

**ANNUAL REPORT
CHECKLIST**

for
FISCAL YEAR ENDED:

2/28/13

RECEIVED
JUN 26 2013

CONTINUING CARE
CONTRACTS BRANCH

PROVIDER: Channing House

FACILITY(IES): Channing House

850 Webster Street, Palo Alto CA 94301

CONTACT PERSON: Rhonda Bekkedahl

TELEPHONE NO.: (650) 327-0950 EMAIL: rbekkedahl@channinghouse.org

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

Your complete annual report must consist of 3 copies of all of the following:

- ✓ This cover sheet.
- ✓ Annual Provider Fee in the amount of: \$ 9,648.50
 - ✓ If applicable, late fee in the amount of: \$ _____
- ✓ Certification by the provider's chief *executive* officer that:
 - ✓ The reports are correct to the best of his/her knowledge.
 - ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
 - ✓ The provider is maintaining the required *liquid reserve* and refund reserve, if applicable.
- ✓ Evidence of the provider's fidelity bond.
- ✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (3 copies total)

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report. (3 copies total)

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	234
[2]	Number at end of fiscal year	233
[3]	Total Lines 1 and 2	467
[4]	Multiply Line 3 by “.50” and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	234
All Residents		
[6]	Number at beginning of fiscal year	234
[7]	Number at end of fiscal year	233
[8]	Total Lines 6 and 7	467
[9]	Multiply Line 8 by “.50” and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	234
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	1.00

FORM 1-2
ANNUAL PROVIDER FEE

Line	TOTAL
[1] Total Operating Expenses (including depreciation and debt service – interest only)	11,988,878
[a] Depreciation	2,147,798
[b] Debt Service (Interest Only)	
[2] Subtotal (add Line 1a and 1b)	2,147,798
[3] Subtract Line 2 from Line 1 and enter result.	9,684,495
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	100%
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	9,648,495
[6] Total Amount Due (multiply Line 5 by .001)	\$ 9,648.50 ^{x .001}

PROVIDER: Channing House
COMMUNITY: Channing House



RECEIVED
JUN 26 2013
CONTINUING CARE
CONTRACTS BRANCH

June 24, 2013

Ms. Alison Nakatomi
Continuing Care Contracts Branch
Department of Social Services
744 P Street, MS 10-90
Sacramento, CA 95814

Re: Channing House Annual Reserve Report and Certification

Dear Ms. Nakatomi:

Attached for your review are our Annual Reserve Report Forms 5-1 through 5-5, Disclosure Statements, Fidelity Bond, Audited Financial Statements for FY 2013 as well as Key Indicators and Form 7-1.

Included in the Key Indicators are budget figures incorporating the current construction of 1) a replacement health care facility and 2) additional apartments. Our construction plans include reducing the current size of our health center from 69 beds to 53 beds, while adding 14 new apartments. Construction began in FY 2011 with completion of the new health center and additional apartments by FY 2015.

I certify that 1) this report and all attachments are correct to the best of my knowledge, 2) all contract forms in current use have been approved by the Department of Social Services, and 3) that Channing House continues to maintain the liquid reserves required by state statute.

This report will be filed in the Channing House library for resident review.

If you have any questions, please contact either Rhonda Bekkedahl, our Director of Finance, or me.

Sincerely,

Melvin Matsumoto
Executive Director

Enclosures



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
10/08/2012

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER MARSH RISK & INSURANCE SERVICES 345 CALIFORNIA STREET, SUITE 1300 CALIFORNIA LICENSE NO. D437153 SAN FRANCISCO, CA 94104 S46029-FINPR-12-13	CONTACT NAME: _____	
	PHONE (A/C, No, Ext): _____	FAX (A/C, No): _____
E-MAIL ADDRESS: _____		
INSURER(S) AFFORDING COVERAGE		NAIC #
INSURER A: Travelers Casualty & Surety Co Of America		31184
INSURER B: _____		
INSURER C: _____		
INSURER D: _____		
INSURER E: _____		
INSURER F: _____		

COVERAGES **CERTIFICATE NUMBER:** SEA-002187315-13 **REVISION NUMBER:** 1

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR: WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
	GENERAL LIABILITY <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC						EACH OCCURRENCE	\$
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident)	\$
	UMBRELLA LIAB <input type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED RETENTION \$						EACH OCCURRENCE	\$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below						WC STATUTORY LIMITS	OTHER
							E.L. EACH ACCIDENT	\$
							E.L. DISEASE - EA EMPLOYEE	\$
							E.L. DISEASE - POLICY LIMIT	\$
A	D&O / EPL ANTITRUST CLAIM RET: \$100,000			105367976C	10/06/2012	10/06/2013	LIMIT OF LIABILITY	\$5,000,000
							RETENTION PER CLAIM:	25,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
EVIDENCE OF INSURANCE ONLY

CERTIFICATE HOLDER Channing House 850 Webster Street Palo Alto, CA 94301	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE of Marsh Risk & Insurance Services Camellia Baker <i>Camellia Baker</i>
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CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
06/10/2013

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER MARSH RISK & INSURANCE SERVICES 345 CALIFORNIA STREET, SUITE 1300 CALIFORNIA LICENSE NO. 0437153 SAN FRANCISCO, CA 94104 S46029--12-13	CONTACT NAME: _____	
	PHONE (A/C, No, Ext): _____	FAX (A/C, No): _____
E-MAIL ADDRESS: _____		
INSURER(S) AFFORDING COVERAGE		NAIC #
INSURER A: Federal Insurance Company		20281
INSURER B: _____		
INSURER C: _____		
INSURER D: _____		
INSURER E: _____		
INSURER F: _____		

COVERAGES **CERTIFICATE NUMBER:** SEA-001968961-14 **REVISION NUMBER:** 1

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
	GENERAL LIABILITY <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC						EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COMP/OP AGG \$ \$	
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$	
	UMBRELLA LIAB <input type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED RETENTION \$						EACH OCCURRENCE \$ AGGREGATE \$ \$	
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in N#) If yes, describe under DESCRIPTION OF OPERATIONS below	<input type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input type="checkbox"/> N <input checked="" type="checkbox"/> A				<input type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$	
A	CRIME & FIDUCIARY CRIME RETENTION: \$2,500			8209-1025	10/06/2012	10/06/2013	CRIME \$5,000,000 FIDUCIARY \$1,000,000	

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

EVIDENCE OF INSURANCE ONLY

CERTIFICATE HOLDER Channing House 850 Webster Street Palo Alto, CA 94301	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE of Marsh Risk & Insurance Services Deborah Forde <i>Deborah Forde</i>
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EVIDENCE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY)
06/10/2013

THIS EVIDENCE OF PROPERTY INSURANCE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE ADDITIONAL INTEREST NAMED BELOW. THIS EVIDENCE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS EVIDENCE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE ADDITIONAL INTEREST.

