HOLLENBECK PALMS
REPORT OF INDEPENDENT AUDITOR AND FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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YEARS ENDED JUNE 30, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hollenbeck Palms
Los Angeles, California

We have audited the accompanying financial statements of Hollenbeck Palms (the Palms) which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses 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.

Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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.

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

Board of Trustees
Hollenbeck Palms

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palms as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1 to the financial statements, management has elected to adopt Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California
October 14, 2019

HOLLENBECK PALMS.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash Equivalents (Notes 2 and 4)	$ 2,137,702	$ 4,339,252
Accrued interest receivable	97,509	79,885
Due from residents and third-party payers, less allowance for bad debts of $62,397 and $61,503 for 2019 and 2018, respectively	1,239,736	1,254,580
Pledges and other contributions receivable less discount (Note 5)	2,000	4,999
Prepaid expenses and other assets	376,849	369,815
Investments (Note 6)	35,820,836	32,524,346
Total current assets	39,674,632	38,572,877
Noncurrent assets		
Assets restricted or designated for investment in long-term purposes (Note 4)	5,531,514	6,306,091
Pledges and other contributions receivable less discount (Note 5)	1,965	104,105
Investments (Note 6)	5,649,386	7,459,009
Property and equipment, net (Note 7)	34,652,886	33,704,220
Total noncurrent assets	45,835,751	47,573,425
Total assets	$ 85,510,383	$ 86,146,302
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 4,395,600	$ 3,932,707
Accrued interest payable	452,055	467,064
Deferred revenue from entrance fees (Note 2)	1,583,432	1,573,923
Assigned assets, net (Note 2)	4,171,730	4,528,766
Bond payable,net - current portion (Note 10)	948,755	908,755
Total current liabilities	11,551,572	11,411,215
Noncurrent liabilities		
Deferred revenue from entrance fees (Note 2)	2,153,036	1,678,097
Bond payable, net (Note 10)	25,965,720	26,914,475
Total noncurrent liabilities	28,118,756	28,592,572
Total liabilities	39,670,328	40,003,787
NET ASSETS (Note 2 and 13)		
Without Donor Restrictions	42,544,403	40,689,604
With Donor Restrictions	3,295,652	5,452,911
Total net assets	45,840,055	46,142,515
Total liabilities and net assets	$ 85,510,383	$ 86,146,302

See accompanying Notes to Financial Statements.

HOLLENBECK PALMS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT:			
Resident service fees, including amortization of entrance fees (Note 2)	$ 12,863,287	$ -	$ 12,863,287
Investment income, including realized gains (Note 6)	3,232,015	149,569	3,381,584
Donor contributions	123,328	119,455	242,783
Resident contributions - assigned assets released (Note 2)	397,822	-	397,822
Other	114,600	-	114,600
Net assets released from restriction	2,431,116	(2,431,116)	-
Total revenues, gains, and other support	19,162,168	(2,162,092)	17,000,076
EXPENSES			
Residential	5,536,694	-	5,536,694
Assisted living	943,738	-	943,738
Skilled nursing	6,889,197	-	6,889,197
General and management	3,957,598	-	3,957,598
Fundraising	171,547	-	171,547
Total Expenses	17,498,774	-	17,498,774
CHANGE IN NET ASSETS FROM OPERATIONS	1,663,394	(2,162,092)	(498,698)
OTHER INCOME (LOSS):			
Unrealized gain (loss) on investments (Note 6)	443,860	4,833	448,693
Change in pension liability (Note 8)	(252,455)	-	(252,455)
Total Other Income (Loss)	191,405	4,833	196,238
CHANGE IN NET ASSETS	1,854,799	(2,157,259)	(302,460)
NET ASSETS:			
Beginning of year	40,689,604	5,452,911	46,142,515
End of year	$ 42,544,403	$ 3,295,652	$ 45,840,055

See accompanying Notes to Financial Statements.

HOLLENBECK PALMS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT:			
Resident service fees, including amortization of entrance fees (Note 2)	$ 13,077,059	$ -	$ 13,077,059
Investment income, including realized gains (Note 6)	4,100,097	178,384	4,278,481
Donor contributions	1,006,671	54,061	1,060,732
Resident contributions - assigned assets released (Note 2)	57,931	-	57,931
Other	201,996	-	201,996
Total revenues, gains, and other support	18,443,754	232,445	18,676,199
EXPENSES			
Residential	5,175,209	-	5,175,209
Assisted living	909,165	-	909,165
Skilled nursing	7,372,952	-	7,372,952
General and management	3,510,009	-	3,510,009
Fundraising	179,626	-	179,626
Total Expenses	17,146,961	-	17,146,961
CHANGE IN NET ASSETS FROM OPERATIONS	1,296,793	232,445	1,529,238
OTHER INCOME (LOSS):			
Unrealized gain (loss) on investments (Note 6)	(948,373)	65,046	(883,327)
Change in pension liability (Note 8)	211,913	-	211,913
Total Other Income (Loss)	(736,460)	65,046	(671,414)
CHANGE IN NET ASSETS	560,333	297,491	857,824
NET ASSETS:			
Beginning of year	40,129,271	5,155,420	45,284,691
End of year	$ 40,689,604	$ 5,452,911	$ 46,142,515

See accompanying Notes to Financial Statements.

