

Aldersly and Subsidiary

Consolidated Financial Statements
and Supplementary Information

September 30, 2025

Aldersly and Subsidiary

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Independent Auditors' Report

To the Board of Directors of
Aldersly and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Aldersly (a California not-for-profit organization) and Subsidiary (collectively the Organization), which comprise the consolidated statement of financial position as of September 30, 2025, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of September 30, 2025, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly US, LLP

San Francisco, California
February 26, 2026

Aldersly and Subsidiary

Consolidated Statement of Financial Position

September 30, 2025

Assets

Current Assets

Cash and cash equivalents	\$ 5,763,656
Investments in marketable securities (Note 3)	10,638,168
Accounts receivable, residents, net	120,088
Prepaid expenses	718,503

Total current assets 17,240,415

Property and Equipment, Net (Note 4)

73,538,382

Assets Whose Use is Limited or Restricted (Note 5)

Restricted cash equivalents	3,806,616
Fixed income securities	1,861,327
Equities	19,286,413

24,954,356

Other Noncurrent Assets

Long-term investments held for endowment (Note 3)	3,233,177
Restricted cash equivalents - resident deposits	779,766

4,012,943

Total assets \$ 119,746,096

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued expenses	\$ 859,845
Accrued interest	912,919
Accrued salaries and wages	355,722
Refunds payable	133,934
Guaranteed refunds (Note 6)	482,025
Construction costs and retainage payable	4,987,782

Total current liabilities 7,732,227

Long-Term Liabilities

Deposit liability	3,680,070
Unearned entrance fees (Note 6)	6,240,050
Guaranteed refunds (Note 6)	12,215,606
Long-term debt, net of unamortized financing costs and net bond premium (Note 7)	58,731,226

Total long-term liabilities 80,866,952

Total liabilities 88,599,179

Net Assets

Without donor restrictions	
Undesignated	26,960,264
Board designated (Note 8)	4,186,653

Total net assets 31,146,917

Total liabilities and net assets \$ 119,746,096

See notes to consolidated financial statements

Aldersly and Subsidiary

Consolidated Statement of Activities

Year Ended September 30, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Service Revenue and Support			
Service revenue:			
Independent living fees	\$ 2,292,416	\$ -	\$ 2,292,416
Memory care living fees	1,636,434	-	1,636,434
Assisted living fees	2,174,674	-	2,174,674
Entrance fees amortization	669,567	-	669,567
	<u>6,773,091</u>	<u>-</u>	<u>6,773,091</u>
Total revenue	6,773,091	-	6,773,091
Support:			
Donations, gifts and bequests	122,738	-	122,738
Net assets released from restrictions (Note 10)	10,704	(10,704)	-
	<u>133,442</u>	<u>(10,704)</u>	<u>122,738</u>
Total revenue and support	<u>6,906,533</u>	<u>(10,704)</u>	<u>6,895,829</u>
Operating Expenses			
Program services	9,593,871	-	9,593,871
Management and general	1,346,521	-	1,346,521
	<u>10,940,392</u>	<u>-</u>	<u>10,940,392</u>
Total expenses	10,940,392	-	10,940,392
Change in net assets before other revenues	<u>(4,033,859)</u>	<u>(10,704)</u>	<u>(4,044,563)</u>
Other Revenues (Expenses)			
Rental and other income, net	7,993	-	7,993
Investment income, net	1,338,074	-	1,338,074
Other expenses	(11,106)	-	(11,106)
Loss on disposal of assets	(13,450)	-	(13,450)
	<u>1,321,511</u>	<u>-</u>	<u>1,321,511</u>
Change in net assets	<u>(2,712,348)</u>	<u>(10,704)</u>	<u>(2,723,052)</u>
Net Assets, Beginning	<u>33,859,265</u>	<u>10,704</u>	<u>33,869,969</u>
Net Assets, Ending	<u>\$ 31,146,917</u>	<u>\$ -</u>	<u>\$ 31,146,917</u>

See notes to consolidated financial statements

Aldersly and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended September 30, 2025

