Report of Independent Auditors and
Financial Statements

Mercy Retirement Care Center

June 30, 2021

MOSSADAMS

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Report of Independent Auditors

To the Board of Directors
Mercy Retirement and Care Center
Alameda, California

Report on the Financial Statements

We have audited the accompanying financial statements of Mercy Retirement and Care Center ("MRCC"), which comprise the statement of financial position as of June 30, 2021, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position Mercy Retirement and Care Center, as of June 30, 2021, and the results of its operations, 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.

Moss Adams LLP

San Francisco, California
November 1, 2021

Financial Statements

Mercy Retirement and Care Center
Statement of Financial Position
June 30, 2021

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 5,914,769
Patient and resident accounts receivable	1,610,153
Pledge and other receivables	1,517,019
Prepaid expenses and other assets	31,318
Total current assets	9,073,259
ASSETS LIMITED AS TO USE	
Restricted by donor (Note 8)	3,890,890
Total assets limited as to use	3,890,890
INVESTMENTS	11,128,376
PROPERTY AND EQUIPMENT, net of accumulated depreciation	32,045,023
Other assets	59,610
Total assets	$ 56,197,158

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 1,788,563
Accrued expenses and other current liabilities	1,487,039
Current maturities of notes payable	291,828
Due to related party	2,102,210
Total current liabilities	5,669,640
NOTES PAYABLE, net of current portion	16,042,194
ASSET RETIREMENT OBLIGATIONS	169,107
Total liabilities	21,880,941
NET ASSETS	
Without donor restrictions	25,018,488
With donor restrictions	9,297,729
Total net assets	34,316,217
Total liabilities and net assets	$ 56,197,158

See accompanying notes.

Mercy Retirement and Care Center
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2021

	Net assets without donor restrictions	Net assets with donor restrictions	Total
REVENUES, GAIN, AND OTHER SUPPORT			
Monthly rent	$ 4,208,578	$ -	$ 4,208,578
Net health services revenue	10,425,686	-	10,425,686
In-kind food contributions	3,666,976	-	3,666,976
Provider relief funds	422,051	-	422,051
Other resident services revenue	17,275	-	17,275
Net assets released from restrictions for operations	1,107,750	(1,107,750)	-
Total revenues, gains, and other support	19,848,316	(1,107,750)	18,740,566
EXPENSES AND LOSSES			
Salaries and benefits	10,040,782	-	10,040,782
Purchased services and other	4,163,280	-	4,163,280
Donated food	3,666,976	-	3,666,976
Supplies	1,676,276	-	1,676,276
Depreciation and depletion	1,314,814	-	1,314,814
Interest and fees	4,995	-	4,995
Management fee	1,139,774	-	1,139,774
Other expenses	9,944	-	9,944
Total expenses and losses	22,016,841	-	22,016,841
OPERATING LOSS	(2,168,525)	(1,107,750)	(3,276,275)
OTHER INCOME (EXPENSE)			
Contributions revenue	104,217	4,350,412	4,454,629
Investment return, net of investment expenses	2,026,127	790,463	2,816,590
Total other income	2,130,344	5,140,875	7,271,219
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(38,181)	4,033,125	3,994,944
NET ASSETS RELEASED FROM RESTRICTION FOR BUILDING IMPROVEMENTS AND EQUIPMENT	897,312	(897,312)	-
CHANGE IN NET ASSETS	859,131	3,135,813	3,994,944
NET ASSETS, beginning of year	24,159,357	6,161,916	30,321,273
NET ASSETS, end of year	$ 25,018,488	$ 9,297,729	$ 34,316,217

