ANNUAL REPORT CHECKLIST
for
FISCAL YEAR ENDED:

____

PROVIDER: Montecito Retirement Association dba: Casa Dorinda

FACILITY(IES): Casa Dorinda

____

CONTACT PERSON: Robin Drew

TELEPHONE NO.: (805) 969-8014

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

Your complete annual report must consist of **3 copies** of all of the following:

- ✓ This cover sheet.
- ✓ Annual Provider Fee in the amount of: $ 18,770.–
  - ✓ If applicable, late fee in the amount of: $__________
- ✓ Certification by the provider's chief *executive* officer that:
  - ✓ The reports are correct to the best of his/her knowledge.
  - ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
  - ✓ The provider is maintaining the required liquid reserve and refund reserve, if applicable.
- ✓ Evidence of the provider's fidelity bond.
- ✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (total of four (4) copies to be included)

CASA DORINDA

April 30, 2013

Continuing Care Contract Program
Department of Social Services
744 P. Street, MS 8-3-90
Sacramento, CA 95814

Dear Ladies and Gentlemen:

I hereby certify that the annual reserve reports and amendments enclosed herein are correct to the best of my knowledge.

Further, I certify that each continuing care contract form in use for new residents has been approved by the Department.

Finally, I certify that the Montecito Retirement Association is maintaining statutory reserves.

Sincerely,

Ronald D. Schaefer
Executive Director

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	287
[2]	Number at end of fiscal year	317
[3]	Total Lines 1 and 2	604
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	302
	All Residents	
[6]	Number at beginning of fiscal year	287
[7]	Number at end of fiscal year	317
[8]	Total Lines 6 and 7	604
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	302
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	1.00

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)		$21,679,138
[a]	Depreciation	$2,475,594	
[b]	Debt Service (Interest Only)	$433,741	
[2]	Subtotal (add Line 1a and 1b)		$2,909,335
[3]	Subtract Line 2 from Line 1 and enter result.		$18,769,803
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		100%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$18,769,803
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		$18,770

PROVIDEI Montecito Retirement Association
COMMUN Casa Dorinda

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

CALIFORNIA PREMIUM ENDORSEMENT

This endorsement applies to the Policy and all of the Insuring Agreements forming part of this Policy.

POLICY NO. 57BDDBQ9709

NAMED INSURED: MONTECITO RETIREMENT ASSOC. 403b RETIREMENT PLAN

It is agreed that:

1. In compliance with the ruling of the Commissioner of Insurance of the State of California and the Opinion of the Attorney - General of that State requiring that the premium for all policies be endorsed thereon, the basic premium charged for the attached policy for the period

   from: May 15, 2011

   to: May 15, 2014

   is: Three Hundred Sixty-Five Dollars $ 365 .

2. This endorsement is effective as of 12:01 a.m. on May 15, 2011 .

Accepted: Signature Waived

______________________________, Authorized Representative

MONTECITO RETIREMENT ASSOCIATION

DECEMBER 31, 2012 and 2011

FINANCIAL STATEMENTS

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

MONTECITO RETIREMENT ASSOCIATION

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

February 28, 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Montecito Retirement Association

Report on the Financial Statements

We have audited the accompanying financial statements of Montecito Retirement Association which comprise the balance sheets as of December 31, 2012 and 2011, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

1123 Chapala Street · P.O. Box 90860 · Santa Barbara, CA 93190-0860 · Tel: (805) 963-7811 · Fax: (805) 564-2103 · Web: www.bpw.com
An Independently Owned Member of the RSM McGladrey Network

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montecito Retirement Association as of December 31, 2012 and 2011, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is 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 audits 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bartlett, Pringle + Wolf, LLP

MONTECITO RETIREMENT ASSOCIATION
BALANCE SHEET
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,572,754	$ 634,284
Accounts receivable, net of allowance for doubtful accounts of $13,594 and $7,650 in 2012 and 2011, respectively	1,474,441	1,416,722
Current portion of notes receivable	852,696	697,659
Accrued interest receivable	10,589	14,077
Inventories	95,443	88,702
Prepaid expenses and deposits	454,025	476,775
Total current assets	4,459,948	3,328,219
Assets Whose Use is Limited:		
Temporarily restricted	909,742	1,026,280
Reserves held in trust	-	2,723,749
Liquid reserve assets	17,363,735	13,522,340
Total limited use assets	18,273,477	17,272,369
Property, Plant and Equipment:		
Land and buildings	30,470,193	30,470,193
Fixtures and equipment	2,340,302	2,289,834
Improvements	24,984,006	23,809,269
Construction in progress	288,788	304,201
	58,083,289	56,873,497
Less accumulated depreciation	(29,194,144)	(28,673,363)
Net property, plant and equipment	28,889,145	28,200,134
Other Assets:		
Notes receivable, net of current portion	2,796,804	677,684
Debt issue costs, net of amortization	206,561	846,372
Deferred compensation plan	447,262	486,639
Assets held in charitable remainder trusts	72,105	74,871
Contributions receivable from remainder trusts	-	11,630
Total other assets	3,522,732	2,097,196
Total assets	$ 55,145,302	$ 50,897,918

See accompanying notes

MONTECITO RETIREMENT ASSOCIATION
BALANCE SHEET
December 31, 2012 and 2011

	2012	2011
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 396,635	$ 338,560
Accrued expenses	1,348,830	1,533,161
Deferred revenue from monthly fees	1,266,943	1,121,936
Current portion of long-term debt	432,436	840,000
Total current liabilities	3,444,844	3,833,657
Long Term Liabilities:		
Long-term debt, net of current portion	10,452,332	13,025,000
Refundable fees	20,535,778	15,016,601
Entry fee deposits	826,371	1,342,390
Deferred revenue from entrance fees	16,632,772	15,687,300
Deferred compensation plan	447,262	486,639
Liabilities under charitable remainder trusts	21,042	22,914
Total long term liabilities	48,915,557	45,580,844
Total liabilities	52,360,401	49,414,501
Net Assets:		
Unrestricted	1,824,098	393,550
Temporarily restricted	960,803	1,089,867
Total net assets	2,784,901	1,483,417
Total liabilities and net assets	$ 55,145,302	$ 50,897,918

