

**MCLEAN AFFILIATES, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2022 AND 2021**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
McLean Affiliates, Inc.  
Simsbury, Connecticut

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of McLean Affiliates, Inc., which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McLean Affiliates, Inc. as of September 30, 2022 and 2021, and the results of its operations, changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 McLean Affiliates, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Correction of Error***

As discussed in Note 3 to the financial statements, McLean Affiliates, Inc. corrected the net asset classification of certain net unrealized gains (losses) on investments for 2020 and 2021. Our opinion is not modified with respect to that matter.

#### ***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 McLean Affiliates, Inc.'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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 McLean Affiliates, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about McLean Affiliates, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Board of Directors  
McLean Affiliates, Inc.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated January 11, 2023, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

West Hartford, Connecticut  
January 11, 2023

**MCLEAN AFFILIATES, INC.  
STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2022 AND 2021**

	2022	As Restated 2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 9,974,796	\$ 6,970,105
Accounts Receivable, Net of Allowance of \$269,754 in 2022 and \$280,381 in 2021	1,704,679	1,464,792
Due from Related Party	126,696	28,344
Prepaid Expenses and Other Current Assets	612,011	343,292
Total Current Assets	12,418,182	8,806,533
<b>INVESTMENTS</b>	12,486,546	14,833,284
<b>ASSETS WHOSE USE IS LIMITED</b>	16,080,334	40,073,933
<b>CHARITABLE REMAINDER TRUST, NET</b>	761,552	892,972
<b>PROPERTY AND EQUIPMENT</b>		
Land	29,950	29,950
Land Improvements	3,597,786	3,567,191
Buildings	92,748,150	32,653,918
Fixed Equipment	14,147,358	13,258,594
Movable Equipment	5,081,512	3,947,413
Construction in Progress	1,062,842	33,142,748
Total	116,667,598	86,599,814
Less: Accumulated Depreciation	35,167,638	32,178,398
Total Property and Equipment	81,499,960	54,421,416
Total Assets	\$ 123,246,574	\$ 119,028,138

See accompanying Notes to Financial Statements.

**MCLEAN AFFILIATES, INC.**  
**STATEMENTS OF FINANCIAL POSITION (CONTINUED)**  
**SEPTEMBER 30, 2022 AND 2021**

	2022	As Restated 2021
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current Portion of Bonds Payable	\$ 8,300,000	\$ -
Accounts Payable	2,481,001	5,658,207
Entrance Fee Refunds Payable	459,137	478,060
Accrued Salaries, Wages, Payroll Taxes, and Other	1,265,276	1,574,379
Accrued Expenses	358,397	456,502
Contract Liabilities	316,791	386,610
Deposits Held for Residents	958,890	2,028,996
Total Current Liabilities	14,139,492	10,582,754
<b>REFUNDABLE ENTRANCE FEES, NET OF CURRENT PORTION</b>	9,588,885	4,113,125
<b>CONTRACT LIABILITIES FROM NONREFUNDABLE ENTRANCE FEES</b>	14,939,056	5,339,020
<b>NONCURRENT LIABILITIES</b>		
Bonds Payable, Net	56,926,187	65,236,129
<b>OTHER LIABILITIES</b>	50,584	59,368
Total Liabilities	95,644,204	85,330,396
<b>NET ASSETS</b>		
Without Donor Restrictions	20,974,037	26,073,822
With Donor Restrictions	6,628,333	7,623,920
Total Net Assets	27,602,370	33,697,742
Total Liabilities and Net Assets	\$ 123,246,574	\$ 119,028,138

See accompanying Notes to Financial Statements.

**MCLEAN AFFILIATES, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

	<u>2022</u>	<u>As Restated 2021</u>
<b>REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS</b>		
Resident Service Fee Revenue	\$ 25,977,433	25,143,203
Contributions Received from Related Entities	380,439	377,291
Grant Revenue	673,193	1,650,264
Contributions	410,078	213,757
Other Revenues	554,993	92,355
Net Assets Released from Restrictions	161,651	179,501
Total Revenues and Other Support Without Donor Restrictions	<u>28,157,787</u>	<u>27,656,371</u>
<b>EXPENSES</b>		
Salaries and Wages	15,670,690	15,337,507
Employee Benefits	3,503,776	3,325,688
Other Expenses	9,517,667	8,097,826
Depreciation and Amortization	3,037,299	2,382,721
Total Expenses	<u>31,729,432</u>	<u>29,143,742</u>
<b>LOSS FROM OPERATIONS</b>	(3,571,645)	(1,487,371)
<b>OTHER INCOME</b>		
Other Income and Expense	40,086	40,086
Interest and Dividend Income	233,181	553,733
Total Other Income	<u>273,267</u>	<u>593,819</u>
<b>CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>	<u>(1,801,407)</u>	<u>865,916</u>
<b>DEFICIT OF REVENUES OVER EXPENSES</b>	(5,099,785)	(27,636)
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	(5,099,785)	(27,636)
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
Interest and Dividend Income	102,148	134,256
Change in Net Unrealized Gain (Loss) on Investments	(1,149,849)	720,205
Change in Net Realized Gains on Investments	81,510	-
Change in Value of Charitable Remainder Trust	(131,420)	86,570
Contributions	263,675	176,017
Net Assets Released from Restrictions	(161,651)	(179,501)
Total Changes in Net Assets With Donor Restrictions	<u>(995,587)</u>	<u>937,547</u>
<b>CHANGE IN NET ASSETS</b>	(6,095,372)	909,911
Net Assets - Beginning of Year	<u>33,697,742</u>	<u>32,787,831</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 27,602,370</u>	<u>\$ 33,697,742</u>

See accompanying Notes to Financial Statements.