Mercy Retirement and Care Center
Statement of Cash Flows
Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from noncontract residents	$ 14,072,279
Contributions	2,563,014
Cash from provider relief funds	422,051
Cash received from other resident services	17,275
Cash received from interest	2,218,553
Cash paid to related party	(1,922,811)
Cash paid for interest	(177,783)
Cash paid to remediate asset retirement obligations	(415,796)
Cash paid to suppliers and employees	(16,026,277)
Net cash provided by operating activities	750,505
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(4,239,788)
Proceeds from sale of investments	2,034,417
Purchase of property and equipment	(11,911,698)
Net cash used in investing activities	(14,117,069)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from contributions restricted for investment in buildings and equipment	1,302,558
Payment of debt issuance costs	(14,400)
Proceeds from construction note payable	11,423,669
Proceeds from issuance of note payable	1,835,070
Net cash provided by financing activities	14,546,897
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	1,180,333
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	4,734,436
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 5,914,769

See accompanying notes.

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	3,994,944
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributions restricted for buildings and equipment		(1,302,558)
Unrealized gain on investments		(598,037)
In-kind food contributions		(3,666,976)
Distribution of food received in-kind		3,666,976
Depreciation expense		1,319,546
Depletion of asset retirement obligations		(4,732)
Interest capitalized		(172,788)
Changes in operating assets and liabilities		
Patient and resident accounts receivable		(561,985)
Pledge and other receivables		(685,042)
Prepaid expenses		62,470
Accounts payable		(254,470)
Accrued expenses and other		151,990
Asset retirement obligtions		(415,796)
Due to related party		(783,037)
Net cash provided by operating activities	$	750,505

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

Nature of operations – Mercy Retirement and Care Center ("MRCC"), is a California nonprofit public benefit corporation organized for the purposes of providing residences, assistance with daily living needs and skilled nursing care for elderly persons. The facilities include 166 units licensed as residential care, including a 22-unit memory care facility and 59 units licensed as skilled nursing. Beginning on December 28, 2011, MRCC began offering a "continuing care" concept in which resident enters into a residential contract that generally provides for a specific entrance fee and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents to the use and privileges of MRCC for life. There are no residents at June 30, 2021 that have paid entrance fees.

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

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

On May 15, 1997, two separate nonprofit corporations, MRCC and Salem Lutheran Home Association of the Bay Cities, Inc. ("SLH"), entered into an affiliation agreement. Under the terms of this agreement, ECA-Corporate became the sole corporate member of both MRCC and SLH. ECA-Corporate provides supportive housing, skilled nursing, rehabilitation, and social services principally to the aged through these subordinate corporations. MRCC and SLH retain their individual identities, assets and liabilities, and relationships with their individual sponsors and operate under a common management team through ECA-Corporate.

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

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

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

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

Patient and resident accounts receivable – 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 Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (“ASU 2016-14”), investment return is net of investment manager expenses.

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

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

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

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

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

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as contributions with donor restriction. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when expenditures for construction in progress or property and equipment are incurred which 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, 2021.

Asset retirement obligations – Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 410-20, *Asset Retirement Obligations*, defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. In 2020, MRCC began a remodeling project (See Note 5), which includes abatement of asbestos. During 2021, MRCC paid $415,796 in asset retirement obligations. As of June 30, 2021, MRCC recognized $169,107 of conditional asset retirement obligations included in the statement of financial position. During the year ended June 30, 2021, there was reduction of the asset retirement obligations, which resulted in a total depletion expense for the year then ended. Depletion expense of the asset retirement obligations totaled $4,732 for the year ended June 30, 2021.

Due to related party – Due to related party includes liabilities for management 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.

Derivative instruments – MRCC has several derivative instruments, which include three interest rate swaps (see Note 6). The swap agreements will be effective in March 2022, and will be recorded on the statement of financial position at fair value. As the derivatives do not qualify as effective hedges, the changes in fair value of the derivatives will be recognized on the statement of activities and changes in net assets in accordance with ASC 815, *Derivatives and Hedging*.

Obligation to provide future services – MRCC provides a continuing care concept and services primarily on a fee-for-service basis. MRCC currently has no contracts with an entrance fee. MRCC fees are not limited to stated or cost-of living increases. MRCC sets resident rates to fully absorb their ongoing operating costs. Management's estimate of the liability for "future service obligation" represents the excess of net care expenses over resident service revenue. The obligation was zero as of June 30, 2021.

