

FISCAL YEAR ENDED:
06/30/2023

ANNUAL REPORT CHECKLIST

PROVIDER(S): Mercy Retirement and Care Center

CCRC(S): Mercy Retirement and Care Center

PROVIDER CONTACT PERSON: Bing Isenberg

TELEPHONE NO.: (510) 220-2731 _____ EMAIL: bisenberg@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~~ ^{\$922} 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	11
[3]	Total Lines 1 and 2	11
[4]	Multiply Line 3 by .50 and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	5.5
All Residents		
[6]	Number at beginning of fiscal year	115
[7]	Number at end of fiscal year	126
[8]	Total Lines 6 and 7	241
[9]	Multiply Line 8 by ".50" and enter result on Line 10	x .50
[10]	Mean number of all residents	120.5
[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)	4.56%

**FORM 1-2
ANNUAL PROVIDER FEE**

Line		TOTAL
[1]	Total Operating Expenses	\$23,132,941
	[a] Depreciation	1,991,537
	[b] Debt Service (Interest Only)	\$933,358
[2]	Subtotal (add Line 1a and 1b)	\$2,924,895
[3]	Subtract Line 2 from Line 1 and enter result	\$20,208,046
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	4.56%
[5]	Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4)	\$922,358.95
		x .001
[6]	Total Amount Due (multiply Line 5 by .001)	\$922

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

November 30, 2023

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
Chief Executive Officer



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
12/16/2022

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	
INSURED Elder Care Alliance Mercy Retirement and Care Center 3431 Foothill Blvd Oakland CA 94601	INSURER(S) AFFORDING COVERAGE	NAIC #
	INSURER A: Caring Communities, A Reciprocal RRG	12373
	INSURER B:	
	INSURER C:	
	INSURER D:	


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

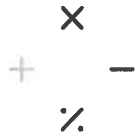
THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE 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	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS MADE <input checked="" type="checkbox"/> OCCUR <input checked="" type="checkbox"/> Professional Liability-Claims Made <input checked="" type="checkbox"/> PL Retro Date 06/30/2012 GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC OTHER:			CRRRRG-0036-23	01/01/2023	01/01/2024	EACH OCCURRENCE	\$ 1,000,000.00
							DAMAGE TO RENTED PREMISES (Ea occurrence)	\$ 300,000.00
							MED EXP (Any one person)	\$ -
							PERSONAL & ADV INJURY	\$ 1,000,000.00
							GENERAL AGGREGATE	\$ 3,000,000.00
							PRODUCTS - COMP/OP AGG	\$ incl
							SIR Per Claim	\$ 50,000.00
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident)	\$
							BODILY INJURY (Per person)	\$
							BODILY INJURY (Per accident)	\$
							PROPERTY DAMAGE (Per accident)	\$
								\$
A	<input type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR-GL <input checked="" type="checkbox"/> EXCESS LIAB <input checked="" type="checkbox"/> CLAIMS MADE-PL DEDUCTIBLE <input checked="" type="checkbox"/> RETENTION \$ 0			CRRRRG-0036-23 *Sublimits apply	01/01/2023	01/01/2024	EACH OCCURRENCE	\$ 10,000,000.00
							AGGREGATE	\$ 10,000,000.00
							*AUTO	\$ 10,000,000.00
							*EMP BEN	\$ 5,000,000.00
								\$
								\$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? <input type="checkbox"/> Y/N <input checked="" type="checkbox"/> N/A (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below						PER STATUTE	OTHER
							E.L. EACH ACCIDENT	\$
							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)
12/16/2022 12:15:15

CERTIFICATE HOLDER**CANCELLATION**

Mercy Retirement and Care Center 3431 Foothill Blvd Oakland CA 94601	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 
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Reports of Independent Auditors and
Financial Statements with Supplementary Information

Mercy Retirement and Care Center

June 30, 2023



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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, 2023, 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 Mercy Retirement and Care Center as of June 30, 2023, 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mercy Retirement and Care Center'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* 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 November 27, 2023 on our consideration of Mercy Retirement and Care Center'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 Mercy Retirement and Care Center'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 Mercy Retirement and Care Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California
November 27, 2023

Financial Statements

Mercy Retirement and Care Center
Statement of Financial Position
June 30, 2023

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 1,548,834
Patient and resident accounts receivable, net	3,275,360
Pledge and other receivables	1,075,959
Prepaid expenses and other assets	<u>196,336</u>
Total current assets	<u>6,096,489</u>
ASSETS LIMITED AS TO USE	
Restricted by donor (Note 8)	<u>3,665,920</u>
Total assets limited as to use	<u>3,665,920</u>
INTEREST RATE SWAPS (Note 6)	2,528,241
INVESTMENTS	6,610,269
PROPERTY AND EQUIPMENT, net of accumulated depreciation	40,136,171
OTHER ASSETS	<u>5,095</u>
Total assets	<u><u>\$ 59,042,185</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 873,659
Accrued expenses and other current liabilities	1,239,723
Term loan payable, current maturities	290,400
Construction note payable, current maturities	140,774
Due to related party	<u>271,986</u>
Total current liabilities	2,816,542
TERM LOAN PAYABLE, net of current maturities	23,813,968
RELATED PARTY NOTE PAYABLE	<u>1,500,000</u>
Total liabilities	<u>28,130,510</u>
NET ASSETS	
Without donor restrictions	25,558,928
With donor restrictions	<u>5,352,747</u>
Total net assets	<u>30,911,675</u>
Total liabilities and net assets	<u><u>\$ 59,042,185</u></u>

See accompanying notes.

Mercy Retirement and Care Center
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2023

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Monthly rent	\$ 4,837,401	\$ -	\$ 4,837,401
Net health services revenue	11,464,788	-	11,464,788
In-kind food contributions	4,561,052	-	4,561,052
Other resident services revenue	155,374	-	155,374
Net assets released from restrictions for operations	1,467,043	(1,467,043)	-
Total revenues, gains, and other support	<u>22,485,658</u>	<u>(1,467,043)</u>	<u>21,018,615</u>
EXPENSES AND LOSSES			
Salaries and benefits	10,336,376	-	10,336,376
Purchased services and other	6,894,796	-	6,894,796
Donated food	4,437,917	-	4,437,917
Supplies	1,835,045	-	1,835,045
Depreciation and depletion	1,991,537	-	1,991,537
Interest and fees	933,358	-	933,358
Management fee	1,330,561	-	1,330,561
Other expenses	50,979	-	50,979
Total expenses and losses	<u>27,810,569</u>	<u>-</u>	<u>27,810,569</u>
Operating loss	<u>(5,324,911)</u>	<u>(1,467,043)</u>	<u>(6,791,954)</u>
OTHER INCOME (EXPENSE)			
Contributions revenue	986,061	2,573,810	3,559,871
Unrealized gains on interest rate swaps	1,014,038	-	1,014,038
Investment return, net of investment expenses	808,839	430,880	1,239,719
Total other income	<u>2,808,938</u>	<u>3,004,690</u>	<u>5,813,628</u>
(Deficiency) excess of revenues over expenses	<u>(2,515,973)</u>	<u>1,537,647</u>	<u>(978,326)</u>
NET ASSETS RELEASED FROM RESTRICTION FOR BUILDING IMPROVEMENTS AND EQUIPMENT			
	<u>1,657,394</u>	<u>(1,657,394)</u>	<u>-</u>
CHANGE IN NET ASSETS	(858,579)	(119,747)	(978,326)
NET ASSETS, beginning of year	<u>26,417,507</u>	<u>5,472,494</u>	<u>31,890,001</u>
NET ASSETS, end of year	<u><u>\$ 25,558,928</u></u>	<u><u>\$ 5,352,747</u></u>	<u><u>\$ 30,911,675</u></u>

See accompanying notes.

Mercy Retirement and Care Center
Statement of Cash Flows
Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from noncontract residents	\$ 15,009,935
Cash received from contributions	1,949,232
Cash received from other resident services	155,374
Cash received from interest	28,180
Cash paid to related party	(1,399,627)
Cash paid for interest	(924,053)
Cash paid to suppliers and employees	<u>(20,276,788)</u>
Net cash used in operating activities	<u>(5,457,747)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(148,797)
Proceeds from sale of investments	1,354,119
Purchase of property and equipment	<u>(1,860,087)</u>
Net cash used in investing activities	<u>(654,765)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from contributions restricted for investment in buildings and equipment	927,696
Principal paid on related party note payable	(500,000)
Principal paid on construction note payable	(359,273)
Payment of debt issuance costs	(15,456)
Proceeds from construction note payable	<u>2,181,259</u>
Net cash provided by financing activities	<u>2,234,226</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(3,878,286)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	<u>5,427,120</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u>\$ 1,548,834</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION	
Change in undistributed in-kind food contributions	\$ 123,135

See accompanying notes.