See accompanying notes

MONTECITO RETIREMENT ASSOCIATION
STATEMENT OF OPERATIONS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Changes in unrestricted net assets:		
Operating revenue and gains:		
Monthly fees	$ 14,327,025	$ 13,317,702
Net entrance fees earned	5,719,675	5,150,298
Medical revenue	765,403	922,834
Contributions from residents	-	100
Service income	837,529	767,465
Investment income	351,488	344,128
Net assets released from restrictions used for subsidized care fees	82,752	81,360
Total revenue, gains and other support	22,083,872	20,583,887
Expenses:		
Food services	3,904,401	3,524,529
Resident services	613,975	661,306
Medical center	4,020,473	3,947,393
Housekeeping	1,348,437	1,308,954
Plant operations and maintenance	2,131,007	2,261,010
Information technology	400,339	-
General and administrative	2,302,606	2,388,224
Education services	170,469	145,812
Security	370,026	382,294
Marketing	489,126	235,197
Personal care and social services	1,402,592	1,368,608
Ancillary services	404,210	445,618
Clinic	639,185	597,925
Health and fitness	145,233	143,846
Activities	393,341	356,825
Depreciation	2,475,594	2,435,294
Amortization	34,383	70,532
Interest expense	433,741	576,535
Total expenses	21,679,138	20,849,902
Income (loss) from operations	404,734	(266,015)
Non-operating revenue, gains and other support:		
Realized gain (loss) on sales of investments	(307,178)	372,344
Unrealized gain (loss) on investments	2,104,344	(956,593)
Gain (loss) on disposal of property, plant and equipment	(61,121)	3,245
Loss on bond refinancing	(828,737)	-
Net assets released from restriction- purchase of equipment	118,506	61,816
Increase (decrease) in unrestricted net assets	$ 1,430,548	$ (785,203)

See accompanying notes

MONTECITO RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN NET ASSETS
For the Years Ended December 31, 2012 and 2011

	Unrestricted	Temporarily Restricted	Total
		2012	
Increase in unrestricted net assets	$ 1,430,548	$	$ 1,430,548
Contributions		82,752	82,752
Investment income		1,966	1,966
Change in value of charitable remainder trust agreements		(12,524)	(12,524)
Net assets released from restrictions		(201,258)	(201,258)
Change in net assets	1,430,548	(129,064)	1,301,484
Net assets at beginning of year	393,550	1,089,867	1,483,417
Net assets at end of year	$ 1,824,098	$ 960,803	$ 2,784,901
		2011	
Decrease in unrestricted net assets	$ (785,203)	$	$ (785,203)
Contributions		1,100	1,100
Investment income		9,898	9,898
Change in value of charitable remainder trust agreements		(17,567)	(17,567)
Net assets released from restrictions		(143,176)	(143,176)
Change in net assets	(785,203)	(149,745)	(934,948)
Net assets at beginning of year	1,178,753	1,239,612	2,418,365
Net assets at end of year	$ 393,550	$ 1,089,867	$ 1,483,417

See accompanying notes

MONTECITO RETIREMENT ASSOCIATION
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Cash received from residents	$ 15,450,619	$ 14,505,370
Investment income received	356,942	363,692
Processing fees	153,082	111,600
Reimbursements for services to non-residents	268,537	258,916
Cash paid for operations	(18,443,457)	(17,639,648)
Cash paid for interest	(690,939)	(588,964)
Net cash used by operating activities	(2,905,216)	(2,989,034)
Cash Flows from Investing Activities:		
Collection of notes receivable	729,340	8,742
Expenditures for plant and equipment	(3,225,726)	(1,472,153)
Transfers of cash out of investment accounts	16,109,658	6,158,573
Transfers of cash in to investment accounts	(15,313,605)	(6,044,451)
Net cash used by investing activities	(1,700,333)	(1,349,289)
Cash Flows from Financing Activities:		
Proceeds from issuance of long term debt	11,550,000	-
Principal payments on long term debt	(14,530,232)	(815,000)
Proceeds from net entrance fees	8,696,608	5,666,704
Bond issuance costs	(223,309)	-
Refunds to applicants	(46,800)	(50,800)
Deposits received	15,000	42,000
Proceeds from contributions restricted for property, plant and equipment	82,752	1,100
Net cash provided by financing activities	5,544,019	4,844,004
Net increase in cash and cash equivalents	938,470	505,681
Cash and cash equivalents at beginning of the year	634,284	128,603
Cash and cash equivalents at end of the year	$ 1,572,754	$ 634,284
Noncash Investing Activities:		
New notes receivable made to residents	$ 3,003,497	$ 1,059,984
Cash paid during the year for interest:	690,939	588,964

See accompanying notes

Note 1 - Nature of Business

Montecito Retirement Association, a nonprofit California corporation, operates Casa Dorinda, a retirement facility. The Association was formed primarily for the purpose of providing housing, health care, and other related services to residents through the operation of a retirement facility containing 209 apartments, 21 personal care rooms, 5 special care rooms and a 52-bed skilled nursing facility. The Association is licensed by the State of California.

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

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

Note 2 - Summary of Significant Accounting Policies

A) Presentation

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

Unrestricted Net Assets

The unrestricted group of net assets represents unrestricted resources available for current support of Association activities. Designations by the Board of Directors are included in unrestricted net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts which may be fully expended but have been restricted by donors for certain purposes or are subject to time restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets include outright gifts, charitable remainder unitrusts and pledges receivable that require by donor restriction that the corpus be invested in perpetuity and only the income be made available for expenditure in accordance with donor restrictions for programs and activities of the Association. The spendable, or distributable, portion of each endowment fund is included with temporarily restricted net assets. The Association has no permanently restricted net assets at December 31, 2012 and 2011.

Note 2 - **Summary of Significant Accounting Policies (continued)**

B) Use of Estimates

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

C) Deferred Revenue from Entrance Fees

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

D) Refundable Fees

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

E) Entry Fee Deposits

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

F) Application Fees

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

G) Obligation to Provide Future Services

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

As of December 31, 2012 and 2011 there was no accruable obligation to provide future services. Accordingly, no liability was recorded.

