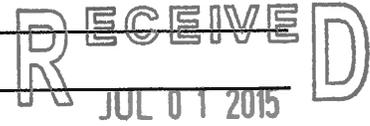


ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED:
02 / 28 / 15

PROVIDER(S): Channing House



CCRC(S): Channing House, 850 Webster Street, Palo Alto CA 94301

CONTINUING CARE
CONTRACTS BRANCH

CONTACT PERSON: Rhonda Bekkedahl

TELEPHONE NO.: (650) 327-0950

EMAIL: rbekkedahl@channinghouse.org

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

- Annual Report Checklist.
- Annual Provider Fee in the amount of: \$ 11,272.34
 - 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* reserves and, when applicable, the required refund reserve.
- Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for **each** community.
- Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report, but may be submitted at the same time as the annual report.



RECEIVED
JUL 01 2015

CONTINUING CARE
CONTRACTS BRANCH

June 27, 2015

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 2015 as well as Key Indicators and Form 7-1.

Included in the Key Indicators are budget figures incorporating the current construction of 14 additional apartments. Construction began in FY 2015 and is expected to be completed in FY 2016.

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 Rhonda Bekkedahl, our Director of Finance, or me.

Sincerely,

Melvin Matsumoto
Executive Director

Enclosures

FORM 1-1
RESIDENT POPULATION

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	235
[2]	Number at end of fiscal year	226
[3]	Total Lines 1 and 2	461
[4]	Multiply Line 3 by “.50” and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	230
All Residents		
[6]	Number at beginning of fiscal year	235
[7]	Number at end of fiscal year	226
[8]	Total Lines 6 and 7	461
[9]	Multiply Line 8 by “.50” and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	230
[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

<u>Line</u>	<u>ANNUAL PROVIDER FEE</u>	<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service – interest only)	14,393,361
[a]	Depreciation	2,534,071
[b]	Debt Service (Interest Only)	586,948
[2]	Subtotal (add Line 1a and 1b)	3,121,019
[3]	Subtract Line 2 from Line 1 and enter result.	11,272,342
[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)	11,272,342
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 11,272.34

PROVIDER: Channing House
COMMUNITY: Channing House



SURETY BOND

(Original sent to Regional Office)

**CONTINUING CARE
CONTRACTS BRANCH**

Applicant/Licensee Name: Channing House

Address: 850 Webster Street, Palo Alto, CA 94301

Bonding Company: Hartford Fire Insurance Company

Address: One Hartford Plaza, Hartford, CT 06155 Telephone #: _____

Local Agent Name: HEFFERNAN INSURANCE BROKERS Telephone #: 925-934-8500

The addresses shown above for licensee and bonding company will be used for service of notices, papers, and other documents.

BE IT KNOWN THAT:

Licensee, as Principal, and Bonding Company, as Surety, are held and firmly bound to the State of California, as beneficiary, in the amount of \$ 5,000 (Five Thousand) for the payment of which the principal and surety bind themselves, their respective heirs, successors and assigns, jointly and severally.

WHEREAS Health and Safety Code sections 1580, 1568.021, and 1569.60 each require certain applicants for licenses to file with the State Department of Social Services a surety bond; and

WHEREAS the licensee has applied to operate an *(check all that apply)*:

- Adult Residential, Adult Day Programs or Social Rehabilitation Facility, and the licensee handles client/resident funds in any amount; or
- Foster Family Home, Foster Family Agency, Group Home, Small Family Home, Residential Care Facility for Persons with Chronic, Life-Threatening Illness, or Residential Care Facility for the Elderly, and the licensee handles funds of \$50 or more per client/resident or \$500 or more for all clients/ residents in any month;

NOW, THEREFORE, the surety is liable on this bond in the event that the principal fails to handle faithfully and honestly the money of facility clients/residents.

The facility covered by this bond is:

Facility Name: Channing House

Facility Address: 850 Webster St Palo Alto, CA 94301

Facility License Number (if facility is currently licensed): 430700136

(if other facilities are covered by this bond, specify on a separate, attached page the name, address, facility license number, and bond amount for each facility.)

Every person injured as a result of any unfaithful or dishonest handling of client money may bring an action in a proper court on the bond for the amount of damage suffered thereby to the extent covered by the bond.

The aggregate liability of the Surety for all claims against this bond shall not exceed the amount of the bond, shown above.

This bond may be canceled by the Surety in accordance with Code of Civil Procedure section 996.030, and notice of cancellation must be sent in accordance with Code of Civil Procedure section 996.320. This bond is effective May 1, 2014 and remains in effect as long as the license is valid.

I certify under penalty of perjury under the laws of the State of California that the information provided on this page and on any attachments is true and correct.

BONDING COMPANY SIGNATURE:  David G. Harris, Attorney-in-fact	BOND NUMBER: 57BSBGG3127	DATE: 05/20/2014
---	-----------------------------	---------------------

POWER OF ATTORNEY

Direct Inquiries/Claims to:

THE HARTFORD
Bond T-4
One Hartford Plaza
Hartford, Connecticut 06155
call: 888-266-3488 or fax: 860-757-5835

KNOW ALL PERSONS BY THESE PRESENTS THAT:

Agency Code: 57 100101

- Hartford Fire Insurance Company, a corporation duly organized under the laws of the State of Connecticut
- Hartford Casualty Insurance Company, a corporation duly organized under the laws of the State of Indiana
- Hartford Accident and Indemnity Company, a corporation duly organized under the laws of the State of Connecticut
- Hartford Underwriters Insurance Company, a corporation duly organized under the laws of the State of Connecticut
- Twin City Fire Insurance Company, a corporation duly organized under the laws of the State of Indiana
- Hartford Insurance Company of Illinois, a corporation duly organized under the laws of the State of Illinois
- Hartford Insurance Company of the Midwest, a corporation duly organized under the laws of the State of Indiana
- Hartford Insurance Company of the Southeast, a corporation duly organized under the laws of the State of Florida

having their home office in Hartford, Connecticut (hereinafter collectively referred to as the "Companies") do hereby make, constitute and appoint, up to the amount of UNLIMITED :

F. MICHAEL HEFFERNAN, STEPHANIE WORDEN, KIMBERLEY ROMAN, DAVID G. HARRIS, HEATHER PATE, JULIA PITTA OF WALNUT CREEK, CALIFORNIA

their true and lawful Attorney(s)-in-Fact, each in their separate capacity if more than one is named above, to sign its name as surety(ies) only as delineated above by , and to execute, seal and acknowledge any and all bonds, undertakings, contracts and other written instruments in the nature thereof, on behalf of the Companies in their business of guaranteeing the fidelity of persons, guaranteeing the performance of contracts and executing or guaranteeing bonds and undertakings required or permitted in any actions or proceedings allowed by law.