**MCLEAN AFFILIATES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2022**

	Program Services			Supporting Services			Total	
	Health Services	Community Based Services	Independent Living	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries and Wages	\$ 10,060,437	\$ 3,070,260	\$ 1,089,291	\$ 14,219,988	\$ 1,377,485	\$ 73,217	\$ 1,450,702	\$ 15,670,690
Employee Benefits	2,248,032	688,607	243,027	3,179,666	307,763	16,347	324,110	3,503,776
Depreciation and Amortization	1,514,268	71,004	1,387,806	2,973,078	56,619	7,602	64,221	3,037,299
Professional and Contract Services	1,077,927	844,044	324,714	2,246,685	205,492	4,654	210,146	2,456,831
Dining Food and Supply	1,260,887	-	628,571	1,889,458	-	-	-	1,889,458
Other Supplies	1,040,410	383,706	229,207	1,653,323	115,515	72,645	188,160	1,841,483
Utilities	434,083	33,911	312,618	780,612	47,558	2,175	49,733	830,345
CHEFA Debt Interest	-	-	738,828	738,828	-	-	-	738,828
Provider Tax	420,169	-	-	420,169	-	-	-	420,169
Independent Living Expansion Marketing	-	-	418,462	418,462	-	-	-	418,462
Property Tax	-	-	399,123	399,123	-	-	-	399,123
Insurance	-	-	85,678	85,678	167,914	-	167,914	253,592
Interest - Nonrefundable Life Plan								
Community Contracts	-	-	236,687	236,687	-	-	-	236,687
Bad Debts	33,425	(736)	-	32,689	-	-	-	32,689
<b>Total Expenses</b>	<b>\$ 18,089,638</b>	<b>\$ 5,090,796</b>	<b>\$ 6,094,012</b>	<b>\$ 29,274,446</b>	<b>\$ 2,278,346</b>	<b>\$ 176,640</b>	<b>\$ 2,454,986</b>	<b>\$ 31,729,432</b>

See accompanying Notes to Financial Statements.

**MCLEAN AFFILIATES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2021**

	Program Services			Supporting Services			Total	
	Health Services	Community Based Services	Independent Living	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries and Wages	\$ 9,819,818	\$ 3,195,796	\$ 922,685	\$ 13,938,299	\$ 1,323,671	\$ 75,537	\$ 1,399,208	\$ 15,337,507
Employee Benefits	2,137,939	697,016	201,779	3,036,734	272,541	16,413	288,954	3,325,688
Professional and Contract Services	986,379	595,534	254,844	1,836,757	205,667	4,020	209,687	2,046,444
Depreciation and Amortization	1,362,701	63,897	898,329	2,324,927	50,953	6,841	57,794	2,382,721
Other Supplies	1,206,836	397,989	235,007	1,839,832	95,595	75,655	171,250	2,011,082
Dining Food and Supply	1,080,548	-	427,207	1,507,755	-	-	-	1,507,755
Utilities	440,416	35,555	234,192	710,163	49,151	2,208	51,359	761,522
Independent Living Expansion Marketing	-	-	545,518	545,518	-	-	-	545,518
Provider Tax	393,678	-	-	393,678	-	-	-	393,678
Property Tax	-	-	316,092	316,092	-	-	-	316,092
Insurance	-	-	61,730	61,730	151,116	-	151,116	212,846
Interest - Nonrefundable Life Plan								
Community Contracts	-	-	161,521	161,521	-	-	-	161,521
Bad Debts	39,614	101,754	-	141,368	-	-	-	141,368
<b>Total Expenses</b>	<b>\$ 17,467,929</b>	<b>\$ 5,087,541</b>	<b>\$ 4,258,904</b>	<b>\$ 26,814,374</b>	<b>\$ 2,148,694</b>	<b>\$ 180,674</b>	<b>\$ 2,329,368</b>	<b>\$ 29,143,742</b>

See accompanying Notes to Financial Statements.

**MCLEAN AFFILIATES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (6,095,372)	\$ 909,911
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Proceeds from Entrance Fees	17,859,204	2,846,653
Refunds of Entrance Fees and Entrance Fees Payable	(2,115,997)	(607,926)
Amortization of Entrance Fees	(923,021)	(857,151)
Amortization of Bond Premium	(55,086)	(55,087)
Interest- Nonrefundable Life Plan Community Contracts	236,687	161,521
Depreciation and Amortization	3,037,299	2,382,721
Provision for Bad Debts	32,689	141,368
Change in Value of Charitable Remainder Trust	131,420	(86,570)
Change in Net Unrealized (Gain) Loss on Investments	2,951,256	(1,672,691)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(272,576)	96,855
Due from Related Party	(98,352)	(2,316)
Prepaid Expenses and Other Current Assets	(268,719)	32,496
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(3,578,530)	529,748
Accrued Salaries, Wages, Payroll Taxes and Other	(309,103)	131,757
Accrued Expenses	(98,105)	(101,871)
Contract Liabilities	(69,819)	17,204
Deposits Held for Residents	(1,070,106)	161,787
Net Cash Provided by Operating Activities	9,293,769	4,028,409
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investments, Net	(604,518)	(602,319)
Sales of Assets Whose Use is Limited, Net	30,883,997	20,953,344
Purchases of Property and Equipment	(29,678,159)	(23,388,481)
Net Cash Provided (Used) by Investing Activities	601,320	(3,037,456)
<b>NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	9,895,089	990,953
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	12,266,655	11,275,702
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR</b>	\$ 22,161,744	\$ 12,266,655

See accompanying Notes to Financial Statements.

