



CALIFORNIA FRIENDS HOMES
dba ROWNTREE GARDENS
DECEMBER 31, 2025 AND 2024

FINANCIAL STATEMENTS &
INDEPENDENT AUDITORS' REPORT

Focused
on YOU



CALIFORNIA FRIENDS HOMES
dba ROWNTREE GARDENS

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INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2025 AND 2024

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INDEPENDENT AUDITORS' REPORT

To Management and Members of the Board of Directors
California Friends Homes dba Rowntree Gardens
Stanton, California

Opinion

We have audited the accompanying financial statements of California Friends Homes dba Rowntree Gardens (a nonprofit organization), which comprise of the statements of financial position at December 31, 2025 and 2024, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Friends Homes dba Rowntree Gardens at December 31, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of California Friends Homes dba Rowntree Gardens and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Organization will continue as a going concern. As discussed in Note 12 to the financial statements, the Organization has experienced recurring annual losses from operations. Management's evaluation of these conditions and events and management's plans to mitigate these matters are also described in Note 12 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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



To Management and Members of the Board of Directors
California Friends Homes dba Rowntree Gardens
Stanton, California

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

LSL, LLP

Irvine, California
April 29, 2026

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 675,517	\$ 1,524,666
Restricted reserve accounts	3,076,370	3,562,889
Cash held on behalf of residents	36,978	36,947
Accounts receivable, net of allowance for credit losses of \$113,412 and \$120,459, respectively	1,616,564	1,646,781
Prepays	311,045	174,752
Supplies inventory	<u>108,270</u>	<u>115,169</u>
Total Current Assets	<u>5,824,744</u>	<u>7,061,204</u>
Fixed Assets		
Land	1,039,386	1,039,386
Land improvements	1,348,160	1,313,857
Buildings and improvements	19,301,578	18,688,630
Equipment	3,165,085	3,096,150
Furniture and fixtures	937,393	937,393
Vehicles	447,440	447,440
Office equipment	<u>1,191,165</u>	<u>1,189,075</u>
Total Fixed Assets	<u>27,430,207</u>	<u>26,711,931</u>
Less Accumulated Depreciation	<u>(21,422,987)</u>	<u>(20,550,071)</u>
Total Fixed Assets, Net	<u>6,007,220</u>	<u>6,161,860</u>
Long-Term Assets		
Capital investments	1,430,262	1,763,161
Assets limited as to use - cash restricted under DSS escrow agreement	721,717	820,782
Operating lease right-of-use asset	<u>7,989</u>	<u>39,746</u>
Total Long-Term Assets	<u>2,159,968</u>	<u>2,623,689</u>
Total Assets	<u>\$ 13,991,932</u>	<u>\$ 15,846,753</u>

See Independent Auditors' Report and Notes to Financial Statements.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 569,141	\$ 1,216,712
Accrued expenses	293,439	749,016
Accrued payroll	217,653	744,378
Compensated absences	979,839	1,039,452
Cash held on behalf of residents	36,978	36,947
Deferred revenue	377,653	350,997
Current portion of operating lease liability	7,989	31,757
Current portion of notes payable, net of debt issuance costs	<u>8,904,592</u>	<u>18,800</u>
Total Current Liabilities	<u>11,387,284</u>	<u>4,188,059</u>
Long-Term Liabilities		
Operating lease liability, net of current portion	-	7,989
Notes payable, net of current portion and debt issuance costs	45,550	8,812,241
Deferred revenue from entrance fees	<u>1,649,853</u>	<u>1,617,578</u>
Total Long-Term Liabilities	<u>1,695,403</u>	<u>10,437,808</u>
Total Liabilities	<u>13,082,687</u>	<u>14,625,867</u>
Net Assets		
Without donor restrictions	780,894	1,115,638
With donor restrictions	<u>128,351</u>	<u>105,248</u>
Total Net Assets	<u>909,245</u>	<u>1,220,886</u>
Total Liabilities and Net Assets	<u>\$ 13,991,932</u>	<u>\$ 15,846,753</u>