In Witness Whereof, and as authorized by a Resolution of the Board of Directors of the Companies on August 1, 2009, the Companies have caused these presents to be signed by its Vice President and its corporate seals to be hereto affixed, duly attested by its Assistant Secretary. Further, pursuant to Resolution of the Board of Directors of the Companies, the Companies hereby unambiguously affirm that they are and will be bound by any mechanically applied signatures applied to this Power of Attorney.



Wesley W. Cowling

Wesley W. Cowling, Assistant Secretary

M. Ross Fisher

M. Ross Fisher, Vice President

STATE OF CONNECTICUT }
 } ss. Hartford
COUNTY OF HARTFORD }

On this 12th day of July, 2012, before me personally came M. Ross Fisher, to me known, who being by me duly sworn, did depose and say: that he resides in the County of Hartford, State of Connecticut; that he is the Vice President of the Companies, the corporations described in and which executed the above instrument; that he knows the seals of the said corporations; that the seals affixed to the said instrument are such corporate seals; that they were so affixed by authority of the Boards of Directors of said corporations and that he signed his name thereto by like authority.



CERTIFICATE

Kathleen T. Maynard

Kathleen T. Maynard
Notary Public
My Commission Expires July 31, 2016

I, the undersigned, Vice President of the Companies, DO HEREBY CERTIFY that the above and foregoing is a true and correct copy of the Power of Attorney executed by said Companies, which is still in full force effective as of May 20, 2014
Signed and sealed at the City of Hartford.



Gary W. Stumper

Gary W. Stumper, Vice President



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

02/20/15

RECEIVED
FEBRUARY 20 2015
CERTIFICATE BRANCH

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 License # 0564249 Heffernan Insurance Brokers P.O. Box 5608 Walnut Creek, CA 94596	CONTACT NAME: PHONE (A/C, No, Ext): 1 (925) 934-8500		FAX (A/C, No): 1 (925) 934-8278
	E-MAIL ADDRESS:		
INSURED Channing House 850 Webster Street Palo Alto, CA 94301	INSURER(S) AFFORDING COVERAGE		NAIC #
	INSURER A : GuideOne Specialty Mutual Insurance Company		14559
	INSURER B : GuideOne Mutual Insurance Company		15032
	INSURER C : Allied World Assurance Co (U.S.) Inc.		19489
	INSURER D :		
	INSURER E :		

COVERAGES **CERTIFICATE NUMBER:** **REVISION NUMBER:**

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 INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR <input checked="" type="checkbox"/> Professional Liab.			1409356	10/06/2014	10/06/2015	EACH OCCURRENCE \$ 1,000,000
							DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 1,000,000
	<input type="checkbox"/> GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC OTHER: Per Desig.Location						MED EXP (Any one person) \$ 10,000
							PERSONAL & ADV INJURY \$ 1,000,000
							GENERAL AGGREGATE \$ 3,000,000
							PRODUCTS - COMP/OP AGG \$ 3,000,000
							PROF LIABILITY \$ 3,000,000
B	<input checked="" type="checkbox"/> AUTOMOBILE LIABILITY <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> NON-OWNED AUTOS			1777042	10/06/2014	10/06/2015	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000
							BODILY INJURY (Per person) \$
							BODILY INJURY (Per accident) \$
							PROPERTY DAMAGE (Per accident) \$
B	<input checked="" type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED <input checked="" type="checkbox"/> RETENTION \$ 2,500			1409357	10/06/2014	10/06/2015	EACH OCCURRENCE \$ 10,000,000
							AGGREGATE \$ 10,000,000
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below						PER STATUTE <input type="checkbox"/> OTH-ER <input type="checkbox"/>
							E.L. EACH ACCIDENT \$
							E.L. DISEASE - EA EMPLOYEE \$
							E.L. DISEASE - POLICY LIMIT \$
C	Directors & Officers			03086525	10/06/2014	10/06/2015	See Remarks
C	Empl. Practices(CM)			03086524	10/06/2014	10/06/2015	\$75K Retention-Limit 5,000,000

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

CERTIFICATE HOLDER EVIDENCE ONLY with D&O and EPL	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



ADDITIONAL REMARKS SCHEDULE

AGENCY Heffernan Insurance Brokers		License # 0564249	NAMED INSURED Channing House 850 Webster Street Palo Alto, CA 94301
POLICY NUMBER SEE PAGE 1			
CARRIER SEE PAGE 1	NAIC CODE SEE P 1	EFFECTIVE DATE: SEE PAGE 1	

ADDITIONAL REMARKS

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,
 FORM NUMBER: ACORD 25 FORM TITLE: Certificate of Liability Insurance

Remarks:

COVERAGE:

DIRECTORS & OFFICERS:

Limits of Liability

Policy Per Claim Limit \$5,000,000

Policy Aggregate Limit of Liability \$5,000,000

Dedicated Excess Coverage for all Insured Persons \$1,000,000

Retention

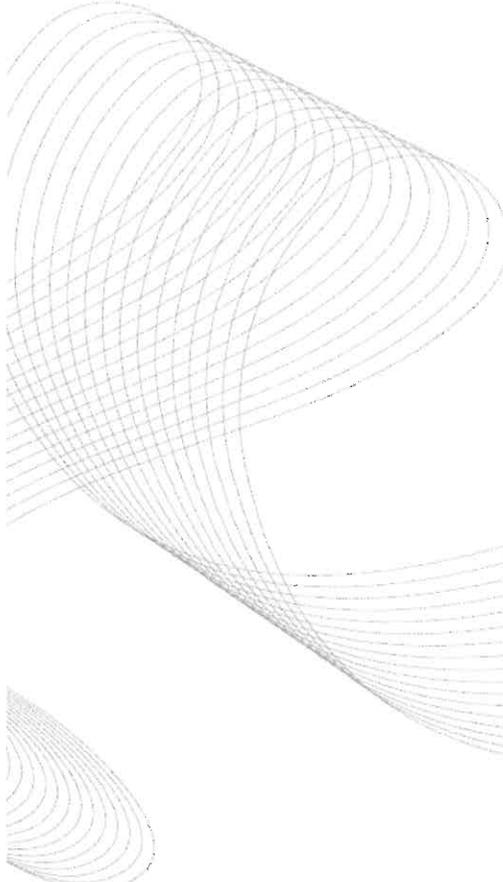
Each and every Claim (not applicable to Insuring Agreement A, D, E, G and H) \$50,000

