CASA PACIFICA

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2022

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CASA PACIFICA
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YEAR ENDED DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

Partners
Casa Pacifica
Lake Forest, California

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of Casa Pacifica (a California general partnership) (the Partnership), which comprise the balance sheet as of December 31, 2022, and the related statements of operations, changes in partners' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the effects of recognition of deferred entrance fees as income upon constructive receipt of payment and expensing of incremental costs of obtaining customer contracts described in the Basis for Qualified Opinion section of our report, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Partnership as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 1 to the financial statements, the Partnership recognizes income from nonrefundable deferred entrance fees when the funds are constructively received, and the Partnership expenses incremental costs of obtaining long-term contracts with customers when incurred. In our opinion, accounting principles generally accepted in the United States of America (U.S. GAAP) require that revenues from nonrefundable deferred entrance fees be recognized when future goods or services are transferred during optional future periods covering a resident's life expectancy. Further, U.S. GAAP requires that the incremental costs of obtaining a contract should be deferred and amortized on a systematic basis consistent with the pattern in which revenue related to the contract is being recognized. If the financial statements were corrected for these departures from U.S. GAAP, assets would increase by approximately $14,375,000; liabilities would increase by approximately $15,324,000; beginning partners' equity would decrease by approximately $1,466,000; revenue from resident services, including deferred entrance fees and nonrefundable advance fees, would increase by approximately $510,000; and expenses would decrease by approximately $7,000.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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 Partnership's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' 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 auditors' 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 Partnership'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 Partnership'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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
April 27, 2023

CASA PACIFICA
BALANCE SHEET
DECEMBER 31, 2022

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 3,089,344
Accounts Receivable	1,329,278
Inventories	178,259
Prepaid Expenses	106,840
Related Party Receivable	270,536
Total Current Assets	4,974,257
PROPERTY AND EQUIPMENT	
Land	5,705,268
Building and Improvements	24,050,005
Machinery and Equipment	5,450,093
Furniture and Fixtures	13,419,554
Vehicles	458,822
Construction in Progress	71,809
Total Property and Equipment, at Cost	49,155,551
Less: Accumulated Depreciation	(34,225,314)
Property and Equipment, at Net Book Value	14,930,237
OTHER ASSETS	
Restricted Cash	6,041
Restricted Marketable Securities	2,202,791
Accounts Receivable, Long Term	13,942
Note Receivable - Related Party	799,200
Total Other Assets	3,021,974
Total Assets	$ 22,926,468

See accompanying Notes to Financial Statements.

CASA PACIFICA
BALANCE SHEET (CONTINUED)
DECEMBER 31, 2022

LIABILITIES AND PARTNERS' EQUITY

CURRENT LIABILITIES	
Accounts Payable	$ 591,860
Accrued Expenses	783,531
Deposits on Future Occupancy	70,000
Current Portion of Note Payable to Master Trust	1,090,000
Line of Credit	1,500,000
Total Current Liabilities	4,035,391
LONG-TERM LIABILITIES	
Note Payable to Master Trust, Net of Current Portion	15,820,000
Deposits from Residents	275,314
Notes Payable to Partners	799,200
Due to Others	5,000
Total Long-Term Liabilities	16,899,514
Total Liabilities	20,934,905
PARTNERS' EQUITY	1,991,563
Total Liabilities and Partners' Equity	$ 22,926,468

See accompanying Notes to Financial Statements.

CASA PACIFICA
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2022

REVENUES	
Resident Services	$ 14,991,611
Patient Services, Net	11,445,148
Nonresident Services	196,138
Total Revenues	26,632,897
CAREGIVER AND ANCILLARY SERVICE COSTS	2,178,878
NET REVENUES	24,454,019
OPERATING EXPENSES	
Resident Care	4,494,889
Dietary	3,757,305
Housekeeping	1,165,611
Plant Facility Operating Costs	2,807,494
General and Administrative Expenses	7,103,008
Depreciation and Amortization	1,324,045
Total Operating Expenses	20,646,483
INCOME FROM OPERATIONS	3,807,536
OTHER INCOME (EXPENSE)	
Interest Expense	(35,200)
Interest Income	47,005
Total Other Income (Expense)	11,805
NET INCOME	$ 3,819,341

See accompanying Notes to Financial Statements.

CASA PACIFICA
STATEMENT OF CHANGES IN PARTNERS' EQUITY
YEAR ENDED DECEMBER 31, 2022

BALANCE - DECEMBER 31, 2021	$ 2,344,389
Net Income	3,819,341
Distributions to Partners	(4,172,167)
BALANCE - DECEMBER 31, 2022	$ 1,991,563

See accompanying Notes to Financial Statements.