HOLLENBECK PALMS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Residential	Assisted Living	Skilled Nursing	General and Management	Fundraising Expenses	Total
Salaries and wages	$ 1,353,414	$ 567,924	$ 3,364,387	$ 1,224,473	$ 120,806	$ 6,631,004
Pension	53,599	22,491	133,240	44,500	4,784	258,614
Employee benefits	376,136	157,835	935,017	312,283	33,574	1,814,845
Payrol taxes	111,644	46,849	277,531	92,691	9,965	538,680
Legal	-	-	-	105,422	-	105,422
Accounting	-	-	-	113,129	-	113,129
Professional and contract services	715,371	-	365,457	272,892	443	1,354,163
Repairs and maintenance	41,118	-	35,128	2,559	18	78,823
Activities	52,469	-	14,061	-	-	66,530
Miscellaneous	307,787	132,095	89,377	364,501	137	893,897
Advertising	-	-	-	225,553	-	225,553
Office expenses	-	-	-	57,814	-	57,814
Occupancy	615,256	-	94,530	15,914	580	726,280
Travel	16,847	-	6,676	27,384	16	50,923
Conferences	-	-	2,760	8,377	-	11,137
Bond interest	-	-	16,000	933,551	-	949,551
Members' interest	-	-	-	120,629	-	120,629
Other interest	-	-	-	2,359	-	2,359
Depreciation	1,089,677	-	167,422	28,185	1,028	1,286,312
Insurance	208,075	-	31,969	5,382	196	245,622
Medical expenses	-	16,544	1,125,885	-	-	1,142,429
Food expenses	595,301	-	229,757	-	-	825,058
Total	$ 5,536,694	$ 943,738	$ 6,889,197	$ 3,957,598	$ 171,547	$ 17,498,774

See accompanying Notes to Financial Statements.

HOLLENBECK PALMS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Residential	Assisted Living	Skilled Nursing	General and Management	Fundraising Expenses	Total
Salaries and wages	$ 1,219,833	$ 542,287	$ 3,409,549	$ 1,275,163	$ 119,956	$ 6,566,788
Pension	53,883	23,954	150,610	51,216	5,299	284,962
Employee benefits	349,181	155,231	975,995	331,894	34,338	1,846,639
Payrol taxes	100,552	44,701	281,052	95,574	9,888	531,767
Legal	-	-	-	146,704	-	146,704
Accounting	-	-	-	113,129	-	113,129
Professional and contract services	871,513	-	429,426	9,635	6,623	1,317,197
Repairs and maintenance	43,229	-	32,686	2,639	23	78,577
Activities	49,400	-	9,500	-	-	58,900
Miscellaneous	277,412	128,116	174,605	295,997	109	876,239
Advertising	-	-	-	222,675	-	222,675
Office expenses	-	-	-	57,173	1,352	58,525
Occupancy	512,063	-	148,300	13,245	483	674,091
Travel	13,122	-	5,451	21,132	12	39,717
Conferences	-	-	3,575	13,432	505	17,512
Bond interest	-	-	220,541	710,390	-	930,931
Members' interest	-	-	-	118,981	-	118,981
Other interest	-	-	-	2,559	-	2,559
Depreciation	916,378	-	265,394	23,702	864	1,206,338
Insurance	184,367	-	53,395	4,769	174	242,705
Medical expenses	-	14,876	976,510	-	-	991,386
Food expenses	584,276	-	236,363	-	-	820,639
Total	$ 5,175,209	$ 909,165	$ 7,372,952	$ 3,510,009	$ 179,626	$ 17,146,961

See accompanying Notes to Financial Statements.

HOLLENBECK PALMS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents	$ 11,726,272	$ 11,553,878
Entrance fees received from residents	2,134,900	1,192,700
Contributions from donors	128,467	1,323,684
Investment income received	3,363,960	4,254,918
Other cash revenues	114,600	201,996
Cash paid to suppliers and employees	(14,838,878)	(13,488,062)
Interest paid	(933,315)	(911,202)
Interest paid to members	(120,629)	(118,981)
Net cash provided by operating activities	1,575,377	4,008,931
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments sold or matured	6,549,603	7,188,190
Investments purchased	(7,432,383)	(7,947,205)
Capital expenditures	(2,234,978)	(4,527,469)
Net cash used by investing activities	(3,117,758)	(5,286,484)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for capital	119,455	54,061
Entrance fee refunds	(76,529)	(259,688)
Payment of long term debt	(940,000)	(910,000)
Net cash used by financing activities	(897,074)	(1,115,627)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,439,455)	(2,393,180)
CASH AND CASH EQUIVALENTS - Beginning of year	7,063,042	9,456,222
CASH AND CASH EQUIVALENTS- End of year	$ 4,623,587	$ 7,063,042
Cash and cash equivalents	2,137,702	4,339,252
Cash designated for long term purposes	2,485,885	2,723,790
	$ 4,623,587	$ 7,063,042

See accompanying Notes to Financial Statements.

