



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

**Mercy Retirement and Care Center**

*June 30, 2021*

# Table of Contents

---

**REPORT OF INDEPENDENT AUDITORS** .....1

## **CONTINUING CARE LIQUID RESERVE SCHEDULES**

Form 5-1, Long-Term Debt Incurred in Prior Fiscal Year .....4

Form 5-2, Long-Term Debt Incurred During Fiscal Year .....5

Form 5-3, Calculation of Long-Term Debt Reserve Amount .....6

Form 5-4, Calculation of Net Operating Expenses .....7

Form 5-5, Annual Reserve Certification .....8

Notes to Continuing Care Liquid Reserve Schedules.....9

## **SUPPLEMENTARY SCHEDULES**

Attachment to Form 5-4 .....11

Attachment to Form 5-5 .....12

## **Report of Independent Auditors**

To the Board of Directors  
Mercy Retirement and Care Center

### **Report on the Continuing Care Reserve Report**

We have audited the accompanying continuing care reserve report (the “Report”) of Mercy Retirement and Care Center, which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5, as of and for the year ended June 30, 2021.

#### ***Management’s Responsibility for the Continuing Care Reserve Report***

Management is responsible for the preparation and fair presentation of the Report in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Report that is free from material misstatement, whether due to fraud or error.

#### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on the Report 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 Report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Report. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Report, 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 Report 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 Report.

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 Report referred to above presents fairly, in all material respects, the continuing care reserves of Mercy Retirement and Care Center at June 30, 2021, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

***Basis of Accounting***

We draw attention to the basis of accounting used to prepare the Report. The Report is prepared by Mercy Retirement and Care Center 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.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the liquid reserve requirement of the Mercy Retirement and Care Center. The accompanying Attachment to Form 5-4 and Attachment to Form 5-5, presented as supplementary schedules, are presented for the purpose of additional analysis and are not a required part of the Report. 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 Report. The information has been subjected to the auditing procedures applied in the audit of the Report, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Report, or to the Report itself, 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 Report.

***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 for filing with the California Department of Social Services, and is not intended to be, and should not be, used by anyone other than these specified parties.

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

San Francisco, California  
November 2, 2021

**Continuing Care Liquid Reserve Schedules**

---

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

| <b>FORM 5-1<br/>                     LONG-TERM DEBT INCURRED<br/>                     IN A PRIOR FISCAL YEAR<br/>                     (Including Balloon Debt)</b> |                      |  |   |  |   |
|--|----------------------|--|---|--|---|
| Long-Term Debt Obligation  | (a)<br>Date Incurred | (b)<br>Principal Paid During Fiscal Year | (c)<br>Interest Paid During Fiscal Year | (d)<br>Credit Enhancement Premiums Paid in Fiscal Year | (e)<br>Total Paid (columns (b) + (c) + (d)) |
| 1  | 03/26/19             | \$0                                      | \$177,783                               | \$0  | \$177,783                                   |
| 2  |                      |  |   |  |   |
| 3  |                      |  |   |  | \$0   |
| 4  |                      |  |   |  | \$0   |
| 5  |                      |  |   |  | \$0   |
| 6  |                      |  |   |  | \$0   |
| 7  |                      |  |   |  | \$0   |
| 8  |                      |  |   |  | \$0   |
| <b>TOTAL:</b>  |                      |  | \$177,783                               | \$0  | \$177,783                                   |

*(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 BBVA Compass Bank. There were borrowings of \$14,860,261 as of June 30, 2021. During the year ended June 30, 2021, Mercy paid \$177,783 in interest, which is included in property and equipment, net on the financial statements**