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 3,401,742	\$ 422,893	\$ 3,824,635
Payroll taxes and benefits	891,167	110,787	1,001,954
Total personnel costs	4,292,909	533,680	4,826,589
Marketing	1,307,929	56,958	1,364,887
Depreciation and amortization	1,035,762	41,803	1,077,565
Utilities	560,720	41,898	602,618
Management service expense	299,179	291,708	590,887
Maintenance and repairs	482,530	6,386	488,916
Food	457,953	-	457,953
Consultants	21,226	432,162	453,388
Insurance	402,640	6,940	409,580
Credit losses	304,422	-	304,422
Supplies	222,409	26,669	249,078
IT, connection and phone	206,192	16,029	222,221
	9,593,871	1,454,233	11,048,104
Less expenses included with other revenues on the consolidated statement of activities:			
Expenses related to net rental income	-	(107,712)	(107,712)
Total expenses by function	<u>\$ 9,593,871</u>	<u>\$ 1,346,521</u>	<u>\$ 10,940,392</u>

See notes to consolidated financial statements

Aldersly and Subsidiary

Consolidated Statement of Cash Flows

Year Ended September 30, 2025

Cash Flows From Operating Activities

Cash received from residents	\$ 6,685,831
Cash received for entrance fees	4,133,632
Interest and dividends received net of management fees	3,058,294
Cash received from donors	122,738
Cash paid to suppliers and employees	(10,414,675)
Cash paid for interest	(2,999,407)

Net cash from operating activities 586,413

Cash Flows From Investing Activities

Net proceeds from sales of investments	2,843,179
Net purchases of assets held in trust	(348,517)
Capital expenditures	(28,930,843)

Net cash from investing activities (26,436,181)

Cash Flows From Financing Activities

Cash received for entrance fee refunds to residents	11,345,203
Cash paid for entrance fee refunds to residents	(318,928)

Net cash from financing activities 11,026,275

Net change in cash, cash equivalents, and
restricted cash equivalents (14,823,493)

Cash, Cash Equivalents and Restricted Cash Equivalents, Beginning 25,173,531

Cash, Cash Equivalents and Restricted Cash Equivalents, Ending \$ 10,350,038

Reconciliation of End of Year Totals in the Consolidated Statement of Cash Flows Related to Captions in the Consolidated Statement of Financial Position

Cash and cash equivalents	\$ 5,763,656
Restricted cash - resident deposits	779,766
Restricted cash	3,806,616

\$ 10,350,038

Aldersly and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2025

1. Description of Operations and Summary of Significant Accounting Policies

Founded in 1921 by Danish immigrants as a not-for-profit retirement community located in San Rafael, California, Aldersly today is a diverse and vibrant mix of residents from many cultural backgrounds. Aldersly is a continuing care retirement community that offers three lifestyle options - Independent Living, Assisted Living, Memory Care and Extended Care. Residents are able to seamlessly transition between care levels, as necessary.

In August 2014, Aldersly formed H.C. Andersen Properties, LLC, a wholly owned subsidiary, for the purpose of acquiring property.

A summary of significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Aldersly and its wholly owned subsidiary (collectively the Organization). Intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated in the United States of America for Not-for-Profit Organizations (U.S. GAAP).

Net Assets

The net assets of the Organization are reported as follows:

Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Donations received and spent in accordance with donor-imposed stipulations in the same reporting period are also included in this classification. A portion of these net assets may be designated by the Board of Directors for specific purposes (refer to Note 8).

With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization or the passage of time as well as net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Organization. At September 30, 2025, the Organization did not have net assets with donor restrictions to be maintained in perpetuity.

Income Taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code, Section 23701d except as noted for the LLC. Accordingly, it has not provided for income taxes in these consolidated financial statements.

The LLC's net earnings (losses) are reported on the federal exempt organization tax return of its parent company. The LLC files a separate state tax return in California and is subject to an annual minimum franchise tax of \$800.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these consolidated financial statements.

Aldersly and Subsidiary

Notes to Consolidated Financial Statements
September 30, 2025

Cash, Cash Equivalents and Restricted Cash

The Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. Restricted cash includes amounts held relating to assets whose use is limited or restricted for bond funds and resident deposits. The Organization classifies cash held in money market funds by investment custodians as short-term investments.

Accounts Receivable, Residents

Accounts receivable on resident accounts are reported net of an allowance for credit losses to represent the Organization's estimate of expected losses at the financial reporting date. The Organization utilizes the aging method in determining its lifetime expected credit losses on its receivables. This method is used for calculating an estimate of losses based primarily on the Organization's historical loss experience. In determining its loss rates, the Organization evaluates information related to its historical losses, adjusted for current conditions, and further adjusted for the period of time that can be reasonably forecasted. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all the following: past due receivables, historical collection rates and legal and regulatory requirements. At September 30, 2025, the Organization had an allowance for credit losses of \$307,847.