See Independent Auditors' Report and Notes to Financial Statements.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	Year Ended December 31,					
	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Resident service fees	\$ 13,968,671	\$ -	\$ 13,968,671	\$ 13,036,328	\$ -	\$ 13,036,328
Health center revenue	10,018,939	-	10,018,939	9,789,068	-	9,789,068
Entrance fees earned	348,825	-	348,825	553,693	-	553,693
Contributions	8,695	57,324	66,019	1,214	91,179	92,393
Other income	508,957	-	508,957	401,258	-	401,258
	<u>24,854,087</u>	<u>57,324</u>	<u>24,911,411</u>	<u>23,781,561</u>	<u>91,179</u>	<u>23,872,740</u>
Net assets released from restrictions	34,221	(34,221)	-	165,798	(165,798)	-
Total revenues	<u>24,888,308</u>	<u>23,103</u>	<u>24,911,411</u>	<u>23,947,359</u>	<u>(74,619)</u>	<u>23,872,740</u>
Expenses						
Program services						
Dietary services	4,827,236	-	4,827,236	4,812,892	-	4,812,892
Facility services and utilities	3,495,000	-	3,495,000	3,740,676	-	3,740,676
Health and social services	11,802,065	-	11,802,065	12,393,783	-	12,393,783
General and administrative						
Administrative and marketing	5,098,751	-	5,098,751	4,914,632	-	4,914,632
Total expenses	<u>25,223,052</u>	<u>-</u>	<u>25,223,052</u>	<u>25,861,983</u>	<u>-</u>	<u>25,861,983</u>
Operating income (loss)	<u>(334,744)</u>	<u>23,103</u>	<u>(311,641)</u>	<u>(1,914,624)</u>	<u>(74,619)</u>	<u>(1,989,243)</u>
Other Gains (Losses)						
Loss on extinguishment of debt	-	-	-	(131,489)	-	(131,489)
Total other gains (losses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(131,489)</u>	<u>-</u>	<u>(131,489)</u>
Increase (Decrease) in Net Assets	<u>(334,744)</u>	<u>23,103</u>	<u>(311,641)</u>	<u>(2,046,113)</u>	<u>(74,619)</u>	<u>(2,120,732)</u>
Net Assets, Beginning of Year	<u>1,115,638</u>	<u>105,248</u>	<u>1,220,886</u>	<u>3,161,751</u>	<u>179,867</u>	<u>3,341,618</u>
Net Assets, End of Year	<u>\$ 780,894</u>	<u>\$ 128,351</u>	<u>\$ 909,245</u>	<u>\$ 1,115,638</u>	<u>\$ 105,248</u>	<u>\$ 1,220,886</u>

See Independent Auditors' Report and Notes to Financial Statements.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2025

	Program Services			Total Program Services	Administrative and Marketing	Total
	Dietary Services	Facility Services and Utilities	Health and Social Services			
Employee Expenses	\$ 2,706,579	\$ 1,490,748	\$ 9,667,979	\$ 13,865,306	\$ 1,997,526	\$ 15,862,832
Payroll Taxes	173,882	106,186	652,891	932,959	129,180	1,062,139
Legal Fees	-	-	-	-	177,455	177,455
Advertising and Promotion	-	-	-	-	51,430	51,430
Office Expense	-	170	13,015	13,185	81,982	95,167
Information Technology	-	-	-	-	111,204	111,204
Occupancy Expense	-	1,225,012	78,100	1,303,112	478	1,303,590
Travel Expense	140	-	1,194	1,334	3,334	4,668
Interest Expense	-	-	-	-	1,225,069	1,225,069
Depreciation	176,723	127,950	432,068	736,741	136,175	872,916
Insurance Expense	-	-	-	-	233,259	233,259
Activities Expense	-	-	34,597	34,597	501	35,098
Credit Loss	-	-	85	85	-	85
Bank Service Charges	-	-	-	-	64,405	64,405
Contract Services	386,475	397,623	266,244	1,050,342	815,428	1,865,770
Education and Training	-	329	6,520	6,849	1,969	8,818
Licensing and Memberships	1,294	2,722	94,731	98,747	56,628	155,375
Repairs and Maintenance	7,100	112,710	-	119,810	435	120,245
Therapy Expense	-	-	390	390	-	390
Uniforms Expense	2,757	451	-	3,208	-	3,208
Dietary Expense and Supplies	1,348,771	-	-	1,348,771	-	1,348,771
Small Equipment and Tools	23,515	19,969	19,308	62,792	12,293	75,085
Medical Expense and Supplies	-	11,130	534,943	546,073	-	546,073
Total Expenses by Function	\$ 4,827,236	\$ 3,495,000	\$ 11,802,065	\$ 20,124,301	\$ 5,098,751	\$ 25,223,052

See Independent Auditors' Report and Notes to Financial Statements.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2024

	Program Services			Total Program Services	Administrative and Marketing	Total
	Dietary Services	Facility Services and Utilities	Health and Social Services			
Employee Expenses	\$ 2,717,579	\$ 1,584,502	\$ 10,065,250	\$ 14,367,331	\$ 2,086,451	\$ 16,453,782
Payroll Taxes	172,171	110,837	667,242	950,250	133,983	1,084,233
Legal Fees	-	-	-	-	270,046	270,046
Advertising and Promotion	-	-	-	-	135,366	135,366
Office Expense	3,017	59	10,810	13,886	94,867	108,753
Information Technology	-	-	-	-	102,794	102,794
Occupancy Expense	-	1,298,769	71,390	1,370,159	-	1,370,159
Travel Expense	1,090	-	3,873	4,963	4,935	9,898
Interest Expense	-	-	-	-	565,024	565,024
Depreciation	191,603	148,918	493,402	833,923	154,137	988,060
Insurance Expense	-	-	-	-	227,453	227,453
Activities Expense	-	-	41,289	41,289	-	41,289
Credit Loss	-	-	10,500	10,500	42,316	52,816
Bank Service Charges	-	-	-	-	121,307	121,307
Contract Services	384,514	376,625	370,154	1,131,293	896,263	2,027,556
Education and Training	-	-	5,831	5,831	6,761	12,592
Licensing and Memberships	225	2,095	92,968	95,288	61,991	157,279
Repairs and Maintenance	15,113	148,996	-	164,109	33	164,142
Therapy Expense	-	-	3,073	3,073	-	3,073
Uniforms Expense	3,587	480	-	4,067	-	4,067
Dietary Expense and Supplies	1,312,325	-	-	1,312,325	-	1,312,325
Small Equipment and Tools	11,668	46,421	19,634	77,723	10,905	88,628
Medical Expense and Supplies	-	22,974	538,367	561,341	-	561,341
Total Expenses by Function	\$ 4,812,892	\$ 3,740,676	\$ 12,393,783	\$ 20,947,351	\$ 4,914,632	\$ 25,861,983