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

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

| <b>FORM 5-2</b><br><b>LONG-TERM DEBT INCURRED</b><br><b>DURING FISCAL YEAR</b><br><b>(Including Balloon Debt)</b>  |                      |   |  |   |  |
|--|----------------------|---|--|---|--|
| Long-Term Debt Obligation  | (a)<br>Date Incurred | (b)<br>Total Interest Paid During Fiscal Year | (c)<br>Amount of Most Recent Payment on the Debt | (d)<br>Number of Payments over next 12 months | (e)<br>Reserve Requirement (see instruction 5) (columns (c) x (d)) |
| 1  | Thru 6/30/2021       | \$0   | \$0  | \$0   | \$0  |
| 2  |                      |   |  |   | \$0  |
| 3  |                      |   |  |   | \$0  |
| 4  |                      |   |  |   | \$0  |
| 5  |                      |   |  |   | \$0  |
| 6  |                      |   |  |   | \$0  |
| 7  |                      |   |  |   | \$0  |
| 8  |                      |   |  |   | \$0  |
| <b>TOTAL:</b>  |                      | \$0   | \$0  | 0   | \$0  |
|  |                      |   |  |   | <i>(Transfer this amount to Form 5-3, Line 2)</i>                  |
| <b>NOTE:</b> For column (b), do not include voluntary payments made to pay down principal.   |                      |   |  |   |  |
| MRCC entered into a \$1.8 million Paycheck Protection Program loan on March 24, 2021 with BBVA USA. There were borrowings of \$1,835,070 as of June 30, 2021 plus accrued interest payable of \$4,995. |                      |   |  |   |  |
| <b>PROVIDER:</b> <u>Mercy Retirement and Care Center, a Long-Term Care Community</u>   |                      |   |  |   |  |

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

| <b>FORM 5-3</b>  |  |              |
|--|--|--------------|
| <b>CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT</b>                                  |  |              |
| <b>Line</b>  |  | <b>TOTAL</b> |
| [1]  | Total from Form 5-1 bottom of Column (e)   | \$177,783    |
| [2]  | Total from Form 5-2 bottom of Column (e)   | \$0          |
| [3]  | Facility leasehold or rental payment paid by provider during fiscal year<br>(including related payments such as lease insurance) | \$0          |
| [4]  | <b>TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:</b>   | \$177,783    |
| <b>PROVIDER:</b> <u>Mercy Retirement and Care Center, a Long-Term Care Community</u> |  |              |

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

| <b>FORM 5-4</b>                              |  |                |              |
|--|--|----------------|--------------|
| <b>CALCULATION OF NET OPERATING EXPENSES</b> |  |                |              |
| <b>Line</b>                                  |  | <b>Amounts</b> | <b>TOTAL</b> |
| [1]  | Total operating expenses from financial statements   |                | \$18,349,865 |
| [2]  | Deductions:  |                |              |
|  | [a] Interest paid on long-term debt (see instructions)   | \$177,783      |              |
|  | [b] Credit enhancement premiums paid for long-term debt (see instructions)                                       | \$0            |              |
|  | [c] Depreciation   | \$1,319,546    |              |
|  | [d] Amortization   | -\$4,732       |              |
|  | [e] Revenues received during the fiscal year for services to persons who did not have a continuing care contract | \$14,651,539   |              |
|  | [f] Extraordinary expenses approved by the Department  | \$0            |              |
| [3]  | Total Deductions   |                | \$16,144,136 |
| [4]  | Net Operating Expenses   |                | \$2,205,729  |
| [5]  | Divide Line 4 by 365 and enter the result.   |                | \$6,043      |
| [6]  | <b>Multiply Line 5 by 75 and enter the result.</b> This is the provider's operating expense reserve amount.      |                | \$453,232    |
| <b>PROVIDER:</b>                             | <u>Mercy Retirement and Care Center, a Long-Term Care Community</u>  |                |              |
| <b>COMMUNITY:</b>                            | <u>Mercy Retirement and Care Center</u>  |                |              |

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

**FORM 5-5  
ANNUAL RESERVE CERTIFICATION**

Provider Name: Mercy Retirement and Care Center, a Long-Term Care Community  
Fiscal Year Ended: 6/30/2021

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for  
the period ended 6/30/2021 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>\$177,783</u>        |
| [2] Operating Expense Reserve Amount    | <u>\$453,232</u>        |
| [3] <b>Total Liquid Reserve Amount:</b> | <b><u>\$631,015</u></b> |

