



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

MONTECEDRO, INC.

June 30, 2022 and 2021

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Financial Statements	
Statements of financial position	3
Statements of operations	4
Statements of changes in net assets	5
Statements of cash flows	6–7
Notes to financial statements	8–25

Report of Independent Auditors

The Board of Directors
MonteCedro, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MonteCedro, Inc., which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MonteCedro, Inc. as of June 30, 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 MonteCedro, Inc. 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 MonteCedro, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 MonteCedro, Inc.'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 MonteCedro, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the California Department of Social Services Annual Report. The other information comprises the Forms 1-1, 1-2, and 7-1, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Moss Adams LLP

Irvine, California
October 27, 2022

MonteCedro, Inc.
Statements of Financial Position

ASSETS		June 30,	
	<u>2022</u>	<u>2021</u>	
CURRENT ASSETS			
Cash and cash equivalents	\$ 4,462,969	\$ 2,664,046	
Investments, short-term	5,082,180	4,381,229	
Accounts receivable, net	318,305	267,644	
Inventories	113,167	112,341	
Prepaid expenses and other current assets	411,039	165,780	
Notes receivable, current portion	1,800,634	-	
Assets limited as to use, required for current liabilities	815,955	1,055,750	
Total current assets	<u>13,004,249</u>	<u>8,646,790</u>	
PROPERTY AND EQUIPMENT, NET	<u>134,553,103</u>	<u>137,266,067</u>	
OTHER ASSETS			
Investments, long-term	31,436,163	39,380,879	
Assets limited as to use, net of current portion	3,252,895	3,358,829	
Other assets	86,749	82,751	
Interest in related parties' net assets	175,002	208,001	
Total other assets	<u>34,950,809</u>	<u>43,030,460</u>	
Total assets	<u>\$ 182,508,161</u>	<u>\$ 188,943,317</u>	
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 801,128	\$ 1,071,412	
Accrued compensation, payroll taxes, and benefits	571,787	570,503	
Interest payable	253,346	418,086	
Entrance fee refunds upon reoccupancy payable	1,043,820	12,069,577	
Other current liabilities	316,243	326,775	
Deferred revenue	225,365	258,664	
Due to related parties	717,098	329,720	
Current portion of long-term debt	1,214,133	1,168,307	
Total current liabilities	<u>5,142,920</u>	<u>16,213,044</u>	
OTHER LIABILITIES			
Liability for refundable and repayable entrance fees	120,491,576	108,166,010	
Deferred revenue from entrance fees	11,157,247	8,134,539	
Long-term debt, net of current maturities	41,169,463	42,011,740	
Deposits	144,000	250,000	
Total other liabilities	<u>172,962,286</u>	<u>158,562,289</u>	
Total liabilities	<u>178,105,206</u>	<u>174,775,333</u>	
NET ASSETS			
Without donor restriction	4,260,161	14,003,334	
With donor restriction	142,794	164,650	
Total net assets	<u>4,402,955</u>	<u>14,167,984</u>	
Total liabilities and net assets	<u>\$ 182,508,161</u>	<u>\$ 188,943,317</u>	

See accompanying notes.

MonteCedro, Inc.
Statements of Operations

	Years Ended June 30,	
	2022	2021
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
Revenues and gains		
Resident care fees, net	\$ 14,811,594	\$ 13,613,283
Ancillary services	882,835	620,369
Amortization of entrance fees	1,613,459	2,207,047
Service revenue	1,886,022	1,968,228
Miscellaneous income	85,526	440,707
Total revenues and gains without donor restriction	<u>19,279,436</u>	<u>18,849,634</u>
Investment (losses) returns available for current operations, net	<u>(5,489,978)</u>	<u>7,676,066</u>
Total operating revenue, other support, and investment returns	<u>13,789,458</u>	<u>26,525,700</u>
OPERATING EXPENSES		
Administrative services	4,522,147	3,990,394
Nursing services	3,996,224	4,059,545
Dining services	2,961,345	2,744,416
Environmental services	2,883,374	2,629,007
Interest expense and other financing costs	2,062,476	2,096,739
Residential services	1,027,156	991,049
COVID-19 direct expenses (Note 14)	129,383	784,784
Other	463,054	604,643
Amortization of deferred costs	87,057	87,057
Total operating expenses before depreciation	<u>18,132,216</u>	<u>17,987,634</u>
OPERATING (LOSS) INCOME BEFORE DEPRECIATION	<u>(4,342,758)</u>	<u>8,538,066</u>
Depreciation	<u>5,306,968</u>	<u>5,155,354</u>
Total operating (loss) income	<u>(9,649,726)</u>	<u>3,382,712</u>
OTHER (EXPENSE) INCOME		
Paycheck Protection Program Loan forgiveness	-	1,095,818
Loss on disposal of property and equipment	<u>(33,804)</u>	<u>(3,957)</u>
Total other (expense) income, net	<u>(33,804)</u>	<u>1,091,861</u>
(Deficiency) excess of revenue over expenses	<u>\$ (9,683,530)</u>	<u>\$ 4,474,573</u>