Each and every Antitrust Claim under Insuring Agreement D \$100,000

Each and every Regulatory Claim under Insuring Agreement E \$250,000

RECEIVED
JUL 01 2015

CONTINUING CARE
CONTRACTS BRANCH



Report of Independent Auditors and
Financial Statements



February 28, 2015 and 2014

MOSS-ADAMS^{LLP}

Certified Public Accountants | Business Consultants



CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1
 FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED FEBRUARY 28, 2015 AND 2014	
Statements of financial position	2
Statements of activities and changes in net assets.....	3
Statements of cash flows	4
Notes to financial statements.....	5

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, 2015 and 2014, 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, 2015 and 2014, 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.



San Francisco, California
June 23, 2015

RECEIVED
JUL 1 1988
CONTRACTS DEPARTMENT

FINANCIAL STATEMENTS

CHANNING HOUSE
STATEMENTS OF FINANCIAL POSITION
February 28, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 1,257,021	\$ 1,507,650
Accounts receivable	55,080	8,972
Notes receivable	119,504	-
Inventory	2,625	2,625
Prepaid expenses	225,055	187,258
Investments, at fair value	19,423,617	20,112,469
Assets limited as to use, at fair value	15,715,052	18,896,891
Property and equipment, net	81,627,631	75,917,302
Debt issuance costs, net	3,476,460	3,613,689
Total assets	<u>\$ 121,902,045</u>	<u>\$ 120,246,856</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 3,046,408	\$ 3,597,451
Liabilities from split interest gifts	45,453	54,215
Entrance fees refundable upon reoccupancy	368,800	-
Deferred revenue from entrance fees	26,689,279	26,652,023
Refundable deposits	830,425	759,220
Debt	61,152,481	61,778,125
Total liabilities	<u>92,132,846</u>	<u>92,841,034</u>
Net assets		
Unrestricted		
Undesignated	27,724,717	25,540,550
Board designated	1,167,420	1,061,075
Temporarily restricted	877,062	804,197
Total net assets	<u>29,769,199</u>	<u>27,405,822</u>
Total liabilities and net assets	<u>\$ 121,902,045</u>	<u>\$ 120,246,856</u>

See accompanying notes.

CHANNING HOUSE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended February 28, 2015 and 2014

	2015	2014
REVENUES, GAINS, AND OTHER SUPPORT		
Monthly care fees	\$ 10,475,620	\$ 9,955,719
Resident entrance fees earned	4,622,114	3,968,662
Interest on escrow funds	3,610	157,402
Interest and dividend income	515,346	414,110
Other services	384,863	377,032
Donations and other	90,752	41,618
Net realized loss on abandonment of property and equipment	(126,265)	(173,885)
Operating revenues	15,966,040	14,740,658
Net assets released from restriction for operations	31,482	48,624
Total revenues	15,997,522	14,789,282
EXPENSES		
Medical	2,946,431	2,775,196
Food services	2,567,535	2,521,352
Operating and maintenance	1,804,121	1,884,443
Administrative	2,925,054	2,413,728
Housekeeping	872,617	881,782
Depreciation and amortization	2,690,655	2,402,308
Interest expense	586,948	-
Total expenses	14,393,361	12,878,809
INCOME BEFORE INVESTMENT (LOSS) GAIN INCOME AND UNREALIZED GAINS ON INVESTMENTS	1,604,161	1,930,473
INVESTMENT (LOSS) GAIN INCOME		
Net realized (loss) gain income on investments	(76,219)	27,325
Total investment loss	(76,219)	27,325
NET INCOME	1,527,942	1,957,798
Net unrealized gain on investments	702,954	91,452
Change in value of split interest gifts	(1,920)	(1,970)
Increase in unrecognized pension obligation	61,536	51,064
Net increase in unrestricted net assets	2,290,512	2,098,344
Temporarily restricted		
Donations	37,000	30,750
Other	67,347	88,070
Total temporarily restricted revenues	104,347	118,820
Net assets released from restriction for operations	(31,482)	(48,624)
Net increase in temporarily restricted net assets	72,865	70,196
Change in net assets	2,363,377	2,168,540
NET ASSETS		
Beginning of year	27,405,822	25,237,282
End of year	\$ 29,769,199	\$ 27,405,822

See accompanying notes.

CHANNING HOUSE
STATEMENTS OF CASH FLOWS
Years Ended February 28, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Monthly care fees	\$ 10,429,512	\$ 9,981,586
Entrance fee proceeds	4,908,666	6,842,303
Other receipts from operations	384,863	377,032
Investment income received	518,956	571,512
Donations and miscellaneous revenues	127,752	72,368
Cash paid to employees and suppliers	(11,586,377)	(10,206,514)
Interest paid, net of amount capitalized	(581,299)	5,471
	<u>4,202,073</u>	<u>7,643,758</u>
CASH FLOWS USED IN FROM INVESTING ACTIVITIES		
Realized (loss) gain on investments	76,219	(27,325)
Proceeds from sales of investments	46,351,452	14,941,325
Cost of purchases of investments	(41,854,026)	(11,072,099)
Purchases of property and equipment	(8,370,665)	(10,369,817)
	<u>(3,797,020)</u>	<u>(6,527,916)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Payments on long-term debt	(645,000)	(625,000)
Entrance fee refunds	-	19,182
Split interest gifts		
Payments to beneficiaries	(10,682)	(10,732)
	<u>(655,682)</u>	<u>(616,550)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(250,629)	499,292
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,507,650</u>	<u>1,008,358</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,257,021</u>	<u>\$ 1,507,650</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,363,377	\$ 2,168,540
Adjustments to reconcile net assets to net cash from operating activities		
Depreciation	2,534,071	2,245,724
Amortization of debt issuance costs	137,229	137,228
Amortization of bond discount	19,356	19,356
Amortization of deferred revenue from entrance fees	(4,622,114)	(3,968,662)
Change in fair value of split interest gifts	1,920	1,970
Unrealized (gain) on investments	(702,954)	(91,452)
Loss on abandonment of property and equipment	126,265	173,885
Proceeds from entrance fees	5,028,170	6,476,818
Changes in operating assets and liabilities		
Accounts receivable	(46,108)	25,867
Notes receivable	(119,504)	365,485
Inventory	-	765
Prepaid expenses	(37,797)	(2,453)
Accounts payable and accrued liabilities	(551,043)	71,505
Refundable deposits	71,205	19,182
	<u>\$ 4,202,073</u>	<u>\$ 7,643,758</u>