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. At June 30, 2021, there are no board designated net assets.

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, 2021.

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 will therefore recognize monthly rent as lease income under ASC 840, *Leases*. MRCC further determined that net health services revenue and other resident services revenue to be health care services and other services provided to residents that do not relate to the assisted living unit apartment rent, therefore is not part of the calculation of lease payment, and therefore recognize revenue under these service lines as revenue under ASC 606, *Revenue from Contracts with Customers*.

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

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

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

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

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

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

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

MRCC disaggregates lease income and revenue from contracts with customers by type of service as this depicts the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors. Revenues, gains, and other support consist of the following for the year ended June 30, 2021, as follows:

	Skilled Nursing	Assisted Living / Memory Care	Ancillary	Total
Monthly rent	$ -	$ 4,208,578	$ -	$ 4,208,578
Net health services revenue	8,303,004	1,182,336	940,346	10,425,686
Other resident services revenue	-	-	17,275	17,275
	$ 8,303,004	$ 5,390,914	$ 957,621	$ 14,651,539

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

MRCC has agreements with the residents at established monthly rates.

MRCC has agreements with third-party payors that provide for payments to MRCC at amounts different from it established rates. Net health services revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods, as adjustments become known. Payment arrangements include prospectively determined rates per day, reimbursed costs, discounted charges, and per diem payments. Net revenues from Medicare and Medi-Cal programs were $3,865,000 and $2,488,000, respectively, for the year ended June 30, 2021. 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, 2021, was $136,964.

Contributions – Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified and reported as an increase in net assets without donor restrictions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Contributions in-kind – MCRR recognizes in-kind contributions for food received from the Alameda County Community Food Bank, which includes support from the United States Department of Agriculture, as well as other food banks, in support of MRCC's Brown Bag Program, which provides food distribution to low income seniors. Donated government food was valued at an average of $1.67 per pound for the year ended June 30, 2021. This valuation is based on a study conducted for Feeding America.

Excess of revenues over expenses – MRCC considers the 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 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 jurisdiction.

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

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

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)* ("ASU 2018-13"), to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles that are most important to users of financial statements through the removal, modification, and addition of disclosure requirements. The new standard was adopted by MRCC for the fiscal year ended June 30, 2021. The adoption did not have a material impact on the financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform – Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848)* ("ASU No. 2020-04"), due to concerns about structural risks of interbank offered rates, such as the risk of cessation of the London Interbank Offered Rate ("LIBOR"), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates. This standard update provides optional expedients and exceptions to application of GAAP to contracts, hedging relationships, and other transactions that reference LIBOR for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. An entity may make a one-time election to sell or transfer debt securities classified as held-to-maturity that reference a rate affected by reference rate reform. MRCC's management is currently evaluating the impact of adoption on the financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities – Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)* (“ASU No. 2020-07”), to present contributed assets as a single line item in the statement of activities, apart from contributions of cash and other financial assets. Applied on a retrospective basis and effective for fiscal years beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, which is the fiscal year ending June 30, 2022, for MRCC. MRCC’s management is currently evaluating the impact of adoption on the financial statements.

NOTE 2 – COVID-19 PANDEMIC

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

Provider Relief Funds – The COVID-19 pandemic impacted all healthcare providers throughout the health system. The CARES Act requires the amount of funding received to be validated, which requires management to quantify lost revenues and increased expenses associated with the pandemic for Provider Relief Funds (“PRF”). MRCC has recognized revenue associated with the PRF funding according to the terms and conditions of the CARES Act, and as grant revenue under FASB ASC 958-605. Grant revenue attributable to PRF funding totaled $422,051 for the year ended June 30, 2021 and is included on the statement of activities and changes in net assets. Refunding of amounts received may be required by the CARES Act if a receiving entity is unable to quantify the financial losses intended to be covered by funding. MRCC continues to reconcile and analyze its lost revenue and increased expenses based on known reporting guidance.