HOLLENBECK PALMS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	$ (302,460)	$ 857,824
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,286,312	1,206,338
Interest expense - debt issuance costs	31,245	34,245
Earned entrance fees	(1,573,923)	(1,442,705)
Bad debt provision/write-off	100,894	1,907
Unrealized (gain) loss on investments	(448,693)	883,327
Increase (decrease) in pension liability	252,455	(211,913)
Contributions for financing purposes	(119,455)	(54,061)
Changes in operating assets and liabilities:		
Accrued interest receivable	(17,624)	(23,563)
Pledges receivable	5,139	317,013
Amounts due from residents and third-party payers	68,150	(123,889)
Prepaid expenses and other current assets	(7,034)	11,528
Accounts payable and accrued expenses	156,238	1,391,120
Accrued interest payable	(15,009)	(14,515)
Deferred revenue from entrance fees	2,134,900	910,943
Assigned assets liability	24,242	265,332
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,575,377	$ 4,008,931
SUPPLEMENTAL CASH FLOW INFORMATION:		
Noncash assigned assets	$ (115,946)	$ (179,965)

See accompanying Notes to Financial Statements.

NOTE 1 MISSION STATEMENT AND ORGANIZATION

Mission Statement

The Palms is committed to providing a residence for those in their later years of their lives that encompasses a healthy environment of comfort, safety, and enjoyment; that attends to their physical, mental, and spiritual needs; and that is quick to respond to and assist in those needs whether immediate or long term, and to do so with great compassion, honesty, dignity, and genuine love.

Operations

The Palms, incorporated as a California nonprofit public benefit corporation, owns and operates a retirement community and skilled nursing facility in Los Angeles, California. Residents receive residence, services, and care under three plans, as more fully described below. The facilities include approximately 145 residential units and 106 skilled nursing beds. As of June 30, 2019 and 2018, the total number of residents was 190 and 194, respectively.

The Palms fulfills the need for housing by providing residential facilities that are specifically designed to meet the physical, recreational, social, and similar needs of its residents. The residents' need for health care is provided for in the Palms' skilled nursing care units and through the Palms ongoing relationship with a network of physicians, health care professionals and local hospitals.

The residents' need for financial security is satisfied by the Palms' operational policy of providing its residents lifetime care at the lowest possible cost. The residents' need for financial security is further fulfilled by the Palms' policy of maintaining lifetime care for residents who become unable to pay the regular monthly fee.

Earnings of the Palms' are used to improve the care provided and subsidize any residents unable to continue making monthly service fee payments. No part of the Palms' net earnings inures, directly or indirectly, to the benefit of any private shareholder or individual.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, as explained in Note 4.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Additional information on net assets with donor restrictions is provided in Note 12 and Note 13.

Cash and Cash Equivalents

The Palms considers all highly liquid debt investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents. Accounts with greater than three month's maturity are included with investments. The Palms holds deposits in excess of Federal Deposit Insurance Corporation ("FDIC") limits. At June 30, 2019 and 2018, respectively, uninsured, uncollateralized deposits were $2,980,901 and $3,679,998.

The Palms also holds deposits with a brokerage firm in excess of Securities Investor Protection Corporation ("SIPC") limits. At June 30, 2019 and 2018 respectively, unsecured brokerage deposits were $970,258 and $2,645,404. These deposits are held by creditworthy, high-quality financial institutions.

Investments

The Palms' investment policy is to adhere to high standards of quality in the selection of all types of investments, with reasonable diversification to be maintained at all times. Specifically, the Palms' policy prohibits investments in derivative financial instruments. Marketable securities are primarily managed by an independent investment manager and held by an independent brokerage firm.

Investments principally consist of stocks, mutual funds, corporate and municipal bonds, U.S. Treasury Securities, U.S. Agency bonds on occasion, annuity and life insurance policies, mortgage-backed securities, cash and money market, and bank deposits. Investments are reported at fair value as described in Note 5. Interest, dividends, and realized gains and losses are included in investment income. The cost of securities sold is based on the specific-identification method.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying statements of financial position.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Purchased assets with a cost greater than $500 and an estimated useful life in excess of three years are capitalized as fixed assets. Donations of property and equipment with a value of $1,000 or more are capitalized at their estimated fair value. Routine maintenance and repairs are charged to expense as incurred. Depreciation is computed on the straight-line method, based on the following estimated useful lives:

Buildings and improvements	10-40 years
Equipment	3-7 years
Vehicles	5 years

Member Care Plans and Assigned Assets

The Palms charges for resident care under three plans. Under Plan A, new residents assign their assets to the Palms upon admission. Noncash assets such as investments and real estate, assigned by new residents, are recorded at their fair market value at the date received. A predetermined amount of the assigned assets is designated as entrance fees. The entrance fee is amortized to income using the straight-line method of 2% per month or amortized over the member's life expectancy, whichever is shorter, commencing with the fourth month of residence.

As care is provided to the residents, the remaining assets are amortized to income at prevailing rates for the residential section or for the nursing unit, as applicable. Upon the expiration of a Plan A resident, an amount equal to assets assigned, less accumulated care costs, is transferred from deferred income to other gain as a resident contribution. Such resident contributions were $397,822 for 2019 and $57,931 for 2018. Assigned assets were $4,171,730 and $4,528,766 as of June 30, 2019 and 2018, respectively.

Under Plan B, a resident pays an entrance fee, which is amortized to income using the straight-line method of 2% per month or amortized over the member's life expectancy, whichever is shorter, and a monthly fee based on the prevailing rate for care costs. The Palms also offers a Plan C, under which a resident pays an initial processing fee and a significantly larger monthly fee as opposed to paying an entrance fee.