See Independent Auditors' Report and Notes to Financial Statements.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

	<u>2025</u>	<u>2024</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 24,496,177	\$ 22,558,225
Entrance fees received from new residents, net of refunds paid	381,100	821,400
Contributions	66,019	92,394
Other operating receipts	66,157	51,402
Cash paid to employees and suppliers	(24,861,465)	(22,930,697)
Interest paid	(1,177,169)	(409,430)
	<u>(1,029,181)</u>	<u>183,294</u>
Net Cash Provided (Used in) by Operating Activities		
Cash Flows from Investing Activities:		
Return of investment - capital investment	332,899	213,875
Assets held on behalf of others	31	5,872
Purchases of fixed assets	(719,652)	(525,887)
	<u>(386,722)</u>	<u>(306,140)</u>
Net Cash Provided (Used in) by Investing Activities		
Cash Flows from Financing Activities:		
Proceeds from notes payable	-	3,540,162
Payments on notes payable	(18,799)	(65,933)
Net proceeds from line of credit	-	1,300,000
Debt issuance costs paid	-	(302,300)
	<u>(18,799)</u>	<u>4,471,929</u>
Net Cash Provided (Used in) by Financing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(1,434,702)	4,349,083
Cash and Cash Equivalents, Beginning of Year	5,945,284	1,596,201
Cash and Cash Equivalents, End of Year	<u>\$ 4,510,582</u>	<u>\$ 5,945,284</u>
Adjustments to Reconcile to Net Cash Provided by Operating Activities (Indirect Method):		
Increase (Decrease) in net assets	\$ (311,641)	\$ (2,120,732)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	872,916	988,060
Amortization of debt issuance costs	137,900	65,594
Write-off of debt issuance costs due to refinance of debt	-	42,506
Loss on disposal of fixed assets	1,376	15,543
Entrance fees received from new residents	423,900	1,111,200
Entrance fees earned	(348,825)	(553,693)
Changes in operating assets and liabilities:		
Accounts receivable, net	30,217	(211,978)
Prepays	(136,293)	51,864
Supplies inventory	6,899	112,313
Accounts payable	(647,572)	255,984
Accrued expenses	(455,577)	667,235
Accrued payroll	(526,725)	145,400
Deferred revenue	(16,144)	(458,474)
Compensated absences	(59,612)	72,472
	<u>(1,029,181)</u>	<u>183,294</u>
Net Cash Provided (Used in) by Operating Activities		

See Independent Auditors' Report and Notes to Financial Statements.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

	<u>2025</u>	<u>2024</u>
Supplemental Disclosure of Cash and Cash Equivalents Reported on the Statement of Financial Position:		
Unrestricted cash	\$ 675,517	\$ 1,524,666
Cash restricted under DSS escrow agreement	721,717	820,782
Cash held on behalf of residents (restricted)	36,978	36,947
Restricted reserve accounts	<u>3,076,370</u>	<u>3,562,889</u>
Total cash and cash equivalents	<u>\$ 4,510,582</u>	<u>\$ 5,945,284</u>
 Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	<u>\$ 1,177,169</u>	<u>\$ 409,430</u>
Operating cash flows from operating leases	<u>\$ 31,992</u>	<u>\$ 31,992</u>
 Non-Cash Financing Activities		
Purchase of fixed asset financed with a note payable	<u>\$ -</u>	<u>\$ 77,309</u>

See Independent Auditors' Report and Notes to Financial Statements.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

Note 1: Nature of the Organization

California Friends Homes, dba Rowntree Gardens (the "Organization") was founded in 1965 as a California non-profit public benefit Organization for charitable purposes. The Organization was established to provide residential facilities, health and welfare programs, and various services and sponsor programs for the elderly and operates a continuing care retirement community in Stanton, California. The community consists of 65 (70 beds) independent units and 96 (105 beds) assisted living units, 58 skilled nursing facility units and 25 (50 beds) memory care units.