AGENCY MARSH RISK & INSURANCE SERVICES 345 CALIFORNIA STREET, SUITE 1300 CALIFORNIA LICENSE NO. 0437153 SAN FRANCISCO, CA 94104 Attn: SanFrancisco.Certs@marsh.com 212-948-0398 S46029--12-13		PHONE (A/C, No, Ext): 		COMPANY Affiliated FM Insurance Co	
FAX (A/C, No): 		E-MAIL ADDRESS: 			
CODE: 		SUB CODE: 			
AGENCY CUSTOMER ID #: 		LOAN NUMBER 		POLICY NUMBER SF235	
INSURED Channing House 850 Webster Street Palo Alto, CA 94301		EFFECTIVE DATE 10/06/2012	EXPIRATION DATE 10/06/2013	<input type="checkbox"/> CONTINUED UNTIL TERMINATED IF CHECKED	
THIS REPLACES PRIOR EVIDENCE DATED: 					

PROPERTY INFORMATION

LOCATION/DESCRIPTION
Evidence of Insurance only

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS EVIDENCE OF PROPERTY INSURANCE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

COVERAGE INFORMATION

COVERAGE / PERILS / FORMS	AMOUNT OF INSURANCE	DEDUCTIBLE
ALL RISKS OF DIRECT PHYSICAL LOSS OR DAMAGE AS DEFINED AND LIMITED HEREIN, ON REAL PROPERTY, BUSINESS PERSONAL PROPERTY, BUSINESS INTERRUPTION, SUBJECT TO POLICY TERMS, LIMITATIONS, CONDITIONS, EXCLUSIONS, ETC.		
POLICY LOSS LIMIT:	162,434,000	10,000
EXTRA EXPENSE: \$5MM or 15% of Business Interruption values, whichever is greater	5,000,000	
EARTHQUAKE SPRINKLER LEAKAGE:	POLICY LIMIT	10,000
BOILER & MACHINERY:	INCLUDED	
FUNGUS, MOLD OR MILDEW:	1,000,000	
EARTHQUAKE & FLOOD:	EXCLUDED	

REMARKS (Including Special Conditions)

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

ADDITIONAL INTEREST

SEA-001903957-21

NAME AND ADDRESS Channing House 850 Webster Street Palo Alto, CA 94301	<input type="checkbox"/> MORTGAGEE	<input type="checkbox"/> ADDITIONAL INSURED
	<input type="checkbox"/> LOSS PAYEE	
	LOAN # 	
AUTHORIZED REPRESENTATIVE of Marsh Risk & Insurance Services Deborah Forde <i>Deborah Forde</i>		

Report of Independent Auditors and
Financial Statements



February 28, 2013 and February 29, 2012

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R E C E I V E D
JUN 28 2013

CONTINUING CARE
CONTRACTS BRANCH

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Channing House (a Nonprofit Corporation)
Palo Alto, California

Report on Financial Statements

We have audited the accompanying financial statements of Channing House, which comprise the statements of financial position as of February 28, 2013, and February 29, 2012, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Channing House as of February 28, 2013, and February 29, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Francisco, California
May 23, 2013

FINANCIAL STATEMENTS

CHANNING HOUSE
STATEMENTS OF FINANCIAL POSITION
February 28, 2013 and February 29, 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 1,008,358	\$ 1,386,235
ACCOUNTS RECEIVABLE	34,839	3,667
NOTES RECEIVABLE	365,485	-
INVENTORY	3,390	3,390
PREPAID EXPENSES	184,805	169,264
INVESTMENTS, at fair value	18,365,064	15,199,573
ASSETS LIMITED AS TO USE, at fair value	24,394,745	31,912,156
PROPERTY AND EQUIPMENT, net	67,967,094	56,695,670
DEBT ISSUANCE COSTS, net	3,750,917	3,888,146
TOTAL ASSETS	<u>\$ 116,074,697</u>	<u>\$ 109,258,101</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 3,525,946	\$ 2,768,898
LIABILITIES FROM SPLIT INTEREST GIFTS	62,977	92,108
DEFERRED REVENUE FROM ENTRANCE FEES	24,124,685	21,504,337
REFUNDABLE DEPOSITS	740,038	-
DEBT	62,383,769	62,969,413
TOTAL LIABILITIES	<u>90,837,415</u>	<u>87,334,756</u>
NET ASSETS		
UNRESTRICTED		
UNDESIGNATED	23,529,222	20,997,813
BOARD DESIGNATED	974,059	188,773
TEMPORARILY RESTRICTED	734,001	736,759
TOTAL NET ASSETS	<u>25,237,282</u>	<u>21,923,345</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 116,074,697</u>	<u>\$ 109,258,101</u>

See accompanying notes.

CHANNING HOUSE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended February 28, 2013 and February 29, 2012

	2013	2012
REVENUES, GAINS, AND OTHER SUPPORT		
Monthly care fees	\$ 9,460,601	\$ 9,123,642
Resident entrance fees earned	3,714,333	3,714,462
Interest on escrow funds	643,530	739,516
Interest and dividend income	620,443	478,475
Other services	465,784	465,281
Donations and other	261,412	558,830
Net realized loss on abandonment of property and equipment	(17,828)	(62,012)
Operating revenues	15,148,275	15,018,194
Future service obligation	-	2,300,000
Net assets released from restriction for operations	40,268	36,289
Total revenues	15,188,543	17,354,483
EXPENSES		
Medical	2,775,775	2,696,270
Food services	2,441,194	2,389,769
Operating and maintenance	1,663,190	1,784,552
Administrative	1,963,616	1,682,609
Housekeeping	840,720	806,124
Depreciation and amortization	2,304,383	2,264,606
Interest expense	-	2,700
Total expenses	11,988,878	11,626,630
INCOME BEFORE INVESTMENT INCOME (LOSS) AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS	3,199,665	5,727,853
INVESTMENT INCOME (LOSS)		
Net realized loss on investments	(521,000)	(411,561)
Total investment loss	(521,000)	(411,561)
NET INCOME	2,678,665	5,316,292
Net unrealized gain (loss) on investments	663,240	(241,578)
Change in value of split interest gifts	(1,672)	(24,000)
Decrease in unrecognized pension obligation	(23,538)	(2,639)
Net increase in unrestricted net assets	3,316,695	5,048,075
Temporarily restricted		
Donations and other	37,510	184,729
Total temporarily restricted revenues	37,510	184,729
Net assets released from restriction for operations	(40,268)	(36,289)
Net increase/(decrease) in temporarily restricted net assets	(2,758)	148,440
Change in net assets	3,313,937	5,196,515
NET ASSETS		
Beginning of year	21,923,345	16,726,830
End of year	\$ 25,237,282	\$ 21,923,345

See accompanying notes.