MonteCedro, Inc.
Statements of Changes in Net Assets

	Years Ended June 30,	
	2022	2021
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
(Deficiency) excess of revenue over expenses	\$ (9,683,530)	\$ 4,474,573
Change in interest in related parties' net assets	(9,942)	27,098
Transfer of net assets to related parties, net	(49,701)	(142,427)
Total change in net assets without donor restriction	(9,743,173)	4,359,244
CHANGE IN NET ASSETS WITH DONOR RESTRICTION		
Change in interest in related parties' net assets	(14,310)	55,637
Restricted contributions	4,845	-
Transfer of net assets from related parties, net	(12,391)	3,848
Total change in net assets with donor restriction	(21,856)	59,485
CHANGE IN NET ASSETS	(9,765,029)	4,418,729
NET ASSETS, beginning of year	14,167,984	9,749,255
NET ASSETS, end of year	\$ 4,402,955	\$ 14,167,984

MonteCedro, Inc.
Statements of Cash Flows

	Years Ended June 30,	
	2022	2021
OPERATING ACTIVITIES		
Cash received		
Resident care fees	\$ 15,623,794	\$ 14,345,663
Entrance fees	23,372,776	9,523,674
Investment income	1,955,681	7,676,066
Service revenue	1,886,022	1,968,228
Other	85,526	440,707
Cash disbursed		
Cash paid to employees and suppliers	(16,377,061)	(21,860,985)
Interest	(2,090,000)	(2,133,850)
Net cash provided by operating activities	<u>24,456,738</u>	<u>9,959,503</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,594,004)	(991,204)
Issuance of notes receivable, net of collections	(1,800,634)	-
Proceeds from sale of investments	1,808,403	2,308,359
Investment income reinvested	<u>(2,010,297)</u>	<u>(1,210,394)</u>
Net cash (used in) provided by investing activities	<u>(4,596,532)</u>	<u>106,761</u>
FINANCING ACTIVITIES		
Payment of long-term debt	(990,000)	(955,000)
Refunds of entrance fees	(17,289,804)	(6,900,615)
Transfer to related party	(140,912)	(140,912)
Distributions from related parties	<u>13,704</u>	<u>13,704</u>
Net cash used in financing activities	<u>(18,407,012)</u>	<u>(7,982,823)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS	1,453,194	2,083,441
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, beginning of year	<u>7,078,625</u>	<u>4,995,184</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, end of year	<u>\$ 8,531,819</u>	<u>\$ 7,078,625</u>

MonteCedro, Inc.
Statements of Cash Flows (Continued)

	Years Ended June 30,	
	2022	2021
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ (9,765,029)	\$ 4,418,729
Adjustments to reconcile the change in net assets to net cash provided by operating activities		
Amortization of entrance fees	(1,613,459)	(2,207,047)
Amortization of premium	(175,524)	(178,284)
Amortization of financing costs	87,057	87,057
Depreciation expense	5,306,968	5,155,354
Realized and unrealized losses (gains) on investments, net	7,445,659	(6,514,730)
Forgiveness of Paycheck Protection Program loan	-	(1,095,818)
Interest in related parties' net assets	173,911	69,507
(Increase) decrease in		
Accounts receivable	(50,661)	14,967
Inventories	(826)	(8,380)
Prepaid expenses and other current assets	(245,259)	120,261
Other assets	(3,998)	(137)
Increase (decrease) in		
Accounts payable and accrued expenses	11,732	141,379
Accrued compensation, payroll taxes, and benefits	1,284	81,026
Interest payable	(164,740)	134,401
Other current liabilities	(10,532)	34,140
Deferred revenue	(33,299)	(48,860)
Due to related parties	373,674	227,264
Deposits from residents	(106,000)	5,000
Deferred revenue from entrance fees and liability for refundable and repayable entrance fees	23,225,780	9,523,674
Total adjustments	34,221,767	5,540,774
Net cash provided by operating activities	\$ 24,456,738	\$ 9,959,503
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Financing costs (refunded) accrued but not paid	\$ -	\$ 419,054

MonteCedro, Inc.

Notes to Financial Statements

Note 1 – Organization and Nature of Activities

MonteCedro, Inc. (MCINC) operates housing specially designed for older adults, with arrangements for residents' health care and financial security, and otherwise to promote the interests and serve the needs of older adults, provided that such activities are consistent with its exempt purposes. MCINC operates a Life Plan Community in Altadena, California ("MonteCedro") consisting of residential and assisted living. MCINC is organized as a nonprofit corporation under the general nonprofit corporation laws of the state of California. MonteCedro opened on December 16, 2015.

MCINC is an affiliate organization of Episcopal Communities & Services for Seniors (ECS). ECS owns and operates Life Plan Communities known as The Canterbury in Rancho Palos Verdes, California, and The Covington in Aliso Viejo, California, which provide residential, assisted living, and skilled nursing facilities.

