FISCAL YEAR ENDED: 06/30/2022

ANNUAL REPORT CHECKLIST

PROVIDER(S): Mercy Retirement and Care Center

CCRC(S): Mercy Retirement and Care Center

PROVIDER CONTACT PERSON: Robin Evitts

TELEPHONE NO.: (510) 769-2758 ___________________ EMAIL:revitts@eldercarealliance.org

● ●

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

☑ Annual Report Checklist.

☑ Annual Provider Fee in the amount of: $250 ☐ If applicable, late fee in the amount of: $___________

☑ Certification by the provider's ***Chief Executive Officer*** that:
- ☑ The reports are correct to the best of his/her knowledge.
- ☑ Each continuing care contract form in use or offered to new residents has been approved by the Department.
- ☑ The provider is maintaining the required *liquid* reserves and, *when applicable*, the required refund reserve.

☑ Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.

☑ Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.

☑ Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon. (NOTE: Form 5-5 must be signed and have the required disclosures attached (H&SC section 1790(a)(2) and (3)).

☑ "Continuing Care Retirement Community Disclosure Statement" for ***each*** community.

☑ Form 7-1, "Report on CCRC Monthly Service Fees" for ***each*** community.

- ❑ Form 9-1, "Calculation of Refund Reserve Amount", *if applicable*.

- ❑ Key Indicators Report (signed by CEO or CFO (or by the authorized person who signed the provider's annual report)). The KIR may be submitted along with the annual report, but is not required until 30 days later.

June 2014

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents		TOTAL
[1]	Number at beginning of fiscal year		0
[2]	Number at end of fiscal year		**0**
[3]	Total Lines 1 and 2		0
[4]	Multiply Line 3 by .50 and enter result on Line 5.		x .50
[5]	Mean number of continuing care residents		0
	All Residents		
[6]	Number at beginning of fiscal year		**113**
[7]	Number at end of fiscal year		**115**
[8]	Total Lines 6 and 7		228
[9]	Multiply Line 8 by ".50" and enter result on Line 10		x .50
[10]	Mean number of all residents		114
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of all residents (Line 10) and enter the result (round to two decimal places)		0.00

FORM 1-2
ANNUAL PROVIDER FEE

Line				TOTAL
[1]		Total Operating Expenses		$19,556,618
	[a]	Depreciation	1,734,498	
	[b]	Debt Service (Interest Only)	$112,736	
[2]		Subtotal (add Line 1a and 1b)		$1,847,234
[3]		Subtract Line 2 from Line 1 and enter result		$17,709,384
[4]		Percentage allocated to continuing care residents (Form 1-1, Line 11)		0.00%
[5]		Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4)		$0.00
				x .001
[6]		**Total Amount Due (multiply Line 5 by .001)**		$0

PROVIDER: Mercy Retirement and Care Center, a Long-Term Care Community
COMMUNITY: Mercy Retirement and Care Center

Mercy Retirement & CARE CENTER
An Elder Care Alliance Community

October 31, 2022

Department of Social Services
Community Care Branch
744 P Street, M.S. 9-14-91
Sacramento, CA 95814

To Whom It May Concern,

I, Adriene Iverson, Chief Executive Officer of Mercy Retirement and Care Center, certify that the enclosed continuing care reserve report is correct to the best of my knowledge;

1) that the annual reserve reports and any amendments thereto are fairly stated;
2) that each continuing care contract in use for residents has been approved by the Department of Social Services; and
3) that Mercy Retirement and Care Center maintains the required reserves for prepaid continuing care contracts, statutory reserves, and refund reserves as of the date of this letter.

Sincerely,

Adriene Iverson

Adriene Iverson
Chief Executive Officer

ACORD®

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 12/20/2021

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

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

PRODUCER
Caring Communities Shared Services LTD
1850 W. Winchester Road
Suite 109
Libertyville IL 60048

CONTACT NAME: Underwriting Associate
PHONE (A/C, No, Ext): 847-549-8225 FAX (A/C, No): 847-549-8095
E-MAIL ADDRESS: Certificates@caringcomm.org

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A: Caring Communities, A Reciprocal RRG	12373
INSURER B:	
INSURER C:	
INSURER D:	
INSURER E:	

INSURED Elder Care Alliance
Mercy Retirement and Care Center
3431 Foothill Blvd
Oakland CA 94601

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

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

INSR LTR	TYPE OF INSURANCE	ADD'L INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	X COMMERCIAL GENERAL LIABILITY	X		CCRRRG-0036-22	01/01/2022	01/01/2023	EACH OCCURRENCE	$ 1,000,000.00
	CLAIMS MADE X OCCUR						DAMAGE TO RENTED PREMISES (Ea occurrence)	$ 300,000.00
	X Professional Liability-Claims Made						MED EXP (Any one person)	$ -
	X PL Retro Date 06/30/2012						PERSONAL & ADV INJURY	$ 1,000,000.00
	GEN'L AGGREGATE LIMIT APPLIES PER:						GENERAL AGGREGATE	$ 3,000,000.00
	X POLICY PRO-JECT LOC						PRODUCTS - COMP/OP AGG	$ incl
	OTHER:							$
	AUTOMOBILE LIABILITY						COMBINED SINGLE LIMIT (Ea accident)	$
	ANY AUTO						BODILY INJURY (Per person)	$
	ALL OWNED AUTOS SCHEDULED AUTOS						BODILY INJURY (Per accident)	$
	HIRED AUTOS NON-OWNED AUTOS						PROPERTY DAMAGE (Per accident)	$
								$
	UMBRELLA LIAB OCCUR-GL						EACH OCCURRENCE	$
	EXCESS LIAB CLAIMS MADE-PL						AGGREGATE	$
	DEDUCTIBLE							$
	RETENTION $							$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N						PER STATUTE OTH-ER	
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)	N/A					E.L. EACH ACCIDENT	$
	If yes, describe under DESCRIPTION OF OPERATIONS below						E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMIT	$
	OTHER							

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

12/20/2021 15:49:02
County of Alameda, its Board of Supervisors, the individual members thereof, and all county officers, agents, employees and representatives, are included as Additional Insureds under Coverage B Commercial General Liability of this POLICY, but solely with respects to their financial interests, as they may appear, within the Standard Services Agreement executed in connection with the Mercy Brown Bag program.

CERTIFICATE HOLDER

County of Alameda, its Board of Supervisors, the
individual Members thereof, and all County officers, Agents,
employees, and representatives
Contracts Office - 2000 San Pablo Ave.
Oakland CA 94612

CANCELLATION

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

AUTHORIZED REPRESENTATIVE

Rita A. Nagle

ACORD 25 (2016/03)

Reports of Independent Auditors and
Financial Statements with Supplementary Information

Mercy Retirement and Care Center

June 30, 2022

Table of Contents

Report of Independent Auditors

The Board of Directors
Mercy Retirement and Care Center

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mercy Retirement and Care Center ("MRCC"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MRCC as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MRCC 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.

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that MRCC will continue as a going concern. As discussed in Note 2 to the financial statements, MRCC's construction financing did not convert September 25, 2022, and as a result have been reflected as current liabilities. Negotiations are presently underway to obtain revised loan agreements to permit the realization of assets and the liquidation of liabilities in the ordinary course of business. MRCC's management represented that it cannot predict what the outcome of refinancing negotiations will be and that substantial doubt exists about its ability as a going concern. Management's evaluation of events and conditions and management's plans regarding those matters are also described in Note 2. 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 MRCC's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 and *Government 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 GAAS and *Government 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 MRCC's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MRCC'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 financial statements as a whole. The accompanying schedule of expenditures of federal awards as shown on page 29 as required by Title 2 U.S*. Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022, on our consideration of MRCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MRCC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MRCC's internal control over financial reporting and compliance.

Moss Adams LLP

San Francisco, California
October 31, 2022

Financial Statements

Mercy Retirement and Care Center
Statement of Financial Position
June 30, 2022

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	5,427,120
Patient and resident accounts receivable, net		1,983,106
Pledge and other receivables		559,262
Prepaid expenses and other assets		217,588
Total current assets		8,187,076
ASSETS LIMITED AS TO USE		
Restricted by donor (Note 9)		3,252,547
Total assets limited as to use		3,252,547
INTEREST RATE SWAPS (Note 8)		1,514,203
INVESTMENTS		7,017,425
PROPERTY AND EQUIPMENT, net of accumulated depreciation		40,203,441
Total assets	$	60,174,692

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	2,431,531
Accrued expenses and other current liabilities		1,081,829
Current maturities of related party note payable		500,000
Construction note payable		22,438,612
Due to related party		332,719
Total current liabilities		26,784,691
RELATED PARTY NOTE PAYABLE, net of current maturities		1,500,000
Total liabilities		28,284,691
NET ASSETS		
Without donor restrictions		26,417,507
With donor restrictions		5,472,494
Total net assets		31,890,001
Total liabilities and net assets	$	60,174,692

See accompanying notes.

