The guidance in this ASU supersedes the leasing guidance in *Leases (Topic 840)*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Center is currently evaluating the impact of the adoption of the new standard on the financial statements.

Subsequent Events

Subsequent events have been evaluated through November 9, 2022, which is the date the financial statements were available to be issued.

NOTE 3 – Liquidity and Availability

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

	June 30, 2022	June 30, 2021
Cash and cash equivalents	$ 5,237,190	$ 6,292,387
Investments	7,475,236	5,748,157
Receivables	3,685,161	4,121,188
Notes receivable	106,000	106,000
	16,503,587	16,267,732
Less amounts unavailable for general expenditure within one year due to donor-imposed restrictions	(224,128)	-
	$ 16,279,459	$ 16,267,732

The Center maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of the Center's liquidity management plan, the Center invests cash in excess of daily requirements in short-term investments and money market funds.

NOTE 4 – Investments

The Center uses fair value measurements to record fair value adjustment to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Center measures fair value, refer to *Note 2 - Summary of Significant Accounting Policies*.

Assets Limited as to Use

The composition of assets limited as to use is set forth in the following table. Investments are stated at fair value.

	June 30,	
	2022	**2021**
Assets limited as to use		
Held by trustee under CHFFA bond agreement:		
Money market	$ 803,255	$ 798,316
Total assets, limited as to use	$ 803,255	$ 798,316

Investments consist of the following:

	June 30, 2022		June 30, 2021	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Cash equivalents	$ 76,935	$ 76,935	$ 65,787	$ 65,787
Fixed income securities	3,686,523	4,093,648	2,055,553	2,143,443
Domestic equity securities	1,751,223	1,452,144	1,967,320	1,460,164
Mutual funds	1,960,555	2,300,609	1,659,497	1,402,854
Total	$ 7,475,236	$ 7,923,336	$ 5,748,157	$5,072,248

NOTE 4 – Investments (Continued)

The following tables present the balances of the assets measured at fair value on a recurring basis.

	Amount	Not Subject to Hierarchy	Level 1	Level 2	Level 3
June 30, 2022:					
Investments					
Cash equivalents	$ 76,935	$ 76,935	$ -	$ -	$ -
Fixed income securities	3,686,523	-	-	3,686,523	-
Domestic equity securities	1,751,223	-	1,751,223	-	-
Mutual funds	1,960,555	-	1,960,555	-	-
Total investments	7,475,236	-	3,711,778	3,686,523	-
Assets limited as to use					
Money market held by CHFFA bond agreement	803,255	803,255	-	-	-
Total	$ 8,278,491	$ 880,190	$ 3,711,778	$ 3,686,523	$ -

	Amount	Not Subject to Hierarchy	Level 1	Level 2	Level 3
June 30, 2021:					
Investments					
Cash equivalents	$ 65,787	$ 65,787	$ -	$ -	$ -
Fixed income securities	2,055,553	-	-	2,055,553	-
Domestic equity securities	1,967,320	-	1,967,320	-	-
Mutual funds	1,659,497	-	1,659,497	-	-
Total investments	5,748,157	65,787	3,626,817	2,055,553	-
Assets limited as to use					
Money market held by CHFFA bond agreement	798,316	798,316	-	-	-
Total	$ 6,546,473	$ 864,103	$ 3,626,817	$ 2,055,553	$ -

The Center did not have any liabilities measured at fair value on a recurring basis as of June 30, 2022 and 2021.

NOTE 5 – Notes Receivable

In 2016 and 2017, the Center advanced funds to a mental health service provider, totaling $106,000. Pursuant to an amended agreement effective August 2021, the advances are interest free through June 30, 2022, the amended maturity date of the notes. If the notes are not repaid timely, interest begins to accrue at a rate of prime plus 1%. During 2022, the Center and the mental health service provider reached a mutual agreement to extend the maturity date to June 30, 2023, with a payment plan beginning October 2022.

NOTE 6 – Net Patient Service Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. The payment arrangement with its major third-party payors to provide services to patients covered under Short-Doyle/Medi-Cal, Mental Health Services Act (MHSA), Bronzon-McCorquodale, and Medicare programs, all pay based on a fixed or contracted rate or reimbursable costs, whichever is defined by the program. The Center also receives funding for services from other governmental agencies, including the Department of State Hospitals.

Laws and regulations governing these programs are extremely complex and subject to interpretation. The Center has potential settlements with third-party payors for retroactive adjustments that are considered variable consideration and included in the determination of the estimated transaction price for providing patient care. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Medicare and Medi-Cal cost reports have not yet been finalized for the fiscal years 2020 to 2022, however, interim settlements were received for fiscal year 2020. County and Medi-Cal settlements, representing adjustments to revenue previously recognized based on settlements from third-party payors, totaled $2,056,756 and $546,613 for the years ended June 30, 2022 and 2021, respectively, and are included in net patient service revenue.

NOTE 6 – Net Patient Service Revenue (Continued)

Generally, patients and certain residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Center also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Center estimates the transaction prices for patients and 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 adjustment, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Adjustments arising from a change in the estimate of implicit price concessions for performance obligations were not significant in 2022 and 2021. Subsequent changes that are determined to be the result of an adverse change in collectability are recorded as bad expense or charity care. Bad debt expense for the years ended June 30, 2022 and 2021 was not significant.

The source of patient service revenue by payor was as follows at June 30:

	2022	2021
Department of Mental Health	$ 24,424,861	$ 24,746,938
Conditional Release Program (CONREP)	7,612,116	7,161,478
Other	2,322,771	970,507
	$ 34,359,748	$ 32,878,923

The composition of receivables due from patient services consist of the following at June 30:

	2022	2021
Patient receivables		
State and county programs	$ 2,339,939	$ 2,502,181
Private and other	184,368	79,872
	2,524,307	2,582,053
Expected settlements due from DMH (due from third-party payors)	951,200	1,410,062
	$ 3,475,507	$ 3,992,115

NOTE 6 – Net Patient Service Revenue (Continued)

The Center's primary source of billing through DMH is assessed as fully collectible by the Center's management.

The composition of net patient service revenue based on the timing of revenue recognition is as follows for the years ended June 30:

	2022	2021
At time services are rendered	$ 19,159,855	$ 21,070,722
Services transferred over time	15,199,893	12,925,166
	$ 34,359,748	$ 33,995,888

Revenue that is generally recognized at the time services are rendered includes outpatient services, which are treatment programs that provide services to children and adolescents who benefit from less intensive treatment than inpatient services.

Revenue that is recognized as the services are transferred over time includes governmental agency contracted programs, residential revenues, and inpatient healthcare services. The primary function of governmental agency contract programs is to supervise judicially committed individuals released to the community. Residential revenue includes residential programs that assist individuals transitioning out of locked institutions of mental disease settings into unlocked residential programs with the goal of eventually moving into a traditional board and care with community reintegration. Residential revenue includes revenues that are recognized as the services are transferred over time which consist of the revenue recognized as the individuals stay at the facilities. Revenue for individuals who receive specialized treatment is recognized at the time services are rendered, and is billed in addition to the revenue recognized for the individuals' stay at the facilities. Inpatient healthcare services includes short-term, intensive inpatient treatment of patients with acute episodes of psychiatric and dual diagnosis disorders. Inpatient care revenues recognized in healthcare services are recognized as the services are transferred over time (i.e. over the course of the patient stay).

NOTE 7 – Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements or participate under a county-sponsored program. The Center manages its collection risk by regularly reviewing its accounts and contracts and by providing appropriate allowances. The Department of Mental Health represents 79% of receivables at June 30, 2022. The Department of Mental Health and CONREP represent 55% and 40% of receivables at June 30, 2021, respectively.

NOTE 8 – Investment in Partnership

In February 2004, the Center formed a limited partnership with another nonprofit and a for-profit organization for the purpose of acquiring, owning, developing, constructing and/or rehabilitating, leasing, managing, operating, and if appropriate or desirable, selling or otherwise disposing of a 30-unit residential project, including one (1) manager's unit for the homeless, called the "Project." The term of the Partnership commenced on February 9, 2004 and shall continue until December 31, 2064. The Center is the administrative general partner and owns 0.005% of the interest of the partnership with a capital contribution of $925,000. The investment is recorded under the equity method and the Center's share of the Partnership activity has been insignificant during the years ended June 30, 2022 and 2021.

NOTE 9 – Property and Equipment

Property and equipment consists of the following at June 30:

	2022	2021
Building and improvements	$ 18,180,893	$ 18,180,893
Movable equipment and software	3,258,914	3,258,914
	21,439,807	21,439,807
Less accumulated depreciation	(14,392,942)	(13,596,501)
	7,046,865	7,843,306
Land	2,674,845	2,674,845
	$ 9,721,710	$ 10,518,151

The depreciation expense for the years ended June 30, 2022 and 2021 was $796,441 and $787,458, respectively.

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NOTE 10 – Long-Term Debt

Long-term notes payable consists of the following at June 30:

	2022	2021
Note payable to California Health Facilities Financing Authority (CHFFA) (conduit bond issuer) for the acquisition of Percy Village Facility and refinance and remodel the Hill Street building with maximum interest rate at 5.50% through December 2036, collateralized by a deed of trust against the new constructed property.	$ 5,800,000	$ 6,060,000
Note payable to California Emergency Housing and Assistance Program (EHAP) for new construction project located at Hoover Street, no interest, collateralized by a deed of trust against the new constructed property. Repayment of the loan shall be deferred and will be forgiven in the year 2023.	1,000,000	1,000,000
Note payable to Community Redevelopment Agency Program (CRA) of the City of Los Angeles for a construction project located at Hoover Street, no interest, collateralized by a deed of trust against the constructed property. The loan shall be forgivable at $27,350 per year.	246,150	273,500
Note payable to the CHFFA for a HELP II, commercial building at Hill Street, payable monthly with interest rate of 3% through January 2028, collateralized by a deed of trust against the constructed property, and pledge of revenues from all sources.	287,276	331,444
	7,333,426	7,664,944
Less unamortized deferred financing cost, using effective interest rates of approximately 5.8%	(451,163)	(482,278)
	6,882,263	7,182,666
Less current maturities on long-term debt	(314,617)	(260,000)
Less accrued bond interest	(24,960)	(25,827)
Long-term debt, net of current portion and unamortized financing costs	$ 6,542,686	$ 6,896,839

NOTE 10 – Long-Term Debt (Continued)

Scheduled principal payments on long-term debt at June 30, 2022 are as follows:

Year Ending June 30,	
2023	$ 314,617
2024	330,974
2025	342,373
2026	358,814
2027	375,284
Thereafter	4,365,214
	6,087,276
Loans to be forgiven:	
Note payable to CRA	246,150
Note payable to EHAP	1,000,000
	$ 7,333,426

The notes payable are subject to certain compliance requirements or restrictive covenants, primarily requiring the Center to maintain use of the related property as originally established in the agreements for the required time period, for which the Center was in compliance as of June 30, 2022.

Paycheck Protection Program (PPP) Loan

The Center was granted a $250,000 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The PPP loan is uncollateralized and is fully guaranteed by the federal government. The Center is eligible for PPP loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Center applied for and was granted forgiveness of the PPP loan in December 2020, and recognized the gain from extinguishment of debt during the fiscal year ending June 30, 2021.

NOTE 11 – Restricted Net Assets

At June 30, 2022, net assets with donor restrictions were restricted for the following purposes:

Inpatient facility renovations and furniture	$ 191,941
Other	32,187
	$ 224,128

There were no net assets with donor restrictions at June 30, 2021.

NOTE 12 – Retirement Benefits

Retirement benefits are available for all eligible employees through the Center's Variable Annuity Plan (the Plan). The Plan is a defined contribution plan where the Center's matching contribution is up to 25% of employee's contribution, which is limited to a maximum of 3% of employee's annual salary. Charges to operating expense for the Center's share of costs for the Plan were $561,850 and $381,169 for the years ended June 30, 2022 and 2021, respectively.

NOTE 13 – Collective Bargaining Agreement

The Center has a collective bargaining agreement, which covers all full-time and regular part-time nonprofessional employees, who are not part of its administrative staff or registered nursing staff (bargaining unit employees). The agreement requires an increase in annual salary, based on a fixed rate, for all bargaining unit employees. The agreement is effective through October 31, 2022.

Either the union or the Center may re-open negotiations regarding fiscal matters in the collective bargaining agreement if there are significant changes in operations and funding. As of the issuance date of these financial statements, the Center continues to work on amending the agreement beyond the expiration date and does not expect any operational impact to the Center during the negotiation period.

NOTE 14 – Commitments and Contingencies

Operating Leases

The Center leases various equipment and facilities under operating leases expiring at various dates through 2027. Total rental expense for the years ended June 30, 2022 and 2021 for all operating leases amounted to $653,271 and $677,636, respectively.

The following is a schedule, by year, of future minimum lease payments under operating leases at June 30, 2022, that have initial or remaining lease terms in excess of one year:

Year Ending June 30,	
2023	$ 469,583
2024	190,982
2025	85,442
2026	60,582
2027	52,160
	$ 858,749

Litigations, Claims, and Disputes

The Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Center.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue.

NOTE 14 – Commitments and Contingencies (Continued)

COVID-19 Pandemic

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The Center is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Center is not known.

NOTE 15 – Functional Expenses

Expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Cost not directly attributable to a function, such as depreciation, interest, and other occupancy cost are allocated to a function based on estimates of size or usage. Cost that supports the Center as a whole remains in support services G&A. The Center provides health care services to residents within its geographic location. Expenses related to providing these services by functional class and natural class is as follows:

	For the Year Ended June 30, 2022					
	Health Care Services				Support Services	2022
	Inpatient	Forensic	Residential	Outpatient	G&A	Total
Salaries and benefits	$ 8,177,780	$ 4,419,278	$ 3,419,662	$ 4,753,086	$ 3,101,673	$ 23,871,479
Insurance	194,889	106,737	82,878	113,084	72,482	570,070
License and taxes	30,375	6,079	37,161	70,698	75,396	219,709
Professional services	1,431,949	392,520	56,207	455,210	476,301	2,812,187
Purchased services	555,079	944,651	588,936	91,871	538,535	2,719,072
Rent and leases	9,782	455,771	41,247	132,730	13,741	653,271
Repair and maintenance	183,560	13,744	81,814	4,725	48,077	331,920
Supplies	432,662	225,485	872,762	82,422	158,681	1,772,012
Telephone	21,287	63,900	76,364	73,254	121,449	356,254
Utilities	241,925	69,439	436,921	49,821	39,051	837,157
Depreciation and amortization	147,099	51,409	595,682	14,778	18,589	827,557
Interest	6,285	3,822	318,550	4,018	521	333,196
Other expenses	226,782	72,981	101,863	25,856	210,943	638,425
	$ 11,659,454	$ 6,825,816	$ 6,710,047	$ 5,871,553	$ 4,875,439	$ 35,942,309

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NOTE 15 – Functional Expenses (Continued)

	For the Year Ended June 30, 2021					
	Health Care Services				Support Services	2021
	Inpatient	Forensic	Residential	Outpatient	G&A	Total
Salaries and benefits	$ 6,835,762	$ 4,345,553	$ 3,601,053	$ 5,105,232	$ 2,852,515	$ 22,740,115
Insurance	177,093	112,582	93,294	132,263	73,904	589,136
License and taxes	22,809	4,565	27,904	53,087	56,614	164,979
Professional services	1,339,367	280,290	112,641	463,226	377,307	2,572,831
Purchased services	706,539	562,912	597,982	66,636	429,854	2,363,923
Rent and leases	13,264	445,349	40,777	163,939	14,307	677,636
Repair and maintenance	166,243	9,792	46,372	1,245	74,885	298,537
Supplies	384,714	276,596	711,595	172,502	86,827	1,632,234
Telephone	27,006	81,067	96,879	92,934	154,076	451,962
Utilities	321,336	68,242	376,244	36,459	30,503	832,784
Depreciation and amortization	91,414	52,599	537,423	84,558	52,579	818,573
Interest	-	-	320,759	-	700	321,459
Legal settlement	-	-	-	-	700,000	700,000
Other expenses	53,364	67,464	31,169	33,159	415,803	600,959
	$ 10,138,911	$ 6,307,011	$ 6,594,092	$ 6,405,240	$ 5,319,874	$ 34,765,128

Exhibit D: Audited Financial Statements 2023

Gateways Hospital and Mental Health Center

Consolidated Financial Statements
June 30, 2023
(with Comparative Totals for 2022)

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Gateways Hospital and Mental Health Center

Opinion

We have audited the accompanying consolidated financial statements of Gateways Hospital and Mental Health Center (the Center) (a California nonprofit corporation), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2023, 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Center 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.

Emphasis of Matter

As discussed in Note 2, beginning July 1, 2022, the Center adopted Accounting Standards Update No. 2016-02, *Leases* (Topic 842) and its related amendments using the modified-retrospective transition method. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with 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 consolidated financial statements.

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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center'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.

Report on Summarized Comparative Information

We have previously audited the Center's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Windes, Inc.

Long Beach, California
December 8, 2023

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

ASSETS

	June 30, 2023	June 30, 2022
CURRENT ASSETS		
Cash and cash equivalents	$ 3,911,141	$ 5,237,190
Investments	7,976,333	7,475,236
Assets limited as to use	765,560	803,255
Net patient receivables	4,135,577	2,524,307
Due from third-party payors	1,504,218	951,200
Contribution and other receivables	603,570	209,654
Notes receivable	472,667	106,000
Prepaid expenses and other current assets	759,133	1,018,916
	20,128,199	18,325,758
NONCURRENT ASSETS		
Property and equipment, net	9,153,237	9,721,710
Investment in partnership	925,000	925,000
Operating lease right-of-use asset	754,985	-
	10,833,222	10,646,710
TOTAL ASSETS	$ 30,961,421	$ 28,972,468

LIABILITIES AND NET ASSETS

	2023	2022
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,243,705	$ 1,420,644
Accrued salaries and employee benefits	2,391,993	1,699,364
Debt, current portion	354,999	339,577
Operating lease liability, current portion	245,582	-
Deferred revenue	15,749	14,860
	4,252,028	3,474,445
NONCURRENT LIABILITIES		
Debt, net of current portion and unamortized financing costs	6,215,476	6,542,686
Operating lease liability, net of current portion	525,762	-
	6,741,238	6,542,686
COMMITMENTS AND CONTINGENCIES (Note 14)		
NET ASSETS		
With donor restrictions	258,088	224,128
Without donor restrictions	19,710,067	18,731,209
	19,968,155	18,955,337
TOTAL LIABILITIES AND NET ASSETS	$ 30,961,421	$ 28,972,468

The accompanying notes are an integral part of these consolidated financial statements.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Total 2022
REVENUE AND SUPPORT				
Net patient service revenue	$ 38,647,325	$ -	$ 38,647,325	$ 34,359,748
Grants and contributions	1,357,678	374,495	1,732,173	1,416,919
Rental income	1,214,476	-	1,214,476	1,163,497
Special events, net	59,580	-	59,580	-
Other revenues	114,776	-	114,776	79,629
Net assets released from restriction	340,535	(340,535)	-	-
Total revenue and support	41,734,370	33,960	41,768,330	37,019,793
OPERATING EXPENSES				
Salaries and benefits	26,804,799	-	26,804,799	23,871,479
Insurance	795,359	-	795,359	570,070
Licenses and taxes	337,683	-	337,683	219,709
Professional fees	2,948,637	-	2,948,637	2,812,187
Purchased services	3,437,649	-	3,437,649	2,719,072
Rents and leases	709,459	-	709,459	653,271
Repair and maintenance	267,113	-	267,113	331,920
Supplies	2,082,185	-	2,082,185	1,772,012
Telephone	441,577	-	441,577	356,254
Utilities	1,110,713	-	1,110,713	837,157
Depreciation and amortization	811,127	-	811,127	827,557
Hospital support	54,212	-	54,212	-
Interest	320,630	-	320,630	333,196
Other expenses	1,171,701	-	1,171,701	638,425
Total operating expenses	41,292,844	-	41,292,844	35,942,309
CHANGE IN NET ASSETS FROM OPERATIONS	441,526	33,960	475,486	1,077,484
OTHER INCOME (LOSS)				
Investment income (loss), net	537,332	-	537,332	(971,154)
CHANGE IN NET ASSETS	978,858	33,960	1,012,818	106,330
NET ASSETS BEGINNING OF YEAR	18,731,209	224,128	18,955,337	18,849,007
NET ASSETS END OF YEAR	$ 19,710,067	$ 258,088	$ 19,968,155	$ 18,955,337

The accompanying notes are an integral part of these consolidated financial statements.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

	June 30, 2023	June 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,012,818	$ 106,330
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	811,127	827,556
Contribution from forgivable loans	(27,350)	(27,350)
Amortization on operating leases	66,715	-
Net realized and unrealized (gains) losses on investments	(417,104)	1,086,234
Changes in operating assets and liabilities:		
Net patient receivables	(1,611,270)	57,746
Due from third-party payors	(553,018)	458,862
Contributions and other receivables	(393,916)	(80,581)
Prepaid expenses and other current assets	259,783	(345,489)
Accounts payable and accrued liabilities	(176,939)	(84,444)
Accrued salaries and employee benefits	692,629	74,959
Deferred revenue	889	(6,600)
Operating lease liabilities	(50,356)	-
Net Cash Provided By (Used In) Operating Activities	(385,992)	2,067,223
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(446,720)	(3,447,911)
Proceeds from sale of investments	362,727	634,598
Issuance of notes receivable	(450,000)	-
Receipts on notes receivables	83,333	-
Purchases of property and equipment	(211,539)	-
Net Cash Used In Investing Activities	(662,199)	(2,813,313)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(315,553)	(304,168)
Net Cash Used In Financing Activities	(315,553)	(304,168)
CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(1,363,744)	(1,050,258)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	6,040,445	7,090,703
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	$ 4,676,701	$ 6,040,445
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents in current assets	$ 3,911,141	$ 5,237,190
Restricted cash and cash equivalents in assets limited to use	765,560	803,255
	$ 4,676,701	$ 6,040,445
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 334,131	$ 334,063

The accompanying notes are an integral part of these consolidated financial statements.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

NOTE 1 – Organization

Gateways Hospital and Mental Health Center (the Hospital) is a California nonprofit corporation, incorporated for the purpose of providing mental health services in the greater Los Angeles area. The Hospital provides Acute Inpatient Services for both adolescent and adult patients, Community Based Outpatient Services for children, adolescents, and adults, Forensic Services for adults, and Homeless and Wellness programs for adults. The majority of the Hospital's funding is from the Los Angeles County - Department of Mental Health (DMH) and the Department of State Hospitals for Forensic Residential Programs. Support also comes from private donors, Medi-Cal, and general community contributions.

As of July 1, 2022, Gateways Hospital and Mental Health Foundation (the Foundation), a California nonprofit corporation, was formed for the purpose of fundraising and development on behalf of the Hospital. The Foundation and the Hospital share common management with the Center being the primary beneficiary of the Foundations' net fundraising efforts.

Collectively, the Hospital and the Foundation are referred to as the "Center" in theses consolidated financial statements.

NOTE 2 – Summary of Significant Accounting Policies

Principles of Consolidation

The Center's consolidated financial statements include the Hospital and the Foundation. All significant intercompany accounts and transactions have been eliminated.

Prior-Period Information

The consolidated financial statements include certain prior period summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with the Hospital's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The consolidated financial statements of the Center are prepared in accordance with U.S. GAAP. Net assets, revenue, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> ***Without Donor Restrictions*** – Net assets are comprised of assets that are for operating purposes or assets that are not subject to donor-imposed restrictions and are general in nature.
>
> ***Donor Restrictions*** – Net assets whose use by the Center is subject to donor-imposed restrictions that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. Other donor restrictions may be perpetual in nature, where the donors of these assets permit the Center to use all or part of the investment return on these assets for unrestricted purposes. As of June 30, 2023, the Center had no net assets with donor restrictions that were perpetual in nature.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly-liquid investments with an original maturity of three months or less, excluding assets limited as to use. For purposes of the consolidated statement of cash flows, cash and cash equivalents include restricted cash and cash equivalents.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Investments and Investment Income

The Center accounts for its investments in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-320-50. In accordance with ASC 958-320-50, investments in certificates of deposit with maturities longer than three months, equity securities with readily determinable fair values, and all investments in debt securities are reported at their fair values in the consolidated statement of financial position. The fair values are based on quoted market prices. Donated investments are recorded at the market value on the date of donation. Realized and unrealized gains and losses are included as net gains (losses) on the accompanying consolidated statement of activities and attributed to net assets with donor restrictions where stipulated by donor designations. Investment income (loss) is reported net of related investment expenses.

Assets Limited as to Use

Assets limited as to use include assets set aside and held by trustees under bond indenture agreements. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

Contributions and Other Receivables

Unconditional promises to give are recorded at estimated fair value when the promise is received. All grants and contributions receivable are expected to be received within one year of the date of the consolidated financial statements. Management believes that the remaining outstanding promises to give as of June 30, 2023 are collectible in full and, accordingly, no allowance for uncollectible grants or contributions receivable has been provided.

Net Patient Receivables and Due from Third-Party Payors

Net patient receivables and due from third-party payors consist of uncollateralized patient, resident, and third-party payor obligations related to services rendered by the Center under various contract or grant agreements. The Center does not charge interest on unpaid patient receivables. Payments of receivables are allocated to the specific claims identified in the claim or, if unspecified, are applied to the earliest unpaid claim.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Net Patient Receivables and Due from Third-Party Payors (Continued)

Receivables are reduced by any discounts and implicit price concessions based on historical collection experience or terms of agreements with third-party payors and grantors. In evaluating the collectability of receivables, the Center analyzes accounts for adverse changes in the patient's or payor's ability to pay that may have occurred subsequent to recognition. Management regularly reviews specific data about receivable balances and its past history with similar cases to appropriately value patient receivables.

The Center has elected to not adjust the promised amount of consideration from patients, residents, third-party payors, or grantors for the effects of a significant financial component due to the Center's expectation that the period between the time the service is provided to a patient or resident and the time that the patient or payor pays for that service will be one year or less.

Property and Equipment

Property and equipment acquisitions in excess of $5,000 with useful life beyond one year are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of property and equipment are as follows:

Buildings and improvements	10 to 40 years
Major movable equipment and software	5 to 10 years

Investment in Partnership

Investments in entities in which the Center has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize the Center's share of earnings and losses of those entities, net of any additional investments or distributions. The Center's share of net earnings or losses of the entity have been insignificant and management has elected not to adjust the initial investment balance.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Center determines the fair market values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standards FASB ASC 820-10, *Fair Value Measurements and Disclosures*, 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. The Center uses the market approach to estimate fair value for all investment assets. The following provides a summary of the hierarchical levels, as defined by FASB ASC 820-10, used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability where fair value is estimated by management or outside investment managers.

Deferred Financing Costs

Debt issuance costs are recorded as a direct reduction of the carrying value of the debt and are amortized to interest expense over the term of the debt.

Net Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Center expects to be entitled in exchange for providing patient and resident care. These amounts are due from patients (or residents), third-party payors (including health insurers and governmental programs), and others, and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Center bills the patients, residents, and third-party payors several days after the services are performed and/or the patient or resident is discharged from the facility. Revenue is recognized as the performance obligations are satisfied.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Performance obligations are determined based on the nature of the services provided by the Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Center 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 relate to patients in the Center receiving inpatient services and residents receiving skilled services. The Center measures the performance obligation associated with inpatient services from admission to the Center to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. The Center measures the performance obligation associated with residents receiving skilled services from the beginning of the performance period, generally admission, to the sooner of completion of services to that resident, discharge, or the end of the month. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Center does not believe it is required to provide additional goods or services to the patient or resident.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Center has elected to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient services or skilled services to residents at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, or for residents, the sooner of completion of services, discharge or end of the month, which generally occurs within days or weeks of the end of the reporting period.

The Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and residents in accordance with the Center’s policy, and any implicit price concessions provided to uninsured patients and residents. The Center determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Center determines its estimate of implicit price concessions based on its historical collection experience with the class of patients and residents.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

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 patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in 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.

Charity Care

Consistent with the Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Center has determined it has provided implicit price concessions to uninsured patients and residents and patients and residents with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and residents, and the amounts the Center expects to collect based on its collection history with those patients and residents.

The Center provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Since the Center does not pursue collection for services determined to qualify as charity care, no revenue is reported for charity care. The Center provides government-sponsored health insurance applications, payment discounting, or payment waiving for services provided to patients with family incomes less than 350% of the federal poverty levels in compliance with the State of California Assembly Bill 774 and with the Department of Health and Human Services poverty guidelines. The costs of caring for charity care clients for the years ended June 30, 2023 were not significant.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Grants and Contributions

The Center recognizes unconditional contributions when received or promised to give. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

The Center records contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions, or both. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. It is the Center's policy to record donor-restricted contributions received and expended in the same accounting period as contributions without donor restrictions.

Malpractice Insurance

The Center purchases commercial malpractice liability insurance on an occurrence basis with nominal deductibles.

Income Taxes

The Center is an organization described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state taxes under Section 501(a) of the Code and corresponding sections of the California Revenue and Taxation Code. As such, no provision for income taxes is reflected in the consolidated financial statements. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

The Center has adopted FASB ASC Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the consolidated financial statements.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and investments with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Center has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the Center.

Functional Allocation of Expenses

The cost of program and supporting services activities have been summarized on a functional basis in Note 15, which presents the natural classification detail of expenses by function. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses are allocated on a reasonable basis that is consistently applied, such as units-of-service basis or revenue. Costs not directly attributable to a function, such as depreciation and amortization, interest and other occupancy costs, are allocated to a function based on estimated size or usage.

Leasing Arrangements

In February 2016, the FASB issued new lease accounting guidance in Accounting Standards Update (ASU) 2016-02 *Leases* (Topic 842) (ASU 2016-02), which modifies lease accounting for lessees to increase transparency and comparability by requiring the Center to recognize a lease liability and related right-of-use asset for all leases (with the exception of short-term leases) at the commencement date of the lease and to disclose key information about leasing arrangements.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Leasing Arrangements (Continued)

Effective July 1, 2022, the Center adopted ASU 2016-02. The Center determines if an arrangement contains a lease at inception based on whether the Center has the right to control the asset during the contract period and other facts and circumstances. For contracts that extend for a period of greater than 12 months, the Center recognizes a right-of-use asset and a corresponding liability. The exercise of these renewal options is at the sole discretion of the Center, and only lease options that the Center believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. For contracts that contain non-lease and lease components, the Center recognizes the non-lease components readily determinable from the lease as incurred on the consolidated statement of activities.

The Center adopted ASU 2016-02 utilizing the modified-retrospective transition method through a cumulative-effect adjustment. The adoption of ASU 2016-02 resulted in the recognition of a right-of-use asset, net of prepaid lease payments and lease incentives, and operating lease liabilities of $821,700 as of July 1, 2022. Results for periods beginning prior to July 1, 2022, continue to be reported in accordance with our historical accounting treatment. The adoption of ASU 2016-02 did not have a material impact on the Center's results of operations, cash flows, or debt covenants.

The Center’s policy for determining its lease discount rate used for measuring lease liabilities is to use the rate implicit in the lease whenever that rate is readily determinable. If the rate implicit in the lease is not readily determinable, then the Center has elected to use its incremental borrowing rate or the risk-free discount rate, as permitted by U.S. GAAP, determined using a period comparable with that of the lease term.

The Center has elected a policy to account for short-term leases, defined as any lease with a term less than 12 months, by recognizing all components of the lease payment in the consolidated statement of activities in the period in which the obligation for the payments is incurred.

Subsequent Events

Subsequent events have been evaluated through December 8, 2023, which is the date the consolidated financial statements were available to be issued. Subsequent to year end, the Center established a wholly owned limited liability company.