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (978,326)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Contributions restricted for buildings and equipment	(927,696)
Unrealized gains on interest rate swaps	(1,014,038)
Unrealized gains on investments	(1,211,539)
In-kind food contributions	(4,561,052)
Distribution of food received in-kind	4,437,917
Depreciation expense	1,991,537
Interest capitalized	(64,180)
Change in operating assets and liabilities:	
Patient and resident accounts receivable	(1,292,254)
Pledge and other receivables	(521,792)
Prepaid expenses	144,387
Accounts payable	(1,557,872)
Accrued expenses and other	157,894
Due to related party	(60,733)
	<hr/>
Net cash used in operating activities	<u>\$ (5,457,747)</u>

See accompanying notes.

Mercy Retirement and Care Center Notes to Financial Statements

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 11 residents at June 30, 2023, 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 Institute of the Sisters of Mercy of the Americas (the “Sisters of Mercy”) together, the “ECA-Corporate Members”.

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 its individual sponsors and operates under a common management team through ECA-Corporate.

As of May 2023, the two ECA-Corporate Members of ECA-Corporate were removed via an Articles of Incorporation and Bylaws amendment. This was approved by the ECA-Corporate Board as well as both ECA-Corporate Members. The revised ECA-Corporate Articles of Incorporation were filed with the California Secretary of State in July 2023.

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 (“U.S. GAAP”).

Mercy Retirement and Care Center

Notes to Financial Statements

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 (Topic 958): Presentation of Financial Statements of 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.

Mercy Retirement and Care Center Notes to Financial Statements

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, 2023.

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 11.

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 11.

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 11.

Mercy Retirement and Care Center Notes to Financial Statements

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 8 for net assets with donor restrictions maintained by MRCC in perpetuity at June 30, 2023.

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 Accounting Standards Codification (“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* (“ASC 606”). Accounts receivable recognized in accordance with ASC 606 at July 1, 2022 and June 30, 2023, included in resident accounts receivable were \$1,973,754 and \$3,222,232, respectively.

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.

Mercy Retirement and Care Center Notes to Financial Statements

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 is 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, 2023, as follows:

	Skilled	Assisted Living/ Memory Care	Ancillary	Total
Monthly rent	\$ -	\$ 4,837,401	\$ -	\$ 4,837,401
Net health services revenue	9,477,803	1,449,321	537,664	11,464,788
Other resident services revenue	-	-	155,374	155,374
	<u>\$ 9,477,803</u>	<u>\$ 6,286,722</u>	<u>\$ 693,038</u>	<u>\$ 16,457,563</u>

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 arrears. Other resident services revenue is generally billed monthly in arrears.

MRCC has agreements with the residents at established monthly rates.

Mercy Retirement and Care Center Notes to Financial Statements

MRCC has agreements with third-party payors that provide for payments to MRCC at amounts different from its 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 \$3,465,000 and \$4,277,000, respectively, for the year ended June 30, 2023. 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, 2023, was \$51,765.

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 – MRCC 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 ("USDA"), 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 \$1.57 per pound for USDA donated food and average of \$1.93 per pound for all other donated food for the year ended June 30, 2023. 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.

Mercy Retirement and Care Center Notes to Financial Statements

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 adopted ASU 2016,-as of July 1, 2022, and has been applied prospectively. The adoption did not have a material impact on the financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which requires the use of the current expected credit losses (“CECL”) impairment model for a broad scope of financial instruments, including financial assets measured at amortized cost (which includes loans, held-to-maturity debt securities and trade receivables), net investments in leases, and certain off-balance sheet credit exposures. The CECL model requires the immediate recognition of estimated expected credit losses over the life of the financial instrument. ASU No. 2016-13 is effective for MRCC for the year ending June 30, 2024. Management is currently evaluating the impact on the financial statements.

Note 2 – 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, 2023, was as follows:

Medicare	19%
Medi-Cal	49%
Other third-party payors	25%
Self pay	7%
	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. If any of the financial institutions with whom MRCC does business were to be placed into receivership, MRCC may be unable to access the cash on deposit with such institutions. 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, 2023, MRCC’s cash accounts exceeded federally insured limits by \$1,140,834.

Mercy Retirement and Care Center
Notes to Financial Statements

Note 3 – Investments and Investment Return

Composition of investments and assets limited as to use at June 30, 2023, was as follows:

Equities	\$ 7,106,449
Fixed income securities:	
U.S. agencies and treasuries	575,588
Corporate debt securities	725,017
Mortgage-backed securities	838,578
Mutual funds	950,621
Money market mutual funds	<u>79,936</u>
	<u><u>\$ 10,276,189</u></u>

Investments reflected in the statement of financial position at June 30, 2023, were as follows:

Investments	\$ 6,610,269
Assets limited as to use, restricted by donor (Note 8)	<u>3,665,920</u>
	<u><u>\$ 10,276,189</u></u>

Total investment return for the year ended June 30, 2023, was comprised of the following:

Interest and dividend income and realized gains	\$ 130,880
Less: investment expenses	<u>(102,700)</u>
	28,180
Unrealized gains	<u>1,211,539</u>
	<u><u>\$ 1,239,719</u></u>

Note 4 – Property and Equipment, net

Property and equipment, net consist of the following at June 30, 2023:

Land and land improvements	\$ 2,961,348
Buildings, building improvements, and building service equipment	40,372,130
Office furniture and equipment	4,030,523
Vehicles	<u>630,188</u>
	47,994,189
Less: accumulated depreciation	<u>(8,672,236)</u>
Construction in progress	<u>814,218</u>
	<u><u>\$ 40,136,171</u></u>

Mercy Retirement and Care Center Notes to Financial Statements

At June 30, 2023, MRCC's construction in progress balance of \$814,218 relates to certain building renovations. The projects currently in progress are expected to be completed in the next fiscal year with approximately \$291,000 of additional costs to complete.

As described in Note 5, 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, 2023, was \$64,180.

Note 5 – Construction Note Payable and Term Loan 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. MRCC's construction note payable – current maturities of \$140,744 at June 30, 2023 is comprised of principal payments made from July 1, 2023 to October 26, 2023.

On October 27, 2023, MRCC entered into a \$24,500,000 commercial term loan agreement ("Term Loan Agreement") secured by real estate and an interest rate swap agreement ("Swap") with California Bank & Trust ("CalBT"), for the purpose of extinguishing the existing construction note payable in accordance with ASC 470-50-40-10, which had expired on October 23, 2023. In addition, MRCC terminated the interest rate swaps associated with the construction note payable for \$3,451,725. MRCC used the proceeds of these two transaction plus \$1,129,374 of cash to pay off the existing construction note payable balance of \$24,469,659 plus associated interest expense of \$119,571, fund a debt service reserve account totaling \$3,943,000, and pay \$548,869 of debt issuance costs (See Note 18).

Unamortized debt issuance costs of \$395,632 at June 30, 2023, which were incurred to secure the construction financing will be recognized as a loss on extinguishment of debt in 2024.

MRCC's term loan payable consisted of the following at June 30, 2023:

Term loan payable	\$ 24,500,000
Less: current maturities	(290,400)
Less: unamortized debt issuance costs	(395,632)
	\$ 23,813,968

Mercy Retirement and Care Center Notes to Financial Statements

Aggregate annual maturities of the term loan payable at June 30, 2023 are as follows:

Years Ending June 30,

2024	\$	290,400
2025		454,000
2026		482,400
2027		23,273,200
	\$	24,500,000

Note 6 – 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:

	<u>Notional Value</u>	<u>Interest Rate</u>	<u>Date Executed</u>	<u>Maturity Date</u>	<u>Fair Value, June 30, 2023</u>	<u>Unrealized Gain for the Year Ended June 30, 2023</u>
2019 Swap	\$ 10,000,000	2.86%	3/26/2019	3/24/2032	\$ 566,425	\$ 579,368
2020 Swap	\$ 10,000,000	1.09%	5/1/2020	3/24/2032	1,758,802	382,666
2020 Swap #2	\$ 2,000,000	1.20%	5/4/2020	3/24/2027	198,304	47,294
2020 Swap #2	\$ (500,000)	1.20%	5/4/2020	3/24/2027	1,425	1,425
2020 Swap #2	\$ (500,000)	1.20%	5/4/2020	3/24/2027	1,424	1,424
2020 Swap #2	\$ (500,000)	1.20%	5/4/2020	3/24/2027	1,325	1,325
2020 Swap #2	\$ (355,129)	1.20%	5/4/2020	3/24/2027	536	536
					\$ 2,528,241	\$ 1,014,038

Mercy Retirement and Care Center Notes to Financial Statements

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 is incorporated into the swap valuation and the associated unrealized gain (loss).

At June 30, 2023, the fair value of the interest rate swaps was included in the statement of financial position. The unrealized gain for the year ended June 30, 2023, was included in the accompanying statement of activities and changes in net assets.

On October 27, 2023, MRCC terminated the interest rate swaps associated with the construction note payable for \$3,451,725 (See Note 18).

Note 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of donor restricted contributions and grants at June 30, 2023, for the following purposes:

Building renovations and equipment	\$ 585,219
Charitable care and other	751,938
Food distribution to low income seniors	1,075,716
Endowment corpus	<u>2,939,874</u>
	<u>\$ 5,352,747</u>

During the year ended June 30, 2023, \$3,124,437 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.

