

**HOLLENBECK PALMS
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**



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**HOLLENBECK PALMS
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YEARS ENDED JUNE 30, 2021 AND 2020**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hollenbeck Palms
Los Angeles, California

We have audited the accompanying financial statements of Hollenbeck Palms (Hollenbeck), which comprise the statements of financial position as of June 30, 2021 and 2020, 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 Hollenbeck as of June 30, 2021 and 2020, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, management has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to that matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California
October 13, 2021

**HOLLENBECK PALMS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020**

| | 2021 | 2020 |
|---|---------------|---------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents (Notes 2 and 3) | \$ 933,031 | \$ 2,960,774 |
| Accrued Interest Receivable | 63,073 | 52,650 |
| Due from Residents and Third-Party Payers, Less Allowance | 1,491,076 | 1,321,662 |
| Pledges and Other Contributions Receivable (Note 5) | 102,000 | 2,000 |
| Prepaid Expenses and Other Assets | 384,960 | 401,202 |
| Investments (Note 6) | 38,844,301 | 32,863,508 |
| Total Current Assets | 41,818,441 | 37,601,796 |
| NONCURRENT ASSETS | | |
| Assets Restricted or Designated for Investment in | | |
| Long-Term Purposes (Note 4) | 11,279,502 | 10,276,266 |
| Pledges and Other Contributions Receivable Less Discount (Note 5) | 1,982 | 1,993 |
| Property and Equipment, Net (Note 7) | 38,501,500 | 35,679,634 |
| Total Noncurrent Assets | 49,782,984 | 45,957,893 |
| Total Assets | \$ 91,601,425 | \$ 83,559,689 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts Payable and Accrued Expenses | \$ 3,967,771 | \$ 5,129,435 |
| Accrued Interest Payable | 420,112 | 436,421 |
| Deferred Revenue from Grants (Note 2) | - | 416,829 |
| Deferred Revenue from Entrance Fees (Note 2) | 1,729,914 | 2,363,982 |
| Assigned Assets, Net (Note 2) | 3,783,230 | 3,730,465 |
| Paycheck Protection Program (PPP) Loan (Note 10) | - | 489,751 |
| Other Loans Payable (Note 10) | 230,119 | 8,311 |
| Bond Payable, Net - Current Portion (Note 10) | 1,032,903 | 992,903 |
| Total Current Liabilities | 11,164,049 | 13,568,097 |
| NONCURRENT LIABILITIES | | |
| Deferred Revenue from Entrance Fees (Note 2) | 1,959,783 | 2,319,532 |
| Paycheck Protection Program (PPP) Loan (Note 10) | - | 989,349 |
| Other Loans Payable (Note 10) | 3,799,827 | 95,426 |
| Bond Payable, Net (Note 10) | 23,944,063 | 24,972,817 |
| Total Noncurrent Liabilities | 29,703,673 | 28,377,124 |
| Total Liabilities | 40,867,722 | 41,945,221 |
| NET ASSETS (Note 2 and 13) | | |
| Without Donor Restrictions | 46,735,421 | 38,876,989 |
| With Donor Restrictions | 3,998,282 | 2,737,479 |
| Total Net Assets | 50,733,703 | 41,614,468 |
| Total Liabilities and Net Assets | \$ 91,601,425 | \$ 83,559,689 |

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|----------------------|
| REVENUES, GAINS, AND OTHER SUPPORT | | | |
| Resident Service Fees, Including Amortization of Entrance Fees (Note 2 and Note 14) | \$ 14,618,615 | \$ - | \$ 14,618,615 |
| Investment Income, Including Realized Gains (Note 6) | 3,973,383 | 53,194 | 4,026,577 |
| Donor Contributions | 349,579 | 876,994 | 1,226,573 |
| Grants | 670,366 | - | 670,366 |
| Resident Contributions - Assigned Assets Released (Note 2) | 77,548 | - | 77,548 |
| Other | 162,702 | - | 162,702 |
| Net Assets Released from Restriction | 300,000 | (300,000) | - |
| Total Revenues, Gains, and Other Support | <u>20,152,193</u> | <u>630,188</u> | <u>20,782,381</u> |
| EXPENSES | | | |
| Residential | 6,068,629 | - | 6,068,629 |
| Assisted Living | 1,291,666 | - | 1,291,666 |
| Skilled Nursing | 8,259,558 | - | 8,259,558 |
| General and Management | 4,020,700 | - | 4,020,700 |
| Fundraising | 167,561 | - | 167,561 |
| Total Expenses | <u>19,808,114</u> | <u>-</u> | <u>19,808,114</u> |
| GAIN FROM OPERATIONS | 344,079 | 630,188 | 974,267 |
| OTHER INCOME (LOSS) | | | |
| Paycheck Protection Program (PPP) Loan Forgiveness (Note 10) | 1,479,100 | | 1,479,100 |
| Unrealized Gain (Loss) on Investments (Note 6) | 4,873,552 | 630,615 | 5,504,167 |
| Total Other Income | <u>6,352,652</u> | <u>630,615</u> | <u>6,983,267</u> |
| REVENUES IN EXCESS OF EXPENSES | 6,696,731 | 1,260,803 | 7,957,534 |
| CHANGE IN PENSION LIABILITY (Note 8) | <u>1,161,701</u> | <u>-</u> | <u>1,161,701</u> |
| CHANGE IN NET ASSETS | 7,858,432 | 1,260,803 | 9,119,235 |
| Net Assets - Beginning of Year | <u>38,876,989</u> | <u>2,737,479</u> | <u>41,614,468</u> |
| NET ASSETS - END OF YEAR | <u>\$ 46,735,421</u> | <u>\$ 3,998,282</u> | <u>\$ 50,733,703</u> |