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

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

The PPP loan are accounted for as a debt instrument in accordance with ASC 470, *Debt*, (see Note 6). All the proceeds of the PPP loan were used by MRCC to pay eligible payroll costs and MRCC maintained its headcount and otherwise complied with the terms of the PPP loan. While MRCC believes that it has acted in compliance with the program and will seek forgiveness of the PPP loan, no assurance can be provided that MRCC will obtain forgiveness of the PPP loan in whole or in part.

Payroll Tax Deferral Program – Section 2302 of the CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security taxes. The payroll tax deferral period began March 27, 2020 and ended December 31, 2020. MRCC has deferred payroll taxes, included in accrued expenses and other current liabilities in the statement of financial position of $287,539 as of June 30, 2021. Repayment of deferred payroll taxes begins on December 31, 2021, at which point 50% of the deferred amount is due. The remaining 50% of deferred payroll taxes is due by December 31, 2022.

The impact of COVID-19 has increased the uncertainty associated with management's assumptions and estimates made on these financial statements. The actual impact of COVID-19 on MRCC's financial statements may differ significantly from the assumptions and estimates made for the year ended June 30, 2021.

NOTE 3 – 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, 2021, was as follows:

Medicare	24%
Medi-Cal	33%
Other third-party payors	26%
Self pay	17%
	100%

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

Financial instruments potentially subjecting MRCC to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") insurance thresholds. Demand deposits are placed with a local financial institution, and management has not experienced any loss related to these demand deposits in the past. At June 30, 2021, MRCC's cash accounts exceeded federally insured limits by $5,414,769.

NOTE 4 – INVESTMENTS AND INVESTMENT RETURN

Composition of investments and assets limited as to use at June 30, 2021, was as follows:

Equities	$ 7,868,652
Fixed income securities:	
U.S. agencies and treasuries	594,247
Corporate debt securities	908,422
Mortgage-backed securities	377,334
Mutual funds	2,199,184
Money market mutual funds	3,071,427
	$ 15,019,266

Investments reflected in the statement of financial position at June 30, 2021, was as follows:

Investments	$ 11,128,376
Assets limited as to use, restricted by donor (Note 8)	3,890,890
	$ 15,019,266

Total investment return at June 30, 2021, was comprised of the following:

Interest and dividend income and realized gains	$ 2,340,712
Less: investment expenses	(122,159)
	2,218,553
Unrealized gains	598,037
	$ 2,816,590

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following at June 30, 2021:

Land and land improvements	$ 2,259,244
Buildings, building improvements, and building service equipment	30,084,186
Office furniture and equipment	3,146,023
Vehicles	355,574
	35,845,027
Less: accumulated depreciation	(6,421,994)
Construction in progress	2,621,990
	$ 32,045,023

At June 30, 2021, MRCC's construction in progress balance of $2,621,990 relates to certain building renovations. The projects currently in progress are expected to be completed in the next fiscal year with approximately $9,441,000 of additional costs to complete.

As described in Note 6, 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, 2021, was $172,788.

NOTE 6 – NOTES PAYABLE

MRCC's notes payable consisted of the following at June 30, 2021:

BBVA Construction Loan ("A," "B," "C," "D,")	$ 14,860,261
PPP loan payable ("E")	1,835,070
	16,695,331
Less: unamortized debt issuance costs	(361,309)
Less: current maturities	(291,828)
	$ 16,042,194

(A) MRCC entered into a $25,000,000 construction loan with BBVA Compass Bank on March 26, 2019. The construction loan converts to a permanent loan on March 25, 2022, extending the maturity date to March 25, 2032. The note will bear interest at an annual rate of 4.51% and will be amortized over 30 years.

(B) MRCC entered into a $10,000,000 interest swap agreement with Compass Bank on March 26, 2019. The effective Date of the Swap agreement is March 24, 2022, extending the maturity date to March 24, 2032. Compass Bank is the floating rate player subject to a floating rate of USD-LIBOR-BBA, whereas MRCC is the fixed rate player subject to a fixed rate of 2.86% per annum.