Rates under all plans are adjusted by the Board of Trustees as the cost of providing care fluctuates. Under both Plans A and B, when members fully deplete their assigned assets, the Palms will absorb their cost of care by reducing rates to the amount of state and federal public aid available. For 2019 and 2018, charity care, which is based on estimated cost per day in excess of service fees received, amounted to $682,036 and $715,454, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Entrance Fees

Fees paid by a resident upon entering into a continuing care retirement community contract, net of estimated future refunds, are recorded as deferred revenue, and are amortized to income using the methods described above. Under resident contracts, the full amount of entrance fees is refundable if a resident leaves the Palms within the first 90 days after entering; otherwise, the remaining unamortized entrance fees and unexpended assigned assets are refunded if a resident leaves. Unamortized entrance fees totaled $3,736,468 and $3,252,020 as of June 30, 2019 and 2018, respectively.

Management believes the estimated amount of entrance fees that are expected to be refunded to current residents under the terms of these contracts based on previous attrition experience is not material and, as such, no provision for the liability has been reported. Entrance fee refunds were $76,529 and $259,688 for the years ended June 30, 2019 and 2018, respectively.

Entrance fee receivables are recorded when residents entering into a continuing care retirement community do not have sufficient liquid assets to cover the entrance fee. There were no entrance fees receivable as of June 30, 2019 and 2018.

Resident Services Fees/Third-Party Reimbursement Agreements

Resident services fees are recorded net of a provision for contractual allowances. The contractual allowance represents the difference between established rates and per-diem reimbursement. In addition, resident services fees are presented net of bad debt expense on the Statement of Activities. Receivables associated with resident service fees are written off based on management’s evaluation of uncollectible balances.

The Palms’ skilled nursing facility (SNF) participates in the Medicare program. This federal program is administered by the Centers for Medicare and Medicaid Services (CMS). The participants are paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare Part A eligible and meet the coverage guidelines for SNFs. The PPS is a per diem price-based system. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however, they do not contain a cost settlement.

The Palms’ skilled nursing facility also participates in the Medi-Cal (Medicaid) program, which is a financial assistance program administered by the California Department of Health Care Services. Medi-Cal pays for services in accordance with a prospective payment system based upon a nursing facilities’ annually reported cost data, including fixed or capital-related costs and labor costs. A specific per diem rate applies to each of six different levels of service and may change annually based upon audited facility costs.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Interest

Residents have the option of opening a member's savings account with the Palms. Residents are able to make deposits and withdrawals from their savings accounts as needed. At the resident's request, payments for various bills and charges at the Palms may be paid by the Palms from the member's savings accounts. The Palms invests the funds deposited and pays members an established interest rate of 3% of the net amount (assigned assets and savings balance less accumulated charges). The calculated interest is recorded as members' interest expense and is included in assigned assets, net, in the statement of financial position and in members' interest in the statement of activities.

Donor-Restricted Contributions

The Palms 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, net assets are reclassified as net assets without donor restrictions and reported in the statements of activities as released from restrictions. However, donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions.

Obligation to Provide Future Services

The Palms calculates the present value of the net cost of future services and use of facilities to be provided to current residents ("estimated obligation") and compares that amount with the balance of deferred revenue from entrance fees. If the estimated obligation exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. As of June 30, 2019 and 2018, the estimated obligation is less than the balance of deferred revenue from entrance fees. The obligation is calculated assuming a 4% inflation rate and a 4% discount rate for June 30, 2019 and 2018.

Deferred Financing Costs

Costs incurred in connection with the issuance of debt described in Note 9 have been deferred and are being amortized using the straight-line method (which approximates the effective interest method) over the life of the debt. As discussed above, unamortized deferred financing costs totaled $505,525 and $536,770 at June 30, 2019 and 2018, respectively. Amortization expense totaled $31,245 and $34,245 for the years ended June 30, 2019 and 2018, respectively. Deferred financing costs are included with long-term debt on the statement of financial position and amortization expense is included with bond interest and other financing expenses on the statement of activities.

Professional Liability Insurance Coverage

The Palms purchases professional liability insurance under an occurrence-basis policy with a nominal deductible.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Self-Insurance

The Palms is self-insured for claims under the California Unemployment Insurance Code. Such claims are paid when approved by the Palms. The amounts of such claims were $14,206 and $10,818 in 2019 and 2018, respectively.

Tax Status

The Palms is a not-for-profit corporation and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code and is exempt from California franchise taxes Section 23701d of the California Revenue and Taxation Code. The Palms is described in Section 501(c)(3) of the Internal Revenue Code and is listed in Internal Revenue Service Publication 78 as a charitable organization qualified to receive donations. The Palms maintains its tax-exempt status through devoting its resources to meet the primary needs of aged persons. These needs are for housing, health care, and financial security.

Tax Status

The Palms has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Palm's continued qualification as a tax-exempt organization and whether there are unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

The Palms files informational returns in the U.S. federal jurisdiction and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Allocation of Expenses

The costs of providing various programs and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Operating Margin

Operating margin is used to measure the amount of program service expenses covered by total support and revenue for net assets without donor restrictions. Operating margin excludes support services and investment income as well as certain items such as net asset transfers, receipt of restricted contributions, and contributions on long-lived assets. For the years ended June 30, 2019 and 2018, total support and revenue exceeded program service expenses by $129,000 and $886,000, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Expenses in the statement of activities for the year ended June 30, 2018 have been reclassified to conform to the current year presentation under the change in accounting principle noted below.