Note 2 - Summary of Significant Accounting Policies (continued)

H) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less. Cash held for investment purposes is not considered to be cash and cash equivalents for the statement of cash flows.

I) Basis of Accounting for Receivables

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

J) Inventories

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

K) Property, Plant and Equipment

Property, plant and equipment are recorded at cost with depreciation provided on the straight-line basis over the estimated useful lives of the assets. Interest costs on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

The estimated useful lives of the assets are as follows:

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

L) Medical Revenue

Medical revenue is reported at the estimated net realizable amounts from Medicare for services rendered, including estimated retroactive adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

M) Donor Restrictions

The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

Note 2 - Summary of Significant Accounting Policies (continued)

M) Donor Restrictions (continued)

Donor-restricted contributions whose restrictions are met in the same year as received are reflected as unrestricted contributions in the accompanying financial statements. The Association reports gifts of property and equipment (or other long-lived assets) as unrestricted contributions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

N) Income Taxes

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

O) Investments

The Association reports investments in marketable securities with readily determinable fair values and all investments in debt securities at fair value and includes realized and unrealized gains and losses in the statements of operations and changes in net assets. The fair value of marketable securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

P) Debt Issue Costs

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

Q) Ancillary Services

Ancillary services include expenses related to physical therapy, occupational therapy, pharmacy and speech therapy.

R) Income (Loss) from Operations

The statement of operations includes income (loss) from operations. Changes in unrestricted net assets which are excluded from income (loss) from operations, consistent with industry practice, include realized and unrealized gains and losses on investments and satisfactions of restrictions on contributions used for purchases of equipment.

Note 3 - Accounts Receivable

Accounts receivable consist of the following:

	2012	2011
Residents	$ 1,322,809	$ 1,187,613
Health insurance programs, net of allowance for doubtful accounts of $13,594 and $7,650 in 2012 and 2011, respectively	137,165	164,074
Other	14,467	65,035
	$ 1,474,441	$ 1,416,722

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

Note 4 - Notes Receivable

The notes receivable are as follows:

	2012	2011
5.00% note receivable, maturity date April 30, 2032, due from an employee of the Association; payable in bi-weekly installments of $952, including interest. The interest rate will be adjusted every five years to the greater of the applicable federal rate or 5%, subject to a 10% ceiling. The interest rate is to be adjusted next on May 4, 2017. The note is secured by a deed of trust on real property.	$ 306,168	$ 315,358
Notes receivable from entrance fees. Qualifying residents had the option to pay entrance fees in five equal installments over a period of up to four years without interest. At December 31, 2012, eleven residents had outstanding balances.	3,343,332	1,059,985
Total notes receivable	3,649,500	1,375,343
Less current portion of 5.00% note receivable	9,660	9,190
Less current portion of entrance fee notes receivable	843,036	688,469
Notes receivable, net of current portion	$ 2,796,804	$ 677,684

Note 4 - Notes Receivable (continued)

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

2013	$	852,696
2014		884,868
2015		885,388
2016		762,535
2017		11,820
Thereafter		252,193
	$	3,649,500

Note 5 - Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2012 and 2011 is set forth in the table below. Temporarily restricted assets are comprised of donations from residents and the general public which have been designated for specified purposes. In 2012, the Association refinanced their long term debt and retired the 2004 Certificates of Participation (see Note 7). Prior to the refinancing, restricted reserve funds held in trust were comprised of those assets designated by board and management to be invested for the purpose of meeting the reserve requirements established by the County of Santa Barbara, California under the terms of the 2004 Certificates of Participation financing. The Association was required to make monthly payments to the trustee to provide a sinking fund for the payment of principal and interest. The Association was required to maintain the funds at amounts as stipulated in the Trust Agreement. Liquid reserve assets are those set aside by the board and management for future operating requirements. Funds are transferred from liquid reserve assets to fund current operations as needed.

	2012	2011
Temporarily Restricted:		
Cash and cash equivalents	$ 110,582	$ 28,073
Certificates of deposit	874,116	622,149
Due (to) from liquid reserve assets	(74,956)	376,058
Total temporarily restricted	$ 909,742	$ 1,026,280
Reserves Held in Trust:		
Principal fund:		
Cash and cash equivalents	$ -	$ 840,948
Interest fund:		
Cash and cash equivalents	-	299,400
Reserve fund:		
Cash and cash equivalents	-	53,273
U.S. Government Securities	-	1,530,128
Total reserves held in trust	$ -	$ 2,723,749

Note 5 - Assets Whose Use is Limited (continued)

	2012	2011
Liquid Reserve Assets:		
Cash and cash equivalents	$ 1,088,285	$ 1,727,869
Certificates of deposit	1,477,920	475,875
U.S. Government securities	30,922	32,061
Equities	14,691,652	11,662,593
Due (to) from temporarily restricted assets	74,956	(376,058)
Total liquid reserves	$ 17,363,735	$ 13,522,340

The following summarizes the investment return and its classification in the statement of operations for the years ended December 31:

	2012	2011
Investment income	$ 351,488	$ 344,128
Unrealized gain (loss) on value of investments	2,104,344	(956,593)
Realized gain (loss) on sales of investments	(307,178)	372,344
	$ 2,148,654	$ (240,121)

Note 6 - Fair Value Measurements

Under the Financial Accounting Standards Board's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Association uses various methods including market, income and cost approaches. Based on these approaches, the Association often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Association is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

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

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

Note 6 – Fair Value Measurements (continued)

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

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

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

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

During the years ended December 31, 2012 and 2011, there were no changes to the Association's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

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

Equity Securities

The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

U.S. Treasury and Federal Agency Securities

Valuation inputs utilized by the independent pricing service for those U.S. Treasury and federal agency securities under Level 2 include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data including market research publications. Also included are data from the vendor trading platform.