CASA PACIFICA
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Residents	$ 20,992,055
Interest Expense	(35,200)
Interest Income	47,005
Reimbursements for Services to Nonresidents	5,543,050
Cash Paid to Suppliers and Employees	(19,414,158)
Net Cash Provided by Operating Activities	7,132,752
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Property and Equipment	(830,344)
Purchases of Marketable Securities - Restricted	(2,192,522)
Advances to Related Party	(799,200)
Net Cash Used by Investing Activities	(3,798,044)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Note Payable to Master Trust	1,000,000
Payments on Note Payable to Master Trust	(1,050,000)
Distributions to Partners	(4,172,167)
Net Cash Used by Financing Activities	(4,222,167)
NET DECREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(887,459)
Cash and Cash Equivalents and Restricted Cash - Beginning of Year	3,982,844
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	$ 3,095,385

See accompanying Notes to Financial Statements.

CASA PACIFICA
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022

RECONCILIATION OF NET INCOME TO CASH AND CASH EQUIVALENTS AND RESTRICTED CASH PROVIDED BY OPERATING ACTIVITIES	
Net Income	$ 3,819,341
Adjustments to Reconcile Net Income to Net Cash and Cash Equivalents and Restricted Cash Provided by Operating Activities:	
Depreciation and Amortization	1,324,045
Amortization of Discount on Marketable Securities - Restricted	(10,269)
Gain on Sale of Property and Equipment	(5,869)
(Increase) Decrease in:	
Accounts Receivable	(95,137)
Prepaid Expenses	(58,768)
Related Party Receivable	1,924,851
Increase (Decrease) in:	
Accounts Payable	38,093
Accrued Expenses	131,851
Deposits on Future Occupancy	57,000
Deposits from Residents	5,114
Due to Others	2,500
Net Cash and Cash Equivalents and Restricted Cash Provided by Operating Activities	$ 7,132,752

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Casa Pacifica (the Partnership) is a California general partnership that owns and operates a continuing care retirement community (CCRC) known as Freedom Village.

Freedom Village provides permanent living, assisted living, skilled nursing, and other ancillary services through the operation of a retirement facility (the Retirement Center), which includes 257 residential units and a health care care facility (the Health Care Center), which includes 118 beds and 6 memory care units. The Partnership operates under the continuing care concept whereby residents enter into agreements that require payment of a onetime entrance fee and a monthly charge. Generally, these payments will entitle residents to the use and privileges of the facility for life.

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), with the exception of the effects of recognition of deferred entrance fees and costs of acquiring contracts with customers, as discussed in Revenue Recognition from Contracts with Customers. References to the “ASC” hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board (FASB) as the source of authoritative U.S. GAAP.

Cash and Cash Equivalents and Restricted Cash and Marketable Securities

For purposes of the statement of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less, as well as restricted cash.

As of December 31, 2022, in accordance with requirements from the State of California Department of Social Services, the Partnership holds $6,041 in a cash reserve account and $2,202,791 in an investment account established and maintained for the benefit of residents of Freedom Village who are entitled to receive a refund of any portion of their initial loan deposit payment that remains payable after the sixth year of residency.

The following table provides a reconciliation of cash and 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 for the year ended December 31, 2022:

Cash and Cash Equivalents	$ 3,089,344
Restricted Cash	6,041
Total Cash and Cash Equivalents and Restricted Cash as Shown on Statement of Cash Flows	$ 3,095,385

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Marketable Securities

Marketable securities held by the Partnership consist of debt securities and are recorded at amortized cost which approximates fair value. The debt securities consist of U.S. Treasury bills and U.S. Treasury notes and are classified as available for sale because the Partnership has the ability to liquidate the assets prior to maturity to meet the reserve requirement.

Accounts Receivable

Accounts receivable consist of amounts due from residents, occupants, or third-party payors for which the Partnership has an unconditional right to receive payment and represent receivables for monthly service fees, skilled nursing services, assisted living services, and other ancillary services, net of contractual allowances, as well as amounts due from residents for obligations related to accrued additional costs. Receivables for monthly service fees and health care services rendered are primarily due on a net 30-day term. Accounts for which no payments have been received after 60 days are considered delinquent, and customary collection efforts are taken. Accounts receivable are periodically evaluated for collectability based on past credit history with residents, occupants, or third-party payors and their current financial condition. After six months of unsatisfactory contact, the Partnership writes off what it believes will be uncollectible after obtaining approval from management. Receivables for resident obligations are generally collected upon cancellation of contracts, which is estimated to occur long term.