ECS also owns and operates:

- ECS Management, LLC (ECSLLC) – ECSLLC was created to provide administrative, programmatic, and other forms of support to ECS and any of its subsidiaries and affiliated organizations.
- Episcopal Communities & Services Foundation (ECSF) – ECSF is a supporting organization created to enhance the fundraising efforts of ECS and to oversee the investment and distribution of its restricted and unrestricted donor funds. On July 1, 2021, ECSF curtailed fundraising efforts and transitioned to solely a funds management role overseeing the investment and distribution of restricted and unrestricted donor funds. Simultaneously, the ECS Community Advancement Office was launched supporting fundraising at ECS communities and ECSF changed its name to ECS Supportive Funds Management (ECSSF).
- Creative Housing & Services, LLC (CHS LLC) – CHS LLC is a single-member LLC with ECS as its sole member. CHS LLC provides development, management, and consulting services to affordable senior, disabled, and low-income housing facilities.
- Creative Housing & Services (CHS), a California nonprofit corporation, provides development, management, and consulting services to affordable senior, disabled, and low-income housing facilities. On October 17, 2018, CHS entered into an asset transfer agreement with CHS LLC. CHS transferred substantially all of its assets relating to programs and activities that support the management of affordable housing facilities.
- Twelve Oaks Foundation (TOF) dba Twelve Oaks Senior Living (TOSL), is a California nonprofit corporation. On January 12, 2021, ECS closed its affiliation with TOF and became the sole corporate member of TOF. TOF owns and operates a senior living facility, TOSL, in Glendale, California, that offers independent living and assisted living.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed. Based on the existence or absence of donor-imposed restrictions, MCINC classifies resources into two categories: without donor restrictions and with donor restrictions.

Net assets without donor restriction – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of MCINC. These net assets may be used at the discretion of MCINC's management and Board of Directors.

Net assets with donor restriction – Represent contributions that are limited in use by MCINC in accordance with donor-imposed stipulations. 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. 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.

Expiration of donor-imposed restrictions – Net assets are released from restrictions by incurring expenses satisfying the restricted purposes and by occurrence of events specified by the donors, including the passage of time. Donor restrictions on long-lived assets or cash to construct or acquire long-lived assets are considered to have expired when the assets are placed in service or expenditures exceed the amount of the gift.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Fair value is established based on quoted prices from recognized securities exchanges. Net investment return (including realized and unrealized gains and losses on investments, interest, dividends, and investment expenses) is included in changes in net assets without donor restrictions unless the income (loss) is restricted by donor or law.

Assets limited as to use – Assets limited as to use consist of cash, cash equivalents, and investments that are limited by the 2014 bond indenture for the development of the MonteCedro facility, debt service, and wait list deposits. Amounts required for payment of current liabilities are classified as current assets.

Inventories – Inventories as of June 30, 2022 and 2021, primarily consist of dining supplies and are reflected in the statements of financial position at cost, which does not exceed net realizable value.

MonteCedro, Inc.

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – For purposes of reporting cash flows, MCINC considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. MCINC maintains its cash in bank deposit accounts, which may exceed federally insured limits. MCINC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. As of June 30, 2022, cash balances held at one bank exceeded federally insured limits by approximately \$4,207,000.

The following table provides a reconciliation of cash and cash equivalents and restricted cash and cash equivalents reported within the accompanying statements of financial position to the accompanying statements of cash flows as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,462,969	\$ 2,664,046
Restricted cash and cash equivalents, included in assets limited as to use	<u>4,068,850</u>	<u>4,414,579</u>
Cash and cash equivalents and restricted cash and cash equivalents as reported in statements of cash flows	<u>\$ 8,531,819</u>	<u>\$ 7,078,625</u>

Assets limited as to use – Assets limited as to use consist of cash, cash equivalents, and investments that are limited by the 2014 bond indenture for the development of the MonteCedro facility, debt service, and wait list deposits. Amounts required for payment of current liabilities are classified as current assets.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Fair value is established based on quoted prices from recognized securities exchanges. Net investment return (including realized and unrealized gains and losses on investments, interest, dividends, and investment expenses) is included in changes in net assets without donor restrictions unless the income (loss) is restricted by donor or law.

Property and equipment – The costs of property and equipment are depreciated using the straight-line method over their estimated useful lives. Costs of additions, renewals, and betterments are capitalized, while maintenance and repairs are expensed when incurred. Acquisitions of \$1,500 or more with a useful life greater than one year are capitalized. Donated fixed assets are recorded at their fair value at the date of donation. Construction in progress consists of costs incurred on construction projects that have not been completed. Interest cost incurred during the period of construction of capital assets is capitalized as a component of the cost of constructing those assets, net of investment income on unspent proceeds of tax-exempt borrowings restricted for use in construction.

Note 2 – Summary of Significant Accounting Policies (continued)

Depreciation begins when related assets are placed in service. Estimated useful lives are as follows:

Land improvements	5–25 years
Buildings and improvements	5–40 years
Furnishings and equipment (including capitalized computer hardware and software)	3–20 years

Capitalized financing costs – Capitalized financing costs represent costs incurred in obtaining long-term financing and are amortized over the respective terms of the related obligations using the interest method. Such costs are presented as a component of long-term debt in accordance with Accounting Standards Codification (ASC) Topic 835. Amortization expense is included as a component of interest expense.

Impairment of long-lived assets – MCINC reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. MCINC considers assets to be impaired and writes them down to fair value if expected associated cash flows are less than the carrying amounts. MCINC has determined that no long-lived assets are impaired as of June 30, 2022.