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|----------------------|
| REVENUES, GAINS, AND OTHER SUPPORT | | | |
| Resident Service Fees, Including Amortization of Entrance Fees (Note 2 and Note 14) | \$ 13,803,684 | \$ - | \$ 13,803,684 |
| Investment Income, Including Realized Gains (Note 6) | 3,776,313 | 82,833 | 3,859,146 |
| Donor Contributions | 162,621 | - | 162,621 |
| Grants | 163,394 | - | 163,394 |
| Other | 234,309 | - | 234,309 |
| Net Assets Released from Restriction | 212,974 | (212,974) | - |
| Total Revenues, Gains, and Other Support | <u>18,353,295</u> | <u>(130,141)</u> | <u>18,223,154</u> |
| EXPENSES | | | |
| Residential | 5,913,164 | - | 5,913,164 |
| Assisted Living | 1,084,495 | - | 1,084,495 |
| Skilled Nursing | 7,432,422 | - | 7,432,422 |
| General and Management | 4,149,788 | - | 4,149,788 |
| Fundraising | 154,454 | - | 154,454 |
| Total Expenses | <u>18,734,323</u> | <u>-</u> | <u>18,734,323</u> |
| LOSS FROM OPERATIONS | (381,028) | (130,141) | (511,169) |
| OTHER INCOME (LOSS) | | | |
| Unrealized Gain (Loss) on Investments (Note 6) | <u>(3,176,185)</u> | <u>69,283</u> | <u>(3,106,902)</u> |
| DEFICIENCY OF REVENUES OVER EXPENSES | (3,557,213) | (60,858) | (3,618,071) |
| CHANGE IN PENSION LIABILITY (Note 8) | (607,516) | - | (607,516) |
| NET ASSETS RELEASED FROM RESTRICTION - CAPITAL | <u>497,315</u> | <u>(497,315)</u> | <u>-</u> |
| CHANGE IN NET ASSETS | (3,667,414) | (558,173) | (4,225,587) |
| Net Assets - Beginning of Year | <u>42,544,403</u> | <u>3,295,652</u> | <u>45,840,055</u> |
| NET ASSETS - END OF YEAR | <u>\$ 38,876,989</u> | <u>\$ 2,737,479</u> | <u>\$ 41,614,468</u> |

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021**

| | Residential | Assisted Living | Skilled Nursing | General and Management | Fundraising Expenses | Total |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------------|-------------------------|----------------------|
| Salaries and Wages | \$ 1,521,498 | \$ 768,330 | \$ 3,825,780 | \$ 1,165,979 | \$ 119,235 | \$ 7,400,822 |
| Pension | 57,131 | 28,850 | 143,656 | 39,112 | 4,477 | 273,226 |
| Employee Benefits | 397,433 | 200,697 | 999,339 | 272,079 | 31,146 | 1,900,694 |
| Payroll Taxes | 128,256 | 64,767 | 322,499 | 87,803 | 10,051 | 613,376 |
| Legal | - | - | - | 135,777 | - | 135,777 |
| Accounting | - | - | - | 113,129 | - | 113,129 |
| Professional and Contract Services | 794,670 | - | 355,735 | 303,600 | 500 | 1,454,505 |
| Repairs and Maintenance | 45,611 | - | 9,604 | 1,219 | 26 | 56,460 |
| Activities | 19,915 | - | 11,290 | - | - | 31,205 |
| Miscellaneous | 289,712 | 163,520 | 94,853 | 437,387 | 123 | 985,595 |
| Advertising | - | - | - | 127,854 | - | 127,854 |
| Office Expenses | - | - | - | 73,430 | - | 73,430 |
| Occupancy | 710,943 | - | 83,970 | 18,389 | 670 | 813,972 |
| Travel | 14,185 | - | 5,708 | 21,122 | 13 | 41,028 |
| Conferences | - | - | 5,881 | 7,731 | - | 13,612 |
| Bond Interest and Amortization | - | - | - | 1,062,347 | - | 1,062,347 |
| Members' Interest | - | - | - | 114,186 | - | 114,186 |
| Other Interest | - | - | - | 3,350 | - | 3,350 |
| Depreciation | 1,101,115 | - | 426,066 | 28,481 | 1,038 | 1,556,700 |
| Insurance | 298,656 | - | 35,274 | 7,725 | 282 | 341,937 |
| Medical Expenses | - | 65,502 | 1,692,854 | - | - | 1,758,356 |
| Food Expenses | 689,504 | - | 247,049 | - | - | 936,553 |
| Total | <u>\$ 6,068,629</u> | <u>\$ 1,291,666</u> | <u>\$ 8,259,558</u> | <u>\$ 4,020,700</u> | <u>\$ 167,561</u> | <u>\$ 19,808,114</u> |

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020**

| | Residential | Assisted Living | Skilled Nursing | General and Management | Fundraising Expenses | Total |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------------|-------------------------|----------------------|
| Salaries and Wages | \$ 1,458,731 | \$ 633,765 | \$ 3,563,694 | \$ 1,158,674 | \$ 105,277 | \$ 6,920,141 |
| Pension | 49,252 | 21,398 | 120,323 | 35,117 | 3,555 | 229,645 |
| Employee Benefits | 471,204 | 204,721 | 1,151,156 | 335,977 | 34,007 | 2,197,065 |
| Payroll Taxes | 125,817 | 54,663 | 307,372 | 89,710 | 9,080 | 586,642 |
| Legal | - | - | - | 127,483 | - | 127,483 |
| Accounting | - | - | - | 113,129 | - | 113,129 |
| Professional and Contract Services | 783,296 | - | 370,429 | 313,632 | 477 | 1,467,834 |
| Repairs and Maintenance | 38,272 | - | 31,060 | 1,590 | 19 | 70,941 |
| Activities | 40,832 | - | 16,891 | - | - | 57,723 |
| Miscellaneous | 340,225 | 135,916 | 89,713 | 352,643 | 168 | 918,665 |
| Advertising | - | - | - | 262,414 | - | 262,414 |
| Office Expenses | - | - | - | 54,069 | - | 54,069 |
| Occupancy | 639,383 | - | 75,518 | 16,538 | 603 | 732,042 |
| Travel | 17,548 | - | 6,742 | 28,626 | 16 | 52,932 |
| Conferences | - | - | 3,716 | 7,344 | - | 11,060 |
| Bond Interest and Amortization | - | - | - | 1,100,542 | - | 1,100,542 |
| Members' Interest | - | - | - | 115,555 | - | 115,555 |
| Other Interest | - | - | - | 2,411 | - | 2,411 |
| Depreciation | 1,084,558 | - | 342,067 | 28,052 | 1,023 | 1,455,700 |
| Insurance | 242,882 | - | 28,687 | 6,282 | 229 | 278,080 |
| Medical Expenses | - | 34,032 | 1,092,639 | - | - | 1,126,671 |
| Food Expenses | 621,164 | - | 232,415 | - | - | 853,579 |
| Total | <u>\$ 5,913,164</u> | <u>\$ 1,084,495</u> | <u>\$ 7,432,422</u> | <u>\$ 4,149,788</u> | <u>\$ 154,454</u> | <u>\$ 18,734,323</u> |