The Partnership provides an allowance for doubtful accounts, as needed, for accounts deemed uncollectible. An allowance was not deemed necessary at December 31, 2022.

Inventories

Inventories consist of food, service ware, linen, and other necessary supplies. These inventories are valued at the lower of cost or net realizable value on a first-in, first-out basis.

Property and Equipment

Property and equipment are stated at cost. Major improvements and betterments are capitalized. Maintenance and repairs are expensed as incurred. Property and equipment are depreciated over estimated useful lives ranging from 5 to 40 years. Depreciation is computed using the straight-line method for financial purposes and accelerated methods for income tax purposes. The estimated useful lives of the related assets are as follows:

Buildings and Improvements	7 to 40 Years
Machinery and Equipment	5 to 12 Years
Furniture and Fixtures	7 to 12 Years
Vehicles	5 Years

Depreciation and amortization expense for the year ended December 31, 2022 totaled $1,324,045. At December 31, 2022, fully depreciated property and equipment totaled $18,787,687, which are still in use.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Lived Assets

The Partnership accounts for impairment and disposition of long-lived assets in accordance with FASB ASC 360-10, *Property, Plant, and Equipment.* FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amounts. There was no impairment of value of such assets for the year ended December 31, 2022.

Revenue Recognition from Contracts with Customers

The Partnership recognizes income from nonrefundable deferred entrance fees when the funds are constructively received, which is a departure from FASB ASC 606, *Revenue from Contracts with Customers*, as more specifically described below. The Partnership recognizes revenue from assistance with activities of daily living, memory care services, inpatient therapy, health care, and related personalized health services in accordance with the provisions of FASB ASC 606.

The Partnership enters into residency agreements (the Resident Agreement) with all of its customers. Prior to actual occupancy by a resident, a contribution may be required pursuant to each Resident Agreement. The provisions of the Resident Agreement include, but are not limited to, such items as the unit to be occupied, initial monthly fee, amount of entrance fee, basic services to be provided during the duration of the agreement, and methods of cancellation and refunds or contingent repayments subject to resale of the residence.

Generally, the Partnership is deemed to have Type A life care contracts with residents that are all-inclusive continuing care contracts that include residential facilities, other amenities, and access to health care services, primarily assisted living and nursing care. Type A contracts are deemed to have one performance obligation, which is that the CCRC is standing ready each month to provide a service; each resident can continue to live in the CCRC and access the appropriate level of care based on his or her needs. A Type A contract also allows a resident the ability to cancel the Resident Agreement at any time. Thus, the resident agreement for a Type A life care contract is generally deemed to be a monthly contract with the option to renew.

The Type A life care contract provides a material right to occupy an appropriate-level living unit for life and to receive certain services for which residents are required to pay an entrance fee. Prior to actual occupancy by the resident, a contribution (referred to as a Loan Deposit) is required to be deposited with the Master Trust (as defined in Note 8) pursuant to a Resident Agreement.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition from Contracts with Customers (Continued)

Under the Resident Agreement, the contribution received will be refundable under the following terms and conditions:

Cancellation During the Trial Residence Period – Under California law, there is a probationary period of 90 days after the date of the signed agreement during which either the Partnership or the resident may cancel the agreement with or without cause. Death of the resident during the period will cancel the agreement. In the event of cancellation, the resident shall be entitled to a refund in accordance with California law, which states that the Partnership may deduct from the contribution amount a reasonable fee to cover costs and any charges incurred but not paid.

Cancellation After 90 Days and Before 2 Years – A resident may cancel his or her agreement at any time after the trial residence period for any reason by giving the Partnership 90 days' written notice. Death of the resident will cancel the agreement. However, if an agreement applies to more than one resident, it will remain in effect after the death of one of the residents and be adjusted as described in the agreement. The Partnership may cancel the agreement at any time after the trial residence period for good cause upon 90 days' written notice to the resident. Examples of good cause are defined in the agreement. Upon termination of the agreement, during the period from 90 days to 2 years of occupancy, the resident or his or her estate will be entitled to a repayment of a portion of his or her Loan Deposit, less a predetermined percentage per month of occupancy and any charges incurred but not paid, as determined by the terms and conditions of the individual agreements.

Cancellation After 2 Years – The criteria for cancellation after 2 years is the same as the criteria described above for cancellation after 90 days and before 2 years. If termination occurs after 2 years, the resident or his or her estate may be entitled to a portion of his or her Loan Deposit, less any charges incurred but not paid, as determined by the terms and conditions of the individual agreements.