(C) MRCC entered into a $10,000,000 interest swap agreement with Compass Bank on May 1, 2020. The effective Date of the Swap agreement is March 24, 2022, extending the maturity date to March 24, 2032. Compass Bank is the floating rate player subject to a floating rate of USD-LIBOR-BBA, whereas Mercy Retirement Care Center is the Fixed Rate player subject to a fixed rate of 1.09% per annum.

(D) MRCC entered into a $2,000,000 interest swap agreement with Compass Bank on May 4, 2020. The effective Date of the Swap agreement is March 24, 2022, extending the maturity date to March 24, 2027. Compass Bank is the floating rate player subject to a floating rate of USD-LIBOR-BBA, whereas MRCC is the Fixed Rate player subject to a fixed rate of 1.20% per annum.

(E) MRCC entered into $1,835,070 PPP loan with a financial institution on March 24, 2021. The loan accrues interest at a rate of 1%, starting 10 months and 24 weeks after the loan is distributed. The loan has an original maturity date of 5 years from the original date. Equal monthly principal and interest payments are required in an amount that would fully amortize the loan by the maturity date beginning April 15, 2022, unless forgiven.

Unamortized debt issuance costs of $361,309 at June 30, 2021, are related to the outstanding construction loan of MRCC. The costs will be amortized to interest expense over the term of the related debt after the construction loan converts to a permanent loan. There was no amortization of debt issuance costs during 2021.

Aggregate annual maturities of notes payable at June 30, 2021, are as follows:

Year Ending June 30,	
2022	$ 291,828
2023	761,986
2024	793,666
2025	813,856
2026	838,282
Thereafter	13,195,713
	$ 16,695,331

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of donor restricted contributions and grants at June 30, 2021, for the following purposes:

Building renovations and equipment	$ 4,280,824
Charitable care and other	977,675
Food distribution to low income seniors	1,099,356
Endowment corpus	2,939,874
	$ 9,297,729

During the year ended June 30, 2021, $2,005,062 of net assets were released from donor restrictions by incurring eligible operating and capital expenditures and satisfying the restricted purposes of charitable care.

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

NOTE 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.

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, 2021, was as follows:

	Available for Release	Corpus	Total
Donor-restricted endowment funds	$ 951,016	$ 2,939,874	$ 3,890,890

Changes in endowment net assets for the year ended June 30, 2021, was as follows:

	Available for Release	Corpus	Total
Endowment net assets, beginning of year	$ 92,609	$ 2,939,874	$ 3,032,483
Investment return, net			
Investment gain	820,788	-	820,788
Net appreciation	204,908	-	204,908
Less: investment manager expense	(30,325)	-	(30,325)
Total investment return	995,371	-	995,371
Appropriation of endowment assets for expenditure	(136,964)	-	(136,964)
Endowment net assets, end of year	$ 951,016	$ 2,939,874	$ 3,890,890

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level ECA 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, 2021.

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. Under MRCC's policies, endowment assets are invested in a manner that is intended to produce results that exceed the average return of the Barclays Capital Aggregate Index for fixed-income investments and the average return of the Russell 3000 Index for equities while assuming an investment grade level of investment risk. MRCC expects its endowment funds to provide an average rate of return of 5% annually 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, 2021, comprise the following:

Cash and cash equivalents	$ 5,914,769
Resident accounts receivable	1,610,153
Investments	11,128,376
	$ 18,653,298

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

NOTE 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, 2021, was as follows:

	Skilled Nursing	Assisted Living / Memory Care	Brown Bag Program	Fundraising	General and Administrative	Total
Salaries and benefits	$ 4,931,762	$ 4,400,206	$ 463,495	$ 173,565	$ 71,754	$ 10,040,782
Purchased services and other	1,741,738	619,853	85,651	18,161	1,697,877	4,163,280
Donated food	-	-	3,666,976	-	-	3,666,976
Supplies	771,099	500,626	382,970	2,530	19,051	1,676,276
Depreciation and depletion	-	-	-	-	1,314,814	1,314,814
Interest and fees	-	-	-	-	4,995	4,995
Management fee	-	-	-	-	1,139,774	1,139,774
Other expenses	-	-	-	-	9,944	9,944
	$ 7,444,599	$ 5,520,685	$ 4,599,092	$ 194,256	$ 4,258,209	$ 22,016,841

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

Workers' compensation claims – MRCC purchases workers' compensation insurance coverage with a zero deductible per occurrence. The provision for estimated workers' compensation claims includes estimates of the ultimate costs for both uninsured reported claims and claims incurred-but-not-reported, in accordance with projections based on past experience. Workers' compensation liabilities, included in accrued expenses and other current liabilities, were $83,000 as of June 30, 2021, in the accompanying statement of financial position. Insurance recovery receivables, included in other assets, were $83,000 as of June 30, 2021, in the accompanying statement of financial position.

Health reimbursement arrangement – MRCC purchases a high deductible health and dental insurance plan for MRCC employees on a calendar year basis. MRCC has a commitment to fund $3,500 per employee to a health savings account, which was increased to $5,500 per employee on January 1, 2021. MRCC estimates the remaining utilization of the health reimburse arrangement based on historical experience of claims paid from the MRCC employee's health savings account. The remaining estimated health reimbursement accrued expense is included in accrued expenses and other current liabilities in the accompanying statement of financial position was $113,899 as of June 30, 2021.

NOTE 12 – RETIREMENT PLANS

MRCC has a defined contribution plan and incentive plan that cover all employees. Employees are eligible for participation in the defined contribution plan at date of hire and MRCC matches the employee contribution, after the completion of one year of service, up to a maximum of 6.0% of the employee's salary. 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, 2021, MRCC contributed a total of $129,902 and zero, to the defined contribution and incentive plans, respectively.

NOTE 13 – RELATED PARTY TRANSACTIONS

In July 2002, MRCC entered into a management agreement with ECA-Corporate for various management, consulting and marketing services. On May 1, 2012, MRCC amended and restated its management agreement with ECA-Corporate for the various services outlined in the agreement. MRCC reimburses ECA-Corporate for all reasonable out-of-pocket expenses, a management fee of 5.0% of gross revenues generated by the property, and a contingent fee of 1.5% of gross revenues. The management agreement expires on September 1, 2022. Management fee expense was $1,139,774 for the year ended June 30, 2021.

MRCC has a payable to ECA-Corporate at June 30, 2021. The amounts due are for management fees and other shared administrative expenses. The amounts due to related party as of June 30, 2021, was $2,102,210.

NOTE 14 – 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, 2021 and was exempt from the refund reserve requirement at June 30, 2021.

In accordance with section 1790(a)(3) of the Code as of June 30, 2021, 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 15 – 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, 2021.

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.

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, 2021:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
Equities	$ 7,868,652	$ 7,868,652	$ -	$ -
Fixed income securities:				
U.S. agencies and treasuries	594,247	594,247	-	-
Corporate debt securities	908,422	-	908,422	-
Mortgage-backed securities	377,334	377,334	-	-
Mutual funds	2,199,184	2,199,184	-	-
Money market mutual funds	3,071,427	3,071,427	-	-
	$ 15,019,266	$ 14,110,844	$ 908,422	$ -

NOTE 16 – SIGNIFICANT ESTIMATES, CONCENTRATIONS, AND CONTINGENCIES

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

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

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

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

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

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

Asset retirement obligation – As discussed in Note 1, MRCC has recorded a liability for its conditional asset retirement obligations related to asbestos removal.

NOTE 17 – SUBSEQUENT EVENTS

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

MRCC has evaluated subsequent events through November 1, 2021, which is the date the financial statements were available to be issued.