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020**

| | 2021 | 2020 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received from Residents | \$ 12,645,594 | \$ 12,217,029 |
| Entrance Fees Received from Residents | 980,103 | 2,813,500 |
| Contributions from Donors and Grants | 503,127 | 742,816 |
| Investment Income Received | 4,016,154 | 3,904,005 |
| Other Cash Revenues | 162,702 | 234,309 |
| Cash Paid to Suppliers and Employees | (17,058,603) | (15,960,560) |
| Interest Paid | (1,047,409) | (1,084,931) |
| Interest Paid to Members | (114,186) | (115,555) |
| Net Cash Provided by Operating Activities | 87,482 | 2,750,613 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investments Sold or Matured | 11,906,111 | 16,638,106 |
| Investments Purchased | (14,173,238) | (15,075,864) |
| Capital Expenditures | (4,378,566) | (2,482,448) |
| Net Cash Used by Investing Activities | (6,645,693) | (920,206) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions Restricted for Capital | 876,994 | - |
| Entrance Fee Refunds | (40,000) | - |
| Proceeds from PPP Loan | - | 1,479,100 |
| Proceeds from Construction Loan | 3,933,828 | 46,250 |
| Payment of Long Term Debt | (1,027,619) | (980,698) |
| Net Cash Provided by Financing Activities | 3,743,203 | 544,652 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (2,815,008) | 2,375,059 |
| Cash and Cash Equivalents (Including Designated and Restricted) | | |
| - Beginning of year | 6,998,646 | 4,623,587 |
| CASH AND CASH EQUIVALENTS (INCLUDING DESIGNATED AND RESTRICTED)- END OF YEAR | \$ 4,183,638 | \$ 6,998,646 |
| Cash and Cash Equivalents | \$ 933,031 | \$ 2,960,774 |
| Cash Restricted or Designated for Investment in Long-Term Purposes | 3,250,607 | 4,037,872 |
| Total | \$ 4,183,638 | \$ 6,998,646 |

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2021 AND 2020**

| | 2021 | 2020 |
|---|--------------|----------------|
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Change in Net Assets | \$ 9,119,235 | \$ (4,225,587) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 1,556,700 | 1,455,700 |
| Interest Expense - Debt Issuance Costs | 31,245 | 31,245 |
| Earned Entrance Fees | (1,872,080) | (1,866,454) |
| Bad Debt Provision/Write-Off | (98,146) | 191,539 |
| Forgiveness of Paycheck Protection Program Loan | (1,479,100) | - |
| Unrealized (Gain) Loss on Investments | (5,504,167) | 3,106,902 |
| Increase (Decrease) in Pension Liability | (1,161,701) | 607,516 |
| Contributions for Financing Purposes | (876,994) | - |
| Changes in Operating Assets and Liabilities: | | |
| Accrued Interest Receivable | (10,423) | 44,859 |
| Pledges Receivable | (99,989) | (28) |
| Amounts Due from Residents and Third-Party Payors | (71,267) | (273,465) |
| Prepaid Expenses and Other Current Assets | 16,242 | (24,353) |
| Accounts Payable and Accrued Expenses | 37 | 126,319 |
| Accrued Interest Payable | (16,309) | (15,634) |
| Deferred Revenue - Grant | (416,829) | 416,829 |
| Deferred Revenue from Entrance Fees | 918,263 | 2,813,500 |
| Assigned Assets Liability | 52,765 | 361,725 |
| Net Cash Provided by Operating Activities | \$ 87,482 | \$ 2,750,613 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Noncash Automobile Loan | \$ - | \$ 58,185 |

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 MISSION STATEMENT AND ORGANIZATION

Mission Statement

Hollenbeck Palms (Hollenbeck) is committed to providing a residence for those in the 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

Hollenbeck, 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 59 skilled nursing beds. As of June 30, 2021 and 2020, the total number of residents was 178 and 194, respectively.

Hollenbeck 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' needs for health care are provided for in Hollenbeck's skilled nursing care units and through Hollenbeck's ongoing relationship with a network of physicians, health care professionals, and local hospitals.

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

Earnings of Hollenbeck are used to improve the care provided and subsidize any residents unable to continue making monthly service fee payments. No part of Hollenbeck's 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.

HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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

Hollenbeck 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. Hollenbeck holds deposits in excess of Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2021 and 2020, respectively, uninsured, uncollateralized deposits were \$1,470,463 and \$1,926,399.

Hollenbeck also holds deposits with a brokerage firm in excess of Securities Investor Protection Corporation (SIPC) limits. At June 30, 2021 and 2020, respectively, unsecured brokerage deposits were \$1,075,870 and \$2,050,700. These deposits are held by creditworthy, high-quality financial institutions.

Investments

Hollenbeck's 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. Marketable securities are managed by an independent investment manager and held primarily by an independent brokerage firm.