Note 6 – Fair Value Measurements (continued)

The following tables set forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31, 2012 and 2011:

	December 31, 2012			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets whose use is limited:				
Cash and cash equivalents	$ 1,198,867	$ 1,198,867	$ -	$ -
Certificates of deposit	2,352,036	2,352,036		
U.S. government securities	30,922		30,922	
Equity Securities	14,691,652	14,691,652		
Deferred compensation plan	447,262	447,262		
Assets held in charitable remainder trusts	72,105		72,105	
Total assets	$ 18,792,844	$ 18,689,817	$ 103,027	$ -
Deferred compensation plan	$ 447,262	$ 447,262	$ -	$ -
Total liabilities	$ 447,262	$ 447,262	$ -	$ -

	December 31, 2011			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets whose use is limited:				
Cash and cash equivalents	$ 2,949,563	$ 2,949,563	$ -	$ -
Certificates of deposit	1,098,024	1,098,024		
U.S. government securities	1,562,189		1,562,189	
Equity Securities	11,662,593	11,662,593		
Deferred compensation plan	486,639	486,639		
Assets held in charitable remainder trusts	74,871	74,871		
Contributions receivable from remainder trusts	11,630		11,630	
Total assets	$ 17,845,509	$ 16,271,690	$ 1,573,819	$ -
Deferred compensation plan	$ 486,639	$ 486,639	$ -	$ -
Total liabilities	$ 486,639	$ 486,639	$ -	$ -

Note 6 – Fair Value Measurements (continued)

The following table sets forth additional disclosures of the Association's investments whose fair values are estimated using net asset value per share as of December 31, 2012 and 2011:

	December 31, 2012			
	Fair Value	Unfunded Commitment	Redemption Frequency (if currently eligible)	Redemption Notice Period
U.S. government securities	$ 30,922	$ -	Bi-Annually	30 days prior to redemption period
Total	$ 30,922	$ -		

	December 31, 2011			
	Fair Value	Unfunded Commitment	Redemption Frequency (if currently eligible)	Redemption Notice Period
U.S. government securities	$ 1,562,189	$ -	Bi-Annually	30 days prior to redemption period
Total	$ 1,562,189	$ -		

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2012 and 2011:

	Alternative Investments	Total
Balance, January 1, 2011	$ 1,765,101	$ 1,765,101
Total unrealized gain	33,619	33,619
Sales	(1,798,720)	(1,798,720)
Balance, December 31, 2011	-	-

During 2011, the Association sold all the Level 3 Alternative Investments and distributed the proceeds amongst various accounts. There was no level 3 activity during 2012.

Note 6 – Fair Value Measurements (continued)

Changes in Fair Value and Related Gains and Losses

The Association's investments (including losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value by $1,797,166 and $(584,249) for the years ended December 31, 2012 and 2011 as follows:

	2012	2011
U.S. government securities	$ 15,487	$ 85,139
Equity Securities	1,781,679	(703,007)
Alternative Investments	-	33,619
Total net gain (loss)	$ 1,797,166	$ (584,249)

Note 7 - Long-Term Debt

In July 1993, the County of Santa Barbara issued 1993 Insured Refunding Revenue Certificates of Participation in the principal amount of $19,430,000. The certificates of participation were issued through the County of Santa Barbara with insurance from the California Office of Statewide Health Planning and Development (Cal Mortgage) as fixed rate obligations with both serial and term maturities. These certificates of participation were retired in 2004 through the issuance of the 2004 County of Santa Barbara Certificates of Participation.

In March 2004, the County of Santa Barbara issued certificates of participation in the principal amount of $19,310,000. The certificates of participation were issued through the County of Santa Barbara with insurance from ACA Financial Guaranty Corporation. A portion of the proceeds were used to repay the obligation on the 1993 Insured Refunding Revenue Certificates described above.

In March 2012, Santa Barbara Bank and Trust provided tax-exempt financing through the County of Santa Barbara as the conduit issuer in the principal amount of $11,550,000. The 2004 Certificates of Participation described above were redeemed in 2012 with proceeds from the 2012 County of Santa Barbara Installment Sale Financing. The loan is now held by Union Bank N.A. which acquired Santa Barbara Bank and Trust on December 1, 2012.

Note 7 - Long-Term Debt (continued)

The interest rate on the 2012 County of Santa Barbara Installment Sale Financing is 3.425% and is payable monthly. The payments are calculated based on a twenty year amortization period and include a balloon payment for the remainder at the end of the ten year period. There is no prepayment penalty and the Association has been making payments assuming a 10 year amortization period. The five year repayment schedule below is based on the twenty year repayment period. The installment sale financing is collateralized by gross revenues of the Association and a deed of trust on the facility.

	2012	2011
Long- term debt	$ 10,884,768	$ 13,865,000
Less current portion	(432,436)	(840,000)
Long-term debt, net of current portion	$ 10,452,332	$ 13,025,000

Scheduled principal repayments on long-term debt are as follows

2013	$ 432,436
2014	447,482
2015	463,051
2016	479,162
2017	495,833
Thereafter	8,566,804
	$ 10,884,768

The Association is required to meet certain financial covenants as defined in Section 503 of the second installment sale financing agreement. There is no indication that the Association has not met all required covenants for the year ended December 31, 2012.

Note 8 - Line of Credit

In March 2010, the Association opened a $1,530,000 revolving line of credit with Northern Trust NA, which matures in March 2015. The aggregate principal balance outstanding shall bear interest at 0.5% above the Wall Street Journal prime rate or the minimum interest rate on the note of 3.0%. All accrued and unpaid interest shall be payable at maturity. No draws were taken on the line of credit during 2012 and there was no balance outstanding at December 31, 2012. The line of credit is secured by a deed of trust on 352 Hot Springs Rd, the property occupied by the Executive Director, including assignment of rents and the security interest in personal property.

Note 9 - Deferred Compensation Plan

The Association has a nonqualified deferred compensation plan covering selected key employees. The Association and the employees made contributions to the plan, which are invested with an insurance company. Contributions were based on a percentage of the employee's wages. The Association has a policy of fully funding the plan. As of December 31, 2012 and 2011 the plan was fully funded. Total plan assets at December 31, 2012 and 2011 were $447,262 and $486,639, respectively. Effective July 31, 1997, no further contributions were made into this plan.

