MONTECITO RETIREMENT ASSOCIATION

DECEMBER 31, 2022 AND 2021

FINANCIAL STATEMENTS

BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

MONTECITO RETIREMENT ASSOCIATION

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BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of
Montecito Retirement Association:**

Opinion

We have audited the accompanying financial statements of Montecito Retirement Association (the Association) which comprise the balance sheets as of December 31, 2022 and 2021, the related statements of operations, changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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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 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, 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 the Association'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 the Association'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.

Bartlett, Pringle + Wolf, LLP

Santa Barbara, California
May 8, 2023

MONTECITO RETIREMENT ASSOCIATION
BALANCE SHEETS
December 31, 2022 and 2021

	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,864,773	$ 3,039,988
Accounts receivable, net of allowance for doubtful accounts of $135,554 and $66,645 in 2022 and 2021, respectively	2,215,250	2,035,939
Notes receivable, current portion	161,791	161,791
Accrued interest receivable	545	9,706
Pledges receivable, current portion	195,467	340,484
Inventories	247,783	166,106
Prepaid expenses and deposits	951,451	840,862
Total current assets	10,637,060	6,594,876
Long-Term Reserves:		
Liquid reserve assets	21,316,881	23,785,909
Third party restricted deposits	765,250	5,349,909
Donor restricted funds	1,716,840	1,728,862
Total long term reserves	23,798,971	30,864,680
Property, Plant and Equipment:		
Land and buildings	78,455,920	78,455,920
Fixtures and equipment	6,300,815	5,943,211
Improvements	80,956,181	73,901,430
Construction in progress	519,366	1,559,760
	166,232,282	159,860,321
Less accumulated depreciation	(50,630,677)	(44,745,903)
Net property, plant and equipment	115,601,605	115,114,418
Other Assets:		
Notes receivable, net of current portion	77,031	238,818
Pledges receivable, net of current portion	2,123,620	2,343,074
Deferred compensation plan	211,677	276,734
Other assets	261,558	261,558
Total other assets	2,673,886	3,120,184
Total assets	$ 152,711,522	$ 155,694,158

See accompanying notes

MONTECITO RETIREMENT ASSOCIATION
BALANCE SHEETS
December 31, 2022 and 2021

	2022	2021
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 790,965	$ 951,855
Accrued expenses	3,276,656	2,987,241
Deferred revenue	2,232,182	2,305,806
Long-term debt, current portion	2,028,498	1,976,155
Total current liabilities	8,328,301	8,221,057
Long-Term Liabilities:		
Long-term debt, net of current portion	18,172,450	23,885,272
Refundable fees	51,516,543	50,778,002
Entry fee deposits	1,735,536	1,839,664
Deferred revenue from entrance fees	40,135,003	35,080,018
Deferred compensation plan	211,677	276,734
Total long-term liabilities	111,771,209	111,859,690
Total liabilities	120,099,510	120,080,747
Net Assets:		
Without donor restrictions	30,890,170	33,884,550
With donor restrictions		
Purpose restrictions	1,323,595	1,344,223
Perpetual in nature	398,247	384,638
	1,721,842	1,728,861
Total net assets	32,612,012	35,613,411
Total liabilities and net assets	$ 152,711,522	$ 155,694,158

See accompanying notes

MONTECITO RETIREMENT ASSOCIATION
STATEMENT OF OPERATIONS
For the Years Ended December 31, 2022 and 2021

	2022	2021
Changes in net assets without donor restrictions:		
Operating revenue and gains:		
Monthly fees	$ 22,604,579	$ 19,545,812
Net entrance fees earned	10,791,891	9,250,899
Medical revenue	1,115,416	970,931
Service income	835,036	661,201
Contributions	171,522	86,991
Interest and dividend income, net	418,233	514,799
Other operating income	199,980	218,918
Net assets released from restrictions	658,162	538,351
Total revenue, gains and other support	36,794,819	31,787,902
Expenses:		
Food services	7,328,019	5,867,063
Outside medical and ancillary services	963,868	1,003,833
Medical center	4,378,007	4,168,404
Housekeeping	2,193,327	1,874,609
Plant operations and maintenance	3,106,945	3,032,979
Information technology	796,012	732,344
General and administrative	4,392,300	3,971,870
Education	111,330	93,914
Security	620,911	596,932
Philanthropy	200,907	196,595
Marketing	533,216	576,450
Personal care	1,929,529	1,690,577
Resident support	141,190	141,645
Clinic	716,512	666,568
Health and fitness	143,775	176,332
Life enrichment	683,837	591,072
Depreciation	6,802,436	5,824,354
Interest expense	671,905	170,704
Total expenses	35,714,026	31,376,245
Income from operations	1,080,793	411,657
Non-operating revenue, gains and other support:		
Realized gains (losses) on sales of investments	(3,203)	883,165
Unrealized gains (losses) on investments	(4,287,298)	1,310,410
Loss on disposal of assets	-	(203,192)
Net assets released from restriction - purchase of equipment	215,328	3,357,489
Increase (decrease) in net assets without donor restrictions	$ (2,994,380)	$ 5,759,529