Mercy Retirement and Care Center
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2022

	Net assets without donor restrictions	Net assets with donor restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Monthly rent	$ 4,328,508	$ -	$ 4,328,508
Net health services revenue	9,676,188	-	9,676,188
In-kind food contributions	3,686,564	-	3,686,564
Provider relief funds	151,495	-	151,495
Other resident services revenue	39,403	-	39,403
Net assets released from restrictions for operations	1,153,426	(1,153,426)	-
Total revenues, gains, and other support	19,035,584	(1,153,426)	17,882,158
EXPENSES AND LOSSES			
Salaries and benefits	9,925,196	-	9,925,196
Purchased services and other	4,458,722	-	4,458,722
Donated food	3,686,564	-	3,686,564
Supplies	1,867,775	-	1,867,775
Depreciation and depletion	1,734,498	-	1,734,498
Interest and fees	112,736	-	112,736
Management fee	1,221,631	-	1,221,631
Loss on disposal of property and equipment	203,415	-	203,415
Other expenses	32,645	-	32,645
Total expenses and losses	23,243,182	-	23,243,182
OPERATING LOSS	(4,207,598)	(1,153,426)	(5,361,024)
OTHER INCOME (EXPENSE)			
Contributions revenue	263,818	1,404,532	1,668,350
Gain from loan forgiveness	1,854,593	-	1,854,593
Unrealized gains on interest rate swaps	1,514,203	-	1,514,203
Investment return, net of investment expenses	(1,463,744)	(638,594)	(2,102,338)
Total other income	2,168,870	765,938	2,934,808
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSE	(2,038,728)	(387,488)	(2,426,216)
NET ASSETS RELEASED FROM RESTRICTION FOR BUILDING IMPROVEMENTS AND EQUIPMENT	3,437,747	(3,437,747)	-
CHANGE IN NET ASSETS	1,399,019	(3,825,235)	(2,426,216)
NET ASSETS, beginning of year	25,018,488	9,297,729	34,316,217
NET ASSETS, end of year	$ 26,417,507	$ 5,472,494	$ 31,890,001

See accompanying notes.

Mercy Retirement and Care Center
Statement of Cash Flows
Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from noncontract residents	$ 13,631,743
Contributions	2,888,353
Cash from provider relief funds	151,495
Cash received from other resident services	39,403
Cash received from interest	326,896
Cash received on loss on disposal of property	203,415
Cash paid to related party	(991,122)
Cash paid for interest	(442,015)
Cash paid to suppliers and employees	(16,843,081)
Net cash used in operating activities	(1,034,913)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(405,740)
Proceeds from sale of investments	84,158
Purchase of property and equipment	(9,752,072)
Net cash used in investing activities	(10,073,654)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from contributions restricted for investment in buildings and equipment	20,093
Payment of debt issuance costs	(18,868)
Proceeds from construction note payable	7,978,051
Net cash provided by financing activities	7,979,276
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(3,129,291)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	8,556,411
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 5,427,120
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Gain from loan forgiveness	$ 1,854,593
Conversion of due to related party to related party note payable	$ 2,000,000

See accompanying notes.

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (2,426,216)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Contributions restricted for buildings and equipment	(20,093)
Unrealized gains on interest rate swaps	(1,514,203)
Unrealized losses on investments	2,429,234
Loss on disposal of property	203,415
Gain from loan forgiveness	(1,854,593)
In-kind food contributions	(3,686,564)
Distribution of food received in-kind	3,686,564
Depreciation expense	1,763,212
Depletion of asset retirement obligations	(28,714)
Interest capitalized	(344,916)
Changes in operating assets and liabilities	
Patient and resident accounts receivable	(372,953)
Pledge and other receivables	1,017,367
Prepaid expenses	(186,270)
Accounts payable	642,968
Accrued expenses and other	(573,660)
Due to related party	230,509
Net cash used in operating activities	$ (1,034,913)

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – Mercy Retirement and Care Center ("MRCC") is a California nonprofit public benefit corporation organized for the purposes of providing residences, assistance with daily living needs, and skilled nursing care for elderly persons. The facilities include 166 units licensed as residential care, including a 22-unit memory care facility and 59 units licensed as skilled nursing. Beginning on December 28, 2011, MRCC began offering a "continuing care" concept in which resident enters into a residential contract that generally provides for a specific entrance fee and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents to the use and privileges of MRCC for life. There are no residents at June 30, 2022, that have paid entrance fees.

Residents are also entitled to certain healthcare services provided in the MRCC assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in MRCC. MRCC generates its revenues primarily from residential care and skilled nursing fees.

MRCC is a subordinate corporation to Elder Care Alliance ("ECA-Corporate") and operates under a common management team through ECA-Corporate. ECA-Corporate is a California nonprofit public benefit corporation, exempt from federal and state income taxes, established on December 6, 1996. ECA-Corporate is cosponsored by the Sierra Pacific Synod of the Evangelical Lutheran Church in America (the "Lutheran Synod") and the Sisters of Mercy of the Americas – West Midwest Communities (the "Sisters of Mercy").

On May 15, 1997, MRCC entered into an affiliation agreement. Under the terms of this agreement, ECA-Corporate became the sole corporate member of MRCC. ECA-Corporate provides management services for supportive housing, skilled nursing, rehabilitation, and social services principally to the aged through MRCC and other subordinate corporations. MRCC retained its individual identity, assets and liabilities, and relationships with their individual sponsors and operate under a common management team through ECA-Corporate.

ECA-Corporate was established with the support and leadership of CommonSpirit Health (formerly known as Dignity Health). The shared vision of CommonSpirit Health, ECA-Corporate and its cosponsors, the Lutheran Synod, and the Sisters of Mercy was to create a network of faith-centered, nonprofit elder care facilities and services to meet the needs of the burgeoning population of elderly people who seek support and assistance with activities of daily living in a non-institutional environment.

Basis of presentation – The financial statements have been prepared on the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred and is consistent with accounting principles generally accepted in the United States of America.

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 year. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents includes cash on hand and cash held in demand deposit, sweep, and savings accounts; and certain assets in highly liquid instruments with original maturities of three months or less.

Patient and resident accounts receivable, net – As part of its mission to serve the community, MRCC may provide care to residents even though the residents may lack means to pay. MRCC manages its resources and/or collection risk by regularly reviewing its accounts and contracts and by providing appropriate allowances based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Accounts receivable are stated at net realizable value from third-party payors, residents, and others.

For receivables associated with services provided to patients who have third-party coverage, MRCC analyzes contractually due amounts and provides additional implicit price concession, if necessary, based upon historical collection history for deductibles and copayments on accounts for which the third-party payor had not yet paid or for remaining payor balances.

For receivables associated with self-pay patients, which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, MRCC records a significant implicit price concession in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is reflected as a reduction in accounts receivable.

Pledge and other receivables – Pledges and other receivables consist primarily of pledges received from donors.

Investments and investment return – Investment in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (“ASU 2016-14”), investment return is net of investment manager expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restriction. Other investment return is reflected in the statement of activities and changes in net assets as without and with donor restriction based upon the existence and nature of any donor or legally imposed restrictions.

Assets limited as to use – Assets limited as to use include assets restricted by donors.

Property and equipment – Property and equipment acquisitions are recorded at cost and depreciated using the straight-line method based over the estimated useful life of each asset. MRCC capitalizes property and equipment with a cost of greater than $1,000. Costs of maintenance and repairs are charged to expense as incurred.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	20 years
Building and improvements	15 to 40 years
Furniture and equipment	3 to 10 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as contributions with donor restriction. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when expenditures for construction in progress or property and equipment are incurred that satisfy donor restriction.

Long-lived asset impairment – MRCC evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended June 30, 2022.

Asset retirement obligations – FASB Accounting Standards Codification ("ASC") Topic 410-20, *Asset Retirement Obligations*, defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. In 2020, MRCC began a remodeling project (See Note 6), which includes abatement of asbestos. During 2022, MRCC paid $140,393 in asset retirement obligations. As of June 30, 2022, MRCC had no remaining conditional asset retirement obligations recorded in the statement of financial position. During the year ended June 30, 2022, all prior asset retirement obligations were settled, which resulted in a total depletion expense of $28,714.

Due to related party – Due to related party includes liabilities for management services, centralized purchases and other administrative services due to ECA-Corporate.

Professional liability claims – MRCC recognizes an accrual for professional claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in Note 13.

Workers' compensation liability claims – MRCC recognizes an accrual for workers' compensation claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Workers' compensation liability claims are described more fully in Note 13.

Health reimbursement arrangement – MRCC recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Health reimbursement arrangement liability claims are described more fully in Note 13.

Interest rate swaps – MRCC entered into three interest rate swaps to manage interest rate risks on the construction note payable. Swaps are contracts to exchange, for a period of time, the investment performance of one underlying instrument for the investment performance of another instrument without exchanging the instruments themselves. MRCC records in its statement of financial position the estimated fair value of swaps as of the statement of financial position date. Changes in the fair value of the swaps are included in the unrealized gains on interest rate swaps in the statement of activities and changes in net assets.