Note 10 - Tax Deferred Annuity Plan

The Association has a qualified tax deferred annuity plan covering all eligible employees. The Association and the employees make contributions, which are invested with an insurance company. The Association's contributions are based on a percentage of the employee's wages. As of December 31, 2012 and 2011, the plan was fully funded, which is in accordance with current policy of the Association. The expense related to this plan was $559,405 in 2012 and $506,053 in 2011. Annuity plans involve the transfer of risk to the insurance company and therefore are not included in the balance sheet of the Association.

Note 11 - Medical Revenue

The Association has an agreement with a third party payor. A summary of the payment arrangement with the major third party payor follows:

Medicare - Inpatient services for Medicare beneficiaries are paid at prospectively determined rates. The Association is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Association and audits thereof by the Medicare fiscal intermediary. The Association's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2011.

Medical revenue for 2012 and 2011 consists of the following:

	2012	2011
Gross patient service revenue	$ 892,379	$ 1,002,882
Less contractual allowances	(126,976)	(80,048)
Net patient service revenue	$ 765,403	$ 922,834

Note 12 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2012	2011
Subsidized fees for residents	$ 687,931	$ 768,717
PCU addition	202,633	238,387
Other	19,176	19,176
For periods after December 31:		
Charitable remainder trusts	51,063	63,587
	$ 960,803	$ 1,089,867

Note 13 - Net Assets Released from Restrictions

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

	2012	2011
Program restrictions accomplished:		
Fixed asset acquisitions	$ 118,506	$ 61,816
Subsidized care fees	82,752	81,360
	$ 201,258	$ 143,176

Note 14 - Charitable Remainder Trust Agreements

The Association is the remainder-man for one charitable remainder trust agreement that has been established by a donor to provide income, generally for life, to designated beneficiaries. The remainder of the trust will be distributed to the Association for the purposes designated in the trust agreement. Each year, beneficiaries receive a percentage of the trust's fair market value, limited to the net income or net-income-with-make-up provisions, payable semiannually.

The Trust is a separate legal entity, created under the provisions of Section 664 of the Internal Revenue Code. The Trust has a calendar year end as required by the Tax Reform Act of 1986. The Trust is exempt from Federal and California income taxes on investment income accumulated for future distributions and any net capital gains.

The Association acts as trustee for the trust, at no charge as a service to the donor. For financial statement presentation, the interest in this trust is presented at current market value under the caption "assets held in charitable remainder trusts", and the present value of amounts payable to trust income beneficiaries is estimated, using a discount rate of 7%, based on the life expectancy of each trust's income beneficiaries. Anticipated earnings and growth have not been included in the present value calculations. The fair market value of the trust at December 31, 2012 was $72,105.

Note 15 - Supplemental Disclosure of Cash Flow Information

Reconciliation of change in net assets to net cash used by operating activities:

	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	$ 1,301,484	$ (934,948)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and Amortization	2,509,977	2,505,826
Loss on bond refinancing	828,737	-
Amortization of unearned entrance fees	(5,719,675)	(5,150,298)
Proceeds from contributions restricted for purchases	(82,752)	(1,100)
Unrealized and realized (gains) losses on investments, net	(1,797,166)	584,249
Loss on disposal of property, plant and equipment	61,121	(3,245)
(Increase) decrease in:		
Accounts receivable	(57,719)	(132,115)
Accrued interest receivable	3,488	9,666
Inventories	(6,741)	(3,309)
Prepaid expenses	22,750	(66,887)
Contributions receivable	12,524	17,576
Increase (decrease) in:		
Accounts payable and accrued expenses	(126,255)	251,552
Deferred revenue from monthly fees	145,011	(66,001)
Net cash used by operating activities	$ (2,905,216)	$ (2,989,034)

Note 16 - Income Tax Matters

The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes, which the Association adopted as of January 1, 2009. The updated standard addresses determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Management evaluated the Association's tax positions and concluded that the Association had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Association is no longer subject to examinations by the U.S federal tax authorities for years before 2009 and by the State of California tax authorities for years before 2008.

Note 17 - Malpractice Insurance

The Association maintains professional liability insurance on a claims-made basis. There were no claims outstanding at December 31, 2012.

Note 18 - Contingencies

In September 1999, the Board of Directors approved that a credit of $10,000 per year be given to the retiring administrator for his 18 years of service to the Association. The credit, totaling $180,000, is to be applied to the entrance fee at Casa Dorinda if his application for admission is accepted. The credit cannot be used until 15 years from retirement, and there will be no adjustment for inflation or increases in entrance fees. The credit is non-transferable and will expire upon death. No accrual has been made in the financial statements for the credit.

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

Note 19 - Reclassification

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

Note 20 - Subsequent Events

Subsequent events have been evaluated through February 28, 2013, the date that the financial statements were available to be issued.

SUPPLEMENTARY SCHEDULES

MONTECITO RETIREMENT ASSOCIATION
SCHEDULE OF DEPARTMENTAL EXPENSES
For the Year Ended December 31, 2012

	Food Services	Resident Services	Medical Center	Housekeeping	Plant Operations	Information Technology	General and Adminis-trative	Education Services
Salaries and wages	$ 1,783,260	$ -	$ 2,732,444	$ 872,224	$ 549,852	$ 84,858	$ 1,125,821	$ 119,631
Payroll taxes and benefits	635,007		850,562	336,709	216,887	23,127	284,885	30,776
Supplies	187,017	5,618	187,369	45,990	111,271	45,570	53,566	1,688
Food purchases	1,135,143		34,702	16,928	999		3,555	
Laundry	43,019		91,839	36,589				
Purchased services	88,337		24,314	33,308	154,965	49,671	115,500	12,989
Ground supply and service					246,745			
Travel	564		57				14,493	1,258
Utilities					774,980	175,794		
Professional fees			38,186			3,972	259,129	1,140
Resident medical costs		608,357						
Resident activities			16,938				1,768	
Insurance							337,738	
Telephone							30	
Building and equipment repairs	23,844		12,980	2,641	66,827	2,253	526	
Vehicles	2,340		2,776	3,059	3,594			
Equipment rental	3,651		4,853			14,859	6,088	
Licenses and permits			15,916		3,640		15,103	
Memberships	301		1,291			40	29,221	
Donations							9,000	
Events								
All other	1,775		6,246	989	1,247	195	46,183	2,987
Advertising	143							
Totals	$ 3,904,401	$ 613,975	$ 4,020,473	$ 1,348,437	$ 2,131,007	$ 400,339	$ 2,302,606	$ 170,469