Interest in related parties' net assets – MCINC recognizes its rights to assets held by a recipient organization. Such rights are recognized as an asset, unless the donor has explicitly granted the recipient organization variance power, which is the unilateral power to redirect the use of the assets. Those rights represent an interest in the net assets of the recipient organization. MCINC accounts for its interest in the net assets of related parties in a manner similar to the equity method. Changes in interest are included in the change in net assets. Transfers of assets between the related parties and MCINC are recognized as increases or decreases in the interest.

Obligation to provide future services and the use of the facilities – MCINC is required to calculate the present value of the estimated net cost of future services to be provided to current continuing care residents, and, to the extent this amount exceeds the balance of unamortized deferred revenue, monthly maintenance fees, and other contractually committed revenue, a liability would be recorded for the obligation to provide future services. MCINC used a 5% discount rate as of June 30, 2022 and 2021. The change in the obligation during a year would be reported as a change in obligation to provide future services in the statements of operations. As of June 30, 2022 and 2021, the estimated amounts received or to be received from current continuing care residents exceeded the estimated costs of providing future services and use of facilities to those residents. Accordingly, no liability was recorded in relation to future service obligation as of June 30, 2022 and 2021.

The California Health and Safety Code Section 1790 mandates a statutory reserve and a liquid asset requirement. The mandates were met for the years ended June 30, 2022 and 2021.

MonteCedro, Inc.

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value of financial instruments – MCINC’s financial statements include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, obligation to provide future services and the use of facilities, and long-term debt. MCINC believes that the carrying amounts of current assets and liabilities in the statements of financial position approximate the fair values of these financial instruments due to the relatively short period of time between origination of the instruments and their expected realization. The fair values of investments and assets limited as to use are disclosed in Note 7.

Revenue recognition – MonteCedro’s revenue streams are as follows:

Resident care fees and ancillary services revenue – Resident care fees and ancillary service revenue are reported at the amount that reflects the consideration to which MCINC expects to be entitled to in exchange for the services provided. Under MCINC’s resident services agreement, MCINC provides senior living services to residents for a stated monthly fee. MCINC recognizes revenue for senior living services under the residential services agreement for independent living and assisted living in accordance with the provision of ASC 842, *Leases (ASC 842)*.

Resident services – Resident services revenue is primarily derived from providing accommodations and services to residents under a continuing care contract for residential care, assisted living, and memory care. MonteCedro has determined that the services included in the monthly fee have 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. Therefore, service fees are billed monthly and are recognized as performance obligations are provided. The transaction price is based on standard charges for goods and services provided.

Revenue from nonrefundable entrance fees received is recognized on a straight-line basis over the actuarially based estimated life of each resident, which approximates the period of time the goods and services under the agreements are expected to be transferred to residents.

MCINC disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing, and uncertainty of its revenue and cash flows as affected by payors and economic factors.

Resident revenues consist of the following for the year ended June 30, 2022:

	<u>Residential Care</u>	<u>Memory Care</u>	<u>Total</u>
Private pay	<u>\$ 15,368,133</u>	<u>\$ 2,212,318</u>	<u>\$ 17,580,451</u>

Note 2 – Summary of Significant Accounting Policies (continued)

Resident revenues consist of the following for the year ended June 30, 2021:

	<u>Residential Care</u>	<u>Memory Care</u>	<u>Total</u>
Private pay	<u>\$ 14,418,243</u>	<u>\$ 1,783,637</u>	<u>\$ 16,201,880</u>

Amortization of entrance fees – As of June 30, 2022 and 2021, approximately \$121,535,000 and \$120,236,000 was contractually refundable or repayable, respectively. These balances represent the amounts due to residents, if all were to cancel their contracts as of June 30, 2022 and 2021, based on MCINC’s refund and repayment policy. The contractually refundable or repayable amount is included in deferred revenue from entrance fees and liability for refundable and repayable entrance fees in the accompanying statements of financial position. See Note 6 for changes in the deferred entrance fee revenue for the years ended June 30, 2022 and 2021. The performance obligation is satisfied upon termination of the residency agreement.

Entrance fees and financial arrangements – MCINC offers payment options under a care and residence agreement (75% or 90% Reoccupancy Benefit or 36-month pro rata refundable options), which requires payment of (1) an entrance fee upon admission ranging from \$332,000 to \$1,885,000 depending on residence and entrance fee option selected, and (2) a monthly care fee.

The entrance fee is refundable or repayable if the resident leaves MCINC as follows:

1. During the first 90 days, the entrance fee paid by the resident is refunded in full.
2. If the resident’s tenancy terminates subsequent to the first 90 days, the resident will receive a reoccupancy benefit equal to 75% or 90% (depending on the contract) of the paid entrance fees within 14 calendar days after the resident’s accommodation unit is re-let to a new continuing care resident who has executed a care and residence agreement and paid the then-applicable entrance fee for the same unit in full.

Under the 75% or 90% Reoccupancy Benefit agreements, MCINC amortizes 25% or 10% of the entrance fee over the resident’s expected life, respectively. A liability is recognized (liability for refundable and repayable entrance fees) for the remaining 75% or 90%.