CHANNING HOUSE
STATEMENTS OF CASH FLOWS
Years Ended February 28, 2013 and February 29, 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Monthly care fees	\$ 9,429,429	\$ 9,175,186
Entrance fee proceeds	5,981,196	5,548,374
Other receipts from operations	465,784	465,281
Investment income received	1,263,973	1,217,991
Donations and miscellaneous revenues	298,922	743,559
Cash paid to employees and suppliers	(8,759,488)	(10,151,379)
Interest paid, net of amount capitalized	-	3,192
Net cash from operating activities	<u>8,679,816</u>	<u>7,002,204</u>
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Realized loss on investments	521,437	411,561
Proceeds from sales of investments	13,822,106	14,120,916
Cost of purchases of investments	(9,328,383)	(8,922,813)
Purchases of property and equipment	<u>(13,437,050)</u>	<u>(11,317,507)</u>
Net cash (used in) investing activities	<u>(8,421,890)</u>	<u>(5,707,843)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Payments on long-term debt	(605,000)	(505,000)
Entrance fee refunds	-	(41,319)
Split interest gifts		
Payments to beneficiaries	(29,131)	(31,726)
Income reinvested	<u>(1,672)</u>	<u>(1,546)</u>
Net cash (used in) financing activities	<u>(635,803)</u>	<u>(579,591)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(377,877)</u>	<u>714,770</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,386,235</u>	<u>671,465</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,008,358</u>	<u>\$ 1,386,235</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,313,937	\$ 5,196,515
Adjustments to reconcile net assets to net cash from operating activities		
Depreciation	2,147,798	2,108,021
Amortization of debt issuance costs	137,229	137,229
Amortization of bond discount	19,356	19,356
Amortization of deferred revenue from entrance fees	(3,714,333)	(3,714,462)
Change in fair value of split interest gifts	1,672	24,000
Future service obligation	-	(2,300,000)
Unrealized (gain) loss on investments	(663,240)	241,578
Less on abandonment of property and equipment	17,828	62,012
Proceeds from entrance fees	5,981,196	5,548,374
Changes in operating assets and liabilities		
Accounts receivable	(31,172)	51,544
Inventory	-	2,000
Prepaid expenses	(15,541)	(6,993)
Accounts payable and accrued liabilities	757,048	(366,970)
Refundable deposits	<u>728,038</u>	<u>-</u>
Net cash from operating activities	<u>\$ 8,679,816</u>	<u>\$ 7,002,204</u>
Non cash disclosure		
Notes receivable issued for payment of entrance fees	\$ 365,485	\$ -

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and organization – Channing House is a nonprofit public benefit corporation licensed by the State of California Department of Public Health and California Department of Social Services to provide housing, related facilities and health services for elderly persons. Channing House was incorporated in 1960 under the laws of the State of California. The facility it operates has 184 apartments, 48 assisted living beds, and 21 skilled nursing beds.

Upon entering Channing House, residents pay an entrance fee, which varies by resident depending upon the size and location of the apartment. Monthly care fees vary based on apartment size. Residents are provided housing, meals, and medical care for their stays at Channing House. A decreasing portion of the entrance fee is refundable by cancellation or termination of the care agreement during the first six years of occupancy, subject to a 10% minimum retention by Channing House. Entrance fees subject to refund at February 28, 2013 and February 29, 2012, were \$14,646,641 and \$12,556,571, respectively.

Channing House is subject to statutory reserve requirements. At February 28, 2013 and February 29, 2012, Channing House's reserves, as calculated in accordance with the continuing care contract statutes of the California Health and Safety Code, were in excess of such requirements.

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

Net asset classifications – The accompanying financial statements have been prepared in accordance with the standards set forth in Financial Accounting Standards Board (the "FASB") Accounting Standards Codification (the "ASC") Topic 715, *Compensation – Retirement Benefits* and FASB ASC Topic 958, *Not-for-Profit Entities* and the guidelines set forth in the industry audit and accounting guide "Health Care Organizations" issued by the American Institute of Certified Public Accountants. Under these guidelines, contributions of cash and other assets are classified as one of the following three categories:

Unrestricted – Unconditional promises to give by donors without any use or time restrictions. Included within unrestricted is board designated funds of \$974,059 and \$188,773 at February 28, 2013, and February 29, 2012, respectively, subject to board approval. Of these totals, \$782,511 and \$0 at February 28, 2013, and February 29, 2012, respectively, are for a newly designated fund, the purpose of which is to enhance the well-being of residents. The balance, to provide on-going support for the charitable needs of Channing House and its residents, at February 28, 2013, and February 29, 2012, was \$191,548 and \$188,773, respectively. The Board of Trustees of Channing House is authorized to spend the income and appreciation of these funds as it shall deem reasonable, in order to further the mission and purpose of Channing House.

Temporarily restricted – Unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. Donor restrictions released in the year received are recorded as unrestricted contributions.

Permanently restricted – Represent net assets subject to donor imposed stipulations that they be maintained by the organization in perpetuity. Channing House had no permanently restricted net assets as of February 28, 2013 and February 29, 2012. Contribution revenue is recognized in the appropriate net asset classification when the gift is unconditionally promised.

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

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

Inventory – Inventory is stated at cost, which is determined on the first-in, first-out method of accounting. Inventory consisted of gift shop supplies as of February 28, 2013, and February 29, 2012.

CHANNING HOUSE

NOTES TO FINANCIAL STATEMENTS

Investments – Investments are carried at fair value based on quoted market prices. The cost of investments sold is determined on an average cost basis. Realized and unrealized gains and losses are included in unrestricted net assets as the investments are considered trading securities.

Assets limited as to use – Assets limited as to use consist of cash and investments which are restricted in its use by regulatory or other agreements. These accounts are primarily escrow funds in U.S. government securities that were established pursuant to the trust agreement executed in connection with the issuance of the 2010 Revenue Bonds (see Note 4). Assets limited as to use are carried at fair value based on quoted market prices.

Accounts receivable – Channing House extends credit to its residents for the payment of the monthly care fee, since each resident is directly responsible to pay Channing House. Management asserts that collection of monthly care fees are not considered an issue; therefore no allowance for doubtful accounts has been recorded.

Property and equipment – Property and equipment are stated at cost. The cost basis includes any interest, finance charges and other related costs capitalized during construction. Depreciation is based upon the straight-line method over the estimated useful lives of the various classes of property, which range from 10 to 50 years. Channing House records assets acquired by donation at the estimated fair-market value at the date of donation.

Asset impairment – Channing House periodically evaluates the carrying value of their long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized.

Liabilities from split interest gifts – In conjunction with certain giving arrangements, Channing House is required to pay a certain sum of money to the donor or a designated beneficiary, and consequently, a liability is reflected in obligations under annuity agreements in the accompanying statements of financial position.