Note 2: Summary of Significant Accounting Policies

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

Revenue Recognition

Service Fees Revenue

Service fees revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled to in exchange for the services provided. Under the Organization's continuing care agreements, the Organization provides senior living services to residents for a stated monthly fee. The Organization recognizes revenue for senior living services under the continuing care agreement for independent living, assisted living, and memory care services in accordance with the provisions of ASC 606.

Health Center Revenue

Health center revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled to in exchange for providing care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others, and includes variable consideration for retroactive adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills patients and third-party payors at the beginning of each month for the prior month and sends the final bill or reconciliation at the time of discharge. Revenue is recognized in the month in which performance obligations are satisfied.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

Note 2: Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Health Center Revenue (continued)

The Organization determines the transaction price based on standard charges for goods and services provided, adjusted by contractual agreements with third parties. These agreements with third-party payors may provide for payments at amounts less than established charges. A summary of the payment arrangements with third-party payors follows:

Medicare: Skilled services are paid at prospectively determined rates per day based on Medicare-defined diagnostic assessments. Non-skilled services are paid based on cost reimbursement methodologies or established fee schedules.

Secondary Insurance: Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per day, primary coverage rates, and co-pays and deductibles covered under primary insurance.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2025 and 2024.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization estimates the transaction price for residents with deductibles and coinsurance and from those who do not have insurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to resident service revenue in the period of the change. Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments were not considered material for the years ended December 31, 2025 and 2024. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as credit loss expense.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

Note 2: Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Health Center Revenue (continued)

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the payors (Medicare, commercial insurance, etc.).

The composition of health center revenue by primary payors for the year ended December 31, 2025 and 2024 is as follows:

	<u>2025</u>	<u>2024</u>
Third party payors, net		
Medicare	\$ 4,906,746	\$ 4,676,222
Commercial	<u>2,155,379</u>	<u>1,730,189</u>
Total third party payors, net	<u>7,062,125</u>	<u>6,406,411</u>
Self pay, net	<u>2,956,814</u>	<u>3,382,657</u>
Health center revenue, net	<u>\$ 10,018,939</u>	<u>\$ 9,789,068</u>

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Cash and Cash Equivalents

The Organization considers all highly liquid short-term investments with maturities of three months or less, when purchased, to be cash equivalents.

Cash Held on Behalf of Residents

Cash held on behalf of residents include cash deposits held in the Organization's name. These monies are distributed to residents when necessary or in the case of death or discharge.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

Note 2: Summary of Significant Accounting Policies (Continued)

Capital Investments

The Organization has made two investments in which they are participants: Active Captive Insurance Company (workers compensation) and a Risk Retention Group. Investment income and unrealized gains and losses related to these investments are reported in Other income in the statements of activities and changes in net assets.”

Accounts Receivable

Accounts receivable primarily represent amounts due from residents for living accommodations, services, and amounts due from third parties. Receivables for which a third-party payor is responsible for paying are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual fee adjustments or discounts provided to third-party payors.

Receivables due directly from the residents are carried at the original charge for the service provided, less amounts covered by third-party payors and less an estimated allowance for credit losses. Management determines the allowance by identifying troubled accounts and by historical experience applied to an aging of accounts, adjusted for current conditions. As part of the estimate of expected credit losses, the Organization has performed an evaluation of subsequent collections from residents through the date of the auditors’ report. Resident receivables are written off as adjustments to the allowance when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of service revenue adjustment account when received. The Organization determines when an account is past due based on payor classification. The Organization does not charge interest on past due accounts.

Supplies Inventory

The accounting method used to record inventory is the First In First Out (“FIFO”) method. Inventory is valued at the lower of cost or net realizable value at December 31, 2025 and 2024. The Organization monitors inventory and estimates a reserve for obsolete inventory based on inventory aging and demand.

Fixed Assets

Purchased fixed assets are recorded at cost. Donated fixed assets are recorded at fair value as of the date of contribution. Maintenance, repairs, and minor replacements are charged to expense when incurred. Replacements and betterments with a cost of \$1,000 or more are capitalized.

Depreciation of fixed assets is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives of the related assets are as follows:

Automobiles	5 - 12 years
Buildings	5 - 50 years
Building Improvements	3 - 39 years
Apartment Renovations	3 - 20 years
Equipment	2 - 20 years
Equip. - Computers & Related	2 - 25 years
Furnishings	2 - 15 years
Land Improvements	3 - 39 years

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

Note 2: Summary of Significant Accounting Policies (Continued)

Fixed Assets (Continued)

Depreciation expense was \$872,916 and \$988,060 for the years ended December 31, 2025 and 2024, respectively.

When assets are retired or otherwise disposed of, the cost of the asset and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statements of activities and changes in net assets for the period.

The Organization, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets when indicators of impairment are identified. No impairment losses were present for the years ended December 31, 2025 and 2024.