MRCC's management estimates the net assets with donor restrictions with donor imposed stipulations to be satisfied by the actions of the during the year ended June 30, 2024, except for the charitable care program.

Note 8 – 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.

Mercy Retirement and Care Center Notes to Financial Statements

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, 2023, was as follows:

	Available for Release	Corpus	Total
Donor-restricted endowment funds	\$ 726,046	\$ 2,939,874	\$ 3,665,920

Changes in endowment net assets for the year ended June 30, 2023, were as follows:

	Available for Release	Corpus	Total
Endowment net assets, beginning of year	\$ 312,673	\$ 2,939,874	\$ 3,252,547
Investment return, net:			
Investment gain	463,406	-	463,406
Net appreciation	34,256	-	34,256
Less: investment manager expense	(32,525)	-	(32,525)
Total investment return	465,137	-	465,137
Appropriation of endowment assets for expenditure	(51,764)	-	(51,764)
Endowment net assets, end of year	\$ 726,046	\$ 2,939,874	\$ 3,665,920

Mercy Retirement and Care Center Notes to Financial Statements

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, 2023.

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 9 – 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, 2023, comprise the following:

Cash and cash equivalents	\$ 1,548,834
Patient and resident accounts receivable, net	3,275,360
Investments	<u>6,610,269</u>
	<u>\$ 11,434,463</u>

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.

Mercy Retirement and Care Center Notes to Financial Statements

Note 10 – 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, 2023, were as follows:

	Skilled Nursing	Assisted Living/ Memory Care	Brown Bag Program	Fundraising	General and Administrative	Total
Salaries and benefits	\$ 5,261,774	\$ 4,355,713	\$ 599,713	\$ 10,643	\$ 108,533	\$ 10,336,376
Purchased services and other	3,106,058	2,800,454	119,641	121,514	747,129	6,894,796
Donated food	-	-	4,437,917	-	-	4,437,917
Supplies	871,032	665,112	298,854	47	-	1,835,045
Depreciation and depletion	707,835	1,283,702	-	-	-	1,991,537
Interest and fees	-	-	-	-	933,358	933,358
Management fee	-	-	-	-	1,330,561	1,330,561
Other expenses	-	-	-	-	50,979	50,979
	<u>\$ 9,946,699</u>	<u>\$ 9,104,981</u>	<u>\$ 5,456,125</u>	<u>\$ 132,204</u>	<u>\$ 3,170,560</u>	<u>\$ 27,810,569</u>

Note 11 – 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. U.S. GAAP requires 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 \$170,898 as of June 30, 2023, in the accompanying statement of financial position. Insurance recovery receivables, included in other assets, were \$170,898 as of June 30, 2023, 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 had a commitment to fund \$5,500 which was decreased to \$4,500 on January 1, 2023, per employee to a health savings account. MRCC estimates the remaining utilization of the health reimbursement 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 \$35,372 as of June 30, 2023.

Mercy Retirement and Care Center

Notes to Financial Statements

Note 12 – Retirement Plans

MRCC participates in a defined contribution plan and incentive plan that covers 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, 2023, MRCC contributed a total of \$123,179 and zero, to the defined contribution and incentive plans, respectively.

Note 13 – 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 7.5% of gross revenues generated by the property. The management agreement expires on July 1, 2031. Management fee expense was \$1,330,561 for the year ended June 30, 2023.

Management fees are subordinate to the term loan payable as of October 27, 2023 (See Note 18).

Note 14 – 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 are payable annually over four years, commencing on July 15, 2022, unless doing so would violate the construction note payable terms. The balance of the note payable at June 30, 2023, was \$1,500,000. Accrued interest of \$37,500 as of June 30, 2023, is included in due to related party. Interest expense on the related party note payable for the year ended June 30, 2023, was \$37,500.

The related party note payable is subordinate to the term note payable as of October 27, 2023 (See Note 18).

MRCC has a payable to ECA-Corporate at June 30, 2023. The amounts due are for management fees and other shared administrative expenses. See Note 13 for discussion of management fee expense. The amounts due to related party as of June 30, 2023, was \$271,986.

Related party management fees and other shared administrative expenses	\$ 234,486
Accrued interest from note payable	<u>37,500</u>
	<u>\$ 271,986</u>

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 expired on June 30, 2022, and is renewable on a monthly basis. Consulting fee expense for the year ended June 30, 2023, was \$52,901.

Mercy Retirement and Care Center Notes to Financial Statements

Note 15 – 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, 2023, and was exempt from the refund reserve requirement at June 30, 2023.

In accordance with section 1790(a)(3) of the Code as of June 30, 2023, the amounts accumulated for projects designated to meet the needs of the MRCC residents are accumulated in construction in progress (Note 4), and there are no amounts maintained for contingencies.

Note 16 – 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, 2023.

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.

Mercy Retirement and Care Center Notes to Financial Statements

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, 2023:

	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Equities	\$ 7,106,449	\$ 7,106,449	\$ -	\$ -
Fixed income securities:				
U.S. agencies and treasuries	575,588	575,588	-	-
Corporate debt securities	725,017	-	725,017	-
Mortgage-backed securities	838,578	838,578	-	-
Mutual funds	950,621	950,621	-	-
Money market mutual funds	79,936	79,936	-	-
	<u>\$ 10,276,189</u>	<u>\$ 9,551,172</u>	<u>\$ 725,017</u>	<u>\$ -</u>
Interest rate swaps	<u>\$ 2,528,241</u>	<u>\$ -</u>	<u>\$ 2,528,241</u>	<u>\$ -</u>

Note 17 – Significant Estimates, Concentrations, and Contingencies

U.S. GAAP requires 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 may not 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.

Mercy Retirement and Care Center Notes to Financial Statements

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 18 – 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.

On August 7, 2023, ECA-Corporate announced that they are affiliating with Transforming Age and that ECA-Corporate and their communities will be joining the Transforming Age network. By combining their expertise, together the two organizations aim to strengthen and grow their mission impact and better address the evolving needs of older adults, across the economic spectrum. The legal structure of MRCC is not changing, ECA-Corporate remains the sole corporate member of MRCC. The affiliation is pending California Attorney General approval.

Transforming Age is one of the nation's largest nonprofit senior living providers, serving more than 100,000 older adults by integrating housing, community services, technology, philanthropy, and partnerships. Transforming Age is recognized for its robust nonprofit mission, commitment to creating a culture of excellence, and diverse network of affiliates that serve older adults across the economic spectrum.

Under this new affiliation, both organizations will leverage their combined strengths to broaden their service offerings, providing older adults with an expanded array of programs, innovative care options, and sustainable housing solutions.

Mercy Retirement and Care Center Notes to Financial Statements

On October 27, 2023, MRCC entered into a \$24,500,000 Term Loan agreement secured by real estate with CalBT for the purpose of refinancing the existing construction note payable which had expired on October 23, 2023. In addition, MRCC terminated the interest rate swaps associated with the construction note payable for \$3,451,725 (See Note 5 and Note 6). MRCC also transferred \$1,129,374 to CalBT prior to finalizing the commercial term loan agreement.

Total proceeds of \$29,081,099 from the three transactions above were used as follows:

- \$24,469,659 to pay off the existing construction note payable,
- \$3,943,000 to be held in a pledged bank account with CalBT, and
- \$548,869 to pay debt issuance costs.

The CalBT loan agreement requires principal plus interest payments based on a 25-year amortization and a floating interest rate equal to 79.00% of the all-in rate which is equal to 30-day term Secured Overnight Financing Rate plus a spread of 2.92%. The floating interest rate has been hedged via the Swap to provide a fixed rate of 6.20% to MRCC. The underlying notional amount of the Swap is \$24,500,000 as of the October 27, 2023 effective date. The term loan provides a 42-month commitment with a 24-month extension option based on certain metrics being met.

Management fees and the note payable to ECA-Corporate are subordinate to the CalBT loan.

The \$548,869 of debt issuance costs associated with the term loan payable will be amortized to interest expense over the 42-month commitment period.

MRCC made principal payments on the construction note payable of \$140,744 from July 1, 2023 to October 6, 2023. The \$395,632 of unamortized debt issuance costs as of June 30, 2023, associated with the construction note payable will be written off as of October 27, 2023.