Investments

Investments in marketable equity and debt securities are presented in the consolidated financial statements at their fair values based on quoted market prices. Investment income, which consists of dividend and interest income and unrealized and realized gains (losses) on investments, is shown in the consolidated statement of activities net of investment management fees.

Fair Value Measurements

The Organization considers the use of market-based information over entity specific information in valuing its marketable investment securities using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- Level 1 - inputs to the valuation methodology - quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology - quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.
- Level 3 - inputs to the valuation methodology - unobservable and significant to the fair value measurement.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Aldersly and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2025

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Donated assets are recorded at fair market value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Maintenance, repairs, and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. The Organization capitalizes assets with a cost or donated value of \$1,000 or more and an estimated useful life greater than one year. Gains or losses on dispositions of property and equipment are included in the consolidated statement of activities.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted represent assets held by trustees under an indenture agreement. These assets are presented in the consolidated financial statements at their fair value. The underlying investments are held in interest bearing and fixed income accounts.

Financing Costs

Deferred financing costs are amortized over the term of the related financing.

Deferred financing costs are presented in the consolidated statement of financial position as a direct deduction from the carrying amount of long-term debt (refer to Note 7). The amortization of deferred financing costs is included in interest expense on the consolidated statement of functional expenses. For the year ended September 30, 2025, the Organization did not have any deferred financial cost amortization.

Bond Premium

Bond premium, net of bond discounts, is amortized over the term of the related financing.

Net bond premium is presented in the consolidated statement of financial position as a direct increase to the carrying amount of long-term debt (refer to Note 7). The amortization of net bond premium is included in interest expense on the consolidated statement of functional expenses. For the year ended September 30, 2025, the amortization of net bond premium amounted to \$443,113.

Leases

At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating leases are expensed on a straight-line basis as lease expense over the noncancelable lease term. Expenses for finance leases are comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method.

Aldersly and Subsidiary

Notes to Consolidated Financial Statements

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The Organization has made the following accounting policy elections with regard to its lease accounting:

- The Organization does not separate lease and nonlease components for all asset classes.
- When the rate implicit in the lease is not determinable, rather than use the Organization's incremental borrowing rate, the Organization elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes.
- The Organization does not apply the recognition requirements to all leases with an original term of 12 months or less, for which the Organization is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line bases over the lease term.

At September 30, 2025, there were no financing leases and the Organization's operating lease liabilities and right-of-use assets were immaterial to the consolidated financial statements.

Revenue Recognition

Resident Services

Revenues primarily result from fees charged to customers under continuing care retirement community (CCRC) resident contracts, non-CCRC resident contracts. Revenue recognition is evaluated under ASC No. 606 through the following five steps: (i) identification of the contract or contracts with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

Net resident service revenues are reported at the amount that reflects the consideration the Organization expects to receive in exchange for the services provided. These amounts are due from residents, patients or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. The performance obligation for resident contracts is to stand ready to provide a residence, resident services, and resident care based on the needed level of care. The performance obligation for patient contracts is to stand ready to provide routine nursing care as well as emergency care that may be required.

Net resident service revenues are primarily comprised of extended care, assisted living, memory care, and independent living revenue streams, which are primarily derived from providing housing, extended care, assisted living, and independent living services to residents or patients at a stated daily or monthly fee, net of any explicit or implicit price concessions. The Organization has determined that the services included in the stated daily or monthly fee for each level of care represents a series of distinct services that have the same timing and pattern of transfer. Therefore, the Organization considers the services provided to residents in each level of care to be one performance obligation which is satisfied over time as services are provided. As such, extended care, assisted living, memory care, and independent living revenues are recognized on a daily or month-to-month basis as services are rendered.

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Notes to Consolidated Financial Statements

September 30, 2025

The two types of CCRC contracts that the Organization provides include Traditional and 50% Return of Capital (ROC). Both CCRC contracts allow the resident a ratable right of refund, as defined in the contracts, when a resident either passes away or moves out prior to 57 months of residency for Traditional contracts and four years for ROC contracts. 50% of an ROC resident's entrance fee is always guaranteed to be refunded upon death or move out. As CCRC residents typically do reside at the Organization's community for a period that exceeds these limits, the Organization considers 100% of a Traditional CCRC resident's entrance fee and 50% of an ROC resident's entrance fee to be nonrefundable.