Net assets – Net assets are classified and reported as follows:

Net assets without donor restrictions – Represent resources available to support MRCC's operations and donor-restricted resources that have become available for use by MRCC in accordance with the intention of the donor.

Net assets with donor restrictions – Represent contributions that are limited in use by MRCC in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of MRCC according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from net assets with donor restrictions and recognized as net assets without donor restrictions. Net assets with donor restrictions are available primarily for building renovations, resident assistance, certain aspects of operations, and food distribution to low income seniors. Net assets with donor restrictions also represent net assets subject to donor-imposed stipulations that they be maintained by MRCC in perpetuity. See Note 9 for net assets with donor restrictions maintained by MRCC in perpetuity at June 30, 2022.

Revenue recognition – MRCC has assessed the predominant component of monthly lease payments for assisted living and memory care to be for the monthly rent of the apartment, as other services such as net health services revenue and other resident services revenue are reported separately. MRCC therefore recognizes monthly rent as lease income under ASC 840, *Leases*. MRCC further determined that net health services revenue and other resident services revenue are health care services and other services provided to residents that do not relate to the assisted living unit apartment rent. Therefore, such service revenues are not part of the calculation of lease payments, and revenue under these service lines is recognized under ASC 606, *Revenue from Contracts with Customers*.

Net health services revenues are reported at the amount that reflects the consideration MRCC expects to receive in exchange for the personal care services provided. Performance obligations are determined based on the nature of the services provided. Net health services revenues are recognized as performance obligations are satisfied.

Net health services revenues are primarily comprised of the following revenue streams:

Skilled Nursing – Skilled nursing revenues are primarily derived from providing personal care services to residents at a stated daily fees with the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, skilled nursing revenues are recognized on a daily basis.

Assisted Living – Assisted living revenues are primarily derived from providing personal care services to residents at a stated monthly fee with the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, assisted living revenues are recognized on a month-to-month basis.

Memory Care – Memory care revenues are primarily derived from providing personal care services to residents at a stated monthly fee with the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, memory care revenues are recognized on a month-to-month basis.

Ancillary – Ancillary revenues are primarily derived from providing medication, physical and occupational therapy, and medical supplies to skilled nursing residents. Ancillary revenue for net health services are recognized as services are rendered.

Other resident services revenue includes revenues from housekeeping, laundry, transportation, personal supplies, and other revenues from residents. MRCC has determined that other resident services revenue is considered individual performance obligations, which are satisfied over time as services are provided. Therefore, other resident services revenues are recognized as services are rendered.

MRCC disaggregates lease income and revenue from contracts with customers by type of service as this depicts the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors. Revenues, gains, and other support consist of the following for the year ended June 30, 2022, as follows:

	Skilled Nursing	Assisted Living / Memory Care	Ancillary	Total
Monthly rent	$ -	$ 4,328,508	$ -	$ 4,328,508
Net health services revenue	7,666,066	1,258,864	751,258	9,676,188
Other resident services revenue	-	-	39,403	39,403
	$ 7,666,066	$ 5,587,372	$ 790,661	$ 14,044,099

Payment terms and conditions for MRCC's resident contracts vary by contract type, although terms generally include payment to be made within 30 days. Monthly rental fees and net health services revenue for assisted living and memory care are billed to residents monthly in advance and are amortized ratably during the month. Net health services for skilled nursing and ancillary are billed in arears. Other resident services revenue is generally billed monthly in arrears.

MRCC has agreements with the residents at established monthly rates.

MRCC has agreements with third-party payors that provide for payments to MRCC at amounts different from it established rates. Net health services revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods, as adjustments become known. Payment arrangements include prospectively determined rates per day, reimbursed costs, discounted charges, and per diem payments. Net revenues from Medicare and Medi-Cal programs were $2,587,000 and $3,684,000, respectively, for the year ended June 30, 2022. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change in the near term.

Charitable care – MRCC provides charitable care discounts to long-term residents who are no longer able to pay the published rate for services or monthly service fees. The amount of charitable care discounts is included in monthly rent. The total charitable care discounts included in releases from restriction for the year ended June 30, 2022, was $94,517.

Contributions – Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported 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 and reported as an increase in net assets without donor restrictions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Contributions in-kind – MCRR recognizes in-kind contributions of food for its Brown Bag Program, that provides food distribution to low income seniors. These food contributions are received from the Alameda County Community Food Bank, which includes support from the United States Department of Agriculture, as well as other food banks, in support of MRCC's Brown Bag Program, which provides food distribution to low income seniors. Donated government food was valued at an average of $1.79 per pound for the year ended June 30, 2022. This valuation is based on an external study conducted for Feeding America.

(Deficiency) excess of revenues over expenses – MRCC considers the (deficiency) excess of revenues over expenses in net assets without donor restrictions as the operating measure for the organization. Changes in net assets without donor restrictions, which are excluded from (deficiency) excess of revenues over expenses consistent with industry practice, include permanent transfers to and from affiliates for other than goods and services.

Tax-exempt status – MRCC is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board. However, MRCC is subject to federal income tax on any unrelated business taxable income.

MRCC files tax returns in the U.S. federal and State of California jurisdictions.

Property taxes – MRCC has filed and received an exemption from certain property taxes in accordance with Section 214 of the California Code.

Reclassifications – Certain prior year amounts were reclassified to conform to the current year presentation. There was no change in net assets or changes in net assets related to these reclassifications.

New accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU No. 2016-02"), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which allows certain entities the option to delay adoption of ASU No. 2016-02 to fiscal years beginning after December 15, 2021, which is the fiscal year ending June 30, 2023, for MRCC. MRCC's management is currently evaluating the impact of adoption on the financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities – Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)* ("ASU No. 2020-07"), to present contributed assets as a single line item in the statement of activities, apart from contributions of cash and other financial assets. MRCC adopted ASU No. 2020-07 during the year ended June 30, 2022, and it has been applied retrospectively. The adoption did not have a material impact on the financial statements.

NOTE 2 – GOING CONCERN

MRCC, in accordance with FASB ASC Subtopic 205-40, *Presentation of Financial Statements – Going Concern*, has identified conditions that raise substantial doubt about the ability of MRCC to continue as a going concern in the near future. The principal condition that raises substantial doubt about MRCC's ability to continue as a going concern is the post-balance sheet date maturity of the construction note payable, resulting in a current ratio of 0.21 and a working capital deficit of $22,434,602. Due to a delay in completion of the financed project and the construction lender's unwillingness to extend the terms of the construction note payable to effect the planned 10-year financing, the construction note payable matured on September 25, 2022 and is reflected in the statement of financial position as a current liability. It should be noted that MRCC was in compliance with its financial covenants at June 30, 2022, even though there was a decrease in net assets of $2,426,216 and net use of cash in operating activities of $1,034,913 for the year ended June 30, 2022. As of June 30, 2022, there were unrestricted assets of $14,427,651 in cash, patient receivables and investments to fund operations and debt service - see also Note 11. The construction lender has indicated its intent to provide an extension to the current loan agreement, to provide MRCC time to find a new lender. MRCC is actively working to refinance the debt obligation.

NOTE 3 – COVID-19 PANDEMIC

MRCC, along with most other healthcare providers across the United States, has experienced operational challenges related to the outbreak of the COVID-19 pandemic. COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020, and on March 13, 2020, the president of the United States declared a national emergency as a result of the pandemic. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law, which aimed to direct economic assistance for American workers, families, and small business, and preserve jobs for American industries.

Provider Relief Funds – The COVID-19 pandemic impacted all healthcare providers throughout the health system. The CARES Act requires the amount of funding received to be validated, which requires management to quantify lost revenues and increased expenses associated with the pandemic for Provider Relief Funds ("PRF"). MRCC has recognized revenue associated with the PRF funding according to the terms and conditions of the CARES Act, and as grant revenue under FASB ASC 958-605. Grant revenue attributable to PRF funding totaled $151,495 for the year ended June 30, 2022, and is included on the statement of activities and changes in net assets.

Paycheck Protection Program – Section 1109 of the CARES Act temporarily added the Paycheck Protection Program ("PPP") to the Small Business Administration's ("SBA") 7(a) Loan Program. Section 1106 of the CARES Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under PPP. On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act ("Economic Aid Act") was signed into law, which extended the ability to entities to apply for PPP loans and revised certain PPP requirements.

Under the requirements of the CARES Act, as amended, proceeds were used for MRCC's eligible payroll costs (with salary capped at $100,000 on an annualized basis for each employee), or other eligible costs related to rent, mortgage interest utilities, covered operations expenditures, covered property damage, covered supplier costs, and covered worker protection expenditures, in each case paid during the eight-week period following disbursement. The PPP loan was able to be fully forgiven if (i) proceeds were used to pay eligible payroll costs or other eligible costs and (ii) full-time employee headcount and salaries were either maintained during the eight-week period following disbursement. If not maintained or restored, any forgiveness of the PPP loan would be reduced in accordance with the regulations that were issued by the SBA.