NOTE 3 – Liquidity and Availability

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

	June 30,	
	2023	**2022**
Cash and cash equivalents	$ 3,911,141	$ 5,237,190
Investments	7,976,333	7,475,236
Receivables	6,243,365	3,685,161
Notes receivable	472,667	106,000
	18,603,506	16,503,587
Less amounts unavailable for general expenditure within one year due to donor-imposed restrictions	(258,088)	(224,128)
	$ 18,345,418	$ 16,279,459

The Center maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of the Center's liquidity management plan, the Center invests cash in excess of daily requirements in short-term investments and money market funds.

NOTE 4 – Investments

The Center uses fair value measurements to record fair value adjustment to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Center measures fair value, refer to *Note 2 - Summary of Significant Accounting Policies*.

Assets Limited as to Use

The composition of assets limited as to use is set forth in the following table. Investments are stated at fair value.

	June 30,	
	2023	**2022**
Assets limited as to use		
Held by trustee under CHFFA bond agreement:		
Money market	$ 765,560	$ 803,255

Investments consist of the following:

	June 30, 2023		June 30, 2022	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Cash equivalents	$ 139,258	$ 139,258	$ 76,935	$ 76,935
Fixed income securities	3,614,894	4,210,206	3,686,523	4,093,648
Domestic equity securities	1,924,126	1,377,186	1,751,223	1,452,144
Mutual funds	2,298,055	2,330,696	1,960,555	2,300,609
Total	$ 7,976,333	$ 8,057,346	$ 7,475,236	$7,923,336

NOTE 4 – Investments (Continued)

The following tables present the balances of the assets measured at fair value on a recurring basis.

	Amount	Level 1	Level 2	Level 3
June 30, 2023:				
Investments				
Cash equivalents	$ 139,258	$ 139,258	$ -	$ -
Fixed income securities	3,614,894	-	3,614,894	-
Domestic equity securities	1,924,126	1,924,126	-	-
Mutual funds	2,298,055	2,298,055	-	-
Total investments	7,976,333	4,361,439	3,614,894	-
Assets limited as to use				
Money market held by CHFFA bond agreement	765,560	765,560	-	-
Total	$ 8,741,893	$ 5,126,999	$ 3,614,894	$ -

	Amount	Level 1	Level 2	Level 3
June 30, 2022:				
Investments				
Cash equivalents	$ 76,935	$ 76,935	$ -	$ -
Fixed income securities	3,686,523	-	3,686,523	-
Domestic equity securities	1,751,223	1,751,223	-	-
Mutual funds	1,960,555	1,960,555	-	-
Total investments	7,475,236	3,788,713	3,686,523	-
Assets limited as to use				
Money market held by CHFFA bond agreement	803,255	803,255	-	-
Total	$ 8,278,491	$ 4,591,968	$ 3,686,523	$ -

The Center did not have any liabilities measured at fair value on a recurring basis as of June 30, 2023 and 2022.

NOTE 5 – Notes Receivable

In 2016 and 2017, the Center advanced funds to a mental health service provider, totaling $106,000. Pursuant to an amended agreement effective August 2021, the advances were interest free through June 30, 2022, the amended maturity date of the notes. If the notes are not repaid by the maturity date, interest begins to accrue at a rate of prime plus 1%. During 2023, the Center and the mental health service provider reached a mutual agreement to extend the maturity date through June 30, 2024, with a payment plan beginning September 2023.

In January 2023, the Center advanced funds to a non-profit organization totaling $200,000, bearing an annual interest rate of 20% maturing in February 2024.

In April 2023, the Center advanced funds to a non-profit organization totaling $250,000 with an interest amount of $12,500 to be paid back with the principal maturing in August 2023.

NOTE 6 – Net Patient Service Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. The payment arrangement with its major third-party payors to provide services to patients covered under Short-Doyle/Medi-Cal, Mental Health Services Act (MHSA), Bronzon-McCorquodale, and Medicare programs, all pay based on a fixed or contracted rate or reimbursable costs, whichever is defined by the program. The Center also receives funding for services from other governmental agencies, including the Department of State Hospitals.

Laws and regulations governing these programs are extremely complex and subject to interpretation. The Center has potential settlements with third-party payors for retroactive adjustments that are considered variable consideration and included in the determination of the estimated transaction price for providing patient care. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Medicare and Medi-Cal cost reports have not yet been finalized for fiscal years 2022 to 2023. County and Medi-Cal settlements, representing adjustments to revenue previously recognized based on settlements from third-party payors, totaled $1,038,505 and $2,056,756 for the years ended June 30, 2023 and 2022, respectively, and are included in net patient service revenue.

NOTE 6 – Net Patient Service Revenue (Continued)

Generally, patients and certain residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Center also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Center estimates the transaction prices for patients and 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 adjustment, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Adjustments arising from a change in the estimate of implicit price concessions for performance obligations were not significant in 2023 and 2022. Subsequent changes that are determined to be the result of an adverse change in collectability are recorded as bad expense or charity care. Bad debt expense for the years ended June 30, 2023 and 2022 was not significant.

The source of patient service revenue by payor was as follows at June 30:

	2023	2022
Department of Mental Health	$ 28,153,139	$ 24,424,861
Conditional Release Program (CONREP)	9,219,322	7,612,116
Other	1,274,864	2,322,771
	$ 38,647,325	$ 34,359,748

The composition of receivables due from patient services consist of the following at June 30:

	2023	2022
Patient receivables		
State and county programs	$ 4,000,249	$ 2,339,939
Private and other	135,328	184,368
	4,135,577	2,524,307
Expected settlements due from DMH (due from third-party payors)	1,504,218	951,200
	$ 5,639,795	$ 3,475,507

NOTE 6 – Net Patient Service Revenue (Continued)

The Center's primary source of billing through DMH is assessed as fully collectible by the Center's management.

The composition of net patient service revenue based on the timing of revenue recognition is as follows for the years ended June 30:

	2023	2022
At time services are rendered	$ 21,817,943	$ 19,159,855
Services transferred over time	16,829,382	15,199,893
	$ 38,647,325	$ 34,359,748

Revenue that is generally recognized at the time services are rendered includes outpatient services, which are treatment programs that provide services to children and adolescents who benefit from less intensive treatment than inpatient services.

Revenue that is recognized as the services are transferred over time includes governmental agency contracted programs, residential revenues, and inpatient healthcare services. The primary function of governmental agency contract programs is to supervise judicially committed individuals released to the community. Residential revenue includes residential programs that assist individuals transitioning out of locked institutions of mental disease settings into unlocked residential programs with the goal of eventually moving into a traditional board and care with community reintegration. Residential revenue includes revenue that are recognized as the services are transferred over time, which consist of the revenue recognized as the individuals stay at the facilities. Revenue for individuals who receive specialized treatment is recognized at the time services are rendered and is billed in addition to the revenue recognized for the individuals' stay at the facilities. Inpatient healthcare services include short-term, intensive inpatient treatment of patients with acute episodes of psychiatric and dual diagnosis disorders. Inpatient care revenue recognized in healthcare services are recognized as the services are transferred over time (i.e., over the course of the patient stay).

NOTE 7 – Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements or participate under a county-sponsored program. The Center manages its collection risk by regularly reviewing its accounts and contracts and by providing appropriate allowances. The Department of Mental Health represents 58% and 79% of receivables at June 30, 2023 and 2022, respectively.

NOTE 8 – Investment in Partnership

In February 2004, the Center formed a limited partnership with another nonprofit and a for-profit organization for the purpose of acquiring, owning, developing, constructing and/or rehabilitating, leasing, managing, operating, and if appropriate or desirable, selling or otherwise disposing of a 30-unit residential project, including one (1) manager's unit for the homeless, called the "Project." The term of the Partnership commenced on February 9, 2004 and shall continue until December 31, 2064. The Center is the administrative general partner and owns 0.005% of the interest of the partnership with a capital contribution of $925,000. The investment is recorded under the equity method and the Center's share of the Partnership activity has been insignificant during the years ended June 30, 2023 and 2022.

NOTE 9 – Property and Equipment

Property and equipment consists of the following at June 30:

	2023	2022
Building and improvements	$ 18,208,893	$ 18,180,893
Movable equipment and software	3,101,555	3,258,914
	21,310,448	21,439,807
Less accumulated depreciation	(14,923,176)	(14,392,942)
	6,387,272	7,046,865
Construction in progress	91,120	-
Land	2,674,845	2,674,845
	$ 9,153,237	$ 9,721,710

The depreciation expense for the years ended June 30, 2023 and 2022 was $780,012 and $796,441, respectively.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

NOTE 10 – Long-Term Debt

Long-term notes payable consists of the following at June 30:

	2023	2022
Note payable to California Health Facilities Financing Authority (CHFFA) (conduit bond issuer) for the acquisition of Percy Village Facility and refinance and remodel of Hill Street building with maximum interest rate at 5.50% through December 2036, collateralized by a deed of trust against the new constructed property.	$ 5,530,000	$ 5,800,000
Note payable to California Emergency Housing and Assistance Program (EHAP) for new construction project located at Hoover Street, no interest, collateralized by a deed of trust against the new constructed property. Repayment of the loan shall be deferred and will be forgiven in the year 2024.	1,000,000	1,000,000
Note payable to Community Redevelopment Agency Program (CRA) of the City of Los Angeles for a construction project located at Hoover Street, no interest, collateralized by a deed of trust against the constructed property. The loan shall be forgivable at $27,350 per year.	218,800	246,150
Note payable to the CHFFA for a HELP II, commercial building at Hill Street, payable monthly with interest rate of 3% through January 2028, collateralized by a deed of trust against the constructed property, and pledge of revenue from all sources.	241,724	287,276
	6,990,524	7,333,426
Less unamortized deferred financing cost, using effective interest rates of approximately 5.8%	(420,049)	(451,163)
	6,570,475	6,882,263
Less current maturities on long-term debt	(330,974)	(314,617)
Less accrued bond interest	(24,025)	(24,960)
Long-term debt, net of current portion and unamortized financing costs	$ 6,215,476	$ 6,542,686

NOTE 10 – Long-Term Debt (Continued)

Scheduled principal payments on long-term debt at June 30, 2023 are as follows:

Year Ending June 30,	
2024	$ 330,974
2025	342,373
2026	358,814
2027	375,284
2028	365,254
Thereafter	3,999,025
	5,771,724
Loans to be forgiven:	
Note payable to CRA	218,800
Note payable to EHAP	1,000,000
	$ 6,990,524

The notes payable are subject to certain compliance requirements or restrictive covenants, primarily requiring the Center to maintain use of the related property as originally established in the agreements for the required time period, for which the Center was in compliance as of June 30, 2023.

NOTE 11 – Restricted Net Assets

Net assets with donor restrictions were restricted for the following purposes as of June 30, 2023 and 2022.

	June 30, 2023	June 30, 2022
Facility renovations and furniture	$ 57,344	$ 191,941
Clinical education	191,249	-
Other	9,495	32,187
	$ 258,088	$ 224,128

NOTE 12 – Retirement Benefits

Retirement benefits are available for all eligible employees through the Center's Variable Annuity Plan (the Plan). The Plan is a defined contribution plan where the Center's matching contribution is up to 25% of employee's contribution, which is limited to a maximum of 3% of employee's annual salary. Charges to operating expense for the Center's share of costs for the Plan were $544,651 and $561,850 for the years ended June 30, 2023 and 2022, respectively.

NOTE 13 – Collective Bargaining Agreement

The Center has a collective bargaining agreement, which covers all full-time and regular part-time nonprofessional employees, who are not part of its administrative staff or registered nursing staff (bargaining unit employees). The agreement requires an increase in annual salary, based on a fixed rate, for all bargaining unit employees. The agreement is effective through October 31, 2025.

Either the union or the Center may re-open negotiations regarding fiscal matters in the collective bargaining agreement if there are significant changes in operations and funding. As of the issuance date of these consolidated financial statements, the Center continues to work on amending the agreement beyond the expiration date and does not expect any operational impact to the Center during the negotiation period.

NOTE 14 – Commitments and Contingencies

The Center is subject to contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Center.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue.

NOTE 15 – Functional Expenses

Expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Cost not directly attributable to a function, such as depreciation, interest, and other occupancy cost are allocated to a function based on estimates of size or usage. Cost that supports the Center as a whole remains in support services. The Center provides health care services to residents within its geographic location. Expenses related to providing these services by functional class and natural class is as follows:

	June 30, 2023						
	Health Care Services				Supportive	Fund	
	Inpatient	Forensic	Residential	Outpatient	Services G&A	Development	Total
Salaries and Benefits	$ 10,285,782	$ 5,611,752	$ 3,804,707	$ 4,055,708	$ 2,618,646	$ 428,204	$ 26,804,799
Insurance	302,061	167,868	114,671	120,123	84,409	6,227	795,359
Licenses and taxes	161,116	29,347	26,715	33,804	85,920	781	337,683
Professional services	1,392,659	386,443	94,202	563,647	338,075	173,611	2,948,637
Purchased services	1,214,478	842,570	537,443	138,633	378,321	326,204	3,437,649
Rent and leases	11,465	487,983	40,479	155,969	13,534	29	709,459
Repair and maintanance	121,801	35,439	60,907	5,257	42,966	743	267,113
Supplies	595,382	299,982	860,010	103,278	165,992	57,541	2,082,185
Telephone	144,440	74,700	152,771	45,732	22,967	967	441,577
Utilities	316,000	99,192	597,446	61,704	35,232	1,139	1,110,713
Depreciation and amortization	205,203	29,498	516,353	54,054	5,831	188	811,127
Hospital support	-	-	-	-	54,212	-	54,212
Interest	5,985	3,665	305,976	2,556	20	2,428	320,630
Other expenses	190,552	333,995	144,053	22,475	461,134	19,492	1,171,701
	$ 14,946,924	$ 8,402,434	$ 7,255,733	$ 5,362,940	$ 4,307,259	$ 1,017,554	$ 41,292,844

NOTE 15 – Functional Expenses (Continued)

	June 30, 2022					
	Health Care Services					
	Inpatient	Forensic	Residential	Outpatient	Supportive Services G&A	Total
Salaries and Benefits	8,177,780	4,419,278	3,419,662	4,753,086	3,101,673	$ 23,871,479.00
Insurance	194,889	106,737	82,878	113,084	72,482	570,070
Licenses and taxes	30,375	6,079	37,161	70,698	75,396	219,709
Professional services	1,431,949	392,520	56,207	455,210	476,301	2,812,187
Purchased services	555,079	944,651	588,936	91,871	538,535	2,719,072
Rent and leases	9,782	455,771	41,247	132,730	13,741	653,271
Repair and maintanance	183,560	13,744	81,814	4,725	48,077	331,920
Supplies	432,662	225,485	872,762	82,422	158,681	1,772,012
Telephone	21,287	63,900	76,364	73,254	121,449	356,254
Utilities	241,925	69,439	436,921	49,821	39,051	837,157
Depreciation and amortizati	147,099	51,409	595,682	14,778	18,589	827,557
Interest	6,285	3,822	318,550	4,018	521	333,196
Other expenses	226,782	72,981	101,863	25,856	210,943	638,425
	$ 11,659,454.00	$ 6,825,816.00	$ 6,710,047.00	$ 5,871,553.00	$ 4,875,439.00	$ 35,942,309.00

NOTE 16 – Lease Arrangements

The Center leases its Los Angeles and San Diego office spaces and equipment under operating leases with two-to-eleven-year initial terms. Most leases include renewal options which can extend the lease term up to five years.

Variable payments are not determinable at lease commencement and are not included in the measurement of the operating lease asset and liability. The lease agreements do not include any material residual value guarantees or restrictive covenants.

The following summarizes the line items in the consolidated statement of financial position, which include amounts for operating leases as of year-end:

NOTE 16 – Lease Arrangements (Continued)

	June 30, 2023	June 30, 2022
Operating lease right-of-use asset	$ 754,985	$ -
Operating lease liability, current portion	$ 245,582	$ -
Operating lease liability, net of current portion	525,762	-
	$ 771,344	$ -

The components of operating lease expenses that are included in rents and leases in the consolidated statement of activities were as follows:

	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022
Operating lease costs	$ 498,195	$ -
Short-term lease costs	100,816	-
Variable lease costs	110,448	-
	$ 709,459	$ -

The following table summarizes the supplemental cash flow information for the years ended June 30, 2023:

	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 50,356	$ -
Noncash investing and financing activity:		
Right-of-use assets obtained in exchange for operating lease liabilities upon ASU 842 adoption	$ 821,700	$ -

NOTE 16 – Lease Arrangements (Continued)

The weighted-average lease term and discount rate were as follows:

	June 30, 2023	June 30, 2022
Weighted-average remaining lease term - operating leases	3.51 years	-
Weighted-average discount rate - operating leases	1.86%	-%

The maturities of and operating lease liabilities as of June 30, 2023 are as follows:

Year Ending June 30,	Operating Leases
2023	$ 277,072
2024	201,295
2025	166,929
2026	162,761
2027	37,224
Total minimum lease payments	845,281
Less amount representing interest	(73,937)
Present value of minimum lease payments	771,344
Less current portion	(245,582)
	$ 525,762

Exhibit E: Audited Financial Statements 2024

Gateways Hospital and Mental Health Center

Consolidated Financial Statements
June 30, 2024
(with Comparative Totals for 2023)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Gateways Hospital and Mental Health Center

Opinion

We have audited the accompanying consolidated financial statements of Gateways Hospital and Mental Health Center (the Center) (a California nonprofit corporation), which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2024, 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with 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 consolidated financial statements.

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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center'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.

Report on Summarized Comparative Information

We have previously audited the Center's 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 8, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Windes, Inc.

Long Beach, California
October 10, 2024

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024
(WITH COMPARATIVE TOTALS FOR 2023)

ASSETS

	June 30, 2024	June 30, 2023
CURRENT ASSETS		
Cash and cash equivalents	$ 5,532,966	$ 3,911,141
Investments	8,690,221	7,976,333
Assets limited as to use	766,722	765,560
Net patient receivables	14,565,925	4,135,577
Due from third-party payors	591,645	1,504,218
Contribution and other receivables	208,647	603,570
Notes receivable	33,333	472,667
Prepaid expenses and other current assets	821,230	759,133
	31,210,689	20,128,199
NONCURRENT ASSETS		
Property and equipment, net	9,935,028	9,153,237
Investment in partnership	925,000	925,000
Operating lease right-of-use assets	524,625	754,985
	11,384,653	10,833,222
TOTAL ASSETS	$ 42,595,342	$ 30,961,421

The accompanying notes are an integral part of these consolidated financial statements.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024
(WITH COMPARATIVE TOTALS FOR 2023)
(Continued)

LIABILITIES AND NET ASSETS

	June 30, 2024	June 30, 2023
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,311,662	$ 1,243,705
Accrued salaries and employee benefits	2,502,744	2,391,993
Line of credit	1,002,153	-
Long-term debt, current portion	365,387	354,999
Operating lease liabilities, current portion	184,960	245,582
Deferred revenue	56,984	15,749
	5,423,890	4,252,028
NONCURRENT LIABILITIES		
Long-term debt, net of current portion and unamortized financing costs	5,876,369	6,215,476
Operating lease liabilities, net of current portion	352,697	525,762
	6,229,066	6,741,238
COMMITMENTS AND CONTINGENCIES (NOTE 14)		
NET ASSETS		
With donor restrictions	204,054	258,088
Without donor restrictions	30,738,332	19,710,067
	30,942,386	19,968,155
TOTAL LIABILITIES AND NET ASSETS	$ 42,595,342	$ 30,961,421

The accompanying notes are an integral part of these consolidated financial statements.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024
(WITH COMPARATIVE TOTALS FOR 2023)

	Without Donor Restrictions	With Donor Restrictions	Total 2024	Total 2023
REVENUE AND SUPPORT				
Net patient service revenue	$ 52,671,889	$ -	$ 52,671,889	$ 38,647,325
Grants and contributions	3,355,929	84,000	3,439,929	1,732,173
Rental income	1,240,243	-	1,240,243	1,214,476
Special events, net	23,278	-	23,278	59,580
Other revenues	73,615	-	73,615	114,776
Investment income, net	795,579	-	795,579	537,332
Net assets released from restriction	138,034	(138,034)	-	-
Total revenue and support	58,298,567	(54,034)	58,244,533	42,305,662
OPERATING EXPENSES				
Salaries and benefits	31,040,498	-	31,040,498	26,804,799
Insurance	973,470	-	973,470	795,359
Licenses and taxes	234,484	-	234,484	337,683
Professional fees	3,967,014	-	3,967,014	2,948,637
Purchased services	3,630,951	-	3,630,951	3,437,649
Rent and leases	756,125	-	756,125	709,459
Repair and maintenance	246,789	-	246,789	267,113
Supplies	2,240,462	-	2,240,462	2,082,185
Telephone	473,127	-	473,127	441,577
Utilities	1,095,011	-	1,095,011	1,110,713
Depreciation and amortization	635,025	-	635,025	811,127
Hospital support	-	-	-	54,212
Interest	322,428	-	322,428	320,630
Bad debt	331,559	-	331,559	-
Other expenses	1,323,359	-	1,323,359	1,171,701
Total operating expenses	47,270,302	-	47,270,302	41,292,844
CHANGE IN NET ASSETS	11,028,265	(54,034)	10,974,231	1,012,818
NET ASSETS, BEGINNING OF YEAR	19,710,067	258,088	19,968,155	18,955,337
NET ASSETS, END OF YEAR	$ 30,738,332	$ 204,054	$ 30,942,386	$ 19,968,155

The accompanying notes are an integral part of these consolidated financial statements.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2024
(WITH COMPARATIVE TOTALS FOR 2023)

	June 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 10,974,231	$ 1,012,818
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	635,025	811,127
Forgiveness of loans	(27,350)	(27,350)
Forgiveness of notes receivable	106,000	-
Amortization on operating leases	230,360	66,715
Net realized and unrealized gains on investments	(519,583)	(417,104)
Changes in operating assets and liabilities:		
Net patient receivables	(10,430,348)	(1,611,270)
Due from third-party payors	912,573	(553,018)
Contribution and other receivables	394,923	(393,916)
Prepaid expenses and other current assets	(62,097)	259,783
Accounts payable and accrued liabilities	67,957	(176,939)
Accrued salaries and employee benefits	110,751	692,629
Deferred revenue	41,235	889
Operating lease liabilities	(233,687)	(50,356)
Net Cash Provided By (Used In) Operating Activities	2,199,990	(385,992)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(939,275)	(446,720)
Proceeds from sale of investments	744,970	362,727
Issuance of notes receivable	-	(450,000)
Receipts on notes receivables	333,334	83,333
Purchases of property and equipment	(1,385,701)	(211,539)
Net Cash Used In Investing Activities	(1,246,672)	(662,199)

The accompanying notes are an integral part of these consolidated financial statements.

GATEWAYS HOSPITAL AND MENTAL HEALTH CENTER
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2024
(WITH COMPARATIVE TOTALS FOR 2023)
(Continued)

	June 30,	
	2024	2023
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change from line of credit	1,002,153	-
Principal payments on long-term debt	(332,484)	(315,553)
Net Cash Provided By (Used In) Financing Activities	669,669	(315,553)
CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	1,622,987	(1,363,744)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	4,676,701	6,040,445
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	$ 6,299,688	$ 4,676,701
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents in current assets	$ 5,532,966	$ 3,911,141
Restricted cash and cash equivalents in assets limited as to use	766,722	765,560
	$ 6,299,688	$ 4,676,701
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 321,650	$ 334,131

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – Organization

Gateways Hospital and Mental Health Center (the Hospital) is a California nonprofit corporation, incorporated for the purpose of providing mental health services in the greater Los Angeles area. The Hospital provides acute inpatient services for both adolescent and adult patients, community based outpatient services for children, adolescents, and adults, forensic services for adults, and homeless and wellness programs for adults. The majority of the Hospital's funding is from the Los Angeles County - Department of Mental Health (DMH) and the Department of State Hospitals for Forensic Residential Programs. Support also comes from private donors, Medi-Cal, and general community contributions.

As of July 1, 2022, Gateways Hospital and Mental Health Foundation (the Foundation), a California nonprofit corporation, was formed for the purpose of fundraising and development on behalf of the Hospital. The Foundation and the Hospital share common management with the Hospital being the primary beneficiary of the Foundation's net fundraising efforts.

As of July 2023, the Hospital established a wholly owned limited liability company (LLC). There was no activity for the LLC during the year ended June 30, 2024.

Collectively, the Hospital, the LLC, and the Foundation are referred to as the "Center" in these consolidated financial statements.

NOTE 2 – Summary of Significant Accounting Policies

Principles of Consolidation

The Center's consolidated financial statements include the Hospital, the LLC, and the Foundation. All significant intercompany accounts and transactions have been eliminated.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The consolidated financial statements of the Center are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> ***Without Donor Restrictions*** – Net assets are comprised of assets that are for operating purposes or assets that are not subject to donor-imposed restrictions and are general in nature.
>
> ***With Donor Restrictions*** – Net assets whose use by the Center is subject to donor-imposed restrictions that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. Other donor restrictions may be perpetual in nature, where the donors of these assets permit the Center to use all or part of the investment return on these assets for unrestricted purposes. As of June 30, 2024, the Center had no net assets with donor restrictions that were perpetual in nature.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use. For purposes of the consolidated statement of cash flows, cash and cash equivalents include restricted cash and cash equivalents.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Investments and Investment Income

The Center accounts for its investments in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-320-50. In accordance with ASC 958-320-50, investments with readily determinable fair values are reported at their fair values in the consolidated statement of financial position. The fair values are based on quoted market prices. Donated investments are recorded at the market value on the date of donation. Realized and unrealized gains and losses are included as net gains on the accompanying consolidated statement of activities and attributed to net assets with donor restrictions where stipulated by donor designations. Investment income is reported net of related investment expenses.

Assets Limited as to Use

Assets limited as to use include assets set aside and held by trustees under bond indenture agreements. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use is set forth in the following table at fair value:

	June 30,	
	2024	2023
Assets limited as to use		
Held by trustee under CHFFA bond agreement:		
Money market	$ 766,722	$ 765,560

Contribution and Other Receivables

Unconditional promises to give are recorded at estimated fair value when the promise is received. All contribution and other receivable are expected to be received within one year of the date of the consolidated financial statements. Management believes that the remaining outstanding promises to give as of June 30, 2024 are collectible in full and, accordingly, no allowance for uncollectible contributions receivable has been provided.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Net Patient Receivables and Due from Third-Party Payors

Net patient receivables and due from third-party payors consist of uncollateralized patient, resident, and third-party payor obligations related to services rendered by the Center under various contract or grant agreements. The Center does not charge interest on unpaid patient receivables. Payments of receivables are allocated to the specific claims identified in the claim or, if unspecified, are applied to the earliest unpaid claim.

Receivables are reduced by any discounts and implicit price concessions based on historical collection experience or terms of agreements with third-party payors and grantors. In evaluating the collectability of receivables, the Center analyzes accounts for adverse changes in the patient's or payor's ability to pay that may have occurred subsequent to recognition. Management regularly reviews specific data about receivable balances and its past history with similar cases to appropriately value patient receivables.

The Center has adjusted receivables from patients, residents, third-party payors, and grantors using management's estimates of expected credit losses by discounting gross patient revenues and a credit to an allowance account based on its collection experience on contracts with third-party payors and grantors for services provided to patients and residents. As of June 30, 2024, the balance of the allowance for credit losses was $1,256,053.

Property and Equipment

Property and equipment acquisitions in excess of $5,000 and with useful lives beyond one year are capitalized and recorded at cost. Depreciation and amortization is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of property and equipment are as follows:

Buildings and improvements	10 to 40 years
Major movable equipment and software	5 to 10 years

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Investment in Partnership

Investments in entities in which the Center has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize the Center's share of earnings and losses of those entities, net of any additional investments or distributions. The Center's share of net earnings or losses of the entity have been insignificant and management has elected not to adjust the initial investment balance.

Fair Value Measurements

The Center determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10, *Fair Value Measurements and Disclosures*, 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. The Center uses the market approach to estimate fair value for all investment assets. The following provides a summary of the hierarchical levels, as defined by FASB ASC 820-10, used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability where fair value is estimated by management or outside investment managers.

Deferred Financing Costs

Debt issuance costs are recorded as a direct reduction of the carrying value of the debt and are amortized to interest expense over the term of the debt.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Center expects to be entitled in exchange for providing patient and resident care. These amounts are due from patients or residents, third-party payors (including health insurers and governmental programs), and others, and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Center bills the patients, residents, and third-party payors several days after the services are performed and/or the patient or resident is discharged from the facility. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Center believes that this method provides an accurate 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 relate to patients in the Center receiving inpatient services and residents receiving skilled services. The Center measures the performance obligation associated with inpatient services from admission to the Center to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. The Center measures the performance obligation associated with residents receiving skilled services from the beginning of the performance period (generally admission), to the sooner of completion of services to that resident (discharge), or the end of the month. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Center does not believe it is required to provide additional goods or services to the patient or resident.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Because all of the Center's performance obligations relate to contracts with a duration of less than one year, it has elected to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient services or skilled services to residents at the end of the reporting period. The performance obligations for these contracts are generally completed when patients are discharged, or for residents, the sooner of completion of services, discharge, or end of the month, which generally occurs within days or weeks of the end of the reporting period.

The Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and residents in accordance with the Center's policy, and any implicit price concessions provided to uninsured patients and residents. The Center determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Center determines its estimate of implicit price concessions based on its historical collection experience with the class of patients and residents.

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 patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in 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.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Charity Care

Consistent with the Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Center has determined it has provided implicit price concessions to uninsured patients and residents and patients and residents with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and residents, and the amounts the Center expects to collect based on its collection history with those patients and residents.

The Center provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Since the Center does not pursue collection for services determined to qualify as charity care, no revenue is reported for charity care. The Center provides government-sponsored health insurance applications, payment discounting, or payment waiving for services provided to patients with family incomes less than 350% of the federal poverty levels in compliance with the State of California Assembly Bill 774 and with the Department of Health and Human Services poverty guidelines. The costs of caring for charity care clients for the year ended June 30, 2024 were not significant.

Grants and Contributions

The Center recognizes unconditional contributions when received or promised to give. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

The Center records contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions, or both. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. It is the Center's policy to record donor-restricted contributions received and expended in the same accounting period as contributions without donor restrictions.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Malpractice Insurance

The Center purchases commercial malpractice liability insurance on an occurrence basis with nominal deductibles.

Income Taxes

The Center is a not-for-profit organization described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state taxes under Section 501(a) of the Code and corresponding sections of the California Revenue and Taxation Code. As such, no provision for income taxes is reflected in the consolidated financial statements. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

The Center has adopted FASB ASC Topic 740 which clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the consolidated financial statements.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and investments with financial institutions the Center believes to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Center has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation, management believes that the investment policies and guidelines are prudent for the long-term welfare of the Center.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The cost of the Center's program and supporting services have been summarized on a functional basis in Note 15, which presents the natural classification detail of expenses by function. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses are allocated on a reasonable basis that are consistently applied, such as units-of-service basis or revenue. Costs not directly attributable to a function, such as depreciation and amortization, interest, and other occupancy costs, are allocated to a function based on estimated size or usage.

Leasing Arrangements

The Center determines if an arrangement contains a lease at inception based on whether the Center has the right to control the asset during the contract period and other facts and circumstances. For contracts that extend for a period of greater than 12 months, the Center recognizes right-of-use assets and corresponding liabilities. The exercise of these renewal options is at the sole discretion of the Center, and only lease options that the Center believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. For contracts that contain non-lease and lease components, the Center recognizes the non-lease components readily determinable from the lease as incurred on the consolidated statement of activities.