Change in Accounting Principle

On August, 2016, FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Palms have implemented ASU No. 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent Events

The Palms has evaluated subsequent events through October 14, 2019 which is the date these financial statements were available to be issued.

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following as of June 30, 2019:

NOTE 3 LIQUIDITY AND AVAILABILITY (CONTINUED)

Cash and cash equivalents	$	2,137,702
Accounts receivable		1,239,736
Short-term pledges		2,000
Liquid investments		35,820,836
Total financial assets		39,200,274
Less assets unavailable for general expenditure within one year due to:		
Restricted by donor with time or purpose restrictions		(2,798,335)
Restricted by contractual arrangements		(4,199,610)
Total	$	32,202,329

As part of the Palm's liquidity management plan, cash in excess of daily requirements is invested in liquid investments, including stocks and bonds with maturity dates less than one year.

NOTE 4 ASSETS RESTRICTED OR DESIGNATED FOR INVESTMENT IN LONG-TERM PURPOSES AND OTHER BOARD DESIGNATIONS

As of June 30, 2019, $1,270,640 of financial assets were donor restricted for capital projects and endowments and $4,261,076 of financial assets were board designated capital projects. In addition, the board has designated $872,100 for scheduled debt service payments.

As of June 30, 2018, $3,582,301 of financial assets were donor restricted for capital projects and endowments and $2,723,790 of financial assets were board designated for capital projects. In addition, the board has designated $985,548 for scheduled debt service payments.

NOTE 5 PLEDGES RECEIVABLE

Pledges receivable expected to be received in one year or less are recorded at net realizable value, which approximates fair value. Pledges receivable have been discounted to present value using a discount rate of 2.73% and 1.89% for 2019 and 2018, respectively. An allowance for uncollectable amounts has not been recorded based on management's assessment of the donors' creditworthiness. At June 30, the Palms had unconditional promises to give expected to be received in the following periods:

NOTE 5 PLEDGES RECEIVABLE (CONTINUED)

	2019	2018
In one year or less	$ 2,000	$ 5,000
Between one and five years	2,000	5,000
More than five years	-	100,000
Gross unconditional pledges receivable	4,000	110,000
Less: discount on pledges receivable	(35)	(896)
Net pledges receivable	$ 3,965	$ 109,104

NOTE 6 INVESTMENTS

Investments in equity and debt securities are reported at fair value in the statement of financial position. Gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investments in equity and debt securities traded on national securities exchanges are valued at the closing price on the last business day of the fiscal year; equity and debt securities traded on the over-the-counter market are valued at the last reported bid price.

For fair value measurements a disclosure presentation, levels 1 through 3 have been assigned to the fair value measurement of investments. The fair value measurement is determined as follows:

Level 1 – quoted prices in an active market for identical assets.
Level 2 – quoted prices for similar assets and market-corroborated inputs.
Level 3 – the organizations' own assumptions about market participation, including assumptions about risk, developed based on the best information available in the circumstances.

The composition of investments at June 30, 2019 and 2018 is as follows:

NOTE 6 INVESTMENTS (CONTINUED)

	2019	2018
Cash and money market (n/a)	$ 232,932	$ 251,629
Certificates of deposit (Level 1)	249,746	267,507
Mutual funds (Level 1)	6,633,759	8,782,742
U.S. Treasury Securities (Level 1)	3,843,331	2,039,977
Stocks (Level 1)	25,876,394	23,707,038
	36,836,162	35,048,893
Corporate bonds (Level 2)	3,690,008	3,902,962
Mortgage-backed securities (Level 2)	1,504,967	1,738,898
Municipal bonds (Level 2)	1,628,369	1,886,405
Annuity and life insurance policies (n/a)	854,514	986,667
	7,677,858	8,514,932
Oil interest (Level 3)	1,831	1,831
Total investments	44,515,851	43,565,656
Less amounts restricted or designated for long term purposes	3,045,629	3,582,301
	$ 41,470,222	$ 39,983,355

There was no change in assets measured at fair value using significant unobservable inputs at Level 3.

Investment return for the years ended June 30, 2019 and 2018 are composed of the following:

	2019	2018
Dividend and interest income	$ 1,290,385	$ 1,075,313
Realized gains on sales of investment, net	2,181,514	3,293,843
Less: fees	(90,315)	(90,675)
Net investment income included in operations	3,381,584	4,278,481
Unrealized gains (losses)	448,693	(883,327)
Net Investment income	$ 3,830,277	$ 3,395,154

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018 consist of the following:

	2019	2018
Land	$ 11,086	$ 11,086
Buildings and improvements	50,176,726	39,802,852
Furniture and equipment	5,182,115	5,565,127
Vehicles	266,338	262,466
Cemetery lots	21,326	21,326
	55,657,591	45,662,857
Less accumulated depreciation	(22,037,067)	(22,777,403)
	33,620,524	22,885,454
Construction in progress	1,032,362	10,818,766
	$ 34,652,886	$ 33,704,220

Depreciation expense for the years ended June 30, 2019 and 2018 was $1,286,312 and $1,206,338, respectively.