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, 27 assisted living beds, and 26 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 nursing 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, 2015 and 2014, were \$15,513,573 and \$14,941,475, respectively.

Channing House is subject to statutory reserve requirements. At February 28, 2015 and 2014, 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 are board designated funds of \$1,167,420 and \$1,061,075 at February 28, 2015 and 2014, respectively, subject to board approval. Of these totals, \$942,068 and \$852,904 at February 28, 2015 and 2014, respectively, provide funding for goods and services which 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, 2015 and 2014, was \$225,352 and \$208,171, 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, 2015 and 2014. 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, 2015 and 2014.

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 that are restricted in its use by regulatory or other agreements. These accounts are primarily escrow funds in U.S. government securities, which were established pursuant to the trust agreement executed in connection with the issuance of the 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 3 to 50 years. Channing House records assets acquired by donation at the estimated fair-market value at the date of donation.

Asset impairment – Channing House periodically evaluates the carrying value of 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 \$640,401 and \$503,172 for 2015 and 2014, 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 are two contract types in use. The Non-Refundable Contract, 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 Non-Refundable 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 was one such contract entered into as of February 28, 2015 and recorded as entrance fees due upon re-occupancy.

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, 2014, beginning balance of net assets and had no unrecognized tax benefits at February 28, 2015. 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.

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

New accounting pronouncements – In October 2012, the FASB issued ASU No. 2012-05, *Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* (“ASU 2012-05”) to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. Channing House implemented this guidance in 2015. The adoption did not have a material impact on Channing House's financial statements.

In April 2013, the FASB issued ASU No. 2013-06, *Services Received from Personnel of an Affiliate* (“ASU 2013-06”) to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The adoption of ASU 2013-06 is effective for Channing House March 1, 2015. The adoption of ASU 2013-06 is not expected to have a material impact on Channing House's financial statements.

Reclassifications – Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

NOTE 2 - INVESTMENTS

Investments and assets limited as to use, at fair value, consisted of the following at February 28, 2015 and 2014, respectively:

	2015	2014
U.S. government securities	\$ 15,715,052	\$ 18,896,891
Fixed income mutual funds	12,749,051	15,963,332
International stock funds	821,204	381,273
Large blend mutual funds	2,943,551	2,580,590
Equity mutual funds	2,869,920	1,136,701
Other	39,891	50,573
	\$ 35,138,669	\$ 39,009,360

Investment securities include funds established pursuant to reserve requirements relating to split interest gifts of \$39,891 and \$50,573 at February 28, 2015 and 2014, respectively, as set forth by the State Insurance Commission.

CHANNING HOUSE
NOTES TO FINANCIAL STATEMENTS

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, 2015 and 2014, respectively:

	<u>2015</u>	<u>2014</u>
Reserve account	\$ 4,203,934	\$ 4,206,409
Principal/interest account	1,788,495	1,760,845
Health center project fund	<u>9,722,623</u>	<u>12,929,637</u>
	<u>\$ 15,715,052</u>	<u>\$ 18,896,891</u>

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

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

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at February 28, 2015 and 2014, respectively:

	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 1,504,245	\$ 1,506,496
Building and improvements	100,785,947	53,388,734
Equipment and furnishings	5,752,354	5,975,122
Construction in progress	<u>1,060,896</u>	<u>40,391,983</u>
Total	109,103,442	101,262,335
Less accumulated depreciation	<u>(27,475,811)</u>	<u>(25,345,033)</u>
Property and equipment, net	<u>\$ 81,627,631</u>	<u>\$ 75,917,302</u>

Depreciation expense was \$2,534,071 and \$2,245,724 for 2015 and 2014, 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. 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 14 new apartment units. Construction on the new health center building was completed in December 2014 and the 14 new apartments estimated for completion in December 2015. 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, 2015 and 2014, respectively.

Capitalized interest expense was \$2,949,125 and \$3,544,948 for 2015 and 2014, respectively.

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

<u>Year Ending February</u>	
2016	\$ 680,000
2017	8,710,000
2018	1,070,000
2019	1,120,000
2020	1,180,000
Thereafter	<u>48,392,481</u>
Total	<u>\$ 61,152,481</u>

NOTE 5 – PENSION PLAN

Channing House has a noncontributory defined benefit pension plan (the “Plan”) which covers all employees who had completed one year of service and who had attained the age of 21 as of December 31, 2001. Benefits are computed by a formula based upon years of service and the employee’s average compensation over the final five years of employment, subject to a minimum benefit. 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 \$185,031 and \$373,494, respectively, for the years ended February 28, 2015 and 2014.