MRCC has evaluated subsequent events through November 27, 2023, 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, 2023

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:					
Supplemental Nutrition Assistance Program (SNAP) Cluster					
COVID-19: Families First (FFCRA) and Supplemental Nutrition Assistance Program (SNAP)	7/1/2022 - 6/30/2023	10.561	N/A	\$ -	\$ 47,000
COVID-19: American Rescue Plan ACT (ARPA)	7/1/2022 - 6/30/2023	10.561	N/A	-	37,952
<i>Total SNAP Cluster</i>				-	84,952
Food Distribution Cluster					
The Emergency Food Assistance Program (TEFAP)	7/1/2022 - 6/30/2023	10.569	N/A	-	466,257
<i>Total Food Distribution Cluster</i>				-	466,257
Pass-through programs subtotal				-	551,209
<i>Total U.S. Department of Agriculture</i>				-	551,209
U.S. Department of Health and Human Services (HHS)					
COVID-19: Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	1/1/2020 - 6/30/2023	93.498	N/A	-	151,495
<i>Total U.S. Department of Health and Human Services</i>				-	151,495
U.S. Department of Homeland Security					
Federal Emergency Management Agency (FEMA)					
Emergency Food and Shelter National Board Program (EFSP)	7/1/2022 - 6/30/2023	97.024	N/A	-	40,000
COVID-19: Emergency Food and Shelter Program - Phase ARPA-R	7/1/2022 - 6/30/2023	97.024	N/A	-	75,000
Emergency Food and Shelter Program - Phase 40	7/1/2022 - 6/30/2023	97.024	N/A	-	20,000
				-	135,000
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	7/1/2022 - 6/30/2023	97.036	N/A	-	139,781
<i>Total U.S. Department of Homeland Security</i>				-	274,781
<i>Total Federal Expenditures</i>				\$ -	\$ 977,485

See notes to schedule of expenditures of federal awards.

Mercy Retirement and Care Center
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Basis of presentation – The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Mercy Retirement and Care Center (“MRCC”) under a program of the federal government for the year ended June 30, 2023. 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, changes in net assets or cash flows of Mercy Retirement and Care Center.

In accordance with guidance from the U.S. Department of Health and Human Services (“DHHS”), MRCC included the Reporting Period 5 expenditures for Provider Relief Fund and American Rescue Plan Rural Distribution Federal Assistance Listing No. 93.498 of \$151,495 in the Schedule for the year ended June 30, 2023, to align with DHHS reporting guidelines. In accordance with U.S. GAAP, the total amount of \$151,495 of Provider Relief Fund assistance received by MRCC was recognized as revenue during the year ended June 30, 2022, and is included in beginning net assets as of and for the year ended June 30, 2023.

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 – MRCC has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Subrecipient awards – MRCC did not provide any federal awards to subrecipients during the year ended June 30, 2023.



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 and 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 ("MRCC") which comprise the statement of financial position as of June 30, 2023, 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, and have issued our report thereon dated November 27, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mercy Retirement and Care Center'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mercy Retirement and Care Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Mercy Retirement and Care Center'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mercy Retirement and Care Center'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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California
November 27, 2023



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, 2023. 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 - Food Distribution Cluster - 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 - Food Distribution Cluster - Assistance Listing Number 10.569 for the year ended June 30, 2023.

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 the 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 - Food Distribution Cluster - 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 - Food Distribution Cluster - Assistance Listing Number 10.569 as described in finding number 2023-002 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 2023-001.

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 2023-001 and 2023-002 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.



San Francisco, California
November 27, 2023

Mercy Retirement and Care Center
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

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:

<i>Federal Assistance Listing Numbers</i>	<i>Name of Major Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Major Federal Programs</i>
10.569	The Emergency Food Assistance Program (TEFAP) – Food Distribution Cluster	<i>Qualified</i>

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 2023-001: 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: 2022–2023

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

Mercy Retirement and Care Center
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2023

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 not an inventory management system in place until February 2023. During our audit procedures over food receipts, management was unable to provide receipt requisition forms for the first 4 of 40 samples selected. We stopped testing on remaining food receipts 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. Management was unable to provide distribution supports for the first 4 of 40 distributions sampled. We stopped testing on remaining distribution samples selected.

Cause: Management did not have a food inventory system to record food receipt requisitions and food distributions for the entire year. Management does not perform reconciliation of changes in inventory using food receipt requisitions and food distributions.

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: 2022-001

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

Views of responsible officials: The impact of COVID on the Mercy Brown Bag program's execution and associated inventory documentation was significant. It necessitated the restructuring of historical food distribution practices with recipients and the increase in food provided through the TEFAP program. Priority was given to distributing food to recipients, despite limited staffing caused by the increased operational workload and social distancing requirements.

Starting in FY23, the program management initiated semi-annual inventory counts, which will continue into FY24 and beyond. Additionally, an Inventory Management System was implemented at the end of FY23 and will be used throughout FY24, starting on July 1, 2023.

Finding 2023-002: 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: 2022–2023

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, 2022 to June 30, 2023 was 63,060, 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 129,150, which is a difference of 66,090 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

Mercy Retirement and Care Center
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2023

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: 2022-002

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

Views of responsible officials: Given the change in distribution approach, the large number of partner sites, and partner site employee turnover, it was challenging to enforce compliance with the use of the Link2Feed website by food recipients. In addition to strides made in FY23 towards correcting the documentation of recipients in Link2Feed, Brown Bag has continued to address it in FY24 by performing the following:

- 1) Build communication and relationships with the remaining sites still not documenting (16 of our current 77)
- 2) Issued emails and phone calls asking sites to update their records.
- 3) Making appointments and visiting all sites still not in compliance to make an in-person plea to comply.
- 4) As of November 1, issue written communications warning any remaining sites that food deliveries will cease at the end of the year for any remaining sites not in compliance. No exceptions. Participants will be invited to go to the closest open MBBP site in their area.
- 5) Management is actively trying to close the loop on the remaining MOU's, including SAHA, which remains unsigned. Deliveries will cease to any sites not covered with an MOU at the end of the calendar year. No exceptions.

Mercy Retirement and Care Center
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023



Finding Number 2022-001

Internal Controls over inventory management (Material Weakness)

Observation/Impact

Management is responsible 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.

In Q1 of FY23, it was noted by the auditors that there was no formal inventory management system in place. 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

The impact of COVID on the Mercy Brown Bag program's execution and associated inventory documentation was significant. It necessitated the restructuring of historical food distribution practices with recipients and the increase in food provided through the TEFAP program. Priority was given to distributing food to recipients, despite limited staffing caused by the increased operational workload and social distancing requirements.

Status

Mercy Brown Bag learned of the potential need for an inventory management system and inventory tracking after the audit was completed in Q1 of FY23, too late for a beginning fiscal year inventory. During FY23, however, management did perform the following:

December, 2022

- Developed an audit plan/strategy for Brown Bag 2023

January, 2023

- Developed physical inventory strategy/process
- Performed first inventory count on 1/30/23 documenting Mercy warehouse, Chapman warehouse and Grocery.

Mercy Retirement and Care Center
Summary Schedule of Prior Audit Findings (Continued)
Year Ended June 30, 2023

February, 2023

- Met with Alameda County Community Food Bank to discuss Inventory Management best practices

March, 2023

- Investigated other inventory management systems. Spoke to Boston Brown Bag, Lawrence KS Brown Bag, and Dig Deep Farms in San Leandro.
- Began research into scales/weighing mechanisms.

April, 2023

- Began Group meeting: IT/Finance/Brown Bag on inventory management
- Met with Alameda County Food Bank, who helped with Dir of Supply Chain and Operations expertise. Showed us their inventory management process/operation in action
- Met and negotiated contract terms with Link2Feed for inventory management system

May, 2023

- Food Bank Operations personnel met with Brown Bag Operations to plan pilot for Inventory Management (workflow modeling)
- Project plan developed to implement Inventory Management software

June, 2023

- Signed contract with Link2Feed; Received Link2Feed Inventory Management software
- Performed a year-end inventory count documenting Mercy warehouse, Chapman warehouse and Grocery.

July, 2023

- Implemented Link2Feed Inventory Management as of 7/1/23 to include the full FY24.

Mercy Retirement and Care Center
Summary Schedule of Prior Audit Findings (Continued)
Year Ended June 30, 2023

Finding Number 2022-002

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 the FY 2023 audit, it was noted by the auditors that the total number of food recipients during the reporting period July 1, 2022 to June 30, 2023 was 63,060, 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 129,150, which is a difference of 66,090 food recipients not being tracked within the Link2Feed website.

Cause

Given the change in distribution approach, the large number of partner sites, and partner site employee turnover, it was challenging to enforce compliance with the use of the Link2Feed website by food recipients.