The guaranteed refund component of entrance fees is not amortized to income and is classified as guaranteed refunds liability in the accompanying consolidated statement of financial position. Management estimates the current refund liability based on life expectancy.

Revenue from nonrefundable entrance fees received are recognized through amortization of the nonrefundable entrance fee using the straight-line method over the estimated remaining life expectancies of the residents which approximates the period of time the goods and services under the agreements are expected to be transferred to residents. The unamortized portion of entrance fees are classified as deferred revenues from unearned entrance fees, a contract liability, in the accompanying consolidated statement of financial position until the performance obligations are satisfied.

Payment terms and conditions for the Organization's contracts vary by contract. Entrance fees for CCRC residents are generally due on or before the contract date of move in. Net resident service fee revenues for recurring and routine monthly services are generally billed monthly on the first of the month. Resident service revenues for ancillary services are generally billed monthly in arrears. Payment of monthly service fees by CCRC residents are to be made within 15 days from the first of the month. Payment of monthly service fees by non-CCRC residents are to be made within five days from the first of the month. Payment of daily service fees by Health Care Center patients are to be made within ten days from the first of the month.

Contract costs include incremental costs of obtaining contracts that would not have been incurred if the contracts were not obtained and are recorded at cost. For the Organization, contract costs consist of sales commissions paid to sales personnel for obtaining new contracts. Contract costs are amortized over the estimate life expectancy of the residents using the straight-line method, which approximates the period of time that goods and services are expected to be transferred to residents. During the year ended September 30, 2025, contract costs were immaterial to the consolidated financial statements and therefore were not capitalized.

The Organization disaggregates revenue from contracts with customers by type of service as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. During the year ended September 30, 2025, all resident services revenues were self-pay.

Contributions and Grants

Revenues from contribution and grant income are accounted for as nonreciprocal transactions. Unconditional contributions and grants received are recorded as revenue when promised. Conditional contributions and grants received are recorded as revenue when the underlying conditions have been satisfied by the Organization. Contributions and grants that are not restricted by the donor are reported as an increase in net assets without donor restrictions. Donor restricted contributions and grants are reported as an increase in net assets with donor restrictions. When a donor 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.

Aldersly and Subsidiary

Notes to Consolidated Financial Statements
September 30, 2025

Donated Services

The Organization receives various types of volunteer services. Contributed services are not recognized unless the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased. Donated services received do not meet the two recognition criteria described above. Accordingly, the value is not reflected in the consolidated financial statements.

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services benefited. Payroll and employee benefits expense are allocated based on a percentage of time spent.

All other expenses related to more than one function are charged to programs and supporting services pro rata on the basis of square footage or other appropriate usage factors.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates in the Organization's consolidated financial statements include entrance fee amortization, functional allocation of expenses, depreciation expense, and fair value of investments. Actual results could differ from those estimates.

Performance Indicator

The Organization measure of operations is its changes in net assets from operating activities excluding revenues rental income, other income, and investment income. The statement of activities includes changes in net assets without donor restrictions as the performance indicator.

Obligation to Provide Future Services

The Organization periodically calculates the present value of the net cost of future service and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net obligation to provide future service and use of facilities (discounted at 3%) exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. Deferred revenue from entrance fees exceeded the calculation of the present value of the net cost of future services for each organization. Therefore, an additional liability for an obligation to provide future services and use of facilities is not required as of September 30, 2025.

Recently Issued Accounting Standards

In July 2025, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2025-05, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities (PCC)*. ASU No. 2025-05 provides a practical expedient for all entities to assume current conditions remain unchanged over the life of the asset and allows entities other than public business entities to consider subsequent collection activity when estimating expected credit losses for current accounts receivable and current contract assets. These changes are intended to reduce complexity and cost associated with applying the current expected credit loss (CECL) model to these types of financial instruments.

Aldersly and Subsidiary

Notes to Consolidated Financial Statements
September 30, 2025

ASU No. 2025-05 is effective for annual periods beginning after December 15, 2025, and interim periods within those annual periods. Early adoption is permitted. The Organization is currently evaluating the impact of ASU No. 2025-05 on its consolidated financial statements and related disclosures.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through the date the consolidated financial statements were available to be issued, February 26, 2026. Management has concluded that no events have occurred subsequent to September 30, 2025, that require consideration as adjustments to or disclosure in the Organization's consolidated financial statements.