The PPP loan was accounted for as a debt instrument in accordance with ASC 470, *Debt*. All the proceeds of the PPP loan were used by MRCC to pay eligible payroll costs and MRCC maintained its headcount and otherwise complied with the terms of the PPP loan.

On March 24, 2021, MRCC received a PPP loan in the amount of $1,835,070. The PPP loan was forgiven on April 11, 2022. The full amount of the loan and accrued interest was recognized as gain from loan forgiveness and is included on the statement of activities and changes in net assets for the year ended June 30, 2022.

Payroll tax deferral program – Section 2302 of the CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security taxes. The payroll tax deferral period began on March 27, 2020, and ended December 31, 2020. Repayment of deferred payroll taxes was required as of December 31, 2021, with 50% of the deferred amount due and the remainder due on December 31, 2022. As of June 30, 2022, all deferred payroll taxes were paid.

The impact of COVID-19 has increased the uncertainty associated with management's assumptions and estimates made on these financial statements. The actual impact of COVID-19 on MRCC's financial statements may differ significantly from the assumptions and estimates made for the year ended June 30, 2022.

NOTE 4 – CONCENTRATION OF CREDIT RISK

MRCC grants credit without collateral to its patients and residents. The mix of receivables from patients, residents, and third-party payors at June 30, 2022, was as follows:

Medicare	25%
Medi-Cal	32%
Other third-party payors	30%
Self pay	13%
	100%

Financial instruments, which could potentially subject MRCC to significant concentrations of credit risk, consist primarily of investments in marketable securities. MRCC, primarily through external money managers, has significant investments in marketable securities, which are subject to price fluctuation. This risk is controlled through a diversified portfolio and regular monitoring procedures.

Financial instruments potentially subjecting MRCC to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") insurance thresholds. Demand deposits are placed with a local financial institution, and management has not experienced any loss related to these demand deposits in the past. At June 30, 2022, MRCC's cash accounts exceeded federally insured limits by $4,677,120.

NOTE 5 – INVESTMENTS AND INVESTMENT RETURN

Composition of investments and assets limited as to use at June 30, 2022, was as follows:

Equities	$ 6,171,788
Fixed income securities:	
U.S. agencies and treasuries	424,705
Corporate debt securities	1,148,180
Mortgage-backed securities	854,391
Mutual funds	1,214,302
Money market mutual funds	456,606
	$ 10,269,972

Investments reflected in the statement of financial position at June 30, 2022, were as follows:

Investments	$ 7,017,425
Assets limited as to use, restricted by donor (Note 9)	3,252,547
	$ 10,269,972

Total investment return at June 30, 2022, was comprised of the following:

Interest and dividend income and realized gains	$ 450,672
Less: investment expenses	(123,776)
	326,896
Unrealized losses	(2,429,234)
	$ (2,102,338)

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following at June 30, 2022:

Land and land improvements	$ 2,959,432
Buildings, building improvements, and building service equipment	39,293,203
Office furniture and equipment	3,771,056
Vehicles	355,574
	46,379,265
Less: accumulated depreciation	(6,680,699)
Construction in progress	504,875
	$ 40,203,441

At June 30, 2022, MRCC's construction in progress balance of $504,875 relates to certain building renovations. The projects currently in progress are expected to be completed in the next fiscal year with approximately $657,200 of additional costs to complete.

As described in Note 7, portions of the above property and equipment are pledged as collateral on MRCC's notes payable. MRCC capitalizes interest expense until the related depreciable asset is placed into service. Interest expense capitalized during the year ended June 30, 2022, was $372,973.

NOTE 7 – CONSTRUCTION NOTE PAYABLE

MRCC's construction note payable consisted of the following at June 30, 2022:

Construction Note Payable	$ 22,818,788
Less: current maturities	(22,438,612)
Less: unamortized debt issuance costs	(380,176)
Long term portion of construction note payable	$ -

MRCC entered into a $25,000,000 construction financing with BBVA Compass Bank on March 26, 2019. Such loan was used to finance construction payments through construction, with a planned conversion upon construction completion. The conversion would result in a 10-year financing, with principal payments based on a 30-year amortization and a 4.51% annual interest rate. BBVA Compass Bank was acquired by PNC Bank in 2021, however the terms of the loan remained the same. Due to COVID-related delays in construction, an amendment was executed to defer the planned conversion to a permanent loan on March 25, 2022 to September 25, 2022, and therefore extend the loan maturity to September 25, 2032. Additionally, as a condition of the construction financing, interest rate swaps were executed to swap the floating rate interest (upon conversion) under the financing agreement to fixed rate interest. While the planned debt conversion was extended, the interest rate swaps took effect on March 25, 2022 as planned.

Unamortized debt issuance costs of $380,176 at June 30, 2022, were incurred to secure the construction financing. The debt issuance costs will be amortized to interest expense once the financed project is complete, upon conversion, over the term of the anticipated 10-year permanent loan. As a result, there was no amortization of debt issuance costs during 2022.

NOTE 8 – INTEREST RATE SWAPS

MRCC entered into three interest rate swap agreements with a commercial bank, its construction lender, to manage interest rate exposure from its floating rate on the construction note payable. The differential to be paid or received under these agreements is accrued consistent with the terms of the agreement and is recognized in interest expense over the term of the related debt using a method that approximates the effective interest method.

The estimated fair values of interest rate swaps have been determined using Level 2 inputs including available marketing information and valuation methodologies. The fair values of interest rate swaps include adjustments for market liquidity, counterparty credit quality, and other deal specific factors, where appropriate. MRCC also incorporates, within its fair value measurements of over-the-counter derivatives, the net credit differential between the counterparty credit risk and MRCC's own credit risk. An estimate of severity of loss is also used in the determination of fair value, primarily based on historical experience, adjusted for recent specific expectations.

All interest rate swaps were entered into with BBVA Compass Bank, and assumed with the same terms upon its acquisition by PNC Bank in 2021. PNC is the floating rate player subject to a floating rate, whereas MRCC is the fixed rate player subject to a fixed rate. While the original swaps referenced the floating rate of USD-LIBOR-BBA, upon the construction loan extension, the rate was amended to reference USD-BSBY (Bloomberg Short-Term Bank Yield Index rate) as LIBOR is being phased out. All swaps were executed with effective dates coinciding with the planned construction note payable conversion of March 24, 2022.

The following chart outlines the terms and valuations of the swap arrangements:

	Notional value	Interest rate	Date executed	Maturity date	Fair value at June 30,2022	Unrealized (loss) gain for the year ended June 30,2022
2019 Swap	$ 10,000,000	2.86%	3/26/2019	3/24/2032	$ (12,943)	$ (12,943)
2020 Swap	$ 10,000,000	1.09%	5/1/2020	3/24/2032	1,376,136	1,376,136
2020 Swap #2	$ 2,000,000	1.20%	5/4/2020	3/24/2027	151,010	151,010
					$ 1,514,203	$ 1,514,203

Note that the 2020 Swap #2 includes options to terminate early, in $500,000 increments annually from March 24, 2023 through 2025 and $355,219 in 2026. The value of the exit options are incorporated into the swap valuation and the associated unrealized gain (loss).

At June 30, 2022, the fair value of the interest rate swaps was included in the statement of financial position. The unrealized gain (loss) for the year ended June 30, 2022 was included in the accompanying statement of activities and changes in net assets.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of donor restricted contributions and grants at June 30, 2022, for the following purposes:

Building renovations and equipment	$ 1,314,937
Charitable care and other	336,431
Food distribution to low income seniors	881,252
Endowment corpus	2,939,874
	$ 5,472,494

During the year ended June 30, 2022, $4,591,174 of net assets were released from donor restrictions by incurring eligible operating and capital expenditures and satisfying the restricted purposes of charitable care.

Endowment corpus that must be maintained in perpetuity, with the earnings on such funds to be used primarily for the care of indigent people, are included in charity and other.

NOTE 10 – ENDOWMENTS

MRCC's endowment was established to support MRCC's nonprofit mission. The endowment consists of donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

MRCC's governing body has interpreted the State of California Prudent Management of Institutional Funds Act ("SPMIFA") as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, MRCC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as net assets with donor restrictions that are available for release until those amounts are appropriated for expenditure by MRCC in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, MRCC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of MRCC and the fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from investment income and appreciation or depreciation of investments
- Other resources of MRCC
- Investment policies of MRCC

The composition of net assets for the endowment fund at June 30, 2022, was as follows:

	Available for Release	Corpus	Total
Donor-restricted endowment funds	$ 312,673	$ 2,939,874	$ 3,252,547

Changes in endowment net assets for the year ended June 30, 2022, was as follows:

	Available for Release	Corpus	Total
Endowment net assets, beginning of year	$ 951,016	$ 2,939,874	$ 3,890,890
Investment return, net			
Investment loss	(599,680)	-	(599,680)
Net appreciation	94,228	-	94,228
Less: investment manager expense	(38,374)	-	(38,374)
Total investment return	(543,826)	-	(543,826)
Appropriation of endowment assets for expenditure	(94,517)	-	(94,517)
Endowment net assets, end of year	$ 312,673	$ 2,939,874	$ 3,252,547

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level MRCC is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. There were no such deficiencies of this nature at June 30, 2022.