Status

Mercy Brown Bag learned of the issues with partner compliance in the Link2Feed System after the prior year audit was completed in Q1 of FY23. During FY23, management performed the following-

November, 2022

- Began training (or re-training) 69 partner sites using Link2Feed-Brown Bag recipient tracking / case management software
- Received new Alameda County Area Agency on Aging contract for 2023 contract year. Detailed list of 44 tasks we needed to comply with that contract-assigned to team members
- The Brown Bag Management met to discuss how we could approach; requested 2022 results

December, 2022

- Continued 69 site trainings of Link2Feed software
- Developed Audit Plan/strategy for Brown Bag 2023 shared with BB team, ECA and Mercy Leadership

Mercy Retirement and Care Center
Summary Schedule of Prior Audit Findings (Continued)
Year Ended June 30, 2023

January, 2023

- Completed on-site training of 69 partner sites; got final sites set up with hot spots
- Developed and distributed MOU's for 34 different organizations (some multi-site) articulating their responsibility to track Brown Bag recipients
- Developed, agreed upon, implemented Share File structure for all BB Audit Files

February, 2023

- Worked to make sure 1) sites were tracking recipients 2) partner contracts were submitted and executed
- Developed multiple new forms including Proof of Delivery, Waste Log, order form (for phone orders)

March, 2023

- Circled back with sites that were not tracking; having trouble. Re-trained multiple sites.
- Drivers/Operations personnel began consistently documenting ordering, distribution of food, tracking of Proof of Delivery, getting signatures, scanning and storing in Common Files

April, 2023

- Developed proof of delivery forms, scanned in and saved in files along with Bills of Lading; updated monthly Pivot /order report and site report

May, 2023

- Negotiated new Link2Feed Case Management contract for tracking recipients

June, 2023

- Continued work to identify holes in tracking of recipients; training of new coordinators at partner sites; working to round up final MOU's that were stuck with some City Legal teams
- Reached out to partner locations still not fully cooperating; informed them of MOU language that tracking must be prioritized to continue services

Mercy Retirement and Care Center
Corrective Action Plan
Year Ended June 30, 2023



November 27, 2023

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, 2023.

Response and Corrective Action Plan

Finding Number 2023-001

Internal Controls over inventory management (Material Weakness)

Response and Corrective Action Plan: The impact of COVID on the Mercy Brown Bag program's execution and associated inventory documentation was significant. It necessitated the restructuring of historical food distribution practices with recipients and the increase in food provided through the TEFAP program. Priority was given to distributing food to recipients, despite limited staffing caused by the increased operational workload and social distancing requirements.

Starting in FY23, the program management initiated semi-annual inventory counts, which will continue into FY24 and beyond. Additionally, an Inventory Management System was implemented at the end of FY23 and will be used throughout FY24, starting on July 1, 2023.

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

Estimated Completion Date: July 1, 2023

**Mercy Retirement and Care Center
Corrective Action Plan (Continued)
Year Ended June 30, 2023**

Finding Number 2023-002

Internal controls over distributions of USDA Foods to recipients (Material Weakness)

Response and Corrective Action Plan: In addition to strides made in FY23 towards correcting the documentation of recipients in Link2Feed, Brown Bag has continued to address it in FY24 by performing the following-

- 1) Build communication and relationships with the remaining sites still not documenting (16 of our current 77)
- 2) Issued emails and phone calls asking sites to update their records.
- 3) Making appointments and visiting all sites still not in compliance to make an in-person plea to comply.
- 4) As of November 1, issue written communications warning any remaining sites that food deliveries will cease at the end of the year for any remaining sites not in compliance. No exceptions. Participants will be invited to go to the closest open MBBP site in their area.
- 5) Management is actively trying to close the loop on the remaining MOU's, including SAHA, which remains unsigned. Deliveries will cease to any sites not covered with an MOU at the end of the calendar year. No exceptions.

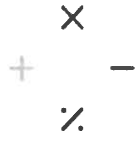
Responsible Person: Janice Roberts, Program Director, under the oversight of the Mercy Executive Director.

Estimated Completion Date: December 31, 2023

Sincerely,



Bing Isenberg
Chief Financial Officer



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

Mercy Retirement and Care Center

June 30, 2023



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SUPPLEMENTARY SCHEDULES

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Attachment to Form 5-414
Attachment to Form 5-515



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 through Form 5-5, for the year ended June 30, 2023.

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, 2023, 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California
November 30, 2023

Continuing Care Liquid Reserve Schedules

Mercy Retirement and Care Center
Form 5-1, Long-Term Debt Incurred in Prior Fiscal Year

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	\$359,273	\$894,885	\$0	\$1,254,158
2	12/01/21	\$500,000	\$29,168		\$529,168
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$924,053	\$0	\$1,783,326

(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. Total borrowings concluded in FY23 at \$25,000,000. Accrued interest payable at June 30, 2023 was \$147,862 as of June 30, 2023. During the year ended June 30, 2023, Mercy paid principal in the amount indicated above. Mercy paid \$894,855 in interest, of which \$64,180 is included in property and equipment, net on the financial statements.

MRCC converted intercompany payables into a \$2.0 million intercompany loan on December 1, 2021 with Elder Care Alliance. There were borrowings of \$1,500,000 as of June 30, 2023 plus accrued interest payable of \$37,500.

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

See accompanying notes.

Mercy Retirement and Care Center
Form 5-2, Long-Term Debt Incurred During Fiscal Year

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

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

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

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

See accompanying notes.

Mercy Retirement and Care Center
Form 5-3, Calculation of Long-Term Debt Reserve Amount

FORM 5-3		TOTAL
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT		
[1]	Total from Form 5-1 bottom of Column (e)	\$1,783,326
[2]	Total from Form 5-2 bottom of Column (e)	\$0
[3]	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	\$0
[4]	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$1,783,326
PROVIDER:	Mercy Retirement and Care Center, a Long-Term Care Community	

Mercy Retirement and Care Center
Form 5-4, Calculation of Net Operating Expenses

FORM 5-4		
CALCULATION OF NET OPERATING EXPENSES		
Line	Amounts	TOTAL
[1]	Total operating expenses from financial statements	\$23,372,652
[2]	Deductions:	
	[a] Interest paid on long-term debt (see instructions)	\$924,053
	[b] Credit enhancement premiums paid for long-term debt (see instructions)	\$0
	[c] Depreciation	\$1,991,537
	[d] Amortization	\$0
	[e] Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$16,006,259
	[f] Extraordinary expenses approved by the Department	\$0
[3]	Total Deductions	\$18,921,849
[4]	Net Operating Expenses	\$4,450,803
[5]	Divide Line 4 by 365 and enter the result.	\$12,194
[6]	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$914,549
PROVIDER:	Mercy Retirement and Care Center, a Long-Term Care Community	
COMMUNITY:	Mercy Retirement and Care Center	

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

FORM 5-5 ANNUAL RESERVE CERTIFICATION		
Provider Name:	<u>Mercy Retirement and Care Center, a Long-Term Care Community</u>	
Fiscal Year Ended:	<u>6/30/2023</u>	
We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended <u>6/30/2023</u> and are in compliance with those requirements.		
Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:		
	<u>Amount</u>	
[1] Debt Service Reserve Amount	<u>\$1,783,326</u>	
[2] Operating Expense Reserve Amount	<u>\$914,549</u>	
[3] Total Liquid Reserve Amount:	<u>\$2,697,875</u>	
Qualifying assets sufficient to fulfill the above requirements are held as follows:		
	<u>Amount</u> (Market Value at End of Quarter)	
	<u>Debt</u>	<u>Operating</u>
<u>Qualifying Asset Description</u>	<u>Service Reserve</u>	<u>Reserve</u>
[4] Cash and Cash Equivalents	<u>\$0</u>	<u>\$702,498</u>
[5] Investment Securities	<u>\$1,783,326</u>	<u>\$4,826,943</u>
[6] Equity Securities	<u>\$0</u>	<u>\$0</u>
[7] Unused/Available Lines of Credit	<u>\$0</u>	<u>\$0</u>
[8] Unused/Available Letters of Credit	<u>\$0</u>	<u>\$0</u>
[9] Debt Service Reserve	<u>\$0</u>	(not applicable)
[10] Other:	<u>\$0</u>	<u>\$0</u>
(describe qualifying asset)		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	<u>\$1,783,326 [12]</u>	<u>\$5,629,441</u>
Reserve Obligation Amount: [13]	<u>\$1,783,326 [14]</u>	<u>\$914,549</u>
Surplus/(Deficiency): [15]	<u>\$0 [16]</u>	<u>\$4,614,882</u>
Signature: <u>Bing Isenberg</u>		
(Authorized Representative) Bing Isenberg		Date: <u>11/30/2023</u>
Chief Financial Officer		
(Title)		

Mercy Retirement and Care Center Notes to Continuing Care Liquid Reserve Schedules

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 ("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.

On October 27, 2023, MRCC entered into a \$24,500,000 commercial term loan agreement ("Term Loan Agreement") secured by real estate and an interest rate swap agreement ("Swap") with California Bank & Trust ("CalBT"), for the purpose of extinguishing the existing construction note payable in accordance with ASC 470-50-40-10, *Debt-Modifications and Extinguishments-Derecognition*, which had expired on October 23, 2023. In addition, MRCC terminated the interest rate swaps associated with the construction note payable for \$3,451,725. MRCC used the proceeds of these two transaction plus \$1,129,374 of cash to pay off the existing construction note payable balance of \$24,469,659 plus associated interest expense of \$119,571, fund a debt service reserve account totaling \$3,943,000, and pay \$548,869 of debt issuance costs (See Note 3).

Unamortized debt issuance costs of \$395,632 at June 30, 2023, which were incurred to secure the construction financing will be recognized as a loss on extinguishment of debt in 2024.

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.