The Center's policy for determining its lease discount rate used for measuring lease liabilities is to use the rate implicit in the lease whenever that rate is readily determinable. If the rate implicit in the lease is not readily determinable, then the Center has elected to use its incremental borrowing rate or the risk-free discount rate, as permitted by U.S. GAAP, determined using a period comparable with that of the lease term.

The Center has elected a policy to account for short-term leases, defined as any lease with a term less than 12 months, by recognizing all components of the lease payment in the consolidated statement of activities in the period in which the obligation for the payments is incurred.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

Beginning July 1, 2023, the Center adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and its related amendments, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology. This ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU also requires the Center to use forward-looking information to better formulate its credit loss estimates.

The ASU permits the use of either a prospective transition method or a modified-retrospective transition method with the cumulative-effect adjustment to the opening balance of retained earnings. The Company has elected the use of the modified-retrospective transition method. The transition method selected resulted in no adjustment to the opening balance of net assets.

Subsequent Events

Subsequent events have been evaluated through October 10, 2024, which is the date the consolidated financial statements were available to be issued.

In September 2024, the Center was notified that their note payable to the California Emergency Housing and Assistance Program (EHAP) for $1,000,000 was fully forgiven.

NOTE 3 – Liquidity and Availability

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

	June 30, 2024	June 30, 2023
Cash and cash equivalents	$ 5,532,966	$ 3,911,141
Investments	8,690,221	7,976,333
Receivables	15,366,217	6,243,365
Notes receivable	33,333	472,667
	29,622,737	18,603,506
Less amounts unavailable for general expenditure within one year due to donor-imposed restrictions	(204,054)	(258,088)
	$ 29,418,683	$ 18,345,418

The Center maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of the Center's liquidity management plan, the Center invests cash in excess of daily requirements in short-term investments and money market funds. The Center also maintains a line of credit (see Note 17) to manage cash flow requirements as needed.

NOTE 4 – Investments

The Center uses fair value measurements to record fair value adjustment to certain assets and liabilities and to determine fair value disclosures.

Investments consist of the following:

	June 30, 2024		June 30, 2023	
	Fair Value	Cost	Fair Value	Cost
Cash equivalents	$ 116,817	$ 116,817	$ 139,258	$ 139,258
Fixed income securities	3,707,044	4,349,967	3,614,894	$ 4,210,206
Domestic equity securities	2,344,328	1,472,709	1,924,126	1,377,186
Mutual funds	2,522,032	2,363,533	2,298,055	2,330,696
Total	$ 8,690,221	$ 8,303,026	$ 7,976,333	$ 8,057,346

NOTE 4 – Investments (Continued)

The following tables present the balances of the assets measured at fair value on a recurring basis.

June 30, 2024	Total	Level 1	Level 2	Level 3
Investments				
Cash equivalents	$ 116,817	$ 116,817	$ -	$ -
Fixed income securities	3,707,044	-	3,707,044	-
Domestic equity securities	2,344,328	2,344,328	-	-
Mutual funds	2,522,032	2,522,032	-	-
Total Investments	$ 8,690,221	$ 4,983,177	$ 3,707,044	$ -

June 30, 2023	Total	Level 1	Level 2	Level 3
Investments				
Cash equivalents	$ 139,258	$ 139,258	$ -	$ -
Fixed income securities	3,614,894	-	3,614,894	-
Domestic equity securities	1,924,126	1,924,126	-	-
Mutual funds	2,298,055	2,298,055	-	-
Total Investments	$ 7,976,333	$ 4,361,439	$ 3,614,894	$ -

The Center did not have any liabilities measured at fair value on a recurring basis as of June 30, 2024 and 2023.

NOTE 5 – Notes Receivable

In 2016 and 2017, the Center advanced funds to a mental health service provider totaling $106,000. Pursuant to an amended agreement effective August 2021, the advances were interest free through June 30, 2022, the amended maturity date of the notes. If the notes are not repaid by the maturity date, interest begins to accrue at a rate of prime plus 1%. During 2023, the Center and the mental health service provider reached a mutual agreement to extend the maturity date through June 30, 2024, with a payment plan beginning September 2023. As of June 30, 2024, management has deemed the note receivable to be uncollectable and elected to forgive the note receivable through a charge to operations.

In January 2023, the Center advanced funds to a non-profit organization totaling $200,000, bearing an annual interest rate of 20% maturing in February 2024. During 2024, the Center and the non-profit organization reached a mutual agreement on a payment plan which would extend the maturity of the note through October 2024. The balance outstanding at June 30, 2024 was $33,333.

In April 2023, the Center advanced funds to a non-profit organization totaling $250,000 with an interest amount of $12,500 to be paid back with the principal maturing in August 2023. The balance on this note was received in full during the year ended June 30, 2024.

NOTE 6 – Net Patient Service Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. The payment arrangement with its major third-party payors to provide services to patients covered under Short-Doyle/Medi-Cal, Mental Health Services Act (MHSA), Bronzon-McCorquodale, and Medicare programs, all pay based on a fixed or contracted rate or reimbursable costs, whichever is defined by the program. The Center also receives funding for services from other governmental agencies, including the Department of State Hospitals.

NOTE 6 – Net Patient Service Revenue (Continued)

Laws and regulations governing these programs are extremely complex and subject to interpretation. The Center has potential settlements with third-party payors for retroactive adjustments that are considered variable consideration and included in the determination of the estimated transaction price for providing patient care. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Medicare and Medi-Cal cost reports have not yet been finalized for fiscal year 2024. County and Medi-Cal settlements, representing adjustments to revenue previously recognized based on settlements from third-party payors, totaled $88,546 and $1,038,505 for the years ended June 30, 2024 and 2023, respectively, and are included in net patient service revenue on the consolidated statement of activities.

Generally, patients and certain residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Center also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Center estimates the transaction prices for patients and 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 adjustment, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Adjustments arising from a change in the estimate of implicit price concessions for performance obligations were not significant in 2024 and 2023. Subsequent changes that are determined to be the result of an adverse change in collectability are recorded as bad expense or charity care. Bad debt expense for the years ended June 30, 2024 and 2023 was not significant.

NOTE 6 – Net Patient Service Revenue (Continued)

The source of patient service revenue by payor was as follows at June 30:

	2024	2023
Department of Mental Health	$ 41,703,633	$ 28,153,139
Conditional Release Program (CONREP)	10,242,050	9,219,322
Other	726,206	1,274,864
	$ 52,671,889	$ 38,647,325

The composition of receivables due from patient services consist of the following at June 30:

	2024	2023
Patient receivables		
State and county programs	$ 15,683,114	$ 4,000,249
Private and other	138,864	135,328
	15,821,978	4,135,577
Less: allowance for credit losses	(1,256,053)	-
	14,565,925	4,135,577
Expected settlements due from DMH (due from third-party payors)	591,645	1,504,218
	$ 15,157,570	$ 5,639,795

The Center's primary source of billing through DMH is assessed as fully collectible by the Center's management.

NOTE 6 – Net Patient Service Revenue (Continued)

The composition of net patient service revenue based on the timing of revenue recognition is as follows for the years ended June 30:

	2024	2023
At time services are rendered	$ 26,988,940	21,817,943
Services transferred over time	25,682,949	16,829,382
	$ 52,671,889	$ 38,647,325

Revenue that is generally recognized at the time services are rendered includes outpatient services, which are treatment programs that provide services to children and adolescents who benefit from less intensive treatment than inpatient services.

Revenue that is recognized as the services are transferred over time includes governmental agency contracted programs, residential revenues, and inpatient healthcare services. The primary function of governmental agency contract programs is to supervise judicially committed individuals released to the community. Residential revenue includes residential programs that assist individuals transitioning out of locked institutions of mental disease settings into unlocked residential programs with the goal of eventually moving into traditional board and care with community reintegration. Residential revenue includes revenue that is recognized as the services are transferred over time, which consist of the revenue recognized as individuals stay at the facilities. Revenue for individuals who receive specialized treatment is recognized at the time services are rendered and is billed in addition to the revenue recognized for the individuals' stay at the facilities. Inpatient healthcare services include short-term, intensive inpatient treatment of patients with acute episodes of psychiatric and dual diagnosis disorders. Inpatient care revenue recognized in healthcare services is recognized as the services are transferred over time (i.e., over the course of the patient stay).

NOTE 7 – Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements or participate under a county-sponsored program. The Center manages its collection risk by regularly reviewing its accounts and contracts and by providing appropriate allowances. The Department of Mental Health represents 88% and 58% of receivables at June 30, 2024 and 2023, respectively.

NOTE 8 – Investment in Partnership

In February 2004, the Center formed a limited partnership with another nonprofit and a for-profit organization for the purpose of acquiring, owning, developing, constructing and/or rehabilitating, leasing, managing, operating, and if appropriate or desirable, selling or otherwise disposing of a 30-unit residential project, including one manager's unit for the homeless, called the "Project." The term of the Partnership commenced on February 9, 2004 and shall continue until December 31, 2064. The Center is the administrative general partner and owns 0.005% of the interest of the partnership with a capital contribution of $925,000. The investment is recorded under the equity method and the Center’s share of the partnership activity has been insignificant during the years ended June 30, 2024 and 2023.

NOTE 9 – Property and Equipment

Property and equipment consists of the following at June 30:

	2024	2023
Building and improvements	$ 18,015,281	$ 18,208,893
Movable equipment and software	2,888,923	3,101,555
	20,904,204	21,310,448
Less accumulated depreciation and amortization	(15,079,335)	(14,923,176)
	5,824,869	6,387,272
Construction in progress	1,435,314	91,120
Land	2,674,845	2,674,845
	$ 9,935,028	$ 9,153,237

Depreciation and amortization expense for the years ended June 30, 2024 and 2023 was $635,025 and $811,127, respectively.

The construction in progress is related to the Behavioral Health Continuum Infrastructure Program project. The project is expected to complete in June 2027.

NOTE 10 – Long-Term Debt

Long-term debt consists of the following at June 30:

	2024	2023
Note payable to California Health Facilities Financing Authority (CHFFA) (conduit bond issuer) with maximum interest rate at 5.50% through December 2036, collateralized by a deed of trust against the new constructed property.	$ 5,245,000	$ 5,530,000
Note payable to California Emergency Housing and Assistance Program (EHAP), no interest, collateralized by a deed of trust against the new constructed property. Repayment of the loan shall be deferred and will be forgiven in the year 2024.	1,000,000	1,000,000
Note payable to Community Redevelopment Agency Program (CRA) of the City of Los Angeles, no interest, collateralized by a deed of trust against the constructed property. The loan shall be forgivable at $27,350 per year.	191,450	218,800
Note payable to the CHFFA, payable monthly with interest rate of 3% through January 2028, collateralized by a deed of trust against the constructed property, and pledge of revenue from all sources.	217,746	241,724
	6,654,196	6,990,524
Less unamortized deferred financing cost, using effective interest rates of approximately 5.8%	(389,434)	(420,049)
	6,264,762	6,570,475
Less current maturities on long-term debt	(365,387)	(330,974)
Less accrued bond interest	(23,006)	(24,025)
Long-term debt, net of current portion and unamortized financing costs	$ 5,876,369	$ 6,215,476

NOTE 10 – Long-Term Debt (Continued)

Scheduled principal payments on long-term debt at June 30, 2024 are as follows:

Year Ending June 30,		
2025	$	365,387
2026		358,814
2027		375,298
2028		365,241
2029		355,000
Thereafter		3,643,006
		5,462,746
Loans to be forgiven:		
Note payable to CRA		191,450
Note payable to EHAP		1,000,000
	$	6,654,196

The notes payable are subject to certain compliance requirements or restrictive covenants, primarily requiring the Center to maintain use of the related property as originally established in the agreements for the required time period, for which the Center was in compliance as of June 30, 2024.

Subsequent to the year ended June 30, 2024 , the Center was notified the California Emergency Housing and Assistance Program (EHAP) note payable for $1,000,000 was fully forgiven.

NOTE 11 – Restricted Net Assets

Net assets with donor restrictions were restricted for the following purposes as of June 30, 2024 and 2023.

	June 30,	
	2024	2023
Facility renovations and furniture	$ 5,577	$ 57,344
Clinical education	167,656	191,249
Other	30,821	9,495
	$ 204,054	$ 258,088

NOTE 12 – Retirement Benefits

Retirement benefits are available for all eligible employees through the Center's Variable Annuity Plan (the Plan). The Plan is a defined contribution plan where the Center's matching contribution is up to 25% of the employee's contribution, which is limited to a maximum of 3% of employee's annual salary. Charges to operating expense for the Center's share of costs for the Plan were $642,563 and $544,651 for the years ended June 30, 2024 and 2023, respectively.

NOTE 13 – Collective Bargaining Agreement

The Center has a collective bargaining agreement which covers all full-time and regular part-time nonprofessional employees who are not part of its administrative staff or registered nursing staff (bargaining unit employees). The agreement requires an increase in annual salary, based on a fixed rate, for all bargaining unit employees. The agreement is effective through October 31, 2025.

Either the union or the Center may re-open negotiations regarding fiscal matters in the collective bargaining agreement if there are significant changes in operations and funding. As of the issuance date of these consolidated financial statements, the Center continues to work on amending the agreement beyond the expiration date and does not expect any operational impact to the Center during the negotiation period.

NOTE 14 – Commitments and Contingencies

The Center is subject to contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Center.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue.

NOTE 15 – Functional Expenses

Expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as depreciation and amortization, interest, and other occupancy costs are allocated to a function based on estimates of size or usage. Costs that support the Center as a whole remain in support services. The Center provides health care services to residents within its geographic location. Expenses related to providing these services by functional class and natural class is as follows:

	June 30, 2024						
	Health Care Services						
	Inpatient	Forensic	Residential	Outpatient	Supportive Services G&A	Fund Development	Total
Salaries and benefits	$ 12,189,567	$ 6,465,677	$ 4,126,403	$ 4,420,714	$ 3,363,832	$ 474,302	$ 31,040,498
Insurance	385,426	204,948	133,237	136,280	99,171	14,409	973,470
Licenses and taxes	130,607	23,953	22,686	13,248	42,422	1,571	234,484
Professional services	1,770,731	557,406	182,704	632,829	608,975	214,371	3,967,014
Purchased services	880,804	858,602	583,368	408,497	615,184	284,496	3,630,951
Rent and leases	3,068	510,269	101,885	136,880	4,024	-	756,125
Repair and maintanance	41,297	15,499	169,670	19,831	-	491	246,789
Supplies	642,660	331,367	1,066,259	125,766	72,811	17,948	2,240,462
Telephone	155,813	77,858	167,804	49,222	20,910	1,519	473,127
Utilities	327,692	104,003	561,470	70,196	30,154	1,498	1,095,011
Depreciation and amortization	40,056	14,176	539,856	38,153	2,640	138	635,025
Interest	9,853	5,723	299,889	3,702	394	2,865	322,428
Bad debt	-	-	-	57,774	273,785	-	331,559
Other expenses	246,794	360,811	28,434	105,873	558,875	22,573	1,323,359
	$ 16,824,368	$ 9,530,292	$ 7,983,665	$ 6,218,965	$ 5,693,177	$ 1,036,181	$ 47,270,302

NOTE 15 – Functional Expenses (Continued)

	June 30, 2023						
	Health Care Services						
	Inpatient	Forensic	Residential	Outpatient	Supportive Services G&A	Fund Development	Total
Salaries and benefits	$ 10,285,782	$ 5,611,752	$ 3,804,707	$ 4,055,708	$ 2,618,646	$ 428,204	$ 26,804,799
Insurance	302,061	167,868	114,671	120,123	84,409	6,227	795,359
Licenses and taxes	161,116	29,347	26,715	33,804	85,920	781	337,683
Professional services	1,392,659	386,443	94,202	563,647	338,075	173,611	2,948,637
Purchased services	1,214,478	842,570	537,443	138,633	378,321	326,204	3,437,649
Rent and leases	11,465	487,983	40,479	155,969	13,534	29	709,459
Repair and maintanance	121,801	35,439	60,907	5,257	42,966	743	267,113
Supplies	595,382	299,982	860,010	103,278	165,992	57,541	2,082,185
Telephone	144,440	74,700	152,771	45,732	22,967	967	441,577
Utilities	316,000	99,192	597,446	61,704	35,232	1,139	1,110,713
Depreciation and amortization	205,203	29,498	516,353	54,054	5,831	188	811,127
Hospital support	-	-	-	-	54,212	-	54,212
Interest	5,985	3,665	305,976	2,556	20	2,428	320,630
Other expenses	190,552	333,995	144,053	22,475	461,134	19,492	1,171,701
	$ 14,946,924	$ 8,402,434	$ 7,255,733	$ 5,362,940	$ 4,307,259	$ 1,017,554	$ 41,292,844

NOTE 16 – Lease Arrangements

The Center leases its Los Angeles and San Diego office spaces and equipment under operating leases with two-to-eleven-year initial terms. Most leases include renewal options which can extend the lease term up to five years.

Variable payments are not determinable at lease commencement and are not included in the measurement of the operating lease asset and liability. The lease agreements do not include any material residual value guarantees or restrictive covenants.

NOTE 16 – Lease Arrangements (Continued)

The following summarizes the line items in the consolidated statement of financial position, which include amounts for operating leases as of year-end:

	June 30, 2024	June 30, 2023
Operating lease right-of-use assets	$ 524,625	$ 754,985
Operating lease liabilities, current portion	$ 184,960	$ 245,582
Operating lease liabilities, net of current portion	352,697	525,762
	$ 537,657	$ 771,344

The components of operating lease expenses that are included in rents and leases in the consolidated statement of activities were as follows:

	For the Year Ended June 30, 2024	For the Year Ended June 30, 2023
Operating lease costs	$ 236,094	$ 498,195
Short-term lease costs	404,174	100,816
Variable lease costs	115,857	110,448
	$ 756,125	$ 709,459

NOTE 16 – Lease Arrangements (Continued)

The following table summarizes the supplemental cash flow information for the years ended June 30, 2024:

	For the Year Ended June 30,	
	2024	**2023**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 233,687	$ 50,356
Noncash investing and financing activity:		
Right-of-use assets obtained in exchange for operating lease liabilities in adopting ASC 842	$ -	$ 821,700

The weighted-average lease remaining term and discount rate as of June 30, 2024 and 2023 were as follows:

	June 30,	
	2024	**2023**
Weighted-average remaining lease term - operating leases	3.01 years	3.51 years
Weighted-average discount rate - operating leases	3.79	1.86%

NOTE 16 – Lease Arrangements (Continued)

The maturities of and operating lease liabilities as of June 30, 2024 are as follows:

Year Ending June 30,	Operating Leases
2025	$ 201,293
2026	166,926
2027	162,758
2028	37,244
Total minimum lease payments	568,221
Less amount representing interest	(30,564)
Present value of minimum lease payments	537,657
Less current portion	(184,960)
	$ 352,697

NOTE 17 – Line of Credit

The Center has a revolving line of credit agreement with a bank, which expires August 2025, whereby it could borrow up to $5,000,000. Borrowings are secured by substantially all assets of the Center with interest payable monthly at a variable interest rate based on the Wall Street Journal Money Rates, which was 8.5% at June 30, 2024. The balance outstanding at June 30, 2024 was $1,002,153, which includes accrued interest.

Exhibit F: Internally Prepared Financial Statements

Year to Date: March 31, 2025

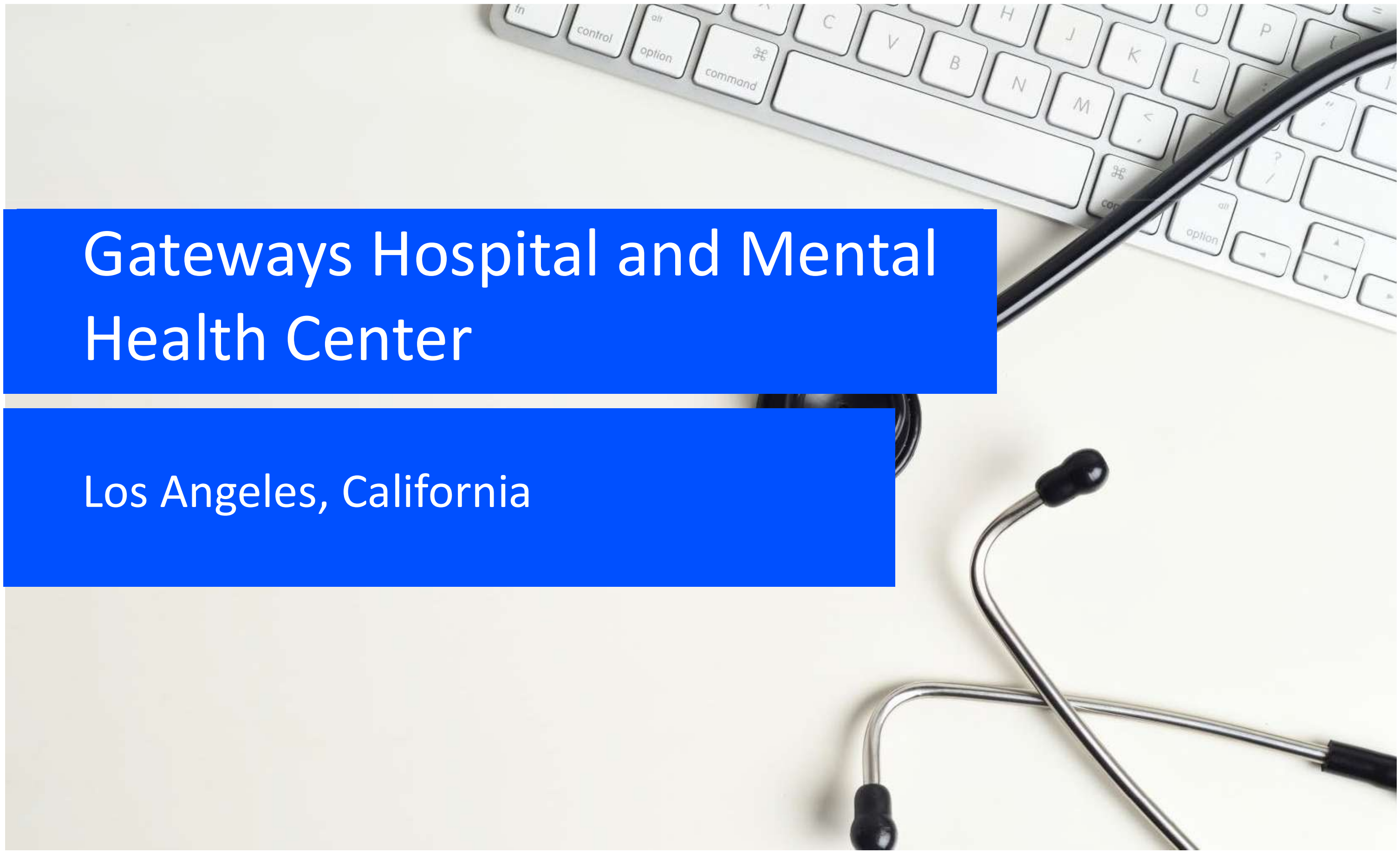
Gateways Hospital & Mental Health Center
Statement of Financial Position

	03/31/2025	06/30/2024
Assets		
Current Assets		
Cash and cash equivalents	$10,486,312.13	$5,532,963.90
Investments	$8,978,872.07	$8,690,220.95
Patient receivables	$11,726,845.90	$9,528,644.87
Patient receivables-Other	$10,352,377.81	$8,092,987.69
Contribution and other receivables	$147,195.82	$323,175.64
Note receivable	$12,499.97	$33,333.30
Other current assets	$679,252.38	$1,025,285.54
Assets limited as to use	$0.00	$766,721.60
Total Current Assets	$42,383,356.08	$33,993,333.49
Noncurrent Assets		
Property and equipment, net	$31,569,933.42	$10,849,086.27
Investment in partnership	$925,000.00	$925,000.00
Total Noncurrent Assets	$32,494,933.42	$11,774,086.27
Total Assets	$74,878,289.50	$45,767,419.76
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$936,857.63	$1,033,316.13
Accrued liabilities	$374,911.85	$482,400.23
Accrued salaries and employee benefits	$2,625,337.92	$2,502,744.55
Due to government programs and third parties	($591,645.43)	($591,645.43)
Current maturities on long-term debt	$270,471.95	$1,552,500.20
Deferred income	$7,135,392.82	$3,227,218.27
Total Current Liabilities	$10,751,326.74	$8,206,533.95
Noncurrent Liabilities		
Total Long-term debt, net of current portion and unamortized	$22,332,227.75	$6,618,499.54
Total Noncurrent Liabilities	$22,332,227.75	$6,618,499.54
Net Assets		
Without donor restrictions	$41,594,136.43	$30,738,331.64
With donor restrictions	$200,598.58	$204,054.63
Total Net Assets	$41,794,735.01	$30,942,386.27
Total Liabilities and Net Assets	$74,878,289.50	$45,767,419.76
BEGINNING BALANCE WITH CURRENT YEAR ADJUSTMENTS		
With Restrictions	$207,802.13	$249,042.96
Without Restrictions	$30,734,584.14	$19,719,112.62
TOTAL BEGINNING BALANCE WITH CURRENT YEAR ADJUSTMENTS	**$30,942,386.27**	**$19,968,155.58**
NET SURPLUS/(DEFICIT)		
With Restrictions	($3,456.05)	($41,240.83)
Without Restrictions	$10,855,804.79	$11,015,471.52
TOTAL NET SURPLUS/(DEFICIT)	**$10,852,348.74**	**$10,974,230.69**
ENDING FUND BALANCE		
With Restrictions	$204,346.08	$207,802.13
Without Restrictions	$41,590,388.93	$30,734,584.14
TOTAL ENDING FUND BALANCE	**$41,794,735.01**	**$30,942,386.27**

Gateways Hospital & Mental Health Center
Statement of Activities
FY2024-2025

	YTD 03/31/2025
OPERATING ACTIVITIES	
Operating Revenues	
Program Revenue	$50,327,800.23
Grants and Contributions	$1,936,118.57
Other Operating Revenue	$24,378.99
Total Operating Revenues	$52,288,297.79
Operating Expenses	
Salaries	$22,818,719.39
Benefits	$5,191,419.52
Professional Services	$4,509,987.51
Supplies	$1,771,127.89
Purchased Services	$2,382,377.44
Depreciation and Amortization	$762,893.61
Rent and Leases	$610,899.55
Repair and Maintanance	$158,332.19
Utilities	$887,681.12
Insurance	$835,755.70
Interest	$758,265.22
Other Expenses	$1,085,229.57
Shared Direct Cost	$0.00
Program Administrative Costs	$0.00
Indirect Cost	$0.00
Total Operating Expenses	$41,772,688.71
NET OPERATING SURPLUS/(LOSS)	$10,515,609.08
NON-OPERATING ACTIVITIES	
Non-operating, Net	
Investment	$417,640.12
Management Services	$26,712.22
Miscellaneous	($107,612.68)
Total Non-operating, Net	$336,739.66
NET NON-OPERATING SURPLUS/(LOSS)	$336,739.66
NET SURPLUS/(DEFICIT)	**$10,852,348.74**

Exhibit G: Financial Feasibility Study



Gateways Hospital and Mental Health Center

Los Angeles, California

Financial Feasibility Study

Years Ending 2025 Through 2029 (Forecasted)

WIPFLI

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WIPFLI

Section 1. Accountant's Compilation Report

Board of Directors
Gateways Hospital and Mental Health Center
Los Angeles, California

Department of Health Care Access and Information
Cal-Mortgage Loan Insurance Program
Sacramento, California

Management of Gateways Hospital and Mental Health Center (the "Center") is responsible for the accompanying financial forecast, which comprises the forecasted consolidated statements of financial position as of June 30, 2025 through 2029, and the related forecasted consolidated statements of activities and cash flows for the years then ending, and the related summary of significant forecast assumptions and rationale in accordance with guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants (AICPA). We have performed the compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the forecast nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, conclusion, nor provide any form of assurance on this forecast.

The forecasted results may not be achieved, as there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and these differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The supplementary information appearing in Section 6, is presented for purposes of additional analysis and is not a required part of the forecast. Such information is the responsibility of management. The information was not subject to our compilation engagement; accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on such supplementary information.

The accompanying financial forecast and this report are intended solely for the information and use of the Center and the Department of Health Care Access and Information and are not intended to be and should not be used by anyone other than these specified parties.

Wipfli LLP

April 8, 2025
Atlanta, Georgia

Section 2. Forecasted Financial Statements

Consolidated Statements of Financial Position

	Forecasted				
Assets	2025	2026	2027	2028	2029
Current assets:					
Cash and cash equivalents	$ 6,748,239	$ 6,875,095	$ 7,532,608	$ 8,187,931	$ 8,526,303
Investments	19,599,211	27,063,504	36,222,297	44,550,908	54,549,223
Patient receivables - Net	10,891,475	11,095,655	13,216,957	14,599,518	15,838,532
Due from third-party payors	591,645	-	-	-	-
Contributions and other receivables	75,000	75,000	75,000	75,000	75,000
Inventories	96,081	99,682	106,266	110,980	116,261
Prepaid expenses and other current assets	756,258	789,125	861,735	912,231	962,400
Total current assets	38,757,909	45,998,061	58,014,863	68,436,568	80,067,719
Assets limited as to use:					
Project fund	-	14,333,333	-	-	-
Capitalized interest fund	-	1,359,000	-	-	-
Debt service reserve fund - Series 2025 Bonds	-	1,776,556	1,776,556	1,776,556	1,776,556
Total assets limited as to use	-	17,468,889	1,776,556	1,776,556	1,776,556
Property and equipment - Net	32,508,516	57,488,212	70,813,028	68,338,216	65,817,835
Investment in partnership	925,000	925,000	925,000	925,000	925,000
Right-of-use assets - operating leases	393,149	202,568	330,945	614,268	512,089
TOTAL ASSETS	$ 72,584,574	$ 122,082,730	$ 131,860,392	$ 140,090,608	$ 149,099,199

See Accountant's Compilation Report.
See Summary of Significant Forecast Assumptions and Rationale.