Debt issuance costs – The cost of issuing Series 2010 Revenue Bonds (see Note 4) totaled \$4,116,861, and is being amortized using the straight line method over the term of the bond. Accumulated amortization was \$365,944 and \$228,715 for 2013 and 2012, respectively.

Resident entrance fees – Resident entrance fees are recorded as deferred revenue and are amortized on a straight-line basis over the actuarially determined life expectancy of the resident. There is only one type of contract in use in which the entrance fee is refundable by cancellation or termination of the care agreement during the first six years of occupancy, subject to a 10% minimum retention by Channing House. There are no re-occupancy requirements on the current contract. Channing House also offers a "Returnable Contract" whereby 80% of the entrance fee is refunded at move-out or termination of the contract, upon re-occupancy of the apartment. There were no such contracts entered into as of February 28, 2013.

Malpractice insurance coverage – Channing House is covered for malpractice insurance under an occurrence basis policy with coverage of \$1,000,000 each occurrence and \$3,000,000 in the aggregate. Accounting principles generally accepted in the United States of America require that a healthcare organization disclose the estimated costs of claims in the period of the incident, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. Management is unable to reasonably estimate the range of future costs, if any, of unasserted claims arising from incidents in current and prior periods. Management believes that any unreported liability will not have a material adverse effect on Channing House's financial position or results of operations.

Income taxes – Channing House has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the financial statements. Channing House adopted the provisions of FASB ASC Topic 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on March 1, 2008. They had no unrecognized tax benefits which would require an adjustment to the March 1, 2012, beginning balance of net assets and had no unrecognized tax benefits at February 28, 2013. Channing House files federal and California exempt organization returns. They are no longer subject to income tax examinations by taxing authorities for years before 2006 for its federal and 2005 for its state tax filings.

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

CHANNING HOUSE
NOTES TO FINANCIAL STATEMENTS

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

New accounting pronouncements – In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04, Fair Value Measurement (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"), which amended ASC Topic 820, Fair Value Measurement ("ASC 820") to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Channing House implemented this guidance in 2012. The adoption did not have a material impact on Channing House's financial statements.

In July 2012, the FASB issued ASU No. 2012-01, *Continuing Care Retirement Communities – Refundable Advance Fees* ("ASU 2012-01") to clarify that an entity should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon re-occupancy by a subsequent resident, which is limited to the proceeds of re-occupancy. Refundable advance fees that are contingent upon re-occupancy by a subsequent resident but are not limited to the proceeds of re-occupancy should be accounted for and reported as a liability. The adoption of ASU 2012-01 is effective for the organization beginning March 1, 2014. The adoption of ASU 2012-01 is not expected to have a material impact on Channing House's financial statements.

Reclassifications – Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

NOTE 2 – INVESTMENTS

Investments at fair value consisted of the following at February 28, 2013, and February 29, 2012, respectively:

	<u>2013</u>	<u>2012</u>
U.S. government securities	\$ 24,394,745	\$ 31,912,156
Fixed income mutual funds	15,932,392	12,999,787
Emerging markets mutual funds	336,691	314,741
Large blend mutual funds	2,034,676	1,792,937
Other	61,305	92,108
	<u>\$ 42,759,809</u>	<u>\$ 47,111,729</u>

Investment securities include funds established pursuant to reserve requirements relating to split interest gifts of \$61,305 and \$92,108 at February 28, 2013 and February 29, 2012, respectively, as set forth by the State Insurance Commission.

Escrow funds are included in U.S. government securities. Such funds were established pursuant to the trust agreement executed in connection with the issuance of the 2010 Revenue Bonds (see Note 4). The escrow funds consisted of the following at February 28, 2013, and February 29, 2012, respectively:

	<u>2013</u>	<u>2012</u>
Reserve account	\$ 4,228,313	\$ 4,208,211
Principal/interest account	1,707,570	1,696,930
Health center project fund	18,458,862	26,007,015
	<u>\$ 24,394,745</u>	<u>\$ 31,912,156</u>

Channing House is required to maintain \$4,200,000 in the reserve account.

**CHANNING HOUSE
NOTES TO FINANCIAL STATEMENTS**

The following table shows the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Fair Value Below Cost as of February 28, 2013				Total	
	Less than 12 Months		12 Months or Longer		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
U.S. Government securities	\$ 24,394,745	\$ 68,378	\$ -	\$ -	\$ 24,394,745	\$ 68,378

	Fair Value Below Cost as of February 29, 2012				Total	
	Less than 12 Months		12 Months or Longer		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
U.S. Government securities	\$ 31,912,156	\$ 696,639	\$ -	\$ -	\$ 31,912,156	\$ 696,639

The fair-market value of these investments has declined due to a number of reasons, including changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of other than temporary impairment under management's policy. For the years ended February 28, 2013, and February 29, 2012, no securities were determined to be other than temporarily impaired.

Additional disclosures about fair value measurement are included in note 8.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at February 28, 2013, and February 29, 2012, respectively:

	2013	2012
Land and improvements	\$ 1,523,796	\$ 1,520,618
Building and improvements	52,771,720	51,731,046
Equipment and furnishings	5,496,093	5,762,952
Construction in progress	31,517,904	19,305,302
Total	91,309,513	78,319,918
Less accumulated depreciation	(23,342,419)	(21,624,248)
Property and equipment, net	\$ 67,967,094	\$ 56,695,670

Depreciation expense was \$2,147,798 and \$2,108,021 for 2013 and 2012, respectively.

NOTE 4 – LONG-TERM DEBT

In July 2010, Channing House issued \$64,020,000 of Insured Revenue Bonds ("Series 2010"), net of bond discount of \$577,847, which are due in varying annual principal installments through May 2040. Interest payments are made semi-annually. The stated interest ranges from 3.00% to 6.125% with an average coupon of 5.95%. Principal payments commenced in fiscal year ending February 29, 2012. Payment of the obligations is secured by gross revenues from the facility and is insured with the Office of Statewide Health Planning and Development of the State of California. Proceeds from the Series 2010 bond were used to refund Series 1999 Certificates of Participation, fund the construction of a new two-story health center, and remodel an existing floor with fourteen new apartment units. Construction on the new health center building is estimated for completion in August 2013 with the fourteen new apartments estimated for completion in May 2014. Interest payments are made semi-annually. Principal payments are made annually.

Channing House is subject to certain financial covenants related to its Series 2010 debt. Management represents that Channing House was in compliance with these covenants as of February 28, 2013, and February 29, 2012, respectively.

Capitalized interest expense was \$3,563,572 and \$3,580,890 for 2013 and 2012, respectively.