On August 7, 2023, ECA-Corporate announced that they are affiliating with Transforming Age and that ECA-Corporate and their communities will be joining the Transforming Age network. By combining their expertise, together the two organizations aim to strengthen and grow their mission impact and better address the evolving needs of older adults, across the economic spectrum. The legal structure of MRCC is not changing, ECA-Corporate remains the sole corporate member of MRCC. The affiliation is pending California Attorney General approval.

Mercy Retirement and Care Center

Notes to Continuing Care Liquid Reserve Schedules

Transforming Age is one of the nation's largest nonprofit senior living providers, serving more than 100,000 older adults by integrating housing, community services, technology, philanthropy, and partnerships. Transforming Age is recognized for its robust nonprofit mission, commitment to creating a culture of excellence, and diverse network of affiliates that serve older adults across the economic spectrum.

Under this new affiliation, both organizations will leverage their combined strengths to broaden their service offerings, providing older adults with an expanded array of programs, innovative care options, and sustainable housing solutions.

On October 27, 2023, MRCC entered into a \$24,500,000 Term Loan agreement secured by real estate with CalBT for the purpose of refinancing the existing construction note payable which had expired on October 23, 2023. In addition, MRCC terminated the interest rate swaps associated with the construction note payable for \$3,451,725. MRCC also transferred \$1,129,374 to CalBT prior to finalizing the commercial term loan agreement.

Total proceeds of \$28,081,099 from the three transactions above were used as follows:

- \$24,469,659 to pay off the existing construction note payable,
- \$3,943,000 to be held in a pledged bank account with CalBT, and
- \$548,869 of debt issuance costs.

The CalBT loan agreement requires principal plus interest payments based on a 25-year amortization and a floating interest rate equal to 79.00% of the all-in rate which is equal to 30-day term Secured Overnight Financing Rate plus a spread of 2.92%. The floating interest rate has been hedged via the Swap to provide a fixed rate of 6.20% to MRCC. The underlying notional amount of the Swap is \$24,500,000 as of the October 27, 2023 effective date. The Term Loan provides a 42-month commitment with a 24-month extension option based on certain metrics being met.

Management fees and the note payable to ECA-Corporate are subordinate to the CalBT loan.

The \$548,869 debt issuance costs will be amortized to interest expense over the 42-month commitment period.

Supplementary Schedules

Mercy Retirement and Care Center
Attachment to Form 5-1 and 5-2

Attachment to Form 5-1 and Form 5-2

Interest paid during Fiscal Year per Form 5-1	\$ 924,053
Interest paid during Fiscal Year per Form 5-2	<u>-</u>
Cash paid for interest per Statement of Cash Flows	<u><u>\$ 924,053</u></u>

Mercy Retirement and Care Center
Attachment to Form 5-4

Attachment to Form 5-4

Net Patient and Resident Services Income (Line 2 e)	
Revenue, Gains and Other Support - Net Assets Without Donor Restrictions	
per the statement of activities and changes in net assets	\$ 22,485,658
Less: In-kind food contributions	(4,561,052)
Less: Net assets releases from restrictions for operations	<u>(1,467,043)</u>
Net Patient and Resident Services Income (Line 2 e)	<u><u>\$ 16,457,563</u></u>

CCRC Revenue Allocation

	CCRC Amount	Non-CCRC Amount	Total Amount
Residential & Assisted Living	\$ 267,383	\$ 3,658,505	\$ 3,925,888
Memory Care	95,224	2,469,824	2,565,048
Skilled Nursing	69,736	9,408,067	9,477,803
Entrance Fees	18,961	-	18,961
Charitable Adjustments	-	(51,764)	(51,764)
Contractual Allowances	-	(171,411)	(171,411)
Subtotal Room & Board	<u>451,304</u>	<u>15,313,221</u>	<u>15,764,525</u>
Gross Ancillary Revenue	-	537,664	537,664
Other Operating Revenue**	-	155,374	155,374
Total Room & Board Revenue	<u><u>\$ 451,304</u></u>	<u><u>\$ 16,006,259</u></u>	<u><u>\$ 16,457,563</u></u>

**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	\$ 27,810,569
Less: Donated Food	<u>(4,437,917)</u>
Total Operating Expense on Form 5-4 (Line 1)	<u><u>\$ 23,372,652</u></u>

CCRC Depreciation and amortization

Line 2(c) & (d)

Line 2(c) - Depreciation	\$ 1,991,537
Line 2(d) - Amortization	<u>-</u>
Depreciation and depletion, per	
the statement of activities and changes in net assets	<u><u>\$ 1,991,537</u></u>

Mercy Retirement and Care Center

Attachment to Form 5-5

FORM 5-5 RESERVES

		Per Audited Financial Statements - 06/30/23			
		Assets Limited as to Use - Externally Restricted by			Net Assets with Donor Restrictions
		Donor	Investments	Cash	
Per Financial Statements		\$ 3,665,920	\$ 6,610,269	\$ 1,548,834	\$ 5,352,747
Less:					
Reserves maintained by MRCC excluded from Qualifying Assets:					
(1)	Endowments for Charitable Care	\$ 3,665,920	\$ -	\$ -	\$ 3,665,920
(2)	Capital campaign amounts for revitalization project	-	-	22,411	22,411
(2)	Donations for food program serving low income seniors	-	-	392,923	392,923
(2)	Donations for chapel renovation	-	-	405,129	405,129
(2)	Donations for wish list, other	-	-	25,873	25,873
Total cash and investment reserves maintained by MRCC at June 30, 2023		3,665,920	-	846,336	4,512,256
Net Assets Without Donor Restrictions		\$ -	\$ 6,610,269	\$ 702,498	
Qualifying Assets - Form 5-5 Line 4 Cash - Operating Reserve		\$ -	\$ -	702,498	
Qualifying Assets - Form 5-5 Line 5 Investments - Debt Service		-	1,783,326	-	
Qualifying Assets - Form 5-5 Line 5 Investments - Operating Reserve		-	4,826,943	-	
		\$ -	\$ 6,610,269	\$ 702,498	
Capital campaign Pledges included in Pledge and Other Receivables per Financial Statements					840,491
Total Net Assets With Donor Restrictions per Financial Statements					\$ 5,352,747
(1)	Donor designated investments for charitable care, including \$2,939,874 permanently restricted				
(2)	Donor designated cash generally to be used in FY2024 for operating expenses and revitalization				

CONTINUING CARE RETIREMENT COMMUNITY DISCLOSURE STATEMENT

Date Prepared: 11/01/2023

Facility Name: Mercy Retirement and Care Center

Address: 3431 Foothill Blvd, Oakland | Zip Code: 94601 | Phone: 510-534-8540

Provider Name:

Mercy Retirement and Care Center

Facility Operator: Mercy Retirement and Care Center

Religious Affiliation: Sisters of Mercy of the Americas

Year Opened: 1872 # of Acres: 4.5 Miles to Shopping Center: 5 Miles to Hospital: 2.5

Single Story Multi-Story Other: Both

Number of Units:

Residential Living	Number of Units	Health Care	Number of Units
Apartments – Studio:	_____	Assisted Living:	85
Apartments – 1 Bdrm:	_____	Skilled Nursing:	59
Apartments – 2 Bdrm:	_____	Special Care:	22
Cottages/Houses:	_____	Description:	Special Care - Dementia.

RLU Occupancy (%) at Year End: Due to renovation project 22 AL units offline FY20, 21, 22

Type of Ownership: Not for Profit
 For Profit

Accredited? Yes By: _____
 No

Form of Contact: Continuing Care Life Care Entrance Fee Fee for Service
(Check all that apply) Assignment of Assets Equity Membership Rental

Refund Provisions: Refundable 90% 50%
(Check all that apply) Repayable 75% Other: Fully Amortized

Range of Entrance Fees: \$10,000 - \$10,000

Long-Term Care Insurance Required? Yes No

Health Care Benefits Included in Contract: None

Entry Requirements: Min Age: 60 Prior Profession: None Other: None

Resident Representative(s) to, and Resident Members on, the Board:

(briefly describe provider's compliance and residents' roles):

Resident Member joined the MRCC Board of Directors effective December 1, 2021.