MRCC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include the assets of donor-restricted endowment funds MRCC must hold in perpetuity or for donor-specified periods. MRCC expects its endowment funds to provide an average annual rate of return exceeding consumer price index ("CPI") by 3.5% over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, MRCC relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). MRCC targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

MRCC has a policy of appropriating each year for expenditures an amount expected to be required to offset the amount of resident assistance estimated to be provided as approved in the annual budget. In establishing this policy, MRCC considered the long-term expected return on its endowment. This is consistent with MRCC's objective to maintain the purchasing power of endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

NOTE 11 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30, 2022, comprise the following:

Cash and cash equivalents	$ 5,427,120
Patient and resident accounts receivable, net	1,983,106
Investments	7,017,425
	$ 14,427,651

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. MRCC has a goal to maintain a current ratio greater than 1:1 in order to meet general expenditures, liabilities, and other obligations as they come due.

NOTE 12 – FUNCTIONAL EXPENSES

The expenses for providing residential and assisted living services activities of MRCC that can be directly identified with a specific function are allocated directly to that function. Expenses that cannot be directly identified with a specific function are allocated among program services and supporting services activities benefited based upon employee time and effort recorded on functions related to the specific activity, or in the case of shared expenses, using an allocation based on personnel costs, space usage, or other relevant bases. Expenses related to providing these services for the year ended June 30, 2022, was as follows:

	Skilled Nursing	Assisted Living / Memory Care	Brown Bag Program	Fundraising	General and Administrative	Total
Salaries and benefits	$ 5,156,217	$ 4,126,519	$ 525,156	$ 117,304	$ -	$ 9,925,196
Purchased services and other	1,842,622	1,897,200	79,577	34,173	605,150	4,458,722
Donated food	-	-	3,686,564	-	-	3,686,564
Supplies	881,068	560,070	406,190	5,692	14,755	1,867,775
Depreciation and depletion	609,060	1,125,438	-	-	-	1,734,498
Interest and fees	-	-	-	-	112,736	112,736
Management fee	-	-	-	-	1,221,631	1,221,631
Loss on disposal of property and equipment	-	-	-	-	203,415	203,415
Other expenses	-	-	-	-	32,645	32,645
	$ 8,488,967	$ 7,709,227	$ 4,697,487	$ 157,169	$ 2,190,332	$ 23,243,182

NOTE 13 – PROFESSIONAL LIABILITY, WORKERS COMPENSATION CLAIMS, AND HEALTH REIMBURSEMENT ARRANGEMENT LIABILITY CLAIMS

Professional liability claims – MRCC purchases professional liability insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue professional liability costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon MRCC’s claim experience, no such accrual is required. It is reasonably possible that this estimate could change materially in the near term.

Workers' compensation claims – MRCC purchases workers' compensation insurance coverage with a zero deductible per occurrence. The provision for estimated workers' compensation claims includes estimates of the ultimate costs for both uninsured reported claims and claims incurred-but-not-reported, in accordance with projections based on past experience. Workers' compensation liabilities, included in accrued expenses and other current liabilities, were $110,000 as of June 30, 2022, in the accompanying statement of financial position. Insurance recovery receivables, included in other assets, were $110,000 as of June 30, 2022, in the accompanying statement of financial position.

Health reimbursement arrangement – MRCC purchases a high deductible health and dental insurance plan for MRCC employees on a calendar year basis. MRCC has a commitment to fund $3,500 per employee to a health savings account, which was increased to $5,500 per employee on January 1, 2021. MRCC estimates the remaining utilization of the health reimburse arrangement based on historical experience of claims paid from the MRCC employee's health savings account. The remaining estimated health reimbursement accrued expense is included in accrued expenses and other current liabilities in the accompanying statement of financial position was $74,250 as of June 30, 2022.

NOTE 14 – RETIREMENT PLANS

MRCC participates in a defined contribution plan and incentive plan that cover all employees. Employees are eligible for participation in the defined contribution plan at date of hire and MRCC matches the employee contribution, after the completion of one year of service, up to a maximum of 5.0% of the employee's salary, with vesting over four years. In addition, employees are eligible for the incentive plan where MRCC contributes a discretionary amount of the employee's salary after completion of one year of service. During the year ended June 30, 2022, MRCC contributed a total of $115,371 and zero, to the defined contribution and incentive plans, respectively.

NOTE 15 – MANAGEMENT COMPANY

In July 1, 2011, MRCC entered into a management agreement with ECA-Corporate for various management, consulting and marketing services. MRCC reimburses ECA-Corporate for all reasonable out-of-pocket expenses, a management fee of 2.5% of gross revenues generated by the property, and a contingent fee of 1.5% of gross revenues. The management agreement expires on July 1, 2031. Management fee expense was $1,221,631 for the year ended June 30, 2022.

NOTE 16 – RELATED PARTY TRANSACTIONS

MRCC entered into a note payable in the amount of $2,000,000 with ECA-Corporate in December 2021, by converting $2,000,000 reported as due to related party, to support financing the equity commitment for the construction loan. The note bears interest monthly at 2.5%. Principal and interest is payable annually over four years, commencing on July 15, 2022, unless to do so would violate the construction note payable terms. The balance of the note payable at June 30, 2022, was $2,000,000. Accrued interest of $29,167 as of June 30, 2022, is included in due to related parties. Interest expense on the related party note payable for the year ended June 30, 2022, was $29,167.

MRCC has a payable to ECA-Corporate at June 30, 2022. The amounts due are for management fees and other shared administrative expenses. See Note 15 for discussion of management fee expense. The amounts due to related party as of June 30, 2022, was $332,719.

Related party note payable	$	303,552
Accrued interest from note payable		29,167
	$	332,719

In May 2022, MRCC entered into an agreement with Elder Care Alliance of San Francisco (AVSF) for consulting services. AVSF is a related party as another subordinate company to ECA-Corporate. The agreement expires on June 30, 2022, and is renewable on a monthly basis. MRCC pays monthly fees of $11,400, for professional services and expenses. Consulting fee expense for the year ended June 30, 2022, was $21,329.

NOTE 17 – CONTINUING CARE RESERVE REQUIREMENT

The State of California and Safety Code (the "Code") requires continuing care retirement communities to report on the adequacy of certain reserve requirements. MRCC met both the statutory and liquid reserve requirements at June 30, 2022, and was exempt from the refund reserve requirement at June 30, 2022.

In accordance with section 1790(a)(3) of the Code as of June 30, 2022, the amounts accumulated for projects designated to meet the needs of the MRCC residents are accumulated in construction in progress (Note 6), and there are no amounts maintained for contingencies.

NOTE 18 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2022.

Investments – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Levels 1 or 2 inputs are not available, securities are classified within Level 3 of the hierarchy. MRCC does not hold securities classified as Level 3.

Interest rate swap agreements – The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following tables present the fair value measurements of certain assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2022:

	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Equities	$ 6,171,788	$ 6,171,788	$ -	$ -
Fixed income securities:				
U.S. agencies and treasuries	424,705	424,705	-	-
Corporate debt securities	1,148,180	-	1,148,180	-
Mortgage-backed securities	854,391	854,391	-	-
Mutual funds	1,214,302	1,214,302	-	-
Money market mutual funds	456,606	456,606	-	-
	$ 10,269,972	$ 9,121,792	$ 1,148,180	$ -
Interest rate swaps	$ 1,514,203	$ -	$ 1,514,203	$ -

NOTE 19 – SIGNIFICANT ESTIMATES, CONCENTRATIONS, AND CONTINGENCIES

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations and contingencies. Those matters include the following:

Compliance – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government health care program participation requirements; reimbursement for patient services; and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that MRCC is in compliance with fraud, abuse, and other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

Litigation – In the normal course of business, MRCC is, from time to time, subject to allegations that may or do result in litigation. MRCC evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Implicit and explicit price concessions for net health services revenue – Implicit and explicit price concessions included in net health services revenue are described in Note 1.

Current economic conditions – Due to the current regulatory environment and economic uncertainties, it is possible the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments.

Investments – MRCC invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

Interest rate swaps – MRCC invests in various interest rate swaps. Interest rate swaps are exposed to various risks such as interest rate and market risks. Due to the level of risk associated with interest rate swaps, it is at least reasonably possible that changes in the values of interest rate swaps will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

NOTE 20 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. MRCC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. MRCC's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements were available to be issued.