MONTECITO RETIREMENT ASSOCIATION
SCHEDULE OF DEPARTMENTAL EXPENSES
For the Year Ended December 31, 2012

	Security	Marketing	Personal Care Unit	Ancillary Services	Clinic	Health and Fitness	Activities
Salaries and wages	$ 264,573	$ 176,378	$ 973,025	$ -	$ 457,217	$ 94,473	$ 206,565
Payroll taxes and benefits	92,685	32,859	332,472		120,808	25,323	72,824
Supplies	7,956	25,671	27,962	685	8,065	5,160	17,738
Food purchases		2,393	10,721		692	455	1,129
Laundry			16,223				
Purchased services	146	6,827	6,212		4,512	10,348	17,332
Ground supply and service		166					
Travel	767	1,616				1,544	2,578
Utilities							
Professional fees		140,615	16,362	401,223	28,950		
Resident medical costs					9,124		
Resident activities		3,301	14,783				54,667
Insurance							
Telephone							
Building and equipment repairs	1,177		2,725	559		4,110	495
Vehicles	2,114				6,449		16,865
Equipment rental							1,279
Licenses and permits							
Memberships		99	77	68	1,302	1,441	1,038
Donations							
Events		57,964					
All other	608	1,668	2,030	1,675	2,066	2,379	831
Advertising		39,569					
Totals	$ 370,026	$ 489,126	$ 1,402,592	$ 404,210	$ 639,185	$ 145,233	$ 393,341

MONTECITO RETIREMENT ASSOCIATION
SCHEDULE OF DEPARTMENTAL EXPENSES
For the Year Ended December 31, 2011

	Food Services	Resident Services	Medical Center	Housekeeping	Plant Operations	General and Adminis-trative	Education Services
Salaries and wages	$ 1,621,745	$	$ 2,721,423	$ 889,692	$ 585,480	$ 1,128,033	$ 110,289
Payroll taxes and benefits	598,101		817,685	334,999	225,580	284,402	29,528
Supplies	155,850	2,940	178,632	37,961	130,252	34,190	1,747
Food purchases	1,007,659		29,725	823	1,493	907	
Laundry	39,998		89,943	35,764			
Purchased services	86,618		23,571	597	168,871	102,044	1,327
Ground supply and service					236,077		
Travel	928		14			8,324	
Utilities					827,695	85,774	
Professional fees			25,766			249,470	
Resident medical costs		658,366					
Resident activities			16,483			220	
Insurance						352,707	
Telephone						45,965	
Building and equip-ment repairs	9,118		5,774	3,670	75,714		
Vehicles	1,484		2,642	1,852	1,874	11,646	
Equipment rental			16,570			9,357	
Licenses and permits			12,480		7,113	22,726	
Memberships			1,187			24,460	
Donations						4,550	
Events							
All other	2,878		5,498	3,596	861	23,449	2,921
Advertising	150						
Totals	$ 3,524,529	$ 661,306	$ 3,947,393	$ 1,308,954	$ 2,261,010	$ 2,388,224	$ 145,812

MONTECITO RETIREMENT ASSOCIATION
SCHEDULE OF DEPARTMENTAL EXPENSES
For the Year Ended December 31, 2011

	Security	Marketing	Personal Care Unit	Ancillary Services	Clinic	Health and Fitness	Activities
Salaries and wages	$ 268,623	$ 87,394	$ 959,553	$ 106,807	$ 440,639	$ 100,545	$ 198,263
Payroll taxes and benefits	96,004	19,521	306,500	32,242	116,074	27,916	67,733
Supplies	11,405	3,280	26,959	862	9,344	4,150	11,491
Food purchases		5,504	14,659		492	228	1,317
Laundry			18,342				
Purchased services	705	1,074	9,005		4,952	5,765	12,564
Ground supply and service		1,100					
Travel				371		1,500	50
Utilities							
Professional fees		58,861	16,146	302,000	9,678		
Resident medical costs					7,677		
Resident activities			13,798				46,368
Insurance							
Telephone							
Building and equipment repairs	38		870		192	282	1,758
Vehicles	4,419				8,219		11,932
Equipment rental							4,261
Licenses and permits							
Memberships			1,675	751	175	1,020	378
Donations							
Events		21,584					
All other	1,100	1,546	1,101	2,190	483	2,440	710
Advertising		35,333		395			
Totals	$ 382,294	$ 235,197	$ 1,368,608	$ 445,618	$ 597,925	$ 143,846	$ 356,825

Montecito Retirement Association

December 31, 2012

Schedules Related to Continuing Care Reserves

BPW

BARTLETT, PRINGLE & WOLF, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

April 23, 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Montecito Retirement Association:

Report on the Continuing Care Reserves

We have audited the accompanying continuing care reserves report of Montecito Retirement Association as of December 31, 2012.

Management's Responsibility for the Continuing Care Reserves Report

Management is responsible for the preparation and fair presentation of the continuing care reserves report in accordance with the financial report preparation provisions of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the continuing care reserves report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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AN INDEPENDENTLY OWNED MEMBER OF THE RSM MCGLADREY NETWORK

Opinion

In our opinion, the continuing care reserves report referred to above presents fairly, in all material respects, the liquid reserve requirements of Montecito Retirement Association as of December 31, 2012, in accordance with the financial report preparation provisions of California Health and Safety Code Section 1792.

Basis of Accounting

The accompanying continuing care reserves report was prepared for the purpose of complying with California Health and Safety Code section 1792 and is not intended to be a complete presentation of the Association's assets, liabilities, revenues and expenses.

Restriction on Use

This report is intended solely for the information and use of the board of directors and management of Montecito Retirement Association and for filing with the California Department of Social Services and is not intended to be and should not be used for any other purposes. However, this report is a matter of public record and its distribution is not limited.