See accompanying notes

MONTECITO RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN NET ASSETS
For the Years Ended December 31, 2022 and 2021

	Without Donor Restrictions	With Donor Restrictions	Total
		2022	
Change in net assets without donor restrictions	$ (2,994,380)	$	$ (2,994,380)
Contributions		895,387	895,387
Investment income (loss)		(28,916)	(28,916)
Net assets released from restrictions		(873,490)	(873,490)
Change in net assets	(2,994,380)	(7,019)	(3,001,399)
Net assets at beginning of year	33,884,550	1,728,861	35,613,411
Net assets at end of year	$ 30,890,170	$ 1,721,842	$ 32,612,012
		2021	
Change in net assets without donor restrictions	$ 5,759,529	$	$ 5,759,529
Contributions		826,711	826,711
Investment income		67,979	67,979
Change in value of charitable remainder trust agreements		1,516	1,516
Net assets released from restrictions		(3,895,840)	(3,895,840)
Change in net assets	5,759,529	(2,999,634)	2,759,895
Net assets at beginning of year	28,125,021	4,728,495	32,853,516
Net assets at end of year	$ 33,884,550	$ 1,728,861	$ 35,613,411

See accompanying notes

MONTECITO RETIREMENT ASSOCIATION
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Cash received from residents for services	$ 24,037,147	$ 20,928,193
Investment income received	398,478	646,482
Contributions and grants received	1,154,183	1,545,719
Reimbursements for services to non-residents	333,929	231,790
Cash paid for operations	(28,018,342)	(26,997,764)
Cash paid for interest	(642,208)	(143,350)
Net cash used by operating activities	(2,736,813)	(3,788,930)
Cash Flows from Investing Activities:		
Collection of notes receivable	161,787	507,157
Expenditures for plant and equipment	(7,567,764)	(20,034,235)
Proceeds from disposals of plant and equipment	-	9,000
Transfers of cash out of investment accounts	917,359	4,401,963
Transfers of cash in to investment accounts	(1,266,321)	(2,325,984)
Net cash used by investing activities	(7,754,939)	(17,442,099)
Cash Flows from Financing Activities:		
Issuance of long term debt	-	8,762,162
Principal payments on long term debt	(5,697,119)	(22,125,210)
Proceeds from net entrance fees	15,434,946	31,421,209
Refunds to residents and applicants	(110,750)	(1,289,959)
Deposits received	1,288,093	1,677,369
Proceeds from contributions restricted for:		
Property and equipment purchases	233,623	121,282
Endowment	43,574	18,053
Net cash provided by financing activities	11,192,367	18,584,906
Net increase (decrease) in cash, cash equivalents, and restricted cash	700,615	(2,646,123)
Cash, cash equivalents, and restricted cash at beginning of year	7,792,687	10,438,810
Cash, cash equivalents, and restricted cash at end of year	$ 8,493,302	$ 7,792,687

See accompanying notes

MONTECITO RETIREMENT ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2022

	Resident Services	General and Administrative	Philanthropy	2022 Total
Salaries and wages	$ 11,671,627	$ 2,362,935	$ 124,882	$ 14,159,444
Payroll taxes	886,028	157,765	8,149	1,051,942
Health insurance	1,786,853	180,294	23,541	1,990,688
Retirement	610,093	165,488	10,926	786,507
Other benefits	622,282	160,136	4,107	786,525
Workers' compensation	390,067	33,533	3,319	426,919
Professional fees	121,211	207,077	-	328,288
Supplies	751,109	87,196	2,545	840,850
Food purchases	2,047,382	5,375	-	2,052,757
Other medical services	1,101,035	104	-	1,101,139
Repairs and maintenance	130,097	5,147	-	135,244
Rental and lease	555	70,217	-	70,772
Purchased services	357,259	272,057	9,904	639,220
Laundry and linen	166,678	-	-	166,678
Landscaping	438,185	-	-	438,185
Utilities	1,329,552	53,087	4,505	1,387,144
Insurance	1,342,752	17,133	658	1,360,543
Miscellaneous	197,168	219,775	9,375	426,318
Activities and events	3,603	24,408	4,161	32,172
Donations	-	58,350	-	58,350
Depreciation	6,713,483	85,663	3,290	6,802,436
Interest expense	663,119	8,461	325	671,905
Totals	$ 31,330,138	$ 4,174,201	$ 209,687	$ 35,714,026