NOTE 8 RETIREMENT PLANS

Cash Balance Pension Plan

Effective January 1, 2009 the Retirement Plan for the Employees of Hollenbeck Palms (the Plan) was amended. The amendment changed the noncontributory traditional Defined Benefit Plan to a noncontributory Cash Balance Pension Plan (CBPP). The Plan is subject to

the provisions of the Employees Retirement Income Security Act of 1974 (ERISA). Participants over 50 years of age with at least 15 years of service as of January 1, 2009 were grandfathered. This sub-group of grandfathered participants will receive a Special Annual Accrual contribution which is determined using the traditional Defined Benefit Plan formula. Active participants who are not a part of the sub-group will receive contribution credits equal to 5% of their annual salary along with interest at the 30 year Treasury Bond Rate, imputed on their beginning balance. In addition, all Plan participants are credited with their present value of accrued benefit under the traditional Defined Benefit Plan.

For benefits accrued prior to January 1, 2009, a participant's interest becomes fully vested after completion of five years of service. For benefits accrued on or after January 1, 2009, a participant's interest becomes fully vested after completion of three years of service.

NOTE 8 RETIREMENT PLANS (CONTINUED)

As of January 1, 2009 the Plan has been frozen and there will be no new entrants.

The Palms has established a separate qualified trust, under IRC Section 401 for the Plan. The assets of the Plan may only be distributed to plan participants, and therefore, they are not included in these financial statements. Plan assets are invested in cash and debt and equity securities whose values are subject to fluctuations of the securities markets. Changes in these values attributable to the differences between actual and assumed returns on plan assets are defined as unrecognized gains or losses and are included in the determination of the net pension expense over time. The Palms uses a June 30 measurement date for its plan.

A summary of the plan, amounts reflected in the statements of financial position, and the components of net periodic pension cost as of the date of the latest valuation is as follow:

	2019	2018
Change in benefit obligation:		
Benefit obligation-beginning of year	$ 5,309,111	$ 5,093,420
Service Cost	240,739	240,977
Interest Cost	232,519	222,274
Benefits Paid	(328,116)	(160,632)
Actuarial gain (loss)	205,215	(86,928)
Benefit obligation- end of year	$ 5,659,468	$ 5,309,111
Change in plan assets:		
Fair value of assets- beginning of year	$ 4,996,592	$ 4,714,450
Actual return on plan assets	259,906	392,774
Employer contribution	-	50,000
Benefits paid	(328,116)	(160,632)
Fair value of assets- end of year	$ 4,928,382	$ 4,996,592
Funded status	$ (731,086)	$ (312,519)
Amounts Recognized in the statement of financial position are included in:		
Accounts payable and accrued expenses	$ (731,086)	$ (312,519)
Amounts recognized in accumulated unrestricted net assets consist of:		
Actuarial loss	$ 1,157,050	$ 904,596
Source of change in the statement of net activities consist of:		
Actuarial (gain) loss arising during period	$ 252,455	$ (211,913)
Components of net periodic benefit cost:		
Service Cost	$ 240,738	$ 240,977
Interest Cost	232,519	222,274
Expected return on plan assets	(343,320)	(324,481)
Amortization of loss	36,175	56,692
Benefit obligation- end of year	$ 166,112	$ 195,462

NOTE 8 RETIREMENT PLANS (CONTINUED)

Accumulated Benefit Obligation

The accumulated benefit obligation for the Palms was $5,659,468 and $5,309,111 on June 30, 2019 and 2018, respectively. Accounting principles generally accepted in the United States of America require the recognition of an additional liability in the amount of the unfunded accumulated benefit obligation, with an equal amount to be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost and unrecognized transition obligation. Any additional amounts are charged to unrestricted net assets.

Weighted-average assumptions used to determine benefit obligations at June 30, 2019 and 2018, are as follows:

	2019	2018
Discount rate (on benefit obligations)	4.25%	4.50%
Expected long-term rate of return on plan assets	7.50%	7.00%
Rate of compensation increase	2.50%	2.50%

Weighted-average assumptions used to determine net periodic pension cost at June 30, 2019 and 2018, are as follows:

	2019	2018
Discount rate (on net periodic costs)	4.50%	4.50%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	2.50%	2.50%

The Palms employs a vigorous process to determine the estimates of expected long-term rate of return on assets. The estimates are primarily driven by actual historical asset-class returns and advice from external actuarial firms while incorporating specific assets-class risk factors, such as the variation of the annual rate of return as compared to the average expected rate of return.

The Plan invests primarily in asset categories with sufficient size, liquidity, and cost efficiency to permit investments of reasonable size. The Plan invests in asset categories that provide diversification benefits and are easily measured. Maximum and minimum holding ranges for each of these asset categories are set by the Board of Trustees. The current target allocations for cash management, equity, and fixed income are 5%, 60%, and 35%, respectively. Actual asset allocation within these approved ranges is based on a variety of economic and market conditions and consideration of specific asset category risk. To assess the Plan's investment performance, a long-term asset allocation policy benchmark has been established.

NOTE 8 RETIREMENT PLANS (CONTINUED)

The fair value of the Plan's assets as of June 30, 2019 and 2018 by assets are as follows:

	2019	2018
Cash	$ 101,969	$ 7,461
Mutual funds (Level 1)	4,280,430	4,459,095
Pooled separate account (Level 2)	34,852	23,167
Immediate participation guarantee contract (Level 3)	511,131	506,869
Total Plan Assets	$ 4,928,382	$ 4,996,592

Contributions
The Palms expects to contribute to the Plan the ERISA recommended amount of approximately $0 in the next year.