36-Month Agreements:

1. During the first 90 days, the entrance fee paid by the resident is refunded in full.
2. If the resident’s tenancy is longer than three months and up to three years, MCINC retains 1/36th of the entrance fee for each month or partial month of residency.
3. No refunds after 36 months.

MonteCedro, Inc.

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes – MCINC is organized as a nonprofit corporation under the general nonprofit corporation laws of the state of California and is exempt from federal income taxation under Internal Revenue Code (IRC) section 501(c)(3). MCINC is classified as a supporting organization under IRC section 509(a)(3). Nonprofit organizations are generally not liable for taxes on income; therefore, no provision is made for such taxes in the financial statements, in accordance with GAAP.

MCINC considers many factors when evaluating and estimating its tax positions and benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. MCINC evaluates its uncertain tax positions using the provisions in conformity with GAAP. These standards require management to perform an evaluation of all income tax positions taken or expected to be taken in the course of preparing MCINC's tax returns. Management believes the tax positions taken more-likely-than-not will be sustained under examination by the applicable tax authorities. Examples of tax positions include the tax-exempt status of MCINC and various positions related to the potential sources of unrelated business taxable income. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the taxing authorities will not challenge MCINC's tax returns or that MCINC will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, MCINC's tax returns remain open for three years for federal tax examination and four years for state tax examination.

(Deficiency) excess of revenue over expenses – (Deficiency) excess of revenue over expenses represents the performance indicator. Changes in net assets without donor restrictions that are excluded from (deficiency) excess of revenue over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for purposes of acquiring such assets) and transfer of net assets to/from related parties.

Use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting standards – In the normal course of business, MCINC evaluates all new accounting pronouncements to determine the potential impact they may have on its financial statements. Based upon this evaluation, MCINC does not expect any of the recently issued accounting pronouncements, which have not already been adopted by MCINC, to have a material impact on its financial statements.

Going concern – In connection with the preparation of the financial statements for the year ended June 30, 2022, management conducts an evaluation as to whether there were conditions and events, considered in the aggregate, that raised substantial doubt as to MCINC's ability to continue as a going concern within one year after the date the financial statements were issued.

MonteCedro, Inc.
Notes to Financial Statements

Note 3 – Assets Limited as to Use

Assets limited as to use comprise the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Series 2014 bonds		
Capitalized principal funds	\$ 643,812	\$ 630,007
Capitalized interest funds	172,143	425,743
Debt service reserve funds	<u>3,108,895</u>	<u>3,108,829</u>
Total debt service funds	3,924,850	4,164,579
Wait list deposits	<u>144,000</u>	<u>250,000</u>
	4,068,850	4,414,579
Less: amounts required for payment of current liabilities	<u>(815,955)</u>	<u>(1,055,750)</u>
	<u>\$ 3,252,895</u>	<u>\$ 3,358,829</u>

Note 4 – Property and Equipment

As of June 30, 2022 and 2021, property and equipment comprise the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 17,289,427	\$ 17,289,427
Land improvements	2,722,422	2,580,432
Buildings and improvements	139,714,383	137,882,048
Furnishings and equipment	5,929,909	5,595,453
Capitalized computer hardware and software	268,679	268,679
Construction in progress	<u>1,670,749</u>	<u>1,408,681</u>
	167,595,569	165,024,720
Less: accumulated depreciation	<u>(33,042,466)</u>	<u>(27,758,653)</u>
Total	<u>\$ 134,553,103</u>	<u>\$ 137,266,067</u>

MonteCedro, Inc.

Notes to Financial Statements

Note 5 – Investments

Investments in marketable securities are stated at their fair market value. As of June 30, 2022 and 2021, investments comprise the following:

	<u>2022</u>	<u>2021</u>
Investments	\$ 36,518,343	\$ 43,762,108
Less: investments, short-term	<u>5,082,180</u>	<u>4,381,229</u>
Total investments, long-term	<u>\$ 31,436,163</u>	<u>\$ 39,380,879</u>

MCINC's investment policy makes available only a portion of the MCINC's total investment return, consisting of dividends and interest, net realized and unrealized gains and losses, and principal for the support of current operations and development; the remainder is retained to support operations of future years and to offset potential market declines.

The following schedule summarizes investment return and its classification in the statements of operations and changes in net assets for the year ended June 30, 2022:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Interest and dividend income	\$ 2,010,297	\$ -	\$ 2,010,297
Realized gains, net	144,674	-	144,674
Unrealized losses, net	<u>(7,590,333)</u>	<u>-</u>	<u>(7,590,333)</u>
	(5,435,362)	-	(5,435,362)
External investment expense	<u>54,616</u>	<u>-</u>	<u>54,616</u>
Investment loss, net	<u>\$ (5,489,978)</u>	<u>\$ -</u>	<u>\$ (5,489,978)</u>