Contract Revenues

The following are descriptions of the services provided and the accounting policies related to the contracted services in accordance with the provisions of current U.S. GAAP.

Resident Fees – Resident living service fees, which are for basic support services, are paid on a monthly basis. Monthly fees are established at the inception of occupancy and may be increased at most annually by the Partnership, with appropriate notice as specified in the individual agreements, generally based on increases in operating costs or inflationary increases. Revenue for resident fees is recognized as the Partnership satisfies the performance obligation, which is monthly.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition from Contracts with Customers (Continued)

Contract Revenues (Continued)

Patient Services – The Partnership also receives revenue for health care services from residents and various third-party insurance payors for patient services. Patient services fees are generally assessed at a predetermined fixed daily rate contracted with the third-party payors and private-pay residents and are recorded net of the provision for contractual allowances, which represents the difference between established rates and per diem reimbursement. Revenue for patient services fees is recognized when the transfer of control of the services provided to the resident occurs, which is generally over time.

Nonresident Services – Nonresident services are revenues recognized at a point in time primarily for nonresident guest meals, catering, and short-term guest accommodations.

The following is a description of a service provided and the accounting policy related to the contracted service that is a departure from the provisions of current U.S. GAAP.

Revenue from Entrance Fees – U.S. GAAP requires that a deferred entrance fee be amortized to income over future periods based on the estimated life expectancy of the resident. The Partnership recognizes income from deferred entrance fees upon constructive receipt of payment or on the cash-basis method. The amount of the fee constructively received by the Partnership is, at that time, recognized as income and is considered a net payment upon termination.

Contract Assets and Contract Liabilities

The following are contract liabilities resulting from contracts with customers in accordance with the provisions of current U.S. GAAP.

Deposits from Residents – Deposits from residents represent refundable security deposits from residents, as well as deposits on future contracts from prospective residents that are fully refundable upon demand.

Due to Others – Due to others represents refundable security deposits from patients.

Deposits on Future Occupancy – Deposits on future occupancy represent deposits on future contracts from prospective residents that are fully refundable upon demand.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition from Contracts with Customers (Continued)

Costs of Acquiring Contracts

The following is a description of the accounting policy for a contract-related balance that is a departure from the provisions of current U.S. GAAP.

Costs of Acquiring Contracts – U.S. GAAP requires that incremental costs of obtaining a contract should be deferred and amortized on a systematic basis consistent with the pattern in which revenue related to the contract is being recognized. Costs of acquiring contracts are the incremental costs of acquiring long-term contracts with customers, which primarily consist of commissions paid to salespeople. These costs are expensed as incurred and are included in the accompanying statement of operations as General and Administrative Expenses.

Advertising and Promotional Costs

Advertising and promotional costs are charged to operations when incurred. For the year ended December 31, 2022, advertising and promotional costs and related expenses totaled $809,507 and are included in General and Administrative Expenses in the accompanying statement of operations.

Income Taxes

Casa Pacifica is taxed as a partnership for federal tax purposes and accordingly pays no federal taxes. For state purposes, Casa Pacifica is deemed to be a pass-through entity whereby the taxable income or loss is recognized on the individual income tax returns of the member. The Partnership's policy is to recognize interest and/or penalties related to all tax positions in income tax expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. No interest or penalties were accrued as of December 31, 2022.

The Partnership files income tax returns in U.S. federal and state of California jurisdictions. Years prior to 2019 are no longer subject to U.S. federal income tax examinations, and the Partnership is no longer subject to major state income tax examinations for years before 2018.

Use of Estimates

The process of preparing financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncement – Pending

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, with subsequent improvements issued in ASU 2018-19, ASU 2019-10, and ASU 2019-11. ASU 2016-13 requires that credit losses on most financial assets measured at amortized cost and certain other instruments be measured using an expected credit loss model. The ASU also replaces the current accounting model for purchased credit-impaired loans and makes certain targeted amendments to the existing impairment model for available-for-sale debt securities. For nonpublic entities, the amendments are effective for fiscal years beginning after December 15, 2022. The Partnership is currently evaluating the impact of the provisions of this pronouncement and its various amendments on the presentation of its financial statements.