**MCLEAN AFFILIATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022 AND 2021**

**NOTE 1 ORGANIZATION**

McLean Affiliates, Inc. (McLean) was incorporated as a nonprofit entity on October 1, 2008 as a subsidiary of the McLean Fund (the Fund), a trust created by the last will of George P. McLean. Prior to this incorporation, McLean operated as a unit of the Fund. The subsidiaries of the Fund include McLean and the McLean Game Refuge (the Refuge). The Refuge is not included in these statements.

McLean operates as a Life Plan Community (formally known as a Continuing Care Retirement Community) and a long-term care facility located in Simsbury, Connecticut. McLean opened The Goodrich, a new 55 unit apartment building in July of 2022. Along with apartments, this building includes dining, fitness space, and a performing arts center. This new building also includes underground parking. As of September 30, 2022, McLean has 89 Medicaid and Medicare certified skilled nursing beds, 71 assisted living units, 3 residential care home beds, 103 independent living apartments, 13 independent living villas, and 15 independent living cottages.

McLean provides a full range of services, including physical therapy, occupational therapy, and speech therapy. The average occupancy for McLean was 77% and 81% for 2022 and 2021, respectively. In addition, McLean provides home care, hospice, adult day care, and Meals on Wheels services to residents of Simsbury and surrounding towns.

Overall occupancy levels at McLean for the years ended September 30, 2022 and 2021 are as follows:

	2022	2021
Skilled Nursing Care	76%	75%
Assisted Living	63%	65%
Independent Living - Apartments (Burkholder)	83%	85%
Independent Living - Apartments (Goodrich)	71%	N/A
Independent Living - Villas	99%	92%
Independent Living - Cottages	72%	91%

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

In order to ensure observance of limitations and restrictions placed on the use of the resources available to McLean, the accounts are maintained on the accrual basis of accounting and, accordingly, the accounts of McLean are reported in the following net asset categories.

*Net Assets Without Donor Restrictions* – Net assets without donor restrictions represent resources that may be expended at the direction of the board of directors. Additionally, the board of directors designates a portion of net assets without donor restrictions which represents the investments held at year-end.

**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022 AND 2021**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

*Net Assets With Donor Restrictions* –These assets represent resources that have donor-imposed restrictions as to purpose or time of expenditure. When the purpose or timing restrictions have been met, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities and changes in net assets as net assets released from restrictions. Net assets with donor restrictions as of September 30, 2022 are restricted for time, capital projects, and other resident assistance purposes. Details of net assets with donor restrictions are included in Note 12.

**Excess (Deficit) of Revenues Over Expenses**

The statements of activities and changes in net assets without donor restrictions include excess (deficit) of revenues over expenses. This is the performance indicator for McLean. Changes in net assets which are excluded from this operating measure, consistent with industry practice, include assets acquired using contributions which by donor restriction were to be used for purposes of acquiring such assets.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It is management's opinion that the estimates applied in the accompanying financial statements are reasonable. However, actual results could differ from those estimates.

**Cash and Cash Equivalents**

McLean considers all short-term, highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. McLean maintains its cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. McLean believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash equivalents are comprised of money market funds. Money market funds are not insured by the Federal Deposit Insurance Corporation (FDIC) and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities. Although a money market fund seeks to preserve its one dollar per share value, it is possible that a money market fund's value can decrease below one dollar per share.

**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022 AND 2021**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, McLean analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate an appropriate allowance for doubtful accounts and provision for bad debts based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

**Investment Valuation and Income Recognition**

Investments are reported at fair value. 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. See Note 7 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the accompanying statements of financial position with realized and unrealized gains and losses on these investments included in the accompanying statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions.

**Assets Whose Use is Limited**

Assets whose use is limited include assets restricted under state of Connecticut law governing Life Plan Community entrance fee escrow arrangements and assets set aside for operating Life Plan Community escrow and reserve funds.

**Charitable Remainder Trust**

Charitable remainder trust consists of assets irrevocably transferred for the benefit of McLean and other beneficiaries. Revocable charitable remainder trust agreements are not recorded as contributions unless enforceable by law. Irrevocable charitable remainder trusts are recorded as contributions at fair value when the assets are received or when McLean is notified of the existence of the agreement. The accounting treatment varies depending upon the type of the agreement created and whether McLean or a third party is the trustee.

McLean is the beneficiary of irrevocable charitable remainder trusts which are managed by third-party trustees. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for McLean's use.

**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022 AND 2021**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Charitable Remainder Trust (Continued)**

The trusts are carried at the net fair value of the underlying investments less the estimated liability to the designated beneficiary. The portion of the trust attributable to the present value of the future benefits to be received by McLean is recognized in the statement of activities and changes in net assets as a contribution with donor restrictions in the period the trust is established.

**Bond Issuance Costs**

Bond issuance costs are fees and other costs incurred in obtaining financing that are amortized on a straight-line basis over the term of the related debt. Bond issuance costs are presented as a direct deduction of the carrying amount of the debt. Amortization of bond issuance costs is included in interest expense.