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,640,894	\$ 1,900,940
Service cost	21,928	23,448
Interest cost	106,643	115,217
Liability (gain) / loss	96,675	(25,217)
Expenses and benefits paid	<u>(185,031)</u>	<u>(373,494)</u>
Benefit obligation at end of year	<u>\$ 1,681,109</u>	<u>\$ 1,640,894</u>
Change in plan assets:		
Plan assets beginning of year	\$ 1,609,038	\$ 1,744,999
Employer contributions	113,908	137,004
Actual return	78,712	100,529
Expenses and benefits paid	<u>(185,031)</u>	<u>(373,494)</u>
Plan assets end of year	<u>1,616,627</u>	<u>1,609,038</u>
Funded status	(64,482)	(31,856)
Effect of adoption of FASB ASC Topic 715	<u>653,059</u>	<u>578,155</u>
Prepaid pension cost	<u>\$ 588,577</u>	<u>\$ 546,299</u>

CHANNING HOUSE
NOTES TO FINANCIAL STATEMENTS

The net periodic pension expense included the following components for the years ended February 28, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Service cost	\$ 21,928	\$ 23,448
Interest cost	106,643	115,217
Actual return on asset - gain	(78,712)	(100,529)
Amortization of net loss from earlier periods	45,803	36,741
Amortization of net gain (loss) during the period	<u>(24,032)</u>	<u>(10,894)</u>
Total	<u>\$ 71,630</u>	<u>\$ 63,983</u>

The following weighted-average assumptions were used to determine the plan's benefit obligation at February 28, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Discount rates	6.5%	6.5%
Expected return on plan assets	6.5%	6.5%

The composition of plan assets was as follows at February 28, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Insurance company general account	75%	72%
Equity funds	0%	0%
Money market funds	<u>25%</u>	<u>28%</u>
Total	<u>100%</u>	<u>100%</u>

The fair values of Channing House's pension plan assets by asset category were as follows at February 28, 2015 and 2014, pursuant to FASB ASC Topic 820 as more fully described in Note 8:

	<u>Total 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment contract with insurance company	\$ 1,181,417	\$ -	\$ -	\$ 1,181,417
Equity funds	<u>410,698</u>	<u>-</u>	<u>410,698</u>	<u>-</u>
Total investments	<u>\$ 1,592,115</u>	<u>\$ -</u>	<u>\$ 410,698</u>	<u>\$ 1,181,417</u>
	<u>Total 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment contract with insurance company	\$ 1,159,550	\$ -	\$ -	\$ 1,159,550
Equity funds	<u>449,488</u>	<u>-</u>	<u>449,488</u>	<u>-</u>
Total investments	<u>\$ 1,609,038</u>	<u>\$ -</u>	<u>\$ 449,488</u>	<u>\$ 1,159,550</u>

The investment contract with insurance company is valued at contract value as estimated by the Pension Plan Administrator. 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 28, 2014	\$ 1,159,550
Actual return on plan assets:	
Relating to assets still held at the reporting date	48,228
Relating to assets sold during the period	-
Purchases, sales, and settlements	(26,361)
Transfers in and/or out of Level 3	-
Ending balance at February 28, 2015	\$ 1,181,417
	Investment Contract with Insurance Company
Beginning balance at February 29, 2013	\$ 1,247,330
Actual return on plan assets:	
Relating to assets still held at the reporting date	47,701
Relating to assets sold during the period	-
Purchases, sales, and settlements	(135,481)
Transfers in and/or out of Level 3	-
Ending balance at February 28, 2014	\$ 1,159,550

The effect of the adoption of FASB ASC Topic 715, *Compensation - Retirement Benefits*, was to decrease the liability of the pension plan by \$185,031 in 2015 and decrease the liability by \$124,085 in 2014, which is included in Accrued Liabilities. There was also a corresponding increase to unrestricted net assets of \$74,904 in 2015 and decrease to unrestricted net assets of \$51,064 in 2014.

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

Fiscal Year	Expected Payment
2016	\$ 182,200
2017	\$ 182,300
2018	\$ 205,000
2019	\$ 213,800
2020	\$ 216,300
2021-2023	\$ 1,094,000

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 \$164,524 and \$144,051 for the years ended February 28, 2015 and 2014, 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 \$44,188 and \$43,217 for the year ended February 28, 2015 and 2014, 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, 2015 and 2014. The obligations were \$0 for both February 28, 2015 and 2014.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at February 28, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Healthcare center	\$ 609,642	\$ 539,688
Residents' assistance	267,420	264,509
	<u>\$ 877,062</u>	<u>\$ 804,197</u>

Temporarily restricted net assets were released for the following as of February 28, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Residents' assistance	\$ 31,482	\$ 48,624
	<u>\$ 31,482</u>	<u>\$ 48,624</u>

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, 2015 and 2014:

	<u>Total 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Government securities	\$ 15,715,052	\$ 15,715,052	\$ -	\$ -
Fixed income mutual fund	12,749,051	12,749,051	-	-
International stock funds	821,204	821,204	-	-
Large blend mutual funds	2,943,551	2,943,551	-	-
Equity mutual funds	2,869,920	2,869,920	-	-
Charitable gift annuities	39,891	39,891	-	-
Total investments	<u>\$ 35,138,669</u>	<u>\$ 35,138,669</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>Total 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Government securities	\$ 18,896,891	\$ 18,896,891	\$ -	\$ -
Fixed income mutual fund	15,963,332	15,963,332	-	-
International stock funds	381,273	381,273	-	-
Large blend mutual funds	2,580,590	2,580,590	-	-
Equity mutual funds	1,136,701	1,136,701	-	-
Charitable gift annuities	50,573	50,573	-	-
Total investments	<u>\$ 39,009,360</u>	<u>\$ 39,009,360</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, 2015 and 2014, were as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and equivalents	\$ 1,257,021	\$ 1,257,021	\$ 1,507,650	\$ 1,507,650
Investments	\$ 19,423,617	\$ 19,423,617	\$ 20,112,469	\$ 20,112,469
Assets limited as to use	\$ 15,715,052	\$ 15,715,052	\$ 18,896,891	\$ 18,896,891
Accounts payable and accrued expenses	\$ 3,046,408	\$ 3,046,408	\$ 3,597,451	\$ 3,597,451
Liabilities from split interest gifts	\$ 45,453	\$ 45,453	\$ 54,215	\$ 54,215
Debt	\$ 61,152,481	\$ 68,837,299	\$ 61,778,125	\$ 65,693,180

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 2015 and 2014. 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, nursing care, and other needs of its elderly residents. The amount of this fund was \$9,047,000 and \$5,931,000 at February 28, 2015 and 2014, respectively.

Improvements made during the year included: a) Upgrades to Health Center related systems of \$257,100; b) Apartment renovations of \$304,330; and c) Other Building Equipment & Furnishings of \$413,451.

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, these bonds were used in the following manner: a) Withdrawals for construction costs of \$3,208,086 and \$5,597,388 for fiscal years ending February 28, 2015 and 2014, respectively; and b) the Bond Reserve Account was maintained and ended the years with a balance of \$4,203,933 and \$4,206,409 as of February 28, 2015 and 2014, respectively.