Consolidated Statements of Financial Position (Continued)

	Forecasted				
Liabilities and Net Assets	2025	2026	2027	2028	2029
Current liabilities:					
Accounts payable and accrued liabilities	$ 1,365,385	$ 1,424,725	$ 1,555,818	$ 1,646,986	$ 1,737,563
Accrued salaries and employee benefits	3,013,127	3,221,129	3,748,788	4,307,186	4,702,746
Current portion of long-term debt	27,350	27,350	517,350	1,012,350	1,062,350
Current portion of operating lease liabilities	201,285	178,769	124,273	138,420	182,794
Deferred revenue	56,984	56,984	56,984	56,984	56,984
Total current liabilities	4,664,131	4,908,957	6,003,213	7,161,926	7,742,437
Long-term liabilities:					
Long-term debt - Less current portion	20,972,476	52,887,372	51,983,796	50,580,668	49,577,540
Operating lease liabilities - Less current portion	215,610	36,840	209,890	484,602	345,138
Total long-term liabilities	21,188,086	52,924,212	52,193,686	51,065,270	49,922,678
Total liabilities	25,852,217	57,833,169	58,196,899	58,227,196	57,665,115
Net assets:					
Without donor restrictions	46,528,303	64,045,507	73,459,439	81,659,358	91,230,030
With donor restrictions	204,054	204,054	204,054	204,054	204,054
Total net assets	46,732,357	64,249,561	73,663,493	81,863,412	91,434,084
TOTAL LIABILITIES AND NET ASSETS	$ 72,584,574	$ 122,082,730	$ 131,860,392	$ 140,090,608	$ 149,099,199

Gateways Hospital and Mental Health Center

Years Ending June 30, 2025 Through 2029 (Forecasted)

Consolidated Statements of Activities

	Forecasted				
	2025	2026	2027	2028	2029
Revenue and support:					
Net patient service revenue	$ 62,255,363	$ 63,422,450	$ 75,547,751	$ 83,679,062	$ 90,532,597
Grants and contributions	434,040	563,653	581,072	599,205	618,081
Rental income	968,183	977,057	1,238,119	1,275,262	1,313,519
Other revenues	75,616	77,884	80,221	82,627	85,106
Total revenue and support	63,733,202	65,041,044	77,447,163	85,636,156	92,549,303
Expenses:					
Salaries and wages	30,176,891	32,260,058	37,544,637	43,255,262	47,098,669
Employee benefits	7,091,569	7,581,114	8,822,990	10,164,987	11,068,187
Insurance	1,066,506	1,116,544	1,249,957	1,344,428	1,384,761
Licenses and taxes	240,861	248,088	255,530	263,193	271,093
Professional fees	4,219,932	4,450,521	5,082,682	5,509,995	5,947,392
Purchased services	3,884,728	4,047,054	4,360,329	4,600,519	4,843,173
Rents and leases	776,683	799,986	823,986	848,706	874,168
Repairs and maintenance	253,496	261,103	268,938	277,006	285,316
Supplies	2,337,983	2,425,607	2,585,813	2,707,908	2,829,028
Telephone	513,373	536,197	593,384	634,624	653,664
Utilities	1,185,001	1,236,874	1,364,373	1,456,842	1,500,546
Depreciation and amortization	1,232,020	1,556,237	2,386,123	3,155,493	3,197,307
Interest	1,208,975	1,228,442	2,004,751	2,695,623	2,652,377
Other	1,375,876	1,421,503	1,480,706	1,533,486	1,586,924
Total operating expenses	55,563,894	59,169,328	68,824,199	78,448,072	84,192,605
Income from operations	$ 8,169,308	$ 5,871,716	$ 8,622,964	$ 7,188,084	$ 8,356,698

Consolidated Statements of Activities (Continued)

	Forecasted				
	2025	2026	2027	2028	2029
Other income (expense):					
Investment income	$ 320,022	$ 592,818	$ 763,618	$ 984,485	$ 1,186,624
Gain on forgiveness of long-term debt	1,027,350	27,350	27,350	27,350	27,350
Loss on extinguishment of debt	(367,748)	(164,274)	-	-	-
Total other income (expense) - Net	979,624	455,894	790,968	1,011,835	1,213,974
Revenue in excess of expenses	9,148,932	6,327,610	9,413,932	8,199,919	9,570,672
Net assets released from restrictions for purchases of property and equipment	6,641,039	11,189,594	-	-	-
Increase in net assets without donor restrictions	15,789,971	17,517,204	9,413,932	8,199,919	9,570,672
Net assets with donor restrictions:					
Grants and contributions	6,641,039	11,189,594	-	-	-
Net assets released from restrictions	(6,641,039)	(11,189,594)	-	-	-
Increase (decrease) in net assets with donor restrictions	-	-	-	-	-
Increase in net assets	15,789,971	17,517,204	9,413,932	8,199,919	9,570,672
Net assets at beginning	30,942,386	46,732,357	64,249,561	73,663,493	81,863,412
Net assets at end	$ 46,732,357	$ 64,249,561	$ 73,663,493	$ 81,863,412	$ 91,434,084

Consolidated Statements of Cash Flows

	Forecasted				
	2025	2026	2027	2028	2029
Increase (decrease) in cash, cash equivalents, and restricted cash:					
Cash flows from operating activities:					
Change in net assets	$ 15,789,971	$ 17,517,204	$ 9,413,932	$ 8,199,919	$ 9,570,672
Adjustments to reconcile change in net assets to net cash from operating activities:					
Depreciation	1,025,797	1,365,656	2,188,018	2,974,812	3,020,381
Amortization of operating leases	206,223	190,581	198,105	180,681	176,926
Interest expense attributable to amortization of debt issuance costs	48,799	75,264	117,042	158,820	158,820
Loss on extinguishment of debt	367,748	164,274	-	-	-
Accretion of bond premium	-	(46,938)	(73,268)	(99,598)	(99,598)
Gain on forgiveness of long-term debt	(1,027,350)	(27,350)	(27,350)	(27,350)	(27,350)
Changes in operating assets and liabilities:					
Patient accounts receivable	3,674,450	(204,180)	(2,121,302)	(1,382,561)	(1,239,014)
Due from third-party payors	-	591,645	-	-	-
Contribution and other receivables	133,647	-	-	-	-
Prepaid expenses and other current assets	(31,109)	(36,468)	(79,194)	(55,210)	(55,450)
Accounts payable and accrued liabilities	53,723	59,340	131,093	91,168	90,577
Accrued salaries and employee benefits	533,389	208,002	527,659	558,398	395,560
Operating lease liabilities	(195,509)	(201,286)	(207,928)	(175,145)	(169,837)
Total adjustments	4,789,808	2,138,540	652,875	2,224,015	2,251,015
Net cash from operating activities	20,579,779	19,655,744	10,066,807	10,423,934	11,821,687
Cash flows from investing activities:					
Purchases of investments	(10,908,990)	(7,464,293)	(9,158,793)	(8,328,611)	(9,998,315)
Receipts of notes receivables	33,333	-	-	-	-
Purchase of property and equipment	(16,958,246)	(500,000)	(500,000)	(500,000)	(500,000)
Purchase of property for two cottages - Project	-	(4,000,000)	-	-	-
Purchase of property and equipment for construction - Project	(6,641,039)	(21,845,352)	(15,012,834)	-	-
Net cash from investing activities	$ (34,474,942)	$ (33,809,645)	$ (24,671,627)	$ (8,828,611)	$ (10,498,315)

See Accountant's Compilation Report.
See Summary of Significant Forecast Assumptions and Rationale.

Consolidated Statements of Cash Flows (Continued)

	Forecasted				
	2025	2026	2027	2028	2029
Cash flows from financing activities:					
Net change in line of credit	$ (1,002,153)	$ -	$ -	$ -	$ -
Proceeds from issuance of long-term debt - Banc of California	21,000,000	-	-	-	-
Repayment of long-term debt - Banc of California	-	(21,000,000)	-	-	-
Proceeds from issuance of long-term debt	-	54,855,000	-	-	-
Proceeds from bond premium	-	2,908,924	-	-	-
Principal payments on long-term debt	(5,462,746)	(375,000)	(430,000)	(940,000)	(985,000)
Debt issuance costs paid	(191,387)	(4,639,278)	-	-	-
Net cash from financing activities	14,343,714	31,749,646	(430,000)	(940,000)	(985,000)
Net change in cash, cash equivalents and restricted cash	448,551	17,595,745	(15,034,820)	655,323	338,372
Cash, cash equivalents, and restricted cash, at beginning of year	6,299,688	6,748,239	24,343,984	9,309,164	9,964,487
Cash, cash equivalents, and restricted cash, at end of year	$ 6,748,239	$ 24,343,984	$ 9,309,164	$ 9,964,487	$ 10,302,859
Supplemental cash flow information:					
Cash paid during the year for interest	$ 1,160,176	$ 1,200,116	$ 1,960,977	$ 2,636,401	$ 2,593,155
Capitalized interest expense paid	-	1,245,750	679,500	-	-
Property and equipment acquired with operating lease obligations	74,747	-	326,482	464,004	74,747
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated statement of financial position:					
Cash and cash equivalents	$ 6,748,239	$ 6,875,095	$ 7,532,608	$ 8,187,931	$ 8,526,303
Restricted cash and cash equivalents in assets limited as to use	-	17,468,889	1,776,556	1,776,556	1,776,556
Total cash, cash equivalents, and restricted cash	$ 6,748,239	$ 24,343,984	$ 9,309,164	$ 9,964,487	$ 10,302,859

See Accountant's Compilation Report.
See Summary of Significant Forecast Assumptions and Rationale.

Sections 3. to 5. Summary of Significant Forecast Assumptions and Rationale

Section 3. General Information

The consolidated forecasted financial statements include the accounts of Gateways Hospital and Mental Health Center (the "Hospital"), Gateways Hospital and Mental Health Foundation (the "Foundation") and the limited liability company (LLC). Collectively, the Hospital, the Foundation, and the LLC, are referred to as the "Center." All material intercompany accounts and transactions have been eliminated through consolidation.

This financial forecast presents, to the best of management's knowledge and belief, the Center's expected financial position, results of operations, and cash flows for the forecast period. The forecast reflects the judgment of the Center's management regarding the expected conditions and expected course of action as of April 8, 2025, the date of this forecast.

This forecast has been prepared in accordance with the following assumptions, which are those management believes are significant to the forecast. These assumptions are based on their judgment, and the assumptions may not be all-inclusive. Furthermore, even if the assumptions are significantly correct, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Section 3. Note A. General Description of Gateways Hospital and Mental Health Center and the Surrounding Healthcare Market Services

The Center's Hospital is a 501(c)(3) non-profit organization located in Echo Park, California, that has provided the greater Los Angeles, California area with mental health services since 1953. The Hospital offers a wide breadth of comprehensive mental health services including acute inpatient services, community-based outpatient services, forensic services, as well as homeless and wellness programs. The Hospital offers care for every phase of life with services for children, adolescents, transitional aged youth, and adults, as well as services for individuals of every demographic background, with a majority of patients being considered low-income, homeless, and/or involved in the legal/justice system. A significant portion of the Hospital's revenue (79.2% as of the year-ended June 30, 2024) originates from contracts with the Los Angeles County - Department of Mental Health (DMH).

In California, counties provide most of the state share of funding for Medi-Cal specialty mental health and substance use disorder services using dedicated revenue streams allocated by the state. As managed care plans, counties are responsible for administering covered Specialty Mental Health, Drug Medi-Cal, and Drug Medi-Cal Organized Delivery System services throughout the state. County behavioral health plans may provide these services directly or contract with community-based behavioral health providers. Los Angeles County DMH contracts with the Hospital to provide behavioral health services.

The Foundation, a California non-profit corporation, was formed in 2022 for the purpose of fundraising and development on behalf of the Hospital. The Foundation and Hospital share common management with the Hospital being the primary beneficiary of the Foundation's net fundraising efforts.

As of July 2023, the Center established a wholly owned LLC. There has been no historical activity for the LLC and management does not anticipate any activity in the LLC during the forecast period.

Services

- Inpatient program: The Center has a contract with the Los Angeles County DMH to provide intensive inpatient programs to adults and adolescents in need of acute psychiatric evaluation, stabilization, and treatment. The Center delivers these services through its 55-bed psychiatric hospital that is located on its main campus in the Echo Park-Silve Lake area of California.
- Forensic programs: The forensic program offers a variety of services to individuals involved in the criminal justice system. These programs are administered through a variety of inpatient, residential, and outpatient programs located at three different sites in Los Angeles, California. Key forensic programs include:
  - The Community Treatment Program that provides court mandated outpatient services to men and women between the ages 18 and 64.
  - The Conditional Release Program (CONREP) that evaluates patients residing in state hospitals; provides court-mandated residential, day-care, and outpatient treatment; and supervises individuals released by the courts back into the community who are in the legal system for reasons of not guilty by reason of insanity, incompetent to stand trial, mentally disordered sex offender, and mentally disordered offender.
- Residential programs: Residential programs provide mental health services and housing for adults ages 18 to 59 that require additional treatment in a step-down living environment after their discharge from an inpatient stay. These services are provided at two adult residential facilities in Los Angeles: the 48-bed Normandie Village facility and the 136-bed Percy Village facility.
- Ambulatory programs: Ambulatory programs consist of programs that provide ongoing psychiatric treatment and therapeutic services to assist patients who have been discharged or are ready to be discharged from other settings of care. These programs are provided to children/adolescents and adults in an outpatient setting of care on the Hospital's main campus, residential treatment facilities, and satellite sites.
- Homeless programs: Homeless services programs provide support to individuals who are without or are at risk of being without housing with support services such as psychiatric evaluation and medication support, linkage to housing, wellness and health resources, counseling, and case management. The Center's wellness center supports patients in the final stages of their recovery process with peer advocacy, support groups, and counseling.

Governance Structure

The Board of Directors, who ultimately governs the Center, consists of eight members, each elected to one-year terms with no limitations on the number of terms.

Key Management Personnel

Day-to-day management of the Center is delegated by the Board of Directors to the Chief Executive Officer and management team, whose professional profiles are as follows:

Dr. Philip K. Wong, Psy.D – Chief Operations Officer: Dr. Wong is an executive with over 20 years of experience working with the Center, where he has served as Chief Operations Officer since 2012. As Chief Operations Officer, Dr. Wong is responsible for overseeing the clinical, ancillary and support services administered by the organization's programs. Dr. Wong is also an adjunct professor at Argosy University, where he teaches forensic psychology. He gained his Doctor of Psychology degree from the John F. Kennedy University in Orinda, California.

Fay Ji, MSAcc – Chief Financial Officer: Ji Fay began working at the Center in 2020 following a series of consultant, controller, and CFO positions in various non-profit, government, and healthcare organizations. As Chief Financial

Officer, Fay is responsible for providing leadership, direction, and management of the accounting, business, and revenue management departments within the Center. She gained her Master of Science in Accountancy from California State University in Los Angeles, California

Imani Walker, DO, MSPH – Chief Medical Officer: Dr. Walker has served as the Center's Chief Medical Officer since 2015, after serving in prior roles as a medical director of alcohol and substance abuse programs and as a practicing psychiatrist in the state of California. She completed her Doctor of Osteopathic Medicine degree from the New York College of Osteopathic Medicine in 2004 and her residency/fellowship in Psychiatry/Forensic Psychiatry from the University of California, Los Angeles in 2010.

Section 3. Note B. Project Description

The Center's plans to expand its adolescent services practice by creating 37 new adolescent inpatient beds at its Effie Street campus, refinance existing debt, and purchase two cottages, collectively referred to herein as the "Project." The Project will allow patients to access multi-faceted treatment modalities, including drug and alcohol counseling, group counseling and peer support, medical monitoring, and support from dieticians for patients with eating disorders alongside traditional mental health care. The Project will be an approximately 27,840 square foot facility to house the additional adolescent inpatient beds. The new facility will be licensed under the Hospital's existing license.

The Project's anticipated completion date is December 2026.

Section 3. Note C. Financing Plan

The financing plan includes proceeds from Series 2025 tax-exempt revenue bonds ("Series 2025 Bonds") insured through the Department of Health Care Access and Information's (HCAI) Cal-Mortgage Loan Insurance Program and a grant received from the California Department of Health Care Services (DHCS). In 2022, the Center applied for the grant from the Behavioral Health Continuum Infrastructure Program (BHCIP) Round 4 Youth and Adolescent program and was notified of an award in December 2022. The BHCIP grant funds will be utilized to fund a portion of the Project, while the Series 2025 Bonds will fund the remaining construction costs of the Project, as well as non-construction components including refinancing existing debt, including a loan with the Banc of California, and the purchase of two cottages. The BHCIP grant of $19,256,659 will be advanced on a draw-down basis and is forecasted to be spent during fiscal year 2026, with the remaining Project costs being funded by the Series 2025 Bonds. Monthly interest payments on the Series 2025 Bonds will begin in August 2025.

Semi-annual principal payments on the Series 2025 Bonds will begin in June 2026 on the non-construction components and in June 2028 for the construction costs of the Project. The Series 2025 Bonds are assumed to carry an average coupon rate of 4.798% amortized over 30 years with final maturity in 2055. The Series 2025 Bonds are to be secured by the majority of the Center's assets, all related improvements, additions, furnishings, equipment, and assignment of revenue.

The following schedule summarizes the Center's financing plan:

Estimated Sources and Uses of Funds

	Construction Project	Non-Construction Components	Total
Sources of funds:			
Bond proceeds	$ 28,140,000	$ 26,715,000	$ 54,855,000
Net premium	1,500,798	1,408,126	2,908,924
Grant funding	19,256,659	-	19,256,659
Total sources of funds	$ 48,897,457	$ 28,123,126	$ 77,020,583
Uses of funds:			
Construction	$ 42,630,000	$ -	$ 42,630,000
Furnishing, fixtures, and equipment	370,000	-	370,000
Total project costs	43,000,000	-	43,000,000
Cottages in escrow	-	4,000,000	4,000,000
Refinance Banc of California debt	-	21,000,000	21,000,000
Interest funded during construction	2,604,750	-	2,604,750
Debt service reserve fund	911,353	865,203	1,776,556
Debt issuance costs	2,381,354	2,257,923	4,639,277
Total uses of funds	$ 48,897,457	$ 28,123,126	$ 77,020,583

Source: Hilltop Securities

Section 4. Summary of Significant Demand Assumptions

Section 4. Note A. General Methodology

The demand for inpatient and outpatient behavioral health services is determined by various factors. Generally, these factors include demographic trends, utilization rates, competitive forces in the market, and market share.

Demographic trends serve as the foundation for forecasting future demand for inpatient and outpatient services. The general demand methodology utilized in this forecast considers U.S. Census-based demographic assumptions related to future population growth in the service area, as well as anticipated changes in the area population's age cohorts. Historical population trends for Hospital's service areas are applied to historical market discharges to develop historical inpatient psychiatric utilization rates per 1,000 ("use rates"). Once the historical use rates are established, assumptions regarding forecasted use rates are applied to projected population estimates to establish the anticipated inpatient discharges across the entire service area over the forecast period.

ESRI Business Information Solutions (ESRI), a national demographic data service provider, provides population estimates for the years ended 2010, 2020, and 2024 and projected for 2029 based on the results of the 2020 United Status Census and is the source of population projections in this forecast. Population estimates for intermediate years are estimated based on the ESRI projected compound annual growth rate (CAGR) between 2010 and 2020, 2020 and 2024, and 2024 and 2029.

Using the historical inpatient psychiatric market discharges by service area as a foundation for market share, assumptions are made regarding growth or decline in market share for the Hospital. Market share capture estimates are based on the scope of any renovation/expansion, types of services planned, proximity to competing hospitals, competitive trends, physician recruitment and retention, and trends in patient out- and in-migration. Market share assumptions are applied to forecasted inpatient market discharges to estimate the forecasted inpatient discharges for the Hospital's inpatient operation over the forecast period.

For purposes of this forecast, historical inpatient market discharges are analyzed based on utilization information made publicly available by the California Department of Health Care Access and Information (HCAI) data provided by management. The most recent HCAI data that is publicly available is for 2023. HCAI data provided by management for the Hospital's facility was made available through December 31, 2023.

Section 4. Note B. Service Area Definition and Patient Origin

Management defines the Hospital's market as its primary service area (PSA) based on where the Hospital's discharges originate, as well as consideration of the Hospital's programs offered. This service area aligns with the geographic boundaries of Service Planning Area (SPA) 4, a term utilized by the Los Angeles County Department of Public Health (DPH) to describe the area that spans from downtown Los Angeles to West Hollywood. The majority of patients served by the Hospital either originate from SPA 4 or the greater Los Angeles County area.

Based on data obtained from HCAI, for calendar year (CY) 2023, approximately 19.3% of the Hospital's inpatient discharges originated from the PSA while 66.5% of discharges originated from the greater Los Angeles County area, resulting in a total of 85.8% of the Hospital's discharges originating from patients in Los Angeles County.

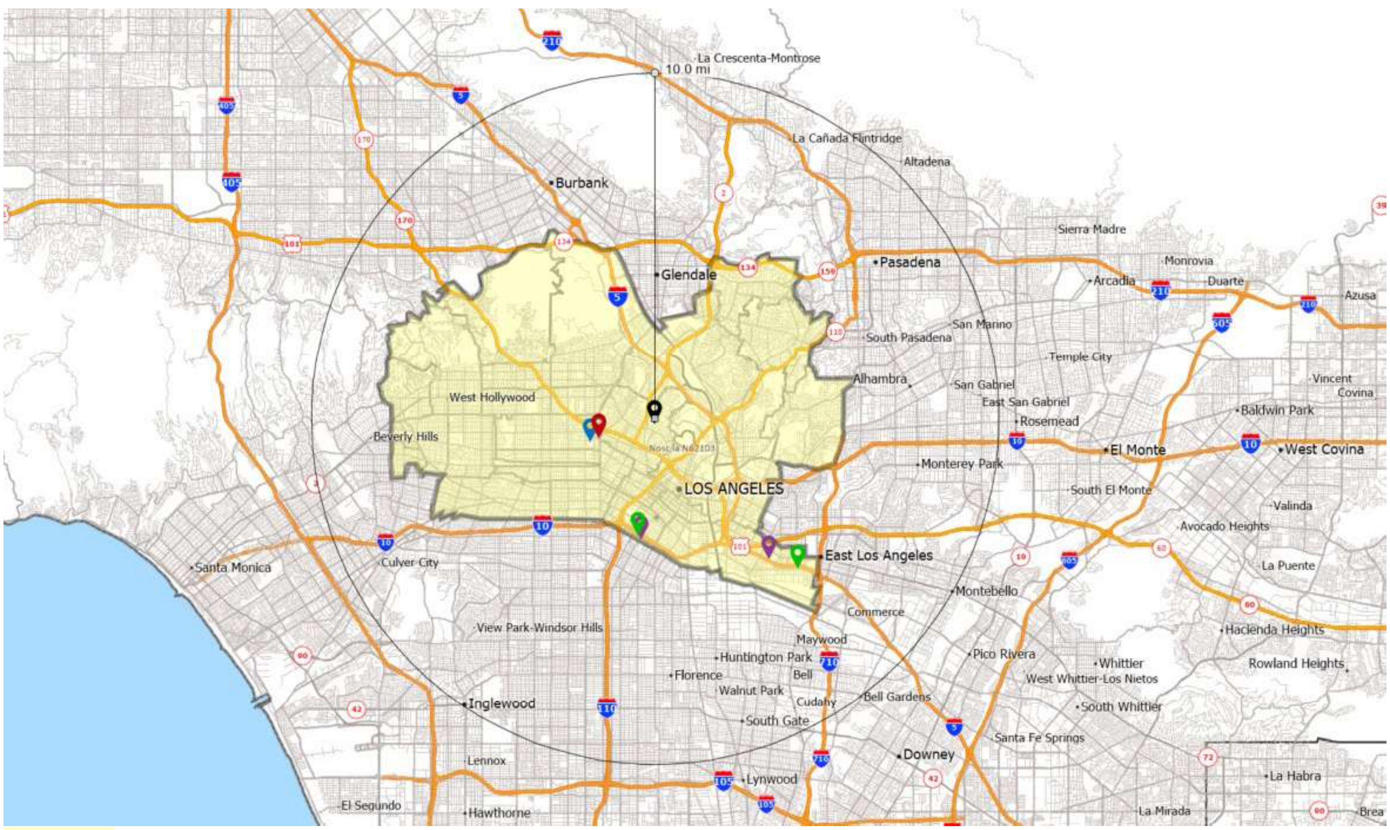
The Hospital's PSA is defined by the following ZIP codes:

Service Area ZIP Codes

Primary Service Area (SPA 4)			
90004 (Los Angeles)	90005 (Los Angeles)	90006 (Los Angeles)	90012 (Los Angeles)
90013 (Los Angeles)	90014 (Los Angeles)	90015 (Los Angeles)	90017 (Los Angeles)
90019 (Los Angeles)	90020 (Los Angeles)	90023 (Los Angeles)	90026 (Los Angeles)
90027 (Los Angeles)	90028 (Los Angeles)	90029 (Los Angeles)	90031 (Los Angeles)
90032 (Los Angeles)	90033 (Los Angeles)	90036 (Los Angeles)	90038 (Los Angeles)
90039 (Los Angeles)	90041 (Los Angeles)	90042 (Los Angeles)	90046 (Los Angeles)
90048 (Los Angeles)	90057 (Los Angeles)	90065 (Los Angeles)	90068 (Los Angeles)
90069 (West Hollywood)			

Source: Management

The following map depicts the Hospital's PSA:



Primary service area
Hospital
Forensic sites of care
Residential sites of care
Ambulatory sites of care
Homeless sites of care

Source: Maptitude

The following map depicts the Hospital's service area in relation to the boundaries of Los Angeles County and the state of California:

Primary service area
Los Angeles County

Source: Maptitude

Section 4. Note C. Population of the Service Areas

Population data serves as the foundation for estimating future growth in the market that the Hospital serves. According to the California Health Care Foundation, in the state of California, children and adolescents under the age of 18 tend to have the highest rates of serious emotional disturbance, while people between the ages of 18 to 64 tend to have the highest rates of mental illness and substance use. The following table indicates that while the service area population growth is projected to outpace California's projected population growth rate from CY 2024 to 2029, the 0-17 and 18-64 age cohorts are projected to decline across the PSA and Los Angeles County over the next 5 years.

Gateways Hospital and Mental Health Center

Years Ending June 20, 2025 Through 2029 (Forecasted)

Estimated and Projected Trends in Age and Population

Area	2020 Census	2024 Estimate	2029 Projection	2024-2029 Absolute Change	2024-2029 Percent Change
Primary service area					
Ages 0-17	174,391	159,438	157,440	(1,998)	-1.3%
Ages 18-44	524,618	527,532	505,952	(21,580)	-4.1%
Ages 45-64	263,097	258,473	271,604	13,131	5.1%
Ages 65-74	83,800	83,818	92,036	8,218	9.8%
Ages 75-84	42,170	45,681	56,374	10,693	23.4%
Ages 85+	19,069	19,894	22,100	2,206	11.1%
Total	1,107,145	1,094,836	1,105,506	10,670	1.0%
Los Angeles County					
Ages 0-17	2,054,218	1,871,762	1,763,034	(108,728)	-5.8%
Ages 18-44	3,961,555	3,940,094	3,792,117	(147,977)	-3.8%
Ages 45-64	2,544,286	2,430,631	2,353,884	(76,747)	-3.2%
Ages 65-74	849,564	870,924	925,245	54,321	6.2%
Ages 75-84	421,314	463,704	555,085	91,381	19.7%
Ages 85+	183,072	191,771	208,973	17,202	9.0%
Total	10,014,009	9,768,886	9,598,338	(170,548)	-1.7%
California					
Ages 0-17	8,711,118	8,210,225	7,877,879	(332,346)	-4.0%
Ages 18-44	14,961,896	15,265,990	15,092,718	(173,272)	-1.1%
Ages 45-64	9,848,045	9,572,944	9,475,522	(97,422)	-1.0%
Ages 65-74	3,547,298	3,701,991	3,948,874	246,883	6.7%
Ages 75-84	1,745,288	2,010,606	2,448,185	437,579	21.8%
Ages 85+	724,578	768,735	874,000	105,265	13.7%
Total	39,538,223	39,530,491	39,717,178	186,687	0.5%
United States					
Ages 0-17	73,106,000	71,233,156	69,235,907	(1,997,249)	-2.8%
Ages 18-44	118,273,566	123,322,828	124,316,897	994,069	0.8%
Ages 45-64	84,277,214	82,485,679	81,616,328	(869,351)	-1.1%
Ages 65-74	33,111,965	35,242,851	38,012,277	2,769,426	7.9%
Ages 75-84	16,344,101	19,317,144	23,665,337	4,348,193	22.5%
Ages 85+	6,336,435	6,839,296	8,026,665	1,187,369	17.4%
Total	331,449,281	338,440,954	344,873,411	6,432,457	1.9%

Source: ESRI

In summary, the PSA and SSA population projections are presented as follows:

Estimated and Projected Trends in Population

Area	2020 Census	2024 Estimate	2029 Projection	2020-2024 Absolute Change	2020-2024 Percent Change	2024-2029 Absolute Change	2024-2029 Percent Change
Primary service area	1,107,145	1,094,836	1,105,506	(12,309)	-1.1%	10,670	1.0%
Los Angeles County	10,014,009	9,768,886	9,598,338	(245,123)	-2.4%	(170,548)	-1.7%
California	39,538,223	39,530,491	39,717,178	(7,732)	0.0%	186,687	0.5%
United States	331,449,281	338,440,954	344,873,411	6,991,673	2.1%	6,432,457	1.9%

Source: ESRI

Based on this information, while population in the Hospital's PSA is projected to increase slightly, the age cohorts with the highest rates of utilization of and need for behavioral health services within the service area and Los Angeles County are projected to decline, which will impact demand for services offered by the Hospital. However, as described herein, utilization of the Hospital's services depends more significantly on patients that are referred to the Hospital from the Los Angeles County Department of Mental Health and the Los Angeles County criminal justice system, which is indirectly impacted by overall trends in population.

Section 4. Note D. Socioeconomic Characteristics of the Service Areas

Employers

The following table presents the top eight largest public- and private-sector employers in the market, based on estimated number of employees. As demonstrated, the largest employers in Los Angeles County largely fall within the healthcare, education, and government sectors, which have generally grown over time:

Workforce Characteristics

Employer Name	Location	Industry	Approximate Number of Employees
Cedars-Sinai Health System	Los Angeles	Healthcare	10,000+
Los Angeles International Airport - LAX	Los Angeles	Transportation	10,000+
UCLA Community Based Learning	Los Angeles	Education	10,000+
Vision X	Los Angeles	Telemarketing	10,000+
Kaiser Permanente Los Angeles	Los Angeles	Healthcare	5,000-9,999
Los Angeles Medical Center	Los Angeles	Healthcare	5,000-9,999
Los Angeles Police Department	Los Angeles	Government	5,000-9,999
Live Nation	Log Angeles	Entertainment	1,000-4,999

Source: America's Labor Market Information System Employer Database, 2025, 1st Edition

Unemployment

The following table presents the unemployment rate for CYs 2020 through 2024 in Los Angeles County, California area, as well as unemployment rates for the state of California and the United States. As demonstrated, the coronavirus global pandemic (the "COVID-19 pandemic") and related stay-at-home orders significantly impacted the U.S. labor market during CY 2020. Subsequently, the state of California and the service area have experienced improvement in the unemployment rates, but such rates generally remain elevated over national benchmarks:

Unemployment Trends

Geography	2020	2021	2022	2023	2024
Los Angeles County	12.4%	9.0%	5.0%	5.1%	5.8%
California	10.2%	7.3%	4.3%	4.7%	5.3%
United States	8.1%	5.4%	3.6%	3.6%	4.0%

Source: U.S. Bureau of Labor Statistics

Median Household Income

The following table presents the percentage of households by median annual income ranges comparing the PSA, Los Angeles County, the state of California, and the United States. The number of households in the PSA with a median annual income of under $75,000 is greater than that of Los Angeles County and the state of California. While the growth in median household income and household earnings that is projected for the PSA is typically indicative of a healthy economic base, the distribution of median incomes as presented indicates that the PSA and Los Angeles County is generally less affluent than other areas of California.

Percentage of Households by Median Income

	PSA	Los Angeles County	California	United States
2024				
Under $15,000	12.7%	8.9%	7.6%	8.6%
$15,000 - $34,999	14.5%	11.8%	10.5%	13.0%
$35,000 - $74,999	23.5%	22.2%	21.0%	25.8%
$75,000 - $99,999	11.7%	12.2%	11.8%	12.8%
$100,000 and greater	37.6%	44.9%	49.1%	39.8%
	PSA	**Los Angeles County**	**California**	**United States**
2029				
Under $15,000	11.5%	7.9%	6.6%	7.4%
$15,000 - $34,999	11.7%	9.2%	8.1%	10.4%
$35,000 - $74,999	20.6%	19.1%	18.0%	23.1%
$75,000 - $99,999	12.1%	11.9%	11.5%	12.7%
$100,000 and greater	44.1%	51.9%	55.8%	46.4%

Source: ESRI

Section 4. Note E. Market Assessment of Other Healthcare Providers with the Service Area

The Hospital is located in the city of Los Angeles, California. Residents of the service area that require inpatient psychiatric care typically receive care through several different types of facilities: general acute care hospitals that have dedicated psychiatric units, freestanding psychiatric hospitals, psychiatric health facilities, and state-owned hospital facilities. Patients who require care may be admitted voluntarily or involuntarily depending on whether the patient's consent is provided and the circumstances surrounding their admission.