The following schedule summarizes investment return and its classification in the statements of operations and changes in net assets for the year ended June 30, 2021:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Interest and dividend income	\$ 1,210,394	\$ -	\$ 1,210,394
Realized gains, net	4,800,227	-	4,800,227
Unrealized losses, net	<u>1,714,503</u>	<u>-</u>	<u>1,714,503</u>
	7,725,124	-	7,725,124
External investment expense	<u>49,058</u>	<u>-</u>	<u>49,058</u>
Investment return, net	<u>\$ 7,676,066</u>	<u>\$ -</u>	<u>\$ 7,676,066</u>

Note 6 – Deferred Revenue from Entrance Fees and Repayable Entrance Fees Liability

A summary of the changes in deferred revenue from entrance fees for the years ended June 30, is as follows:

	June 30,	
	2022	2021
BALANCE, beginning of year	\$ 8,134,539	\$ 9,270,597
New fees received	4,783,163	1,070,989
Deletions (discharges)	(735,856)	(1,656,686)
Amortization of entrance fees	(1,024,599)	(550,361)
BALANCE, end of year	<u>\$ 11,157,247</u>	<u>\$ 8,134,539</u>

A summary of the changes in repayable entrance fees liability for the years ended June 30, is as follows:

	June 30,	
	2022	2021
BALANCE, beginning of year	\$ 120,235,587	\$ 118,683,517
New fees received	18,589,613	8,452,685
Entrance fees refunded	(17,289,804)	(6,900,615)
BALANCE, end of year	<u>\$ 121,535,396</u>	<u>\$ 120,235,587</u>

Based on the past five years, actual refunds have averaged approximately \$8,688,000 per year for the potentially refundable declining period.

Note 7 – Fair Value Measurements

GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under GAAP are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that management has the ability to access.

MonteCedro, Inc.

Notes to Financial Statements

Note 7 – Fair Value Measurements (continued)

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Level 1 Measurements

Cash and cash equivalents – Cash equivalents generally consist of actively traded money market funds that have daily quoted net asset values for identical assets that MCINC has the ability to access at the measurement date.

Mutual funds – Mutual funds in this category are comprised primarily of underlying stocks and other ownership interests in companies. Valuation is based on unadjusted quoted prices for identical assets in active markets that MCINC can access at the measurement date.

Equities and other securities – Equities and other securities include stocks and exchange-traded funds. Exchange-traded funds in this category are comprised primarily of underlying stocks and other ownership interests in companies. Valuation is based on unadjusted quoted prices for identical assets in active markets that MCINC can access at the measurement date.

Level 2 Measurements

Money market securities – The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, and credit spreads.

Level 3 Measurements

MCINC did not have any instruments measured at Level 3 as of June 30, 2022 and 2021.

MonteCedro, Inc.
Notes to Financial Statements

Note 7 – Fair Value Measurements (continued)

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts MCINC would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of June 30, 2022 and 2021. Current estimates of fair value may differ significantly from the amounts presented.

The following table sets forth by level, within the fair value hierarchy, assets at fair value as of June 30, 2022:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
INVESTMENTS				
Money market securities	\$ 58,923	\$ -	\$ 58,923	\$ -
Mutual funds	36,459,420	36,459,420	-	-
Total investments	<u>\$ 36,518,343</u>	<u>\$ 36,459,420</u>	<u>\$ 58,923</u>	<u>\$ -</u>
ASSETS LIMITED AS TO USE				
Cash and cash equivalents	\$ 4,068,850	\$ 4,068,850	-	-
Total assets limited as to use	<u>\$ 4,068,850</u>	<u>\$ 4,068,850</u>	<u>\$ -</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, assets at fair value as of June 30, 2021:

	Fair Value	Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
INVESTMENTS				
Money market securities	\$ 966,992	\$ -	\$ 966,992	\$ -
Mutual funds	42,795,116	42,795,116	-	-
Total investments	<u>\$ 43,762,108</u>	<u>\$ 42,795,116</u>	<u>\$ 966,992</u>	<u>\$ -</u>
ASSETS LIMITED AS TO USE				
Cash and cash equivalents	\$ 4,414,579	\$ 4,414,579	-	-
Total assets limited as to use	<u>\$ 4,414,579</u>	<u>\$ 4,414,579</u>	<u>\$ -</u>	<u>\$ -</u>

MonteCedro, Inc.

Notes to Financial Statements

Note 8 – Long-Term Debt

In June 2014, MCINC issued Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014A, Series 2014B-1, Series 2014B-2, and Series 2014B-3, in the aggregate amount of approximately \$140,305,000.

In May 2020, MCINC was granted a loan under the Paycheck Protection Program (“PPP Loan”) offered by the Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, section 7(a) (36) of the Small Business Act for approximately \$1,096,000, which was enacted March 27, 2020. The PPP Loan was subject to full forgiveness if MCINC used all proceeds for eligible purposes, maintained certain employment levels, and maintained certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations, and guidance. On April 2, 2021, the Company received full forgiveness of its PPP Loan from the SBA and recognized a gain on debt extinguishment of approximately \$1,096,000 in accordance with ASC 470. The gain on debt extinguishment was included in other income for the year ended June 30, 2021.