**Property and Equipment**

Property and equipment are recorded at cost. Routine maintenance, repairs, renewals and replacement costs are charged against income. Expenditures in excess of \$2,000 that materially increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in other income in the statements of activities and changes in net assets.

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets as follows:

Land Improvements	5 to 30 Years
Buildings	10 to 40 Years
Fixed Equipment	5 to 25 Years
Movable Equipment	5 to 20 Years

Depreciation expense totaled \$2,989,239 and \$2,337,577 for the years ended September 30, 2022 and 2021, respectively.

Accumulated interest capitalized as part of building as of September 30, 2022 was \$5,637,165. As of September 30, 2021, capitalized interest was included in construction in progress for \$2,915,851.

**Asset Retirement Obligation**

McLean accounts for any conditional asset retirement obligations in accordance with the provisions of U.S. GAAP. U.S. GAAP requires that an entity recognize a liability for the fair value of conditional asset retirement obligations if the fair value of the liability can be reasonably estimated. The fair value of a liability for conditional asset retirement obligations must be recognized when incurred, generally upon acquisition, construction or development, or through the normal operation of the asset. McLean conducted a review of its facilities to determine if there are any assets that give rise to the obligation to perform asset retirement activity, which may not be within its control, such as the remediation or removal of asbestos containing materials.

**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022 AND 2021**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Asset Retirement Obligation (Continued)**

McLean has certain items in its buildings that it believes may result in asset retirement costs. McLean currently has no plans to renovate the areas that contain these items or remove these items from service. However, McLean has determined what it believes to be a reasonable settlement date to retire these items in the event that such retirement is not within their control. The initial estimated current cost associated with the retirement of these items was determined to be \$51,000 and was recorded as an asset retirement obligation in other liabilities on the accompanying statements of financial position. For each of the years ended September 30, 2022 and 2021, the estimated current cost accreted amounted to \$2,916 and has been reflected in the statements of activities and changes in net assets.

**Revenue Recognition**

McLean recognizes revenue at an amount that reflects the consideration to which McLean expects to be entitled in exchange for transferring goods or services to its customers using the following five-step process:

1. Identify the contract(s) with the customer
2. Identify the performance obligation(s) in the contract
3. Determine the transaction price
4. Allocate the transaction price to performance obligations in the contract
5. Recognize revenue when (or as) McLean satisfies a performance obligation

See Note 6 for details on how the above five-step process is applied to the McLean's contracts with customers.

**Contributions**

Contributions are defined as voluntary, nonreciprocal transfers. Contributions without donor restrictions are recognized as support when received or pledged, if applicable. Contributions are reported as support with donor restrictions if they are received with donor stipulations that limit the use of such assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities and changes in net assets as Net Assets Released from Restrictions due to satisfaction of restrictions. Contributions received whose restrictions are met in the same period are presented with net assets without donor restrictions.

**Other Revenues**

Other revenues consist of charges for additional resident meals, guest meals, cable television, beauty salon services and other miscellaneous charges to residents.



**MCLEAN AFFILIATES, INC.  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Functional Allocation of Expenses**

The costs of providing various programs and other activities have been reported on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. Expenses not listed below are assigned on a functional basis directly.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and Wages	Time and Effort
Employee Benefits	Time and Effort
Depreciation	Square Footage
Utilities	Square Footage

**Income Taxes**

McLean is a nonprofit corporation described in Section 501(c)(3) of the Internal Revenue Code (the IRC) and is exempt from federal income taxes pursuant to Section 501(a) of the IRC.

**Subsequent Events**

In preparing these financial statements, management has evaluated subsequent events through January 11, 2023, which represents the date the financial statements were available to be issued.

**NOTE 3 CORRECTION OF ERROR**

During the year ended September 30, 2022, McLean determined it had incorrectly classified certain interest and dividends and unrealized gains (losses) on investments as changes in net assets without donor restrictions instead of net assets with donor restrictions for the years ended September 30, 2021 and 2020. There was no adjustment to the overall change in net assets for the years ending September 30, 2021 and 2020. The comparative 2021 financial statements have been restated as follows to correct this error:

<u>Description</u>	<u>As Previously Reported</u>	<u>Change</u>	<u>As Restated</u>
Net Assets Without Donor Restrictions as of September 30, 2021	\$ 27,289,453	\$ (1,215,631)	\$ 26,073,822
Net Assets With Donor Restrictions as of September 30, 2021	6,408,289	1,215,631	7,623,920
Changes in Net Assets Without Donor Restrictions for Year Ended September 30, 2021:			
Interest and Dividends	687,989	(134,256)	553,733
Change in Net Unrealized Gains (Loss) on Investments	1,586,121	(720,205)	865,916
Changes in Net Assets With Donor Restrictions for Year Ended September 30, 2021:			
Interest and Dividends	-	134,256	134,256
Change in Net Unrealized Gains (Loss) on Investments	-	720,205	720,205

**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 COVID-19**

On March 11, 2020, the World Health Organization declared the coronavirus outbreak (COVID) to be a global pandemic. The situation is ongoing and dynamic. For the years ended September 30, 2022 and 2021, McLean incurred costs related to the pandemic response and some of these costs were eligible for recovery during fiscal 2022 and 2021 under various federal grants and state programs. The duration of uncertainties related to the COVID pandemic, and its ultimate financial effects cannot be reasonably estimated at this time.