As discussed herein, the Hospital receives inpatient referrals through its contract with the DMH. Other general acute and psychiatric facilities also contract with the DMH to provide inpatient psychiatric care. These patients tend to have more severe and/or chronic mental health conditions and therefore longer lengths of stay. These patients are also more likely to have the following characteristics, which also impact length of stay:

- Have been admitted through the criminal justice system for reasons such as incompetency to stand for trial, being found not guilty by reason of insanity, being civilly committed due to being a danger to oneself or the community, or being transferred from a correctional facility for treatment; and/or
- Have more significant barriers to being discharged safely, such as a lack of suitable housing, ongoing legal issues, or the need for more intensive community support.

The following summarizes information for the Hospital and select psychiatric hospitals that operate in the region and capture greater than 2.0% market share:

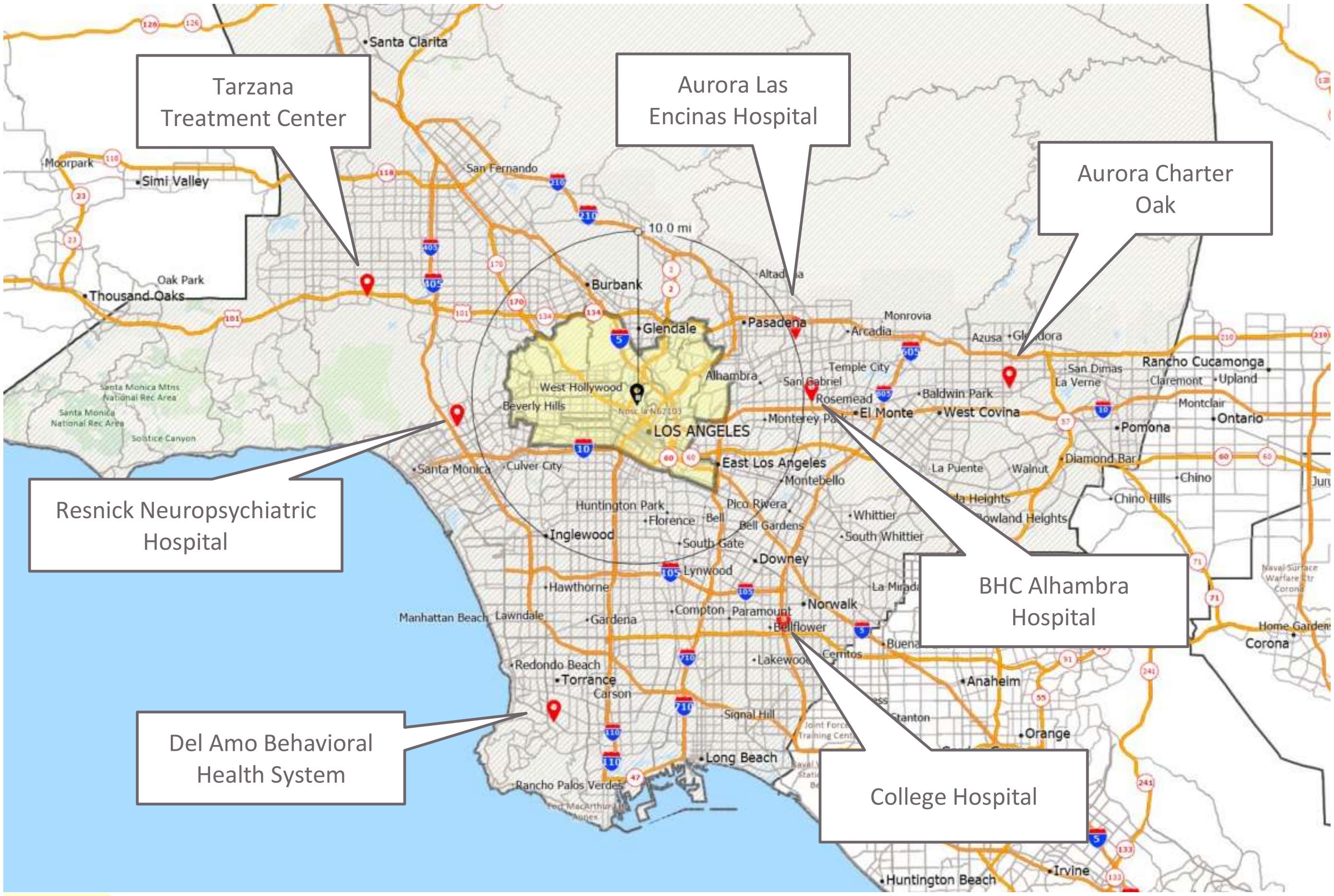
Competitor Demographic and Utilization Statistics

Hospital Name	ZIP Code Location	City	County	Driving Distance (miles) from Hospital (1)	Driving Time (minutes) from Hospital (1)	DMH Facility Contract (2)
Gateways Hospital and Mental Health Center	90026	Los Angeles	Los Angeles	-	-	Yes
Aurora Charter Oak	91724	Covina	Los Angeles	28.8	48	Yes
BHC Alhambra Hospital	91770	Rosemead	Los Angeles	13.8	30	Yes
Aurora Las Encinas Hospital	91107	Pasadena	Los Angeles	15.3	21	Yes
Del Amo Behavioral Health System	90505	Torrance	Los Angeles	25.3	55	Yes
Resnick Neuropsychiatric Hospital at UCLA	90095	Los Angeles	Los Angeles	18.8	32	Yes
Tarzana Treatment Center	91356	Tarzana	Los Angeles	22.0	33	No
College Hospital	90703	Cerritos	Los Angeles	22.1	47	Yes

Hospital Name	Licensed Beds (3)	Staffed Beds (3)	2023 Discharges (3)	2023 Patient Days (3)	2023 Avg. Daily Census (3)	Total Staff FTEs (3)
Gateways Hospital and Mental Health Center	55	55	310	14,798	40.5	256
Aurora Charter Oak	146	146	6,798	52,422	143.6	285
BHC Alhambra Hospital	97	97	4,696	32,917	90.2	181
Aurora Las Encinas Hospital	118	118	2,975	36,977	101.3	213
Del Amo Behavioral Health System	166	140	7,158	51,002	139.7	248
Resnick Neuropsychiatric Hospital at UCLA	74	67	1,808	24,383	66.8	296
Tarzana Treatment Center	60	60	3,204	15,474	42.4	953
College Hospital	187	177	3,249	64,209	175.9	422

Source: (1) Google Maps, accessed March 2025; (2) Los Angeles County Department of Mental Health; (3) HCAI
Note: FTEs represent “full-time equivalents” staffed by each hospital facility. As of November 30, 2024, no hospitals that are considered competitors of the Hospital or that operate within the Hospital’s service area are insured by the Cal-Mortgage loan insurance program.

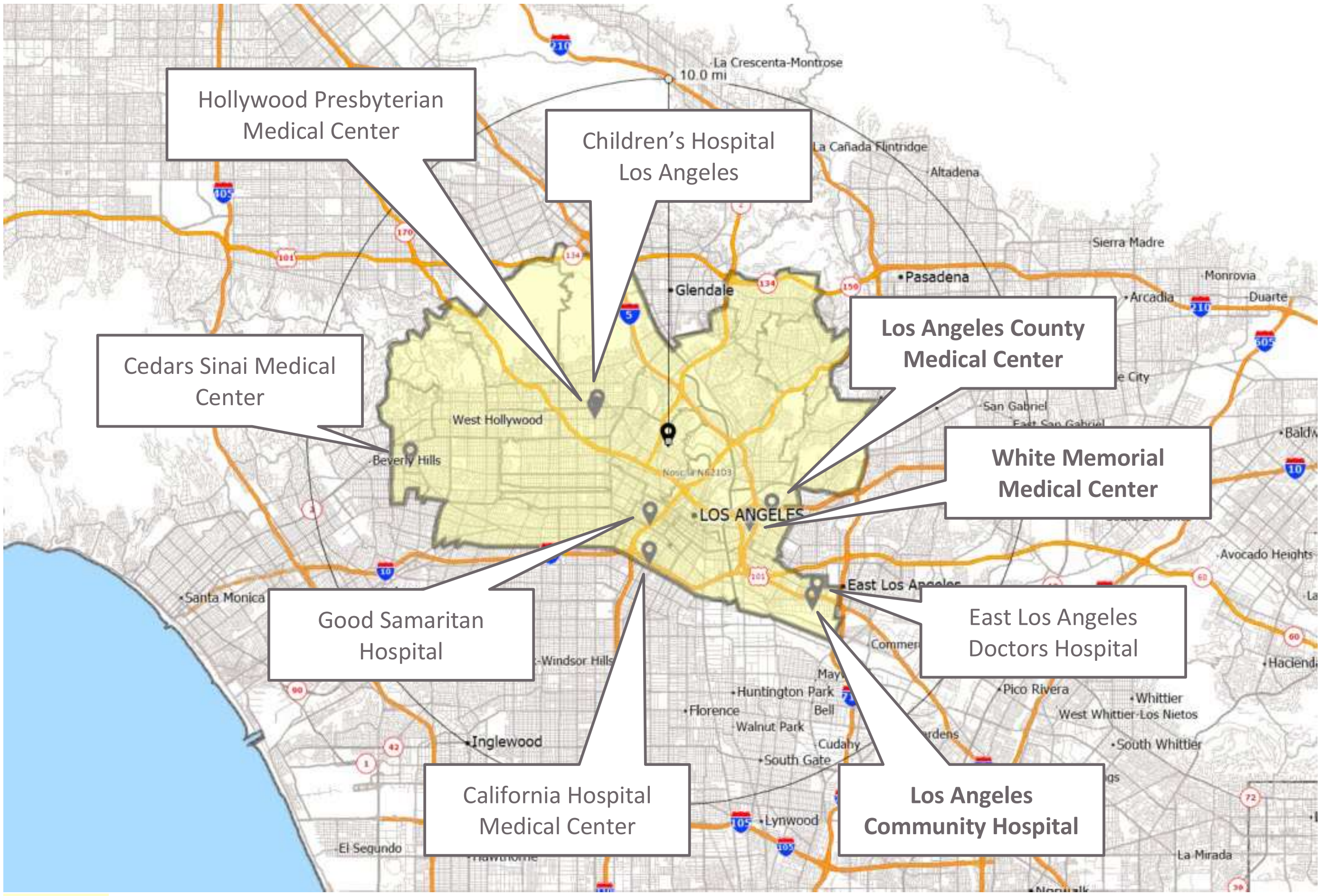
The following map depicts the Hospital's location in relation to select psychiatric hospitals in the region:



Primary service area
Los Angeles County
Hospital
Psychiatric hospitals

Source: Maptitude

The following map depicts other general acute hospital facilities in relation to the Hospital and its PSA. Of these facilities, only White Memorial Medical Center Los Angeles County Medical Center, and Los Angeles Community Hospital admit psychiatric inpatients:



Primary service area
Los Angeles County
Hospital
General acute hospitals

Source: Maptitude

Section 4. Note F. Historical and Forecasted Inpatient and Outpatient Utilization Within the Service Area

Inpatient Psychiatric Bed Need

Multiple studies have been conducted in the state of California to evaluate the supply and demand for inpatient psychiatric treatment capacity in various regions of California and across the state and provide guidance regarding the relative need for expanded inpatient treatment capacity for psychiatric services. The California Hospital Association compiled a report in February 2019, the most recent publicly available report, detailing the availability of inpatient psychiatric beds, both for adults and children, by county and across the entire state. This report indicates that the number of public psychiatric inpatient beds per 100,000 population in Los Angeles County is approximately 22.9. While this number is greater than the bed availability rate of 17.1 observed across the entire state, this number is significantly less than the benchmark of 50 beds per 100,000 population, which was developed utilizing a consensus-based approach from a panel of healthcare industry experts.

As detailed in the table below, the Hospital's PSA requires a total of 80 child/adolescent inpatient beds and 392 adult inpatient beds to meet current demand. With a current licensed bed supply of approximately 196 beds in the PSA, this indicates that there is a shortage of inpatient psychiatric beds in the PSA, particularly for child/adolescent beds.

Inpatient Psychiatric Bed Need for Child and Adult Patients, FY 2025

County	Inpatient Bed Need per 100,000 Population(1)	Total Population(2)	Inpatient Psychiatric Bed Need	Current Licensed Bed Supply	Bed Overage/ Shortage (compared to Demand)	Current Bed Supply as a % of Need
Primary service area						
Ages 0-17 (child/adolescent)	50	159,036	80	27	-53	33.8%
Ages 18-64 (adult)		784,191	392	169	-223	43.1%
Total		943,227	472	196	-276	41.5%
Los Angeles County						
Ages 0-17 (child/adolescent)	50	1,849,493	925	1,284	-2,804	31.4%
Ages 18-64 (adult)		6,325,128	3,163			
Total		8,174,621	4,088	1,284	-2,804	31.4%

Source: (1) Based on best practices from the California Hospital Association; (2) ESRI

Based on these findings, the Hospital identified the need to expand inpatient psychiatric treatment capacity for children and adolescents in the PSA by building a new 37-bed inpatient wing, which would expand capacity to treat these vulnerable patients. The hospital subsequently submitted a request for grant funding through the BHCIP to finance costs associated with construction of the new wing. The Hospital received approval for its request from BHCIP in December 2022.

Inpatient Market Discharges and Market Share

The following presents inpatient psychiatric discharges originating from the PSA for CY 2019 through 2023, as presented in publicly available data through HCAI. As HCAI does not publicly release inpatient psychiatric discharges at the patient ZIP code level, nor at which hospital inpatient services were received, total inpatient psychiatric discharges were estimated for the PSA by applying inpatient psychiatric utilization rates (discharges per 1,000 population) to the PSA's population to calculate total estimated inpatient psychiatric discharges.

Year-over-year discharges for psychiatric hospital facilities are broken out by hospital as psychiatric hospital facilities only provide inpatient psychiatric services. Conversely, general acute hospital facilities may provide inpatient psychiatric services amongst other inpatient medical and surgical services. As data limitations would not allow for the breakout of discharges served by these hospitals separately, total market-generated discharges served by general acute hospital facilities were estimated by taking the variance of the total inpatient psychiatric discharges estimated to be generated in the PSA, less the discharges served by psychiatric hospital facilities.

Based on the following information, the Hospital has historically provided inpatient psychiatric services to about 50-100 patients in its PSA on an annual basis. The number of inpatient psychiatric discharges generated in the PSA has grown by approximately 800 discharges since 2019, indicating the demand for psychiatric services in the region is increasing.

Annual Inpatient Psychiatric Discharges by Hospital

Primary service area	2019	2020	2021	2022	2023	Change 2019-2023	% Change 2019-2023
Gateways Hospital and Mental Health Center	103	52	49	35	71	(32)	-31.1%
Aurora Charter Oak	137	159	134	140	472	335	244.5%
BHC Alhambra Hospital	427	375	308	370	446	19	4.4%
Aurora Las Encinas Hospital	528	405	372	397	428	(100)	-18.9%
Del Amo Behavioral Health System	378	369	333	422	389	11	2.9%
Resnick Neuropsychiatric Hospital at UCLA	170	166	138	154	202	32	18.8%
Tarzana Treatment Center	102	169	159	143	194	92	90.2%
College Hospital	153	122	124	120	137	(16)	-10.5%
All other psychiatric hospitals	192	149	191	257	342	150	78.1%
All other general acute hospitals (estimated)	4,168	3,634	3,897	3,519	4,479	311	7.5%
Total primary service area (estimated)	6,358	5,600	5,705	5,557	7,160	802	12.6%

Source: HCAI

The following presents inpatient psychiatric market share by hospital, based on discharges originating from the PSA for CY 2019 through 2023, as presented in publicly available data through HCAI. Based on the following table, the Hospital's market share has slightly declined since 2019 as bed capacity constraints have limited the Hospital's ability to take on additional inpatients as demand has increased in the PSA.

Annual Inpatient Psychiatric Market Share by Hospital

Primary service area	2019	2020	2021	2022	2023	Change 2019-2023
Gateways Hospital and Mental Health Center	1.6%	0.9%	1.0%	0.6%	1.0%	-0.6%
Aurora Charter Oak	2.2%	2.8%	2.3%	2.5%	6.6%	4.4%
BHC Alhambra Hospital	6.7%	6.7%	5.4%	6.7%	6.2%	-0.5%
Aurora Las Encinas Hospital	8.3%	7.2%	6.5%	7.1%	6.0%	-2.3%
Del Amo Behavioral Health System	5.9%	6.6%	5.8%	7.6%	5.4%	-0.5%
Resnick Neuropsychiatric Hospital at UCLA	2.7%	3.0%	2.4%	2.8%	2.8%	0.1%
Tarzana Treatment Center	1.6%	3.0%	2.8%	2.6%	2.7%	1.1%
College Hospital	2.4%	2.2%	2.2%	2.2%	1.9%	-0.5%
All other psychiatric hospitals	3.0%	2.7%	3.3%	4.6%	4.8%	1.8%
All other general acute hospitals (estimated)	65.6%	64.9%	68.3%	63.3%	62.6%	-3.0%
Total primary service area	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: HCAI

The following table presents the inpatient psychiatric market share projections for the Hospital, and other hospital facilities located in Los Angeles County for the forecast period. As of the date of this forecast, the most recent market data available is through December 31, 2023. The Hospital's market share for FY 2024 was estimated based on fiscal year-end 2024 data, assuming a consistent level of patient in-migration as what the Hospital has observed historically.

Future market share assumptions are based in management's assumption that its investment in a new 37-bed inpatient psychiatric wing, which will enhance local access to higher-acuity psychiatric treatment services, will increase the number of patients served by the Hospital and thus its market share throughout the forecast period.

Additionally, effective July 1, 2025, management has also contracted with another governmental entity, the Los Angeles County Office of Diversion and Reentry, to provide inpatient psychiatric treatment to up to five adult patients at any given point in time, which will further increase adult patient volumes that are directed from correctional facilities to the Hospital. Correspondingly, market share for general acute hospital facilities is projected to decrease as DMH redirects child, adolescent, and adult patients to the Hospital.

The Hospital's assumed market share over the forecasted fiscal years ending June 30 is as follows:

Forecasted Inpatient Psychiatric Market Share by Hospital

Primary service area	2024	2025	2026	2027	2028	2029
Gateways Hospital and Mental Health Center	1.1%	1.1%	1.1%	4.1%	5.5%	6.9%
Aurora Charter Oak	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
BHC Alhambra Hospital	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
Aurora Las Encinas Hospital	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Del Amo Behavioral Health System	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
Resnick Neuropsychiatric Hospital at UCLA	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Tarzana Treatment Center	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
College Hospital	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
All other psychiatric hospitals	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
All other general acute hospitals (estimated)	62.5%	62.5%	62.4%	59.5%	58.1%	56.7%
Total primary service area	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Management

Use Rates

The historical and forecasted psychiatric use rates (discharges per 1,000 population) for the PSA are presented in the table below. As of the date of this forecast, the most recent market data available is through December 31, 2023. To estimate the change in utilization for FY 2024 and throughout the forecast period, management assumes that use rates will grow by approximately 1.1% each year, which is approximately one third of the CAGR observed in Los Angeles County from CY 2019 through 2023 (3.2% annual growth). Management has assumed a more conservative increase in use rates than what was historically observed due to a projected decline in the age cohorts that utilize inpatient psychiatric services at the highest rates.

Collectively, these use rates represent management's conservative expectation that demand for inpatient psychiatric services will continue to increase in the PSA throughout the forecast period, albeit at lower rate of annual growth than what has been historically observed in Los Angeles County.

The following tables reflect the historical inpatient use rates for fiscal years ended June 30 and the results of these adjustments to the inpatient psychiatric use rates over the forecast period:

Historical and Forecasted Inpatient Psychiatric Market Discharge Trends by Hospital Type

	Historical			Forecasted				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Total PSA psychiatric discharges (estimated)	5,557	7,160	7,217	7,307	7,402	7,499	7,596	7,697
Psychiatric hospital facilities	2,038	2,681	2,702	2,736	2,771	2,808	2,844	2,882
General acute hospital facilities	3,519	4,479	4,515	4,571	4,631	4,691	4,752	4,815
PSA total population(1)	1,100,973	1,097,900	1,094,836	1,096,589	1,098,528	1,100,657	1,102,981	1,105,506
Use rate per 1,000 population	5.0	6.5	6.6	6.7	6.7	6.8	6.9	7.0
Los Angeles County total psychiatric discharges(2)	49,926	64,108	64,399	64,847	65,335	65,827	66,324	66,827
Los Angeles County total population(1)	9,890,689	9,829,599	9,768,886	9,731,931	9,696,379	9,662,249	9,629,561	9,598,338
Use rate per 1,000 population	5.0	6.5	6.6	6.7	6.7	6.8	6.9	7.0

Source: (1) ESRI; (2) HCAI

Note: Total PSA psychiatric discharges estimated by applying use rate per 1,000 observed in Los Angeles County based on HCAI data to total population obtained from ESRI. Discharges served by general acute hospital facilities estimated by taking total psychiatric discharges less discharges served by psychiatric hospital facilities.

Inpatient Utilization

Assumptions regarding changes in population, growth in market share, and growth in use rates are used to forecast inpatient psychiatric discharges for the Hospital. The Hospital's market discharges originating from the PSA was calculated by applying the forecasted market share for the Hospital to the forecasted discharges in the PSA. An in-migration rate, which constitutes the average percentage of the Hospital's inpatients who originate from outside of the defined service area, is applied to estimate the total number of Hospital discharges.

Assumptions regarding average length of stay (ALOS) are then applied to the forecasted discharges to estimate future inpatient days over the forecast period. As demonstrated in the table below, ALOS for adult patients has increased since 2022, while child/adolescent ALOS has remained relatively consistent. Management assumes that ALOS for adult and child patients will generally remain at the rates observed in FY 2024, and that ALOS for patients who will be served in the new child/adolescent beds will be consistent with historical rates.

As described herein, inpatient discharges and patient days are projected to grow throughout the forecast period due to increased treatment capacity and increased referrals from DMH programs. Management assumes that the new child/adolescent inpatient beds, which will become operational on July 1, 2027, will ramp-up in occupancy over a three-year period, with 50.0% of the new beds being occupied by FY 2027, 75.0% in FY 2028, and 90.0% in FY 2029. Management conservatively assumes the new inpatient beds will achieve no greater than 90.0% occupancy to account for operational constraints such as bed/room turnover.

Additionally, management projects that adult census will increase beginning on July 1, 2025, due to a new contract with the Office of Diversion and Reentry to provide inpatient treatment services to patients being diverted from correctional facilities that require mental health treatment.

These assumptions collectively result in an increase in discharges and patient days throughout the forecast period, largely due to the increase in treatment capacity created by the new 37-bed patient wing. This growth is estimated to result in a total occupancy rate of 89.3% by the end of the forecast period.

The following table presents the Hospital's historical and forecasted inpatient utilization statistics:

Historical and Forecasted Inpatient Utilization Statistics

	Historical			Forecasted				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Discharges								
Psychiatric Acute - Adult	165	119	169	182	194	196	198	200
Psychiatric Acute - Child/Adolescent	251	191	167	169	171	1,141	1,624	2,107
Total acute discharges	416	310	336	351	365	1,337	1,822	2,307
Patient Days								
Psychiatric Acute - Adult	11,534	13,302	14,166	15,254	16,224	16,392	16,559	16,727
Psychiatric Acute - Child/Adolescent	1,718	1,496	1,059	1,065	1,077	7,186	10,234	13,276
Total patient days	13,252	14,798	15,225	16,319	17,301	23,578	26,793	30,003
Average Length of Stay								
Psychiatric Acute - Adult	69.9	111.8	83.8	83.8	83.6	83.6	83.6	83.6
Psychiatric Acute - Child/Adolescent	6.8	7.8	6.3	6.3	6.3	6.3	6.3	6.3
Total acute average length of stay	31.9	47.7	45.3	46.5	47.4	17.6	14.7	13.0
Average Daily Census								
Psychiatric Acute - Adult	31.6	36.4	38.7	41.8	44.4	44.9	45.2	45.8
Psychiatric Acute - Child/Adolescent	4.7	4.1	2.9	2.9	3.0	19.7	28.0	36.4
Total acute average daily census	36.3	40.5	41.6	44.7	47.4	64.6	73.2	82.2
Occupancy %								
Total acute occupancy	66.0%	73.6%	75.6%	81.3%	86.2%	70.2%	79.6%	89.3%
Licensed beds								
Total acute licensed beds	55	55	55	55	55	92	92	92

Source: Management

Outpatient Utilization

Future ancillary volume estimates were developed using a similar methodology as was utilized for inpatient utilization. The following table depicts the ancillary forecast methodology for inpatient ancillary services, residential treatment programs, and other ambulatory programs. Historical ancillary volume was analyzed to develop a utilization rate or use rate per 1,000 population. Depending on the service line, service area population, residential census, or acute discharges were utilized as a basis to forecast future ancillary volume.

Management projects that ancillary service utilization will generally increase throughout the forecast period due to growth of the service area population base, expansion of services and treatment capacity at the Hospital, and increased referrals from inpatient programs. Inpatient ancillary utilization is projected to grow at a higher rate throughout the forecast period, largely due to the expansion of inpatient bed capacity created by the new child/adolescent inpatient wing. This growth is projected to begin in FY 2027 and ramp-up over a three-year period, with stabilization of ancillary service volume projected by FY 2029. Residential treatment program utilization is projected to grow in FY 2025 based on internal year-to-date statistics provided by management and then grow slightly each year thereafter due to growth of the service area population.

The Hospital’s historical and forecasted ancillary volumes are as follows:

Historical and Forecasted Ancillary Utilization Statistics

	Historical			Forecasted				
	2022	2023	2024	2025	2026	2027	2028	2029
Inpatient ancillary utilization statistics								
Laboratory tests	4,116	3,724	4,868	5,217	5,531	7,538	8,566	9,592
Pharmacy-adjusted patient days	13,252	14,798	15,225	16,319	17,301	23,578	26,793	30,003
Psychiatric individual/group therapy	8,221	5,749	5,749	6,162	6,533	8,903	10,117	11,329
Occupational therapy	15,126	12,587	14,571	15,617	16,557	22,564	25,641	28,713
Psychiatric/psychological testing	11,480	5,902	5,902	6,327	6,708	9,141	10,388	11,632
Residential treatment programs								
Average daily census								
Crisis residential treatment program	12.5	11.5	9.3	12.0	12.0	12.1	12.1	12.1
Statewide transitional residential program	22.6	20.3	26.0	29.4	29.8	30.2	30.4	30.9
Percy Village residential program	100.8	105.2	93.6	95.1	96.3	97.7	98.8	100.6
Normandie Village residential program	45.9	47.1	44.7	47.9	48.5	49.2	49.7	50.6
Occupancy rate								
Crisis residential treatment program	69.5%	63.7%	51.7%	66.7%	66.9%	67.0%	67.2%	67.3%
Statewide transitional residential program	64.6%	57.9%	74.4%	83.9%	85.1%	86.2%	87.2%	88.3%
Percy Village residential program	74.1%	77.4%	69.0%	69.9%	70.8%	71.8%	72.9%	73.9%
Normandie Village residential program	76.5%	78.5%	74.7%	79.8%	80.8%	81.9%	83.1%	84.3%
Ambulatory visits								
Total visits	82,156	82,247	83,923	90,123	91,279	92,452	93,640	94,852
County indigent programs (includes outpatient programs at residential treatment facilities, homeless programs, and wellness programs)	63,324	64,102	54,089	56,625	57,302	58,075	58,860	59,659
Conditional release programs	17,964	17,192	28,634	32,292	32,769	33,166	33,567	33,977
Self-pay patient visits	868	953	1,200	1,206	1,208	1,211	1,213	1,216

Source: Management

Section 4. Note G. Hospital's Medical Staff

The Hospital's staff includes psychiatrists, internists, registered nurses, licensed vocational nurses, psychologists, social workers, mental health workers, and support personnel. The Hospital partners with many universities and vocational programs to provide educational opportunities to students and to help support the workforce needed to support the programs offered by the Hospital. Medical students and other students in healthcare-related fields come from several nursing programs, including West Coast University, Los Angeles Valley College, and California State University, Los Angeles, as well as health psychology students at California State University, Long Beach. Additionally, the Hospital hosts a rotation for third-year medical students at the University of Southern California, as well as additional students from occupational therapy, social work, and psychology programs across the county. The Hospital recruits many of its employed staff through these partnerships.

The following table represents the Hospital's active medical physicians by specialty over the past three years by key specialty. The Hospital's total active physician staff has declined by 33.3% over the past three years but has remained stable since 2023.

Actively Employed Medical Staff Trends

Specialty	2022	2023	2024	2022-2024 Absolute Change	2022-2024 Percent Change
Internal Medicine	2	2	2	0	-
Psychiatry	9	6	6	-3	-33.3%
Total	11	8	8	-3	-27.3%

Source: Management

The Hospital has also established a number of processes to increase staff continuity and retention, including a commitment to establishing a $25 minimum wage by 2027, offering incentive structures to further increase pay, increasing staff salaries by 5.0% each year to accommodate cost of living increases, and offering employee appreciation events.

Section 5. Summary of Significant Financial Forecast Assumptions

Section 5. Note A. Summary of Significant Accounting Policies

Basis for Presentation

The forecasted consolidated financial statements and accompanying notes presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and statements issued by the Financial Accounting Standards Board (FASB) existing as of June 30, 2024. The impact, if any, of future changes in GAAP and/or future changes promulgated by the FASB, including such changes that have already been promulgated but have effective dates subsequent to the beginning of the forecast period, has not been included in the presentation of the accompanying financial forecast.

In the opinion of management, the financial information presented herein includes all adjustments necessary to present fairly the results of operations, financial position, and cash flows for the periods presented. The historical data included in the Summary of Significant Financial Forecast Assumptions and Rationale is also the responsibility of management and is presented for comparative purposes only.

Use of Estimates

The preparation of forecasted consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of potential contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use.

Assets Limited as to Use

Assets limited as to use include assets, comprised of restricted cash, set aside and held by trustees under bond indenture agreements.

Contribution and Other Receivables

Unconditional promises to give are recorded at the estimated fair value when the promise is received.

Net Patient Receivables and Due from Third-Party Payors

Net patient receivables and due from third-party payors consist of uncollateralized patient, resident, and third-party payor obligations related to services rendered by the Center under various contract or grant agreements. The Center does not charge interest on unpaid patient receivables. Payments of receivables are allocated to the specific claims identified in the claim or, if unspecified, are applied to the earliest unpaid claim.

Receivables are reduced by any discounts and implicit price concessions based on historical collection experience or terms of agreements with third party payors and grantors. In evaluating the collectability of receivables, the Center analyzes accounts for adverse changes in a patient’s or payor’s ability to pay that may have occurred after recognition. Management regularly reviews specific data about receivable balances and its history with similar cases to appropriately value patient receivables.

The Center adjusts receivables from patients, residents, third-party payors, and grantors using management's estimates of expected credit losses by discounting gross patient revenues and a credit to an allowance account based on its collection experience on contracts with third-party payors and grantors for services provided to patients and residents.

Property and Equipment

Property and equipment acquisitions in excess of $5,000 and with useful lives beyond one year are capitalized and recorded at cost. Depreciation and amortization are provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of property and equipment are as follows:

A summary of depreciable lives is as follows:

Building and imrpovements	10-40 years
Major moveable equipment and software	5-10 years

Investment in Partnership

Investments in entities in which the Center could exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize the Center's share of earnings and losses of those entities, net of any additional investments or distributions. Historically, the Center's share of net earnings or losses of the entity have been insignificant, and management elected not to adjust the initial investment balance. Management does not expect the Center's share of net earnings or losses from these investments to be significant over the forecast period, and, as such, has not forecasted a change in the investment balance.