In late September 2022, the construction loan lender indicated its unwillingness to extend the term of the construction note payable, required due to project delays, on the same terms as the original financing. As a result, the planned loan conversion was not completed. The lender has indicated that it intends to provide a short-term extension of the construction note payable, in order for MRCC to find alternative financing. See Notes 2 and 7.

MRCC has evaluated subsequent events through October 31, 2022, which is the date the financial statements were available to be issued.

Supplementary Information

Mercy Retirement and Care Center
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Award Period	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture					
Pass-through awards from:					
Alameda County Area Agency on Aging					
COVID-19: Families First (FFCRA) and Supplemental Nutrition Assistance Program (SNAP)	7/1/2021 - 6/30/2022	10.561	N/A	$ -	$ 44,911
The Emergency Food Assistance Program (TEFAP)	7/1/2021 - 6/30/2022	10.569	N/A	-	586,567
Pass-through programs subtotal					631,478
Total U.S. Department of Agriculture					631,478
U.S. Department of Health and Human Services (HHS)					
COVID-19: Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	7/1/2021 - 6/30/2022	93.498	N/A	-	198,880
Total U.S. Department of Health and Human Services				-	198,880
U.S. Department of Homeland Security					
Federal Emergency Management Agency (FEMA)					
Emergency Food and Shelter National Board Program (EFSP)	7/1/2021 - 6/30/2022	97.024	N/A	-	35,000
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	7/1/2021 - 6/30/2022	97.036	N/A	-	93,573
Total U.S. Department of Homeland Security				-	128,573
Total Federal Expenditures				$ -	$ 958,931

See notes to schedule of expenditures of federal awards.

Basis of presentation – The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Mercy Retirement and Care Center under a program of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Mercy Retirement and Care Center, it is not intended to and does not present the financial position, results of operations, or changes in net assets or cash flows of Mercy Retirement and Care Center.

Summary of significant accounting policies – Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect costs – Mercy Retirement and Care Center has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Subrecipient awards – Mercy Retirement and Care Center did not provide any federal awards to subrecipients during the year ended June 30, 2022.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Mercy Retirement Care Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mercy Retirement and Care Center (the "MRCC"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets and the cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MRCC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MRCC's internal control. Accordingly, we do not express an opinion on the effectiveness of MRCC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether MRCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
October 31, 2022

MOSSADAMS

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors
Mercy Retirement and Care Center

Report on Compliance for the Major Federal Program

Qualified Opinion on the Major Federal Program

We have audited Mercy Retirement and Care Center ("MRCC")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on MRCC's major federal program for the year ended June 30, 2022. MRCC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on The Emergency Food Assistance Program Assistance Listing Number 10.569

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, MRCC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on The Emergency Food Assistance Program Assistance Listing Number 10.569 for the year ended June 30, 2022.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of MRCC and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of MRCC's compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on The Emergency Food Assistance Program Assistance Listing Number 10.569

As described in the accompanying schedule of findings and questioned costs, MRCC did not comply with requirements regarding The Emergency Food Assistance Program Assistance Listing Number 10.569 as described in finding number 2021-002 for Special Test and Provisions.

Compliance with such requirements is necessary, in our opinion, for MRCC to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to MRCC’s federal programs.

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on MRCC's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about MRCC's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 MRCC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of MRCC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of MRCC's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instance of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-001.

Government Auditing Standards requires the auditor to perform limited procedures on MRCC's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. MRCC's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any significant deficiencies in internal control over compliance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on MRCC's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. MRCC's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
October 31, 2022

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statement audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☒ Yes ☐ No

Identification of Major Federal Programs and Type of Auditor's Report Issued on Compliance for Major Federal Programs:

Federal Assistance Listing Numbers	*Name of Major Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
10.569	The Emergency Food Assistance Program (TEFAP)	*Qualified*

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

Finding 2022-001: Special Tests and Provisions - Material Weakness in Internal Control Over Compliance and Instance of Noncompliance

Federal Program: The Emergency Food Assistance Program (TEFAP) (Assistance Listing #10.569)

Federal Agency: U.S. Department of Agriculture

Award Year: 2021–2022

Criteria: Management is responsible for establishing and maintain an effective control over compliance. A strong internal control system ensures that compliance requirements are met.

Condition: Management is required to maintain an appropriate accounting for USDA Foods, provide an annual physical inventory and reconcile the inventory annually. During audit inquiries, management disclosed there is no inventory management system. During our audit procedures over food receipts, management was unable to provide receipt requisition forms for 17 of 40 samples selected. During our audit procedures we noted that in addition to food recipients picking up food at MRCC's distribution site that MRCC delivers food to various locations with eligible food recipients. Of the 40 distributions sampled, 8 were distributions made by the mobile unit and 1 was delivery to Mercy Retirement and Care Center Grocery Shop. We noted that none of these 9 selected distributions retained evidence of receipt by the destination location to support inventory management.

Cause: Management does not have a food inventory system to record food receipt requisitions and food distributions. Management does not perform an inventory count or reconciliation of changes in inventory using food receipt requisitions and food distributions. For the 17 of 40 sampled where there was no receipt requisition, the requisition was placed via a phone call, but not documented as a receipt requisition. For the 9 of 40 sampled distributions to offsite locations there was no documentation retained of receipt by the receiving offsite location on behalf of food recipients.

Effect: Failure to maintain a food inventory system to monitor and record food inventory in accounting records could allow for misappropriation of food inventory to occur.

Context: Management does not have internal controls over inventory management as required by TEFAP.

Questioned costs: $0

Repeat Finding: 2021-001

Recommendation: We recommend management to implement an inventory management system and establish oversight controls to ensure compliance requirements are met.

Views of responsible officials: COVID impacts on the Mercy Brown Bag program's execution and associated inventory documentation was profound, given the need to restructure historical food distribution practices with recipients and the increase of the food provided through TEFAO program. Priority was given to distribution of the food to recipients, with limited staffing caused by the increased operational workload and social distancing requirements. Program management will implement written documentation standards and processes to ensure all inventory movement is documented and retained, effective immediately. Additionally, periodic inventories will be conducted to ensure that all transactions have been captured. Exploration of a technology solution to enable these processes will be conducted and implemented if determined to be cost-effective.

Finding 2022-002: Special Tests and Provisions - Material Weakness in Internal Control Over Compliance and Material Noncompliance for Eligibility

Federal Program: The Emergency Food Assistance Program (TEFAP) (Assistance Listing #10.569)

Federal Agency: U.S. Department of Agriculture

Award Year: 2021–2022

Criteria: Management is responsible for establishing and maintain an effective control over compliance. A strong internal control system ensures that compliance requirements are met.

Condition: During audit procedures we noted the total number of food recipients during the reporting period July 1, 2021 to June 30, 2022 was 45,829, which was vouched to the Link2Feed website database. Management also tracks a separate spreadsheet the number of bags of food delivered to offsite locations where food recipients pick up a bag of food, which totaled 127,474, which is a difference of 81,615 food recipients not being tracked within the Link2Feed website.

Cause: Due to the COVID-19 pandemic, deliveries were being made via delivery services and directly to offsite locations with populations of food recipients that were not being tracked via Link2Feed by manual entry by management.

Effect: Failure to track recipients that received food distributions from the program is not compliant with the TEFAP program and could cause ineligible food recipients to receive support from this program.

Context: Management did not implement effective internal controls over distributions of USDA Foods to food recipients within the required method via the Link2Food website.

Questioned costs: $0

Repeat Finding: 2021-002

Recommendation: We recommend management to establish oversight controls to ensure compliance requirements are met.

Views of responsible officials: Given the change in distribution approach, use of the Link2Feed website by food recipients was hard to enforce compliance. However, effective immediately, processes will be put in place to ensure all food recipients register in Link2Feed as required.

Finding Number 2021-001
Internal Controls over inventory management (Material Weakness)

Observation/Impact

Management is required to maintain an appropriate accounting for USDA Foods, provide an annual physical inventory and reconcile the inventory annually.

Criteria

Uniform Guidance 2 CFR 200.511 requires the auditee to follow-up and provide corrective action on all audit findings as defined by the audit findings follow-up process under CFR 200.511.

During our audit inquiries, management disclosed there is no formal inventory management system, as historically there has been very limited inventory on-hand at any given time. Additionally, management does not perform an inventory count or reconciliation of changes in inventory using food receipt requisitions and food distributions.

Cause

COVID impacts on the Mercy Brown Bag program's execution and associated inventory documentation was profound, given the need to restructure historical food distribution practices with recipients and the increase of the food provided through the TEFAP program. Priority was given to distribution of the food to recipients, with limited staffing caused by the increased operational workload and social distancing requirements.

Status

The conditions that led to this control weakness continued throughout the pandemic, and were specifically identified in summer 2022 as the expanded operations, and change in food distribution model, are expected to continue. Therefore, program management required time to identify a systematic solution which did not occur in time to effect transactions for the period under audit. Effective September 29, 2022, program management implemented written documentation standards and processes to ensure all inventory movement is documented and retained. Additionally, periodic inventories will be conducted to ensure that all transactions have been captured, with the next inventory scheduled for the end of January 2023. Exploration of a technology solution to enable these processes will be conducted and implemented if determined to be cost-effective.