During the years ended September 30, 2022 and 2021, McLean received \$673,193 and \$1,593,264, respectively, in grant proceeds through the Provider Relief Program (PRF) and Coronavirus Relief Fund (CRF) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), and various other community grants. Under the PRF grant, McLean is required to use the grant proceeds to cover certain expenditures or lost health care revenues that occurred due to the COVID pandemic. During the years ended September 30, 2022 and 2021, McLean recognized revenue under the programs of \$673,193 and \$1,650,264 respectively, as included in grant revenue on the statement of activities and changes in net assets, for qualifying expenses incurred through that date.

**NOTE 5 CASH, CASH EQUIVALENTS, AND RESTRICTED CASH**

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

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 9,974,796	\$ 6,970,105
Restricted Cash Included in Assets Whose Use is Limited	<u>12,186,948</u>	<u>5,296,550</u>
Total Cash, Cash Equivalents and Restricted		
Cash Shown in the Statement of Cash Flows	<u>\$ 22,161,744</u>	<u>\$ 12,266,655</u>

Restricted cash included in assets whose use is limited includes amounts pledged as collateral for long-term financing arrangements as contractually required by a lender. The restriction will lapse when the related long-term debt is paid off.

**NOTE 6 REVENUES FROM CONTRACTS WITH CUSTOMERS**

Resident revenue and health center patient revenue is reported at the amount that reflects the consideration McLean expects to receive in exchange for the services provided. These amounts are due from residents, patients or third-party payors (including health insurers and government payors). Performance obligations are determined based on the nature of the services provided. Resident revenue and health center patient revenue are recognized as performance obligations are satisfied. McLean recognizes revenue in accordance with the provisions of ASC 606, *Revenue from Contracts with Customers* (ASC 606).

**MCLEAN AFFILIATES, INC.**  
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**NOTE 6 REVENUES FROM CONTRACTS WITH CUSTOMERS (CONTINUED)**

**Performance Obligations**

At contract inception, McLean assesses the goods and services promised in its contracts with customers and identifies a performance obligation for each promise to transfer to the customer a good or service (or bundle of goods or services) that is distinct. To identify the performance obligations, McLean considers all of the goods or services promised in the contract regardless of whether they are explicitly stated or implied by customary business practices. McLean determines that the following distinct goods and services represent separate performance obligations:

- Health Center Services
- Assisted Living Services
- Independent Living Services
- Home Care Services.

McLean satisfies its performance obligations for health center services and assisted living services upon completion of each day's service or as ancillary services are provided. Patients receive care and room and board on a per diem basis and can also receive various ancillary services. Residents are charged a daily fee for bed stay and services provided and fees for ancillary services performed, which are payable upon receipt. Private room charges are due one month in advance.

McLean satisfies its performance obligations for independent living services over time as benefits are transferred to the resident. McLean charges separately for the different levels of care available to its residents. Charges are based on monthly rates. If the resident needs/desires a different level of care, that is covered under a separate contract at a separate rate. Because a McLean resident has the ability to move out and discontinue paying the monthly service fee at any time, the resident agreement is viewed as a monthly contract with an option to renew. Payment terms for the independent living entrance fee are a fixed amount paid at the time the contract is signed and the resident takes occupancy. The entrance fee can be refundable or nonrefundable depending on the contract type the resident selects. The nonrefundable portion of the entrance fee is recorded as a contract liability and amortized over the estimated actuarial life of the resident, which is re-evaluated on an annual basis. Refundable entrance fees paid by residents are recorded as a liability and are not amortized. The monthly service fee is set at the time of the contract signing and is fixed except for annual inflationary increases.

McLean satisfies its performance obligations for home care services upon completion of each session of service provided. Medicare pays McLean a predetermined base payment for each patient that is adjusted for the health condition and care needs of the beneficiary. The payment covers a 30-day episode of care and the payment is received at the close of the 30-day episode. Once an episode is approved by Medicare, payment is expected for the services provided.

McLean satisfies its performance obligations for outpatient services upon completion of each service provided.

**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 REVENUES FROM CONTRACTS WITH CUSTOMERS (CONTINUED)**

**Performance Obligations (Continued)**

Performance obligations are determined based on the nature of the services provided by McLean. Revenue for performance obligations satisfied over time is recognized based on the estimated realizable amount earned for services provided. McLean believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

**Transaction Price**

McLean determines the transaction price based on standard charges for room and board and services provided, reduced by contractual adjustments provided to applicable third-party payors or discounts provided to uninsured patients in accordance with the McLean's policy. McLean determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. McLean determines its estimate of implicit price concessions based on its historical collection experience with this class of patients. Independent living monthly service fees are subject to annual inflationary increases.

Agreements with third-party payors provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare – Certain health center services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors.

Medicaid – Reimbursements for Medicaid services are generally paid at determined rates on a per diem basis.

Other – Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined daily rates or discounts from established charges.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge McLean's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon McLean. In addition, the contracts McLean has with commercial payors also provide for retroactive audit and review of claims.

**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 REVENUES FROM CONTRACTS WITH CUSTOMERS (CONTINUED)**

**Transaction Price (Continued)**

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and McLean's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, as new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

McLean has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of the patient's service or episode of care
- Line of business that provided the service.

The difference between the opening and closing balances of the McLean's contract liabilities primarily result from the timing difference between McLean's performance and nonrefundable entrance fees received and/or amortized during the period.

Other revenues represent revenue from services from amenities and convenience services provided to residents and guests. This revenue is recognized on a daily basis upon the provision of the respective service.