Investments principally consist of stocks, mutual funds, corporate and municipal bonds, U.S. Treasury Securities, U.S. Agency bonds, annuity and life insurance policies, mortgage-backed securities, cash and money market, and certificates of deposit. Investments are reported at fair value as described in Note 6. 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.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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 to 40 Years |
| Equipment | 3 to 7 Years |
| Vehicles | 5 Years |

Member Care Plans and Assigned Assets

Hollenbeck charges for resident care under three plans. Under Plan A, new residents assign their assets to Hollenbeck 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 and amortized as described below. 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. Under Plan B, a resident pays an entrance fee, however assignment of assets is not required. Hollenbeck 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.

Resident contributions upon expiration were \$77,548 for 2021 and \$0 for 2020. Assigned assets were \$3,783,230 and \$3,730,465 as of June 30, 2021 and 2020, respectively.

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, Hollenbeck will absorb their cost of care by reducing rates to the amount of state and federal public aid available. For 2021 and 2020, charity care, which is based on estimated cost per day in excess of service fees received, amounted to \$1,095,211 and \$922,284, respectively.

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 over the member's life expectancy. Unamortized entrance fees totaled \$3,689,697 and \$4,683,514 as of June 30, 2021 and 2020, respectively.

Under resident contracts, the full amount of the entrance fee is refundable if a resident leaves Hollenbeck within the first 90 days after entering; otherwise, the remaining unamortized entrance fees, amortized using the contractual straight-line method of 2%, and any unexpended assigned assets under both Plans A and B are refunded. 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 from deferred revenue.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Entrance Fees (Continued)

Entrance fee refunds were \$40,000 and \$-0- for the years ended June 30, 2021 and 2020, 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. As of June 30, 2021 and 2020, there were \$158,700 and \$-0-, respectively, of entrance fee receivable.

Resident and Health Care Services Revenue

Resident and health care services fees are recorded monthly as services are rendered and in the amount that reflects the consideration to which Hollenbeck expects to be entitled in exchange for providing resident care; as such, revenue is recognized as performance obligations are satisfied. These performance obligations are determined based on the nature of the services provided, either at a point in time or satisfied over time. Performance obligations satisfied over time relate to rental for housing and related services which are measured on a monthly basis and services provided to residents of the skilled nursing facility which are measured on a daily basis. These services are considered separate performance obligations. Performance obligations satisfied at a point in time include charges for services not included in the resident contracts such as beauty/barbershop services or charges to guests for meals. Additionally, nonrefundable entrance fees are considered to contain a material right associated with access to future services, which is the related performance obligation. Revenue from nonrefundable entrance fees are recognized as described above. Aside from deferred entrance fees, the organization has not identified any performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

Daily services provided to residents and health care service fees are reported net of a provision for contractual allowances, as applicable. The contractual allowance represents the difference between established rates and per-diem reimbursement. Monthly fees are due on the first day of each month. In addition, resident services fees are presented net of bad debt expense on the statements of activities. Receivables associated with resident service fees are written off based on management's evaluation of uncollectible balances.

Hollenbeck's 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. CMS recently finalized the Patient Driven Payment Model (PDPM) to replace the existing Medicare reimbursement system effective October 1, 2019. Under PDPM, therapy minutes are removed as the primary basis for payment and instead uses the underlying complexity and clinical needs of a patient as a basis for reimbursement. In addition, PDPM introduces variable adjustment factors that change reimbursement rates during the resident's length of stay.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resident and Health Care Services Revenue (Continued)

Hollenbeck's 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 facility's 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.

Hollenbeck has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to expectation that the period between the time the service is provided to a resident and the time that the resident or a third-party payor pays for the service will be one year or less. However, Hollenbeck does, in certain instances, enter into payment agreements with residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Members' Interest

Residents have the option of opening a member's savings account with Hollenbeck. Residents are able to make deposits and withdrawals from their savings accounts as needed. At the residents' request, payments for various bills and charges at Hollenbeck may be paid by Hollenbeck from the members' savings accounts. Hollenbeck 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 statements of financial position and in members' interest in the statements of activities.

Contributions/Grants and Deferred Revenue from Grants

Hollenbeck recognizes contributions when gifts of cash and other assets, unconditional promises to give; or a notification of a beneficial interest is received. Contributions received with donor stipulations that limit the use of the donated assets are recorded as restricted support. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), 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.

Conditional gifts, that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met. Conditional gifts are recognized as deferred revenue if the asset has been transferred in advance of the conditions having been met. As of June 30, 2021 and 2020, Provider Relief Fund Grants awarded by the Department of Health and Human Services (HHS), of \$253,537 and \$580,223, respectively were received. As of June 30, 2021, all conditions and restrictions have been met; therefore the amount deferred as of June 30, 2020 of \$416,829 and the amounts received during fiscal year 2021 have been recognized.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Obligation to Provide Future Services

Hollenbeck 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, 2021 and 2020, 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, 2021 and 2020.

Deferred Financing Costs

Costs incurred in connection with the issuance of debt described in Note 10 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 \$443,034 and \$474,280 at June 30, 2021 and 2020, respectively. Amortization expense totaled \$31,245 for both years ended June 30, 2021 and 2020. Deferred financing costs are included with long-term debt on the statements of financial position and amortization expense is included with bond interest and other financing expenses on the statements of activities.

Professional Liability Insurance Coverage

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

Self-Insurance

Hollenbeck is self-insured for claims under the California Unemployment Insurance Code. Such claims are paid when approved by Hollenbeck. The amounts of such claims were \$22,332 and \$325 in 2021 and 2020, respectively.

Tax Status

Hollenbeck is a nonprofit corporation and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) and is exempt from California franchise taxes Section 23701d of the California Revenue and Taxation Code. Hollenbeck is described in Section 501(c)(3) of the IRC and is listed in Internal Revenue Service Publication 78 as a charitable organization qualified to receive donations. Hollenbeck 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.

Hollenbeck 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 Hollenbeck'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.

HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status (Continued)

Hollenbeck 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.

Excess (Deficiency) of Revenues Over Expenses

The statements of activities includes excess (deficiency) of revenue over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenue over expenses, consistent with industry practice, include actuarial adjustments to pension liabilities and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose 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 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.

Change in Accounting Principle - ASU 2014-09

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU provides a robust framework for addressing revenue recognition issues and almost all existing revenue recognition guidance, including industry-specific guidance in U.S. GAAP. The standard requires entities to apply a five-step model to identify the performance obligations within the customer contract and to allocate the transaction price to those performance obligations using their standalone selling prices. Hollenbeck elected to implement under the full retrospective method and Hollenbeck has assessed the impact this standard had on their various revenue streams. The analysis of various provisions of this standard resulted in no significant changes in the way Hollenbeck recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncement – ASU 2016-02

This standard changes the accounting requirements so that lessees are required to recognize the rights and obligations resulting from leases as assets and liabilities for leases classified as operating leases. The core principle in the standard is that all leases create an asset and a liability. Although there continues to be a differentiation between finance leases and operating leases, both will be recognized on the statements of financial position. This standard's implementation date was delayed by the FASB due to COVID-19. As a result, this standard is effective for the year ended June 30, 2023.

Subsequent Events

Hollenbeck has evaluated subsequent events through October 13, 2021, 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 statements of financial position date, comprise of the following as of June 30:

| | 2021 | 2020 |
|---|----------------------|----------------------|
| Cash and Cash Equivalents | \$ 933,031 | \$ 2,960,774 |
| Accrued Interest Receivable | 63,073 | 52,650 |
| Accounts Receivable | 1,491,076 | 1,321,662 |
| Short-Term Pledges | 102,000 | 2,000 |
| Investments | 38,844,301 | 32,863,508 |
| Total Financial Assets | <u>41,433,481</u> | <u>37,200,594</u> |
| Less Assets Unavailable for General Expenditure Within One Year Due to: | | |
| Restricted by Donor with Time or Purpose Restrictions | (2,347,965) | (1,964,156) |
| Restricted by Grantor with Conditional Restrictions | - | (416,829) |
| Restricted by Contractual Arrangements | <u>(4,138,324)</u> | <u>(4,667,361)</u> |
| Total | <u>\$ 34,947,192</u> | <u>\$ 30,152,248</u> |

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

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 4 ASSETS RESTRICTED OR DESIGNATED FOR INVESTMENT IN LONG-TERM PURPOSES

| | 2021 | 2020 |
|--|---------------|---------------|
| Building Projects - Board Designated | \$ 2,962,293 | \$ 2,872,394 |
| Building Projects - Donor Restricted | 876,994 | - |
| Construction Loan Collateral | 5,804,299 | 5,765,273 |
| Debt Service Reserves - Board Designated | 862,593 | 865,276 |
| Net Assets Held in Perpetuity | 773,323 | 773,323 |
| | \$ 11,279,502 | \$ 10,276,266 |
| | | |
| Cash Restricted or Designated for Long-Term Purposes | \$ 3,250,607 | \$ 4,037,872 |
| Investments | 8,028,895 | 6,238,394 |
| | \$ 11,279,502 | \$ 10,276,266 |

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 0.89% and 0.31% for 2021 and 2020, respectively. An allowance for uncollectable amounts has not been recorded based on management's assessment of the donors' creditworthiness.

At June 30, Hollenbeck had unconditional promises to give expected to be received in the following periods:

| | 2021 | 2020 |
|--|------------|----------|
| In One Year or Less | \$ 102,000 | \$ 2,000 |
| Between One and Five Years | 4,000 | 2,000 |
| Gross Unconditional Pledges Receivable | 106,000 | 4,000 |
| Less: Discount on Pledges Receivable | (2,018) | (7) |
| Net Pledges Receivable | \$ 103,982 | \$ 3,993 |

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 6 INVESTMENTS

Investments in equity and debt securities are reported at fair value in the statements of financial position. Gains and losses on investments are reported in the statements 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.

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. Hollenbeck emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value 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 organization’s 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 is as follows:

| | June 30, 2021 | | | |
|--|----------------------|----------------------|---------------------|-----------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Cash and Money Market (N/A) | \$ 117,208 | \$ - | \$ - | \$ - |
| Certificates of Deposit (Level 1) | 504,974 | 504,974 | - | - |
| Mutual Funds (Level 1) | 6,663,151 | 6,663,151 | - | - |
| U.S. Treasury Securities (Level 1) | 5,687,872 | 5,687,872 | - | - |
| Stocks (Level 1) | 26,798,008 | 26,798,008 | - | - |
| Corporate Bonds (Level 2) | 5,540,224 | - | 5,540,224 | - |
| Mortgage-Backed Securities (Level 2) | 497,204 | - | 497,204 | - |
| Municipal Bonds (Level 2) | 899,884 | - | 899,884 | - |
| Annuity and Life Insurance Policies (N/A) | 162,840 | - | - | - |
| Oil Interest (Level 3) | 1,831 | - | - | 1,831 |
| Total | 46,873,196 | <u>\$ 39,654,005</u> | <u>\$ 6,937,312</u> | <u>\$ 1,831</u> |
| Less: Amounts Restricted or Designated for Investment in Long-Term Purposes | 8,028,895 | | | |
| Total Investments | <u>\$ 38,844,301</u> | | | |

HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 6 INVESTMENTS (CONTINUED)

| | June 30, 2020 | | | |
|--|---------------|---------------|--------------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Cash and Money Market (N/A) | \$ 310,989 | \$ - | \$ - | \$ - |
| Certificates of Deposit (Level 1) | 561,615 | 561,615 | - | - |
| Mutual Funds (Level 1) | 6,065,111 | 6,065,111 | - | - |
| U.S. Treasury Securities (Level 1) | 5,432,182 | 5,432,182 | - | - |
| Stocks (Level 1) | 22,433,857 | 22,433,857 | - | - |
| Corporate Bonds (Level 2) | 2,527,893 | - | 2,527,893 | - |
| Mortgage-Backed Securities (Level 2) | 756,164 | - | 756,164 | - |
| Municipal Bonds (Level 2) | 849,420 | - | 849,420 | - |
| Annuity and Life Insurance Policies (N/A) | 162,840 | - | - | - |
| Oil Interest (Level 3) | 1,831 | - | - | 1,831 |
| Total | 39,101,902 | \$ 34,492,765 | \$ 4,133,477 | \$ 1,831 |
| Less: Amounts Restricted or Designated for Investment in Long-Term Purposes | 6,238,394 | | | |
| Total Investments | \$ 32,863,508 | | | |

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, 2021 and 2020 are composed of the following:

| | 2021 | 2020 |
|--|--------------|-------------|
| Dividend and Interest Income | \$ 849,145 | \$ 946,321 |
| Realized Gains on Sales of Investment, Net | 3,267,617 | 3,003,125 |
| Less: Fees | (90,185) | (90,300) |
| Net Investment Income Included in Operations | 4,026,577 | 3,859,146 |
| Unrealized Gains (Losses) | 5,504,167 | (3,106,902) |
| Net Investment Income | \$ 9,530,744 | \$ 752,244 |

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2021 and 2020 consist of the following:

| | 2021 | 2020 |
|--------------------------------|---------------|---------------|
| Land | \$ 11,086 | \$ 11,086 |
| Buildings and Improvements | 53,181,245 | 52,869,731 |
| Furniture and Equipment | 5,394,665 | 5,292,416 |
| Vehicles | 315,010 | 312,010 |
| Cemetery Lots | 21,326 | 21,326 |
| Total | 58,923,332 | 58,506,569 |
| Less: Accumulated Depreciation | (24,953,395) | (23,456,859) |
| Total | 33,969,937 | 35,049,710 |
| Construction in Progress | 4,531,563 | 629,924 |
| Total Property and Equipment | \$ 38,501,500 | \$ 35,679,634 |

Depreciation expense for the years ended June 30, 2021 and 2020 was \$1,556,700 and \$1,455,700, 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.

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

Hollenbeck 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. Hollenbeck uses a June 30 measurement date for its Plan.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Cash Balance Pension Plan (Continued)

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 follows:

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| Change in Benefit Obligation: | | |
| Benefit Obligation - Beginning of Year | \$ 6,126,875 | \$ 5,659,468 |
| Service Cost | 210,628 | 235,944 |
| Interest Cost | 192,818 | 232,156 |
| Benefits Paid | (423,972) | (489,083) |
| Actuarial (Gain) Loss | (376,590) | 488,390 |
| Benefit Obligation - End of Year | <u>\$ 5,729,759</u> | <u>\$ 6,126,875</u> |
| Change in Plan Assets: | | |
| Fair Value of Assets - Beginning of Year | \$ 4,613,647 | \$ 4,928,382 |
| Actual Return on Plan Assets | 973,481 | 174,348 |
| Benefits Paid | (423,972) | (489,083) |
| Fair Value of Assets - End of Year | <u>\$ 5,163,156</u> | <u>\$ 4,613,647</u> |
| Funded Status | <u>\$ (566,603)</u> | <u>\$ (1,513,228)</u> |
| Amounts Recognized in the Statement of Financial Position are Included in: | | |
| Accounts Payable and Accrued Expenses | <u>\$ (566,603)</u> | <u>\$ (1,513,228)</u> |
| Amounts Recognized in Accumulated Net Assets Without Donor Restrictions Consist of: | | |
| Actuarial Loss | <u>\$ 602,866</u> | <u>\$ 1,764,567</u> |
| Source of Change in the Statement of Net Activities Consist of: | | |
| Actuarial (Gain) Loss Arising During Period | <u>\$ (1,161,701)</u> | <u>\$ 607,516</u> |
| Components of Net Periodic Benefit Cost: | | |
| Service Cost | \$ 210,628 | \$ 235,944 |
| Interest Cost | 192,518 | 232,156 |
| Expected Return on Plan Assets | (312,229) | (354,855) |
| Amortization of Loss | 123,858 | 61,381 |
| Benefit Obligation- End of Year | <u>\$ 214,775</u> | <u>\$ 174,626</u> |

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Cash Balance Pension Plan (Continued)

Accumulated Benefit Obligation

The accumulated benefit obligation for Hollenbeck was \$5,729,459 and \$6,126,875 on June 30, 2021 and 2020, 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 net assets without donor restrictions.

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

| | <u>2021</u> | <u>2020</u> |
|--|-------------|-------------|
| Discount Rate (on Benefit Obligations) | 3.25% | 3.25% |
| Return on Plan Assets | 7.00% | 7.00% |
| Rate of Compensation Increase | 2.50% | 2.50% |

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

| | <u>2021</u> | <u>2020</u> |
|--|-------------|-------------|
| Discount Rate (on Net Periodic Costs) | 3.25% | 4.25% |
| Expected Long-Term Rate of Return on Plan Assets | 7.00% | 7.50% |
| Rate of Compensation Increase | 2.50% | 2.50% |

Hollenbeck 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.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Cash Balance Pension Plan (Continued)

The fair value of the Plan's assets as of June 30, 2021 and 2020 by assets are as follows:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Cash | \$ 214,614 | \$ 1,168 |
| Mutual Funds (Level 1) | 4,445,612 | 4,070,816 |
| Pooled Separate Account (Level 2) | 43,672 | 53,066 |
| Immediate Participation Guarantee Contract (Level 3) | 459,258 | 488,597 |
| Total Plan Assets | <u>\$ 5,163,156</u> | <u>\$ 4,613,647</u> |

Contributions

Hollenbeck 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:

| <u>Year Beginning July 1,</u> | <u>Amount</u> |
|-------------------------------|---------------|
| 2022 | \$ 340,631 |
| 2023 | 271,110 |
| 2024 | 479,797 |
| 2025 | 441,285 |
| 2026 | 220,002 |
| 2027-2031 | 1,804,547 |

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 years ended June 30, 2022 is \$3,173.