ElderCareAlliance.org | Engaging Hearts - Transforming Lives - Erasing Boundaries
3431 Foothill Blvd Oakland, CA 94601
510-534-8540

Finding Number 2021-002
Internal controls over distributions of USDA Foods to recipients (Material Weakness)

Observation/Impact

Management did not implement effective internal controls over distributions of USDA Foods to food recipients within the required method via the Link2Food website.

Criteria

Uniform Guidance 2 CFR 200.511 requires the auditee to follow-up and provide corrective action on all audit findings as defined by the audit findings follow-up process under CFR 200.511.

During our audit procedures we noted the total number of food recipients during the reporting period July 1, 2020 to June 30, 2021 was 45,355, which was vouched to the Link2Feed website database. Management also tracks, using a separate spreadsheet, the number of food bags delivered to offsite locations where food recipients pick up a food bag. That spreadsheet totaled 129,906, which is a difference of 84,961 food recipients not being tracked within the Link2Feed website.

Cause

Given the change in distribution approach, use of the Link2Feed website by food recipients was hard to enforce compliance.

Status

The conditions that led to this control weakness continued throughout the pandemic, and were specifically identified in summer 2022 as the expanded operations, and change in food distribution model, are expected to continue. Therefore, program management required time to identify a systematic solution, which did not occur in time to effect transactions for the period under audit. Effective September 29, 2022, processes were put in place to ensure all food recipients register on Link2Feed as required.

Mercy Retirement
& CARE CENTER
An Elder Care Alliance Community

October 28, 2022

Moss Adams LLP
101 Second Street, 9th Floor
San Francisco, CA 94105

As required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) we have provided below our response and corrective action plan addressing the finding noted in the Single Audit reporting package for Mercy Retirement and Care Center ("MRCC") for the year ended June 30, 2022.

Response and Corrective Action Plan

Finding Number 2022-001
Internal Controls over inventory management (Material Weakness)

Response and Corrective Action Plan: COVID impacts on the Mercy Brown Bag program's execution and associated inventory documentation was profound, given the need to restructure historical food distribution practices with recipients and the increase of the food provided through the TEFAP program. Priority was given to distribution of the food to recipients, with limited staffing caused by the increased operational workload and social distancing requirements.

Program management will implement written documentation standards and processes to ensure all inventory movement is documented and retained, effective immediately. Additionally, periodic inventories will be conducted to ensure that all transactions have been captured. Exploration of a technology solution to enable these processes will be conducted and implemented if determined to be cost-effective.

Responsible Person: Janice Roberts, Program Director, under the oversight of John Cruz, Mercy Executive Director.

Estimated Completion Date: January 31, 2023

ElderCareAlliance.org | Engaging Hearts - Transforming Lives - Erasing Boundaries
3431 Foothill Blvd Oakland, CA 94601
510-534-8540

Finding Number 2022-002
Internal controls over distributions of USDA Foods to recipients (Material Weakness)

***Response and Corrective Action Plan*:** Given the change in distribution approach, use of the Link2Feed website by food recipients was hard to enforce compliance. However, effective immediately, processes will be put in place to ensure all food recipients register on Link2Feed as required.

Responsible Person: Janice Roberts, Program Director, under the oversight of John Cruz, Mercy Executive Director.

Estimated Completion Date: November 30, 2022

Sincerely,

Robin Evitts

Robin Evitts
Chief Financial Officer

MOSSADAMS

Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Mercy Retirement and Care Center

June 30, 2022

MOSSADAMS

Table of Contents

MOSSADAMS

Report of Independent Auditors

To the Board of Directors
Mercy Retirement and Care Center

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mercy Retirement and Care Center ("MRCC"), which comprise the continuing care liquid reserve schedule, Form 5-1 though Form 5-5, for the year ended June 30, 2022.

In our opinion, the accompanying financial statements present fairly, in all material respects, the continuing care reserve of Mercy Retirement and Care Center as of June 30, 2022, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MRCC 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.

Basis of Accounting

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792, 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.

Auditor's 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 auditor's 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 one resulting from error, as fraud may include 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 GAAS, 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 MRCC's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MRCC'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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements, as a whole. The accompanying supplementary schedules of Attachment to Form 5-1 and 5-2, Attachment to Form 5-4, and Attachment to Form 5-5, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements, taken as a whole.

Restriction on Use

Our report is intended solely for the information and use of the Board of Directors and management of Mercy Retirement and Care Center and the California Department of Social Services, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

San Francisco, California
October 31, 2022

Continuing Care Liquid Reserve Schedules

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	03/26/19	$0	$372,973	$0	$372,973
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
		TOTAL:	$372,973	$0	$372,973

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

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

MRCC entered into a $25.0 million construction loan on March 26, 2019 with PNC Bank. There were borrowings of $22,818,717 and accrued interest payable of $48,879 as of June 30, 2022, respectively. During the year ended June 30, 2022, Mercy paid $372,973 in interest, which is included in property and equipment, net on the financial statements.

PROVIDER: Mercy Retirement and Care Center, a Long-Term Care Community

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	12/01/21	$0	$500,000	1.00	$500,000
2	03/24/22	$69,042	$0	-	$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$69,042	$500,000	1	$500,000

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

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

MRCC converted intercompany payables into a $2.0 million intercompany loan on December 1, 2021 with ElderCare Alliance. There were borrowings of $2,000,000 as of June 30, 2022 plus accrued interest payable of $29,167. A principal payment of $500,000 plus the accrued interest was made in July 2022.

MRCC has three interest swaps totaling $22.0 million associated with that started March 24, 2022 associated with its March 26, 2019 loan with PNC Bank.

PROVIDER: Mercy Retirement and Care Center, a Long-Term Care Community

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

Line		TOTAL
[1]	Total from Form 5-1 bottom of Column (e)	$372,973
[2]	Total from Form 5-2 bottom of Column (e)	$500,000
[3]	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	$0
[4]	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$872,973

PROVIDER: Mercy Retirement and Care Center, a Long-Term Care Community

See accompanying notes.

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
[1]		Total operating expenses from financial statements		$19,556,618
[2]		Deductions:		
	[a]	Interest paid on long-term debt (see instructions)	$442,015	
	[b]	Credit enhancement premiums paid for long-term debt (see instructions)	$0	
	[c]	Depreciation	$1,763,212	
	[d]	Amortization	-$28,714	
	[e]	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$14,044,099	
	[f]	Extraordinary expenses approved by the Department	$0	
[3]		Total Deductions		$16,220,612
[4]		Net Operating Expenses		$3,336,006
[5]		Divide Line 4 by 365 and enter the result.		$9,140
[6]		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$685,481

PROVIDER: Mercy Retirement and Care Center, a Long-Term Care Community
COMMUNITY: Mercy Retirement and Care Center

See accompanying notes.

Mercy Retirement and Care Center
Form 5-5, Annual Reserve Certification

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Mercy Retirement and Care Center, a Long-Term Care Community
Fiscal Year Ended: 6/30/2022

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 6/30/2022 and are in compliance with those requirem

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

		Amount
[1]	Debt Service Reserve Amount	$872,973
[2]	Operating Expense Reserve Amount	$685,481
[3]	**Total Liquid Reserve Amount:**	$1,558,454

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

	Qualifying Asset Description	Amount (Market Value at End of Quarter) Debt Service Reserve		Operating Reserve
[4]	Cash and Cash Equivalents	$872,973		$2,707,911
[5]	Investment Securities	$0		$7,017,425
[6]	Equity Securities	$0		$0
[7]	Unused/Available Lines of Credit	$0		$0
[8]	Unused/Available Letters of Credit	$0		$0
[9]	Debt Service Reserve	$0		(not applicable)
[10]	Other: (describe qualifying asset)	$0		$0
	Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	$872,973	[12]	$9,725,336
	Reserve Obligation Amount: [13]	$872,973	[14]	$685,481
	Surplus/(Deficiency): [15]	$0	[16]	$9,039,855

Signature:

Robin Evitts

(Authorized Representative) Robin Evitts

Date: 10/31/2022

Chief Financial Officer
(Title)

See accompanying notes.