Under ASC 606, the nonrefundable entrance fees that McLean receives related to independent living services are considered to have a financing component. McLean calculates the corresponding interest expense based on the contract liability balance and its incremental borrowing rate. The interest expense was \$236,687 and \$161,521 for the years ended September 30, 2022 and 2021, respectively, and is included as part of other expenses in the accompanying statements of activities and changes in net assets.

**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 REVENUES FROM CONTRACTS WITH CUSTOMERS (CONTINUED)**

**Transaction Price (Continued)**

In conjunction with ASC 606, certain marketing expenses related to advertising new independent living units are now expensed. Marketing costs related to the independent living expansion of \$418,462 and \$545,518 were expensed during the years ended September 30, 2022 and 2021, respectively.

**NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Generally accepted accounting principles establish a 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). The three levels of the fair value hierarchy are described below:

*Level 1* – Quoted market prices (unadjusted) in active markets for identical assets or liabilities that McLean has the ability to access at the measurement date.

*Level 2* – Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly, and McLean has the ability to redeem the asset or liability in the near term subsequent to the measurement date.

*Level 3* – Unobservable inputs are used to measure the fair value to the extent that observable inputs are not available, and McLean does not have the ability to redeem the asset or liability in the near term subsequent to the measurement date.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Financial Instruments Measured at Fair Value**

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

**Fixed Income**

Fixed income investments are valued using quoted market prices in an active market in which the securities are traded.

**Equity**

Equity funds are valued at the quoted net asset value of shares reported in the active market in which the funds are traded.

**MCLEAN AFFILIATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial Instruments Measured at Fair Value (Continued)**

Charitable Remainder Trust

Fair value inputs used for charitable remainder trusts are based on the estimated present value of the future payment to McLean, which is considered to be the fair value of the assets held in trust less estimated future payments to the designated beneficiaries.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while McLean 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.

There have been no changes in the methodologies used at September 30, 2022 and 2021. The following is a summary of the source of fair value measurements for assets and liabilities that are measured at fair value as of September 30, 2022 and 2021:

Description	2022			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Fixed Income Investments	\$ 5,664,988	\$ -	\$ -	\$ 5,664,988
Equity Investments	6,821,558	-	-	6,821,558
Total Investments	12,486,546	-	-	12,486,546
Assets Whose Use is Limited:				
Fixed Income Investments	3,893,386	-	-	3,893,386
Charitable Remainder Trust	-	761,552	-	761,552
Total Assets Measured at Fair Value	<u>\$ 16,379,932</u>	<u>\$ 761,552</u>	<u>\$ -</u>	<u>\$ 17,141,484</u>
Description	2021			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Fixed Income Investments	\$ 6,003,203	\$ -	\$ -	\$ 6,003,203
Equity Investments	8,830,080	-	-	8,830,080
Total Investments	14,833,283	-	-	14,833,283
Assets Whose Use is Limited				
Fixed Income Investments	34,777,384	-	-	34,777,384
Charitable Remainder Trust	-	892,972	-	892,972
Total Assets Measured at Fair Value	<u>\$ 49,610,667</u>	<u>\$ 892,972</u>	<u>\$ -</u>	<u>\$ 50,503,639</u>

**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 BONDS PAYABLE**

Bonds payable, net at September 30, 2022 and 2021 consisted of the following:

<u>Description</u>	<u>2022</u>	<u>2021</u>
State of Connecticut Health and Educational Facilities Authority Series 2020A bonds, dated July 1, 2020, \$50,820,000 original principal amount, plus original issue premium of \$1,917,312, maturing at various times through January 2055, with interest payable semi-annually on January 1 and July 1 of each year beginning January 1, 2021 at 5.00% interest rate.	\$ 50,820,000	\$ 50,820,000
State of Connecticut Health and Educational Facility Authority Series 2020B-1 bonds, dated July 1, 2020, \$5,725,000 original principal amount, maturing January 2024, with interest payable semi-annually on January 1 and July 1 of each year beginning January 1, 2021 at 3.25% interest rate.	5,725,000	5,725,000
State of Connecticut Health and Educational Facility Authority Series 2020B-2 bonds, dated July 1, 2020, \$8,300,000 original principal amount, maturing January 2023, with interest payable semi-annually on January 1 and July 1 of each year beginning January 1, 2021 at 2.75% interest rate.	<u>8,300,000</u>	<u>8,300,000</u>
	64,845,000	64,845,000
Less: Current Portion	8,300,000	-
Plus: Unamortized Bond Premium	1,807,139	1,862,225
Less: Unamortized Bond Issuance Costs	<u>1,425,952</u>	<u>1,471,096</u>
Bonds Payable, Net	<u>\$ 56,926,187</u>	<u>\$ 65,236,129</u>

Annual principal installments (due January 1) on the bonds required under the loan agreement are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2023	\$ 8,300,000
2024	5,725,000
2025	675,000
2026	705,000
2027	740,000
Thereafter	<u>48,700,000</u>
Total	<u>\$ 64,845,000</u>



**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 BONDS PAYABLE (CONTINUED)**

The principal payment for the amount due January 1, 2023 will be made from the assets whose use is limited account.

McLean, under provisions of the bond agreements, has certain covenants. McLean is required to meet certain sales requirement and a days cash on hand liquidity calculation until occupancy is stable. The days cash on hand calculation includes assets in the Special Additions and Contingency Fund held by the McLean Fund. McLean is required to meet occupancy and historical debt service coverage requirements starting the first full fiscal year following stable occupancy. In the opinion of management, McLean is in compliance with these covenants at September 30, 2022.