Long-term debt is comprised of the following as of June 30, 2022 and 2021:

	2022	2021
Series 2014A, interest rates from 3% to 5% per annum, with principal payments due annually from November 15, 2019 to November 15, 2044	\$ 41,935,000	\$ 42,925,000
Unamortized premium on Series 2014A bonds	2,493,640	2,669,164
	44,428,640	45,594,164
Less: current portion (including current portion of unamortized premium of \$174,133 and \$178,307 at June 30, 2022 and 2021, respectively)	(1,214,133)	(1,168,307)
Less: capitalized financing costs, net of accumulated amortized costs of \$6,270,480 and \$6,183,423 at June 30, 2022 and 2021, respectively	(2,045,044)	(2,414,117)
	\$ 41,169,463	\$ 42,011,740

Note 8 – Long-Term Debt (continued)

Aggregate maturities of long-term debt before unamortized premium of approximately \$2,494,000, are as follows:

Years Ending June 30,	
2023	\$ 1,040,000
2024	1,070,000
2025	1,115,000
2026	1,170,000
2027	1,230,000
Thereafter	<u>36,310,000</u>
	<u><u>\$ 41,935,000</u></u>

The 2014 Series bonds are secured by certain assets of MCINC. ECSF is a guarantor on the bonds. The bond agreements contain certain covenants related to debt service coverage ratio, current ratio, and days' cash on hand.

On July 29, 2021, ECS, sole member of MCINC, entered into a Bond Purchase Agreement for the sale and issuance by ECS to certain investors of (i) the Episcopal Communities & Services for Seniors 3.04% Senior Secured Bonds, Series 2022A, due May 15, 2047, in the original aggregate principal amount of \$52,495,000 (the "Series 2022A Bonds"), and (ii) the Episcopal Communities & Services for Seniors 2.89% Senior Secured Bonds, Series 2022B, due November 15, 2044, in the original aggregate principal amount of \$37,790,000 (the "Series 2022B Bonds" and, together with the Series 2022A Bonds, the "Series 2022 Bonds"). The Series 2022A Bonds and the Series 2022B Bonds will be issued on a forward delivery basis, with the Series 2022A Bonds to be issued on May 16, 2022 (the "First Delivery Date"), and the Series 2022B Bonds to be issued on November 15, 2022 (the "Second Delivery Date"). The proceeds of the Series 2022A Bonds were used to redeem all the California Statewide Communities Development Authority Revenue Refunding Bonds, Series 2012 (Episcopal Communities & Services) (the "ECS Series 2012 Bonds") on the First Delivery Date. The proceeds of the Series 2022B Bonds will be used to redeem all of the Los Angeles County Regional Financing Authority Insured Revenue Bonds Series 2014A (MonteCedro Inc. Project) (the "MonteCedro Series 2014A Bonds") on the Second Delivery Date.

Upon the issuance of the Series 2022A Bonds and the redemption of the ECS Series 2012 Bonds on the First Delivery Date, the existing master trust indenture was replaced with the Master Trust Indenture (Amended and Restated), with ECS remaining as the Obligated Group Representative. The related deeds of trust under the prior master trust indenture were released. Upon the issuance of the Series 2022B Bonds and the redemption of the MonteCedro Series 2014A Bonds on the Second Delivery Date, MonteCedro will join the Obligated Group under the Master Trust Indenture (Amended and Restated). The Series 2022A Bonds and the Series 2022B Bonds will each be secured by an Obligation under the Master Trust Indenture (Amended and Restated).

MonteCedro, Inc.

Notes to Financial Statements

Note 8 – Long-Term Debt (continued)

The issuance of the Series 2022B Bonds is contingent upon the satisfaction of various conditions in the Bond Purchase Agreement and no assurances can be given that the Series 2022B Bonds will be issued. Until the Series 2022B Bonds are issued and the MonteCedro Series 2014A Bonds redeemed, MCINC will continue to be obligated for payment on the MonteCedro Series 2014A Bonds and under the related documents.

Note 9 – Related-Party Transactions

Due to related parties – Due to related parties consists primarily of funds to be distributed to related parties but not yet paid as of June 30, 2022 and 2021, as follows:

	<u>2022</u>	<u>2021</u>
Due from Twelve Oaks	\$ 82	\$ -
Due (to) CHS LLC	-	(6,362)
Due (to) from Canterbury	(1,813)	3,610
Due from (to) Covington	328	(34,106)
Due to ECS	(690,387)	(166,994)
Due to ECSLLC	<u>(25,308)</u>	<u>(125,868)</u>
	<u>\$ (717,098)</u>	<u>\$ (329,720)</u>

ECSLLC provides administrative and programmatic services to MCINC. Amounts paid to ECSLLC totaled approximately \$1,405,000 and \$1,111,000 for these services for the years ended June 30, 2022 and 2021, respectively.

Note 10 – Functional Expenses

The financial statements report certain expense categories that are attributable to more than one residential, health care, or support services function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, interest, and other occupancy costs, are allocated to a function based on a square footage or units of services basis.