Deferred Financing Costs

Deferred financing costs, also referred to herein as debt issuance costs, are recorded as a direct reduction of the carrying value of the debt and are amortized to interest expense over the term of the debt.

Net Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Center expects to be entitled to in exchange for providing patient and resident care. These amounts are due from patient and residents, third-party payors (including health insurers and government programs), and others, and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Center bills the patients, residents, and third-party payors several days after the services are performed and/or the patient or resident is discharged from the facility. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Center believes that this method provides an accurate 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 relate to patients in the Center receiving inpatient services and residents receiving skilled services. The Center measures the performance obligation associated with inpatient services from admission to the Center to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. The Center measures the performance obligation associated with residents receiving skilled services from the beginning of the performance period (generally admission) to the sooner of completion of services to that resident (discharge), or the end of the month. Revenue for performance obligations satisfied at a point time is recognized when goods or services are provided, and the Center does not believe it is required to provide additional goods or services to the patient or resident.

Because all of the Center's performance obligations relate to contracts with a duration of less than one year, it has elected to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient services or skilled services to residents at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, or for residents, the sooner of completion of services, discharge, or end of the month, which generally occurs within days or weeks of the end of the reporting period.

The Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and residents in accordance with the Center's policy, and implicit price concessions provided to uninsured patients and residents. The Center determines its estimate of implicit price concessions based on its historical collection experience with this class of patients and residents.

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 patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Center'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.

Charity Care

Consistent with the Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Center has determined it has provided implicit price concessions to uninsured patients and residents and patients and residents with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and residents and the amounts the Center expects to collect based on its collection history with those patients and residents.

The Center provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Since Center does not pursue collection for services determined to qualify as charity care, no revenue is reported for charity care. The Center provides government-sponsored health insurance applications, payment discounting, or payment waiving for services provided to patients with family incomes less than 350% of the Federal poverty levels in compliance with the State of California Assembly Bill 774 and with the Department of Health and Human Services poverty guidelines.

Grants and Contributions

The Center recognizes unconditional contributions when received or promised to give. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met.

The Center records contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions, or both. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, net assets with donor restrictions are reclassified to net assets released from restrictions. It is the Center's policy to record donor-restricted contributions received and expended in the same accounting period as contributions without donor restrictions.

Income Taxes

The Center is a not-for-profit organization described in Section 501(c)(3) of the Internal Revenue Code ("the Code") and is exempt from federal and state taxes under Section 501(a) of the Code and corresponding sections of the California Revenue and Taxation Code. As such, no provision for income taxes is reflected in the forecasted consolidated financial statements. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three or four years, respectively.

Management believes that all tax positions taken to date and expected in the future, are highly certain, and, accordingly, no accounting adjustment has been made to the forecasted consolidated financial statements.

Leasing Arrangements

The Center determines if an arrangement contains a lease at inception based on whether the Center has the right to control the asset during the contract period and other facts and circumstances. For contracts that extend for a period of greater than 12 months, the Center recognizes that right-of-use asset and corresponding liability. The exercise of these renewal options is at the sole discretion of the Center, and only lease options that the Center believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. For contracts that contain non-lease and lease components, the Center recognizes the non-lease components readily determinable from the lease as incurred on the forecasted consolidated statement of activities.

The Center's policy for determining its lease discount rate used for measuring lease liabilities is to use the rate implicit in the lease whenever that rate is readily determinable. If the rate implicit in the lease is not readily determinable, then the Center has elected to use its incremental borrowing rate or the risk-free discount rate, as permitted by U.S. GAAP, determined using a period comparable with that of the lease term.

The Center has elected a policy to account for short-term leases, defined as any lease with a term less than 12 months, by recognizing all components of the lease payment in the forecasted consolidated statements of activities in the period in which the obligation for the payments is incurred.

Section 5. Note B. Summary of Significant Financial Forecast Assumptions – Consolidated Statement of Activities

Management believes the Project noted in Section 3 contributes to the Center's overall strategic initiatives identified in Section 4. Management also reiterates the following points of consideration in the following presentation of the summary of significant financial assumptions:

- Certain line items in the historical information presented in this section and in the supplementary information may have been reclassified for comparative purposes with other historical years and the forecast.
- The forecasted consolidated financial statements are forecasted based on the Center's historical experience for the year ended June 30, 2024, and six months ended December 31, 2024.
- Differences may exist between tables presented herein and the forecasted consolidated financial statements due to rounding to the nearest dollar. Management has deemed these differences to be immaterial to the forecasted financial results.

Revenues and Support:

Net Patient Service Revenue

In California, counties provide most of the state share of funding for Medi-Cal specialty mental health and substance use disorder services using dedicated revenue streams allocated by the state. As managed care plans, counties are responsible for administering covered Specialty Mental Health, Drug Medi-Cal, and Drug Medi-Cal Organized Delivery System services throughout the state. County behavioral health plans may provide these services directly or contract with community-based behavioral health providers. Los Angeles County contracts with the Center to provide behavioral health services.

The majority of the Center's net revenue is generated by providing four main services including Hospital inpatient, outpatient, residential and Forensic programs. Reimbursement methodologies for these four services are described as follows:

<u>Hospital Inpatient</u>

Beginning July 1, 2023, the Department of Health Care Services (DHCS) implemented the California Advancing and Innovation Medi-Cal (CalAIM) Behavioral Health Payment Reform initiative. The initiative changes the way DHCS reimburses county behavioral health plans. Historically, federal reimbursement for specialty behavioral health services was limited to costs incurred by counties or cost-based reimbursement. The county behavioral health plans claimed federal reimbursement on an interim basis for services rendered and later submitted annual cost reports to reconcile and cost settle. With the CalAIM Payment Reform, reimbursement will move from a cost-based system to a fee-for-service payment methodology. County behavioral health plans will claim fee-for-service reimbursement at rates established in a plan fee schedule. As managed care plans, counties will continue to contract with specialty behavioral health providers like the Center and negotiate provider payments under those contracts.

Hospital inpatient services provided to adolescents and adults are reimbursed for two service components including a daily bed rate, based on bed type, and a fee schedule for professional services, based on provider type.

The daily bed rate for most of the beds, which represents 42 beds, are reimbursed based on published rates issued by Los Angeles County – Department of Health that are effective on July 1 of each year. The Hospital does have eight Murphy beds, which generates a higher daily bed rate due to the additional amenities made available for those rooms. The Center also maintains five beds for the Office of Diversion and Reentry (ODR) to provide interim housing services and stabilization. These beds are reimbursed a daily bundled rate for all services provided per a three-year negotiated contract with ODR.

Professional fees for all patients, excluding the five ODR beds, are reimbursed based on the number of hours provided by each provider type for each patient based on a published hourly rate fee schedule, which is also published by Los Angeles County – Department of Health.

The current contract rates are assumed to remain constant for forecast periods 2025 through 2027 for all bed types and professional services. A 3.0% increase is forecasted for all inpatient services beginning in 2028 and remain at that for the remainder of the forecast period.

<u>Outpatient</u>

Outpatient service for most patients is reimbursed from a fee schedule based on number of visits by provider type. The primary funding source for these services is the Department of Mental Health (DMH). The fee schedule is effective on July 1 of each year. During the forecast period, the rates are forecasted to increase 1.0% annually beginning in 2026.

<u>Residential</u>

Residential services are provided by the Center at three locations within Los Angeles that are funded by Los Angeles County – DMH. Reimbursement by location varies based on the programs provided and the funding source. Two of the three locations, including Normandie Village East and Percy Village, receive cost reimbursement for housing, staffing, operating costs and administrative expenses. The third location, which includes the Crisis Residential Treatment Program (CRTP), is reimbursed a daily bed rate and a daily life support rate that is published by DMH annually. During the forecast period, the rates are forecasted to increase 1.0% annually beginning in 2026.

<u>Forensic</u>

Forensic services are for individuals in the criminal justice system. The Center has contracts with San Diego and Los Angeles counties to provide various outpatient services to these individuals. The contracts are negotiated annually. During the forecast period, the annual contracted amount for San Diego County is based on existing contracts for 2025 and 2026 and then are forecasted to increase 2.7% annually beginning in 2027. During the forecast period, the annual contracted amount for Los Angeles County is based on the existing contract for 2025 and then is forecasted to increase 2.5% annually beginning in 2026. In addition to outpatient services, residential services are provided to these individuals at a specified location under the Statewide Transitional Residential Program services (STRP). These services are reimbursed via a per diem rate and funded by the California Department of State Hospital and the Los Angeles County DMH. During the forecast period, the STRP rates for 2025 are based on contracted rates and are forecasted to increase 2.5% annually beginning in 2026. For other payors, the rates are forecasted to increase 2.5% beginning in 2025 based on historical 2024 rates.

Historical and Forecasted Net Patient Service Revenue Summary

The Center's historical and forecasted net patient service revenue is as follows:

Net Patient Services Revenue

	Historical			Forecasted				
	2022	2023	2024	2025	2026	2027	2028	2029
Inpatient	$ 13,326,955	$ 16,175,142	$ 25,000,291	$ 31,461,378	$ 31,782,514	$ 43,043,797	$ 50,279,241	$ 56,207,718
Outpatient	6,319,765	5,847,410	9,216,568	9,644,162	9,856,891	10,089,862	10,328,591	10,573,573
Residential	6,824,896	7,169,094	7,572,647	8,565,996	8,845,662	9,120,752	9,410,475	9,714,635
Forensics	7,612,117	9,219,320	10,661,472	12,364,465	12,715,827	13,069,568	13,434,745	13,808,401
Other miscellaneous	276,015	236,359	220,910	219,362	221,556	223,772	226,010	228,270
Net patient service revenue	$ 34,359,748	$ 38,647,325	$ 52,671,889	$ 62,255,363	$ 63,422,450	$ 75,547,751	$ 83,679,062	$ 90,532,597

Future Changes

Federal and state legislative and regulatory initiatives may impact healthcare providers. These initiatives are in various stages of discussion and implementation. Because these initiatives are proposed or are in the early stages of development, it is too early to determine and quantify the effect, and proposed changes to these payment systems are not always available; therefore, management has not attempted to determine and quantify the effects each of these initiatives may have on the Center. However, management is continuously in conversations with individuals familiar with any potential federal and state changes that might impact the organization and are actively exploring other funding sources should future cuts in funding arise. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines and penalties. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

Grants and Contributions

Grants and contributions are forecasted based on management's historical experience.

Rental Income

Rental income is received from several of the Center's rental properties. Rental income varies during the forecast period due to varying agreements with new tenants and the timing of turnover of tenants over the forecast period.

Other Revenues

Other operating revenues are forecasted to increase approximately 3.0% annually beginning in 2026.

Expenses

Salaries and Wages

Salaries and wages are forecasted based on historical experience. Salaries and wages per full-time equivalent (FTE) employee are adjusted annually for inflationary increases of approximately 5.0% and changes in patient service volumes.

The Center has a collective bargaining agreement that covers all full-time and regular part-time nonprofessional employees who are not part of its administrative staff or registered nursing staff. The agreement requires an increase in annual salary, based on a fixed rate, for all bargaining unit employees. The current agreement is effective through October 31, 2025. Management anticipates beginning negotiations of the agreement during the summer of 2025 and expects to renew the agreement with no significant changes from the existing agreement.

FTEs are forecasted to increase in 2027 by 35 FTEs and then additional 35 FTEs in 2028 to account for overall utilization growth and the inpatient hospital expansion of the 37 beds.

Forecasted average salary per FTE and salaries expense as a percent of net patient service revenue are as follows:

Average Salaries and Wages per FTE

	Historical		
	2022	2023	2024
Salaries and wages	$ 18,824,658	$ 21,241,972	$ 25,321,915
FTEs	249.1	269.3	318.6
Average salaries and wages/FTE	$ 75,571	$ 78,878	$ 79,479
Salaries and wages as a percent of net patient service revenue	54.8%	55.0%	48.1%

	Forecasted				
	2025	2026	2027	2028	2029
Salaries and wages	$ 30,176,891	$ 32,260,058	$ 37,544,637	$ 43,255,262	$ 47,098,669
FTEs	363.5	369.7	406.8	442.9	458.3
Average salaries and wages/FTE	$ 83,018	$ 87,260	$ 92,293	$ 97,664	$ 102,768
Salaries and wages as a percent of net patient service revenue	48.5%	50.9%	49.7%	51.7%	52.0%

Employee Benefits

Employee benefits consist of a variety of benefit expenses including, but not limited to, social security and payroll taxes, retirement plan contributions, and health and dental insurance. The retirement plan is a defined contribution plan where the Center has a matching contribution up to 25% of the employee’s contribution, with a maximum limit of 3.0% of the employee’s annual salary. The Center’s employee benefits are forecasted based on historical trends and management’s expectations.

The following table presents the historical and forecasted employee benefits as a percentage of historical and forecasted salaries and wages:

Employee Benefits as a Percentage of Salaries and Wages

	Historical		
	2022	2023	2024
Salaries and wages	$ 18,824,658	$ 21,241,972	$ 25,321,915
Employee benefits	$ 5,046,821	$ 5,562,827	$ 5,718,583
Benefit ratio	26.8%	26.2%	22.6%

	Forecasted				
	2025	2026	2027	2028	2029
Salaries and wages	$ 30,176,891	$ 32,260,058	$ 37,544,637	$ 43,255,262	$ 47,098,669
Employee benefits	$ 7,091,569	$ 7,581,114	$ 8,822,990	$ 10,164,987	$ 11,068,187
Benefit ratio	23.5%	23.5%	23.5%	23.5%	23.5%

Insurance

Insurance expense includes costs relating to excess general liability coverage. Insurance is forecasted based on historical insurance expense, adjusted annually for inflationary increases of approximately 3.0% and patient service volumes, as applicable.

Management forecasted an increase in insurance beginning on October 15, 2025, due to the purchase of the Glendale property. Management also forecasted an increase in utilities beginning in January 2027 due to the Project.

Licenses and Taxes

Licenses and taxes expense is forecasted based on management's historical experience and adjusted annually for inflationary increases at approximately 3.0%.

Professional Fees

Professional fees include physician fees and other professional fees for patient care cost centers, as well as other overhead professional services. Professional fees are forecasted based on historical professional fees expense. The expenses were adjusted annually for inflationary increases approximately at 3.0% and changes in patient service volumes.

Purchased Services

Purchased services consist of laboratory, radiology, client purchased, and other purchase services for revenue-producing and overhead departments and are forecasted based on historical purchased services expense. The expenses are adjusted annually for inflationary increases at approximately 3.0% and changes in patient service volumes.

Rents and Leases

Rents and leases expenses are forecasted based on historical experience and is forecasted to increase for inflation at approximately 3.0% annually.

Repairs and Maintenance

Repairs and maintenance expenses are forecasted based on historical experience and is forecasted to increase for inflation at approximately 3.0% annually.

Supplies

Supplies expenses include medical supplies and drugs, non-medical supplies, food, cleaning supplies, linens and office supplies. Certain supplies are volume sensitive and are adjusted to reflect fluctuations in related patient service volume. Supplies expenses are forecasted based on historical experience in 2024, adjusted for patient service volumes (if applicable), and inflationary increases of 3.5% over the forecast period.

Telephone

Telephone expenses are forecasted based on historical experience, adjusted annually for inflationary increases at approximately 3.0% for the forecast period.

Management forecasted an increase in telephone expenses beginning on October 15, 2025, due to the purchase of the Glendale property. Management also forecasted an increase in telephone expenses beginning in January 2027 due to the Project.

Utilities

Utilities expenses are forecasted based on historical experience, adjusted annually for inflationary increases at approximately 3.0% for the forecast period.

Management forecasted an increase in utilities beginning on October 15, 2025, due to the purchase of the Glendale property. Management also forecasted an increase in utilities beginning in January 2027 due to the Project.

Other Expenses

Other expenses include auto fleet expenses, client transportation, training and meetings, dues, travel, recruiting, and other miscellaneous overhead expenses. Other expenses are forecasted based on historical experience in 2024, adjusted for patient service volumes (if applicable), and inflationary increases of 3.5% over the forecast period.

Depreciation and Amortization

Forecasted depreciation expense was computed for property and equipment acquired during the forecast period using the straight-line method based on the average lives of assets as described in Section 5, Note A.

Beginning in 2027, property and equipment as a part of the Project are depreciated based on the estimated useful lives of 30 years for land improvements and buildings and 10 years for equipment.

Interest Expense

The Center has forecasted the following elements of debt and related interest expense during the forecast period:

Long-term Debt

Below is a description of the Center's existing long-term debt, exclusive of the Line of Credit (described in Section 5, C.):

- CHFFA – Percy Village - Note payable to California Health Facilities Financing Authority (CHFFA) (conduit bond issuer) for the acquisition of Percy Village facility and refinance and remodel the Hill Street building with maximum interest rate of 5.5% through December 2036, collateralized by a deed of trust against recent constructed property. The note payable will be paid off from the proceeds of the Banc of California loan in fiscal 2025.
- EHAP - Note payable to California Emergency Housing and Assistance Program (EHAP), for new construction project located at Hoover Street, no interest, collateralized by a deed of trust against recent constructed property. Repayment of the loan was deferred and was forgiven in fiscal 2025.
- CRA - Note payable to Community Redevelopment Agency Program (CRA) of the City of Los Angeles, no interest, collateralized by a deed of trust against the constructed property. The loan shall be forgivable at $27,350 per year.
- CHFFA – Help II - Note payable at the CHFFA for a Help II, commercial building at Hill Street, payable monthly with interest rate of 3%, collateralized by a deed of trust against recent constructed property, and pledge of revenue from all sources. The note payable will be paid off from the proceeds of the Banc of California loan in fiscal 2025.
- Banc of California - Loan agreement in the amount of $21,000,000 to Banc of California, dated October 15, 2024, payable monthly at an interest rate of 6.95% for the first three years. The purpose of the loan is to purchase the property in the Glendale area, herein referred to as the "Glendale property," repaying the CHFFA loan agreements, and funding a portion of the costs of improving, rehabilitating and equipping the Glendale property. The loan will be paid off from the proceeds of the Series 2025 Bonds.

Based on the plan of finance described in Section 3 and the debt arrangements described herein, interest expense is forecasted as follows for the years ending June 30:

Interest Expense

	2025	2026	2027	2028	2029
CHFFA - Percy Village	$ 80,555	$ -	$ -	$ -	$ -
CHFFA - Help II	1,905	-	-	-	-
Line of credit	14,197	-	-	-	-
Banc of California	1,041,091	-	-	-	-
Operating leases	22,428	16,138	8,614	26,038	29,792
Series 2025 Bonds	-	2,429,728	2,631,863	2,610,363	2,563,363
Total interest payments	1,160,176	2,445,866	2,640,477	2,636,401	2,593,155
Less:					
Capitalized interest	-	1,245,750	679,500	-	-
Accretion of bond premium	-	46,938	73,268	99,598	99,598
Plus - Amortization of debt issuance costs	48,799	75,264	117,042	158,820	158,820
Interest expense	$ 1,208,975	$ 1,228,442	$ 2,004,751	$ 2,695,623	$ 2,652,377

Nonoperating Revenues (Expenses)

Investment Income

Investment income is forecasted based on the average annual balance of cash and cash equivalents and investments on the forecasted consolidated statements of financial position. The average investment rate is forecasted at approximately 2.3% of cash and cash equivalents and investments. No realized or unrealized gains or losses on investments have been forecasted for the forecast period.

Gain on Forgiveness of Long-Term Debt

The Center has a note payable to Community Redevelopment Agency Program (CRA) of the City of Los Angeles, which is to be forgiven at $27,350 per year through 2030.

The Center has a note payable to California Emergency Housing and Assistance Program (EHAP), for a new construction project located at Hoover Street. The repayment of the loan is deferred and forecasted to be forgiven in fiscal 2025 in the amount of $1,000,000.

Loss on Extinguishment of Debt

Loss on extinguishment of debt is the unamortized financing costs on certain loans on the date the loans are being paid off early due to a refinancing. The loss in 2025 is from the two CHFFA loans that are repaid from proceeds of the Banc of California loan. The loss in 2026 is related to the repayment of the Banc of California loan from the Series 2025 Bond proceeds.

Section 5. Note C. Summary of Significant Financial Forecast Assumptions – Consolidated Statements of Financial Position

Certain line-items on the forecasted consolidated statements of financial position are forecasted based on a number of days outstanding of related revenue or expense line- items, noted as follows:

- Inventories – Approximately 15 days of supplies expense.
- Prepaid expenses and other current assets – Approximately 18 days of operating expenses less salaries and wages, employee benefits, depreciation, and interest.
- Accounts payable – Approximately 31 days of operating expenses less salaries and wages, employee benefits, depreciation and amortization, and interest.
- Accrued payroll, withholdings, and benefits – Approximately 29 to 30 days of salaries and wages, and employee benefits.

Certain line-items on the forecasted consolidated statements of financial position are forecasted to remain at the historical June 30, 2024, balance for the forecast period. These line-items include:

- Contributions and other receivables
- Investment in partnership
- Deferred revenue

Other line-items on the forecasted consolidated statements of financial position are forecasted as follows:

Cash and Cash Equivalents and Investments

Cash and cash equivalent balances are forecasted based on the results of the forecasted cash flows from operating, investing, and financing activities. Management has forecasted maintaining 45 days of operating expenses in cash and cash equivalents with the remainder being invested in investments over the forecast period.

Patient Receivables - Net

Patient receivables increased as of June 30, 2024, due to the recent changes in reimbursement methodology and the lack of information to properly bill certain services. During the forecast period, management has forecasted the receivable balances to decline to an average of approximately 64 days of net patient service revenue for the forecast period.

Due From Third-Party Payors

Due from third-party payors include net amounts from DMH and CONREP settlements. Management has forecasted that the current balance outstanding at June 30, 2024, will be received in 2026. Management has not forecasted any amounts due from or to third party payors for the remainder of the forecast period.

Notes Receivable

As of the year-ended June 30, 2024, the Center had outstanding notes receivable. Management has forecasted these notes to be repaid in 2025. Management has not forecasted entering into additional notes receivable during the remainder of the forecast period.

Assets Limited as to Use

Assets limited as to use include funds held by trustee and consist of the following:

- Project funds not yet spent during the construction period at year-end.
- Capitalized (i.e. "funded") interest fund associated with the construction portion of the Project to be used to make interest payments on the Series 2025 Bonds during the construction period.
- Debt service reserve funds are funds held by the trustee for debt service related to the Series 2025 loans.

Property and Equipment - Net

The Center's forecasted property and equipment additions are as follows for the Project and management's planned routine capital additions.

In 2025, the Center is forecasting the purchase of the Glendale property with the Banc of California loan proceeds, along with a variety of other capital purchases. Annual planned routine capital purchases for the Center are forecasted to be $500,000 annually beginning in 2026 and throughout the forecast period.

The Center's planned capital additions relating to the Project are forecasted as follows for the years ending June 30:

Project Property and Equipment Additions

	2025	2026	2027	2028	2029
Buildings and improvements	$ -	$ 4,000,000	$ 44,555,250	$ -	$ -
Movable equipment and software	-	-	370,000	-	-
Construction in progress	6,641,039	21,845,352	(29,912,416)	-	-
Totals	$ 6,641,039	$ 25,845,352	$ 15,012,834	$ -	$ -

Property and equipment, net of accumulated depreciation and amortization, are forecasted as follows at June 30:

Property and Equipment - Net

	2025	2026	2027	2028	2029
Property and equipment:					
Land	$ 2,674,845	$ 2,674,845	$ 2,674,845	$ 2,674,845	$ 2,674,845
Buildings and improvements	33,968,651	37,968,651	82,523,901	82,523,901	82,523,901
Movable equipment and software	3,302,084	3,802,084	4,672,084	5,172,084	5,672,084
Construction in progress	8,581,229	30,426,581	514,165	514,165	514,165
Total property and equipment	48,526,809	74,872,161	90,384,995	90,884,995	91,384,995
Less - accumulated depreciation and amortization	(16,018,293)	(17,383,949)	(19,571,967)	(22,546,779)	(25,567,160)
Property and equipment - Net	$ 32,508,516	$ 57,488,212	$ 70,813,028	$ 68,338,216	$ 65,817,835

Right-of-Use Assets – Operating Leases

Operating lease right of use assets include the unamortized asset balances on current lease obligations. All existing operating leases are forecasted to be renewed as they expire throughout the forecast period at similar terms.

Line of Credit

At June 30, 2024, the Center had a revolving agreement with a bank ("Line of Credit"), whereby the Center could borrow up to $5,000,000. The interest was payable monthly at a variable interest rate based on the Wall Street Money Rates, which was 8.5% on June 30, 2024. The Line of Credit was repaid in October 2024.

In October 2024, the Center entered into a Line of Credit agreement with Banc of California. The Line of Credit allows the Center to borrow up to $3,000,000. Management has no plans to draw down funds on the Line of Credit during the forecast period.

Long-Term Debt

Based on the terms described in Section 5. Note B. Interest Expense, the Center's long-term debt at June 30 is as follows:

Long-Term Debt

	Historical	Forecasted				
	2024	2025	2026	2027	2028	2029
CHFFA - Percy Village	$ 5,245,000	$ -	$ -	$ -	$ -	$ -
EHAP	1,000,000	-	-	-	-	-
CRA	191,450	164,100	136,750	109,400	82,050	54,700
CHFFA - Help II	217,746	-	-	-	-	-
Banc of California	-	21,000,000	-	-	-	-
Series 2025 Bonds	-	-	54,480,000	54,050,000	53,110,000	52,125,000
Subtotals	6,654,196	21,164,100	54,616,750	54,159,400	53,192,050	52,179,700
Less:						
Current maturities	365,387	27,350	27,350	517,350	1,012,350	1,062,350
Unamortized debt issuance costs	389,434	164,274	4,564,014	4,446,972	4,288,152	4,129,332
Accrued bond interest	23,006	-	-	-	-	-
Plus:						
Deferred bond premium	-	-	2,861,986	2,788,718	2,689,120	2,589,522
Long-term portion, less current portion	5,876,369	$ 20,972,476	$ 52,887,372	$ 51,983,796	$ 50,580,668	$ 49,577,540

Forecasted annual principal payments associated with long-term debt balances are summarized as follows:

Annual Principal Payments

	2025	2026	2027	2028	2029
CHFFA - Percy Village	$ 5,245,000	$ -	$ -	$ -	$ -
EHAP - Loan forgiven	1,000,000	-	-	-	-
CRA - Loan forgiven	27,350	27,350	27,350	27,350	27,350
CHFFA - Help II	217,746	-	-	-	-
Banc of California	-	21,000,000	-	-	-
Series 2025 Bonds	-	375,000	430,000	940,000	985,000
Total principal payments	6,490,096	21,402,350	457,350	967,350	1,012,350
Less principal payments forgiven:					
EHAP - Loan forgiven	1,000,000	-	-	-	-
CRA - Loan forgiven	27,350	27,350	27,350	27,350	27,350
Total principal payments forgiven	1,027,350	27,350	27,350	27,350	27,350
Total principal payments - Net	$ 5,462,746	$ 21,375,000	$ 430,000	$ 940,000	$ 985,000

Operating Lease Liabilities

Operating lease liabilities are forecasted based on existing terms of each lease obligation. All existing operating leases are forecasted to be renewed as they expire throughout the forecast period at similar terms.

Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are forecasted based on revenues in excess of expenses and net assets released from restrictions for the forecast period.

In addition, the Center obtained a grant in December 2022 through DHCS for the BHCIP Round 4 Youth and Adolescent program. The funding for this grant is reported as net assets released from restrictions for purchases of property and equipment from 2023 through 2026 for the Project.

Net Assets With Donor Restrictions

Net assets with donor restrictions are forecasted based on the amounts restricted by a donor in perpetuity, restricted for specified purposes, and restricted by the passage of time.

Section 5. Note D. Sensitive Assumptions

Forecast assumptions are considered particularly sensitive if there is either a relatively high probability of a sizable variation from the assumption or if the effect of virtually any variation in the assumption would have a significant effect on forecasted results.

The following assumptions are particularly sensitive, and variation in the assumption could have a significant effect on forecasted results:

- *COVID-19 Related Grants and Other Grants and Contributions* –Management expects the Center's use of the COVID-19 related grant funds and other grants and constributions to meet the terms and conditions for use such that the Center's would not have to repay these funds. If the Center had to repay these funds, the Center's net position would be affected, and the effects could be material.
- *Legislative Changes* – Other federal and state legislative and regulatory initiatives may impact healthcare providers. These initiatives are in various stages of discussion and implementation. Because these initiatives are proposed or are in the early stages of development, it is too early to determine and quantify the effect, and proposed changes to these payment systems are not always available; therefore, management has not attempted to determine and quantify the effects each of these initiatives may have on the Center. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. If there are significant legislative changes to healthcare payment methodologies, Centers's patient service revenue would be affected, and the effects could be material.
- *Contracts* – A portion of the Center's patient service revenue is forecasted based on negotiated contracts with San Diego and Los Angeles counties. If the negotiated amounts change, patient service revenue, would be affected, and the effects could be material.
- *Reimbursement* – The Center's patient service revenue, net of collectible accounts, is forecasted based on the forecasted payor mix and case mix and on reimbursement methods under agreements with third parties and current legislation. If the methods and rates of reimbursement change or the Center's payor mix or case mix changes, patient service revenue, net of uncollectible accounts, would be affected, and the effects could be material.
- *Implicit Price Concessions and Charity Care* – Implicit price concessions and charity care are forecasted based on a percentage of total patient service revenue. If the Center exceeds the implicit price concessions and charity care levels forecasted, the Center's patient service revenue, net of uncollectible accounts, would be affected, and the effects could be material.
- *Operating Expenses* - The Center has forecasted operating expenses based on certain inflationary increases and staffing levels. If the inflationary increases are higher than what is forecasted or if staffing levels increase, the Center's operating expenses would be affected, and the effects could be material.

- *Competition* – Management monitors new projects being constructed, or services developed by its competitors and other healthcare entities that are in various stages. If these competitor hospitals implement significant strategic or operational changes, the Center's market share, patient service volumes, and patient service revenue, net of uncollectible accounts, would be affected, and the effects could be material.
- *Population* – Population is forecasted based on ESRI estimates. If population is higher or lower than ESRI estimates, patient service revenue, net of uncollectible accounts, would be affected, and the effects could be material.
- *Utilization* - If the Center is unable to achieve the utilization volumes included in the forecast, patient service revenue, net of uncollectible accounts, would be affected, and the effects could be material.
- *Construction Costs* – If the cost of materials, supplies, and labor costs changed from what is presented in the Project costs, the Center's property and equipment and depreciation would be affected, and the effects could be material.
- *Financing* – If financing terms and conditions change, or if the timing of a forecasted financing differ from what is presented, the Center's increase (decrease) in net assets would be affected, and the effects could be material.
- *Laws and Regulations* – The healthcare 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, government healthcare program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by healthcare providers has increased. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. The financial forecast assumes the Center will be in substantial compliance with laws and regulations throughout the forecast period.