2. Liquidity and Availability of Financial Assets

The Organization's primary source of revenue is revenue received from residents. The Organization considers contributions without donor restrictions to be available to meet cash needs for general expenditures. General operating expenditures include programmatic expenses, management and general expenses, and fundraising expenses that are expected to be paid in the subsequent year. In the event that a need arises to utilize board-designated net assets for liquidity purposes, the funds could be drawn upon through a board resolution.

The table below presents financial assets available to fund general operating expenditures within one year at September 30, 2025:

Cash and cash equivalents	\$ 5,763,656
Investments in marketable securities	10,638,168
Accounts receivable, residents, net	<u>120,088</u>
Financial assets available to meet general operating expenditures within one year	<u><u>\$ 16,521,912</u></u>

Aldersly and Subsidiary

Notes to Consolidated Financial Statements
September 30, 2025

3. Investments and Fair Value Disclosures

The following are the major categories of assets measured at fair value on a recurring basis at September 30, 2025, using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3):

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents*	\$ 911,831	\$ -	\$ -	\$ -
U.S. corporate stocks	2,211,841	2,211,841	-	-
Equity funds	6,845,700	6,845,700	-	-
Fixed income funds	1,453,068	1,453,068	-	-
U.S. government obligations	2,085,499	-	2,085,499	-
Corporate bonds	243,406	-	243,406	-
Foreign corporate stocks	87,842	87,842	-	-
Foreign obligations	32,158	-	32,158	-
	<u>13,871,345</u>	<u>10,598,451</u>	<u>2,361,063</u>	<u>-</u>
Assets whose use is limited or restricted (refer to Note 5)				
Restricted cash equivalents*	8,794,398	-	-	-
Fixed income securities	1,861,327	-	1,861,327	-
Equity	19,286,413	19,286,413	-	-
	<u>29,942,138</u>	<u>19,286,413</u>	<u>1,861,327</u>	<u>-</u>
Total investments and restricted assets	<u>\$ 43,813,483</u>	<u>\$ 29,884,864</u>	<u>\$ 4,222,390</u>	<u>\$ -</u>

* Cash, cash equivalents and restricted cash equivalents are not included in Level 1, 2 or 3 of the fair value hierarchy

At September 30, 2025, investments are reflected in the consolidated statement of financial position as follows:

Current	\$ 10,638,168
Long-term, held for endowment	<u>3,233,177</u>
Total	<u>\$ 13,871,345</u>

Investment income, net is comprised of the following for the year ended September 30, 2025:

Interest and dividend income	\$ 314,880
Net unrealized and realized gains	1,164,579
Net of investment fees	<u>(141,385)</u>
Total	<u>\$ 1,338,074</u>

The net investment income for the year ended September 30, 2025, includes \$359,343 in gains from the Board Designated Endowment Fund (refer to Note 8).

Aldersly and Subsidiary

Notes to Consolidated Financial Statements
September 30, 2025

4. Property and Equipment, Net

At September 30, 2025, property and equipment, net consisted of the following:

Land	\$	232,822
Buildings and improvements		73,628,786
Land improvements		9,170,080
Equipment		2,784,233
Furniture		1,046,660
Assisted living furniture		219,781
Vehicles		177,562
Residential real estate:		
Land		990,000
Buildings and improvements		2,251,292
		<u>90,501,216</u>
Less accumulated depreciation		<u>(16,972,549)</u>
		<u>73,528,667</u>
Construction in progress:		
Unit remodels		<u>9,715</u>
Total construction in progress		<u>9,715</u>
Total property and equipment, net	\$	<u><u>73,538,382</u></u>

The Organization recorded \$4,987,782 in construction costs and retainage payable on the consolidated statement of financial position related to the Mission Avenue independent living project, which was placed in service in September 2025.