Refundable Fees

The Organization requires each applicant for independent living, assisted living, memory care, and skilled nursing to pay an application fee ranging from \$1,200 to \$5,000. This fee will be refunded if no move-in occurs. Should the resident move out within the first three months, the fee is subject to a pro-rated refund.

Deferred Revenue from Entrance Fees

Fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income over the estimated remaining actuarial life expectancy of the resident. The Organization has two different non-refundable continuing care contracts, a Lifecare ("Type A") contract and a Modified ("Type B") contract.

California law requires a 90-day cancellation period during which the resident is entitled to a refund of the amounts subject to a fee to process the cancellation. As part of a Conditioned Certificate of Authority, on March 24, 2020, the cancellation period was extended to one year as required by the California Department of Social Services. After the cancellation period, residents are entitled to refunds of their entrance fee reduced by 1.67% for each month of residency should they withdraw within the first 60 months.

On November 9, 2022, the Organization received a complaint from the California Department of Social Services, which formally suspended the Organization's ability to enter into continuing care contracts. On July 14, 2023, the California Department of Social Services granted the Organization the ability to enter into Type B continuing care contracts, with the restriction that the Organization cannot enter more than 15 Type B contracts per year and that 80% of entrance fees will be escrowed and drawn down after the first 90 days. Entrance fees released from escrow are amortized over 36 months; however, for direct-admit memory care residents, the California Department of Social Services approved a 24-month amortization period. There were no refunds pending at December 31, 2025 and 2024. There is no refund of the entrance fee in the event of death.

General Liability Policy

The Organization has secured claims-made policies for general liability insurance with self-insured retentions of \$1,000,000 per claim and \$3,000,000 aggregate per policy period. The Organization has also secured excess general and professional liability insurance with limits of \$5,000,000 aggregate per policy period. The Organization has not accrued a liability associated with, or claims incurred but not yet reported as amounts could not be estimated and are considered by management to be immaterial.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

Note 2: Summary of Significant Accounting Policies (Continued)

Long Term Debt and Debt Issuance Costs

Debt issuance costs are deferred and amortized as interest expense over the life of the loan. Notes payable are reported net of the applicable costs.

Net Assets

In accordance with FASB ASC No. 2016-14, the Organization reports information regarding its financial position and activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of management and the board of directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Advertising Costs

Advertising is used to attract residents to its community. The Organization's policy is to expense advertising costs as incurred. Advertising costs for the years ended December 31, 2025 and 2024 were \$51,430 and \$73,870, respectively.

Charity Care

As part of its charitable mission, the Organization provides care without charge or at amounts less than its established rates to residents who meet certain criteria under its charity care policy. Total charges for charity care services amounted to \$94,504 and \$61,296 for the years ended December 31, 2025 and 2024, respectively.

Income Taxes

The Organization has been recognized by the Internal Revenue Service as a not-for-profit Organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related activities. No tax provision has been made in the accompanying statements of activities and changes in net assets.

The Organization recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Organization recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2025, there were no such uncertain tax positions.

Note 2: Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among different services and supporting services benefited. Such allocations are determined by management on an equitable basis.

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. Accordingly, actual results could differ from those estimates.

Assets Limited as to Use

On March 24, 2020, the Organization received a Condition on its Certificate of Authority from the California Department of Social Services ("DSS"). As a result of the Condition, among other provisions, the Organization was required (effective March 24, 2020) to escrow 100% of Type A contract entrance fees and 50% of Type B contract entrance fees, pursuant to HSC section 1793.17. Effective May 18, 2021, the Organization was required to escrow 100% of both Type A and Type B contract entrance fees. On August 11, 2021, the Organization voluntarily agreed to cease offering Type A and Type B contracts. Total escrowed entrance fees limited to use at December 31, 2025 and 2024 were \$721,717 and \$820,782, respectively. Effective July 14, 2023, the Organization was once again allowed to enter into Type B contracts. See Deferred Revenue from Entrance Fees section for additional information.

Restricted Reserve Accounts

On October 23, 2024, the Organization entered into a Term Loan Agreement ("TLA") with Wilshire Finance Partners, Inc. In accordance with the terms of the TLA, the Organization was required to fund \$3,562,889 into various restricted collateral reserve accounts, including debt service, capital expenditures, and operating reserve accounts. These funds are restricted and may be disbursed only with lender approval.

During the year ended December 31, 2025, the lender approved total disbursements of \$500,090, consisting of \$90,000 for interest payments and \$410,090 for approved capital expenditures. The total balance of restricted collateral reserve accounts was \$3,076,370 and \$3,562,889 at December 31, 2025 and 2024, respectively. During the year ended December 31, 2025, the reserve funds earned income of \$13,571, which is included in Other income in the statement of activities and changes in net assets.