See accompanying notes

MONTECITO RETIREMENT ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2021

	Resident Services	General and Administrative	Philanthropy	2021 Total
Salaries and wages	$ 10,013,902	$ 2,505,557	$ 124,485	$ 12,643,944
Payroll taxes	762,424	158,186	8,700	929,310
Health insurance	1,748,032	150,058	23,139	1,921,229
Retirement	564,380	184,164	12,021	760,565
Other benefits	453,479	125,718	578	579,775
Workers' compensation	458,045	44,456	4,671	507,172
Professional fees	141,894	143,343	-	285,237
Supplies	548,588	60,686	1,083	610,357
Food purchases	1,608,327	6,194	313	1,614,834
Other medical services	1,421,184	2,074	100	1,423,358
Repairs and maintenance	80,899	1,650	-	82,549
Rental and lease	61,875	6,379	-	68,254
Purchases services	326,410	235,678	10,825	572,913
Laundry and linen	171,571	-	-	171,571
Landscaping	468,811	-	-	468,811
Utilities	1,244,156	52,064	4,469	1,300,689
Insurance	1,003,448	12,533	481	1,016,462
Miscellaneous	162,125	164,222	3,759	330,106
Activities and events	3,040	26,304	6,922	36,266
Donations	-	57,785	-	57,785
Depreciation	5,749,783	71,813	2,758	5,824,354
Interest expense	168,519	2,104	81	170,704
Totals	$ 27,160,892	$ 4,010,968	$ 204,385	$ 31,376,245

See accompanying notes

Note 1 - Nature of Business

Montecito Retirement Association (the Association), a nonprofit California corporation, operates Casa Dorinda, a lifecare retirement community. The Association was formed primarily for the purpose of providing housing, health care, and other related services to residents through the operation of a retirement facility containing 234 independent living apartments, 38 assisted care rooms, and a 52-bed skilled nursing facility. Assisted Living is comprised of 27 personal care rooms and 11 memory care rooms. The Association is licensed by the State of California, Department of Social Services. The skilled nursing facility is also licensed by the California Department of Public Health.

The Association enters into contracts with residents to provide services to the resident for their remaining life. In consideration for future services, the residents pay entrance fees based on various factors including the size of apartment upon entering the facility. In addition to the entrance fee, residents pay monthly fees based on actual costs of operations. Annual increases in monthly fees are based on current and projected costs of operations.

There are no statutory or contractual requirements to retain entrance fees in escrow accounts.

Note 2 - Summary of Significant Accounting Policies

A) Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Association and changes therein are classified and reported as follows:

Net Assets Without Donor Restriction

Net assets available for current support of Association activities and not subject to donor restrictions. These net assets may be used at the discretion of the Association's management and Board of Directors.

Net Assets With Donor Restrictions

Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Note 2 - Summary of Significant Accounting Policies (Continued)

B) Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in computing the liability for deferred entrance fees and the obligation to provide future services as discussed in note 2C and 2G, and useful lives and depreciation expense on capitalized assets. Actual results could differ from those estimates.

C) Deferred Revenue from Entrance Fees

Fees paid by a resident upon entering into a life-care contract are recorded as deferred revenue and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. During the first sixty months of residency, these fees are partially refundable and are recorded as refundable fees.

D) Refundable Fees

Fees paid by a resident upon entering into a life-care contract are refundable upon cancellation by either party during the first 90 days, less a processing fee. After 90 days, a resident may terminate the contract and receive a refund of the entrance fee less a charge for each month from the signing of the agreement. If a resident dies after two years of residency, the resident's estate receives no refund of the entrance fee. After sixty months of residency, the unamortized entrance fees are entirely nonrefundable and are recorded as deferred revenue from entrance fees.

E) Entry Fee Deposits

Fees paid as deposits before entering into a life-care contract are partially refundable and will be applied to entrance fees upon move in.

F) Application Fees

Application fees, which are nonrefundable, are recorded as income when received.

G) Obligation to Provide Future Services

The Association annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 3%.

As of December 31, 2022 and 2021, there was no accruable obligation to provide future services. Accordingly, no liability was recorded.

Note 2 - Summary of Significant Accounting Policies (Continued)

H) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less, except for any cash, money market funds, or other cash equivalents included in the Association's long-term liquid reserve accounts.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet that sum to the total of the same such amounts shown in the statement of cash flows:

	2022	2021
Cash and cash equivalents	$ 6,864,773	$ 3,039,988
Third party restricted deposits	201,113	3,923,997
Donor restricted funds	1,427,416	828,702
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 8,493,302	$ 7,792,687

The nature and purpose of cash restrictions are described in Note 4.

I) Basis of Accounting for Receivables

Accounts receivable and notes receivable are carried at their estimated collectible amount. Interest income on notes receivable is recognized annually. Management periodically evaluates receivables for collectability on a specific-account basis and records an allowance for any amounts estimated to be uncollectible.

Pledges receivable are classified as either collectible in one year or less, or collectible in multiple years. Those receivables deemed collectible in one year or less are stated at their full face value. Those classified as multi-year pledges are stated at their net present value using a risk-adjusted discount rate.

J) Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out basis.

K) Property, Plant and Equipment

Property, plant and equipment are recorded at cost with depreciation provided on the straight-line basis over the estimated useful lives of the assets. Interest costs on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Interest paid which was included as expenditures for plant and equipment on the statement of cash flows was $0 and $797,786 for the years ended December 31, 2022 and 2021, respectively.

The estimated useful lives of the assets are as follows:

Buildings	35 - 40 years
Fixtures and equipment	3 - 15 years
Improvements	3 - 40 years

Note 2 - Summary of Significant Accounting Policies (Continued)

L) Financial Risk

The Association maintains its cash in bank deposit accounts and money market funds which at times may exceed federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash balances.

The Association invests in a professionally managed portfolio that contains fixed income securities, equity securities, and alternative investments. Such investments are exposed to various systematic risks such as market and credit. Due to the level of risk associated with such investments it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

M) Investments

Investment purchases are recorded initially at cost if purchased, or at fair value on the date of donation if donated. Thereafter, investments are reported at their fair values on the balance sheets. Interest and dividend income is reported in the statement of operations net of external and direct internal investment expenses.

N) Revenue Recognition

The Association recognizes revenue under Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC 606). Revenues that are accounted for outside the scope of ASC 606 include funds received by the Association which are voluntary and un-reciprocal contributions, as well as investment income including realized and unrealized gains and losses on investments.

In accordance with ASC 606, revenue is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing services to residents, and is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Association. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Association believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Performance obligations satisfied over time are related to monthly fees, entrance fees, medical revenue, and service income, as further described below. There are no significant performance obligations which transfer to the customer at a point in time.

Note 2 - Summary of Significant Accounting Policies (Continued)

N) Revenue Recognition (Continued)

Monthly Fees

Monthly fees are specified in agreements with residents and are dependent upon apartment size and occupancy. Monthly fees are subject to periodic increases for inflation or increased operating costs. Under the terms of the agreements the Association provides daily meals, weekly housekeeping, utilities, transportation, fitness facilities and classes, various life enrichment activities and outings, security services, and medical services which include a walk-in clinic, on site physicians, assisted living, memory care, skilled nursing facilities, and other Medicare approved health services. Revenue is recognized when performance obligations are satisfied by transferring control of the service provided to the resident, which is monthly as the services are performed.

Entrance Fees

Residents are required to pay an entrance fee as described in Notes 2C and 2D above, the amount of which is specified in written agreements with each resident. The performance obligation for nonrefundable entrance fees (refundable on a decreasing basis for a fixed period of time, at which point the entrance fees become nonrefundable) is that the Association is standing ready to provide a service such that the resident can continue to live in the community and access the appropriate level of care based on his or her needs. The Association has determined that these are a series of distinct services that are considered one performance obligation which is satisfied over time. Therefore, entrance fees are recorded as contract liabilities and are recognized as revenue on a straight-line basis over each individual resident's expected remaining life.

Medical Revenue

Medical revenue is reported at the estimated net realizable amounts from Medicare for services rendered, including estimated retroactive adjustments. Inpatient services for Medicare beneficiaries are paid at Patient Driven Payment Model (PDPM) rates. Outpatient services are based on a fixed fee schedule as determined by Medicare. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenue is recognized when performance obligations are satisfied by transferring control of the service provided to the resident, which is over the course of the related appointment or treatment.

Service Income

Service income includes revenues related to non-healthcare services such as parking, maintenance fees, guest and employee meals, guest room rentals, beauty shop charges, laundry services, special activities, and various administrative charges. Revenue is recognized when performance obligations are satisfied.

Note 2 - Summary of Significant Accounting Policies (Continued)

N) Revenue Recognition (Continued)

Disaggregation of Revenue

The Association disaggregates its revenue from contracts with customers by payor source, as management believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors.

O) Income Taxes

The Association is a not-for-profit charitable corporation and is exempt from Federal and State income taxes under Internal Revenue Code Section 501(c)(3) and 23701(d), respectively.

P) Debt Issuance Costs

Debt issuance costs are amortized using the straight-line method over the term of the related financing agreement.

Q) Income from Operations

The statement of operations includes income from operations. Non-operating amounts presented include realized and unrealized gains and losses on investments, gains and losses on disposal of assets, satisfactions of restrictions on contributions used for purchases of equipment, and net gain on insurance recoveries.

R) Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include depreciation, amortization and utilities, which are allocated on a square footage basis. Insurance and information technology costs are allocated based on type of coverage and usage. Administration, communication, and marketing expenses are recorded under management and administration.

S) Ancillary and Outside Medical Services

Outside medical services include hospital, physician and other copayments and deductibles on medical services. Ancillary services include expenses related to physical therapy, occupational therapy, pharmacy and speech therapy.