5. Assets Whose Use is Limited or Restricted

At September 30, 2025, assets with limited or restricted use consisted of the following:

	<u>Debt Service Reserve</u>	<u>Project Fund</u>	<u>Entrance fee redemption Fund</u>	<u>Interest Fund</u>	<u>Total</u>
2023 bond funds	\$ 1,037,002	\$ 8,333,267	\$ 16,568,763	\$ 286	\$ 25,939,318
2023A bond funds	-	-	-	1,838,180	1,838,180
2023B-1 bond funds	225,377	-	-	185,784	411,161
2023B-2 bond funds	736,703	-	-	332,542	1,069,245
2023C bond funds	284,245	-	-	399,989	684,234
Total	<u>\$ 2,283,327</u>	<u>\$ 8,333,267</u>	<u>\$ 16,568,763</u>	<u>\$ 2,756,781</u>	<u>\$ 29,942,138</u>

Aldersly and Subsidiary

Notes to Consolidated Financial Statements
September 30, 2025

6. Unearned Entrance Fees and Guaranteed Refunds

Changes in unearned entrance fees and guaranteed refunds for the year ended September 30, 2025, were as follows:

	<u>Unearned Entrance Fees</u>	<u>Guaranteed Refunds</u>	<u>Total</u>
Balance at September 30, 2024	\$ 3,094,913	\$ 1,352,428	\$ 4,447,341
Entrance fees received	4,133,632	11,345,203	15,478,835
	7,228,545	12,697,631	19,926,176
Less entrance fees amortization	(669,567)	-	(669,567)
Less entrance fees refunds	(318,928)	-	(318,928)
Balance at September 30, 2025	6,240,050	12,697,631	18,937,681
Less current portion	-	(482,025)	(482,025)
	<u>\$ 6,240,050</u>	<u>\$ 12,215,606</u>	<u>\$ 18,455,656</u>

Continuing care retirement communities are required to report a liability recognizing an obligation to provide future services and the use of the facilities to current residents in excess of related anticipated revenues, when the present value of future net cash outflows plus depreciation to be charged related to the contracts exceeds unearned entrance fees.

7. Long-Term Debt

At September 30, 2025, long-term debt consisted of the following:

In May 2023, the California Statewide Communities Development Authority (CSCDA) issued Revenue Refunding Bonds series 2023A, 2023B-1, 2023B-2 and 2023C on behalf of the Organization at an aggregate purchase price of \$62,218,701. The purchase amount reflects \$61,300,000 of aggregate par amounts plus an original issue premium of \$1,531,701 and less an aggregate purchase discount of \$613,000. The bond proceeds were used to fund future capital projects and establish debt service and interest funds. The Bonds bear interest rates ranging from 3.75% to 5.50% with effective interest rates ranging from 4.08% to 4.50% and mature at various dates through May 15, 2053. The bonds are collateralized by a deed of trust on the real property, certain personal property and a security interest in the gross revenues of the Organization. The Organization is required to comply with certain debt covenants, including the maintenance of debt service coverage ratio which will take effect once the debt payment period commences and when 93% stable occupancy has been achieved. As of September 30, 2025, the current ratio and days cash on hand are applicable.

	\$ 61,300,000
Less unamortized financing costs	(3,418,382)
Add unamortized bond premium, net of unamortized bond discount	849,608
Long-term debt	<u>\$ 58,731,226</u>

Aldersly and Subsidiary

Notes to Consolidated Financial Statements
September 30, 2025

At September 30, 2025, future maturities of long-term debt were as follows:

Years ending September 30:	
2027	\$ 5,790,000
2028	25,680,000
2029	635,000
2030	665,000
Thereafter	<u>28,530,000</u>
Total	<u>\$ 61,300,000</u>

8. Net Assets Without Donor Restrictions, Board Designated

Board Designated for Endowment

Certain gifts and realized and unrealized gains or losses on these gifts have been internally designated by the Board of Directors to be maintained similar to an endowment fund. Dissolution of this designation requires three quarters vote of the full Board. The Organization does not have any donor restricted endowment funds.

The Board of Directors adopted a spending policy for the board designated endowment fund with an objective of allocating 3% of the fund balance annually (based on the rolling average of the 12 preceding quarters' balances) to fund various projects at the discretion of management.

The investment objective is to provide liquidity for debt service, operations, projects, and capital needs as required. The asset allocations are set up to maintain approximately 35% of the assets in fixed income investments with the remaining assets in equities with large market capitalization and a high level of liquidity.

For the year ended September 30, 2025, the Board of Directors also approved appropriations totaling approximately \$820,000 for benevolence. The Board of Directors also authorized an appropriation of approximately \$1,177,000 for the purchase of a building and approximately \$100,000, which was transferred from Aldersly to H.C. Anderson Properties, LLC.