Leases

The Organization recognizes lease assets and corresponding lease liabilities for operating leases on their statements of financial position, excluding short term leases (leases with terms of 12 months or less) as described under ASU No 2016-02, Leases (Topic 842). Lease payments are discounted using the risk-free rate on information available at lease commencement. For additional information about the leases, see Note 8.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

Note 2: Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

Current Expected Credit Losses

In July 2025, the FASB issued ASU 2025-05, amending ASC 326 to provide a practical expedient for estimating expected credit losses on current accounts receivable and contract assets. Entities that elect the practical expedient may assume current conditions as of the financial position date do not change for the remaining life of the asset. Entities other than public business entities may also elect an accounting policy to consider subsequent collections after the financial position date when estimating expected credit losses. Expected credit losses for remaining uncollected balances are based on delinquency status at reporting.

On January 1, 2025, California Friends Homes dba Rowntree Gardens, early adopted ASU 2025-05, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets. The Organization applied the practical expedient for estimating expected credit losses on current accounts receivable and contract assets, and elected the optional accounting policy to consider subsequent collections after the financial position date.

The adoption did not have a material impact on the Organization’s financial statements.

Reclassifications

Certain reclassifications have been made to the 2025 financial statement presentation to correspond to the current year’s format.

Date of Management’s Review

Events occurring after December 31, 2025 have been evaluated for possible adjustment to the financial statements or disclosures at April 29, 2026, which is the date the financial statements were available to be issued.

Note 3: Concentrations of Credit Risk

The Organization may be subject to credit risk on its cash and cash equivalent investments. The Organization maintains its cash balances at several institutions. Accounts at this institution are insured by the FDIC. The FDIC covers up to \$250,000 for substantially all depository accounts. At various times throughout the year, the balances in these accounts may be in excess of federally insured limits. Management believes the Organization is not exposed to any significant credit risk on cash and cash equivalents.

Concentration of credit risk results from the Organization granting credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables at December 31, 2025 and 2024 is as follows:

	<u>2025</u>	<u>2024</u>
Self Pay	20%	14%
Medicare	34%	34%
HMO	46%	52%

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

Note 4: Liquidity and Availability

At December 31, 2025, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year, comprise the following:

Cash and cash equivalents	\$ 675,517
Accounts receivable, net	1,616,564
Less: net assets with donor restrictions	<u>(128,351)</u>
	<u>\$ 2,163,730</u>

The Organization's goal is generally to maintain cash and cash equivalents available to meet 60 days of general operating expenses (excludes depreciation and amortization). Utilizing the 2025 statement of activities, 60 days of general operating expenses approximates \$3,980,000. As part of its liquidity plan, the Organization is currently working toward rebalancing operations to flex with occupancy. Rebalancing operations is intended to reduce general operating expenses and increase financial assets available to meet general expenditures. At December 31, 2025, the Organization had 33 days of cash and cash equivalents and accounts receivable to meet general operating expenses.

Note 5: Current Expected Credit Losses

Changes in the allowance for credit losses during the year were as follows:

	<u>2025</u>	<u>2024</u>
Balance, beginning of year	\$ 120,549	\$ 149,218
Net recoveries	<u>(7,137)</u>	<u>(28,669)</u>
Balance, end of year	<u>\$ 113,412</u>	<u>\$ 120,549</u>

Note 6: Capital Investments

The Organization has made two investments in which they are participants: Active Captive Insurance Company (workers compensation) and a Risk Retention Group.

Active Captive Insurance Company (Workers Compensation):

On November 16, 2015, the Organization entered into a Subscriber Agreement with Peach Church Workers Safety Program IC (the Protected Cell), a reciprocal insurer established as an incorporated protected cell of Green Mountain Sponsored Captive Insurance Company (GMSC). As part of the Subscriber Agreement, the Organization agreed to pay certain surplus, collateral, premiums, and administrative program management fees. In exchange for such payments, the Organizations liability is limited to such payments (which can be variable in nature). Payment obligations are determined by the Subscribers' Advisory Committee (the Organization is a voting member on this committee). On November 20, 2015, the Organization entered into a Participation Agreement with GMSC and the Protected Cell. The Participation Agreement further clarifies capital, collateral, reserves, and distributions. As of December 31, after the first full year of operation, and annually thereafter, a calculation will be made to determine excess surplus in the Protected Cell. The amount of excess surplus, if any, will be based on the capital requirements and actuarially determined loss and loss adjustment expense reserves. As a result of this calculation, the Protected Cell may make a distribution in an amount not to exceed the excess surplus. The Organization accounts for this investment utilizing the equity method of accounting as management has determined the Organization has significant influence over operating and financial policies of the investee.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

Note 6: Capital Investments (Continued)

The Organization's estimated capital investment at December 31, 2025 and 2024 was \$993,703 and \$1,326,602, respectively, which consists of a paid in surplus of \$699,466 (paid in surplus made prior to January 1, 2019) and an undistributed subscriber savings account of \$294,237 and \$627,136 at December 31, 2025 and 2024, respectively. The Organization recognized \$0 and \$0 in unrealized change in value of the capital investment for the years ending December 31, 2025 and 2024, respectively. Additionally, the Organization received \$332,899 and \$213,875 as a return of investment during the years ending December 31, 2025 and 2024, respectively, which reduced the investment balances on the statements of financial position at December 31, 2025 and 2024.