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

| <u>Qualifying Asset Description</u>  | <u>Amount<br/>(Market Value at End of Quarter)</u> |                              |
|--|--|------------------------------|
|  | <u>Debt<br/>Service Reserve</u>                    | <u>Operating<br/>Reserve</u> |
| [4] Cash and Cash Equivalents  | <u>\$177,783</u>                                   | <u>\$1,731,164</u>           |
| [5] Investment Securities  | <u>\$0</u>   | <u>\$11,127,836</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>                   |
| <hr/>  |  |                              |
| (describe qualifying asset)  |  |                              |
| <b>Total Amount of Qualifying Assets<br/>Listed for Reserve Obligation: [11]</b> | <u>\$177,783</u> [12]                              | <u>\$12,859,000</u>          |
| <b>Reserve Obligation Amount: [13]</b>   | <u>\$177,783</u> [14]                              | <u>\$453,232</u>             |
| <b>Surplus/(Deficiency): [15]</b>  | <u>\$0</u> [16]                                    | <u>\$12,405,768</u>          |

Signature:

*Robin Evlts*

Date: 11/2/2021

(Authorized Representative) Robin Evlts

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, DEBT ISSUANCE FEES, AND LOAN COMMITMENTS

Mercy Retirement and Care Center ("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. Interest rate swaps have been executed on \$22,000,000 of the planned \$25,000,000 loan, that go into effect on March 24, 2022, extending the maturity date to March 24, 2032. BBVA 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 fixed rates of 1.09% - 2.86% per annum, or a weighted average rate of 1.90%.

Debt issuance fees of \$361,309 are included in long-term debt on the statement of financial position information. There were borrowings of \$14,860,261, net of debt issuance fees of \$361,309, for total debt outstanding of \$14,498,952. In accordance with the construction loan agreement, MRCC was required to commit \$10,000,000 to the construction project prior to drawing on the construction loan. As of June 30, 2021, MRCC had spent the required \$10,000,000, plus an additional \$919,732. During the year ended June 30, 2021, MRCC placed in service \$23,089,000 of capitalized construction costs. At June 30, 2021, the balance of MRCC's construction in progress was \$2,621,990 and are expected to be completed through 2022 with \$9,441,000 additional costs to complete.

MRCC entered into a \$1,835,070 Paycheck Protection Program ("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

## **Supplementary Schedules**

---

# Mercy Retirement and Care Center

## Attachment to Form 5-4

### Attachment to Form 5-4 CCRC Revenue Allocation

|                                       | CCRC Amount | Non-CCRC Amount      | Total Amount         |
|---------------------------------------|-------------|----------------------|----------------------|
| Residential & Assisted Living         | \$ -        | \$ 3,422,800         | \$ 3,422,800         |
| Memory Care                           | -           | 2,174,938            | 2,174,938            |
| Skilled Nursing                       | -           | 8,303,004            | 8,303,004            |
| Charitable Adjustments                | -           | (136,964)            | (136,964)            |
| Contractual Allowances                | -           | (42,782)             | (42,782)             |
| Subtotal Room & Board                 | -           | 13,720,996           | 13,720,996           |
| Gross Ancillary Revenue               | -           | 743,459              | 743,459              |
| Other Operating Revenue**             | -           | 187,084              | 187,084              |
| <b>Total Room &amp; Board Revenue</b> | <b>\$ -</b> | <b>\$ 14,651,539</b> | <b>\$ 14,651,539</b> |

\*\*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.

|   |                      |
|---|----------------------|
| Net health services, monthly rent, and other resident service revenue per the statement of activities and changes in net assets | \$ 14,651,539        |
| Less: CCRC resident revenue   | -                    |
| Line 2(e)   | <u>\$ 14,651,539</u> |

|   |                      |
|---|----------------------|
| Net health services, monthly rent, and other resident service revenue per the statement of activities and changes in net assets | \$ 14,651,539        |
| Less: Increase in patient and resident accounts receivable, net   | (561,985)            |
| Cash received from non-contract residents plus cash received from other resident service per Statement of Cash Flows            | <u>\$ 14,089,554</u> |