Bartlett, Pringle + Wolf, LLP

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	03/01/04	$840,000	$423,843		$1,263,843
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
		TOTAL:	$423,843	$0	$1,263,843

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

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

PROVIDER: Montecito Retirement Association

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	03/30/12	$267,096	$85,231	12	$1,022,772
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$267,096	$85,231	12	$1,022,772

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

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

PROVIDER: Montecito Retirement Association

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$1,263,843
2	Total from Form 5-2 bottom of Column (e)	$1,022,772
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	$0
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$2,286,615

PROVIDER: Montecito Retirement Association

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$21,679,138
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$690,939	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$0	
	c.	Depreciation	$2,475,594	
	d.	Amortization	$34,383	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$268,537	
	f.	Extraordinary expenses approved by the Department	$0	
3		Total Deductions		$3,469,453
4		Net Operating Expenses		$18,209,685
5		Divide Line 4 by 365 and enter the result.		$49,890
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$3,741,716

PROVIDER: Montecito Retirement Association
COMMUNITY: Casa Dorinda

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Montecito Retirement Association
Fiscal Year Ended: 31-Dec-12

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2012 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 12/31/2012 are as follows:

		Amount
[1]	Debt Service Reserve Amount	$2,286,615
[2]	Operating Expense Reserve Amount	$3,741,716
[3]	**Total Liquid Reserve Amount:**	$6,028,331

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				$1,088,285
[5]	Investment Securities				$1,508,842
[6]	Equity Securities				$14,766,608
[7]	Unused/Available Lines of Credit				
[8]	Unused/Available Letters of Credit				
[9]	Debt Service Reserve				(not applicable)
[10]	Other: (describe qualifying asset)				
	Total Amount of Qualifying Assets Listed for Reserve Obligation:	[11]	$0	[12]	$17,363,735
	Reserve Obligation Amount:	[13]	$2,286,615	[14]	$3,741,716
	Surplus/(Deficiency):	[15]	-$2,286,615	[16]	$13,622,019

Signature:

Robin Drew
(Authorized Representative)

Date: 4/30/13

CFO
(Title)

Montecito Retirement Association
Continuing Care Reserve Report
December 31, 2012

Form 5-1, Column C

Interest paid - Form 5-1 column c, line 1	$	423,843
Interest paid - Form 5-2 column b, line 1	$	267,097
Change in accrued interest payable		(257,199)
Interest expense per audited financial statements	$	433,741

Montecito Retirement Association
Continuing Care Reserve Report
December 31, 2012

Form 5-5, Description and Amount of Reserves Maintained

Liquid Reserve Assets:		
Cash and cash equivalents	$	1,088,285
Certificates of deposit		1,477,920
U.S. Government securities		30,922
Equities		14,766,608
Total liquid reserves	$	17,363,735

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$3,215-7,258	$3,215-7,258	$3,215-7,258
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3%	3%	3%

☐ Check here if monthly service 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: 2/1/12
(If more than 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.

☒ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

☒ 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.

☒ 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.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Montecito Retirement Association
COMMUNITY: Casa Dorinda

The Board of Directors made a decision to increase monthly fees 3% in order to keep the Organization from experiencing an operating loss and to maintain reserves.

Continuing Care Retirement Community
Disclosure Statement
General Information

FACILITY NAME: Casa Dorinda
ADDRESS: 300 Hot Springs Road, Montecito, CA ZIP CODE: 93108 PHONE: 805-969-8011
PROVIDER NAME: Montecito Retirement Assoc. FACILITY OPERATOR: N/A
RELATED FACILITIES: N/A RELIGIOUS AFFILIATION: N/A
YEAR OPENED: 1975 NO. OF ACRES: 48 MULTI-STORY: ___ SINGLE STORY: ___ BOTH: X
MILES TO SHOPPING CTR: 1.5 MILES TO HOSPITAL: 8

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO	13	ASSISTED LIVING	26 Beds
APARTMENTS – 1 BDRM	111	SKILLED NURSING	52 beds
APARTMENTS – 2 BDRM	71	SPECIAL CARE	N/A
COTTAGES/HOUSES	14	DESCRIBE SPECIAL CARE:	N/A
% OCCUPANCY AT YEAR END	95.7%		

TYPE OF OWNERSHIP: ☒ NOT FOR PROFIT ☐ FOR PROFIT ACCREDITED: ☐ Y ☒ N BY: _____

FORM OF CONTRACT: ☒ LIFE CARE ☐ CONTINUING CARE ☐ FEE FOR SERVICE ☐ ASSIGN ASSETS ☐ EQUITY ☐ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (Check all that apply): ☐90% ☐75% ☐50% ☒ PRORATED TO 0% ☐OTHER: ________

RANGE OF ENTRANCE FEES: $138,600 TO $1,095,000 **LONG-TERM CARE INSURANCE REQUIRED?** ☐Y ☒N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: SNF Services, Assisted Living and Clinical Services
Any item covered by Medicare and paid first by Medicare
(Physician acute care services, etc.)

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: N/A

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☐	☒
BILLIARD ROOM	☒	☐
BOWLING GREEN	☒	☐
CARD ROOMS	☒	☐
CHAPEL	☐	☐
COFFEE SHOP	☐	☐
CRAFT ROOMS	☒	☐
EXERCISE ROOM	☒	☐
GOLF COURSE ACCESS	☐	☐
LIBRARY	☒	☐
PUTTING GREEN	☒	☐
SHUFFLEBOARD	☐	☐
SPA	☒	☐
SWIMMING POOL-INDOOR	☒	☐
SWIMMING POOL-OUTDOOR	☒	☐
TENNIS COURT	☐	☐
WORKSHOP	☒	☐
OTHER________________	☐	☐

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	1/wk	________
NUMBER OF MEALS/DAY	3	________
SPECIAL DIETS AVAILABLE	yes	________
24-HOUR EMERGENCY RESPONSE	☒	☐
ACTIVITIES PROGRAM	☒	☐
ALL UTILITIES EXCEPT PHONE	☒	☐
APARTMENT MAINTENANCE	☒	☐
CABLE TV	☒	☐
LINENS FURNISHED	☒	☐
LINENS LAUNDERED	☒	☐
MEDICATION MANAGEMENT	☒	☐
NURSING/WELLNESS CLINIC	☒	☐
PERSONAL NURSING/HOME CARE	☐	☐
TRANSPORTATION-PERSONAL	☐	☒
TRANSPORTATION-PREARRANGED	☒	☐
OTHER__________________	☐	☐
	☐	☐