NOTE 2 REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table presents the Partnership's revenue disaggregated by service and payor type for the year ended December 31, 2022:

Revenues from Contracts with Customers:	
Resident Services:	
Deferred Entrance Fees (Cash Basis)	$ 4,307,490
Resident Fee Revenue for Monthly Fees and Ancillary Charges	10,684,121
Total	14,991,611
Patient Service Revenue for Health-Care Services:	
Third-Party Payors (Net of Contractual Allowances and Discounts of $814,518)	5,493,044
Self-Pay (Net of Discounts of $1,322,312)	5,952,104
Provision for Bad Debts	-
Patient Services, Net	11,445,148
Nonresident Revenue	196,138
Total Revenues from Contracts with Customers	$ 26,632,897

The beginning and end of year balances of the Partnership's various contract-related balances were as follows:

	January 1, 2022	December 31, 2022
Accounts Receivable	$ 1,248,083	$ 1,329,278
Deposits from Residents	$ 270,200	$ 275,314
Due to Others	$ 2,500	$ 5,000

NOTE 3 CONCENTRATIONS, RISKS, AND UNCERTAINTIES

The Partnership maintains a restricted cash account and cash balances at several banks. At December 31, 2022, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC). In addition to SIPC protection, cash equivalent accounts are covered under additional excess of SIPC insurance through its brokerage account. For the years ended December 31, 2022 and 2021, cash accounts were insured by the FDIC for up to $250,000 at each institution. SIPC accounts are insured for up to $500,000 in securities, including a limit of $250,000 on claims for cash. The excess of SIPC insurance provides additional coverage only when SIPC coverage is exhausted. Like the SIPC, the excess of SIPC coverage does not cover investment losses due to market fluctuations and does not cover other claims for losses while broker-dealers remain in business. The aggregate excess of SIPC coverage for all accounts in the brokerage firm is $1 billion. There is no per account dollar limit on coverage of securities, but there is a per account limit of $1.9 million on coverage of cash awaiting investment. Although the Partnership’s deposits in these financial institutions at times exceeded the amounts insured, the risk is managed by maintaining deposits and investments in high-quality financial institutions.

Credit is extended to all residents based on financial condition, and generally, collateral is not required. Credit losses are provided for in the financial statements and consistently have been within management’s expectations.

NOTE 4 MARKETABLE SECURITIES

During the year ended December 31, 2022, the Company invested in U.S Treasury bills and U.S. Treasury notes that are classified as available for sale and valued at amortized cost, which approximates fair value. At December 31, 2022, investments totaled $2,202,791. The U.S Treasury bills and U.S. Treasury notes mature at various dates through September 2024.

	Amortized Cost	Due Within 1 Year	Due in 1-5 Years	Due in 5-10 Years	Due After 10 Years
As of December 31, 2022:					
U.S. Treasury Bills	$ 1,370,016	$ 1,370,016	$ -	$ -	$ -
U.S. Treasury Notes	832,775	-	832,775	-	-
	$ 2,202,791	$ 1,370,016	$ 832,775	$ -	$ -

NOTE 5 PREPAID EXPENSES

Prepaid expenses at December 31, 2022, consist of the following:

Prepaid Property Taxes	$ 27,345
Other	79,495
Total Prepaid Expenses	$ 106,840

NOTE 6 ACCRUED EXPENSES

Accrued expenses at December 31, 2022, consist of the following:

Accrued Salaries and Wages	$	249,671
Accrued Payroll Taxes		22,054
Accrued Vacation		326,237
Workers' Compensation Reserve		185,569
Total Accrued Expenses	$	783,531

NOTE 7 LINE OF CREDIT

The Partnership has an unsecured revolving line of credit with a bank whereby the Partnership may borrow a maximum of $1,500,000 with an interest rate at prime less 0.25%. At December 31, 2022, there was an outstanding balance of $1,500,000 under this line of credit. The line of credit expires in July 2023 and is guaranteed by all partners of the Partnership. The Partnership has agreed to certain covenants with the bank in connection with the line of credit. As of December 31, 2022, the Partnership was in compliance or has obtained a waiver with respect to the terms of the covenants.

NOTE 8 NOTE PAYABLE TO MASTER TRUST AND TRUST ARRANGEMENT

The residents of Freedom Village established a trust fund for the purpose of providing permanent financing, operating capital, and statutory reserves for the benefit of the Retirement Center. The residents sign a Joinder in Master Trust Agreement, joining in and becoming grantors under a Master Trust Agreement (Master Trust) between the trustee and the grantors.

In addition, each grantor upon execution of a Joinder in Master Trust Agreement must deposit with the trustee the contribution amount required of such grantor as set forth in the Resident Agreement and the Deposit Subscription Agreement. The grantors deposit the required contribution amount into the trust and acknowledge in a commitment letter that the trustee of the Master Trust is directed to transfer all requested funds in the form of an interest-free loan to the Partnership for the purpose of providing permanent financing and operating capital for the Retirement Center, subject to availability and specific loan limits described below.