Estimated Future Benefit Payments
The estimated future benefit payments are as follows:

Years beginning July 1,	
2020	$ 393,960
2021	277,429
2022	191,894
2023	276,193
2024	470,944
2025-2029	1,601,093

Amount Expected to be Recognized in Net Periodic Benefit Costs
The estimated net actuarial loss that will be amortized from changes in unrestricted net assets into net periodic benefit cost in the year ended June 30, 2019 is $61,381.

Deferred Compensation Plan
On September 1, 2005, a nonqualified deferred compensation plan covering management or highly compensated employees as defined by ERISA was adopted by the Board of Trustees. This plan is not intended to be a qualified plan under Section 401(a) of the IRC, but is referred to as an 'eligible plan' pursuant to Section 457(b) of the IRC. The expense associated with this 457(b) plan was $51,801 and $47,731 in 2019 and 2018, respectively. The contributions to this plan are set aside in a grantor trust, but remains subject to the claims of creditors until distributed to the participants or beneficiaries. The 457(b) assets are included in investments in the statement of financial position.

NOTE 8 RETIREMENT PLANS (CONTINUED)

401(k) Plan

The Palms has a 401(k) defined contribution plan, which covers employees with 90 days of service. The Palms contributes 10% of each employee's contributions, which are vested after 1,000 hours of employment. Employer contributions for the years ended June 30, 2019 and 2018, were $28,124 and $25,903, respectively.

NOTE 9 CONTINGENCIES

Workers' Compensation Self-Insurance

Effective December 12, 2002, the Palms entered into a contractual agreement to join Guardian Comp, Inc., which, through its risk-sharing provisions, provides insurance coverage for workers' compensation liability exposure. Guardian Comp, Inc. is a multi-organization insurance company for long-term care organizations incorporated under the laws of the state of California.

Guardian Comp, Inc. provides occurrence-based insurance coverage using a combination of self-insured retentions and excess commercial insurance coverage. Guardian Comp, Inc. has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan coverage. As a self-insurance administrator, Guardian Comp, Inc. enables risk sharing among participating long-term care organizations. The participants are required to pay assessed premiums. Insurance expense under the Guardian Comp, Inc. amounted to $637,020 and $677,926 in 2019 and 2018, respectively.

Litigation

The Palms is, from time to time, subject to litigation and claims arising in the normal course of business. In the opinion of management, the ultimate resolution of legal proceedings will not have a material adverse effect on the Palms' financial statements.

NOTE 10 LONG TERM DEBT

2014 Revenue Bonds

On July 17, 2014, the Palms issued $10,000,000 of Revenue Bonds sold through a private financing arrangement to finance the renovation of the skilled nursing facility. The bonds are payable beginning February 1, 2015, with annual payments scheduled through February 1, 2044.

The bonds have a 4.58% fixed rate of interest. Certain revenues are pledged to punctual payment of bond principal and interest. The bonds are further secured by a deed of trust.

NOTE 10 LONG TERM DEBT (CONTINUED)

2014 Revenue Bonds (Continued)

The following table sets forth the amounts required to be made available at the principal payment date, for the payment of interest with respect to the Bonds and for the principal due, interest and total payments with respect to the Bonds:

Debt Service Due Fiscal Year Ended	Principal Payments Due Within Fiscal Year	Interest Components Due Within Fiscal Year	Total Payments
2020	$ 205,000	$ 431,894	$ 636,894
2021	220,000	422,505	642,505
2022	230,000	412,429	642,429
2023	240,000	401,895	641,895
2024	250,000	390,903	640,903
Thereafter	8,285,000	4,541,070	12,826,070
Total bond payable	9,430,000	$ 6,600,696	$ 16,030,696
Unamortized cost of issuance	(240,000)		
Net	$ 9,190,000		

2016 Revenue Bonds

In December 1, 2016, the Palms issued $20,435,000 in 2016 Tax-Exempt Revenue Bonds to refinance the 2007 Revenue Bonds. The Bonds require annual principal payments and semi-annual interest payments beginning February 1, 2017, with annual payments scheduled through February 1, 2037.

The bonds have a 3.63% fixed rate of interest. Revenues are pledged to punctual payment of bond principal and interest. The bonds are secured by gross revenues and real property in parity with the 2014 Revenue Bonds.

The following table sets forth the amounts required to be made available at the principal payment date, for the payment of interest with respect to the Bonds and for the principal due, interest and total payments with respect to the Bonds:

Debt Service Due Fiscal Year Ended	Principal Payments Due Within Fiscal Year	Interest Components Due Within Fiscal Year	Total Payments
2020	$ 775,000	$ 653,037	$ 1,428,037
2021	800,000	624,905	1,424,905
2022	830,000	595,865	1,425,865
2023	860,000	565,736	1,425,736
2024	895,000	534,518	1,429,518
Thereafter	13,830,000	3,523,641	17,353,641
Total bond payable	17,990,000	$ 6,497,702	$ 24,487,702
Unamortized cost of issuance	(265,525)		
Net	$ 17,724,475		

NOTE 10 LONG TERM DEBT (CONTINUED)

Restrictive Covenants

The provisions of the bonds payable described above contain various restrictive covenants that limit the occurrence of additional debt and require certain measures of financial performance be satisfied as long as the bonds are outstanding. Management believes the Palms is in compliance with such covenants at June 30, 2019 and 2018.