Risk Retention Group:

The Organization invested in a traditional risk retention group that subsequently converted to a reciprocal mutual insurance exchange. The exchange was formed under the Federal Liability Risk Retention Act to insure affiliated members (subscribers) of a group of faith-based retirement organizations. The Organization accounts for this investment using the cost method, as it does not have significant influence over the operating or financial policies of the investee.

The Organization's capital cost associated with the investment was \$436,559 at December 31, 2025 and 2024. In addition to its capital contribution, the investee held \$848,106 in undistributed earnings (subscriber savings account attributable to the Organization) at December 31, 2025. Under the cost method, the Organization recognizes investment income when distributions are received. Accordingly, the Organization recognized \$57,277 of investment income during the year ended December 31, 2025, which is included in Other income in the statement of activities and changes in net assets. Any remaining undistributed earnings will be recognized in future periods upon receipt of distributions.

The Organization's governing documents authorize the return of the charter capital account to a discontinued or withdrawing subscriber within seven years, without interest, provided such return does not cause substantial harm to the group's asset position.

Note 7: Notes Payable

Wilshire Finance Partners, Inc.

On October 23, 2024, the Organization entered into a \$9,000,000 Term Loan Agreement ("TLA") with Wilshire Finance Partners, Inc. The TLA required funding of restricted interest, capital expenditure, and operating reserve accounts totaling \$3,562,889, which may be disbursed only with lender approval. During the year ended December 31, 2025, the lender approved disbursements totaling \$500,090, consisting of \$90,000 for interest payments and \$410,090 for capital expenditures (see Note 2).

The loan bears interest at a variable rate equal to the Wall Street Journal Prime Rate plus 3.50%, subject to a floor of 12.00%. The interest rate in effect at December 31, 2025 was 12.00%. Interest-only payments are due monthly through maturity, with the outstanding principal due on October 22, 2026.

The TLA requires the Organization to maintain minimum liquidity of \$1,640,000, representing required interest and regulatory reserve coverage equivalent to approximately six months. The Organization was in compliance with this requirement as of December 31, 2025.

At December 31, 2025, the outstanding balance on this loan was \$8,885,083, which is shown net of debt issuance costs of \$114,917. The TLA is guaranteed by California Friends, Inc.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

Note 7: Notes Payable (Continued)

As part of the TLA, the operating reserve of \$500,000 may be used as a revolving line of credit. The line of credit bears interest at a fixed rate of 6.00% and all outstanding principal and accrued interest is due on the maturity date of November 1, 2026. At December 31, 2025, there was no balance outstanding on the revolving line of credit.

Other Notes Payable

The Organization has two other vehicle and equipment loans with various interest rates ranging from 3.90% to 10.51%. Monthly payments on these loans range from \$424 to \$1,662. The loans mature at various dates from July 2027 through May 2029. At December 31, 2025 and 2024, the balances on these loans were \$65,059 and \$83,858, respectively.

Future principal payments due on all notes payable for years subsequent to December 31, 2025 are as follows:

<u>Year Ending December 31,</u>	
2026	\$ 9,019,509
2027	19,404
2028	18,049
2029	<u>8,097</u>
Principal Payments	9,065,059
Less: Debt Issuance Costs	<u>(114,917)</u>
	<u>\$ 8,950,142</u>

Interest expense was \$1,087,169 and \$499,430 for the years ended December 31, 2025 and 2024, respectively, excluding amortization of debt issuance costs.

Note 8: Leases

Copier Lease Terms

The Organization's only operating lease that extends past the statement of financial position date is for a copier. The lease was entered into during 2022 and matures on March 31, 2026. Minimum monthly lease payments are \$2,666.

Discount Rate

As the rate implicit in the Organization's leases is not readily determinable, the Organization's has made an accounting policy to apply a risk-free rate as the discount rate used to measure lease liabilities and right-of-use assets at commencement of a lease.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

Note 8: Leases (Continued)

Financial Presentation of Leases

The following summarizes the line items in the statements of financial position which include amounts for operating leases at December 31:

	<u>2025</u>	<u>2024</u>
Operating Leases		
Operating lease right-of-use asset	<u>\$ 7,989</u>	<u>\$ 39,746</u>
Current portion of operating lease liability	\$ 7,989	\$ 31,757
Operating lease liability, net of current portion	<u>-</u>	<u>7,989</u>
Total operating lease liabilities	<u>\$ 7,989</u>	<u>\$ 39,746</u>

Weighted Average Remaining Lease Term and Discount Rate

The Organization's operating leases have weighted average remaining lease terms of 0.25 and 1.25 years and weighted average discount rate of 1.04% at December 31, 2025 and 2024, respectively.