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – LONG-TERM DEBT

Mercy Retirement and Care Center entered into a $25,000,000 construction financing with BBVA Compass Bank on March 26, 2019. Such loan was used to finance construction payments through construction, with a planned conversion upon construction completion. The conversion would result in a 10-year financing, with principal payments based on a 30-year amortization and a 4.51% annual interest rate. BBVA Compass Bank was acquired by PNC Bank in 2021, however the terms of the loan remained the same. Due to COVID-related delays in construction, an amendment was executed to defer the planned conversion to a permanent loan on March 25, 2022 to September 25, 2022, and therefore extend the loan maturity to September 25, 2032. Additionally, as a condition of the construction financing, interest rate swaps in the amount of $22,000,000 were executed to swap the floating rate interest (upon conversion) under the financing agreement to fixed rate interest. While the planned debt conversion was extended, the interest rate swaps took effect on March 25, 2022 as planned. PNC is the floating rate player subject to a floating rate, whereas MRCC is the fixed rate player subject to a fixed rate. While the original swaps referenced the floating rate of USD-LIBOR-BBA, upon the construction loan extension, the rate was amended to reference USD-BSBY (Bloomberg Short-Term Bank Yield Index rate) as LIBOR is being phased out.

In late September 2022, the construction loan lender indicated its unwillingness to extend the term of the construction note payable, required due to project delays, on the same terms as the original financing. As a result, the planned loan conversion was not completed. The lender has indicated that it intends to provide a short-term extension of the construction note payable, in order for MRCC to find alternative financing.

MRCC entered into a note payable in the amount of $2,000,000 with ECA-Corporate in December 2021 to support financing the equity commitment for the construction loan. The note bears interest monthly at 2.5%. Principal and interest are payable annually over four years, commencing on July 15, 2022, unless to do so would violate the construction note payable terms. The balance of the note payable at June 30, 2022, was $2,000,000. Accrued interest of $29,167 as of June 30, 2022, is included in due to related parties. Interest expense on the related party note payable for the year ended June 30, 2022, was $29,167.

NOTE 3 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. MRCC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. MRCC's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements were available to be issued.

MRCC has evaluated subsequent events through October 31, 2022, which is the date the financial statements were available to be issued.

In late September 2022, the construction loan lender indicated its unwillingness to extend the term of the construction note payable, required due to project delays, on the same terms as the original financing. As a result, the planned loan conversion was not completed. The lender has indicated that it intends to provide a short-term extension of the construction note payable, in order for MRCC to find alternative financing.

Supplementary Schedules

Attachment to Form 5-1 and Form 5-2

Interest paid during Fiscal Year per Form 5-1	$	372,973
Total interest paid during Fiscal Year per Form 5-2		69,042
Cash paid for interest per Statement of Cash Flow	$	442,015

Attachment to Form 5-4

Net Patient and Resident Services Income (Line 2 e)		
Revenue, Gains and Other Support per the statement of activities and changes in net assets	$	19,035,584
Less: In-kind food contributions		(3,686,564)
Less: Provider relief funds		(151,495)
Less: Net assets releases from restrictions for operations		(1,153,426)
Net Patient and Resident Services Income (Line 2 e)	$	14,044,099

CCRC Revenue Allocation

	CCRC Amount	Non-CCRC Amount	Total Amount
Residential & Assisted Living	$ -	$ 3,611,159	$ 3,611,159
Memory Care	-	2,304,796	2,304,796
Skilled Nursing	-	7,666,066	7,666,066
Charitable Adjustments	-	(94,517)	(94,517)
Contractual Allowances	-	(148,406)	(148,406)
Subtotal Room & Board	-	13,339,098	13,339,098
Gross Ancillary Revenue	-	605,225	605,225
Other Operating Revenue**	-	99,776	99,776
Total Room & Board Revenue	$ -	$ 14,044,099	$ 14,044,099

**Note: Included in other operating revenue are reimbursements received for services provided to non-residents, such as guest accommodations and meals, and miscellaneous vendor refunds.

Operating Expense

Operating Expense per the statement of activities and changes in net assets	$	23,243,182
Less: Donated Food		(3,686,564)
Total Operating Expense on Form 5-4 (Line 1)	$	19,556,618

CCRC Depreciation and amortization
Line 2(c) & (d)

Line 2(c) - Depreciation	$	1,763,212
Line 2(d) - Amortization		(28,714)
Depreciation and depletion, per the statement of activities and changes in net assets	$	1,734,498

Mercy Retirement and Care Center
Attachment to Form 5-5

FORM 5-5 RESERVES		Per Audited Financial Statements - 06/30/22			
		Assets Limited as to Use - Externally Restricted by Donor	Investments	Cash	Net Assets with Donor Restrictions
	Per Financial Statements	$ 3,252,547	$ 7,017,425	$ 5,427,120	$ 5,472,494
	Less:				
	Reserves maintained by MRCC excluded from Qualifying Assets:				
(1)	Endowments for Charitable Care	3,252,547			$ 3,252,547
(2)	Capital campaign amounts for revitalization project			914,023	914,023
(2)	Donations for food program serving low income seniors			881,252	881,252
(2)	Donations for chapel renovation			27,204	27,204
(2)	Donations for wish list, other			23,757	23,757
	Total cash and investment reserves maintained by MRCC at June 30, 2022	3,252,547	-	1,846,236	5,098,783
	Unrestricted	$ -	$ 7,017,425	$ 3,580,884	
	Qualifying Assets - Form 5-5 Line 4 Cash - Debt Service			872,973	
	Qualifying Assets - Form 5-5 Line 4 Cash - Operating Reserve			2,707,911	
	Qualifying Assets - Form 5-5 Line 5 Investments - Operating Reserve		7,017,425		
		$ -	$ 7,017,425	$ 3,580,884	
	Capital campaign Pledges included in Other receivables per Financial Statements				373,711
	Total Net Assets With Donor Restrictions per Financial Statements				$ 5,472,494

(1) Donor designated investments for charitable care, including $2,939,874 permanently restricted

(2) Donor designated cash generally to be used in FY22 for operating expenses and revitalization

FORM 7-1
REPORT ON CCRC MONTHLY CARE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	MEMORY CARE	SKILLED NURSING
1.	Monthly Care Fees at beginning of reporting period: (indicate range, if applicable)		$4500-6200	$7375-$7775	13,175-15252
2.	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)		3.97-7.14%	3.15-3.32%	2.5-7.05%

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

3. Indicate the date the fee increase was implemented: 7/1/2021
(If more than one (1) increase was implemented, indicate the dates for each increase.)

4. Check each of the appropriate boxes:

☑ Each fee increase is based on the Provider's projected costs, prior year per capita costs, and economic indicators.

☑ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
Date of Notice: AL 4/30/21 CC 5/31/21 **Method of Notice:** Letter

☑ At least 30 days prior to the increase in fees, the designated representative of the Provider convened a meeting that all residents were invited to attend. **Date of Meeting:** May 19, 2021

☑ At the meeting with residents, the Provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

☑ The Provider distributed the documents to all residents by [Optional - check all that apply]:

- ☐ Emailed the documents to those residents for whom the provider had email addresses on file
- ☐ Placed hard copies in resident cubby
- ☑ Placed hard copies at designated locations
- ☑ Provided hard copies to residents upon request, and/or
- ☐ Other: [please describe] ______________________
- ☐ **Date of Notice:** ______________________

☐ The Provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
Date of Notice:______________________

☐ The governing body of the Provider, or the designated representative of the Provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

Date of Posting:______________________**Location of Posting:**____________________________________

☐ Providers evaluated the effectiveness of consultations during the annual budget planning process at a minimum of every two years by the continuing care retirement community administration. The evaluation, including any policies adopted relating to cooperation with residents was made available to the resident association or its governing body, or, if neither exists, to a committee of residents at least 14 days prior to the next semiannual meeting of residents and the Provider's governing body and posted a copy of that evaluation in a conspicuous location at each facility.

Date of Posting:___________________ **Location of Posting:** ______________________________________

5. On an attached page, provide a detailed explanation for the increase in monthly care fees including the amount of the increase and compliance with the Health and Safety Code.

PROVIDER: Mercy Retirement and Care Center **COMMUNITY:** Mercy Retirement and Care Center

Mercy Retirement and Care Center Year Ended June 30, 2022

Form 7-1, Item 5 Explanation for Increase in Monthly Services

Increase in	Percent	Explanation
Residential Living	**0%**	**N/A**
Assisted Living	**3.15% - 7.14%**	Assisted Living fees increased between 3.15% - 7.14% due to increase in overall operating expenses, led by labor costs, during the period ended July 1, 2021 to June 30, 2022. More modest fee increases were taken in 2020 due to the pandemic, and yet costs continued to rise. Wages rates in FY2022 increased approximately 3-5% for wage inflation and impacts of a tightening job market, especially for care staff. Additionally benefits costs were increasing along with increases in property and other insurance costs. Food and medical supply costs also continued to increase, with cost inflation of 5-7%.
Skilled Nursing	**2.50% - 7.05%**	Skilled Nursing fees increased between 2.5% and 7.05%, with overall budgeted cost increases of approximately 12%. Such cost increases were primarily driven by increased labor costs – both wage inflation and market rates for staff, with significant inflation in specific care positions. Employee medical costs also increased approximately 8%, due to COVID-related impacts for health care costs. Continued increases were planned to address infection control procedures, with some limited government funding to help mitigate the costs. Food and energy costs also continued to increase, similar to AL operational costs.