This loan is secured by the following:

A. A first priority deed of trust on Freedom Village Retirement Center's real property and improvements.

B. A security agreement creating a fast security interest in all the improvements, fixtures, and personal property associated and used in connection with Freedom Village Retirement Center.

NOTE 8 NOTE PAYABLE TO MASTER TRUST AND TRUST ARRANGEMENT (CONTINUED)

C. An assignment of rent, leases, profits, and contracts including, but not limited to, any residence agreement and any management agreement entered into in conjunction with the operation of Freedom Village Retirement Center.

The security shall also include any after-acquired collateral, as well as any insurance proceeds recovered for the loss of any property serving as collateral for this loan.

At December 31, 2022, the Master Trust note payable balance outstanding was $16,910,000.

Upon the resale of a resident’s unit, any proceeds over and above the departing resident’s loan balance remaining in the trust after admission of a new resident may be loaned to the Partnership. The total loans to the Partnership shall not exceed the lesser of $28,000,000 or 80% of the appraised value of the property. Payments of principal are made on an annual basis and are calculated based on a 40-year loan amortization with the final payment due March 31, 2038. The Partnership is required to make minimum annual principal payments of approximately $900,000 for each of the next five years.

A resident’s balance is repaid upon termination of the Resident Agreement. In accordance with the Joinder in Master Trust Agreement, the residents request and direct that all principal payments received be paid directly to the Partnership for the benefit of the resident. The purpose of this provision is to effectuate partial payment of the deferred entrance fee amount owed by the resident to the Partnership under the Resident Agreement.

The Master Trust also distributes to the Partnership any excess funds that are not invested in the form of an interest-free loan to the Partnership. Distributions of this kind also serve to effectuate partial payment of the deferred entrance fee amount owed by the resident to the Partnership under the Resident Agreement. Since the Partnership receives an unsecured promise from the residents to pay the deferred entrance fee at the termination of the agreement, the fee does not become due until all the other services required to be rendered under the contract have, in fact, been fulfilled.

Upon termination of the Resident Agreement, the grantor or his or her estate instructs the Master Trust to distribute the balance of the grantor’s Loan Deposit, partially to the grantor and partially to the Partnership, as a deferred entrance fee as previously described in Note 1.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Obligation to Provide Future Services

The Partnership 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 the monthly service fees and revenue from deferred entrance fees based upon the cash-basis method. If the present value of the net cost of future services and use of facilities exceeds the present value of the future cash inflows from the monthly service fees and revenue from deferred entrance fees, a liability is recorded. Using a discount rate of 8%, the anticipated revenues are estimated to exceed the anticipated cost of future services for the year ended December 31, 2022; therefore, no liability was accrued.

The obligation of the Partnership to provide future health care services will probably increase as some residents may experience financial difficulties and may be unable to pay 100% of their health care charges. Management has identified five residents experiencing financial difficulties. Management has reasonably estimated that the Partnership's total future revenues might be reduced by $616,185 over 4.108 years, which is the average life expectancy of these residents.

Reservations and Designations

At December 31, 2022, there are no cash reserves maintained for contingencies or accumulated for specific projects or purposes, other than as previously disclosed in Note 1.

Litigation

The Partnership experiences routine litigation in the normal course of its business. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

NOTE 10 RELATED PARTY TRANSACTIONS

Pursuant to the provisions of FASB ASU 2018-17, *Consolidation (Topic 810)*, the Partnership has elected to not apply variable interest entity guidance to legal entities under common control. The Partnership is not aware of any exposure to loss as a result of its involvement with these entities.

Freedom Properties West, an affiliate of Casa Pacifica, functions as the management company of the Partnership under a formal management agreement. Under the agreement, the Partnership pays Freedom Properties West compensation equal to 5% of the gross monthly receipts of the Partnership's operations and deferred entrance fees. There are also other factors that may affect the calculation of the management fees. Included in accounts payable in the accompanying balance sheet is $84,613, which represents management fees due to Freedom Properties West at December 31, 2022. Management fees expensed during 2022 in the amount of $1,168,658 are included in General and Administrative Expenses in the accompanying statement of operations.