Detail of Lease Expense

Operating lease expense is included in contract services on the statements of functional expenses. Total lease expense included in the occupancy expense on the statement of functional expense for the years ended December 31 are as follows:

	<u>2025</u>	<u>2024</u>
Lease cost:		
Operating lease cost	<u>\$ 31,992</u>	<u>\$ 31,992</u>
Total lease cost	<u>\$ 31,992</u>	<u>\$ 31,992</u>

The maturities of lease liabilities at December 31, 2025 were as follows:

<u>Year Ended December 31,</u>	<u>Operating</u>
2026	<u>\$ 7,998</u>
Total lease payments	7,998
Less: interest	<u>(9)</u>
Present value of lease liabilities	<u>\$ 7,989</u>

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

Note 9: Retirement Plan

On June 1, 2011 the Organization adopted a 403(b) matching retirement plan that covers employees who have reached the age of 21 and have completed 12 months of eligibility service. Employees who normally work fewer than 30 hours per week are not covered under the plan for purposes of receiving employer contributions. Contributions to the plan are based on a match of the employee's own contribution, which is discretionary, up to a maximum of 2.5% of employees' eligible compensation.

Total contributions charged to expense for the plan were \$153,024 and \$157,368 for the years ended December 31, 2025 and 2024, respectively, and are included in employee expenses on the statements of functional expenses.

Note 10: Third-Party Rate Adjustments and Revenue

Approximately 70% and 65% of health center revenue for the year ended December 31, 2025 and 2024, respectively, was derived under federal third-party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position, the changes in net assets, or cash flows of the Organization.

Note 11: Commitments and Contingencies

Litigation

The Organization is party to various claims and legal actions in the normal course of business. In the opinion of management, the Organization has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Organization.

Asbestos Abatement

The Organization is aware of the existence of asbestos in certain areas of its buildings. The Organization has not recorded a liability for any asbestos abatement costs because the cost cannot be reasonably estimated at this time. At such time in the future that plans are made to make changes to structures with asbestos and the related asbestos removal cost estimates are completed, the Organization will record an estimate of the costs of the required asbestos abatement.

Lifecare Agreement

The Organization has agreed to enter into a Lifecare Agreement with a former member of executive management and his spouse. As part of this agreement, the entrance fee and all monthly fees (at all levels of care) will be waived. On January 16, 2012, the Lifecare Agreement was executed. The former executive has yet to move into the facility. The Organization has not recorded a liability associated with this agreement as it is uncertain if the former member of management will occupy the facility.

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

Note 12: Going Concern

Principal Conditions that raise doubt about the Organization's ability to continue as a Going Concern:

1. The Organization has had recurring annual cash operating losses (excluding federal relief grants). These losses had an impact on the Organization's operating liquidity. The operating liquidity issues were caused by a combination of marketing shortfalls and overemployment.
2. DSS requested the Organization to cease offering Type A and Type B entrance fee contracts, since Spring of 2021. Additionally, DSS had requested the Organization to escrow certain Entrance Fee sales for a year prior to the cessation request. These restrictions further impacted cash and earning negatively.
3. On November 9, 2022, DSS's request to cease offering Entrance Fee contracts became an order, as the Organization's Certificate of Authority to enter into new Continuing Care contracts was suspended.
4. On July 14, 2023, DSS reinstated the Organizations ability to enter into Type B contracts under the terms that there will be no more than 15 Type B contracts per calendar year and 80% of entrance fees must be escrowed and drawn down after the first 90 days at the rate of 36-month amortization.
5. The Organization's Term Loan Agreement matures on October 22, 2026, and the outstanding loan balance is classified as a current liability as of December 31, 2025, which places additional pressure on the Organization's near-term liquidity.

Management actions and plans that were intended to mitigate the conditions or events that raise substantial doubt about the Organization's ability to continue as a Going Concern:

1. In the 2018 – 2021 timeframe, Management acted to address the issues which were causing operating liquidity stress. Marketing shortfalls were addressed with a complete restructuring of the department in early 2019. From June of 2019 to March of 2020, the marketing restructuring provided significant momentum on the sales side leading toward a more neutral operational liquidity performance. The Organization was then impacted negatively from the COVID-19 shutdowns (as with all providers). After COVID shutdowns finally ended, the new marketing team delivered strong results building census levels from pandemic lows. Overemployment was also addressed in 2019/2020. This was accomplished with a combination of layoffs and natural attrition.
2. Management successfully negotiated with DSS (legal process) to release restrictions on providing Entrance Fee contracts, which represent over 50% of the senior market contracts in the U.S. These negotiations, which have regained the ability to provide Type B contracts, will support cash flow into future periods.
3. Additionally, Management possesses more assets at its disposal to address operating liquidity. While Management is normally reticent to increase debt levels, the Organization has the ability to restructure existing debt and draw on existing lines of credit to provide immediate liquidity. The Organization's real estate holdings include the main campus and certain ancillary properties. The valuation of such properties when compared with the debt load provides ample capital restructuring opportunities.

Between the significant leverage opportunities, and the value of the Organization's real estate, management believes it has more than enough liquidity to reposition operations and to continue as a going concern for the next year.