Note 3 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, consist of the following:

	2022	2021
Cash and cash equivalents	$ 6,864,773	$ 3,039,988
Accounts receivable	2,215,250	2,035,939
Current portion of notes receivable	161,791	161,791
Accrued interest receivable	545	9,706
Pledges receivable, current portion	195,467	340,484
Liquid reserve assets	21,316,881	23,785,909
	$ 30,754,707	$ 29,373,817

As part of the Association's liquidity management procedures, cash in excess of daily requirements are invested in short term investments and money market funds. The Association maintains 30-60 days in cash and cash equivalents on hand.

Liquid reserve assets are those invested with long-term intentions for future operating and capital requirements. Funds are transferred from liquid reserve assets as needed. The Association has other assets limited to use as described more fully in Note 4, which are not available for general expenditure within the next year and are not reflected in the amounts above.

Note 4 - Long Term Reserves

Long term reserves include undesignated operating reserves invested for future general use as well as funds which are limited to use by donors, other outside parties, or the Board of Directors.

Limited use assets include the following:

- Donor restricted assets are comprised of donations from residents and the general public which have been designated for specified purposes.
- Restricted deposits include:
  - Funds held by the Association's bond trustee.
  - Deposits assigned to third parties as security for the performance of site improvements.

Note 4 - Long Term Reserves (Continued)

The composition of limited use assets at December 31, 2022 and 2021 is as follows:

	2022	2021
Donor Restricted:		
Money market funds	$ 1,427,416	$ 828,702
Certificates of deposit	4,089	-
Mutual funds - blended	-	4,887
Alternative investment funds	325,722	366,818
Due (to) from liquid reserve assets	(40,387)	528,455
Total donor restricted	$ 1,716,840	$ 1,728,862
Third-Party Restricted Deposits:		
Money market funds	$ 201,113	$ 3,923,997
Certificates of deposit	564,137	1,425,912
Total restricted deposits	$ 765,250	$ 5,349,909

Liquid reserve assets are available for use in general operations and are invested with long-term intentions. The composition of liquid reserve assets is as follows:

Liquid Reserve Assets:	2022	2021
Money market funds	$ 1,450,774	$ 583,906
Mutual funds - equities	13,565,106	16,575,102
Mutual funds - bond funds	6,260,614	7,155,356
Due (to) from donor restricted assets	40,387	(528,455)
Total liquid reserves	$ 21,316,881	$ 23,785,909

Note 5 - Accounts Receivable

Accounts receivable consist of the following:

	2022	2021
Due from residents	$ 2,052,786	$ 1,934,789
Health insurance programs, net of allowance for doubtful accounts of $135,554 and $66,645 in 2022 and 2021, respectively	71,631	52,655
Other receivables	90,833	48,495
	$ 2,215,250	$ 2,035,939

Accounts receivable from residents consists primarily of monthly fees billed in advance for services to be provided in the following month and corresponds to the deferred revenue from monthly fees shown in current liabilities.

Note 6 - Notes Receivable

Notes receivable are as follows:

	2022		2021	
Notes receivable from entrance fees. Qualifying residents have the option to pay entrance fees in equal installments over a period of up to four years. Interest is charged at 3.0% per year. There were two outstanding notes receivable from entrance fees as of December 31, 2022 and 2021, respectively.	$	238,822	$	400,609
Total notes receivable		238,822		400,609
Less current portion		161,791		161,791
Notes receivable, net of current portion	$	77,031	$	238,818

The following is a summary of principal payments to be received during the years ended December 31:

2023	$	161,791
2024		77,031
	$	238,822

Note 7 - Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable. Amounts expected to be collected within one year are recorded at net realizable value. Unconditional pledges expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. The discount rate used was 2.30% in 2022 and 2021. In subsequent years, amortization of the discount is included in contribution revenue in the statement of operations. The Association determines the allowance for uncollectible pledges receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Pledges receivable are written off when deemed uncollectible. All pledges were restricted for construction of the new personal and memory care building, and were released from restriction upon completion of the project during 2021.

Pledges receivable, are due to be collected as follows at December 31:

	2022		2021	
Less than one year	$	195,467	$	340,484
One to five years		45,000		235,000
More than five years		2,609,635		2,639,089
Total pledges receivable		2,850,102		3,214,573
Less: Unamortized discount		(531,015)		(531,015)
Pledges receivable, net	$	2,319,087	$	2,683,558

Note 8 - Fair Value Measurements

Under the Financial Accounting Standards Board's authoritative guidance on fair value measurements, 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. In determining fair value, the Association uses various methods including market, income and cost approaches. Based on these approaches, the Association often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs.

The Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Association is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Association has various processes and controls in place to ensure that fair value is reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models, and periodic re-assessments of models to ensure that they are continuing to perform as designed. The Association performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

While the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended December 31, 2022 and 2021, there were no changes to the Association's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

Note 8 - Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for instruments measured at fair value:

Certificates of Deposit: Valued at original cost plus accrued interest, which approximates fair value.