**CHANNING HOUSE
NOTES TO FINANCIAL STATEMENTS**

Maturities of the Series 2010 bond during each of the next five years and thereafter are as follows:

<u>Year Ending February</u>	
2014	\$ 625,000
2015	645,000
2016	680,000
2017	8,710,000
2018	1,070,000
Thereafter	<u>50,653,769</u>
Total	<u>\$ 62,383,769</u>

NOTE 5 – PENSION PLAN

Channing House has a noncontributory defined benefit pension plan (the "Plan") which covers all employees who have completed one year of service and who have attained the age of 21. Benefits are computed by a formula based upon years of service and the employee's average compensation over the final five years of employment, subject to a minimum benefit. Channing House's funding policy for the Plan is to contribute an amount for each plan year that is no less than the minimum amount required by law under ERISA and the Internal Revenue Code using the Unit Credit actuarial cost method. At Channing House's discretion, additional amounts may be contributed in excess of the minimum required contribution. Total benefits and expenses paid amounted to \$204,254 and \$233,331, respectively, for the years ended February 28, 2013 and February 29, 2012.

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

The following table sets forth the changes in benefit obligations, changes in plan assets and components of net periodic benefit costs for the pension plan for the years ended February 28, 2013, and February 29, 2012:

	<u>2013</u>	<u>2012</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,902,411	\$ 1,978,198
Service cost	23,467	23,568
Interest cost	119,683	121,747
Liability (gain) / loss	59,633	12,229
Expenses and benefits paid	<u>(204,254)</u>	<u>(233,331)</u>
Benefit obligation at end of year	<u>\$ 1,900,940</u>	<u>\$ 1,902,411</u>
Change in plan assets:		
Plan assets beginning of year	\$ 1,727,975	\$ 1,706,764
Employer contributions	114,392	166,602
Actual return	106,886	87,940
Expenses and benefits paid	<u>(204,254)</u>	<u>(233,331)</u>
Plan assets end of year	<u>1,744,999</u>	<u>1,727,975</u>
Funded status	(155,941)	(174,436)
Effect of adoption of FASB ASC Topic 715	<u>629,219</u>	<u>605,681</u>
Prepaid pension cost	<u>\$ 473,278</u>	<u>\$ 431,245</u>

CHANNING HOUSE
NOTES TO FINANCIAL STATEMENTS

The net periodic pension expense included the following components for the years ended February 28, 2013, and February 29, 2012:

	<u>2013</u>	<u>2012</u>
Service cost	\$ 23,467	\$ 23,568
Interest cost	119,683	121,747
Actual return on asset - gain	(106,886)	(87,940)
Amortization of net loss from earlier periods	38,624	29,472
Amortization of net gain (loss) during the period	<u>(2,529)</u>	<u>(19,882)</u>
Total	<u>\$ 72,359</u>	<u>\$ 66,965</u>

The following weighted-average assumptions were used to determine the plan's benefit obligation at February 28, 2013, and February 29, 2012:

	<u>2013</u>	<u>2012</u>
Discount rates	6.5%	6.5%
Expected return on plan assets	6.5%	6.5%

The composition of plan assets is as follows at February 28, 2013, and February 29, 2012:

	<u>2013</u>	<u>2012</u>
Insurance company general account	72%	74%
Equity funds	15%	12%
Money market funds	<u>13%</u>	<u>14%</u>
Total	<u>100%</u>	<u>100%</u>

The fair values of Channing House's pension plan assets by asset category are as follows at February 28, 2013, and February 29, 2012, pursuant to FASB ASC Topic 820 as more fully described in Note 8:

	<u>Total 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment contract with insurance company	\$ 1,247,330	\$ -	\$ -	\$ 1,247,330
Equity funds	265,253	-	265,253	-
Money market funds	<u>232,416</u>	<u>-</u>	<u>232,416</u>	<u>-</u>
Total investments	<u>\$ 1,744,999</u>	<u>\$ -</u>	<u>\$ 497,669</u>	<u>\$ 1,247,330</u>
	<u>Total 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment contract with insurance company	\$ 1,279,688	\$ -	\$ -	\$ 1,279,688
Equity funds	209,124	-	209,124	-
Money market funds	<u>239,163</u>	<u>-</u>	<u>239,163</u>	<u>-</u>
Total investments	<u>\$ 1,727,975</u>	<u>\$ -</u>	<u>\$ 448,287</u>	<u>\$ 1,279,688</u>

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

**CHANNING HOUSE
NOTES TO FINANCIAL STATEMENTS**

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

	Investment Contract with Insurance Company
Beginning balance at February 29, 2012	\$ 1,279,688
Actual return on plan assets:	
Relating to assets still held at the reporting date	53,332
Relating to assets sold during the period	-
Purchases, sales, and settlements	(85,690)
Transfers in and/or out of Level 3	-
Ending balance at February 28, 2013	\$ 1,247,330
	Investment Contract with Insurance Company
Beginning balance at February 28, 2011	\$ 1,320,150
Actual return on plan assets:	
Relating to assets still held at the reporting date	59,738
Relating to assets sold during the period	-
Purchases, sales, and settlements	(100,200)
Transfers in and/or out of Level 3	-
Ending balance at February 29, 2012	\$ 1,279,688

The effect of the adoption of FASB ASC Topic 715, *Compensation - Retirement Benefits*, was to decrease the liability of the pension plan by \$18,495 in 2013 and decrease the liability by \$96,998 in 2012, which is included in Accrued Liabilities. There was also a corresponding decrease to unrestricted net assets of \$23,538 in 2013 and \$2,639 in 2012.

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

<u>Fiscal Year</u>	<u>Expected Payment</u>
2014	\$ 193,500
2015	\$ 196,500
2016	\$ 205,500
2017	\$ 217,000
2018	\$ 229,700
2019-2023	\$ 1,205,000

Plan amendment – At December 31, 2001, the Board of Trustees approved changes to the defined benefit pension plan that effectively froze the plan. No new participants are permitted into the plan and no future benefits will accrue for participants in the plan on or before December 31, 2001. The effect of the change was a curtailment gain of \$177,087, which reduced the projected benefit obligation in accordance with FASB ASC Topic 715, *Compensation - Retirement Benefits*. Also in accordance with FASB ASC Topic 715, the previously unrecognized prior service cost of \$17,581 was accelerated in prior years.

Defined contribution plan – Effective January 1, 2002, Channing House established a 403(b) plan for substantially all employees. Participants may contribute a percentage of compensation up to the maximum permitted by the Internal Revenue Code. Employer contributions and costs are based on a percentage of covered employees' salaries. Employer contributions were \$136,993 and \$140,064 for the years ended February 28, 2013 and February 29, 2012, respectively.

CHANNING HOUSE
NOTES TO FINANCIAL STATEMENTS

Deferred compensation plan – Effective November 1, 2008, Channing House established a 457(b) plan for key management staff. This plan is intended to constitute an unfunded, eligible deferred compensation plan as described in IRC Section 457(b). The Plan calls for discretionary contributions as approved each year by the Board of Trustees. Participants may contribute a percentage of compensation up to the maximum permitted by the Internal Revenue Code. Employer contributions were \$38,922 and \$52,516 for the year ended February 28, 2013, and February 29, 2012, respectively.