Board Designated for Care Fund

The Board designated Care Fund was established to provide assistance to residents who have developed a financial need due to unforeseen or uncontrollable circumstances. The Board of Directors has established a set of guidelines to be used in considering applications for hardship assistance each year.

Board Designated for Master Plan

The Board designated Master Plan Fund was established to provide partial funding for various facilities renovations at Aldersly. The Master Plan is part of the Organization's strategic planning for long-term success of the Organization. The Board of Directors has not yet determined the full cost of the project and will be designating additional funds as necessary in the future to cover anticipated costs.

Aldersly and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2025

For the year ended September 30, 2025, changes in Board designated net assets were as follows:

	<u>Endowment</u>	<u>Care Fund</u>	<u>Master Plan</u>	<u>Total</u>
Balance, September 30, 2024	\$ 4,976,877	\$ 188,174	\$ 765,302	\$ 5,930,353
Investment gain, net	359,343	-	-	359,343
Appropriations	(2,103,043)	-	-	(2,103,043)
Balance, September 30, 2025	<u>\$ 3,233,177</u>	<u>\$ 188,174</u>	<u>\$ 765,302</u>	<u>\$ 4,186,653</u>

9. Net Assets Released From Donor Restrictions

For the year ended September 30, 2025, releases from net assets with donor restrictions consisted of the following:

Music Fund	\$ 10,079
Staff Appreciation Fund	625
Total	<u>\$ 10,704</u>

10. Retirement Plan

The Organization has an Internal Revenue Code section 401(k) retirement plan (the Plan). Plan participants may elect to defer a portion of their compensation (up to the maximum allowed by law) and have such salary deferrals contributed to their plan accounts. The Organization matches up to 4% of the employee's salary. For the year ended September 30, 2025, employer matching contributions to the Plan were \$49,357. The Plan also provides for discretionary employer profit sharing contributions to the Plan. There were no discretionary contributions made for the year ended September 30, 2025.

11. Contingencies and Commitments

Contingencies

The Organization is a party to certain claims in the normal course of business. While the result of these proceedings cannot be predicted with certainty, management believes that the final outcome of these matters will not have a material adverse effect on the consolidated financial statements.

The senior living services industry is subject to numerous laws, regulations and administrative directives of federal, state and local governments and agencies. Compliance with these laws, regulations and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter, if any, cannot be known with certainty.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents and restricted cash.

Aldersly and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2025

Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position. Investments are insured up to the limit set by the Securities Investor Protection Corporation (SIPC).

Commitments

At September 30, 2025, the Organization has approximately \$765,000 in net assets designated by the Board for construction commitments to the Master Plan (refer to Note 8).

Geographic Concentration

The Organization has one location in San Rafael, California.

12. Consulting Services

Life Care Services (LCS), an unrelated consulting company, provides consulting and management services to the Organization in accordance with the terms of a five-year contract expiring November 1, 2029. The monthly consulting fee is calculated based upon specific terms of the agreement. The agreement also provides for an annual bonus incentive calculated based upon any excess of actual annual operating revenue over budgeted operating revenue. The agreement is cancelable by either party upon six months' written notice (60 days' notice with cause). The Organization at times may utilize LCS for services outside the scope of the agreement and is billed extra for these services. During the year ended September 30, 2025, LCS charged the Organization \$291,708 in consulting fees.

Aldersly and SubsidiaryConsolidating Statement of Financial Position
September 30, 2025