Mutual Funds: Valued at the net asset value (NAV) of shares held by the Association at year end. The NAV is based on the quoted price in an active market.

Alternative Investment Funds: Valued at the NAV of shares held by the Association at year end. The Association uses the NAV as reported by the administrators and/or the investment managers of the underlying investment funds as a practical expedient to determine the fair value of all its investments in funds which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

Deferred Compensation Plan Obligations: The deferred compensation plan obligations are based on the fair market value of the deferred compensation plan assets, which are observable inputs; however, the liabilities are not publicly traded and are therefore, considered Level 2 items.

The following tables set forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31, 2022 and 2021:

	December 31, 2022			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long term reserves:				
Cash and money market funds	$ 3,079,303	$ 3,079,303	$ -	$ -
Mutual Funds - bond funds	6,260,614	6,260,614	-	-
Mutual Funds - equities	13,565,106	13,565,106	-	-
Alternative investment funds	325,722	-	-	325,722
Certificates of deposit	568,226	-	568,226	-
Deferred compensation plan:				
Mutual Funds - equity funds	196,081	196,081	-	-
Fixed income	15,596	15,596	-	-
Total assets	$ 24,010,648	$ 23,116,700	$ 568,226	$ 325,722
Deferred compensation plan	$ 211,677	$ -	$ 211,677	$ -
Total liabilities	$ 211,677	$ -	$ 211,677	$ -

Note 8 - Fair Value Measurements (Continued)

	December 31, 2021			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long term reserves:				
Cash and money market funds	$ 5,336,605	$ 5,336,605	$ -	$ -
Mutual Funds - bond funds	7,155,356	7,155,356	-	-
Mutual Funds - equities	16,579,989	16,579,989	-	-
Alternative investment funds	366,818	-	-	366,818
Certificates of deposit	1,425,912	-	1,425,912	-
Deferred compensation plan:				
Mutual Funds - equity funds	261,258	261,258	-	-
Fixed income	15,476	15,476	-	-
Total assets	$ 31,141,414	$ 29,348,684	$ 1,425,912	$ 366,818
Deferred compensation plan	$ 276,734	$ -	$ 276,734	$ -
Total liabilities	$ 276,734	$ -	$ 276,734	$ -

The Association evaluated the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the years ended December 31, 2022 and 2021, there were no significant transfers in or out of Levels 1, 2, or 3.

The following table sets forth additional disclosures of the Association's Level 2 and Level 3 investments whose fair values are estimated using net asset value per share as of December 31, 2022 and 2021:

	December 31, 2022			
	Fair Value	**Commitment**	**Redemption Frequency (if currently eligible)**	**Redemption Period**
Santa Barbara Foundation Long Term Endowment Pool	$ 325,722	-	Quarterly - subject to approval	30 days prior to quarter end
Total	$ 325,722	$ -		

	December 31, 2021			
	Fair Value	**Commitment**	**Redemption Frequency (if currently eligible)**	**Redemption Period**
Santa Barbara Foundation Long Term Endowment Pool	$ 366,818	$ -	Quarterly - subject to approval	30 days prior to quarter end
Total	$ 366,818	$ -		

Note 8 - Fair Value Measurements (Continued)

The Santa Barbara Foundation Long Term Endowment Pool is designed for accounts with a long-term endowed investment horizon. The portfolio is invested in a diversified mix of global assets which include illiquid private equity, real assets, hedge funds, fixed income, public equities (both domestic and international) and real estate. The portfolio is structured to achieve a total return equal to spending needs plus inflation. The Santa Barbara Foundation (the Foundation) holds, manages, and invests the assets of the Fund as part of their investment portfolio. Distributions to the Association are made in accordance with the Foundation's spending policy, and extraordinary distributions must be approved by the Foundation's Board of Trustees.

The following table includes a rollforward of the amounts for the years ended December 31, 2022 and 2021 for financial instruments classified within Level 3.

	Alternative Investment Funds
Balance, December 31, 2020	$ 332,803
Investment return, net	34,015
Balance, December 31, 2021	366,818
Investment return (loss), net	(41,096)
Balance, December 31, 2022	$ 325,722

Note 9 - Long-Term Debt

Long term debt is comprised of the following at December 31:

	2022	2021
Revenue Bonds Series 2017A	$ -	$ 3,719,606
Revenue Bonds Series 2017B	14,669,288	15,213,643
Revenue Bonds Series 2017C	1,357,126	2,239,098
BBVA Loan	4,478,763	5,029,949
Total long term debt	20,505,177	26,202,296
Less debt issuance costs	(304,229)	(340,869)
Less current portion	(2,028,498)	(1,976,155)
Total long term debt, net of current portion	$ 18,172,450	$ 23,885,272

Note 9 - Long-Term Debt (Continued)

Revenue Bonds Series 2017A, 2017B, 2017C

In June 2017, pursuant to a Loan Agreement between the Association and the California Health Facilities Financing Authority (the Authority), the Authority has issued revenue bonds which were directly placed with a commercial bank, and has agreed to the loan of the proceeds of the bonds to the Association. The Association used funds to 1) finance the construction of 22 new independent living homes, a new personal care and memory care building, refurbishment of the existing personal care building, enhanced infrastructure, an updated clinic facility, a new dining venue, and road improvements (the 2017 Project or Bliss Expansion) and 2) prepay its obligations under the Second Installment Sale Agreement related to the 2012 COPs. The obligations issued under the Loan Agreement are secured by a gross receivables pledge as well as a security interest in the Association's facilities.