NOTE 6 – FUTURE SERVICE OBLIGATION

Channing House is obligated to provide its residents continuous care throughout the residents' stay at the facility. Management's estimate of the liability for "future service obligation" represents the excess of the discounted net care expenses over the deferred revenue from entrance fees. The obligation is discounted at 5% for both February 28, 2013, and February 29, 2012. The obligations were \$0 for both February 28, 2013, and February 29, 2012.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at February 28, 2013, and February 29, 2012:

	<u>2013</u>	<u>2012</u>
Healthcare center	\$ 479,051	\$ 458,101
Residents' assistance	254,950	278,658
	<u>\$ 734,001</u>	<u>\$ 736,759</u>

Temporarily restricted net assets were released for the following as of February 28, 2013, and February 29, 2012:

	<u>2013</u>	<u>2012</u>
Residents' assistance	\$ 40,268	\$ 36,289

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value per share (or its equivalent) with the ability to redeem the investments in the near term.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

Investments: Fair values, which are the amounts reported in the statement of financial position, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

CHANNING HOUSE
NOTES TO FINANCIAL STATEMENTS

The following table presents the fair value measurements of investments recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at February 28, 2013, and February 29, 2012:

	<u>Total 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Government securities	\$ 24,394,745	\$ 24,394,745	\$ -	\$ -
Fixed income mutual fund	15,932,392	15,932,392	-	-
Emerging markets mutual funds	336,691	336,691	-	-
Large blend mutual funds	2,034,676	2,034,676	-	-
Charitable gift annuities	<u>61,305</u>	<u>61,305</u>	-	-
Total investments	<u>\$ 42,759,809</u>	<u>\$ 42,759,809</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>Total 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Government securities	\$ 31,912,156	\$ 31,912,156	\$ -	\$ -
Fixed income mutual fund	12,999,787	12,999,787	-	-
Emerging markets mutual funds	314,741	314,741	-	-
Large blend mutual funds	1,792,937	1,792,937	-	-
Charitable gift annuities	<u>92,108</u>	<u>92,108</u>	-	-
Total investments	<u>\$ 47,111,729</u>	<u>\$ 47,111,729</u>	<u>\$ -</u>	<u>\$ -</u>

As required by FASB ASC Topic 820, the investments are classified within the level of the lowest significant input considered in determining fair value. In evaluating the level at which Channing House's investments have been classified, Channing House has assessed factors including, but not limited to, the ability to redeem at net asset value ("NAV") at the measurement date and the existence or absence of certain restrictions at the measurement date. In accordance with this guidance, if Channing House has the ability to redeem from the investment at the measurement date or in the near-term at NAV, the investment would be classified as a Level 2 fair value measurement. Alternatively, if Channing House will never have the ability to redeem from the investment or is restricted from redeeming for an uncertain or extended period of time from the measurement date, the investment would be classified as a Level 3 fair value measurement.

Debt - The fair value of long-term debt is based on quoted market prices in an active market (Level 1).

The carrying amounts and fair values of Channing House's financial instruments at February 28, 2013, and February 29, 2012, are as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and equivalents	\$ 1,008,358	\$ 1,008,358	\$ 1,386,235	\$ 1,386,235
Investments	\$ 18,365,064	\$ 18,365,064	\$ 15,199,573	\$ 15,199,573
Assets limited as to use	\$ 24,394,745	\$ 24,394,745	\$ 31,912,156	\$ 31,912,156
Accounts payable and accrued expenses	\$ 3,525,946	\$ 3,525,946	\$ 2,768,898	\$ 2,768,898
Liabilities from split interest gifts	\$ 62,977	\$ 62,977	\$ 92,108	\$ 92,108
Debt	\$ 62,383,769	\$ 71,350,094	\$ 62,969,413	\$ 67,605,260

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that Channing House would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of February 2013 and 2012. Current estimates of fair value may differ significantly from the amounts presented.

CHANNING HOUSE
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – HEALTH AND SAFETY CODE SECTION 1790(A)(3) DISCLOSURE

The Board of Trustees of Channing House in 2010 established a Capital Reserve Fund to be used to pay for future board-approved capital improvements. These improvements are necessary and consistent with Channing House's tax exempt purpose to maintain and provide facilities essential to meet the housing, health care and other needs of its elderly residents. The amount of this fund was \$3,112,000 and \$2,500,000 at February 28, 2013, and February 29, 2012, respectively.

Improvements made during the year included: a) Heating system upgrades of \$210,974; b) Apartment renovations of \$675,530; and c) Other Building Equipment & Furnishings of \$420,748.

In order to provide up-to-date health care facilities for Channing House's continuum of care, the Board of Trustees in 2010 issued \$64,020,000 of Insured Revenue Bonds. Consistent with Channing House's nonprofit status, the Bonds were necessary to improve facilities essential to their provision of housing, health care, and financial security to their aged residents. These bonds were used in the following manner: a) Withdrawals for construction costs of \$7,748,237 and \$6,416,479 for fiscal years ending February 28, 2013, and February 29, 2012, respectively; b) the Bond Reserve Account was maintained and ended the years with a balance of \$4,228,312 and \$4,208,210 as of February 28, 2013, and February 29, 2012, respectively; c) Capitalized interest was funded in the amount of \$4,564,689 in fiscal year 2011. The entire balance was fully utilized for interest payments as of February 29, 2012.

NOTE 10 – CONTINGENCIES

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

Health care reform – In March 2010, President Obama signed the Health Care Reform Legislation into law. The new law will result in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Channing House is unable to predict the full impact of the Health Care Reform Legislation at this time due to the law's complexity and current lack of implementing regulations or interpretive guidance. However, Channing House expects that provisions of the Health Care Reform Legislation will have some effect on its business.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. Channing House recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. Channing House's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. Channing House will review effects of the Health Care Reform Legislation as discussed in Note 10 and disclose impacts accordingly.

Channing House has evaluated subsequent events through May 23, 2013, which is the date the financial statements are issued.

**Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules**

Channing House

As of and for the Year Ended February 28, 2013

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Channing House (Nonprofit Corporation)
Palo Alto, California

Report on the Financial Statements

We have audited the accompanying financial statements of Channing House, which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5 as of and for the year ended February 28, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the continuing care reserve of Channing House as of and for the year ended February 28, 2013, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

Basis of Accounting

We draw attention to the basis of accounting used to prepare the financial statements. The financial statements are prepared by Channing House on the basis of the liquid reserve requirements of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of California Health and Safety Code Section 1792. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Board of Trustees and management of Channing House and the California Department of Social Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Mass Adams LLP

San Francisco, California
June 17, 2013

CHANNING HOUSE
FORM 5-1
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(INCLUDING BALLOON DEBT)
For The Year Ended February 28, 2013

FORM 5-1					
LONG-TERM DEBT INCURRED					
IN A PRIOR FISCAL YEAR					
(Including Balloon Debt)					
	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Principal Paid During Fiscal Year	Interest Paid During Fiscal Year	Credit Enhancement Premiums Paid in Fiscal Year	Total Paid (columns (b) + (c) + (d))
1	07/01/10	\$605,000	\$3,563,572**		\$4,168,572
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
		TOTAL:	\$3,563,572	\$0	\$4,168,572

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

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

** Capitalized interest, not included in total operating expenses on the financial statements

PROVIDER: Channing House

CHANNING HOUSE
FORM 5-2
LONG-TERM DEBT INCURRED DURING FISCAL YEAR
(INCLUDING BALLOON DEBT)
For The Year Ended February 28, 2013

FORM 5-2					
LONG-TERM DEBT INCURRED					
DURING FISCAL YEAR					
(Including Balloon Debt)					
	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Total Interest Paid During Fiscal Year	Amount of Most Recent Payment on the Debt	Number of Payments over next 12 months	Reserve Requirement (see instruction 5) (columns (c) x (d))
1					\$0
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:		\$0	\$0	0	\$0

*(Transfer this amount to
Form 5-3, Line 2)*

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

PROVIDER: Channing House

CHANNING HOUSE
FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT
For The Year Ended February 28, 2013

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (c)	\$4,168,572
2	Total from Form 5-2 bottom of Column (e)	\$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$4,168,572

PROVIDER: Channing House

CHANNING HOUSE
FORM 5-4
CALCULATION OF NET OPERATING EXPENSES
For The Year Ended February 28, 2013

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$11,988,878
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	\$0
	b. Credit enhancement premiums paid for long-term debt (see instructions)	\$0
	c. Depreciation	\$2,147,798
	d. Amortization	\$156,585
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$0
	f. Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$2,304,383
4	Net Operating Expenses	\$9,684,495
5	Divide Line 4 by 365 and enter the result.	\$26,533
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$1,989,965</u>

PROVIDER: Channing House

CHANNING HOUSE
FORM 5-5
ANNUAL RESERVE CERTIFICATION
For The Year Ended February 28, 2013

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Channing House
 Fiscal Year Ended: 2/28/2013

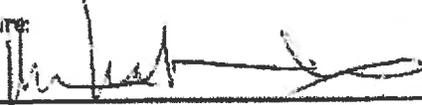
We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 2/28/2013 and are in compliance with those requirements.

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

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$4,168,572</u>
[2] Operating Expense Reserve Amount	<u>\$1,989,965</u>
[3] Total Liquid Reserve Amount:	<u>\$6,158,537</u>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> <u>(market value at end of quarter)</u>	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>\$0</u>	<u>\$1,008,358</u>
[5] Investment Securities	<u>\$0</u>	<u>\$18,303,759</u>
[6] Equity Securities	<u>\$0</u>	<u>\$0</u>
[7] Unused/Available Lines of Credit	<u>\$0</u>	<u>\$0</u>
[8] Unused/Available Letters of Credit	<u>\$0</u>	<u>\$0</u>
[9] Debt Service Reserve	<u>\$5,935,883</u>	(not applicable)
[10] Other:	<u>\$0</u>	<u>\$0</u>
<hr/>		
(describe qualifying asset)		
Listed for Reserve Obligation:	[11] <u>\$5,935,883</u>	[12] <u>\$19,312,117</u>
Reserve Obligation Amount:	[13] <u>\$4,168,572</u>	[14] <u>\$1,989,965</u>
Surplus/(Deficiency):	[15] <u>\$1,767,311</u>	[16] <u>\$17,322,152</u>

Signature: 

 (Authorized Representative)

Date: 6-17-13

Executive Director

 (Title)

SUPPLEMENTARY SCHEDULES



CHANNING HOUSE
ATTACHMENT I TO FORM 5-5
RECONCILIATION OF INVESTMENT SECURITIES AND DEBT SERVICE RESERVE
STATE OF CALIFORNIA - DEPARTMENT OF SOCIAL SERVICES
For The Year Ended February 28, 2013

#5 Investment Securities

Fixed income mutual funds	\$	15,932,392
Emerging markets mutual funds		336,691
Large blend mutual funds		<u>2,034,676</u>
Total Investment Securities	\$	<u><u>18,303,759</u></u>

#9 Debt Service Reserve

Reserve account	\$	4,228,313
Principal/interest account		<u>1,707,570</u>
Total Debt Service Reserve	\$	<u><u>5,935,883</u></u>

CHANNING HOUSE
ANNUAL REPORT, CONTINUING CARE DIVISION SECTION 5-5 ADDITIONAL INFORMATION (BOARD
DESIGNATED FUNDS)
For The Year Ended February 28, 2013

Annual Report, Continuing Care Contracts Division
Section 5-5
Channing House

Additional Information

Board Designated Funds, as of February 28, 2013, include the following:

a. Heritage Circle Fund to enhance resident well-being	\$	782,511
b. Residents' Assistance Fund (for charity care of residents)		50,510
c. Board designated endowment		<u>141,038</u>
Total Board Designated Funds	\$	<u><u>974,059</u></u>

CHANNING HOUSE
SUPPLEMENTARY INFORMATION
STATEMENT OF CASH FLOWS – DIRECT METHOD
For The Year Ended February 28, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Monthly care fees	\$ 9,429,429
Entrance fees proceeds	5,981,196
Other receipts from operations	465,784
Investment income received	1,263,973
Donations and miscellaneous revenues	298,922
Cash paid to employees and suppliers	<u>(8,759,488)</u>
Net cash provided by operating activities	<u>8,679,816</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Realized loss on investments	521,437
Proceeds from sales of investments	13,822,106
Cost of purchases of investments	(9,328,383)
Purchases of property and equipment	<u>(13,437,050)</u>
Net cash used in investing activities	<u>(8,421,890)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on long-term debt	(605,000)
Split interest gifts	
Payments to beneficiaries	(29,131)
Income reinvested	<u>(1,672)</u>
Net cash used in financing activities	<u>(635,803)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(377,877)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,386,235</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,008,358</u></u>

CHANNING HOUSE
SUPPLEMENTARY INFORMATION
STATEMENT OF CASH FLOWS - DIRECT METHOD (continued)
For The Year Ended February 28, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 3,313,937
Adjustments to reconcile net assets to net cash from operating activities	
Depreciation	2,147,798
Amortization of debt issuance costs	137,229
Amortization of bond discount	19,356
Amortization of deferred revenue from entrance fees	(3,714,333)
Change in fair value of split interest gifts	1,672
Unrealized gain on investments	(663,240)
Loss on abandonment of property and equipment	17,828
Proceeds from entrance fees	5,981,196
Changes in operating assets and liabilities	
Accounts receivable	(31,172)
Prepaid expenses	(15,541)
Accounts payable and accrued liabilities	757,048
Refundable deposits	728,038
Net cash from operating activities	<u>\$ 8,679,816</u>
Non cash disclosure	
Notes receivable issued for payment of entrance fees	\$ 365,485