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.

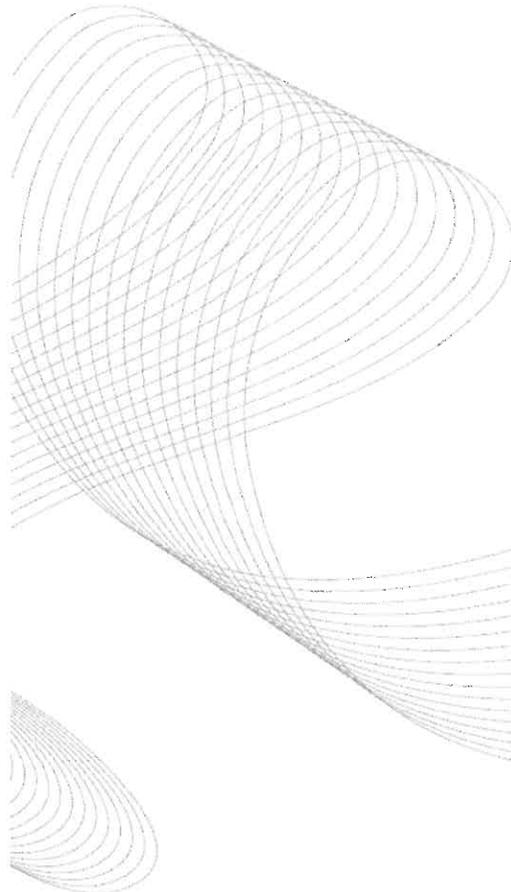
NOTE 11 – SUBSEQUENT EVENTS

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 June 23, 2015, which is the date the financial statements were issued.

RECEIVED
JUL 01 2015

CONTINUING CARE
CONTRACTS BRANCH



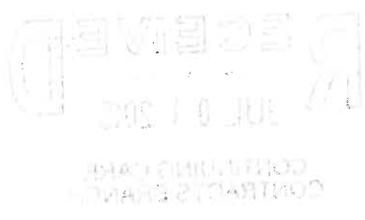
Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Channing House

As of and for the Year Ended February 28, 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants



CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1
 CONTINUING CARE LIQUID RESERVE SCHEDULES	
Form 5-1, Long-Term Debt Incurred in a Prior Fiscal Year (Including Balloon Debt)	3
Form 5-2, Long-Term Debt Incurred During Fiscal Year (Including Balloon Debt)	4
Form 5-3, Calculation of Long-Term Debt Reserve Amount.....	5
Form 5-4, Calculation of Net Operating Expenses	6
Form 5-5, Annual Reserve Certification	7
 SUPPLEMENTARY SCHEDULES	
Attachment I to Form 5-5 Reconciliation of Investment Securities and Debt Service Reserve State of California Department of Social Services	8
Annual Report, Continuing Care Division Section 5-5 Additional Information (Board Designated Funds).....	10
Supplementary Information – Statement of Cash Flows - Direct Method.....	11
Note to Reserve Reports.....	13

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Channing House

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, 2015.

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, 2015, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements, as a whole. The accompanying supplementary schedules of Attachment I to Form 5-5 Reconciliation of Investment Securities and Debt Service Reserve – State of California – Department of Social Services; Annual Report, Continuing Care Division Section 5-5 Additional Information (Board Designated Funds); and Supplementary Information – Statement of Cash Flows - Direct Method, presented as supplementary schedules, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements, taken as a whole.

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.



San Francisco, California
June 23, 2015

CHANNING HOUSE
FORM 5-1
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(INCLUDING BALLOON DEBT)
For The Year Ended February 28, 2015

FORM 5-1					
LONG-TERM DEBT INCURRED					
IN A PRIOR FISCAL YEAR					
(Including Balloon Debt)					
Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	07/01/10	\$645,000	\$3,536,073		\$4,181,073
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:		\$645,000	\$3,536,073	\$0	\$4,181,073

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

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

PROVIDER: Channing House

CHANNING HOUSE
FORM 5-2
LONG-TERM DEBT INCURRED DURING FISCAL YEAR
(INCLUDING BALLOON DEBT)
For The Year Ended February 28, 2015

FORM 5-2					
LONG-TERM DEBT INCURRED					
DURING FISCAL YEAR					
(Including Balloon Debt)					
Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1					\$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, 2015

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

Line	TOTAL
1	Total from Form 5-1 bottom of Column (e) \$4,181,073
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) \$0
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: \$4,181,073

PROVIDER: Channing House

CHANNING HOUSE
FORM 5-4
CALCULATION OF NET OPERATING EXPENSES
For The Year Ended February 28, 2015

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$14,393,361
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	\$586,948
	b. Credit enhancement premiums paid for long-term debt (see instructions)	\$0
	c. Depreciation	\$2,534,071
	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	\$3,277,604
4	Net operating expenses	\$11,115,757
5	Divide line 4 by 365 and enter the result.	\$30,454
6	Multiply line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$2,284,060
PROVIDER: Channing House		

CHANNING HOUSE
FORM 5-5
ANNUAL RESERVE CERTIFICATION
For The Year Ended February 28, 2015

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Channing House
 Fiscal Year Ended: 2/28/2015

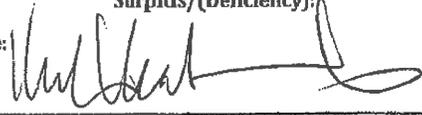
We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 2/28/2015 and are in compliance with those requirements.