Interest related to this obligation amounted to \$2,920,198 and \$2,915,851 for the years ended September 30, 2022 and 2021, respectively. Interest capitalized amounted to \$2,181,370 and \$2,915,851 for the years ended September 30, 2022 and 2021. Interest expense totaled \$738,828 and \$-0- for the years ended September 30, 2022 and 2021, respectively.

**NOTE 9 NET RESIDENT SERVICE REVENUES**

The following tables summarize net resident service revenues for the years ended September 30, 2022 and 2021:

	2022				
	Medicare	Medicaid	Private	Other	Total
				Third-Party Payors	
Long-Term Care	\$ 169,564	\$ 3,430,010	\$ 4,564,565	\$ 12,852	\$ 8,176,991
Post-Acute Care	1,944,720	-	324,478	772,550	3,041,748
Home Health Services	3,638,475	360,254	53,484	96,957	4,149,170
Independent Living	-	-	5,118,298	-	5,118,298
Assisted Living	-	107,874	4,780,096	-	4,887,970
Outpatient Services	589,131	-	14,125	-	603,256
Total	<u>\$ 6,341,890</u>	<u>\$ 3,898,138</u>	<u>\$ 14,855,046</u>	<u>\$ 882,359</u>	<u>\$ 25,977,433</u>

  

	2021				
	Medicare	Medicaid	Private	Other	Total
				Third-Party Payors	
Long-Term Care	\$ 250,713	\$ 3,058,801	\$ 4,117,226	\$ 57,107	\$ 7,483,847
Post-Acute Care	2,418,386	-	159,621	752,039	3,330,046
Home Health Services	3,661,106	147,185	58,496	156,798	4,023,585
Independent Living	-	-	4,482,782	-	4,482,782
Assisted Living	286,550	81,305	4,953,307	-	5,321,162
Outpatient Services	497,410	-	4,371	-	501,781
Total	<u>\$ 7,114,165</u>	<u>\$ 3,287,291</u>	<u>\$ 13,775,803</u>	<u>\$ 965,944</u>	<u>\$ 25,143,203</u>

**MCLEAN AFFILIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 9 NET RESIDENT SERVICE REVENUES (CONTINUED)**

McLean has agreements with third-party payors that provide for payments to McLean at amounts different from established rates. A summary of the payment arrangements with major third-party payors is as follows:

*Medicare*

Inpatient long-term care services rendered to Medicare program beneficiaries are paid based upon a per-diem prospective payment rate. Home care services rendered to Medicare program beneficiaries are paid based upon a 60-day episodic prospective payment rate.

*Medicaid*

Inpatient long-term care services rendered to Medicaid program beneficiaries are paid based upon a per-diem cost-based payment rate, which is subject to state audit adjustments. Home care services rendered to Medicaid program beneficiaries are paid based upon a per-visit or per-hour payment rate.

Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. Management believes that all applicable government reimbursement principles have been properly applied and that no material adjustments will occur as a result of an audit.

During 2022 and 2021, approximately 24% and 28%, respectively, of net patient revenue was received under the Medicare program. During 2022 and 2021, 13% of net patient service revenue was received under the Medicaid program. Significant concentrations of net patient receivables are 42% Medicare and 17% Medicaid as of September 30, 2022, and 53% Medicare and 17% Medicaid as of September 30, 2021.

**NOTE 10 ASSETS WHOSE USE IS LIMITED**

Under Connecticut state law, McLean is required to maintain certain reserve funds as follows:

*Operation and Maintenance Account*

McLean is required to maintain one month's budgeted operating expenses in this account.

*Entry Fee Proceeds Account*

McLean is required to deposit all entrance fees into the entry fee proceeds account as received. Upon the later of the expiration of the applicable statutory rights of the purchaser to rescind (30 days) or the date of occupancy, the balance in the account is available for operations.

**MCLEAN AFFILIATES, INC.**  
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**NOTE 10 ASSETS WHOSE USE IS LIMITED (CONTINUED)**

*Debt and Bond Reserve Funds*

McLean is required to maintain funds as collateral for the CHEFA bonds related to the Independent Living Expansion project. Funds consist of Money Market funds and Bond funds.

The reserve funds are all included within assets whose use is limited on the statements of financial position.

**NOTE 11 LIFE PLAN COMMUNITY ENTRY FEES AND OBLIGATIONS TO PROVIDE FUTURE BENEFITS**

Certain McLean residents are provided living accommodations and other facilities and services in exchange for payment of entrance fees and monthly service charges. Residents can choose from refundable and nonrefundable agreements.

Under the terms of nonrefundable agreements, entrance fees are not refundable to residents who reside independently at McLean for more than 50 months. A resident who leaves prior to 50 months under this agreement is refunded a portion of their entrance fee, which declines approximately 2% per month for each month the unit was occupied. These entrance fees are recorded as contract liabilities upon receipt and amortized on a straight-line basis into revenue over the remaining estimated life expectancy of the individual resident. Upon termination of the agreement, the amount of any unamortized, nonrefundable entrance fee is recorded as revenue.

Under the terms of refundable agreements, portions of the entrance fees are fully refundable at a designated percentage. The entire amount of this designated refundable percentage is recorded as refundable entry fees on the statements of financial position. The remaining nonrefundable portion of the entrance fees is accounted for and amortized in line with the nonrefundable agreements. Entrance fee refunds due under these agreements but not paid as of year-end are recorded as current liabilities.