**Continuing Care Retirement Community
Disclosure Statement
General Information**

06/10/2013
RECEIVED
JUN 26 2013

FACILITY NAME: Channing House CONTINUING CARE
 ADDRESS: 850 Webster Street ZIP CODE: 94301 PHONE: 650-327-0950 BRANCH
 PROVIDER NAME: Channing House FACILITY OPERATOR: Channing House
 RELATED FACILITIES: none RELIGIOUS AFFILIATION: none
 YEAR OPENED: 1964 NO. OF ACRES: 1 MULTI-STORY: SINGLE STORY: BOTH:
 MILES TO SHOPPING CTR: 0.5 MILES TO HOSPITAL: 3

NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
APARTMENTS - STUDIO	<u>74</u>	ASSISTED LIVING <u>48</u>
APARTMENTS - 1 BDRM	<u>90</u>	SKILLED NURSING <u>21</u>
APARTMENTS - 2 BDRM	<u>20</u>	SPECIAL CARE <u>0</u>
COTTAGES/HOUSES	<u>0</u>	DESCRIBE SPECIAL CARE: <u>0</u>
% OCCUPANCY AT YEAR END	<u>95%</u>	

TYPE OF OWNERSHIP: NOT FOR PROFIT FOR PROFIT ACCREDITED: Y N BY: _____

FORM OF CONTRACT: LIFE CARE CONTINUING CARE FEE FOR SERVICE
 ASSIGN ASSETS EQUITY ENTRY FEE RENTAL

REFUND PROVISIONS (Check all that apply): 90% 75% 50% PRORATED TO 0% OTHER: 80%

RANGE OF ENTRANCE FEES: \$ 145,000 TO \$ 735,000 LONG-TERM CARE INSURANCE REQUIRED? Y N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Yes

ENTRY REQUIREMENTS: MIN. AGE: 65 PRIOR PROFESSION: n/a OTHER: n/a

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	<u>Wkly</u>	_____
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY	<u>3</u>	_____
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<u>Yes</u>	_____
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	OTHER <u>Trans-Med/Dental</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
OTHER <u>ping pong</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>			

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Channing House

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	\$9,147	\$9,811	\$10,066	\$10,725
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	-\$9,269	-\$9,346	-\$9,360	-\$9,684
NET INCOME FROM OPERATIONS	-\$122	\$435	\$706	\$1,041
LESS INTEREST EXPENSE	-\$1,072	-\$459	-\$3	\$0
PLUS CONTRIBUTIONS	\$316	\$213	\$743	\$299
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	\$0	\$0	\$0	\$0
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	-\$878	\$189	\$1,455	\$1,340
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	\$3,630	\$4,728	\$5,507	\$5,981

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGATION	DATE OF MATURITY	AMORTIZATION PERIOD
ABAG-2010 Bonds	\$62,383,769	5.95	07/01/10	05/15/40	30 Years

FINANCIAL RATIOS (see next page for ratio formulas)

	2009 CCAC Medians 50 th Percentile (optional)	2011	2012	2013
DEBT TO ASSET RATIO		.60	.58	.54
OPERATING RATIO		1.00	1.02	1.02
DEBT SERVICE COVERAGE RATIO		3.42*	1.74*	1.89*
DAYS CASH-ON-HAND RATIO		485	642	728

**HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE**

	2010	%	2011	%	2012	%	2013
STUDIO	\$2,371	6.0%	\$2,466	5.3%	\$2,762	3.8%	\$2,897
ONE BEDROOM	\$3,625	6.0%	\$3,770	5.3%	\$4,147	3.8%	\$4,305
TWO BEDROOM	\$6,807	6.0%	\$7,079	5.3%	\$7,787	3.8%	\$8,083
COTTAGE/HOUSE	0	0.0%	\$0	0.0%	\$0	0.0%	\$0
ASSISTED LIVING	\$2,371	6.0%	\$2,466	5.3%	\$2,762	3.8%	\$2,897
SKILLED NURSING	\$2,371	6.0%	\$2,466	5.3%	\$2,762	3.8%	\$2,897
SPECIAL CARE	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0

COMMENTS FROM PROVIDER: *Calculation includes capitalized interest from the 2010 bond financing

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ \text{-- Depreciation Expense} \\ \text{-- Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ \text{-- Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ \text{+ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ \text{-- Amortization of Deferred Revenue} \\ \text{+ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash} \\ \text{And Investments} \\ \text{+ Unrestricted Non-Current Cash} \\ \text{and Investments} \end{array}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>\$2,530 - \$8,484</u>	<u>\$2,530 - \$8,484</u>	<u>\$2,530 - \$8,484</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>3.8%</u>	<u>3.8%</u>	<u>3.8%</u>

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

[3] Indicate the date the fee increase was implemented: March 1, 2012
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Channing House
COMMUNITY: Channing House

Channing House
Fiscal Year Ended 2/28/2013

Form 7-1: Explanation for Increase in Monthly Service Fees

Channing House monthly care fees are reviewed and adjusted on at least an annual basis to ensure both the continued coverage of our services and our long-term financial health. Our annual adjustment is predicated on the following steps:

1. Review of resident programs and services expected to be offered during the coming fiscal year, including new service initiatives.
2. Revenues are projected on the basis of expected occupancy, as well as anticipated movement within levels of care, and the impact of different care contracts on our revenues. Additional revenue sources not related to resident room revenues are planned when feasible and taken into account.
3. The budget for operating expenses is developed over a several month period with staff, residents, and board review and input. This budget is based on a review of program costs during the previous fiscal year, and the identification of any trends that will affect future costs. Staffing requirements are carefully reviewed, for each department. Adjustments are made for any FTE changes, as well as wage and benefit increases across all departments
4. Supply, food services, utility, housekeeping, maintenance, insurance and contract prices for vendors are also studied for potential impacts.
5. The combination of all these factors represents the total annual expected costs for the coming year. Total expected operating expenses were budgeted to \$10.0 M.
6. Channing House's current and expected trends are modeled in meeting certain financial ratios. Board policy is to achieve slight operation surplus in accordance with median operating margin ratios as published by the CARF-CCRC Financial Ratios & Trend Analysis 2012.
7. Based on the budget analysis described above, an increase in rates of 3.8% was applied in order to support all budgeted programs and services. This increase was applied to all units effective March 1, 2012 for the fiscal year ending 2/28/13.