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>\$4,181,073</u>
[2] Operating Expense Reserve Amount	<u>\$2,284,060</u>
[3] Total Liquid Reserve Amount:	<u>\$6,465,133</u>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>\$0</u>	<u>\$1,257,021</u>
[5] Investment Securities	<u>\$0</u>	<u>\$19,383,726</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>\$5,992,429</u>	(not applicable)
[10] Other:	<u>\$0</u>	<u>\$0</u>
<hr/>		
(describe qualifying asset)		
Listed for Reserve Obligation:	[11] <u>\$5,992,429</u>	[12] <u>\$20,640,747</u>
Reserve Obligation Amount:	[13] <u>\$4,181,073</u>	[14] <u>\$2,284,060</u>
Surplus/(Deficiency):	[15] <u>\$1,811,356</u>	[16] <u>\$18,356,687</u>

Signature: 
 (Authorized Representative)

Date: 9/27/15

Executive Director
 (Title)

CHANNING HOUSE
ATTACHMENT I TO FORM 5-1
RECONCILIATION OF INTEREST PAID DURING FISCAL YEAR
STATE OF CALIFORNIA – DEPARTMENT OF SOCIAL SERVICES
For The Year Ended February 28, 2015

#1(c) INTEREST PAID DURING FISCAL YEAR

Capitalized interest	\$	2,949,125
Interest expense		<u>586,948</u>
Total interest paid during fiscal year	\$	<u><u>3,536,073</u></u>

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, 2015

#5 INVESTMENT SECURITIES

Fixed income mutual funds	\$	12,749,051
International stock funds		821,204
Equity mutual funds		2,869,920
Large blend mutual funds		2,943,551
Total investment securities	\$	<u>19,383,726</u>

#9 DEBT SERVICE RESERVE

Reserve account	\$	4,203,934
Principal/interest account		1,788,495
Total debt service reserve	\$	<u>5,992,429</u>

CHANNING HOUSE
ANNUAL REPORT, CONTINUING CARE DIVISION SECTION 5-5 ADDITIONAL INFORMATION
(BOARD DESIGNATED FUNDS)
For The Year Ended February 28, 2015

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

ADDITIONAL INFORMATION

Board Designated Funds, as of February 28, 2015, include the following:

a. Heritage Circle Fund to enhance resident well-being	\$	942,068
b. Residents' Assistance Fund (for charity care of residents)		<u>225,352</u>
Total Board Designated Funds	\$	<u><u>1,167,420</u></u>

CHANNING HOUSE
SUPPLEMENTARY INFORMATION
STATEMENT OF CASH FLOWS - DIRECT METHOD
For The Year Ended February 28, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Monthly care fees	\$ 10,429,512
Entrance fees proceeds	4,908,666
Other receipts from operations	384,863
Investment income received	518,956
Donations and miscellaneous revenues	127,752
Cash paid to employees and suppliers	(11,586,377)
Interest paid, net of amount capitalized	<u>(581,299)</u>
Net cash provided by operating activities	<u>4,202,073</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Realized loss on investments	76,219
Proceeds from sales of investments	46,351,452
Cost of purchases of investments	(41,854,026)
Purchases of property and equipment	<u>(8,370,665)</u>
Net cash used in investing activities	<u>(3,797,020)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on long-term debt	(645,000)
Entrance fees refunds	-
Split interest gifts	
Payments to beneficiaries	<u>(10,682)</u>
Net cash used in financing activities	<u>(655,682)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(250,629)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,507,650</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,257,021</u>

CHANNING HOUSE
SUPPLEMENTARY INFORMATION
STATEMENT OF CASH FLOWS - DIRECT METHOD (continued)
For The Year Ended February 28, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 2,363,377
Adjustments to reconcile net assets to net cash from operating activities	
Depreciation	2,534,071
Amortization of debt issuance costs	137,229
Amortization of bond discount	19,356
Amortization of deferred revenue from entrance fees	(4,622,114)
Change in fair value of split interest gifts	1,920
Unrealized gain on investments	(702,954)
Loss on abandonment of property and equipment	126,265
Proceeds from entrance fees	5,028,170
Changes in operating assets and liabilities	
Accounts receivable	(46,108)
Notes receivable	(119,504)
Inventory	-
Prepaid expenses	(37,797)
Accounts payable and accrued liabilities	(551,043)
Refundable deposits	71,205
Net cash from operating activities	<u>\$ 4,202,073</u>

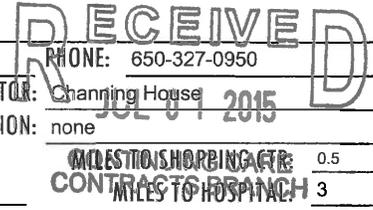
NOTE 1 – BASIS OF ACCOUNTING

The accompanying reserve reports have been prepared in accordance with the provisions of Health and Safety Code Section 1792 administered by the State of California Department of Social Services and are not intended to be a complete presentation of Channing House's assets, liabilities, revenues, and expenses.

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

Date Prepared: 6/23/2015

FACILITY NAME: Channing House
 ADDRESS: 850 Webster Street ZIP CODE: 94301 PHONE: 650-327-0950
 PROVIDER NAME: Channing House FACILITY OPERATOR: Channing House
 RELATED FACILITIES: none RELIGIOUS AFFILIATION: none
 YEAR OPENED: 1964 # OF ACRES: 1 SINGLE STORY MULTI-STORY OTHER: _____
 MILES TO SHOPPING CENTER: 0.5
 MILES TO HOSPITAL: 3



NUMBER OF UNITS:

RESIDENTIAL LIVING	HEALTH CARE
APARTMENTS — STUDIO: <u>72</u>	ASSISTED LIVING: <u>27</u>
APARTMENTS — 1 BDRM: <u>88</u>	SKILLED NURSING: <u>26</u>
APARTMENTS — 2 BDRM: <u>22</u>	SPECIAL CARE: <u>0</u>
COTTAGES/HOUSES: _____	DESCRIPTION: > <u>0</u>
RLU OCCUPANCY (%) AT YEAR END: <u>93%</u>	>

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% FULLY AMORTIZED OTHER: 80%

RANGE OF ENTRANCE FEES: \$ 159,000 - \$ 1,575,000 **LONG-TERM CARE INSURANCE REQUIRED?** YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Nursing Care

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

RESIDENT REPRESENTATIVE(S) TO THE BOARD (briefly describe their involvement): > Two residents are voting members of the Board. In addition, the President and Vice Pres. of the Resident Assoc.

> attend board meetings. A Resident Trustee may serve up to three (3) successive three (3) year terms, and will have all the benefits, duties and responsibilities of any Trustee at Large. Neither the President nor Vice President of the Resident Association may serve concurrently as a Resident Trustee.