NOTE 11 REDEVELOPMENT PLAN OBLIGATION (AB1169 DISCLOSURE)

Bond debt is designated for master plan projects to meet the needs of the organization by providing additional housing and facilities for residents, which is consistent with the Palms' tax exempt status.

The bonded debt issuance of $20,435,000 refinanced original bonded debt of $28,000,000. The original debt was primarily designated for the Magnolia Court project, which was completed in 2009. Related to the Magnolia Court project, proceeds were fully expended and included $24,898,534 for construction costs and $3,101,466 in issuance and debt service costs.

The bonded debt issuance of $10,000,000 is primarily designated for the skilled nursing facility renovation project. As of June 30, 2019, related to the skilled nursing facility renovation project, proceeds were fully expended for project costs.

In addition, as of June 30, 2019, the Palms had donor restricted and Board designated net assets, available for project costs of $4,758,191. As of June 30, 2019, the Palms was committed under construction agreements for the memory care phase of the skilled nursing facility renovation project totaling approximately $5,800,000.

NOTE 12 ENDOWMENT RESTRICTED ASSETS

The Palms' endowment consists of funds established to provide life care membership for seniors whose limited resources prevent their entry into the Palms without such assistance.

Interpretation of Relevant Law

The Board of Trustees of the Palms follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in determining the fair value of the donor-restricted endowment fund absent explicit donor stipulations. As a result, the Palms classifies as permanent endowment (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is subject to appropriation for expenditure by the Palms in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTE 12 ENDOWMENT RESTRICTED ASSETS (CONTINUED)

Interpretation of Relevant Law (Continued)

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

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

Endowment Composition and Changes in Endowment Net Assets

Endowment net asset composition by type of fund as of June 30, 2019 and 2018 consisted of donor-restricted endowment funds; restricted in perpetuity of $773,323 and restricted subject to purpose restrictions of $2,759,362 and $2,604,960, respectively. Changes in endowment net assets are reported in the statement of activities as net assets with donor restrictions.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Palms to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when applicable. There were no such deficiencies as of June 30, 2019 and 2018.

Return Objectives, Risk Parameters and Strategies Employed for Achieving Objectives

The Palms has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the program supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Palms must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to preserve and protect the assets by earning an appropriate return on the investments.

NOTE 12 ENDOWMENT RESTRICTED ASSETS (CONTINUED)

Spending Policy

The Palms has established a formal spending policy. Appropriations will be made only from accumulated investment earnings maintained as temporarily restricted net assets based on residents' financial needs. Endowment principal (permanently restricted net assets) will not be invaded for any purpose. As such, the Board of Trustees considers all relevant factors annually in determining the amount appropriated for expenditures. This is consistent with the Palms' objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through investment return.

The following is the changes in endowment net assets for the years ended June 30:

	With Donor Restrictions
Endowment net assets, June 30, 2017	$ 2,361,530
Investment income	178,384
Net appreciation (realized and unrealized)	65,046
Endowment net assets, June 30, 2018	2,604,960
Investment income	149,569
Net appreciation (realized and unrealized)	4,833
Endowment net assets, June 30, 2019	$ 2,759,362

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Endowment:		
Held in perpetuity	$ 773,323	$ 773,323
Subject to purpose restrictions	1,986,039	1,831,637
Subject to expenditure for specific purpose:		
SNF building contributions	497,317	2,808,978
Debt service	37,973	37,973
Activity fund	1,000	1,000
	$ 3,295,652	$ 5,452,911

NOTE 14 PATIENT SERVICE REVENUE

A substantial portion of the Palms' revenue for health care services is provided on behalf of patients under Medi-Cal and Medicare programs. The major sources of revenue are as follows:

	2019	2018
Patient service revenue:		
Medi-Cal program	$ 2,766,762	$ 3,249,281
Medicare program	2,348,426	1,848,621
Managed care	329,414	248,528
Private pay	2,780,707	3,101,541
Total patient service revenue	8,225,309	8,447,971
Less: bad debt expense:		
Medi-Cal program	(65,232)	(43,031)
Medicare program	(88,141)	(50,861)
Managed care	(11,713)	(1,789)
Private pay	(144,060)	(76,239)
Total bad debt expense	(309,146)	(171,920)
Less: contractual provisions	(2,313,128)	(2,331,574)
Net patient service revenue	$ 5,603,035	$ 5,944,477

For the year ended June 30, 2019, the Palms derived, net of contractual adjustments, 26% of its patient service revenue from Medi-Cal, 24% from Medicare, 3% from Managed Care and 47% from private pay. For the year ended June 30, 2018 the Palms derived, net of contractual adjustments, 29% of its patient service revenue from Medi-Cal, 20% from Medicare, 1% from Managed Care and 50% from private pay. The aggregate amount due from Medi-Cal, Medicare and Managed Care at June 30, 2019 and 2018, is $679,084 and $778,985, respectively.

Funds received from the Medi-Cal and Medicare programs are subject to governmental audit, which could result in retroactive adjustments. At this time, management is not aware of any ongoing or pending audits.