NOTE 10 RELATED PARTY TRANSACTIONS (CONTINUED)

At December 31, 2022, the Partnership has notes outstanding with five partners. The notes currently bear interest at 6.5% and are due in monthly payments of interest only through April 1, 2025, at which time any unpaid principal and interest are due. Prior to maturity, principal payments may be made at the Partnership's discretion. Any payments made during a month will be deemed to have been made on the last day of that month for purposes of calculating interest due. As of December 31, 2022, the outstanding balances on the notes payable totaled $799,200 and are included in notes payable to partners in the accompanying balance sheet. The interest expense paid to the partners during the year ended December 31, 2022 was $28,971 and is included in Interest Expense in the accompanying statement of operations.

The Partnership shares certain expenses with a commonly owned company. At December 31, 2022, the Partnership had a net current receivable from this company for certain shared expenses totaling $270,536, which is included in related party receivable in the accompanying balance sheet.

At December 31, 2022 the Partnership has a note receivable outstanding from a commonly owned company. The note receivable currently bears interest at 6.5% and is due in April 1, 2025. As of December 31, 2022, the outstanding balance on the note receivable totaled $799,200. Interest income on the note receivable was $9,990 for the year the year ended December 31, 2022 and is included in Interest Income in the accompanying statement of operations.

NOTE 11 EMPLOYEE BENEFIT PLAN

The Partnership sponsors a qualified 401(k) plan for all eligible employees. Employees may contribute a percentage of their compensation for up to the maximum amounts as prescribed by law, with the employer matching a discretionary contribution equal to a percentage of the amount of the employee deferral as determined each year by the employer. Also, the Partnership may make a discretionary profit-sharing contribution as determined each year by the employer. There were no employer-matching or profit-sharing contributions for the year ended December 31, 2022. Plan administrative expenses totaled $6,002 for the year ended December 31, 2022, and are included in General and Administrative Expenses in the accompanying statement of operations.

NOTE 12 FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements* and Disclosures 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 prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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

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 assets or liabilities; or
- 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 assets 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 following are descriptions of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022.

U.S. Treasury Bills - Valued at the closing price reported on the active market on which the individual securities are traded.

U.S. Treasury Notes - Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization 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 fair value measurement at the reporting date.

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2022:

	Level 1	Level 2	Level 3	Total
U.S. Treasury Bills	1,370,016			1,370,016
U.S. Treasury Notes	$ 832,775	$ -	$ -	$ 832,775
Total	$ 2,202,791	$ -	$ -	$ 2,202,791

NOTE 13 SUBSEQUENT EVENTS

Events occurring after December 31, 2022, have been evaluated for possible adjustment to the financial statements or disclosure as of April 27, 2023, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Partners
Casa Pacifica
Lake Forest, California

We have audited the financial statements of Casa Pacifica (the Partnership) as of and for the year ended December 31, 2022, and our report thereon dated April 27, 2023, which appears on pages 1 and 2, was qualified, as the Partnership recognizes income from deferred entrance fees when the funds are constructively received and expenses incremental costs of obtaining long-term contracts with customers when incurred; however, accounting principles generally accepted in the United States of America require that revenues from nonrefundable deferred entrance fees be recognized when future goods or services are transferred during optional future periods covering a resident's life expectancy, and the incremental costs of obtaining a contract should be deferred and amortized on a systematic basis consistent with the pattern in which revenue related to the contract is being recognized. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2022 schedules of Form 5-1 through Form 5-5 and Form 7-1 are prepared for filing with the State of California Department of Social Services, in accordance with Section 1792 of the California Health and Safety Code, and are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the financial statements due to the departures from accounting principles generally accepted in the United States of America described above, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

This report is intended solely for the information and use of the partners and management of the Partnership and for filing with the State of California Department of Social Services and is not intended to be, and should not be, used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
April 27, 2023

FORM 5-1
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(INCLUDING BALLOON DEBT)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	06/01/87	$ 1,050,000	$ -	$ -	$ 1,050,000
2	08/01/20	$ -	$ 35,200	$ -	$ 35,200
3					-
4					-
5					-
6					-
7					-
8					-
		TOTAL:	$ 35,200	$ -	$ 1,085,200

(Transfer this amount to Form 5-3, Line 1)

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

PROVIDER: Casa Pacifica

FORM 5-1 TWO-WAY RECONCILIATION
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(TWO-WAY RECONCILIATION OF PRINCIPAL PAID)