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

Facility Services and Amenities

Common Area Amenities	Available	Fee for Service	Services Available	Included in Fee	For Extra Charge
Beauty/Barber Shop	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Housekeeping (4 Times/ Month at \$_____ each)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Billiard Room	<input type="checkbox"/>	<input type="checkbox"/>			
Bowling Green	<input type="checkbox"/>	<input type="checkbox"/>	Meals (3 /Day)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Card Rooms	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Special Diets Available	<input type="checkbox"/>	<input type="checkbox"/>
Chapel	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
Coffee Shop	<input type="checkbox"/>	<input type="checkbox"/>	24-Hour Emergency Response	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Craft Rooms	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Activities Program	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Exercise Room	<input checked="" type="checkbox"/>	<input type="checkbox"/>	All Utilities Except Phone	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Golf Course Access	<input type="checkbox"/>	<input type="checkbox"/>	Apartment Maintenance	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Library	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Cable TV	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Putting Green	<input type="checkbox"/>	<input type="checkbox"/>	Linens Furnished	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Shuffleboard	<input type="checkbox"/>	<input type="checkbox"/>	Linens Laundered	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Spa	<input type="checkbox"/>	<input type="checkbox"/>	Medication Management	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Swimming Pool – Indoor	<input type="checkbox"/>	<input type="checkbox"/>	Nursing/Wellness Clinic	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Swimming Pool – Outdoor	<input type="checkbox"/>	<input type="checkbox"/>	Personal Home Care	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Tennis Court	<input type="checkbox"/>	<input type="checkbox"/>	Transportation – Personal	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Workshop	<input type="checkbox"/>	<input type="checkbox"/>	Transportation – Prearranged	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other: _____	<input type="checkbox"/>	<input type="checkbox"/>	Other: <u>Rehab.therapy</u>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Provider Name: _____

Affiliated CCRCs	Location (city, state)	Phone (with area code)

Multi-Level Retirement Communities	Location (city, state)	Phone (with area code)

Free-Standing Skilled Nursing	Location (city, state)	Phone (with area code)

Subsidized Senior Housing	Location (city, state)	Phone (with area code)

NOTE: Please indicate if the facility is a life care facility.

Provider Name: Mercy Retirement and Care Center

Income and Expenses [Year]	2020	2021	2022	2023
Income from Ongoing Operations				
Operating Income (Excluding amortization of entrance fee income)	\$15,973	\$14,652	\$14,044	\$16,438
Less Operating Expenses (Excluding depreciation, amortization, and interest)	(16,427)	(17,030)	(17,709)	(20,447)
Net Income From Operations	(454)	(2,378)	(3,665)	(4009)
Less Interest Expense	0	(5)	(113)	(933)
Plus Contributions	363	104	264	986
Plus Non-Operating Income (Expenses) (Excluding extraordinary items)	1,722	3,556	1,354	3290
Net Income (Loss) Before Entrance Fees, Depreciation And Amortization	\$1,631	\$1,277	\$(2,160)	\$(666)
Net Cash Flow From Entrance Fees (Total Deposits Less Refunds)	0	0	0	101

Description of Secured Debt *(as of most recent fiscal year end)*

Lender	Outstanding Balance	Interest Rate	Date of Origination	Date of Maturity	Amortization Period
PNC Bank	\$24,640,773	4.51%	3/25/2022	10/23/2023	
Note: Re-Financed 10/27/23					

Financial Ratios *(see last page for ratio formulas)*

Financial Ratios [Year]	CCAC Medians 50th Percentile <i>(optional)</i>	2021	2022	2023
Debt to Asset Ratio		28.54%	2.49%	43.56%
Operating Ratio		116.22%	126.90%	130.07%
Debt Service Coverage Ratio		12.26%	837.74%	174.29%
Days Cash On Hand Ratio		365	254.86	139.29

Provider Name: Mercy Retirement and Care Center

Historical Monthly Service Fees (Average Fee and Change Percentage)

Residence/Service [Year]	2020	%	2021	%	2022	%	2023	%
Studio								
One Bedroom								
Cottage/House								
Assisted Living	\$4,803	2.56%	\$4,992	3.94%	\$4,675	6.12%	\$5,027	7.53
Skilled Living	\$12,555	4.11%	\$13,214	5.25%	\$13,281	6.78%	\$14,325	7.86
Special Care	\$6,973	3.06%	\$7,370	5.70%	\$7,411	3.16%	\$7,939	7.11

Comments from Provider:

Increases in average fees due to labor cost increases, elevated plant expenses, insurance increases, and support increases.

Financial Ratio Formulas

Long-Term Debt to Total Assets Ratio

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

Operating Ratio

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

Debt Service Coverage Ratio

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

Days Cash On Hand Ratio

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

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

FORM 7-1 REPORT ON CCRC MONTHLY CARE FEES

Complete **Form 7-1** to report the monthly care fee increase (MCFI) for each community operated by the Provider. If no adjustments were made during the reporting period for a community, indicate by checking the box below **Line [2]**. Providers must complete a separate **Form 7-1** for each of their continuing care retirement communities.

1. On **Line 1**, enter the amount of monthly care fees for each level of care at the *beginning* of the reporting period.
2. On **Line 2**, indicate the percentage(s) of increase in fees implemented during the *reporting* period.
3. On **Line 3**, indicate the date the fee increase was implemented. If more than one (1) increase was implemented, indicate the date(s) for each increase.
4. Check *each* of the appropriate boxes.
5. Provide a detailed explanation for the increase in monthly care fees including the total dollar amount for the community overall and corresponding percentage increase for each level of care in compliance with the Health and Safety Code. The explanation shall set forth the reasons, by department cost centers, for any increase in monthly care fee. It must include if the change in monthly care fees is due to any actual or projected costs related to any other CCRC community or enterprise affiliated with the provider or parent company.

The methodology used to budget future costs should align with one or more of the following factors: "projected costs, prior year per capita costs and economic indicators." Describe the methodology used for single or multiple communities. If there are multiple MCFI percentages, i.e., by level of care, a separate explanation for each MCFI will be required.

Also, if there is a positive result of operations, the provider will need to explain how the funds will be used and/or distributed consistent with disclosures made in the applicable sections of the Continuing Care Contract.

This attachment should include the data used in the Monthly Care Fee Increase meeting presentation provided to residents, which will also include actual results and an explanation of any variances.

NOTE: Providers shall retain all documents related to the development of adjusted fees at their respective communities for a period of at least three years, i.e., budgets, statements of operations, cost reports, used near the end of the prior fiscal year to develop adjustments implemented in the current reporting period. These documents must be available for review upon request by the Department.

**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) _____ 4,500-6,200 _____ 7,375-7,775 _____ 13175-15252

2. Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) _____ 5.0%-7.5% _____ 5.0%-7.1% _____ 5.0%-7.9%

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: 7/1/22 and 4/1/23 _____
(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: AL4/30/22 & 1/31/23 Method of Notice: Letter
CC 5/31/22 & 2/28/23

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: 5/25/22 and 1/25/23

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,
2023**

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

Increase in	Percent	Explanation
Residential Living	0%	N/A
Assisted Living/Memory Care	7/1/22 5.00%- 5.24% 4/1/23 6.00%- 8.01%	<p>Assisted Living/Memory Care room rates were increased b by 5.00% 5.24% at 7/1/22, and by 6.00%-8.01% at 4/1/23 due to increases in overall operating expenses during the year ended June 30, 2023. More modest room rate increases were implement during the past few years due to the pandemic despite rising costs, resulting in the acceleration of the FY24 increase from 7/1/23 to 4/1/23. Labor costs increased by 13%. Wages rates in FY2023 increased approximately 3-7% due to wage inflation and the impacts of a tightening job market, especially for care staff. Moreover, there was higher utilization of higher cost outside agency staffing. Plant expenses in FY23 were up 65% as compared to FY22 due to necessary major property repairs. 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 increases of 1-5%.</p>
Skilled Nursing	7/1/23 5.00% 4/1/23 10.72%- 10.92%	<p>80% of our skilled nursing rooms are occupied by MediCal and Medicare patients, 10% by contractual HMO patients, and 10% by private pay patients. MediCal and MediCare rates are adjusted annually based on our cost reports. New rates from the governing agencies are generally implemented in October each year. Skilled Nursing base room rates for private pay patients were increased by 5.0% at 7/1/22 and by 10.72%-10.92%, at 4/1/23. Labor costs increased by 22%, Wage rates in FY2023 increased approximately 3-7% due to wage inflation and market rates for staff, with significant inflation in specific care positions. Moreover, there was higher utilization of higher cost outside agency staffing. Employee medical costs also increased approximate by 7%. Food, energy, plant, and benefit costs also continued to increase, similar to AL/MC operational costs.</p>

KEY INDICATORS REPORT

Mercy Retirement and Care Center

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

Rug I seah
Chief Financial Officer Signature

	Historical					Forecast			Preferred Trend Indicator
	2019	2020	2021	2022	2023	Projected 2024	2025	2026	

OPERATIONAL STATISTICS

1. Average Annual Occupancy by Site (%) 89.00% 90.00% 80.00% 72.00% 73.00% 89.00% 91.00% 92.00% 92.00% 92.00% 92.00% ↑

MARGIN (PROFITABILITY) INDICATORS

2. Net Operating Margin (%) 5.31% 7.71% 0.28% 5.73% -4.42% 13.69% 15.57% 16.13% 16.13% 17.10% ↑

3. Net Operating Margin - Adjusted (%) 5.31% 7.71% 0.28% 5.73% -3.91% 13.73% 15.60% 16.16% 16.17% 17.14% ↑

LIQUIDITY INDICATORS

4. Unrestricted Cash and Investments (\$000) \$14,104 \$11,599 \$13,037 \$10,598 \$8,159 \$9,624 \$10,968 \$12,723 \$14,198 \$16,146 ↑