Series 2017A Bonds

The Revenue Bonds (Montecito Retirement Association) Series 2017A were issued to provide temporary financing for the 2017 Project in the principal amount of up to $30,500,000. The Series 2017A Bonds accrued interest at a variable rate equal to 65.01% of the 30-day LIBOR plus 1.25%. and had an original maturity date of June 1, 2022, which was extended to June 1, 2024. The 2017A Bonds were fully repaid during 2022.

Series 2017B Bonds

The Revenue Bonds (Montecito Retirement Association) Series 2017B were issued to provide permanent financing for the 2017 Project in the principal amount of up to $16,000,000. The Series 2017B Bonds accrue interest at a fixed rate of 3.02% and mature on June 1, 2032 with a balloon payment. The 2017B Bonds are subject to mandatory sinking fund redemption on the first day of each month commencing July 1, 2020, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest thereon to the date fixed for redemption. The 2017B Bonds are drawdown bonds and may be issued in several increments as the Association incurs related expenses and receives funding on a reimbursement basis.

Projected sinking fund principal payments for the 2017B Bonds are as follows:

2023	$ 561,023
2024	578,203
2025	595,908
2026	614,155
2027	632,963
Thereafter	11,687,036
	$ 14,669,288

Series 2017C Bonds

The Refunding Revenue Bonds (Montecito Retirement Association) Series 2017C were issued to refinance the 2012 COPs, in the principal amount of $6,000,000. The Series 2017C Bonds accrue interest at a fixed rate of 2.04% and mature on June 1, 2024. The 2017C Bonds are subject to mandatory sinking fund redemption on the first day of each month, commencing July 1, 2017, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest thereon to the date fixed for redemption.

Note 9 - Long-Term Debt (Continued)

Sinking fund principal payments for the 2017C Bonds are as follows:

2023	$	900,132
2024		456,994
	$	1,357,126

BBVA Bank Loan

In February 2020 the Association entered into a 10-year fixed rate bank loan for $6,000,000 at 3.14%. The loan was obtained to minimize spending of reserves on the Bliss Expansion. Monthly payments of principal and interest in the amount of $58,325 were due beginning in March 2020.

Principal payments required on the BBVA bank loan are as follows:

2023	$	567,343
2024		585,416
2025		604,065
2026		623,308
2027		643,164
Thereafter		1,455,467
	$	4,478,763

The Association is required to meet certain financial covenants as defined in the Loan Agreements. The Association has met all required covenants for the year ended December 31, 2022.

Note 10 - Deferred Compensation Plan

The Association has a nonqualified deferred compensation plan covering selected key employees. The Association and the employees made contributions to the plan, which are invested with an insurance company. Contributions were based on a percentage of the employee's wages. The Association has a policy of fully funding the plan. As of December 31, 2022 and 2021 the plan was fully funded. Total plan assets at December 31, 2022 and 2021 were $211,677 and $276,734, respectively. Effective July 31, 1997, no further contributions were made into this plan.

Note 11 - Tax Deferred Annuity Plan

The Association has a qualified tax deferred annuity plan covering all eligible employees. The Association and the employees make contributions to the plan. The Association makes annual contributions to the plan in the quarter following year end. The Association's contributions are based on a percentage of the employee's wages. It is the current policy of the Association to deposit employer matching contributions on an annual basis. The expense related to this plan was $786,507 in 2022 and $760,565 in 2021. Annuity plans involve the transfer of risk to the third party custodian and therefore are not included in the balance sheet of the Association.

Note 12 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2022	2021
Subject to expenditure for specified purpose:		
Subsidized fees for residents	$ 759,769	$ 858,574
Personal and memory care	83,499	-
Medical center	196,377	50,268
Dementia training	33,644	35,144
Employee emergency fund	91,236	119,261
Employee appreciation fund	62,957	23,339
Community enhancement	96,113	257,637
Subject to endowment spending policy and appropriation:		
Endowment invested in perpetuity	398,247	384,638
	$ 1,721,842	$ 1,728,861

Note 13 - Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	2022	2021
Program restrictions accomplished:		
Subsidized fees for residents	$ 103,604	$ 81,300
Personal and memory care	2,600	3,263,600
Medical center	165,147	40,544
Dementia training	6,000	5,700
Employee emergency fund	132,313	98,649
Employee appreciation fund	409,675	349,862
Community enhancement	54,151	56,185
	$ 873,490	$ 3,895,840

Note 14 - Endowment

The Association's endowment consists of donor restricted funds which are to be invested in perpetuity with dividend and interest income to be used for various purposes. 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.