Long-Term Debt Obligation	(a) Date Incurred	(b) Required Principal Payments Paid During Fiscal Year per Form 5-1 Column (b)	(c) Voluntary Principal Payments Made in 2021	(d) Total Principal Paid Per Audited Financial Statements ((b) + (c))	General Ledger Account Number	General Ledger Account Name
1	06/01/87	$ 1,050,000	$ -	$ 1,050,000	11.00.2500.0	Master Trust Loan
2	08/01/20	$ -	$ -	$ -	11.20.2685.0	Notes Payable Partners
3						
4						
5						
6						
7						
8						
	TOTAL:	$ 1,050,000	$ -	$ 1,050,000		
				-		

PROVIDER: Casa Pacifica

FORM 5-2
LONG-TERM DEBT INCURRED DURING FISCAL YEAR
(INCLUDING BALLOON DEBT)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	08/01/20	$ -	$ -	$ -	$ -
2					-
3					-
4					-
5					-
6					-
7					-
8					-
	TOTAL:	$ -	$ -	$ -	$ -

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

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

PROVIDER: Casa Pacifica

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$ 1,085,200
2	Total from Form 5-2 bottom of Column (e)	-
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	-
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$ 1,085,200

PROVIDER: Casa Pacifica

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$ 20,646,483
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$ -	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$ -	
	c.	Depreciation	$ 1,324,045	
	d.	Amortization	$ -	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$ 5,543,050	
	f.	Extraordinary expenses approved by the Department	$ -	
3		Total Deductions		$ 6,867,095
4		Net Operating Expenses		$ 13,779,388
5		Divide Line 4 by 365 and enter the result.		$ 37,752
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$ 2,831,381

PROVIDER: Casa Pacifica
COMMUNITY: Freedom Village

FORM 5-5
ANNUAL RESERVE CERTIFICATION

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Casa Pacifica
Fiscal Year Ended: 12/31/2022

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2022 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 2022 are as follows:

		Amount
[1]	Debt Service Reserve Amount	$35,200
[2]	Operating Expense Reserve Amount	$2,831,381
[3]	**Total Liquid Reserve Amount:**	$2,866,581

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

	Qualifying Asset Description	Amount (market value at end of quarter) Debt Service Reserve	Operating Reserve
[4]	Cash and Cash Equivalents	$100,000	$2,989,344
[5]	Investment Securities		$0
[6]	Equity Securities		$0
[7]	Unused/Available Lines of Credit		$0
[8]	Unused/Available Letters of Credit		
[9]	Debt Service Reserve		(not applicable)
[10]	Other: Note Receivable from related party $270,536 (see Auditor's Note 10)	$0	$270,536

		Debt Service Reserve		Operating Reserve
Total Amount of Qualifying Assets Listed for Reserve Obligation:	[11]	$100,000	[12]	$3,259,880
Reserve Obligation Amount:	[13]	$35,200	[14]	$2,831,381
Surplus/(Deficiency):	[15]	$64,800	[16]	$428,499

Signature:

(Authorized Representative)

Date: 4/25/23

Partner/Chief Executive Officer
(Title)

FORM 5-5
ANNUAL RESERVE CERTIFICATION (CONTINUED)

Provider Name:	Casa Pacifica
Fiscal Year Ended:	12/31/2022

DSS - Reserve Report - Part of Form 5-5
Description of Reserves under SB 1212

Total Qualifying Assets as Filed:

Cash and Cash Equivalents	$	3,089,344	
Other		270,536	Note Receivable from related party $270,536 (see Auditors' Note 10)
Total Qualifying Assets as Filed	$	3,359,880	

Reservations and Designations: None

Per Capita Cost of Operations Operating Expenses (Form 5-4 line #1)	$	20,646,483
Mean # of CCRC Residents (Form 1-1 line #10)		374
Per Capita Cost of Operations	$	55,205

FORM 7-1
REPORT ON CCRC MONTHLY CARE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$2,252-$4,900	$6,864	$10,920
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	4.9%	6.6%	6.6%

☐ Check here if monthly care fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: April 1, 2022
(If more than one (1) increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation. **Date of Notice:** 1/31/2022 **Method of Notice:** letter

☒ At least 30 days prior to the increase in fees, the designated representative of the provider convened a meeting that all residents were invited to attend. **Date of Meeting:** 1/26/2022

☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases. **Date of Notice:** 1/11/2022

☒ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting. **Date of Posting:** 1/11/2022 **Location of Posting:** community bulletin board

[5] On an attached page, provide a concise explanation for the increase in monthly care fees including the amount of the increase and compliance with the Health and Safety Code sections. See **PART 7 REPORT ON CCRC MONTHLY CARE FEE** in the **Annual Report Instruction** booklet for further instructions.

PROVIDER: Casa Pacifica
COMMUNITY: Freedom Village, Lake Forest, California

FORM 7-1