5. Days Cash on Hand (Unrestricted) 308 258 279 217 139 157 170 188 205 226 ↑

CAPITAL STRUCTURE INDICATORS

6. Deferred Revenue from Entrance Fees (\$000) \$0 \$0 \$0 \$0 \$19 \$56 \$42 \$10 \$10 \$10 ⇄

7. Net Annual E/F proceeds (\$000) \$0 \$0 \$0 \$0 \$101 \$10 \$10 \$10 \$10 \$10 ⇄

8. Unrestricted Net Assets (\$000) \$23,426 \$24,159 \$25,018 \$26,418 \$25,559 \$25,635 \$26,062 \$26,856 \$27,825 \$29,201 ⇄

9. Annual Capital Asset Expenditure (\$000) \$4,828 \$8,909 \$11,912 \$9,752 \$1,860 \$500 \$1,000 \$1,000 \$1,500 \$1,500 ↓

10. Annual Debt Service Coverage Revenue Basis (x)

2.08 2.08 2.08 2.08 2.08 2.08 2.08 2.31 2.43 2.76 ⇄

11. Annual Debt Service Coverage (x)

2.08 2.08 2.08 2.08 2.08 2.08 2.09 2.32 2.43 2.76 ⇄

12. Annual Debt Service/Revenue (%)

6.48% 6.48% 6.48% 6.48% 6.40% 6.48% 7.39% 6.96% 6.63% 6.19% ⇄

13. Average Annual Effective Interest Rate (%)

4.53% 4.53% 4.53% 4.53% 3.43% 4.53% 5.85% 5.84% 5.68% 5.45% ⇄

14. Unrestricted Cash & Investments/ Long-Term Debt (%)

38% 38% 38% 38% 32% 38% 44% 52% 60% 69% ↑

15. Average Age of Facility (years)

5 5 5 4 4 5 6 7 8 8 ⇄

**Mercy Retirement and Care Center
Key Indicators Report
For FY2023**

Explanations of significant trends:

- 1) **Average Occupancy** — The decrease from 90% to 72% occupancy level in FY2020 to FY2022 was due to the renovation project which started in FY2019 as well as the impact of COVID on congregate living settings. Note that the FY2020 through March 2022 occupancy excludes the 22 offline units, while the FY2023 and later years reflects all rooms on-line post construction. The construction project took a floor of rooms offline (22 rooms, approximately 25% of Assisted Living capacity) and was substantially completed by March 31, 2022. The number of average residents increased by 11 from FY22 to FY2023, while the occupancy percentage remained at 73% due to the additional 22 units placed in service in March 2022. Lease-up of the community is underway, with increased investments in sales and marketing capacity, and occupancy is expected to increase substantially in FY2024 (26 units to 89% occupancy).
- 2) **Net Operating Margin** — Mercy has experienced decreasing net operating margins over the past several years, with cost increases outpacing rate increases and the impact of the COVID pandemic, with pressure on census, increased staff benefits for COVID sick leaves and requirements for infection control resources and staffing. Staffing in the Assisted Living unit was maintained at full capacity during the construction, which further impacted profitability. Margins would have been impacted further if not for the impact of HHS funding and other COVID-related supports. FY2023 was also negatively impacted by \$700k of unanticipated repair expenses and an increase of \$900k and \$800k in outside labor and salaries and benefits respectively. FY2021, FY2022, and FY2023 net operating margin includes the positive impact of restricted revenues being earned (approximately \$1.0, \$3.4M and \$1.9 million, respectively) for the construction project, through philanthropic donations. Net operating margins are projected to increase in FY2024 due to higher occupancy from 73% to 89%, as well as standard annual price increases of 7-8% implemented April 1, 2023 to address wage inflation and other market cost increases. Additional census growth increases profitability with limited incremental variable costs. Use of outside labor is projected to decrease from FY2023 levels.
- 3) **Net Operating Margin—Adjusted** — Mercy actively marketed the CCRC contract to prospective residents, with 11 move-ins in FY2023. Now that the construction has been completed, there are more amenity spaces to attract and serve new CCRC residents. A lower entrance fee has been positioned to drive CCRC resident contracts more quickly. Given the more limited entrance fee, the impact on margins is less significant than that projected in the FY2021 report. With attrition in the number of CCRC residents, we have conservatively projected that with annual new CCRC contracts of one/year, we will maintain the number of CCRC-contracted residents at 11 through FY2027. We had 2.8% of resident revenues from CCRC-contracted residents in FY2023, growing to 6% of resident revenues by FY2025.
- 4) **Unrestricted Cash and Investments** — With the increase in profitability from occupancy increases, partially offset by planned capital spending and construction-related debt payments, cash and Investments are forecasted to increase in FY2024 compared to FY2023 by approximately \$1.5 million to \$11.0 million and by another \$6.5 from FY2024 to FY2028.

- 5) **Days Cash on Hand** — Days cash on hand has been declining over the past several years, due to the impact of the construction on available capacity and reductions in profitability. However, overall cash flows remain strong and days' cash on hand will increase starting in 2024 as operational cash flows expand to further cover debt payments and capital expenditures. Days cash on hand will remain strong through the reported periods at 200 days+ - even with the limited entrance fees required.
- 6) **Deferred Revenue from Entrance Fees** — Based on the new pricing for entrance fees, the amortization period (2 years) and the anticipated number of contracts for new CCRC residents, we are projecting deferred revenue of approximately \$56k and \$42k in FY2024 and FY2025, respectively and \$10k/year each year following. These forecasts are considered to be conservative, given the value of the CCRC contract and the sales and marketing teams continue to actively market this option with the goal of exceeding the forecasted estimates.
- 7) **Net Annual Entrance Fee proceeds** — Based on the forecasted new CCRC-contracted residents and the revised entrance fee pricing, the annual proceeds from the entrance fees are estimated to be \$10k/year.
- 8) **Unrestricted Net Assets** — For FY2024 and beyond, unit rental rate increases of approximately 5-8% are expected to help offset wage and benefit increases of 3-5%. Offsetting this improvement is the impact of increased depreciation expense associated with fixed asset purchases, as well as increased interest expense associated with the higher interest rate of the new loan. Unrestricted Net Assets remain relatively flat from FY2023 to FY2024 then increase in FY2025-2028.
- 9) **Annual Capital Asset Expenditures** — Mercy has spent approximately \$36.9M as part of a major revitalization project. 22 rooms were taken off line in late 2019 and were available for occupancy by April 1, 2022. Following the revitalization project's completion, anticipated capital expenditures will decline significantly to \$500k in FY2024, and then increasing to \$1M annually for FY2025 and FY2026 and \$1.5M for FY2027 and FY2028 as needs gradually increase again.
- 10) **Annual Debt Service Coverage (Revenue Basis)** — Mercy obtained a new term loan to replace the expired construction loan on October 27, 2023 which is reflected in the June 30, 2023 balance sheet. Mercy had debt of approximately \$26.1M at June 30, 2023, including a note payable of \$1.5M to Elder Care Alliance, Mercy's management company; a term loan of \$24.5 million; and a remaining construction loan balance of \$141k. The \$1.5M related party debt is all long-term and subordinate to the term loan. \$24.2M of the term loan is reflected as long-term debt and \$0.3M is included as current debt. The FY2024 and beyond annual debt service coverage is based on the assumption of a 25-year amortizing loan, at current market interest rates of 6.2%.
- 11) **Annual Debt Service Coverage** — Similar to the annual debt service coverage indicator noted in 10) above, the annual debt service coverage ratio reflects the additional impacts of the entrance fees on the coverage calculations.
- 12) **Annual Debt Service/Revenue (%)** — The increase of the annual debt service/revenue percentage is a result of the build-up of the construction loan as the costs were incurred through completion in March 2022 and project wind-down in September 2022. During the construction loan period, there was limited debt service and thus the percentage was low.

Upon the completion of the project, repayments are required and the percentage will increase in FY2024-2025. This percentage decreases in FY2026 as the loan payments are consistent and revenues grow over time.

- 13) **Average Annual Effective Interest Rate (%)** — The interest rate on the construction loan debt which was paid off on October 27, 2023 was a blend of the floating interest rate on the construction loan, offset by the net interest settled on the associated fixed rate interest rate swaps with interest rates ranging from approximately 1.1% to 3.43%. The interest rate on the new term loan is a blend of a floating interest rate offset by swaps to provide a fixed rate of 6.2%. Additionally, the note payable to Elder Care Alliance bears interest at 2.5%. The effective interest rate was calculated by dividing the interest paid into the balance of the underlying debt balance.
- 14) **Unrestricted Cash & Investments/Long-Term Debt (%)** — This percentage reflects the unrestricted cash and investments available to pay long-term debt. As the cash and investments balance grows, and there are continued debt payments on the term loan, this percentage will increase – from 32% in FY2023 to 69% in FY2027.
- 15) **Average Age of Facility (Years)** — The average age of the facility has decreased as the revitalization project investments were underway. However, with the project complete, the facility will age over the forecasted period.