### CCRC Depreciation and Amortization Line 2(c) & (d)

|                          |              |
|--------------------------|--------------|
| Line 2(c) - Depreciation | \$ 1,319,546 |
| Line 2(d) - Amortization | (4,732)      |

|  |                     |
|--|---------------------|
| Depreciation expenses and other, per the statement of activities and changes in net assets | <u>\$ 1,314,814</u> |
|--|---------------------|

|   |                      |
|---|----------------------|
| Net Patient and Resident Services Income (Line 2 e) Revenue, gain and Other Support per the statement of activities and changes in net assets | \$ 19,848,316        |
| Less - In-kind food contributions   | (3,666,976)          |
| Less: Provider relief funds   | (422,051)            |
| Less: Net assets releases from restriction  | (1,107,750)          |
| Net Patient and Resident Services Income (Line 2 e)   | <u>\$ 14,651,539</u> |

|   |                      |
|---|----------------------|
| <b>Operating Expense</b>  |                      |
| Operating Expense per the statement of activities and changes in net assets | \$ 22,016,841        |
| Less: Donated Food  | (3,666,976)          |
| Total Operating Expense on Form 5-4 (Line 1)                                | <u>\$ 18,349,865</u> |

# Mercy Retirement and Care Center Attachment to Form 5-5

**FORM 5-5 RESERVES**

**Per Audited Financial Statements - 06/30/21**

|  | Assets Limited as to Use - Externally Restricted by |                      |                     | Net Assets With Donor Restrictions |
|--|---|----------------------|---------------------|------------------------------------|
| Per Financial Statements   | Donor   | Investments          | Cash                | Restrictions                       |
|  | \$ 3,890,890  | \$ 11,128,376        | \$ 5,914,769        | \$ 9,297,729                       |
| <b>Less:</b>   |   |                      |                     |                                    |
| <b>Reserves maintained by MRCC excluded from Qualifying Assets:</b>                                |   |                      |                     |                                    |
| (1) Endowments for Charitable Care   | 3,890,890   |                      |                     | 3,890,890                          |
| (2) Capital campaign amounts for revitalization project  |   |                      | 2,820,510           | 2,820,510                          |
| (2) Donations for food program serving low income seniors  |   |                      | 1,099,356           | 1,099,356                          |
| (2) Donations for chapel renovation  |   |                      | 27,204              | 27,204                             |
| (2) Donations for wish list, chaplaincy, other   |   |                      | 58,752              | 58,752                             |
| <b>Total cash and investment reserves maintained by MRCC at June 30, 2021</b>                      | <b>\$ 3,890,890</b>                                 | <b>\$ -</b>          | <b>\$ 4,005,822</b> | <b>7,896,712</b>                   |
| <b>Unrestricted</b>  | <b>\$ -</b>   | <b>\$ 11,128,376</b> | <b>\$ 1,908,947</b> |                                    |
| Qualifying Assets - Form 5-5 Line 4 Cash - Debt Service  |   |                      | \$ 177,783          |                                    |
| Qualifying Assets - Form 5-5 Line 4 Cash - Operating Reserve                                       |   |                      | \$ 1,731,164        |                                    |
| Qualifying Assets - Form 5-5 Line 5 Investments - Operating Reserve                                |   | \$ 11,128,376        |                     |                                    |
|  | <b>\$ -</b>   | <b>\$ 11,128,376</b> | <b>\$ 1,908,947</b> |                                    |
| Capital campaign Pledges included in Other receivables per Financial Statements                    |   |                      |                     | 1,401,017                          |
| Total Net Assets With Donor Restrictions per Financial Statements                                  |   |                      |                     | <b>\$ 9,297,729</b>                |
| (1) Donor designated investments for charitable care, including \$2,939,874 permanently restricted |   |                      |                     |                                    |
| (2) Donor designated cash generally to be used in FY22 for operating expenses and revitalization   |   |                      |                     |                                    |