MonteCedro, Inc.
Notes to Financial Statements

Note 10 – Functional Expenses (continued)

Expenses related to providing these services for the year ended June 30, 2022, are as follows:

	Program Services	Support Services		Total
		General and Administrative	Fundraising	
Salaries and wages	\$ 5,090,509	\$ 1,579,906	\$ 25,375	\$ 6,695,790
Employee benefits	1,955,919	567,253	6,295	2,529,467
Professional services	-	139,651	-	139,651
Supplies and other	5,623,432	994,343	-	6,617,775
Interest	2,032,272	30,204	-	2,062,476
Depreciation and amortization	5,315,030	78,995	-	5,394,025
	<u>\$ 20,017,162</u>	<u>\$ 3,390,352</u>	<u>\$ 31,670</u>	<u>\$ 23,439,184</u>

Expenses related to providing these services for the year ended June 30, 2021, are as follows:

	Program Services	Support Services		Total
		General and Administrative	Fundraising	
Salaries and wages	\$ 5,037,642	\$ 1,513,050	\$ 29,169	\$ 6,579,861
Employee benefits	1,843,758	528,996	8,081	2,380,835
Professional services	-	60,308	-	60,308
Supplies and other	5,760,818	1,022,016	-	6,782,834
Interest	2,066,032	30,707	-	2,096,739
Depreciation and amortization	5,165,636	76,775	-	5,242,411
	<u>\$ 19,873,886</u>	<u>\$ 3,231,852</u>	<u>\$ 37,250</u>	<u>\$ 23,142,988</u>

Note 11 – Retirement Plans

ECS maintains a safe harbor 401(k) retirement plan for all employees of ECS, its related entities, and MCINC. The plan allows for employer non-elective contributions, including a mandatory 3% employer contribution. The plan also allows for discretionary match contributions, approved on an annual basis. Total plan contributions attributed to MCINC in connection with the 401(k) retirement plan for each of the years ended June 30, 2022 and 2021, were approximately \$260,000.

MonteCedro, Inc.

Notes to Financial Statements

Note 11 – Retirement Plans (continued)

ECS also maintains a 457(b) plan established for executives of ECS and its related entities who have completed six months of continuous service. The 457(b) plan allows for salary reduction contributions and employer discretionary contributions. Total 457(b) plan contributions attributed to MCINC were approximately \$20,000 for each of the years ended June 30, 2022 and 2021.

Note 12 – Commitments and Contingencies

MCINC is subject to legal proceedings, which arise in the ordinary course of its business. In the opinion of management and legal counsel, the outcome of such matters will not have a material effect on the financial position of MCINC.

MCINC is also subject to many complex federal, state, and local laws and regulations. Compliance with these laws and regulations is subject to government review and interpretation. Government activity, with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased significantly. Violations of these laws can result in large fines and penalties, sanctions on providing future services, and repayment of past patient revenues. Management believes any actions that may result from investigations of noncompliance with laws and regulations will not have a material effect on MCINC's future financial position or results of operations.

Note 13 – Liquidity and Availability

MCINC structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity management, MCINC invests cash in excess of its operating, capital expenditure, and debt service requirements in various investments according to its investment policy.

MCINC's financial assets available to meet general expenditures within one year of June 30, 2022, comprise the following:

Cash and cash equivalents	\$ 4,462,969
Investments, short-term	5,082,180
Accounts receivable, net	<u>318,305</u>
	<u>\$ 9,863,454</u>

Additionally, MCINC has assets limited as to use for debt service, deposits held in trust, refundable entrance fees, donor restriction, and various required reserves. These assets limited as to use, which are more fully described in Notes 2 and 3, are not available for general expenditure within the next year.

Investments classified as long-term totaling approximately \$31,436,000 consist of money market securities and mutual funds that could be liquidated to meet current obligations, if necessary.

Note 14 – COVID-19 Pandemic

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, patients, customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including MCINC's operations.

Starting in March 2020, COVID-19 disrupted move-ins, reducing entrance fees received and resident care fees modestly. MCINC's COVID-19 response also increased costs for supplies, staffing, and precautionary efforts. In August 2020, management re-initiated move-ins with adapted precautionary protocols.

Management's evaluation of and adaptations to the COVID-19 pandemic and related events are ongoing, including impacts on the economy and general population. MCINC cannot accurately estimate the impact on its operations and financial results, and the duration and intensity of the impact of the COVID-19 pandemic and resulting disruption to MCINC's operations are uncertain.

Provider Relief Funds (PRF) – On March 27, 2020, the United States Congress passed the CARES Act. The CARES Act included provisions for health care under the PRF. During the fiscal year ended June 30, 2021, MCINC received funds under the PRF, administered by the U.S. Department of Health & Human Services (HHS), of approximately \$295,000. MCINC was required to, and did, timely sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for health care-related expenses or lost revenue attributable to COVID-19, limitations of out of pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. Anti-fraud monitoring and auditing will be performed by HHS and the Officer of the Inspector General. For the year ended June 30, 2021, MCINC recognized approximately \$295,000 from PRF on its statement of operations in miscellaneous income. There were no funds received or recognized as revenue for the fiscal year ended June 30, 2022.

Note 15 – Subsequent Events

Subsequent events are events or transactions that occur after the statements of financial position date but before financial statements are issued. MCINC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial position, including the estimates inherent in the process of preparing the financial statements.

MCINC has evaluated subsequent events through October 27, 2022, which is the date the financial statements were issued, and concluded that there were no additional events or transactions that need to be disclosed.