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 \$26,583 and \$26,321 in 2021 and 2020, 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 statements of financial position.

401(k) Plan

Hollenbeck has a 401(k) defined contribution plan, which covers employees with 90 days of service. Hollenbeck contributes 10% of each employee's contributions, which are vested after 1,000 hours of employment. Employer contributions for the years ended June 30, 2021 and 2020, were \$31,868 and \$28,697, respectively.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 COMMITMENTS AND CONTINGENCIES

Construction

As of June 30, 2021, Hollenbeck was committed under a construction agreement for the memory care phase of the skilled nursing facility renovation project totaling approximately \$1.4 million.

Workers' Compensation Self-Insurance

Effective December 12, 2002, Hollenbeck 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 \$519,900 and \$616,306 in 2021 and 2020, respectively.

Litigation

Hollenbeck 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 Hollenbeck's financial statements.

COVID-19

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to Hollenbeck, COVID-19 has impacted fiscal year 2021 operations and financial results and may continue to do so including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, or loss of revenue due to reductions in certain revenue streams. Management believes Hollenbeck is taking appropriate actions to mitigate the negative impact. Hollenbeck received additional Provider Relief Fund grants totaling \$253,537 during the fiscal year ended June 30, 2021 from the Department of Health and Human Services to assist with expenditures directly associated with operational impacts due to the COVID-19 pandemic. In addition, Hollenbeck's Paycheck Protection Program loan, as described in Note 10, was forgiven during the fiscal year ended June 30, 2021. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of June 30, 2021.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 10 LONG-TERM DEBT

2014 Revenue Bonds

On July 17, 2014, Hollenbeck 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.

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:

| <u>Debt Service Due Fiscal Year Ended</u> | <u>Principal Payments Due Within Fiscal Year</u> | <u>Interest Components Due Within Fiscal Year</u> | <u>Total Payments</u> |
|---|--|---|-----------------------|
| 2022 | \$ 230,000 | \$ 412,429 | \$ 642,429 |
| 2023 | 240,000 | 401,895 | 641,895 |
| 2024 | 250,000 | 390,903 | 640,903 |
| 2025 | 265,000 | 379,453 | 644,453 |
| 2026 | 270,000 | 367,316 | 637,316 |
| Thereafter | <u>7,750,000</u> | <u>3,794,301</u> | <u>11,544,301</u> |
| Total Bond Payable | 9,005,000 | <u>\$ 5,746,297</u> | <u>\$ 14,751,297</u> |
| Unamortized Cost of Issuance | (208,001) | | |
| Net | <u>\$ 8,796,999</u> | | |

2016 Revenue Bonds

On December 1, 2016, Hollenbeck 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.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 10 LONG-TERM DEBT (CONTINUED)

2016 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

| <u>Debt Service Due Fiscal Year Ended</u> | <u>Principal Payments Due Within Fiscal Year</u> | <u>Interest Components Due Within Fiscal Year</u> | <u>Total Payments</u> |
|---|--|---|-----------------------|
| 2022 | \$ 830,000 | \$ 595,865 | \$ 1,425,865 |
| 2023 | 860,000 | 565,736 | 1,425,736 |
| 2024 | 895,000 | 534,519 | 1,429,519 |
| 2025 | 925,000 | 502,029 | 1,427,029 |
| 2026 | 955,000 | 468,452 | 1,423,452 |
| Thereafter | 11,950,000 | 2,553,161 | 14,503,161 |
| Total Bond Payable | 16,415,000 | \$ 5,219,762 | \$ 21,634,762 |
| Unamortized Cost of Issuance Net | (235,033) | | |
| | <u>\$ 16,179,967</u> | | |

Bond 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 has calculated compliance with such covenants at June 30, 2021 and 2020.

Auto Loan

On May 22, 2020, Hollenbeck entered into an interest-free loan to finance the purchase of an automobile. The terms of the loan requires a monthly payment of \$693 and will mature in 2027. Future minimum payments are as follows:

| <u>Fiscal Year Ended June 30,</u> | <u>Payment</u> |
|-----------------------------------|------------------|
| 2022 | \$ 8,311 |
| 2023 | 8,311 |
| 2024 | 8,311 |
| 2025 | 8,311 |
| 2026 | 8,311 |
| Thereafter | 8,313 |
| Total | <u>\$ 49,868</u> |

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 10 LONG-TERM DEBT (CONTINUED)

Construction Loan

On June 5, 2020, Hollenbeck entered into a secured loan for up to \$5.5 million to finance the construction of the Memory Care Facility. The draw period is from June 5, 2020 through November 30, 2021 (the Draw Period). On December 1, 2021, Hollenbeck will draw the unused balance into a Project Fund to be used for construction costs up to and until June 1, 2023. Amounts remaining in the Project Fund after June 1, 2023 will be used to make payments on the debt. As of June 30, 2021, Hollenbeck had drawn \$3,980,078 on the credit facility.

The loan calls for a 5% fixed interest rate and is scheduled to mature on February 1, 2040. Beginning August 1, 2020, the loan requires monthly payments of interest on any principal balance outstanding through the Draw Period. Beginning February 1, 2022 and on the first day of each August and February thereafter, the loan requires semiannual payments of interest. Commencing on February 1, 2022 the loan requires annual payments of principal. On the maturity date of February 1, 2040, a final balloon payment is due of all unpaid principal and accrued unpaid interest. As of June 30, 2021, the estimated principal payment due in February 2022 is \$221,115 based on an 18-year amortization period.

The loan collateral is invested in cash and U.S. Treasury Securities with a total fair market value of \$5,804,299 and \$5,765,273 as of June 30, 2021 and 2020, respectively.