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Montecito Retirement Association

CCRCs	LOCATION (City, State)	PHONE (with area code)

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

PROVIDER NAME: Montecito Retirement Association

	2009	2010	2011	2012
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	15,525,353	15,350,444	15,433,489	16,364,197
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	(17,755,386)	(17,864,291)	(17,767,541)	(18,735,420)
NET INCOME FROM OPERATIONS	(2,230,033)	(2,513,847)	(2,334,052)	(2,371,223)
LESS INTEREST EXPENSE	(624,048)	(601,393)	(576,535)	(433,741)
PLUS CONTRIBUTIONS	170,000	23,253	100	0
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	413,771	(653,751)	434,160	(188,672)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	(2,270,310)	(3,745,746)	(2,476,328)	(2,993,636)
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	4,623,025	6,365,836	5,657,904	8,664,808

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
Santa Barbara Bank & Trust thru County of Santa Barbara – conduit issuer	$10,884,768	3.425%	March 2012	January 2022	20 Years

FINANCIAL RATIOS (see next page for ratio formulas)

	2009 CCAC Medians 50th Percentile *(optional)*	**2010**	**2011**	**2012**
DEBT TO ASSET RATIO		.272	.256	.190
OPERATING RATIO		1.20	1.19	1.17
DEBT SERVICE COVERAGE RATIO		2.31	2.70	3.15
DAYS CASH-ON-HAND RATIO		283	282	361

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2009	%	2010	%	2011	%	2012
STUDIO	3,002	5%	3,152	2%	3,215	3%	3,311
ONE BEDROOM	3,558	5%	3,736	2%	3,811	3%	3,943
TWO BEDROOM	6,711	5%	7,046	2%	7,187	3%	7,406
COTTAGE/HOUSE	N/A		N/A		N/A		N/A
ASSISTED LIVING	N/A		N/A		N/A		N/A
SKILLED NURSING	N/A		N/A		N/A		N/A
SPECIAL CARE	N/A		N/A		N/A		N/A

COMMENTS FROM PROVIDER: When a resident moves to a higher level of care, assisted living or skilled care, the resident continues to pay the rate which they were paying while in their unit, but no more than the one bedroom standard rate.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{c}\text{Total Operating Expenses} \\ \text{-- Depreciation Expense} \\ \text{-- Amortization Expense}\end{array}}{\begin{array}{c}\text{Total Operating Revenues} \\ \text{-- Amortization of Deferred Revenue}\end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{c}\text{Total Excess of Revenues over Expenses} \\ \text{+ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ \text{-- Amortization of Deferred Revenue} \\ \text{+ Net Proceeds from Entrance Fees}\end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{c}\text{Unrestricted Current Cash} \\ \text{And Investments} \\ \text{+ Unrestricted Non-Current Cash} \\ \text{and Investments}\end{array}}{\begin{array}{c}\text{(Operating Expenses – Depreciation} \\ \text{- Amortization)/365}\end{array}}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

KEY INDICATORS REPORT

Casa Dorinda

Date Prepared: 4/29/2013

Chief Executive Officer Signature

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

						Projected	Forecast				Preferred Trend Indicator
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
OPERATIONAL STATISTICS											
1. Average Annual Occupancy by Site (%)	94.5%	91.5%	88.5%	84.8%	90.8%	96.2%	96.0%	96.0%	96.0%	96.0%	↑
MARGIN (PROFITABILITY) INDICATORS											
2. Net Operating Margin (%)	-23.7%	-17.8%	-19.8%	-18.4%	-17.6%	-14.8%	-11.6%	-10.4%	-9.6%	-8.4%	↑
3. Net Operating Margin - Adjusted (%)	11.8%	9.9%	16.1%	14.0%	32.1%	24.3%	25.6%	21.4%	21.7%	22.3%	↑
LIQUIDITY INDICATORS											
4. Unrestricted Cash and Investments ($000)	$10,344	$14,656	$14,337	$14,157	$18,936	$18,583	$22,430	$25,085	$27,928	$30,323	↑
5. Days Cash on Hand (Unrestricted)	198.0	291.1	283.4	281.7	360.6	338.0	399.3	435.8	472.9	500.0	↑
CAPITAL STRUCTURE INDICATORS											
6. Deferred Revenue from Entrance Fees ($000)	$14,982	$15,440	$15,040	$15,687	$16,633	$16,965	$17,305	$17,651	$18,004	$18,364	N/A
7. Net Annual E/F proceeds ($000)	$6,000	$4,623	$6,365	$6,718	$11,668	$8,854	$9,031	$7,604	$7,794	$7,989	N/A
8. Unrestricted Net Assets ($000)	-$1,426	$180	$1,178	$394	$1,824	$3,289	$5,213	$7,496	$10,026	$12,818	N/A
9. Annual Capital Asset Expenditure ($000)	$1,301	$2,211	$1,583	$1,472	$3,226	$5,075	$3,800	$3,900	$4,000	$4,120	N/A
10. Annual Debt Service Coverage Revenue Basis (x)	-1.87	-1.97	-2.27	-1.36	-1.35	-1.42	-1.08	-0.91	-0.78	-0.67	↑
11. Annual Debt Service Coverage (x)	2.09	2.13	2.31	3.39	4.77	4.92	5.38	4.53	4.79	5.07	↑
12. Annual Debt Service/Revenue (%)	6.47%	6.77%	7.02%	6.62%	8.88%	5.80%	5.54%	5.33%	5.15%	4.82%	↓
13. Average Annual Effective Interest Rate (%)	3.96%	4.03%	4.09%	4.09%	3.43%	3.43%	3.43%	3.43%	3.43%	3.43%	↑
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	66.84%	99.83%	103.41%	108.69%	181.17%	188.80%	255.90%	327.95%	430.03%	572.17%	↑
15. Average Age of Facility (years)	9.38	10.34	11.11	11.77	11.79	11.38	10.90	10.78	10.72	10.71	↑