Based upon McLean's existing fee structure and management's expectation that future monthly service charges will be reflective of related operating costs, McLean is not required to record a liability for its obligation to provide future services and facilities to current residents. Based upon management's projections, McLean does not believe such a liability on its Life Plan Community contracts exists at this time.

**MCLEAN AFFILIATES, INC.  
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**NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets are available for the following purposes as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Restricted in Perpetuity:		
Sorenson	\$ 3,419,920	\$ 3,390,970
Foundation Funds	321,917	321,917
Total Restricted in Perpetuity	<u>3,741,837</u>	<u>3,712,887</u>
Time Restricted:		
Charitable Remainder Trust, Net	761,552	892,972
Use Restricted:		
Capital Projects	172,767	163,042
Sorenson Media Center	1,123,409	1,979,679
Health Care Services and other	828,768	875,340
Total Other Net Assets with Donor Restrictions	<u>2,886,496</u>	<u>3,911,033</u>
Total Net Assets with Donor Restrictions	<u>\$ 6,628,333</u>	<u>\$ 7,623,920</u>

During the years ended September 30, 2022 and 2021, there were releases of \$96,492 and \$84,832, respectively, for the Sorenson Media Center and \$65,159 and \$94,669, respectively, for health care services and other.

**NOTE 13 EMPLOYEE BENEFIT PLAN**

McLean sponsors a 401(k) retirement savings plan (the Plan) for its employees. The Plan is a defined contribution plan covering all salaried and hourly employees of McLean who elect to participate and have been scheduled to work 1,000 hours a year and have reached 20 years of age. Participants may contribute up to the Internal Revenue Service salary deferral limits. McLean contributes to the Plan on behalf of its qualified employees based on their wages once the employee has completed one year of service as defined.

McLean contributed \$965,823 and \$994,583 to the Plan for the years ended September 30, 2022 and 2021, respectively.

**MCLEAN AFFILIATES, INC.  
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**NOTE 14 HEALTH CARE INDUSTRY**

**Regulatory Environment**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that McLean is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**NOTE 15 RELATED PARTY TRANSACTIONS**

The Fund is an entity that holds investment assets used to support the subsidiaries of the Fund. The Fund provides McLean with contributions for programs that McLean provides. These contributions amounted to \$334,000 for the years ended September 30, 2022 and 2021. These contributions have been recorded within contributions received from related entities in the statements of activities and changes in net assets. Additionally, McLean paid expenses on behalf of the Fund during the years ended September 30, 2022 and 2021 of \$46,439 and \$43,291, respectively. Amounts due to McLean from the Fund at September 30, 2022 and 2021 were \$126,696 and \$28,344, respectively.

**NOTE 16 CONTRACT LIABILITIES AND ASSETS**

McLean recognizes contract liabilities and assets in relation to its long-term care and assisted living businesses. In addition, McLean recognizes contract liabilities and assets under its home health Medicare prospective payment system. The opening and closing balances of McLean's contract liabilities and assets were as follows:

	Contract Liabilities	Contract Assets
Balance as of October 1, 2020	\$ 4,735,502	\$ 1,703,015
Balance as of September 30, 2021	5,725,630	1,464,792
Balance as of September 30, 2022	15,255,847	1,704,679

**MCLEAN AFFILIATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022 AND 2021**

**NOTE 17 LIQUIDITY AND AVAILABILITY OF RESOURCES**

As of September 30, 2022 and 2021, financial assets and liquidity resources available within one year for general expenditure were as follows:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 9,974,796	\$ 6,970,105
Accounts Receivable, Net of Allowance	1,704,679	1,464,792
Investments	<u>12,486,546</u>	<u>14,833,284</u>
Total Financial Assets Available Within One Year	24,166,021	23,268,181
Less: Amounts Unavailable for General Expenditures Within One Year, Due to:		
Restricted by Donors Due to Purpose	2,886,496	3,911,033
Restricted Investments	<u>4,113,276</u>	<u>5,049,293</u>
Total Financial Assets Unavailable Within One Year	<u>6,999,772</u>	<u>8,960,326</u>
Total Financial Assets Available to Management for General Expenditure Within One Year	<u>\$ 17,166,249</u>	<u>\$ 14,307,855</u>

**Liquidity Management**

McLean maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. As of September 30, 2022 and 2021, McLean has board-designated investments of \$8,373,270 and \$9,783,991, respectively. The board-designated investments are for the purposes of supporting program and operating needs while also providing growth and a reserve against financial hardship. With approval of the board, these funds could be drawn upon in the event of financial distress or an immediate liquidity need.

**NOTE 18 ADDITIONAL CASH FLOW INFORMATION**

**Noncash Investing Activities**

During the years ended September 30, 2022 and 2021, McLean had purchases of property and equipment of \$401,324 and \$2,614,490, respectively, accrued for within accounts payable at year-end.

**NOTE 19 CONTINGENCIES**

McLean is occasionally party to asserted and unasserted claims arising from the course of operations. Management is of the opinion that the outcome of any such claims will not have a material impact on McLean's financial position or results of operations or cash flows.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
McLean Affiliates, Inc.  
Simsbury, Connecticut

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of McLean Affiliates, Inc., which comprise the statement of financial position as of September 30, 2022 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2023.

***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered McLean Affiliates, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McLean Affiliates, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of McLean Affiliates, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors  
McLean Affiliates, Inc.

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether McLean Affiliates, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of McLean Affiliates, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McLean Affiliates, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

West Hartford, Connecticut  
January 11, 2023