Subsequent to June 30, 2021 Hollenbeck drew an additional \$472,928 for reimbursement of costs associated with the project.

Paycheck Protection Program Loan

On April 15, 2020, Hollenbeck received a loan through the Small Business Administration (SBA) Paycheck Protection Program (PPP) of \$1,479,100. The loan accrued interest at 1% per annum with principal and interest payments due monthly beginning November 15, 2020 for a period of 2 years at which time the loan was to be paid in full. There are provisions under the PPP loan program where all or a portion of the loan may be forgiven based on certain requirements being met. Hollenbeck submitted an application for and received full forgiveness from the SBA as of June 30, 2021. The forgiveness of debt is recorded on the statements of activities.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 11 REDEVELOPMENT PLAN OBLIGATION (AB1169 DISCLOSURE) (CONTINUED)

The bonded debt issuance of \$10,000,000 was primarily designated for the skilled nursing facility renovation project. As of June 30, 2021, related to the skilled nursing facility renovation project, proceeds were fully expended for project costs.

Hollenbeck is currently developing a memory care facility on its campus as part of its renovation project and has secured a collateralized loan as described in Note 10 to construct the project. In addition, as of June 30, 2021, Hollenbeck held board-designated net assets and contributions restricted by donors, available for project costs of \$3,839,287.

NOTE 12 ENDOWMENT-RESTRICTED ASSETS

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

Interpretation of Relevant Law

The board of trustees of Hollenbeck 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, Hollenbeck 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 Hollenbeck in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, Hollenbeck 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 and 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, 2021 and 2020 consisted of donor-restricted endowment funds; restricted in perpetuity of \$773,323, for both years presented, and restricted subject to purpose restrictions of \$2,347,965 and \$1,964,156, respectively. Changes in endowment net assets are reported in the statements of activities as net assets with donor restrictions.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 12 ENDOWMENT-RESTRICTED ASSETS (CONTINUED)

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 Hollenbeck 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, 2021 and 2020.

Return Objectives, Risk Parameters and Strategies Employed for Achieving Objectives

Hollenbeck 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 Hollenbeck 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.

Spending Policy

Hollenbeck 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 Hollenbeck's 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:

| | |
|---|------------------------------------|
| | <u>With Donor Restrictions</u> |
| Endowment Net Assets, June 30, 2019 | \$ 2,759,362 |
| Investment Income | 82,833 |
| Net Appreciation (Realized and Unrealized) | 69,283 |
| Appropriation of Endowment Assets for Expenditure | <u>(173,999)</u> |
| Endowment Net Assets, June 30, 2020 | 2,737,479 |
| Investment Income | 53,194 |
| Net Appreciation (Realized and Unrealized) | 630,615 |
| Appropriation of Endowment Assets for Expenditure | <u>(300,000)</u> |
| Endowment Net Assets, June 30, 2021 | <u><u>\$ 3,121,288</u></u> |

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

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

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Endowment: | | |
| Held in Perpetuity | \$ 773,323 | \$ 773,323 |
| Subject to Purpose Restrictions | 2,347,965 | 1,964,156 |
| Subject to Expenditure for Specific Purpose: | | |
| Capital Projects | 876,994 | - |
| Total | <u>\$ 3,998,282</u> | <u>\$ 2,737,479</u> |

NOTE 14 RESIDENT AND HEALTH CARE SERVICES REVENUE

The composition of resident services revenue by primary service line for the years ended June 30, 2021 and 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Independent Living | \$ 5,189,663 | \$ 5,223,904 |
| Assisted Living | 991,585 | 974,247 |
| Skilled Nursing | 6,529,676 | 5,804,162 |
| Entrance Fee Amortization and Processing Fees | 1,907,691 | 1,801,371 |
| Total Resident Service Fees | <u>\$ 14,618,615</u> | <u>\$ 13,803,684</u> |

The major sources of health care service revenue by primary payor are as follows:

| | <u>2021</u> | | <u>2020</u> | |
|-------------------------------|---------------------|-----|---------------------|-----|
| Patient Service Revenue: | | | | |
| Medi-Cal Program | \$ 2,340,358 | 34% | \$ 1,951,355 | 32% |
| Medicare Program | 1,251,549 | 18% | 1,054,803 | 17% |
| Managed Care | 219,806 | 3% | 160,848 | 3% |
| Private Pay | 3,009,271 | 45% | 2,960,544 | 48% |
| Total Patient Service Revenue | <u>6,820,984</u> | | <u>6,127,550</u> | |
| Less: Bad Debt Expense: | | | | |
| Medi-Cal Program | (38,576) | | (175,650) | |
| Medicare Program | (61,805) | | (63,487) | |
| Managed Care | (57,719) | | (17,743) | |
| Private Pay | (133,208) | | (66,508) | |
| Total Bad Debt Expense | <u>(291,308)</u> | | <u>(323,388)</u> | |
| Net Patient Service Revenue | <u>\$ 6,529,676</u> | | <u>\$ 5,804,162</u> | |

Patient service revenue is presented net of contractual adjustments.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 14 RESIDENT AND HEALTH CARE SERVICES REVENUE (CONTINUED)

The aggregate amount due from Medi-Cal, Medicare, and Managed Care at June 30, 2021 and 2020, is \$994,203 and \$919,545, 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.

NOTE 15 LEASE REVENUE

Hollenbeck entered into two lease agreements to lease rooftop space to two tenants for 600 square feet each for five years with automatic five year renewals for a total of 30 years. Initial monthly rent was \$1,400 and \$4,200 per month with annual increases of 3% on its anniversary date.

Future minimum rental revenue are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Payment</u> |
|------------------------------------|----------------------------|
| 2022 | \$ 78,679 |
| 2023 | 81,040 |
| 2024 | 83,471 |
| 2025 | 85,975 |
| 2026 | 88,554 |
| Thereafter | <u>2,396,702</u> |
| Total | <u><u>\$ 2,814,421</u></u> |

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