	<u>Aldersly</u>	<u>H.C. Andersen Properties LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 5,685,623	\$ 78,033	\$ -	\$ 5,763,656
Investments in marketable securities (Note 3)	10,638,168	-	-	10,638,168
Accounts receivable, residents, net	119,588	500	-	120,088
Prepaid expenses	718,503	-	-	718,503
Total current assets	17,161,882	78,533	-	17,240,415
Property and Equipment, Net (Note 4)	70,560,428	2,977,954	-	73,538,382
Assets Whose Use is Limited or Restricted (Note 5)				
Restricted cash equivalents	3,806,616	-	-	3,806,616
Fixed income securities	1,861,327	-	-	1,861,327
Equities	19,286,413	-	-	19,286,413
	24,954,356	-	-	24,954,356
Other Noncurrent Assets				
Investment in subsidiary	3,036,693	-	(3,036,693)	-
Long-term investments held for endowment (Note 3)	3,233,177	-	-	3,233,177
Restricted cash equivalents - resident deposits	779,766	-	-	779,766
	7,049,636	-	(3,036,693)	4,012,943
Total assets	<u>\$ 119,726,302</u>	<u>\$ 3,056,487</u>	<u>\$ (3,036,693)</u>	<u>\$ 119,746,096</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	\$ 844,801	\$ 15,044	\$ -	\$ 859,845
Accrued interest	912,919	-	-	912,919
Accrued salaries and wages	355,722	-	-	355,722
Refunds payable	133,934	-	-	133,934
Construction costs and retainage payable	4,987,782	-	-	4,987,782
Guaranteed refunds (Note 6)	482,025	-	-	482,025
Total current liabilities	7,717,183	15,044	-	7,732,227
Long-Term Liabilities				
Deposit liability	3,675,320	4,750	-	3,680,070
Unearned entrance fees (Note 6)	6,240,050	-	-	6,240,050
Guaranteed refunds (Note 6)	12,215,606	-	-	12,215,606
Long-term debt, net of unamortized financing costs and net bond premium (Note 7)	58,731,226	-	-	58,731,226
Total long-term liabilities	80,862,202	4,750	-	80,866,952
Total liabilities	88,579,385	19,794	-	88,599,179
Net Assets				
Without donor restrictions				
Undesignated	26,960,264	3,036,693	(3,036,693)	26,960,264
Board designated (Note 8)	4,186,653	-	-	4,186,653
Total net assets	31,146,917	3,036,693	(3,036,693)	31,146,917
Total liabilities and net assets	<u>\$ 119,726,302</u>	<u>\$ 3,056,487</u>	<u>\$ (3,036,693)</u>	<u>\$ 119,746,096</u>

Aldersly and SubsidiaryConsolidating Statement of Activities
Year ended September 30, 2025

	<u>Aldersly</u>	<u>H.C. Andersen Properties LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
Service Revenue and Support				
Service revenue:				
Independent living fees	\$ 2,292,416	\$ -	\$ -	\$ 2,292,416
Memory care living fees	1,636,434	-	-	1,636,434
Assisted living fees	2,174,674	-	-	2,174,674
Entrance fees amortization	669,567	-	-	669,567
Total service revenue	6,773,091	-	-	6,773,091
Support:				
Donations, gifts and bequests	122,738	-	-	122,738
Total revenue and support	6,895,829	-	-	6,895,829
Operating Expenses				
Program services	9,593,871	-	-	9,593,871
Management and general	1,346,521	-	-	1,346,521
Total expenses	10,940,392	-	-	10,940,392
Change in net assets before other revenues	(4,044,563)	-	-	(4,044,563)
Other Revenues (Expenses)				
Rental and other income (loss), net	7,657	336	-	7,993
Equity in earnings	336	-	(336)	-
Investment income, net	1,338,074	-	-	1,338,074
Other expenses	(11,106)	-	-	(11,106)
Loss on disposal of assets	(13,450)	-	-	(13,450)
	1,321,511	336	(336)	1,321,511
Change in net assets	(2,723,052)	336	(336)	(2,723,052)
Equity transfer for property and equipment	-	1,177,795	(1,177,795)	-
Net Assets, Beginning	33,869,969	1,858,562	(1,858,562)	33,869,969
Net Assets, Ending	<u>\$ 31,146,917</u>	<u>\$ 3,036,693</u>	<u>\$ (3,036,693)</u>	<u>\$ 31,146,917</u>

Aldersly and Subsidiary

Computation of Current Ratio
Year Ended September 30, 2025

Current Ratio

Current assets	\$ 17,240,415
Current liabilities	<u>7,732,227</u>
Current ratio	<u><u>2.23</u></u>

Aldersly and Subsidiary

Computation of Days Cash on Hand
Year Ended September 30, 2025

Unrestricted Cash and Investments

Cash and cash equivalents	\$ 5,763,656
Investments	<u>13,871,345</u>
Total unrestricted cash and investments	<u>19,635,001</u>

Cash Operating Expenses

Total operating expenses	10,940,392
Less depreciation and amortization	(1,077,565)
Add recovery of provision for uncollectible accounts	<u>(304,422)</u>
Total cash operating expenses	<u>9,558,405</u>

Number of Days in The Period

	<u>365</u>
Daily cash expenses	<u>\$ 26,187</u>

Days Cash On Hand

	<u><u>750</u></u>
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