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 (<u>4</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	MEALS (<u>3</u> /DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OTHER <u>Medical Transportation</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OTHER <u>ping pong & foosball</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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	\$10,066	\$10,725	\$10,779	\$11,253
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	\$9,360	\$9,684	\$10,457	\$11,116
NET INCOME FROM OPERATIONS	\$706	\$1,041	\$321	\$137
LESS INTEREST EXPENSE	\$3	\$0	\$0	(\$587)
PLUS CONTRIBUTIONS	\$743	\$299	\$42	\$91
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	\$0	\$0	\$27	(\$44)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	\$1,455	\$1,340	\$390	(\$403)
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	\$5,507	\$5,981	\$6,842	\$4,909

DESCRIPTION OF SECURED DEBT (as of most recent fiscal year end)

<u>LENDER</u>	<u>OUTSTANDING BALANCE</u>	<u>INTEREST RATE</u>	<u>DATE OF ORIGATION</u>	<u>DATE OF MATURITY</u>	<u>AMORTIZATION PERIOD</u>
ABAG-2010 Bonds	\$61,152,481	5.95%	07/01/10	05/15/40	30 Years

FINANCIAL RATIOS (see next page for ratio formulas)

	<u>2013 CCAC Medians 50th Percentile (optional)</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
DEBT TO ASSET RATIO		.54	.51	.50
OPERATING RATIO		1.02	.97	1.03
DEBT SERVICE COVERAGE RATIO		1.89*	1.70*	1.28
DAYS CASH ON HAND RATIO		728	627	560

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	<u>2012</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2015</u>
STUDIO	\$2,762	3.8%	\$2,897	3.5%	\$2,998	3.5%	\$3,480
ONE BEDROOM	\$4,147	3.8%	\$4,305	3.5%	\$4,456	3.5%	\$4,667
TWO BEDROOM	\$7,787	3.8%	\$8,083	3.5%	\$8,366	3.5%	\$8,494
COTTAGE/HOUSE	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0
ASSISTED LIVING	\$2,762	3.8%	\$2,897	3.5%	\$2,998	3.5%	\$3,172
SKILLED NURSING	\$2,762	3.8%	\$2,897	3.5%	\$2,998	3.5%	\$3,136
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

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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>\$2,718 - \$9,114</u>	<u>\$2,718 - \$9,114</u>	<u>\$2,718 - \$9,114</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>3.5%</u>	<u>3.5%</u>	<u>3.5%</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, 2014
 (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 2/28/2015

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 with input from staff, residents, the Board's Finance Committee and the full Board of Trustees. The budget process begins in September of each year. The final budget is approved in January for a March 1 – February 28 fiscal year. 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. Supplies, food services, utilities, 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 at \$11.5 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.
7. Based on the budget analysis described above, an increase in rates of 3.5% was applied in order to support all budgeted programs and services. This increase was applied to all units effective March 1, 2014 for the fiscal year ending 2/28/15.

Date Prepared: 06/24/15

KEY INDICATORS REPORT
CHANNING HOUSE

RECEIVED
JUL 1 2 2015

R. B. ...
See Summary Sheet
Chief Financial Officer Signature

A	B	K	U	V	W	X	Y	2016			AG			
								AC	AD	AE				
		CONTINUING CARE		CONTRACTS BRANCH		Forecast			Preferred					
		2014	2015	2016	2017	2018	2019	2020	Trend	Indicator				
1	Please Attach an explanatory memo that summarizes significant trends or variances in key operational indicators													
2														
3														
4														
5														
6	OPERATIONAL STATISTICS													
7	Average Annual Occupancy by Site %		87.7%	84.4%	83.5%	83.8%	83.4%	84.6%	90.4%	87.1%	90.0%	90.0%	N/A	
15														
16	Margin (Profitability) Indicators													
17	Net Operating Margin (%)		33.5%	34.3%	34.7%	27.1%	26.5%	24.9%	22.5%	24.8%	34.3%	34.9%	↑	
30														
31	Net Operating Margin - Adjusted (%)		44.6%	50.2%	53.6%	49.1%	49.4%	49.6%	41.5%	63.4%	52.3%	52.9%	→	
35														
36	Liquidity Indicators													
37	Unrestricted Cash and Investments (\$000)		\$11,645	\$12,992	\$13,060	\$16,460	\$19,312	\$17,958	\$17,958	\$17,492	\$19,964	\$20,586	\$17,333	↑
43														
44	Days Cash on Hand (Unrestricted)		427	459	485	642	728	627	560	422	488	494	406	↑
51														
52	Capital Structure Indicators													
53														
54	Deferred Revenue from Entrance Fees (\$000)		\$17,408	\$17,882	\$19,712	\$21,504	\$24,125	\$26,652	\$26,689	\$38,447	\$40,705	\$42,932	\$45,141	N/A
56														
57	Net annual E/F Proceeds (\$000)		\$2,181	3,630	\$4,728	\$5,548	\$5,981	\$6,843	\$4,909	\$16,468	\$6,871	\$7,112	\$7,361	N/A
58														
60	Unrestricted Net Assets (\$000)		\$11,741	\$14,808	\$16,457	\$18,546	\$25,477	\$27,663	\$27,725	\$25,229	\$24,653	\$24,476	\$24,413	N/A
64														
65	Annual Capital Asset Expenditure (\$000)		\$3,997	\$3,155	\$8,358	\$11,318	\$13,437	\$10,370	\$7,841	\$15,707	\$2,500	\$6,339	\$7,243	N/A
66														
68	Annual Debt Service Coverage Revenue Basis (x)		0.26	0.11	0.68	0.35	0.46	0.14	0.10	(0.01)	0.40	0.41	0.42	↑
81														
82	Annual Debt Service Coverage (x)		1.58	2.32	3.42	1.71	1.89	1.78	1.28	1.33	1.86	1.88	1.94	↑
89														
90	Annual Debt Service/Revenue (%)		13.5%	13.0%	12.8%	27.9%	28.5%	28.9%	26.1%	74.9%	22.7%	22.4%	21.6%	→
96														
97	Average Annual Effective Interest Rate (%)		5.5%	5.5%	3.4%	5.6%	5.7%	5.6%	5.7%	4.8%	6.2%	5.8%	5.8%	→
103														
104	Unrestricted Cash & Investments/Long-Term Debt (%)		61.9%	71.3%	20.7%	26.4%	31.3%	29.0%	29.4%	33.8%	38.6%	40.6%	35.0%	↑
109														
110	Average Age of Facility (Years)		11	10	10	10	11	12	7	8	9	10	10	↑
115														