The Board of Directors of the Association has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of fair value of the original gift as of the gift date and subsequent net appreciation of the donor-restricted endowment funds absent

Note 14 - Endowment (Continued)

As a result of this interpretation, the Association classifies as perpetual net assets with donor restrictions (a) the original fair value of the gifts donated (b) the original fair value of subsequent gifts to the permanent endowment (c) net appreciation of the of the underlying assets, and (d) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with SPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Association and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Association
(7) The investment policies of the Association

Endowment net asset composition by fund type and changes in endowment net assets for the years ended December 31, 2022 and 2021 were as follows:

	With Donor Restrictions
Endowment net assets, December 31, 2020	$ 341,726
Contributions	18,053
Investment income	24,859
Endowment net assets, December 31, 2021	384,638
Contributions	43,574
Investment income (loss)	(29,965)
Endowment net assets, December 31, 2022	$ 398,247

Return Objectives and Risk Parameters

The Association has adopted investment policies that seek to preserve capital in real, inflation-adjusted terms, and to earn a rate of return on investments which exceeds the return of various custom indexes set by the Board of Directors. Endowment assets are invested and managed pursuant to these investment policies.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association’s long term target asset allocation guidelines for the investment portfolio are designed to achieve the long-term investment objective within the established risk parameters.

Note 14 - Endowment (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association has a policy to allow appropriation of interest and dividends on endowment assets, while retaining net appreciation with the corpus of the funds. This is consistent with the Association's preservation of capital and rate of return objectives

Note 15 - Income Tax Matters

The Financial Accounting Standards Board issued guidance on accounting for uncertainty in income taxes, which the Association adopted as of January 1, 2009. The standard addresses determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Management evaluated the Association's tax positions and concluded that the Association had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Association is no longer subject to examinations by the U.S federal tax authorities for years before 2019 and by the State of California tax authorities for years before 2018.

Note 16 - Supplemental Disclosure of Cash Flow Information

	2022	2021
Cash Flows from Operating Activities:		
Change in net assets	$ (3,001,399)	$ 2,759,895
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	6,839,076	5,858,530
Amortization of unearned entrance fees	(10,791,891)	(9,250,899)
Loss on disposal of assets	-	203,192
Deposits recognized as revenue	(146,000)	(221,505)
Proceeds from contributions restricted for:		
Property and equipment purchases	(233,623)	(121,282)
Permanently restricted contributions	(43,574)	(18,053)
Unrealized and realized gains on investments	4,290,501	(2,193,575)
(Increase) decrease in:		
Accounts receivable	(179,311)	(189,318)
Accrued interest receivable	9,161	63,704
Pledges receivable	364,471	511,890
Inventories	(81,677)	(8,091)
Prepaid expenses	(110,589)	(360,994)
Charitable remainder trusts	-	39,028
Increase (decrease) in:		
Accounts payable and accrued expenses	406,666	(1,254,314)
Deferred revenue from operations	(58,624)	392,862
Net cash used by operating activities	$ (2,736,813)	$ (3,788,930)

Note 17 - Contingencies

In July 2011, the Board of Directors approved a 20% discount, a sum not to exceed $225,000, on the entrance fee for the retiring Executive Director and or his wife for use at any time during their lives or life. The discount does not waive or limit any other requirement for becoming a resident of Casa Dorinda and there shall be no obligation for the Association to provide additional or other compensation if the discount is not or cannot be used for any reason. No accrual has been made in the financial statements for the credit.

Note 18 - Projects in Process

The Association spent $3,509,215 on general campus improvements and equipment, and $3,780,408 on resident apartment improvements for the year ended December 31, 2022.

Note 19 - COVID-19 Business Risk

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Association operates.

The Association received $0 and $334,888 in Provider Relief Funds from the Department of Health and Human Services to help with COVID-19 related costs for the years ended December 31, 2022 and 2021, respectively, of which $31,501 and $236,370 is included in deferred revenue on the Association's balance sheet at December 31, 2022 and 2021, respectively.

Note 20 - Reclassifications

Certain reclassifications have been made to prior year balances in order to conform with current year presentation.

Note 21 - Subsequent Events

Subsequent events have been evaluated through May 8, 2023, the date that the financial statements were available to be issued.

In February 2023 the Association implemented a revised Life Care Agreement which requires residents to carry a Medigap policy in addition to Medicare A and Medicare B insurance coverage, and to modify the pro-rata refundable period for entrance fees to be three years. These changes are only applicable to agreements entered into after the revision was implemented.