Section 6. Supplementary Information

Gateways Hospital and Mental Health Center

Section 6: Supplementary Information

June 30, 2022 Through 2024 (Historical)

June 30, 2025 Through 2029 (Forecasted)

Historical and Forecasted Consolidated Financial Statements

Consolidated Statements of Financial Position

	Historical			Forecasted				
Assets	2022	2023	2024	2025	2026	2027	2028	2029
Current assets:								
Cash and cash equivalents	$ 5,237,190	$ 3,911,141	$ 5,532,966	$ 6,748,239	$ 6,875,095	$ 7,532,608	$ 8,187,931	$ 8,526,303
Investments	7,475,236	7,976,333	8,690,221	19,599,211	27,063,504	36,222,297	44,550,908	54,549,223
Patient receivables - Net	2,524,307	4,135,577	14,565,925	10,891,475	11,095,655	13,216,957	14,599,518	15,838,532
Due from third-party payors	951,200	1,504,218	591,645	591,645	-	-	-	-
Contributions and other receivables	209,654	603,570	208,647	75,000	75,000	75,000	75,000	75,000
Notes receivable	106,000	472,667	33,333	-	-	-	-	-
Inventories	-	-	94,728	96,081	99,682	106,266	110,980	116,261
Prepaid expenses and other current assets	1,018,916	759,133	726,502	756,258	789,125	861,735	912,231	962,400
Total current assets	17,522,503	19,362,639	30,443,967	38,757,909	45,998,061	58,014,863	68,436,568	80,067,719
Assets limited as to use:								
Debt service reserve fund - CHFFA bonds	803,255	765,560	766,722	-	-	-	-	-
Project fund	-	-	-	-	14,333,333	-	-	-
Capitalized interest fund	-	-	-	-	1,359,000	-	-	-
Debt service reserve fund - Series 2025 Bonds	-	-	-	-	1,776,556	1,776,556	1,776,556	1,776,556
Total assets limited as to use	803,255	765,560	766,722	-	17,468,889	1,776,556	1,776,556	1,776,556
Property and equipment - Net	9,721,710	9,153,237	9,935,028	32,508,516	57,488,212	70,813,028	68,338,216	65,817,835
Investment in partnership	925,000	925,000	925,000	925,000	925,000	925,000	925,000	925,000
Right-of-use assets - Operating leases	-	754,985	524,625	393,149	202,568	330,945	614,268	512,089
TOTAL ASSETS	$ 28,972,468	$ 30,961,421	$ 42,595,342	$ 72,584,574	$ 122,082,730	$ 131,860,392	$ 140,090,608	$ 149,099,199

See Accountant's Compilation Report.

Consolidated Statements of Financial Position (Continued)

	Historical			Forecasted				
Liabilities and Net Assets	2022	2023	2024	2025	2026	2027	2028	2029
Current liabilities:								
Accounts payable and accrued liabilities	$ 1,420,644	$ 1,243,705	$ 1,311,662	$ 1,365,385	$ 1,424,725	$ 1,555,818	$ 1,646,986	$ 1,737,563
Accrued salaries and employee benefits	1,699,364	2,391,993	2,502,744	3,013,127	3,221,129	3,748,788	4,307,186	4,702,746
Line of credit	-	-	1,002,153	-	-	-	-	-
Current portion of long-term debt	339,577	354,999	365,387	27,350	27,350	517,350	1,012,350	1,062,350
Current portion of operating lease liabilities	-	245,582	184,960	201,285	178,769	124,273	138,420	182,794
Deferred revenue	14,860	15,749	56,984	56,984	56,984	56,984	56,984	56,984
Total current liabilities	3,474,445	4,252,028	5,423,890	4,664,131	4,908,957	6,003,213	7,161,926	7,742,437
Long-term liabilities:								
Long-term debt - Less current portion	6,542,686	6,215,476	5,876,369	20,972,476	52,887,372	51,983,796	50,580,668	49,577,540
Operating lease liabilities - Less current portion	-	525,762	352,697	215,610	36,840	209,890	484,602	345,138
Total long-term liabilities	6,542,686	6,741,238	6,229,066	21,188,086	52,924,212	52,193,686	51,065,270	49,922,678
Total liabilities	10,017,131	10,993,266	11,652,956	25,852,217	57,833,169	58,196,899	58,227,196	57,665,115
Net assets:								
Without donor restrictions	18,731,209	19,710,067	30,738,332	46,528,303	64,045,507	73,459,439	81,659,358	91,230,030
With donor restrictions	224,128	258,088	204,054	204,054	204,054	204,054	204,054	204,054
Total net assets	18,955,337	19,968,155	30,942,386	46,732,357	64,249,561	73,663,493	81,863,412	91,434,084
TOTAL LIABILITIES AND NET ASSETS	$ 28,972,468	$ 30,961,421	$ 42,595,342	$ 72,584,574	$ 122,082,730	$ 131,860,392	$ 140,090,608	$ 149,099,199

Gateways Hospital and Mental Health Center

Section 6: Supplementary Information

Years Ended June 30, 2022 Through 2024 (Historical)

Years Ending June 30, 2025 Through 2029 (Forecasted)

Consolidated Statements of Activities

	Historical			Forecasted				
	2022	2023	2024	2025	2026	2027	2028	2029
Revenue and support:								
Net patient service revenue	$ 34,359,748	$ 38,647,325	$ 52,671,889	$ 62,255,363	$ 63,422,450	$ 75,547,751	$ 83,679,062	$ 90,532,597
Grants and contributions	909,919	1,266,558	2,021,024	434,040	563,653	581,072	599,205	618,081
Rental income	1,163,497	1,214,476	1,240,243	968,183	977,057	1,238,119	1,275,262	1,313,519
Other revenues	79,629	174,356	96,893	75,616	77,884	80,221	82,627	85,106
Net assets released from restrictions for operations	282,872	340,535	138,034	-	-	-	-	-
Total revenue and support	36,795,665	41,643,250	56,168,083	63,733,202	65,041,044	77,447,163	85,636,156	92,549,303
Expenses:								
Salaries and wages	18,824,658	21,241,972	25,321,915	30,176,891	32,260,058	37,544,637	43,255,262	47,098,669
Employee benefits	5,046,821	5,562,827	5,718,583	7,091,569	7,581,114	8,822,990	10,164,987	11,068,187
Insurance	570,070	795,359	973,470	1,066,506	1,116,544	1,249,957	1,344,428	1,384,761
Licenses and taxes	219,709	337,683	234,484	240,861	248,088	255,530	263,193	271,093
Professional fees	2,812,187	2,948,637	3,967,014	4,219,932	4,450,521	5,082,682	5,509,995	5,947,392
Purchased services	2,719,072	3,437,649	3,630,951	3,884,728	4,047,054	4,360,329	4,600,519	4,843,173
Rents and leases	653,271	709,459	756,125	776,683	799,986	823,986	848,706	874,168
Repairs and maintenance	331,920	267,113	246,789	253,496	261,103	268,938	277,006	285,316
Supplies	1,772,012	2,082,185	2,240,462	2,337,983	2,425,607	2,585,813	2,707,908	2,829,028
Telephone	356,254	441,577	473,127	513,373	536,197	593,384	634,624	653,664
Utilities	837,157	1,110,713	1,095,011	1,185,001	1,236,874	1,364,373	1,456,842	1,500,546
Depreciation and amortization	827,557	811,127	635,025	1,232,020	1,556,237	2,386,123	3,155,493	3,197,307
Interest	333,196	320,630	322,428	1,208,975	1,228,442	2,004,751	2,695,623	2,652,377
Other	638,425	1,225,913	1,654,918	1,375,876	1,421,503	1,480,706	1,533,486	1,586,924
Total operating expenses	35,942,309	41,292,844	47,270,302	55,563,894	59,169,328	68,824,199	78,448,072	84,192,605
Income from operations	$ 853,356	$ 350,406	$ 8,897,781	$ 8,169,308	$ 5,871,716	$ 8,622,964	$ 7,188,084	$ 8,356,698

See Accountant's Compilation Report.

Gateways Hospital and Mental Health Center
Section 6: Supplementary Information
Years Ended June 30, 2022 Through 2024 (Historical)
Years Ending June 30, 2025 Through 2029 (Forecasted)

Consolidated Statements of Activities (Continued)

	Historical			Forecasted				
	2022	2023	2024	2025	2026	2027	2028	2029
Other income (expense):								
Investment income (loss)	$ (971,154)	$ 537,332	$ 795,579	$ 320,022	$ 592,818	$ 763,618	$ 984,485	$ 1,186,624
Gain on forgiveness of long-term debt	-	-	-	1,027,350	27,350	27,350	27,350	27,350
Loss on extinguishment of debt	-	-	-	(367,748)	(164,274)	-	-	-
Total other income (expense) - Net	(971,154)	537,332	795,579	979,624	455,894	790,968	1,011,835	1,213,974
Revenue in excess (deficiency) of expenses	(117,798)	887,738	9,693,360	9,148,932	6,327,610	9,413,932	8,199,919	9,570,672
Net assets released from restrictions for purchases of property and equipment	-	91,120	1,334,905	6,641,039	11,189,594	-	-	-
Increase (decrease) in net assets without donor restrictions	(117,798)	978,858	11,028,265	15,789,971	17,517,204	9,413,932	8,199,919	9,570,672
Net assets with donor restrictions:								
Grants and contributions	507,000	465,615	1,418,905	6,641,039	11,189,594	-	-	-
Net assets released from restrictions	(282,872)	(431,655)	(1,472,939)	(6,641,039)	(11,189,594)	-	-	-
Increase (decrease) in net assets with donor restrictions	224,128	33,960	(54,034)	-	-	-	-	-
Increase in net assets	106,330	1,012,818	10,974,231	15,789,971	17,517,204	9,413,932	8,199,919	9,570,672
Net assets at beginning	18,849,007	18,955,337	19,968,155	30,942,386	46,732,357	64,249,561	73,663,493	81,863,412
Net assets at end	$ 18,955,337	$ 19,968,155	$ 30,942,386	$ 46,732,357	$ 64,249,561	$ 73,663,493	$ 81,863,412	$ 91,434,084

See Accountant's Compilation Report.

Gateways Hospital and Mental Health Center

Section 6: Supplementary Information

Years Ended June 30, 2022 Through 2024 (Historical)

Years Ending June 30, 2025 Through 2029 (Forecasted)

Consolidated Statements of Cash Flows

	Historical			Forecasted				
	2022	2023	2024	2025	2026	2027	2028	2029
Increase (decrease) in cash, cash equivalents, and restricted cash:								
Cash flows from operating activities:								
Change in net assets	$ 106,330	$ 1,012,818	$ 10,974,231	$ 15,789,971	$ 17,517,204	$ 9,413,932	$ 8,199,919	$ 9,570,672
Adjustments to reconcile change in net assets to net cash from operating activities:								
Depreciation	796,441	780,013	604,410	1,025,797	1,365,656	2,188,018	2,974,812	3,020,381
Amortization of operating leases	-	66,715	230,360	206,223	190,581	198,105	180,681	176,926
Interest expense attributable to amortization of debt issuance costs	31,115	31,114	30,615	48,799	75,264	117,042	158,820	158,820
Loss on extinguishment of debt	-	-	-	367,748	164,274	-	-	-
Accretion of bond premium	-	-	-	-	(46,938)	(73,268)	(99,598)	(99,598)
Gain on forgiveness of long-term debt	(27,350)	(27,350)	(27,350)	(1,027,350)	(27,350)	(27,350)	(27,350)	(27,350)
Loss of forgiveness of notes receivable	-	-	106,000	-	-	-	-	-
Change in net realized and unrealized gains on investments	1,086,234	(417,104)	(519,583)	-	-	-	-	-
Changes in operating assets and liabilities:								
Patient account receivables	57,746	(1,611,270)	(10,430,348)	3,674,450	(204,180)	(2,121,302)	(1,382,561)	(1,239,014)
Due from third-party payors	458,862	(553,018)	912,573	-	591,645	-	-	-
Contribution and other receivables	(80,581)	(393,916)	394,923	133,647	-	-	-	-
Prepaid expenses and other current assets	(345,489)	259,783	(62,097)	(31,109)	(36,468)	(79,194)	(55,210)	(55,450)
Accounts payable and accrued liabilities	(84,444)	(176,939)	67,957	53,723	59,340	131,093	91,168	90,577
Accrued salaries and employee benefits	74,959	692,629	110,751	533,389	208,002	527,659	558,398	395,560
Deferred revenue	(6,600)	889	41,235	-	-	-	-	-
Operating lease liabilities	-	(50,356)	(233,687)	(195,509)	(201,286)	(207,928)	(175,145)	(169,837)
Total adjustments	1,960,893	(1,398,810)	(8,774,241)	4,789,808	2,138,540	652,875	2,224,015	2,251,015
Net cash from operating activities	2,067,223	(385,992)	2,199,990	20,579,779	19,655,744	10,066,807	10,423,934	11,821,687
Cash flows from investing activities:								
Purchases of investments	(3,447,911)	(446,720)	(939,275)	(10,908,990)	(7,464,293)	(9,158,793)	(8,328,611)	(9,998,315)
Proceeds from sale of investments	634,598	362,727	744,970	-	-	-	-	-
Issuance of notes receivable	-	(450,000)	-	-	-	-	-	-
Receipts of notes receivables	-	83,333	333,334	33,333	-	-	-	-
Purchase of property and equipment	-	(120,419)	(50,796)	(16,958,246)	(500,000)	(500,000)	(500,000)	(500,000)
Purchase of property for two cottages - Project	-	-	-	-	(4,000,000)	-	-	-
Purchase of property and equipment for construction - Project	-	(91,120)	(1,334,905)	(6,641,039)	(21,845,352)	(15,012,834)	-	-
Net cash from investing activities	$ (2,813,313)	$ (662,199)	$ (1,246,672)	$ (34,474,942)	$ (33,809,645)	$ (24,671,627)	$ (8,828,611)	$ (10,498,315)

See Accountant's Compilation Report.

Consolidated Statements of Cash Flows (Continued)

	Historical			Forecasted				
	2022	2023	2024	2025	2026	2027	2028	2029
Cash flows from financing activities:								
Net change in line of credit	$ -	$ -	$ 1,002,153	$ (1,002,153)	$ -	$ -	$ -	$ -
Proceeds from Banc of California debt	-	-	-	21,000,000	-	-	-	-
Payment of Banc of California debt	-	-	-	-	(21,000,000)	-	-	-
Proceeds from issuance of long-term debt	-	-	-	-	54,855,000	-	-	-
Proceeds from bond premium	-	-	-	-	2,908,924	-	-	-
Principal payments on long-term debt	(304,168)	(315,553)	(332,484)	(5,462,746)	(375,000)	(430,000)	(940,000)	(985,000)
Debt issuance costs paid	-	-	-	(191,387)	(4,639,278)	-	-	-
Net cash from financing activities	(304,168)	(315,553)	669,669	14,343,714	31,749,646	(430,000)	(940,000)	(985,000)
Net change in cash, cash equivalents, and restricted cash	(1,050,258)	(1,363,744)	1,622,987	448,551	17,595,745	(15,034,820)	655,323	338,372
Cash, cash equivalents, and restricted cash, at beginning of year	7,090,703	6,040,445	4,676,701	6,299,688	6,748,239	24,343,984	9,309,164	9,964,487
Cash, cash equivalents, and restricted cash, at end of year	$ 6,040,445	$ 4,676,701	$ 6,299,688	$ 6,748,239	$ 24,343,984	$ 9,309,164	$ 9,964,487	$ 10,302,859
Supplemental cash flow information:								
Cash paid during the year for interest	$ 334,063	$ 334,131	$ 321,650	$ 1,160,176	$ 1,200,116	$ 1,960,977	$ 2,636,401	$ 2,593,155
Capitalized interest expense paid	-	-	-	-	1,245,750	679,500	-	-
Property and equipment acquired with operating lease obligations	-	-	-	74,747	-	326,482	464,004	74,747
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated statement of financial position:								
Cash and cash equivalents	$ 5,237,190	$ 3,911,141	$ 5,532,966	$ 6,748,239	$ 6,875,095	$ 7,532,608	$ 8,187,931	$ 8,526,303
Restricted cash and cash equivalents in assets limited as to use	803,255	765,560	766,722	-	17,468,889	1,776,556	1,776,556	1,776,556
Total cash, cash equivalents, and restricted cash	$ 6,040,445	$ 4,676,701	$ 6,299,688	$ 6,748,239	$ 24,343,984	$ 9,309,164	$ 9,964,487	$ 10,302,859

Schedule of Financial Ratios

Days Cash on Hand

	Historical			Forecasted				
	2022	2023	2024	2025	2026	2027	2028	2029
Cash and cash equivalents	$ 5,237,190	$ 3,911,141	$ 5,532,966	$ 6,748,239	$ 6,875,095	$ 7,532,608	$ 8,187,931	$ 8,526,303
Investments	7,475,236	7,976,333	8,690,221	19,599,211	27,063,504	36,222,297	44,550,908	54,549,223
Total available cash and cash equivalents (1)	12,712,426	11,887,474	14,223,187	26,347,450	33,938,599	43,754,905	52,738,839	63,075,526
Operating expense	35,942,309	41,292,844	47,270,302	55,563,894	59,169,328	68,824,199	78,448,072	84,192,605
Less:								
Depreciation and amortization	827,557	811,127	635,025	1,232,020	1,556,237	2,386,123	3,155,493	3,197,307
Adjusted expenses (2)	$ 35,114,752	$ 40,481,717	$ 46,635,277	$ 54,331,874	$ 57,613,091	$ 66,438,076	$ 75,292,579	$ 80,995,298
Days in year (3)	365	365	366	365	365	365	366	365
Days cash on hand [((1) divided by (2))] times (3)	132.1	107.2	111.6	177.0	215.0	240.4	256.4	284.2

See Accountant's Compilation Report.

Annual Debt Service Coverage

	Historical			Forecasted				
	2022	2023	2024	2025	2026	2027	2028	2029
Funds available for debt service:								
Increase in net assets	$ 106,330	$ 1,012,818	$ 10,974,231	$ 15,789,971	$ 17,517,204	$ 9,413,932	$ 8,199,919	$ 9,570,672
Plus:								
Depreciation and amortization	827,557	811,127	635,025	1,232,020	1,556,237	2,386,123	3,155,493	3,197,307
Interest expense	333,196	320,630	322,428	1,208,975	1,228,442	2,004,751	2,695,623	2,652,377
Funded interest	-	-	-	-	1,245,750	679,500	-	-
Loss on extinguishment of debt	-	-	-	367,748	164,274	-	-	-
Less:								
Gain on forgiveness of long-term debt	-	-	-	1,027,350	27,350	27,350	27,350	27,350
Restricted grants for purchases of property and equipment	-	91,120	1,334,905	6,641,039	11,189,594	-	-	-
Total funds available for debt service (1)	1,267,083	2,053,455	10,596,779	10,930,325	10,494,963	14,456,956	14,023,685	15,393,006
Annual debt service (2)	$ 606,249	$ 707,306	$ 793,789	$ 1,452,268	$ 3,022,151	$ 3,278,405	$ 3,751,546	$ 3,747,992
Annual debt service coverage [(1) divided by (2)]	2.09	2.90	13.35	7.53	3.47	4.41	3.74	4.11

	Historical			Forecasted				
(2) Annual debt service	2022	2023	2024	2025	2026	2027	2028	2029
Principal payments:								
Existing long-term debt	$ 304,168	$ 315,553	$ 332,484	$ 96,582	$ -	$ -	$ -	$ -
Existing operating lease liabilities	-	102,237	169,493	184,960	159,023	156,834	36,840	-
Series 2025 Bonds	-	-	-	-	375,000	430,000	940,000	985,000
Renewal operating lease liabilities	-	-	-	10,550	42,262	51,094	138,305	169,837
Interest payments:								
Existing long-term debt	302,081	264,538	261,546	96,657	-	-	-	-
Existing operating lease liabilities	-	24,978	30,266	21,850	13,888	5,926	385	-
Banc of California	-	-	-	1,041,091	-	-	-	-
Series 2025 Bonds	-	-	-	-	2,429,728	2,631,863	2,610,363	2,563,363
Renewal operating lease liabilities	-	-	-	578	2,250	2,688	25,653	29,792
Total annual debt service	$ 606,249	$ 707,306	$ 793,789	$ 1,452,268	$ 3,022,151	$ 3,278,405	$ 3,751,546	$ 3,747,992

Other Key Financial Ratios

	Historical			Forecasted				
	2022	2023	2024	2025	2026	2027	2028	2029
Current ratio	5.0	4.6	5.6	8.3	9.4	9.7	9.6	10.3
Days in patient accounts receivable	26.8	39.1	101.2	63.9	63.9	63.9	63.9	63.9
Equity ratio	65.4%	64.5%	72.6%	64.4%	52.6%	55.9%	58.4%	61.3%
Asset to long-term debt	4.4	5.0	7.3	3.5	2.3	2.5	2.8	3.0
Operating margin	2.3%	0.8%	15.8%	12.8%	9.0%	11.1%	8.4%	9.0%
Days in accounts payable	47.5	34.0	31.4	31.4	31.4	31.4	31.4	31.4

Sensitivity Analyses

The following sensitivity analyses have been performed to calculate the impact of changes to several sensitive forecast assumptions.

Sensitivity #1: Reduction in patient days at the new adolescent inpatient expansion to a 60% occupancy rate by 2029.

	2025	2026	2027	2028	2029
As forecasted, patient days	16,319	17,301	23,578	26,793	30,003
Sensitivity #1 patient days	16,319	17,301	21,534	23,764	25,951
Impact	-	-	(2,044)	(3,029)	(4,052)

	2025	2026	2027	2028	2029
As forecasted, increase in net assets	$ 15,789,971	$ 17,517,204	$ 9,413,932	$ 8,199,919	$ 9,570,672
Sensitivity #1 forecasted increase in net assets	15,789,971	17,517,204	7,301,793	5,666,254	5,940,778
Impact	-	-	(2,112,139)	(2,533,665)	(3,629,894)
As forecasted, operating income	8,169,308	5,871,716	8,622,964	7,188,084	8,356,698
Sensitivity #1 forecasted operating income	8,169,308	5,871,716	6,510,825	4,690,083	4,814,613
Impact	-	-	(2,112,139)	(2,498,001)	(3,542,085)
As forecasted, debt service coverage	7.53	3.47	4.41	3.74	4.11
Sensitivity #1 forecasted debt service coverage	7.53	3.47	3.77	3.06	3.14
Impact	-	-	(0.64)	(0.68)	(0.97)
As forecasted, days cash on hand	177.0	215.0	240.4	256.4	284.2
Sensitivity #1 forecasted days cash on hand	177.0	215.0	237.2	247.6	264.4
Impact	-	-	(3.2)	(8.8)	(19.8)

Sensitivity #2: Maintain the current negotiated contract rates for the Hospital's forensics services throughout the forecast period.

	2025	2026	2027	2028	2029
As forecasted, Net patient service revenue	$ 62,255,363	$ 63,422,450	$ 75,547,751	$ 83,679,062	$ 90,532,597
Sensitivity #2 Net patient service revenue	62,219,303	63,274,075	75,086,829	82,895,767	89,416,753
Impact	(36,060)	(148,375)	(460,922)	(783,295)	(1,115,844)

	2025	2026	2027	2028	2029
As forecasted, increase in net assets	$ 15,789,971	$ 17,517,204	$ 9,413,932	$ 8,199,919	$ 9,570,672
Sensitivity #2 forecasted increase in net assets	15,753,911	17,368,159	8,949,430	7,403,823	8,425,374
Impact	(36,060)	(149,045)	(464,502)	(796,096)	(1,145,298)
As forecasted, operating income	$ 8,169,308	$ 5,871,716	$ 8,622,964	$ 7,188,084	$ 8,356,698
Sensitivity #2 forecasted operating income	8,133,248	5,723,341	8,162,042	6,404,789	7,240,854
Impact	(36,060)	(148,375)	(460,922)	(783,295)	(1,115,844)
As forecasted, debt service coverage	7.53	3.47	4.41	3.74	4.11
Sensitivity #2 forecasted debt service coverage	7.50	3.42	4.27	3.53	3.80
Impact	(0.03)	(0.05)	(0.14)	(0.21)	(0.31)
As forecasted, days cash on hand	177.0	215.0	240.4	256.4	284.2
Sensitivity #2 forecasted days cash on hand	176.8	214.0	237.3	250.0	273.4
Impact	(0.2)	(1.0)	(3.1)	(6.4)	(10.8)

Sensitivity #3: Increase in the interest rate by 0.25% on the Series 2025 Bonds.

	2025	2026	2027	2028	2029
As forecasted, interest expense	$ 1,208,975	$ 1,228,442	$ 2,004,751	$ 2,695,623	$ 2,652,377
Sensitivity #3 interest expense	1,208,975	1,330,123	2,173,913	2,922,885	2,877,289
Impact	-	101,681	169,162	227,262	224,912

	2025	2026	2027	2028	2029
As forecasted, increase in net assets	$ 15,789,971	$ 17,517,204	$ 9,413,932	$ 8,199,919	$ 9,570,672
Sensitivity #3 forecasted increase in net assets	15,789,971	17,415,523	9,237,248	7,957,096	9,324,860
Impact	-	(101,681)	(176,684)	(242,823)	(245,812)
As forecasted, operating income	8,169,308	5,871,716	8,622,964	7,188,084	8,356,698
Sensitivity #3 forecasted operating income	8,169,308	5,770,035	8,451,008	6,955,233	8,126,197
Impact	-	(101,681)	(171,956)	(232,851)	(230,501)
As forecasted, debt service coverage	7.53	3.47	4.41	3.74	4.11
Sensitivity #3 forecasted debt service coverage	7.53	3.28	4.14	3.52	3.87
Impact	-	(0.19)	(0.27)	(0.22)	(0.24)
As forecasted, days cash on hand	177.0	215.0	240.4	256.4	284.2
Sensitivity #3 forecasted days cash on hand	177.0	213.3	237.3	252.3	279.3
Impact	-	(1.7)	(3.1)	(4.1)	(4.9)

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April 30, 2025

TRANSMITTAL LETTER

Mr. Arne Bracchi
Department of Health Care Access and Information
Cal-Mortgage Loan Insurance Program
Sacramento, California

RE: Revised Sensitivity #3 - Gateways Hospital and Mental Health Center Financial Feasibility Study dated April 8, 2025

Dear Mr. Bracchi:

At your request, on behalf of Gateways Hospital and Mental Health Center, we are providing the following information, as a revision to Sensitivity #3, as presented in the Financial Feasibility Study dated April 8. 2025. Sensitivity #3 presented the impact of a 0.25% increase in interest rate on the Series 2025 Bonds on the forecasted results; you have asked us to provide you with a supplementary analysis to Sensitivity #3 that presents the impact on the forecasted results of a 1.0% increase in interest rate on the Series 2025 Bonds. The results of the revised increase in the interest rate are presented as follows:

Increase in the interest rate by 1.0% on the Series 2025 Bonds are as follows:

	2025	2026	2027	2028	2029
As forecasted, interest expense	$ 1,208,975	$ 1,228,442	$ 2,004,751	$ 2,695,623	$ 2,652,377
Sensitivity #3 interest expense	1,208,975	1,513,789	2,476,988	3,328,260	3,275,614
Impact	-	285,347	472,237	632,637	623,237

	2025	2026	2027	2028	2029
As forecasted, increase in net assets	$ 15,789,971	$ 17,517,204	$ 9,413,932	$ 8,199,919	$ 9,570,672
Sensitivity #3 forecasted increase in net assets	15,789,971	17,231,857	8,920,704	7,523,885	8,889,177
Impact	-	(285,347)	(493,228)	(676,034)	(681,495)
As forecasted, operating income	8,169,308	5,871,716	8,622,964	7,188,084	8,356,698
Sensitivity #3 forecasted operating income	8,169,308	5,586,369	8,142,950	6,539,892	7,717,906
Impact	-	(285,347)	(480,014)	(648,192)	(638,792)
As forecasted, debt service coverage	7.53	3.47	4.41	3.74	4.11
Sensitivity #3 forecasted debt service coverage	7.53	2.99	3.73	3.19	3.51
Impact	-	(0.48)	(0.68)	(0.55)	(0.60)
As forecasted, days cash on hand	177.0	215.0	240.4	256.4	284.2
Sensitivity #3 forecasted days cash on hand	177.0	210.3	231.9	245.1	270.6
Impact	-	(4.7)	(8.5)	(11.3)	(13.6)

The results of this analysis should be read in conjunction with the Financial Feasibility Study dated April 8, 2025, and our Accountant's Compilation Report thereon. This analysis was not subject to our compilation engagement; accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on it.

Sincerely,

Wipfli LLP

Wipfli LLP

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June 16, 2025

TRANSMITTAL LETTER

Mr. Arne Bracchi
Department of Health Care Access and Information
Cal-Mortgage Loan Insurance Program
Sacramento, California

RE: Sensitivity #4 - Gateways Hospital and Mental Health Center Financial Feasibility Study dated April 8, 2025

Dear Mr. Bracchi:

At your request, on behalf of Gateways Hospital and Mental Health Center, we are providing Sensitivity #4, which is a "worst case" scenario to determine the annual reduction in the forecasted increase in net assets that would result in a debt service coverage of 1.50 during the forecast period. Sensitivity #4 presents a 6.4% reduction in annual forecasted net patient service revenue, with a corresponding 3.2% increase in total operating expenses, excluding depreciation and interest expense, as presented in the Financial Feasibility Study dated April 8, 2025. With these adjustments, the debt service coverage ratio is 1.50 for the year ending June 30, 2026. The results of Sensitivity #4 are presented as follows:

	2025	2026	2027	2028	2029
As forecasted, Net patient service revenue	$62,255,363	$63,422,450	$75,547,751	$83,679,062	$90,532,597
Sensitivity #4 Net patient service revenue	58,271,020	59,363,413	70,712,695	78,323,602	84,738,511
Impact	(3,984,343)	(4,059,037)	(4,835,056)	(5,355,460)	(5,794,086)
As forecasted, Total operating expenses	$55,563,894	$59,169,328	$68,824,199	$78,448,072	$84,192,605
Sensitivity #4 Total operating expenses	57,263,827	60,973,637	70,886,067	80,771,176	86,699,578
Impact	1,699,933	1,804,309	2,061,868	2,323,104	2,506,973

	2025	2026	2027	2028	2029
As forecasted, increase in net assets	$15,789,971	$17,517,204	$ 9,413,932	$ 8,199,919	$ 9,570,672
Sensitivity #4 forecasted increase in net assets	10,105,695	11,544,184	2,273,402	120,559	689,450
Impact	(5,684,276)	(5,973,020)	(7,140,530)	(8,079,360)	(8,881,222)
As forecasted, operating income	$ 8,169,308	$ 5,871,716	$ 8,622,964	$ 7,188,084	$ 8,356,698
Sensitivity #4 forecasted operating income	2,485,032	8,370	1,726,040	(490,480)	55,639
Impact	(5,684,276)	(5,863,346)	(6,896,924)	(7,678,564)	(8,301,059)
As forecasted, debt service coverage	7.53	3.47	4.41	3.74	4.11
Sensitivity #4 forecasted debt service coverage	3.61	1.50	2.23	1.58	1.74
Impact	(3.92)	(1.97)	(2.18)	(2.16)	(2.37)
As forecasted, days cash on hand	177.0	215.0	240.4	256.4	284.2
Sensitivity #4 forecasted days cash on hand	139.9	142.0	138.2	127.1	124.6
Impact	(37.1)	(73.0)	(102.2)	(129.3)	(159.6)

The results of this analysis should be read in conjunction with the Financial Feasibility Study dated April 8, 2025, and our Accountant's Compilation Report thereon. This analysis was not subject to our compilation engagement; accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on it.

Sincerely,

Wipfli LLP

Wipfli LLP

Agenda Item 6A: Cal-Mortgage Reports
Project Monitoring

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

As of July 31, 2025

Summary of Monitoring
Financial Statements Received
Project Filing Status

Survey Date:	Feb 29, 2024	Jun 27, 2024	Aug 23, 2024	Apr 2, 2025	May 27, 2025	July 31, 2025
Current	43	43	38	48	27	50
Behind 1 quarter	11	14	12	6	21	3
Behind 2 quarters	1	1	7	2	8	0
Behind 3 quarters	3	1	2	2	1	2
Total:	**58**	**59**	**59**	**58**	**57**	**55**

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

Survey Date:	Feb 29, 2024	Jun 27, 2024	Aug 23, 2024	Apr 2, 2025	May 27, 2025	July 31, 2025
DSCR at or greater than required:	43	47	51	48	48	45
DSCR less than required:	13	11	7	9	8	9
Problem Project:	1	1	1	1	1	1
Total:	**58**	**59**	**59**	**58**	**57**	**55**

Summary of Monitoring
Site Visits
Number of Projects that are Current

Survey Date:	Feb 29, 2024	Jun 27, 2024	Aug 23, 2024	Apr 2, 2025	May 27, 2025	July 31, 2025
Current:	25	21	23	9	8	6
Past Due:	33	38	36	49	49	49
Total:	**58**	**59**	**59**	**58**	**57**	**55**

Agenda Item 6B: Cal-Mortgage Reports

Pending Projects

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

Projects Insured - Fiscal 2025-2026

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

Projects Insured - Fiscal 2024 - 2025

Project Name	Location	Facility Type	Loan Amount	Loan Type	Rating
Moldaw	Palo Alto	Multi-CCRC	$59,450,000	New	BBB-
La Maestra Community Health Centers	San Diego	Clinic-PC	$14,225,000	New	
			$73,675,000		

Projects with Letters of Commitment

Project Name	Location	Facility Type	Amount	Loan Type	Rating

Applications Before Advisory Loan Insurance Committee

Project Name	Location	Facility Type	Amount	Loan Type	Rating
Gateways Hospital	Los Angeles	Hospital	$57,800,000	New	BBB

Pending Applications

Project Name	Location	Facility Type	Amount	Loan Type	Rating
Channing House	Palo Alto	Multi - CCRC	$35,800,000	New	

Pre - Applications

Project Name	Location	Facility Type	Amount	Loan Type	Rating
SAC Health	San Bernardino	Clinic - PC	$45,000,000	New	
Oroville Hospital	Oroville	Hospital	$215,000,000	New	
Lompoc Valley Medical Center	Lompoc	Hospital - Dist.	$20,000,000	New	
			$280,000,000		

Discussions

Project Name	Location	Facility Type	Amount	Loan Type	Rating
Odd Fellows	Saratoga	CCRC	$78,000,000	New	
Atherton Baptist Homes	Alhambra	CCRC	$13,000,000	New	
Alexander Valley Healthcare	Cloverdale	Clinic - PC	$39,530,000	New	
OLE Health	Fairfield	Clinic - PC	$35,600,000	New	
Tulare District Hospital	Tulare	Hospital - Dist.	$50,000,000	New	
Del Puerto Health Care District	Patterson	Clinic - Dist.	$24,999,999	New	
National Council on Alcoholism & Drug Depende	Van Nuys	Clinic - PC		New	
			$241,129,999		

Facility Type Abbreviations

ADHC-DD	Adult Day Health Care-Developmentally Disabled
CDRF	Chemical Dependency Recovery Facility
Clinic-PC	Clinic for Primary Care
GH-DD	Group Home for the Developmentally Disabled
GH-Mental Health	Group Home - Mental Health
Hosp	General Acute Care Hospital
Hosp-Dist.	Acute Care Hospital - Healthcare District
Multi-CCRC	Multi-level Facility - Entrance Fee Continuing Care Retirement Community
Multi-Others	Multi-level Facility - Multiple Levels of Care, Month-to-Month Rental Community
SNF	Skilled Nursing Facility

Agenda Item 6C: Cal-Mortgage Reports

Problem Projects Report

Department of Health Care Access and

Information Cal-Mortgage Loan Insurance Progam

Problem Projects Report

July 2025

Distribution: Elizabeth A. Landsberg, Director
Scott Christman, Chief Deputy Director
Dean O'Brien, Deputy Director, Cal-Mortgage
Advisory Loan Insurance Committee Members

Problem Projects Report - Update for July 2025

	Facility Name	Location	Type	Risk Rating as of 7/1/25	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.	**HFCLIF Payments Expected**										
II.	**Ongoing HFCLIF Payments**										
	St. Rose Hospital	Hayward	Hospital	E	$16.4 - Note $10 - LOC	N/A	Current	Liquidity, Ratio Default	Yes	Payments are being made per the terms of the Debt Relief Agreement executed October 2024. Per the terms of the Agrement the Department has paid the following utilizing the HFCLIF; $10M line of credit paid in full and closed in December 2024, the first six month payment on the term loan note of $1.9M was also paid in December 2024.The second payment on the Note was paid on May 2, 2025 in the amount of $1.9M. Total paid to date is $13,957,324. The next payment on the Note will be in November 2025. Starting on January 1, 2030, the Corporation will begin repayment of all payments the Department has made from the HFCLIF, which is currently projected at $25.5M.	1
III.	**Financial Performance Problems**										
	San Benito Health Care District	Hollister	Hosp - District	C	$ 6.8	100% (6-Month)	Current	Liquidity, Ratio Default	Low - March '26	May YTD (11 mo.) net income of $30.24M and 106 DCOH. District voted to continue negotiations with Insight. Measure X passed. The Insight transaction will be presented to the Board for approval in Q3.	4
	Hill Country Community Clinic	Round Mountain /Redding	FQHC	C	$ 2.9	100% (6-Month)	Current	Liquidity, Ratio Default	Low	Redding clinic, Center of Hope, sold on April 22, 2024. The clinic will keep approximately $3 million cash on hand through the end of 2025. Loan payments are punctual.	6
IV.	**Defaulted Projects: Pending Asset Sales**										
	None										
V.	**Resolved Defaulted Projects**										
	Verdugo Mental Health	Glendale	Clinic-MH							Last payment received on July 2, 2025. Current balance is $3,648,201.51.	8
	Lake Merrit - Cal-Nevada/Pacifica	Oakland	CCRC							Last payment received on July 2, 2025. Current balance is $13,529,200.60.	9

[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.

II. Financial Performance Problems

Project: St. Rose Hospital **Numbers:** 1084, 0932

Description:
Hayward Sisters Hospital dba St. Rose Hospital (Corporation) is a general acute care 171 bed facility in Hayward, CA which offers emergency; subacute care; cardiology; orthopaedics; rehabilitation; and both inpatient and outpatient services that was founded in 1962. From 2013 until the end of 2024, the Corporation was run via a management agreement with Alecto Healthcare LLC (Alecto). In the third quarter of 2024 the Department of Health Care Access and Information (Department) Cal-Mortgage Loan Insurance Program (Cal-Mortgage) was notified of Alecto's CEO's intention to retire; discontinue management services; and not acquire the Corporation under the Management Services Agreement (MSA). In response to the Alecto decision, the Corporation issued a Request for Proposal (RFP) in an attempt to find a new long-term operator or partner. As a result of the RFP process, Alameda Health Systems (AHS) was the only entity that expressed an interest, and on April 15, 2024, executed a Letter of Interest to become the sole corporate member of the Corporation. AHS assumed control of all operations at the Corporation effective October 31, 2024. Under the new organizational structure, the Corporation continues its existence as a California nonprofit public benefit corporation and will remain the owner and licensed operator of St. Rose Hospital.

Background:
In May 2009 the Department insured a total of $42.1M of fixed rate bonds for the Corporation with Series 2009A tax-exempt bonds of $31.15M and Series 2009B taxable bonds of $10.95M (collectively "2009 Bonds"). The 2009 Bonds were used for the expansion of the fifth floor to accommodate 30 private rooms; replacement and repairs to the existing structure; and to complete seismic requirements to meet SB 1953 compliance by 2030.

In December 2010, the Corporation was having financial issues and drew on a $7M Alameda County emergency reserve fund to pay $4M for Hospital Provider Fees and $3M to pay down an outstanding balance on a Department insured line of credit (LOC). As a result of this and other performance issues, the Department eventually took actions towards the end of Fiscal Year End (FYE) 2012 to avert bankruptcy enforced the replacement of all board members with five new board members, including two members from the Department's Advisory Loan Insurance Advisory Committee. After restructuring the Board of Directors and various management roles, the Corporation ultimately entered into a management agreement with Alecto, a for-profit organization. As Alecto was a for-profit organization with the option to buy the Corporation, the Corporation needed to refinance out of the 2009A tax-exempt bonds to avert a possible tax liability that could have inadvertently been triggered had Alecto exercised the buy option. Therefore, in 2016, the 2009A bonds were refinanced into a $38M Department insured bank loan with City National Bank (2016 CNB). In August 2022, the 2016 CNB loan was refinanced again with CNB in the amount of $24.36M (2022 CNB). In 2009 the Department also insured a $10M LOC with CNB to ensure adequate operating liquidity for the Corporation.

In early 2023, a group of community stakeholders led by Eden Health District engaged Innova Healthcare Solutions to conduct a study on the future sustainability of St. Rose Hospital. The study revealed that St. Rose Hospital was not sustainable as a stand-alone hospital without substantial and ongoing increases in public funding. The report further recommended the Corporation's board pursue an affiliation with a health system that had sufficient resources to secure the Corporation's ability to operate. The Corporation's board engaged Kaufman Hall and Steven Hollis as consultants to assist with an RFP. Through the RFP process, the Corporation signed an exclusive 90-day non-disclosure affiliation agreement with AHS. During the first part of 2024, AHS began its due diligence efforts, and the parties began discussions regarding potential acquisition.

On August 19, 2024, the Corporation and AHS entered into a Membership Issuance Agreement, by which AHS became the sole corporate member of St. Rose, along with certain other related agreements. On October 31, 2024 the Department, the Corporation, and AHS executed a Debt Service Relief Agreement (DSRA) by which the Department agreed to cure the Corporation's defaults by making payment on the LOC and term note from the Department's Health Facility Construction Loan Insurance Fund (HFCLIF), with such HFCLIF payment to be repaid by the Corporation to the Department as specified in the DSRA. Per the DSRA, on December 10, 2024, the Department made payment on the $10M LOC, on December 20, 2024, the Department made the first $1.9M six-month installment payment on the term note, and on May 2, 2025, the Department made the second $1.9M six-month installment payment on the term note.

Summary of DSRA Terms:

- Full payoff of the LOC and for the initial thirty-six months, monthly payments toward the term loan will be made fully by the Department using money from the HFCLIF.
- Thereafter for the following twenty-four months, both the Corporation and the Department will each make payments on the term loan of 50 percent.
- Thereafter the Corporation will commence making the full note payments, until natural defeasance of the term loan on December 1, 2029.
- Starting on January 1, 2030, the Corporation will begin repayment of all payments the Department has made from the HFCLIF projected at $25.48 million, the rate will be the same as the term at 4.44 percent over 5-year repayment period.

In addition, the AHS transition and DSRA execution the Corporation was also able to secure additional funding in December 2023 when the Corporation was allocated a $17,650,000 Distressed Hospital Loan Program (DHLP) award. These working capital loans were awarded to 16 of the hospitals experiencing the highest levels of financial distress in the entire state. As part of the requirements under the DHLP turnaround plans were required to be submitted as part of the application process and updated every quarter.

In March 2025 AHS agreed to provide $15M LOC to the Corporation for the purposes of addressing cash shortages and meeting operating expenses while the turn-around plan is in progress. The LOC funds will come from AHS's Liquidity Facility.

The following table shows key financial statistics of the Corporation:

Dollars in Thousands	Internal 4/30/2025	Internal 9/30/2024	Audit	Audit	Audit	Audit
	(7 months)	(12 months)	2023	2022	2021	2020
Cash & Equivalents	$11,001	$8,807	$8,768	$11,652	$26,175	$36,831
Net Accounts Receivable	$9,971	$11,022	$11,226	$8,867	$9,269	$6,782
Total Assets	$80,655	$81,534	$68,449	$68,242	$81,597	$94,642
Total Current Liabilities	$55,391	$61,776	$35,940	$21,930	$26,647	$26,791
Total Liabilities	$91,225	$77,402	$59,298	$49,238	$59,567	$67,678
Net Assets	($10,570)	$4,132	$9,151	$19,004	$22,030	$26,964
Revenue	$67,974	$137,533	$119,316	$122,295	120,745	$125,420
Operating Profit/Loss	($14,817)	($3,862)	($10,470)	($4,773)	($4,683)	($2,776)
Net Income/Loss	($14,479)	($5,458)	($9,853)	($5,712)	($5,641)	($4,637)
DSCR	(4.29)	0.02	(1.25)	0.30	0.61	1.03
Days Cash on Hand	28.84	23.10	25.20	24.97	79.85	110.76
Current Ratio	0.79	0.69	0.88	1.47	1.76	2.05

Fiscal year-end is September 30.

<u>Current Situation</u>: (as of July 25, 2025) **<u>Risk Rating:</u> E**

May financials have not yet been finalized. April financials (the most recent data available) were received from the Corporation on July 16, 2025. As of April 30, 2025, the Corporation showed a year-to-date net loss of $14.48M which compared unfavorably to a budgeted loss of $10.22M. Debt Service Coverage Ratio, when compared to FYE 9/30/2024, fell to a negative 4.29, while Days Cash on Hand rose to 28.84. The Current Ratio of 0.79 showed a slight worsening in value as current liabilities rose by $3.3M which was due to an increase in accruals. The audit report for 2024 included a footnote on the topic of going concern specifically the significant losses from operations and cash flow difficulties for the past three years. Continuation as a going concern is dependent on the Corporation's ability to increase collections, decrease expenses and raise additional capital. In order for the Corporation to accomplish this, they affiliated with Alameda Health Systems with the goal of continuing to be a vital safety net hospital serving the central and southern Alameda County community. For the month of April, operating revenue totaled $8.3M, which was below budget due to inpatient revenues. Operating expenses for the month were $10.8M, which was also below budget by $0.7M or 5.9%. The results are due to higher operating expenses in the categories of salaries, fringe benefits, and registry/contract labor. The next DSRA six-month payment will be made on November 1, 2025, for the monthly payments of November 2025 through April 2026. Notifications for payment will go out to interested parties in October 2025.

The Corporation applied for a loan modification for the DHLP and was approved on May 8, 2025. The Corporation's board approved the modification during its board meeting on May 27, 2025. The payment deferral period will be extended by 12 months until July 1, 2026.

Tri-weekly meetings with the Corporation's General Counsel Mike Sarrao, Chief Administrative Officer Mario Harding and Controller Rosario Eugenio are being held. The purpose of these meetings is to discuss and receive updates regarding the Corporation's turnaround plan and financial operations. The latest updates are divided into four key areas:

- Management is working on getting final Medicare/Medi-Cal certification for the sub-acute unit. They currently have 6 SNF commercial patients but need to reach an average of 7 patients to receive certification. Management is reaching out to CMS to see if they would waive this requirement.
- Received three bids for the buildout of a new cardiac catheterization lab over the next 18 months. The bids were higher than expected, and management has reached out to the contractors to get reduced estimates.
- Continued focus on building a referral network for primary and specialty care through partnerships with local AHS clinics.
- Recently awarded $62.4M Behavioral Health Continuum Infrastructure Program (BHCIP) for the construction of a medical psychiatry unit and geriatric psychiatry unit (preliminary stages).
- Received IGT funding of $30.0M on May 28, 2025. The funds will be used to pay down the balance of AHS LOC and support hospital operations.

<u>Assessment:</u>

Profitability:	YTD 4/30/2025 (7 mo.): ($14,479,052)
Liquidity:	Days Cash on Hand: 29 days
Line of Credit:	Paid 12/10/24
Debt Service Reserve Fund:	Not required per terms of note
Debt Service Payments:	To be paid out of HFCLIF, then reimbursed
HFCLIF:	Next installment due 12/1/2025
St. Rose CAO (via AHS):	Mario Harding
St. Rose Controller:	Rosario Eugenio
Counsel:	Michael Sarrao, Esq.

Account Manager: Arne Bracchi **Supervisor:** Consuelo Hernandez

III. Financial Performance Problems

Project: San Benito Health Care District **Number:** 1076

Description:
San Benito Health Care District (District) operates the 25-bed Hazel Hawkins Memorial Hospital, four rural health clinics, two community health clinics, a distinct part skilled nursing facility, four satellite lab/draw stations, a home health agency in Hollister, and a rural health clinic in San Juan Bautista, California. In March 2013, HCAI insured a $24.9M bond issue for the refunding of $16M in outstanding bond debt, reimbursing the District $10M for construction costs for a Women's Center, and $2.4M toward the cost of issuance (2013 Bonds). The District refinanced the 2013 Bonds on February 11, 2021 (2021 Bonds) and achieved a net present value (NPV) savings of 10.42 percent, or $1.7M. The refinance provided annual cash flow savings of approximately $380,000. In addition, the refinance allowed the outstanding balance to decline from $16.48M to $12.57M. The 2021 Bonds have a current outstanding balance of $6.8M with a final maturity on March 1, 2029.

Background:
Between 2014 and 2020, the District's financial condition struggled due to a decline in census and ever-increasing expenses. In 2018, the District began the application process to convert to a Critical Access Hospital (CAH) and the Centers for Medicare and Medicaid Services (CMS) approved its application effective March 26, 2020. As part of the reclassification to a CAH, the District decreased its licensed beds from 62 to 25. Between April 2020 and June 2022, the District's financial condition improved due to the increased Medicare rates as part of the CAH reclassification, improved census related to COVID, and supplemental COVID funding.

In the third quarter of calendar year 2022, the District began experiencing liquidity issues due to two factors. First, CMS indicated that the District was overpaid during FYE 2022 by $5.2M. A one-year repayment plan was established in the amount of $441,036 per month. In addition, CMS indicated that an additional $5.2M was to be reduced from future payments in FYE 2023, thus the District's inpatient rates were reduced by 20 percent and outpatient rates were reduced by 13 percent. The District was able to negotiate the one-year CMS repayment plan for a five-year repayment plan.

Second, the District ended its commercial provider agreement with Anthem Blue Cross (Anthem) on August 10, 2022. Anthem deactivated payments to the District on the commercial provider agreement, and inadvertently deactivated payments to the District on its Medi-Cal provider agreement. Anthem identified that it may take 45 days to correct the accidental deactivation of the payments for the Medi-Cal provider agreement. The District identified that approximately $4M in claims were delayed due to this payment processing issue with Anthem. The District eventually reached a new commercial provider agreement with Anthem covering the 2023 calendar year. The outstanding Anthem Medi-Cal receivables were subsequently processed and paid.

The District initiated an aggressive cost savings plan to address its immediate cash-flow needs, while the District explored sources to provide temporary liquidity and collected on its receivables. The San Benito County Board of Supervisors agreed to advance the District its annual property tax revenue normally paid in April; the District received $2.2M of property tax revenue in December 2022. In January 2023, the District obtained a $3.09M loan from the California Health Facilities Financing Authority's Nondesignated Public Hospital Bridge Loan Program II to provide additional liquidity. The District receives over $13M in supplemental funding annually; however, the majority of the funding is normally not received until months later and sometimes in the following fiscal year. The District worked with various agencies to receive its supplemental payments in advance, thus improving its liquidity.

Current Situation: (As of July 18, 2025) **Risk Rating: C**

On May 22, 2023, the District's Board of Directors authorized the filing of a Chapter 9 bankruptcy petition and adopting a pendency plan outlining a strategy to proceed forward. The District officially filed for Chapter 9 on May 23, 2023. In December the District defended itself in a trial due to Unions' claiming that the District did not meet the criteria to file for bankruptcy protection, which lead to wage and benefit cost cutting measures. On March 21, 2024, the Judge dismissed the District's bankruptcy case citing that the District is not insolvent and therefore not eligible for Chapter 9 relief. The District filed an appeal and on March 21, 2025, an appeals court upheld the bankruptcy court's decision. The dismissal from bankruptcy may result in the District having to repay the reduction in salaries and benefits put in place during bankruptcy, in addition to paying increased salaries and benefits each month going forward. Given that the District is no longer under bankruptcy protection, and faces higher salaries and benefit expenses, the District 's financial performance could deteriorate later this year.

The District engaged B Riley Advisory Services to search for a strategic partner to help ensure the long-term viability of the District. The District received interest from several potential partners or buyers. On January 2, 2024, the District received a LOI from Insight Foundation of America (Insight) proposing a purchase of the District's assets estimated between $59M and $65M. At a June 5, 2024, District Board meeting, the District's Board voted to continue negotiations with Insight. The proposal with Insight was modified from an outright purchase to a five-year lease-to-own option. The Insight proposal was included on the November 5, 2024, San Benito County ballot as Measure X and was passed with 51 percent. The District is currently negotiating definitive agreements with Insight and anticipates presenting the agreements to the Board during the third quarter of 2025. It is anticipated that the 2021 Bonds will be paid in full in concurrence to this transaction with Insight.

The District received a $10 million loan award from the Distressed Hospital Loan Program (DHLP). The DHLP loan closed on July 1, 2024, and the District received their first disbursement of $2.7 million on July 5, 2024.

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

Statement Date (6/30 FYE)	5/31/2025	6/30/2024	6/30/2023	6/30/2022	6/30/2021
Months Covered	11	12	12	12	12
Audit Method	Internal	Unqualified	Unqualified	Unqualified	Unqualified
Cash & Investments	$43,959,190	$34,905,203	$13,413,099	$14,442,002	$18,508,626
Net Worth	$69,505,126	$39,159,279	$23,542,007	$23,197,870	$20,527,771
Net Revenue	$171,460,586	$157,743,290	$161,907,260	$149,021,950	$140,543,291
EBITDA	$34,272,040	$20,987,546	$4,625,783	$6,928,468	$4,988,398
Net Income	$30,245,809	$15,617,272	$344,137	$2,670,099	$294,627
Debt Service Coverage Ratio	17.15	2.59	5.34	3.09	2.11
Current Ratio	3.23	1.83	1.56	1.50	1.75
Days Cash on Hand	106	89	32	37	49

For the 11-month period ended May 31, 2025, the District had a net income of $30.24M compared to a budgeted net income of $2.21M. This resulted in a debt service coverage ratio of positive 17.15. The District had $43.95M in cash, equal to 106 days cash on hand.

Assessment:

Profitability:	5/31/2025 (11 mo.): $30,245,809
Liquidity:	Days Cash on Hand: 106
Debt Service Reserve Fund:	100% funded: $936,400
Debt Service Payments:	Current
HFCLIF:	3/1/2026 (P&I): low probability
CEO:	Mary Casillas
CFO:	Mark Robinson

Account Manager: Lauren Hadley **Supervisor:** Consuelo Hernandez

III. Financial Performance Problems

Project: Hill Country Community Clinic **Number:** 1034

Description:
Hill Country Community Clinic (Corporation) is a California nonprofit public benefit corporation under Section 501(c)(3) of the Internal Revenue Code. The Corporation owns and operates a healthcare facility in Round Mountain, Shasta County, to provide primary care and health education services to the Northeast portion of the County. In addition, the Corporation also operates a clinic and homeless shelter for transitional youth in Redding, Shasta County, namely Center of Hope (COH), to provide primary care, mental health, and chiropractic service. In December 2004, the Corporation earned a Section 330 Federally Qualified Health Center (FQHC) designation.

In October 2007, the Department insured a bond series in the amount of $5,250,000 for the Corporation (2007 Bonds). The 2007 Bonds were used to finance an expansion project that added a 12,500-square-foot space onto the Corporation's existing Round Mountain facility for housing, six new medical exam rooms, three dental operatories, a mental health suite, a teen activity center, a new helicopter landing pad, and storage facilities.

The 2007 Bonds were refinanced in November 2016 in an amount of $4,420,000 (2016 Bonds). The outstanding balance of the 2016 Bonds is $3,070,000.

On November 6, 2019, the Department consented to an additional $10 million indebtedness acquired by the Corporation from Nonprofit Finance Fund and Dignity Health Partners to structure a New Market Tax Credit (NMTC) transaction that would finance the construction of COH, which was opened in July 2021. Beginning on December 15, 2021, quarterly principal and interest payments of $194,325 are payable on the 15th day of March, June, September, and December. All unpaid principal and interest due will be paid in December 2026.

Background:
The Corporation's operating income started dropping during the COVID-19 pandemic beginning in 2020. In 2022 and 2023, the Corporation's financial performance got worse and recorded net loss of $1.5 million and $3.7 million respectively. The Corporation's cash depleted quickly from $1.7 million in 2021 to less than $500k in 2022, due to operating losses and construction of the COH. Based on the financial performance ended December 31, 2022, the auditor, FORVIS LLC, opined in the audit report for Fiscal Year 2020 that due to decreased working capital, coupled with the additional debt service payments required to be made in relation to the COH project, and the impact of the COVID-19 pandemic raises substantial doubt about the Corporation's ability to continue as a going concern.

Cal-Mortgage staff made a site visit at the Corporation on August 18, 2023, and took a tour of the COH, which opened in July 2021 as the Corporation's flagship clinic site located in Redding. During the meeting with the CEO and CFO at the COH, the CFO expressed that the Corporation is facing serious liquidity problems due to changes of reimbursement requirements from the County, broken revenue cycle; physician and medical staff turnover; and dropping utilization. The CEO also admitted the COH was overbuilt for current demand for services and has caused a huge financial burden, which coincided with the COVID-19 pandemic that brought adverse impact to the Corporation's operation.

The Corporation and Shasta Community Health Center (SCHC) entered into an Asset Purchase Agreement on April 22, 2024, by which the Corporation transferred the ownership of COH and the respective NMTC loan to SCHC. In return, the Corporation received $5.6 million cash from the transaction. After partial payment of overdue unsecured debts and settling the outstanding professional fee such as the legal fee for the transaction, business consultant fee, and service fee for fiscal audit, the Corporation maintained $3 million cash for operations in May 2024.

<u>Current Situation</u>: (As of July 15, 2025) **<u>Risk Rating</u>: C**

The May 31, 2025, financial statement showed cash was maintained at $3.5 million. Monthly bond payments are made punctually.

The Corporation filed audit filings for FYE 2021 in April 2025. The Corporation met both DSCR and DCOH financial covenants but failed to meet the CR covenant. A waiver for missing the FYE 2021,CR covenant was issued in April. Due to the negative operating results for the 36 months after FYE 2021, FORVIS raised substantial doubt about the Corporation's ability to continue as a going concern in the 2021 audit report, even though the auditor also recognized the recent operation improvement and financial turnaround of the Corporation. The Corporation is working with FORVIS on audit filings for FY 2022, 2023, and 2024.

The Corporation provided highlights of financial activities as of May 31, 2025, which showed a net income of $239K for the first five months of this year.

The following table shows key financial statistics of the Corporation.

Dollars in Thousand	Audited	Internal*			
	12.31.2021	12.31.2022	12.31.2023	12.31.2024	5.31.2025
Cash & Equivalents	1,593,473	520,133	1,385,937	3,330,922	3,454,348
Total Assets	48,033,924	48,369,764	49,059,936	47,697,000	48,121,335
Total Liabilities	40,380,292	42,482,509	46,051,278	48,160,000	49,013,058
Net Worth	7,653,632	5,887,255	3,008,658	(463,000)	(891,723)
Net Income	575,686	(1,509,340)	(3,655,806)	(683,926)	239,358
Debt Service Coverage Ratio	1.90	1.01	(4.63)	1.73	2.39
Days Cash on Hand	30.50	8.47	24.07	71.20	60.96
Current Ratio	1.12	0.91	0.84	0.71	0.67
*According to the Corporation's CFO, Christi Hines, the internal prepared financial statements have not been reconciled and are subject to material adjustment after reconciliation.					

<u>Assessment</u>:

Profitability:	5/31/2025 (5 mo.): $239,358
Liquidity:	Days Cash on Hand: 60.96
Debt Service Reserve Fund:	100% funded: $142,600.94
Debt Service Payments:	Current
CEO:	Jo Campbell
CFO:	Christi Hines

Account Manager: Dennis Lo **Supervisor:** Consuelo Hernandez

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 July 2, 2025) **Risk Rating: None**
The July 2025 amortized payment of $21,080.20 was made on July 2, 2025. The current outstanding balance is $3,648,201.51. The 2024 audited financial statements were received on February 11, 2025.

Assessment:

Profitability: (DiDi Hirsch)	$3,972,218 (6/30/24 Audit)
Liquidity: (DiDi Hirsch)	$24,239,782 cash & investment (6/30/24 Audit)
DSCR: (DiDi Hirsch)	6.05 (6/30/24 Audit)
Loan Balance:	$3,648,201.51
Payments:	Current (7/1/2025)
Final Maturity:	6/1/2044
Interest Rate:	3%
Payment Terms:	$21,080.20 monthly until maturity on 6/1/2044

CEO: Jonathan Goldfinger, MD **CFO:** Howard Goldman

Account Manager: Dennis Lo **Supervisor:** Consuelo Hernandez

V. Financial Performance Problems

Project: California Nevada Methodist Homes **Numbers**: 1018, 1053, 1088

Description:
California Nevada Methodist Homes (Corporation) was founded over 60 years ago. It operates two continuing care retirement communities (CCRCs)–Forest Hill Manor (FHM) in Pacific Grove and Lake Park Retirement Residence (LPRR) in Oakland.

Background:
On October 1, 2015, the Department of Health Care Access and Information (Department) insured Revenue Bonds Series 2015 (Bonds) for the Corporation in the amount of $32,920,000. The Bonds were used to refinance the Department insured 2006 bonds and fund $6.3 million in capital improvements.

The Corporation has had several financial setbacks dating back to 2007, which contributed to its net losses since Fiscal Year End (FYE) 2009. Approximately $27.5 million of the $42.3 million 2006 bonds were used for the expansion of FHM. Construction was scheduled to be completed in late 2007, but construction was delayed by 16 months. The construction delays caused the opening of FHM to be set back until March 2009, right at the beginning of the recession. By March 2009, Independent Living (IL) cottage deposits had declined, and the Corporation has not been able to increase occupancy at FHM. The purpose of the 2015 Bonds was to provide interest rate savings, along with an additional $6.3 million for renovations and upgrades to the Corporation's facilities. The renovations were believed to be necessary to improve occupancy and increase the marketability of vacant IL units. The units have not sold at the pace that was projected in the feasibility study done by Bill Hendrickson at the time of the bond closing.

On March 16, 2021, the Corporation filed a voluntary petition commencing Chapter 11 for relief under the Bankruptcy Code continuing in possession of its property and operation of its businesses as debtor-in-possession (DIP). The Corporation missed the monthly debt service payments from February 2020 through December 2022. On December 6, 2022, the sale of the Corporation to Pacifica Companies, LLC (Pacifica) was finalized. The Department elected to accelerate the bonds per section 7.2 of the Indenture and the bonds were paid in full and redeemed on March 3, 2023. The Plan of Liquidation was approved during the court hearing on June 30, 2023, and became effective on July 5, 2023. The Department received a wire of $2,358,613.01 on July 6, 2023. The wire was the amount due to the Department as part of the liquidation plan.

On September 8, 2023, the Corporation entered a final decree to close their Chapter 11 case with the Bankruptcy Court. The final decree was approved by the Court on October 4, 2023.

Current Situation: **(**as of July 18, 2025**)** **Risk Rating: N/A**
There are some unresolved disputes over administrative expense claims still to be resolved; it is anticipated that there is no money left in the reserve account to be recouped. Any money left after all expenses have been paid will be returned to the Department. The Department's legal counsel reached out to the bankruptcy attorney a few times to confirm if any money was left in the reserve account and how much would be returned to the Department. However, there has not been any response even after a follow-up email was sent to the debtor's counsel in late June 2025. The Department's legal counsel will make another attempt to get an update / response before the end of July, by reaching out to another counsel.

Under the amended Purchase Sale Agreement, the Department and Pacifica have negotiated a workout plan that involved a carryback secured note (Note) with Pacifica dba Lake Merritt Senior Living LLC as the obligor. The Note is secured by a Deed of Trust recorded against LPRR. The Note is for $15 million and amortized over 240 months, but payable in full on or before month 120. Interest is 3 percent, and a $3 million loan forgiveness will be issued upon payoff. Pacifica has made the required monthly payment of $83,189.64 punctually with no issues. The current outstanding balance is $13,529,200.60.

Assessment:

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

Account Manager: Tom Wenas **Supervisor:** Consuelo Hernandez